

# **WYONG SHIRE COUNCIL**

## **PRICES OF WATER SUPPLY, WASTEWATER AND STORMWATER SERVICES**

**Prices from 1 July 2003 to 30 June 2005**

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
OF NEW SOUTH WALES**



## WYONG SHIRE COUNCIL

### PRICES OF WATER SUPPLY, WASTEWATER AND STORMWATER SERVICES

Prices from 1 July 2003 to 30 June 2005

**Determination No 2, 2003**

**May 2003**

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**INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
OF NEW SOUTH WALES**

**REPORT TO THE PREMIER ON THE DETERMINATION OF MAXIMUM PRICES UNDER  
SECTION 11 (1) OF THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT,  
1992**

**Reference No:** 02/37  
**Report:** No 2, 2003  
**Agency:** Wyong Shire Council

**Declaration of government monopoly services under Section 4 of the Act.**

The Government monopoly services were declared by the Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997, made on 5 February 1997 and published in Gazette No. 18 dated 14 February 1997 at page 558.

## SUMMARY

The Tribunal has conducted its 2003 review of prices for Wyong Shire Council against a backdrop of one of the worst droughts in New South Wales history. The drought has further increased community awareness that water is a limited resource and that Wyong Shire's supply, in particular, is constrained.

During this review, Wyong Council customers faced mandatory water restrictions. These conditions have led to increased demands for higher water prices to encourage water conservation. The Tribunal is acutely aware of the constraints facing Wyong Shire's water supply but, in making pricing decisions, is required to balance competing pressures and interests. Further, it is concerned to ensure that pricing responses are developed as part of a comprehensive policy response and are likely to be effective.

The previous determination for prices began on 1 July 2000 and runs until 30 June 2003. At that review the Tribunal removed the pre-paid water allowance pricing structure. This has resulted in a greater emphasis on the usage component of customers' bills and signalled to customers the need for prudent water use.

For this determination, the Tribunal has conducted an extensive public consultative process, reviewed all written submissions and held public hearings. Where necessary, stakeholders have been contacted to clarify submissions or make supplementary submissions where initial information was considered insufficient. The Tribunal engaged Halcrow Pacific Pty Ltd (Halcrow) to conduct a review of Wyong Council's capital expenditure, asset management and operating expenditure submissions across its water, wastewater and stormwater businesses. The Tribunal also engaged GHD Pty Ltd to review trade waste proposals, to assist with its decisions.

Wyong Council sought price rises of 3 per cent above changes in CPI in 2003/04 and price increases in line with movements in inflation in 2004/05. The Tribunal rejected this and has determined prices that will move essentially in line with movements in CPI over the price path, but has initiated a modest price restructure. The water usage price will rise by 1 per cent above movements in CPI in both 2003/04 and 2004/05 but will be offset by a change in the water service charge of 1 per cent below those movements in both 2003/04 and 2004/5, resulting in an average water user's bill following CPI movements.

When adjusted for changes in CPI, higher volume water users may have small increases in bills and lower volume water users small decreases as a result of the price structure changes.

By increasing the water usage charge, the Tribunal is seeking to contribute to the overall policy solution to Wyong Shire's growing water demand and supply imbalance. In doing so however, the Tribunal emphasises that price by itself is unlikely to have a significant impact on demand, unless the price increase is substantial. The Tribunal did not determine a substantial increase in water usage charges at this price review due to limited information on the customer impacts, and the Tribunal intends to do further work in this area.

Increasing the water usage charge is expected to help increase the awareness amongst Wyong Shire customers of the scarcity value of water, along with the need for behavioural change. Other policies will be needed to translate this awareness into incentives for customers to take action.

Water demand outstripping existing water supplies is a growing concern and at the heart of issues surrounding environmental sustainability and services to customers. It is hoped that the outcome of Wyong Shire Council's demand management program, requirements for environmental flows in the catchment area, and decisions from a joint review of bulk water supplies undertaken by Gosford and Wyong Councils will be better known at the 2005 price review. This will allow the Tribunal to set prices within an overall policy framework for managing the demand and supply imbalances.

The Tribunal is also concerned about some issues raised by its consultant, Halcrow, when reviewing Wyong Shire Council. Although Council has been able to keep costs down by concentrating resources on reactive asset management based on year to year planning, Halcrow are concerned that this policy may mean that long term planning has been given too low a priority.

Halcrow believe that Council needs to increase the level and quality of documentation for substantiating and prioritising projects and that more long term planning would help in tackling this problem. From the Tribunal's perspective, robust information is a necessity when setting prices, particularly if price paths are to run for four or five years. To assist Council, the Tribunal has accepted Halcrow's recommendation not to impose efficiency targets over the new price path, as this will provide funding for Council to address Halcrow's concerns. Improvements in Wyong Council's asset planning and management processes will be expected to allow a better investigation of expenditure proposals at the next price review.

Concerns were raised by Wyong Council in the review process about its treatment of stormwater expenditure and the split of responsibility for stormwater between the Council's General Fund and the water business. Whilst the Tribunal shares these concerns it could not accept at this time Wyong Council's proposal for immediate transfer of the full operating costs of the stormwater system to the water business and consequent price increases. However the Tribunal will review the arrangements for the next determination in 2005.

The Tribunal's proposed revenue outcome should ensure that Wyong Council maintains its strong financial position, rates of return are expected to be within the band required for efficient investment.

The Tribunal encourages Council to consider improving its processes to link outputs and outcomes to expenditure levels and customer preferences. This will allow the Tribunal to consider setting prices for services which are part of a whole of water cycle process. The benefits from this approach for customers and the environment as well as Council may be substantial.

# 1 INTRODUCTION

The Independent Pricing and Regulatory Tribunal of New South Wales (the Tribunal) has completed its review of metropolitan water businesses. Based on this review and its own detailed decision making process, it has determined the maximum prices Wyong Shire Council can charge for providing water, wastewater and stormwater services for the period 1 July 2003 to 30 June 2005.

## 1.1 Overview of determination

The Tribunal has decided that Wyong Council's charges should increase essentially in line with movements of the consumer price index in each year of the determination period. However, the prices it can charge for water and wastewater services will be restructured so that usage charges constitute a greater proportion of customer water bills.

The water usage charge and the wastewater usage charge will both increase by 1 per cent in real terms in both 2003/04 and 2004/05 (the wastewater usage charge applies to non-residential users only), while the water service charge and the wastewater service charge will decrease by 1 per cent in each year.

The aim of this restructuring is to help increase customers' awareness of the scarcity and value of water, and encourage them to use it carefully. However, it is expected to have a limited impact on an average water user's total bill in real terms. Water users with higher than average consumption may experience a small increase in their bills, while lower water users may see a small decrease (beyond the impact of movements in inflation).

The Tribunal's pricing decisions are expected to result in Wyong Council earning a pre tax real rate of return of 5.1 per cent in 2003/04 and 4.8 per cent in 2004/05. This will maintain Wyong Council's financial viability over the period of the determination.

## 1.2 Structure of the report

This report explains the Tribunal's determination in detail, including why it reached its decisions and what those decisions mean for Wyong Shire Council, its customers and the environment. It is structured as follows:

- Chapter 2 outlines the review and decision-making process the Tribunal used to reach its decisions
- Chapter 3 provides an overview of the regulatory approach it has adopted to regulate Wyong Shire Council's revenue and prices
- Chapter 4 explains the financial analysis the Tribunal based its decisions on, and the implications of these decisions for Wyong Council, including the expected impacts on its revenue, operating and capital expenditure, return on assets and overall financial viability
- Chapter 5 focuses on the implications for Wyong Shire Council's customers, including residential, industrial and commercial
- Chapter 6 discusses the implications for the environment and the likely impact on water demand management
- Chapter 7 summarises the pricing decisions for all Wyong Shire Council's services

- Chapter 8 provides an overview of the issues arising from the review that the Tribunal will address in the lead up to the 2005 price review.

The Tribunal members who considered this determination were Dr Thomas Parry (Chairman), Mr James Cox (Full-time member), and Ms Cristina Cifuentes (Member).

## 2 TRIBUNAL'S REVIEW AND DECISION MAKING PROCESS

The Tribunal has made its price determination for Wyong Council in accordance with section 11(1) of the *Independent Pricing and Regulatory Tribunal Act, 1992* (the IPART Act). It reached its decisions after a thorough review and decision-making process.

The Tribunal's review included an extensive investigation and public consultation. As part of this review, the Tribunal:

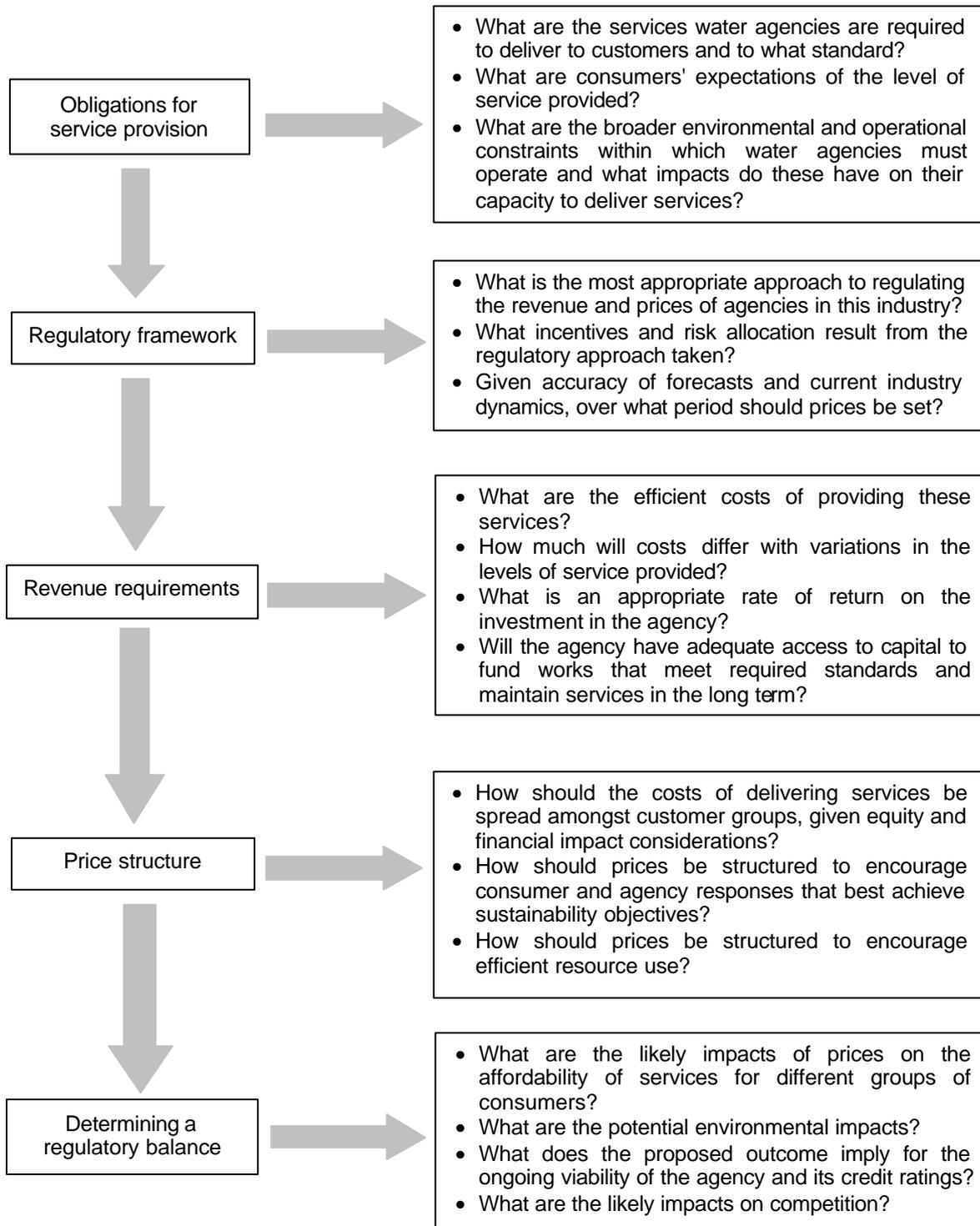
- released an issues paper in June 2002
- invited Wyong Council to provide a submission detailing its pricing proposals, and required it to provide extensive financial and performance data on the future capital and operating expenditure it believes will be necessary to maintain customer service levels and respond to regulatory and customer demands
- invited other interested parties to respond to Wyong Council and the other agencies' submissions, and received 30 written responses (see Appendix 1 for a list of respondents)
- held a public hearing on the Central Coast on 10 December and invited some of the parties who made written submissions to present their submissions at this hearing (see Appendix 2 for a list of presenters)
- engaged Halcrow Pacific Pty Ltd (Halcrow) to conduct a review of Wyong Council's capital expenditure, asset management and operating expenditure proposals across its water, wastewater and stormwater businesses
- gave Wyong Council the opportunity to respond to the Halcrow review, both formally in writing and through direct meetings between representatives of Wyong Council and the Tribunal Secretariat
- engaged GHD Pty Ltd (GHD) to review Wyong Council's proposals in relation to trade waste prices
- gave Wyong Council the opportunity to respond in writing to the GHD review of trade waste pricing proposals.

In addition, the Tribunal explicitly considered all the matters outlined in Section 15 of the IPART Act (see Appendix 3). These matters can be grouped as follows:

- **consumer protection**—protecting consumers from abuses of monopoly power; standards of quality, reliability and safety of the services concerned; social impact of decisions; effect on movements in inflation
- **economic efficiency**—greater efficiency in the supply of services; the need to promote competition; effect of functions being carried out by another body
- **financial viability**—rate of return on public sector assets including dividend requirements; impact on pricing of borrowing, capital and dividend requirements of agencies
- **environmental protection**—promotion of ecologically sustainable development via appropriate pricing policies; considerations of demand management and least-cost planning.

The Tribunal took all these matters, together with the information and analysis obtained through its investigation and public consultation, into careful consideration as it worked through a decision-making process. Figure 2.1 provides a high-level summary of the key stages in this process.

**Figure 2.1 The Tribunal’s decision-making process**



In reaching its decisions on water, wastewater and stormwater issues, the Tribunal has had to weigh and balance the diverse needs and interests of Wyong Council's stakeholders. For example, Wyong Council's customers need an affordable water supply and acceptable service standards. The general community needs water services to be supplied in a way that does not compromise Wyong Shire's environment, and is economically efficient. Wyong Council needs prices that are high enough to ensure its financial viability and enable it to earn an appropriate rate of return on its assets, and signal the costs to customers to encourage efficient resource use.

In addition, the price review took place during one of the worst droughts in New South Wales' history,<sup>1</sup> and at a time of heightened concern about water supply and demand imbalances, and appropriate investment in renewals and maintenance of the water, wastewater and stormwater systems.

The diversity of these interests and concerns often required the Tribunal to trade off customer affordability issues with environmental impacts and the maintenance of the overall quality of Wyong Council's service delivery. It took active steps to ensure that these trade-off decisions were well informed during the course of its review. It also intends to seek further information from the Council on environmental and customer preferences where this was highlighted as deficient in Halcrow's review.

The Tribunal's consideration of the matters listed in Section 15 in relation to specific pricing decisions is discussed throughout the report. Appendix 3 provides section references for where each matter is discussed. Further information relating to the Tribunal's review, including copies of all submissions, can be found at the Tribunal website: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

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<sup>1</sup> Dr Couglan, Head of the National Climate Centre, as reported in Weekend Australian, 29 March 2003, p 12.

### 3 REGULATORY APPROACH TAKEN

As in previous metropolitan water price determinations, the Tribunal has used a form of incentive regulation known as CPI±X to set maximum prices for services in 2003/04 and 2004/05.<sup>2</sup> With this approach, the Tribunal estimates the amount of revenue Wyong Council requires in each year of the determination period using the building block revenue methodology.<sup>3</sup> Given forecast demand, prices are then set to generate this amount of revenue in the first year. At the same time, the Tribunal calculates the amount by which these prices can rise or fall in each subsequent year of the period, to account for movements in general inflation,<sup>4</sup> efficiency improvements, and significant changes in the operating environment such as new environmental standards or customer service standards.

The building block methodology involves the addition of cost blocks that represent forecasts of the regulated agency's efficient operating expenditure, depreciation and a return on assets, to determine its overall efficient revenue requirements. This methodology is outlined briefly below, and is described in more detail in Appendix 4:

- **Operating expenditure:** The operating expenditure cost block was determined by reviewing Wyong Council's proposals to assess what an efficiently operating business could be expected to spend so that it could operate effectively without compromising the quality of its services.
- **Depreciation (or capital maintenance):** This cost block was determined by calculating a straight line depreciation allowance based on the regulatory asset base, using an assumed average asset life of 70 years. This, combined with a return on assets, ensures that sufficient revenue is allowed for essential renewals and maintenance capital expenditure (see appendix 5 for a detailed explanation).
- **Return on assets.** The return on assets is determined by multiplying the agency's regulatory asset base (RAB) by an appropriate rate of return. The RAB represents the financial value of the agency's investment in the business, and bears no direct relationship to the value attributed to the physical assets of the business. To calculate this cost block, the Tribunal used the RAB it established in its 2000 review of Wyong Council's prices, and rolled this forward into the 2003 to 2005 regulatory period by adding an allowance for prudent capital expenditure,<sup>5</sup> and accounting for changes in inflation and depreciation. It then determined an appropriate rate of return for Wyong Council, and multiplied the rolled forward RAB by this rate. The Tribunal proposes to maintain this approach for calculating the return on assets in subsequent price reviews.

The determination of future operating and capital expenditure generally requires the Tribunal to form a view on the efficiency gains that could be reasonably achieved, however for this determination the Tribunal chose not to impose the efficiency targets for Wyong

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<sup>2</sup> This is the most common form of incentive regulation. A detailed explanation of CPI±X is provided in Appendix 4.

<sup>3</sup> The building block methodology is the main method used by economic regulators in Australia and abroad for determining prices for monopoly services. Alternative approaches include the use of index based approaches such as total factor productivity or data envelope analysis to determine X factors. These techniques are under ongoing consideration by the Tribunal but are not at this stage intended to replace the building block approach. The building block methodology was used at each of the previous metropolitan water reviews conducted by the Tribunal.

<sup>4</sup> Measured as the consumer price index, average of all cities on an annual March on March basis.

<sup>5</sup> Capital is determined to be prudent on the basis of both an engineering examination of individual capital projects, and a review of asset management planning processes within the agency.

Council (see Chapter 4 generally). The purpose of incorporating efficiency gains in the price regulation approach is to provide a guide for the agency about the potential for it to improve the efficiency of its operating and capital expenditure without reducing the quality of the services it delivers to customers, and to provide a basis for the Tribunal's revenue allowance decision. The incentive to pursue efficiency gains arises from the fact that prices have been set for the period of the determination and are not linked to costs actually incurred. If the agency more than achieves these targets it can expect to earn a higher return than forecast by the Tribunal.

In deciding on an appropriate allowance for capital expenditure, all justified renewals and maintenance capital expenditure which has been based on sound asset management practices and where it has been appropriately justified by the agency, has been incorporated in full in revenue building blocks for price setting. Where the agency seeks easy cost savings by delaying essential renewals and maintenance expenditure, then this is at their own risk, and not a result of the regulatory pricing approach. A detailed explanation of this investigation is contained in Appendix 5.

In relation to efficiency targets for capital expenditure, the Tribunal is concerned that the incentives in the current regulatory approach may not sufficiently encourage water agencies to minimise capital costs through innovation and efficiency. Further, it is not satisfied that the current approach has resulted in water businesses sufficiently linking capital expenditure programs to demonstrated regulatory and customer expectations. The Tribunal therefore proposes to review the approaches it has used to date to better assess and allow for capital expenditure programs in its pricing determinations. It will assess options for creating stronger incentives for businesses to pursue capital efficiencies and improve asset management practices (see section 4.6).

This price determination has been limited to a two year period. The Tribunal was persuaded that the circumstances facing the industry generally, and specific agencies particularly, over the short to medium term, indicated that a two year price period was appropriate for all the metropolitan water agencies. These circumstances include Wyong and Gosford Councils' joint review of their bulk water supply, the current uncertainty about the effect of environmental flow requirements on water supply, the NSW Government's ongoing review of stormwater institutional structures, and problems associated with Sydney Water meeting its operating licence demand management targets. In addition, a two year price path will allow the Tribunal to conduct the next price reviews for the Sydney Catchment Authority and Sydney Water concurrently, and to review their operating licences at the same time.

**Box 1 Overview of Wyong Shire Council's water business**

Wyong Shire is situated on the Central Coast of NSW and is one of the fastest growing areas in Australia. Its current population is around 140,000, and is expected to continue to grow at about 2.2 per cent per annum. Wyong Shire Council provides water supply services to around 55,000 properties, and 50,000 properties are connected to its sewerage system.

Wyong Shire Council operates under the *Local Government Act 1993*, but it is also a statutory water supply authority operating under section 285 of the *Water Management Act 2000*. It is the policy-making body responsible for providing normal council services such as roadworks, library, healthcare and waste disposal to residents in the Wyong Shire. The Council funds these services principally through rates paid by owners of property within the Shire. It also provides water, wastewater and drainage services which are funded through separate charges. These charges are regulated by the Tribunal.

Wyong Shire shares a joint water headworks supply with the adjoining Gosford City, the major supply asset being Mangrove Creek dam. However, both Councils also maintain their own infrastructure to deliver water to customers, as well as systems for sewerage and stormwater disposal. Water and wastewater charges recover the costs of local water and wastewater infrastructure, as well as the costs of bulk water supply. Wyong has no specific stormwater charges, the costs of stormwater services are recovered through general council rates, water charges and wastewater charges.

Unlike the other metropolitan water agencies the Tribunal regulates, Wyong and Gosford Councils do not have operating licences that establish the minimum system performance and customer service standards they must meet. Instead, they have developed their own system performance and customer service standards after lengthy public processes. Wyong Council has also adopted guidelines and standards regulated by the National Health and Medical Research Council (NHMRC), NSW Health Department and the Environmental Protection Authority.

One of the most critical issues facing the Councils is continuing low water levels in dams. The current drought conditions, which have resulted in the introduction of water restrictions, have accentuated this problem. Consequently, Wyong Council and Gosford Council in partnership have initiated a review of their joint water supply system seeking long term solutions to water supply problems. The results of this review may impact on the costs and hence prices for water services in future determinations.

## 4 FINANCIAL ANALYSIS THAT UNDERPINS THE DETERMINATION, AND ITS IMPLICATIONS FOR WYONG COUNCIL

The Tribunal has determined that Wyong Council's overall revenue requirement from water and sewerage charges is \$35.2 million in 2003/04 and \$35.4 million in 2004/05 (measured in dollars of 2002/03), and has set maximum prices for each of its services to generate this amount of revenue. The Tribunal reached this determination after considering Wyong Council's proposed annual revenue requirements and capital and operating expenditure programs, together with analysis of these programs provided by Halcrow and GHD, and its own analysis of the impact of its determination on Wyong Council's financial viability, on its customers and on the environment.

The key implications of this determination for Wyong Council over the price path are as follows:

- the Tribunal has used higher water consumption projections than those provided by Wyong Council to set prices, in line with its view that consumption assumptions used in price setting should reflect longer term consumption patterns, not the effects of short term fluctuations
- the Council's overall revenue is expected to increase in real terms (ie measured in dollars of 2002/03), but by less than Wyong Council proposed
- the Tribunal has allowed \$1.3 million less for operating expenditure than Wyong Council proposed (measured in dollars of 2002/03), as it believes the Council can save this amount during the pricing period
- the Tribunal has allowed \$6.6 million less for capital expenditure (measured in dollars of 2002/03) than Wyong Council proposed, as it does not believe the Council can complete all its proposed capital projects within the pricing period
- overall, the Tribunal's price decisions should allow Wyong Council to maintain its currently sound financial position and generate a rate of return to the regulatory asset base of 5.1 per cent in 2003/04 and 4.8 per cent in 2004/05.
- In addition, the Tribunal intends to strengthen incentives for the Council and other metropolitan water agencies to achieve operating and capital efficiencies in the next price review.

This chapter discusses each of these implications and issues going forward in more detail, and explains the financial analysis that underpins the Tribunal's decisions.

### 4.1 Tribunal has used higher water consumption projections to set prices

*Finding 1: For the purposes of setting prices, the Tribunal assumed that consumption in the Wyong supply area would be equal to 15GL in both 2003/04 and in 2004/05.*

As discussed in Chapter 3, the Tribunal determined the maximum prices for Wyong Council's water and wastewater services by calculating the total revenue requirement of its water business for each year of the price path. It then set prices to generate this amount of revenue, using financial modelling.

One of the critical variables used in this financial modelling is the projected level of water consumption during the period of the price path. The assumed level of consumption used in the Tribunal's financial model has a significant impact on the forecast rate of return and, indirectly, on pricing decisions.

Gosford and Wyong Councils provided projected consumption data that appears to have been adjusted, particularly for the year 2003/04, to reflect the current mandatory water restrictions that apply in their areas of operations.

However, the Tribunal believes that, as a matter of principle, the assumed level of consumption it uses for price setting purposes should reflect longer term consumption patterns. It should not attempt to account for or predict the effects of shorter term weather patterns. This may mean that in periods of high rainfall or when water restrictions apply, water businesses will recover less revenue than forecast, while in periods when demand is high and no restrictions apply, they will recover more revenue than forecast.

In line with this belief, for each agency, the Tribunal has plotted a trend line along the last nine years of metered consumption data and projected this forward into the two years of the coming determination. It has used this as a starting point for considering specific consumption assumptions for modelling purposes.

For Wyong Council, the outcome of this approach is that the Tribunal has used a metered consumption assumption for modelling purposes of 15GL per annum in both 2003/04 and 2004/05. These levels are 8.7 per cent higher in 2003/04 and 1.4 per cent higher in 2004/05 than Wyong Council's projected consumption levels (Table 4.1).

**Table 4.1 Projected annual water consumption (GLs)**

|                           | 2000/01<br>Actual | 2001/02<br>Actual | 2002/03<br>Forecast | 2003/04<br>Forecast | 2004/05 |
|---------------------------|-------------------|-------------------|---------------------|---------------------|---------|
| Wyong Council's proposals | 15.5              | 15.0              | 12.8                | 13.8                | 14.8    |
| Tribunal's proposals      |                   |                   |                     | 15.0                | 15.0    |

## 4.2 Wyong Council's overall revenues expected to increase

*Finding 2: The Tribunal found that a revenue requirement of \$35.2 million in 2003/04 and \$35.4 million in 2004/05 (in 2002/03 dollars) is appropriate for setting maximum prices for water, wastewater, stormwater, and ancillary services provided by Wyong Council.*

To calculate the revenue requirement for Wyong Council's water business, the Tribunal estimated how much operating and capital expenditure an efficiently run water business could be expected to need, to operate effectively and earn an appropriate rate of return for efficient investment in capital infrastructure. It found that a revenue requirement of \$35.2 million in 2003/04 and \$35.4 million in 2004/05 (in real terms) is appropriate (Table 4.2).

These amounts are \$1.2 million in each year of the price path less than Wyong Council proposed, which reflects the Tribunal's view that the Council has the potential to achieve savings in its proposed operating and capital programs over the determination period.

**Table 4.2 Tribunal's estimate of Wyong Council's total tariff revenue requirement (\$2002/03, millions)**

|                          | 2002/03<br>Current | 2003/04* | 2004/05* |
|--------------------------|--------------------|----------|----------|
| Wyong Council's proposal | \$33.3             | \$36.4   | \$36.6   |
| Tribunal decision        |                    | \$35.2   | \$35.4   |
| Difference               |                    | -\$1.2   | -\$1.2   |

Source: IPART financial model for Wyong Council.

\* Consumption of 15GLs was used for all projections for 2003/04 and 2004/05.

Although prices have been set that are expected to generate the revenue shown in Table 4.2, the actual revenue Wyong Council generates will depend on its water sales, customer numbers and the effect of inflation. If it sells more water than the Tribunal assumed in its financial modelling, then it will earn more revenue. Similarly, if customer numbers increase by more than expected, its revenue will also grow faster than expected.

### 4.3 Tribunal has allowed \$1.3 million less for operating expenditure

*Finding 3: The Tribunal found that efficient operating expenditure for Wyong Council is \$20.2 million in 2003/04 and \$20.3 million in 2004/05 (in 2002/03 dollars), in line with Halcrow's recommendations.*

The Tribunal decided to allow for operating expenditure of \$20.2 million in 2003/04 and \$20.3 million in 2004/05. This is \$1.3 million less over the price path than Wyong Council proposed (Table 4.3). The Tribunal's decision to disallow proposed expenditure of \$1.3 million reflects its belief that some of the Council's projected cost increases were not sufficiently justified.

The Tribunal has decided not to impose an efficiency target on Wyong's operating expenditure. However the Tribunal expects Council to pursue efficiency gains over the price path nonetheless. The Tribunal expects the savings achieved to be used by Council to fund substantive step improvements to its systems, procedures, organisational capabilities and asset management practices in general.

**Table 4.3 Projected annual operating expenditure (\$2002/03, millions)**

|                           | 2002/03<br>Current | 2003/04 | 2004/05 |
|---------------------------|--------------------|---------|---------|
| Wyong Council's proposal* | 20.2               | 20.7    | 21.1    |
| Tribunal's finding        |                    | 20.2    | 20.3    |
| Difference                |                    | (0.5)   | (0.8)   |

\* Source: Wyong's Special Information Return 2002.

#### **4.3.1 Some projected operating cost increases were not sufficiently justified**

Wyong Council's proposed operating expenditure for 2003/04 and 2004/05 assumes it will achieve some operating cost savings due to better labour productivity. However, its projected increases in other areas would result in an increase in total operating expenditure over the price path. Specifically, the Council's proposed operating expenditure assumes that:

- its underlying costs will increase in line with population growth of 2.2 per cent per annum
- wages and salaries will grow by 3.7 per cent in 2003/04 and 3.5 per cent in 2004/05, due to annual wage awards and performance payments
- higher labour productivity will negate some of the increases in labour costs.

Based on its review of the Council's proposed operating expenditure, Halcrow found that the assumption in relation to increases in wages and salaries is reasonable. However, it found that the assumption that all other costs would rise in line with changes in CPI plus growth was not justified. It believes that only 30 per cent to 40 per cent of costs are likely to vary with growth.

Halcrow was not able to substantiate the Council's arguments for proposed cost increases due to ageing assets, increasing mandatory standards, a more densely populated work environment and increasing environmental standards.<sup>6</sup> However, it accepted the Council's justification for proposed cost increases related to work cover and IT development. The Council is currently in the final stages of negotiating the replacement of its outdated Corporate Information System and believes the new system will lead to significant increases in operating costs. Halcrow found that these increases are appropriate and will only bring the Council's average IT costs up to the level of the other water agencies.

The Tribunal carefully considered Wyong Council's reasons for its operating expenditure proposals and its comments on the Halcrow report, and Halcrow's analysis and recommendations in relation to these proposals. It accepted Halcrow's view that some of the proposed increases were insufficiently justified and has decided to adopt operating expenditure levels in line with those recommended by Halcrow.

#### **4.3.2 Tribunal expects Wyong Council to make operating efficiency gains, but has not imposed efficiency targets**

Halcrow's review of Wyong Council's proposed operating expenditure included examining the Council's efforts to reduce costs through efficiency gains, and identifying further opportunities to seek such gains.

Halcrow noted that the Council has implemented several continuous improvement initiatives intended to decrease costs and improve service levels. The Council argues that because it has decided on a policy of minimal outsourcing, improving service is the most appropriate way to move forward in many cases. However, Halcrow put the view that if the Council wishes to substantiate efficiency gains through improved outputs rather than reduced inputs, it must identify its targets and justify them to the Tribunal and report on them in an auditable fashion. It believes the Council's declared levels of service are

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<sup>6</sup> Halcrow Pacific Pty Ltd, *NSW Water Agencies Review Overview Report*, December 2002, p 89.

undemanding and do not demonstrate improvement. It is also concerned there is no linkage between the targets at the detailed level and the overall objectives of the business.

Halcrow also noted the Council is undertaking several projects that should result in efficiency gains, but did not project the savings these should deliver in their operating expenditure forecasts.<sup>7</sup> These projects include the Council's workplace reform and continuous improvement policy, and some proposed new IT systems.

In addition, Halcrow identified further opportunities to reduce operating costs, particularly in the longer term. To realise these opportunities, the Council will need to strengthen its range of management skills and improve its systems<sup>8</sup>. This may involve some short term cost increases, but Halcrow argues these are necessary if the Council is to demonstrate and deliver its potential in a regulated environment.

As an example of this type of opportunity, Halcrow noted that Wyong Council's maintenance policy is reactive, rather than preventative based on the risks associated with its assets. Since its assets are relatively young, this is not likely to be a major issue in the short term. However, as the asset base ages, Halcrow is concerned that the low level of longer term planning may lead to inappropriate decisions about where expenditure is best directed. This lack of planning is evident in the Council's lack of documentation, systems for prioritisation of expenditure, and general written justification for expenditures. Halcrow believes that management practices should be changed to drive improvements in operating costs, and linked to clear improvement targets<sup>9</sup> for operating expenditure.

Halcrow recommended that it would be appropriate to include an overall efficiency target of 2.5–3.0 per cent in Wyong Council's operating expenditure allowance, to reflect the full potential savings it believes are possible. However, it recommended that the Tribunal not apply this efficiency target, but allow Council to use the additional efficiency savings it achieves to fund substantive step improvement to its systems, procedures and organisational capabilities.

The Tribunal has carefully considered Halcrow's recommendations. It believes that Halcrow's suggestions for strengthening Wyong Council's organisation and systems will be useful to Wyong Council. However, it believes that it is up to the Council to decide how best to achieve improvement. The Tribunal seeks to create incentives for Wyong Council to achieve operating cost savings rather than tell it how to operate its business.

The Tribunal has decided not to impose an efficiency target on Wyong's operating expenditure. Nevertheless the Tribunal expects Council to pursue efficiency gains over the price path. The Tribunal expects the consequent savings in operating expenditure to be used by Council to fund substantive step improvements to its systems, planning and asset management practices. The Tribunal will make a judgement on Council's success in improving these areas of its business at the 2005 determination when deciding on the level of revenues for the determination going forward.

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<sup>7</sup> Halcrow Pacific Pty Ltd, *NSW Water Agencies Review Overview Report*, December 2002, p 90.

<sup>8</sup> Halcrow Pacific Pty Ltd, *NSW Water Agencies Review Overview Report*, December 2002, p 90.

<sup>9</sup> Halcrow Pacific Pty Ltd, *NSW Water Agencies Review Overview Report*, December 2002, p 90.

**Box 2 Halcrow methodology for calculating proposed operating expenditure**

Halcrow's review of Wyong Council's proposed operating expenditure involved analysing data provided by the Council, and information obtained through interviews with its senior staff. By focussing on drivers for cost changes and program priorities, the cost basis for projections, and projected efficiencies, Halcrow estimated the operating costs an efficiently operating Wyong Council would need to deliver its water services to customers.

The detailed estimates involved establishing a base line operating expenditure for 2001/02, by considering the details underlying the actual cost presented by the Council. Where abnormal items were identified in 2001/02, these were excluded. Halcrow then assumed that the base year operating expenditure should (in real terms) be sufficient for the delivery of services in subsequent years, assuming that service levels remained constant.

This base amount was varied in subsequent years after considering a range of factors, such as electricity price rises, real labour cost increases and staff and restructuring costs. Where capital expenditure was expected to result in operating cost efficiencies, then these were also explicitly considered.

From this modified operating expenditure, Halcrow calculated an expected efficiency factor, reflecting its view on the savings a competitive water business should seek to achieve every year. This factor is based on Halcrow's experience in similar water businesses, both within Australia and overseas.

**4.4 Tribunal has allowed \$6.6 million less for capital expenditure**

*Finding 4: The Tribunal found that \$16.6 million in 2003/04 and \$23.1 million in 2004/05 (measured in dollars of 2002/03) is an appropriate allowance for Wyong Council's capital expenditure program.*

The Tribunal decided to allow for capital expenditure of \$16.6 million in 2003/04 and \$23.1 million in 2004/05. These amounts are significantly less than Wyong Council proposed (Table 4.4). The Tribunal's decision reflects Halcrow's findings that although the proposed capital expenditure is probably reasonable in terms of the work required to maintain and expand Council's infrastructure, the Council is not likely to complete all the proposed projects during the pricing period. This reflects Halcrow's view that Council needs to invest in improving its long-term asset management planning.

**Table 4.4 Projected capital expenditure used in the Tribunal's financial analysis (\$2002/03, millions)**

|                           | 2002/03<br>Current | 2003/04 | 2004/05 |
|---------------------------|--------------------|---------|---------|
| Wyong Council's proposal* | 15.4               | 20.8    | 25.5    |
| Tribunal's finding        |                    | 16.6    | 23.1    |
| Difference                |                    | (4.2)   | (2.4)   |

\*Source: Wyong Council Special Information Return 2002.

#### 4.4.1 Wyong Council's proposed capital expenditure

Wyong Council proposed a capital expenditure program of \$20.8 million in 2003/04 and \$25.5 million in 2004/05 (Table 4.5).

**Table 4.5 Capital expenditure projected by Wyong by business activity (\$2002/03, millions)\***

|                                      | 2002/03 | 2003/04 | 2004/05 |
|--------------------------------------|---------|---------|---------|
| Water                                | 4.9     | 8.3     | 10.6    |
| Wastewater                           | 6.0     | 7.8     | 10.1    |
| Stormwater                           | 4.5     | 4.7     | 4.8     |
| Corporate                            | 0       | 0       | 0       |
| Total                                | 15.4    | 20.8    | 25.5    |
| Increase (Decrease) on previous year |         | 5.4     | 4.7     |

\*Source: Wyong Council Special Information Return 2002.

The high proportion of capital expenditure intended for growth assets reflects the high population growth expected in the Wyong Shire over the price path. The Council intends to use 52 per cent in 2003/04 and 50.2 per cent in 2004/05 of the proposed capital expenditure in total for growth assets (Table 4.6).

**Table 4.6 Capital expenditure projected by Wyong by driver (\$2002/03, millions)**

|                           | 2002/03<br>Current | 2003/04 | 2004/05 |
|---------------------------|--------------------|---------|---------|
| Growth                    | 10.0               | 10.8    | 12.8    |
| Asset renewal/replacement | 3.7                | 3.7     | 3.7     |
| Standards/joint works     | 1.7                | 6.4     | 8.9     |
| Total                     | 15.4               | 20.8    | 25.5    |

\*Source: Wyong Council Special Information Return 2002.

Halcrow found that the Council's proposed capital expenditure program is probably reasonable in addressing the requirements of the water, wastewater and stormwater systems. However, it expressed some concern about the adequacy of the Council's justification for some of the proposed wastewater expenditure and the overall level of documentation. It discussed these concerns with the Council, which recognised that it needs to direct more resources to better planning and managing its capital program.

In addition, Halcrow's found that Wyong Council does not seem to have incorporated the capital efficiency targets implied in the Tribunal's last determination into its asset management planning. These efficiency targets allow for the benefit from efficiency gains to be shared with customers. Halcrow noted that the Council's capital expenditure was under spent during the last price path, but believes that this was mainly the result of deferrals of expenditure to future periods (see section 4.4.2), not efficiency gains. Halcrow also noted that no future efficiencies are built into the costs used in Wyong Council's pricing submission to the Tribunal.

**Table 4.7 Comparison of actual and expected capital expenditure (\$2002/03, millions)**

|  | 2000/01 | 2001/02 | 2002/03<br>Current projected |
|--|---------|---------|------------------------------|
| 2000 Tribunal expected capital expenditure | 17.0    | 15.4    | 15.4                         |
| Actual capital expenditure                 | 13.1    | 10.7    | 15.4                         |
| Difference                                 | -3.9    | -4.7    | 0.0                          |

Source: Wyong AIR.

Halcrow did not recommend that the Tribunal set overall efficiency targets for capital expenditure for the coming price path. They reached this conclusion after they considered the issues arising from their review of asset management planning (see section 4.4.3), and their review of past and proposed capital expenditure. They believe that the proposed short price path provides limited opportunities to pursue efficiencies.

The Tribunal carefully considered this recommendation, and decided not to impose overall efficiency targets on its proposed capital expenditure.

#### **4.4.2 Wyong Council unlikely to complete all proposed projects in the pricing period**

Halcrow's analysis of Wyong Council's actual and forecast capital expenditure showed that the Council's actual expenditure during the current price path was considerably less than it forecast in 2000. For example:

- Expenditure on the water program was 23 per cent less than forecast. The Mardi to Warnervale trunk main has been postponed until the new price path (\$4.3 million). Water mains for growth were underspent by \$2.3 million.
- Expenditure on the wastewater program was 63 per cent less than forecast. Two projects at Mannering Park have been postponed (\$1.5 million and \$1.0 million). A project at Bateau Bay has slipped behind schedule due to poor consultant performance (\$1.2 million). A project at Wyong South is behind schedule because of design delays (\$1.0 million).
- Expenditure on the stormwater program was around 13 per cent<sup>10</sup> less than forecast.

Halcrow noted that much of this underspending was due to deferrals. However, it believes the scale of the deferrals indicates that the capital program had not been adequately planned, and that Council does not have adequate asset condition data to base its planning on. Halcrow also believes that, based on the slippage, the Council is unlikely to complete all the capital projects proposed for the next price path. It therefore recommends that the Tribunal allow for less capital expenditure than the Council proposed.

Halcrow's reasoning for allowing less capital expenditure than proposed by Wyong was discussed with Wyong Council and the Tribunal Secretariat. Although Wyong had previously expressed agreement with Halcrow on the need to direct more resources to

<sup>10</sup> Halcrow was not able to compare actual and forecast stormwater expenditure because the outcomes of the Council's program were not defined in specific terms. However, based on the Council's business plan for 2001/02 to 2005/06, Halcrow estimates that this program was underspent by around 13 per cent.

planning and management of its capital program, Council indicated that it did not necessarily concur with all of Halcrow's conclusions.

The Tribunal considered Wyong Council's reasons for its capital expenditure proposals, and Halcrow's analysis and recommendations. It decided to adopt the capital expenditure levels recommended by Halcrow.

#### **4.4.3 Wyong Council needs to improve its asset management planning**

As part of its review of Wyong Council's proposed capital expenditure, Halcrow reviewed the Council's asset management practices. It found that overall, Wyong Council's management has a sound, hands-on understanding of the day-to-day system needs and immediate problems for year to year planning. However, it has not directed adequate resources to longer term planning, and can provide little analysis and documentation to substantiate its proposals. The Tribunal is concerned that this may impact on its ability to determine prices, particularly for price paths of a longer duration.

Halcrow's analysis also included comparing the Council's asset management practices against best practice. Halcrow assessed the Council's practices against a checklist of eight primary factors and 54 secondary factors, and rated its performance on a scale of 1 to 5. The primary factors related to forecasting, asset knowledge, service standards, cost base and efficiencies, planning for growth and higher standards, planning asset maintenance, procurement strategy, and program management.

Halcrow found that Wyong Council's performance against these factors was variable. It concluded that a lack of resources for long term planning has resulted in comparatively unsophisticated asset management planning.

While Halcrow expressed concerns about expenditure on renewals and replacement for the other water agencies, it was not particularly concerned with the expenditure levels of Wyong's program because the assets are relatively young. However, while allowing the expenditure proposed by Wyong in full, they believe Wyong needs to improve its justification processes for proposed expenditures, needs to develop a procedure for allocating costs of major projects to their specific drivers, should start gathering systematic data on asset condition and serviceability, and should start moving towards risk based management.

Halcrow's conclusions on asset management practices were discussed with the Tribunal Secretarial and Wyong Council. Wyong indicated that they did not necessarily concur with all the conclusions reached by Halcrow. The Tribunal considers sound asset management practice to be critical for maintaining long term system performance standards in the most efficient manner and, for this reason, will continue to take a close interest in the practices and performance of regulated businesses in this area.

## **4.5 Wyong Council expected to maintain its strong financial position**

The Tribunal believes that its pricing decisions will not adversely affect Wyong Council's strong financial position. Its analysis and financial modelling indicate that the maximum prices set should enable the Council to retain its current investment category ratings, and earn a reasonable rate of return.

### **4.5.1 Investment category ratings expected to be retained**

To assess the impact of its pricing decisions on Wyong Council, the Tribunal analysed a range of financial indicators that are commonly used by credit rating agencies to assess an entity's financial capacity and ability to service and repay debt. This analysis shows that Wyong Council is in a very strong financial position, and should be able to maintain this position through the price path (Table 4.8). In particular:

- The funds from operations interest coverage and funds flow net debt payback indicate that Council will be well able to service its debt.
- The debt gearing ratio (total debt to total capital) indicates that Council's reliance on debt as a source of funding is low.
- The internal financing ratio shows Wyong Council is well able to finance its capital expenditure.
- The overall NSW Treasury score shows the overall financial capacity of an entity by averaging and weighting the individual ratios. Wyong Council's is exceptionally strong.

**Table 4.8 Financial indicators and credit ratings for Wyong Council**

|  | 2001/02<br>Actual | 2002/03<br>Current | 2003/04    | 2004/05    |
|--|-------------------|--------------------|------------|------------|
| <b>Ability to service debt</b>                             |                   |                    |            |            |
| 1. EBITDA interest cover                                   | 15.71             | 66.65              | 32.83      | 59.64      |
| NSW Treasury ratings (2002)                                | <b>AAA</b>        | <b>AAA</b>         | <b>AAA</b> | <b>AAA</b> |
| 2. Funds from operations interest coverage                 | 13.97             | 64.41              | 33.42      | 58.20      |
| Standard and Poors US ratings (1995)                       | <b>AA</b>         | <b>AA</b>          | <b>AA</b>  | <b>AA</b>  |
| 3. Pre-tax interest coverage                               | 3.70              | (2.55)*            | 7.02       | 13.00      |
| Standard and Poors US ratings (1995)                       | <b>AA</b>         | <b>&lt;BB</b>      | <b>AA</b>  | <b>AA</b>  |
| <b>Ability to repay debt</b>                               |                   |                    |            |            |
| 4. Funds flow net debt payback                             | 0.07              | 0.04               | (0.09)     | 0.07       |
| NSW Treasury ratings (2002)                                | <b>AA+</b>        | <b>AA+</b>         | <b>AAA</b> | <b>AA+</b> |
| 5. Funds from operations/total debt (%)                    | 36%               | 34%                | 47%        | 48%        |
| Standard and Poors US ratings (1995)                       | <b>AA</b>         | <b>AA</b>          | <b>AA</b>  | <b>AA</b>  |
| 6. Debt gearing (regulatory value)                         | 1%                | 0%                 | -1%        | 1%         |
| NSW Treasury ratings (2002)                                | <b>AA+</b>        | <b>AA+</b>         | <b>AAA</b> | <b>AA+</b> |
| Standard and Poors US ratings (1995)                       | <b>AA</b>         | <b>AA</b>          | <b>AA</b>  | <b>AA</b>  |
| <b>Ability to finance investment from internal sources</b> |                   |                    |            |            |
| 7. Internal financing ratio                                | 216%              | 115%               | 121%       | 82%        |
| NSW Treasury ratings (2002)                                | <b>AAA</b>        | <b>AAA</b>         | <b>AAA</b> | <b>AA</b>  |
| 8. Net cash flow/capital expenditure (%)                   | 190%              | 111%               | 123%       | 80%        |
| Standard and Poors US ratings (1995)                       | <b>AA</b>         | <b>AA</b>          | <b>AA</b>  | <b>AA</b>  |
| <b>NSW Treasury overall score and rating</b>               |                   |                    |            |            |
| NSW Treasury total score (0-10)                            | 9.50              | 9.50               | 10.00      | 9.00       |
| Overall rating   | <b>AA+</b>        | <b>AA+</b>         | <b>AAA</b> | <b>AA+</b> |
| 9. Net debt (\$m of the day)                               | 2                 | 1                  | (2)        | 2          |

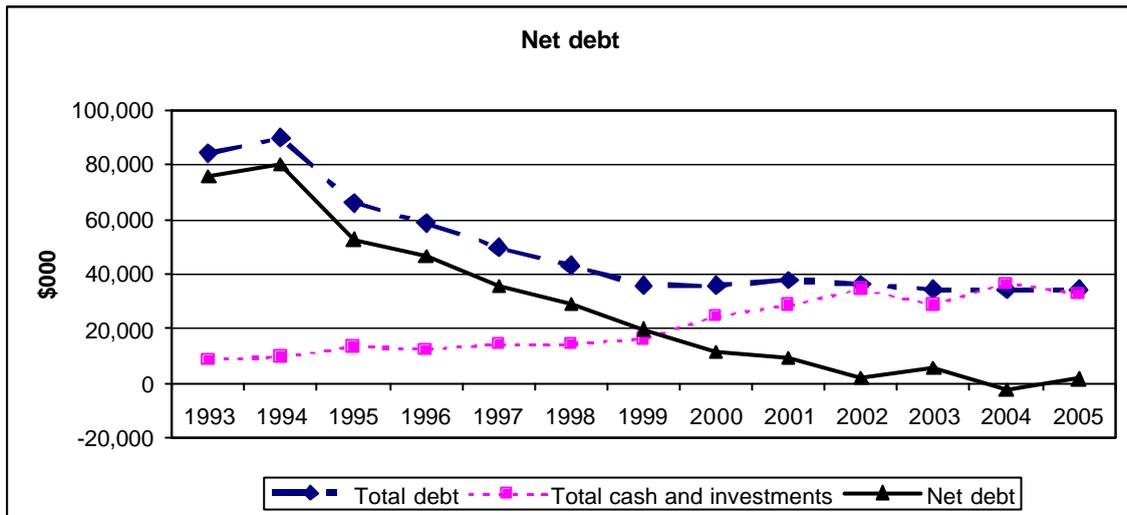
## Notes:

- (i) The Tribunal particularly relies on indicators based on cash flows because these are not as subjective as indicators that use components derived from estimates (eg asset value and depreciation).
- (ii) The information in this table should be read and understood only after reviewing Appendix 9 and the explanations and qualifications mentioned there.

\*Figures are forecasts, actual figures not available until after 30 June 2003.

Since 1994, the level of net debt held by Wyong Council has declined steadily (Figure 4.1). Since the review of Wyong and Gosford Councils' joint water supply is not yet available, the Tribunal will review the potential impacts of the review on debt levels at the next pricing determination.

Figure 4.1 Net debt (nominal, \$000)



4.5.2 Rate of return expected to be reasonable

Finding 5: The Tribunal found that Wyong Council is likely to earn a pre tax real rate of return of 5.1 per cent in 2003/04 and 4.8 per cent in 2004/05.

The rate of return to Wyong Council’s regulatory asset base is expected to be around 5.1 per cent in 2003/04 and 4.8 per cent in 2004/05,<sup>11</sup> provided that the assumptions used in the Tribunal’s modelling of the financial impacts of its pricing decisions are correct. This rate of return is relatively low compared with some competitive industries. However, the Tribunal believes it is reasonable, given the Wyong Council operates in a low risk environment (where the main risk it faces is the impact of weather conditions on its revenue) and that it does not pay dividends (as Sydney Water and Hunter Water do)<sup>12</sup>

Table 4.9 Expected and actual rates of return (% real, pre-tax)

| 2000/01 | 2001/02 | 2002/03           | 2003/04   | 2004/05   |
|---------|---------|-------------------|-----------|-----------|
| 5.7     | 5.6     | 4.4               | 5.1       | 4.8       |
| Actual  | Actual  | Current projected | Projected | Projected |

Source: IPART financial model for Wyong Council.

In making its findings on Wyong Council’s revenue requirements and operating and capital expenditure needs, the Tribunal explicitly considered all the matters listed in section 15 of the IPART Act. It considered the implications of these findings on the Council’s rate of return to assets and its ability to borrow funds and meet its capital requirements. It also considered the social and environmental implications of its findings, including their impact on the affordability of water services, future standards of service quality, reliability and

<sup>11</sup> The weighted average cost of capital (WACC) range for the metropolitan water agencies was estimated to be between 5.2 per cent and 6.7 per cent. The detailed assumptions used to generate this range are given in Appendix 7.

<sup>12</sup> The Department of Sustainable Natural Resources proposes legislation that would allow the water sections of general councils to pay dividends to the general council.

safety, and ecologically sustainable development. The Tribunal is satisfied that the social and environmental impacts of its pricing decisions are well balanced against a reasonable rate of return, given its view that the Council has further potential to achieve operating efficiency gains.

#### **4.5.3 Dividend and tax equivalent payments not allowed for**

*Finding 6: The Tribunal found that in the absence of any changes to legislation, it would be inappropriate to set prices on the assumption that Council will be able to make dividend payments from water and sewerage funds to the Council's General Fund.*

In its submission to the Tribunal, Gosford Council noted that national competition policy agreements require all local councils to obtain a rate of return that includes tax equivalent and dividend payments. However, due to concerns over section 409 (3) (a) of the Local Government Act, it is not currently able to make these payments. Council noted that while tax equivalents and dividend payments have formed part of the Council's calculated revenue requirements, the inability at this stage to make such payments to Council's General Fund has eliminated these payments from the submission calculations.

The Tribunal decided, since there have been no changes to the current legislation, to set prices for Gosford and Wyong Councils on the basis that dividends will not be paid by the Councils' water and sewerage business to their General Funds. The Tribunal will reassess this decision at the next determination if the relevant legislation has changed.

#### **4.6 Issues Tribunal will consider going forward**

The Tribunal is concerned that Wyong Council and other metropolitan water agencies did not establish operating and capital efficiency targets based on the last price determination. Its concerns and the steps it proposes to take to strengthen incentives to seek operating and capital efficiencies are outlined below.

##### **4.6.1 Incentives for operating efficiencies**

The Tribunal did not set operating efficiency targets for Wyong Council for the new price path. This was to allow Council funding to improve its systems, procedures and organisational capabilities. Therefore the Tribunal will expect to see evidence at the 2005 price review of Wyong Council's efforts to improve this area of its operations. It will take any failure to achieve improvements into consideration at the next price review, when formulating allowable operating expenditure for the subsequent determination period.

##### **4.6.2 Incentives for capital efficiencies**

The Tribunal is concerned about the adequacy of incentives created by the current regulatory approach for improving capital efficiencies. These incentives appear to be small given that the water agencies have responded to the efficiency targets implied in the Tribunal's capital expenditure allocations principally by switching capital between projects<sup>13</sup>, or delaying projects. It is not clear whether these actions result in genuine efficiency gains, or how they affect the agencies' overall service provision given the long lives of these assets.

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<sup>13</sup> Switching capital expenditure away from proposed programs to new programs may reflect poor asset management planning, or changed priorities as new operating issues arise.

To improve the incentives, Halcrow recommended establishing a series of output targets, such as length of water main renewed. The Tribunal is concerned that this approach may create perverse incentives, and has therefore decided to not adopt this recommendation. However, it will seek further information from the water agencies on the approach as part of the 2005 price review.

In addition, the Tribunal will investigate other changes to its approach to regulating capital expenditure as part of the 2005 price review. Its objectives are to create an incentive for water agencies to pursue capital efficiencies, encourage better long-term asset management planning and enhance the connection between drivers of expenditure and capital expenditure programs. These drivers include changes to environmental standards or demonstrated customer preferences.

As part of this investigation, the Tribunal will consider the use of a four year efficiency carryover mechanism. Under this mechanism, the difference between the capital expenditure forecast approved at the time of a determination and the actual capital expenditure will be borne by the business for four years rather than until the next determination is made. In practice, this would mean that expected capital expenditure would be initially rolled into the RAB and actual capital expenditure would replace the expected capital expenditure after four years has passed. Prior to the actual capital expenditure being rolled into the RAB, it would be subjected to a prudency review.

The effect of the four year efficiency carryover mechanism would be to allow Wyong Council to keep better than expected efficiency savings for the entire four year period. However, if it was unable to meet the efficiency savings targets, it would bear the cost for the entire four year period.

This kind of incentive mechanism could operate in several different ways:

- It may be based on an agreed program basis, whereby gains in one program could not be offset against over expenditure in another. This would limit expenditure flexibility, but would also create a strong incentive for the Council to more effectively plan and manage its capital expenditure programs as the businesses would bear the heightened risks for inaccurate forward capital expenditure planning.
- Alternatively, it may be applied to the capital expenditure of the business in aggregate, allowing reallocation of capital expenditure during the course of a determination period without additional gain or penalty provided total expenditure matched forecasts.

The Tribunal will consult with Wyong Council and other key stakeholders about this approach in the lead up to the next determination. The Tribunal is likely to require the water agencies to provide a higher level of specification and justification for their forward capital expenditure programs to enable such a mechanism to be implemented. It will also require this information to improve the link with agreed expenditure drivers such as growth and the meeting of mandatory standards. Where water businesses want to propose capital expenditure to meet performance standards in excess of those required by regulators such as the EPA they will need to clearly demonstrate that their customers are willing to pay for the enhancement of standards.

Wyong Council therefore has two years to develop adequate asset management planning processes to provide this information to a reasonable level of confidence.

**Box 3 Overview of Wyong Council's customer base**

Wyong Council provides around 55,000 properties with water supply and 50,000 with sewerage services. The Wyong Shire has a high population growth rate of about 2.2 per cent per annum. Its total population is expected to grow from 140,000 to 200,000 by the year 2021.

This population growth has led to growth in total metered water consumption. Average consumption for a typical residential customer has also increased, but at a slower rate (see Appendix 10 Comparison Statistics for Key Financial and Performance Data for Metropolitan Water Agencies).

**Figure 4.1 Wyong Council's customer base in 2002**

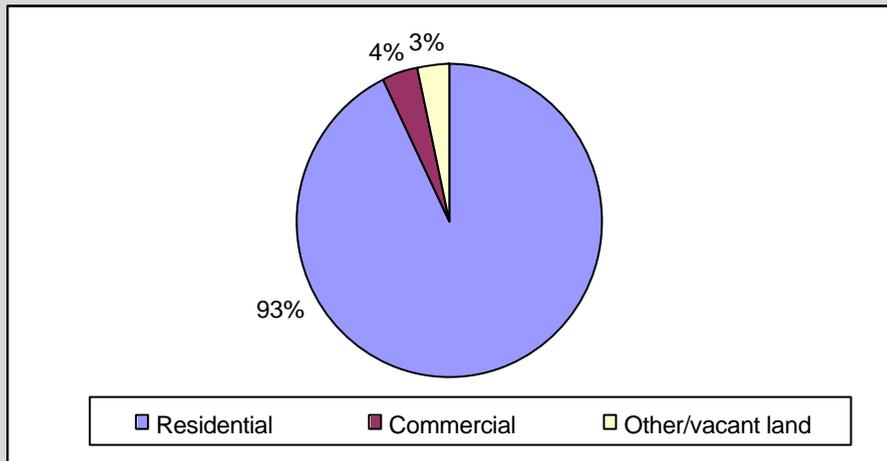
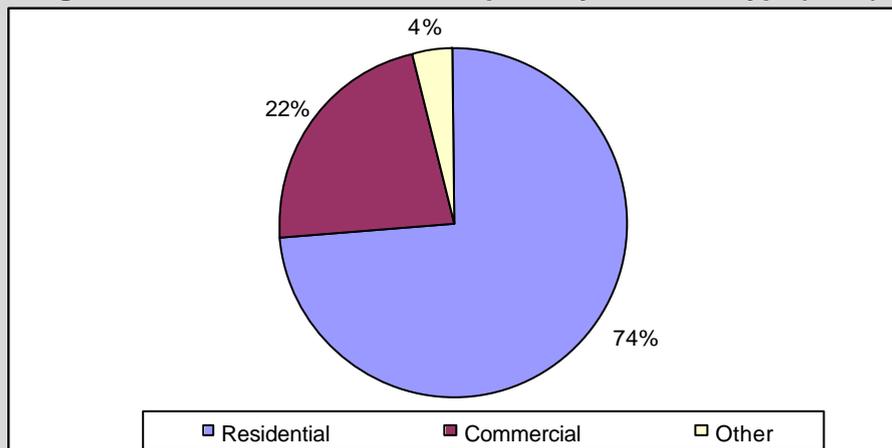


Figure 4.2 below shows how the average non-residential customer has a significantly higher water usage than an average residential customer. Because Wyong Council has a relatively small non-residential customer base, the loss or gain of an individual non-residential customer can have a significant effect on total consumption.

**Figure 4.2 Metered water consumption by customer type(2002)**





## 5 IMPLICATIONS FOR CUSTOMERS

In reaching its pricing decisions, the Tribunal explicitly considered their likely impact on Wyong Council's residential, commercial and industrial customers. In particular, it considered their impact on the affordability of water services for high and low water users, and on the quality of the services customers receive. The Tribunal's analysis indicates its decisions will have a minimal impact on customer bills: residential customers with average water use are likely to pay slightly less for water and wastewater services (before any movements in inflation) than they did in 2002/03.

The key implications of this determination for customers are as follows:

- Prices for water services have been restructured so that usage charges make up a larger proportion of customer bills. These changes are intended to send a greater water conservation signal to customers, although the reduced water demand benefits may be limited.
- For residential customers, this price restructuring is likely to have little impact on an average water user's bill which will be slightly lower in real terms in both 2003/04 and 2004/05 than currently. High water users will have slightly higher bills, while low water users will have lower bills in real terms.
- For commercial and industrial customers, the price restructuring is also likely to have minimal impact on average water bills in 2003/04 and 2004/05, disregarding the effects of inflation. Because GHD advised the Tribunal that Council currently was not recovering the costs of trade waste services through its trade waste charges, the Tribunal has accepted Council's proposals for some trade waste charges to increase above the rate of changes in inflation.
- Service standards are expected to be maintained over the price path, and the Tribunal intends to consider ways to better monitor these standards during the pricing period.

In addition, the Tribunal is concerned that for this review, it did not have sufficient information to fully understand the impact of its decisions on customers, particularly in relation to household income. For the next review, it intends to conduct a household survey to allow it to analyse these issues more comprehensively, and consider more far-reaching price changes.

Each of these implications and issues going forward is discussed in more detail below.

### 5.1 Prices have been restructured

The Tribunal decided to increase the relative emphasis on water usage charges to provide a greater incentive for customers to reduce water use. Water usage charges will increase by 1 per cent above changes in inflation in each year of the price path, while water service charges will decrease by 1 per cent in each year (i.e. 1 per cent below any change in inflation). Wastewater charges will change in the same way, with usage charges increasing by 1 per cent and service charges decreasing by 1 per cent in each year.

This decision will improve the ability of all customers to manage their water bills. Most importantly, it may help to encourage more customers to adopt water saving technologies and control their water use.

The decision is consistent with the Council of Australian Governments (COAG) water pricing guidelines, which were developed as part of the national water reforms. These guidelines require, among other things, that 'externalities'<sup>14</sup> or environmental costs be included within an individual's water price. By increasing the emphasis on usage charges, the Tribunal is attempting to include the costs associated with expanding the water supply to meet rising demand into an individual's water use decisions. This means that those who use more water will pay a proportionately greater amount of the cost associated with reducing water demand or increasing water supply.

Table 5.1 provides an overview of the key pricing decisions affecting Wyong Council's customers. In addition to water and wastewater price restructuring, these include:

- Restructuring charges for effluent and sludge removal, to allow the Council to recover more of the costs involved in providing these services to customers not connected to the sewer system (see section 7.5 for more detail). These changes will have a varied impact on individual customers, but the Tribunal has modified the charges proposed by the Council to keep this impact to a reasonable level.
- Reducing the sewerage charge for vacant land from 100 per cent of the residential sewerage charge to 75 per cent (this will take effect on 1 July 2004, see section 7.3). This decision will benefit customers who own vacant land, while still allowing the Council to recover the costs associated with making the sewer system available.

**Table 5.1 Overview of pricing decisions for Wyong Council**

|   | 2002/03<br>Current | 2003/04 <sup>1</sup> | 2004/05 <sup>1</sup> |
|---|--------------------|----------------------|----------------------|
| <b>Water</b>                                |                    |                      |                      |
| - residential/non-residential usage (\$/kL) | 0.70               | 0.73                 | 0.76                 |
| - residential/non-residential service (\$)² | 80.00              | 81.68                | 83.31                |
| - vacant land (\$)                          | 80.00              | 81.68                | 83.31                |
| <b>Wastewater</b>                           |                    |                      |                      |
| - residential service (\$)                  | 347.00             | 354.29               | 361.38               |
| - non-residential service (\$)²             | 125.00             | 127.63               | 130.18               |
| - non-residential usage (\$/kL)             | 0.60               | 0.62                 | 0.64                 |
| - vacant land (\$)                          | 347.00             | 354.29               | 271.03               |

Notes:

1. Assuming inflation increases of 3.1 per cent in 2003/04 and 3.0 per cent in 2004/05.
2. Assuming a 20mm water connection.

The Tribunal took a range of factors into consideration when making its decision to increase the emphasis of usage charges. These include, for example, the potential reduction in water supply due to the provision of environmental flows. This reduction could increase the cost of the next incremental rise in water supply capacity, which could mean that water usage prices will need to rise in the future.

<sup>14</sup> An externality in this context is where a water user impacts on other water users, Wyong Council or the environment, but does not pay for the additional costs that those impacted water users bear. Appropriate pricing requires these additional costs to be borne by the individual who causes them.

## 5.2 Impact on residential customers

Overall, the Tribunal expects that an average Wyong Council residential customer will be no worse off as a result of this determination. The impact on customers' annual water bills will vary according to their total water use (Table 5.2). The bills of those with average water use (210kL per year) are expected to move slightly less than changes in general price inflation, while the bills of customers with high water use will rise by slightly more than changes in inflation.

**Table 5.2 Tribunal decision - annual residential water and wastewater bills by water usage level (\$ of the year)**

| Water usage<br>(kL per year) | % of res<br>customers | 2002/03<br>Current | 2003/04 |      | 2004/05 |      |
|------------------------------|-----------------------|--------------------|---------|------|---------|------|
|                              |                       |                    |         | Diff |         | Diff |
| <100                         | 22.8                  | 480                | 490     | 11   | 501     | 11   |
| 100-150                      | 15.6                  | 515                | 527     | 12   | 539     | 12   |
| 150-200                      | 16.3                  | 550                | 563     | 14   | 577     | 14   |
| 200-250                      | 14.2                  | 585                | 600     | 15   | 615     | 15   |
| 250-300                      | 11.0                  | 620                | 636     | 17   | 653     | 17   |
| 300-400                      | 12.5                  | 672                | 691     | 19   | 710     | 19   |
| 400-500                      | 4.8                   | 742                | 764     | 22   | 786     | 22   |
| 500-1000                     | 2.6                   | 952                | 983     | 31   | 1014    | 31   |
| 1000<                        | 0.3                   | 1477               | 1531    | 54   | 1584    | 54   |

NB: Figures represent absolute changes relative to the previous year.

An inflation rate of 3.1 per cent per year was assumed for 2003/04 and 3 per cent for 2004/05—nominal changes in actual bills will depend on the actual change in CPI for each year.

The impact was calculated using the mid-point of water usage, 1500kL was used for >1000kL and 75kL was used for <100kL.

The Tribunal specifically considered the impacts of its pricing decisions on residential water customers, in line with section 15 of the IPART Act. It considers these impacts are well balanced with the other matters it is required to consider in section 15.

## 5.3 Impact on commercial and industrial customers will be reasonable

The impact of the Tribunal's decision to restructure water and wastewater prices on commercial and industrial customers will vary depending on their level of water usage. Higher water users are likely to experience higher increases in their annual water bills than lower water users. However, because commercial and industrial customers are much more diverse in terms of their water usage patterns than residential customers, it is difficult to draw general conclusions about impact of this decision on these customers.

The impact on customers of the Tribunal's decision for trade waste charges to increase at a rate higher than movements in inflation will vary depending on the service, but the Tribunal accepts GHD's advice that the new charges will better reflect the costs of providing the services.

The Tribunal has considered the different potential impacts on commercial and industrial customers in line with its requirements under section 15 of the IPART Act. It recognises that these impacts may be higher for customers with high water usage. However, it believes its decisions are appropriate, given that rising water prices will encourage commercial and industrial water customers to review consumption and to encourage efficient water use in their sector. It is also satisfied that these impacts are warranted given the large supply augmentation and demand management costs which may emerge as demand exceeds sustainable yield.

#### **5.4 Service standards expected to be maintained**

When considering the impact of its pricing decisions on service quality, the Tribunal seeks to ensure that these decisions do not adversely affect the standards of service the water agency delivers to its customers. It sets prices with the expectation that service levels will be maintained and that cost reductions and efficiency savings will not be obtained at the expense of service standards.

Like Gosford Council, Wyong Council does not have an operating licence that requires it to meet minimum service standards, and the Tribunal does not regulate its service standards. It is required to meet some mandatory standards set externally by bodies such as the Environmental Protection Authority, but it sets other standards, including system performance standards, itself.

This means that there is less information available to the Tribunal to judge Wyong Council's service performance, compared with that available for Sydney Water and Hunter Water,<sup>15</sup> and it is difficult to compare its performance with the other agencies'. The Tribunal must therefore rely on Wyong Council's own monitoring of customer service performance.

Wyong Council has advised<sup>16</sup> the Tribunal that it aims to meet a range of service, quality and environmental standards based on the following:

- Compliance with guidelines and standards regulated by the National Health and Medical Research Council (NHMRC), NSW Health Department and the Environmental Protection Authority.
- Benchmarking with standards applied by other Authorities as reported by the Department of Land and Water Conservation, the Department of Local Government, the Water Services Association of Australia and in reports published by the various authorities.
- Community feedback received through:
  - customer surveys
  - precinct committees
  - representations to elected members
  - customer complaints.

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<sup>15</sup> These agencies have an operating licence which sets out the minimum standards they are required to meet. The Tribunal regulates their licences, which includes monitoring and auditing their performance against these standards.

<sup>16</sup> Wyong Council, Submission to IPART Pricing Proposals 2003, p 3.

Based on the information the Council supplied to the Tribunal, it appears that Wyong Council’s compliance with these standards over the previous determination period has been high. The Tribunal believes that the prices it has determined will enable Wyong Council to continue to achieve this level of compliance during the price path.

### 5.5 Issues Tribunal will consider going forward

The Tribunal wishes to better identify the impacts of pricing decisions on customer groups, especially vulnerable groups. While the existing approach of analysing impacts by water usage groups provides a general indication of the likely impacts on a customer’s bill, it gives a limited understanding of the impact within the overall household’s income. The Tribunal has therefore decided to conduct a household survey to be conducted across the Sydney metropolitan area to link water usage information to household income. It expects that this will enable a more comprehensive analysis of the customer impacts from pricing decisions to be undertaken in time for the 2005 price review.

#### Box 4 Historical water and wastewater charges

Since its establishment in 1992, the Tribunal has been actively working to achieve efficient prices for Wyong Council, that reflect its water service costs and provide it with appropriate incentives. This has led to more revenue being generated by water usage charges and less by property value based charges.

At the 2000 determination, the Tribunal removed the pre-paid water allowance and moved to a two-part tariff price structure. It understands that there has been little concern over these new arrangements, and as such it intends to continue this arrangement in the future.

In 2000/01, 14.0 per cent of total regulated revenue was based on water usage charges, and the remainder was based on fixed charges. As a result of the Tribunal’s pricing decisions, the proportion of revenue earned from usage charges is expected to increase to 31.4 per cent in 2004/05.

**Figure 5.1 Gross revenue from water and wastewater tariffs (\$2002/03)**

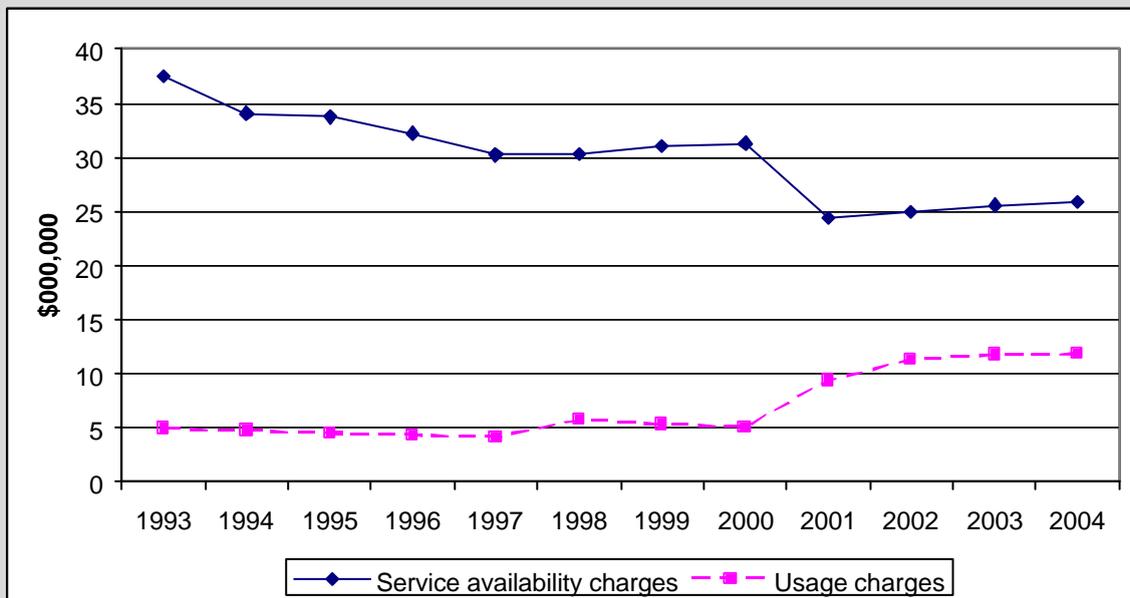
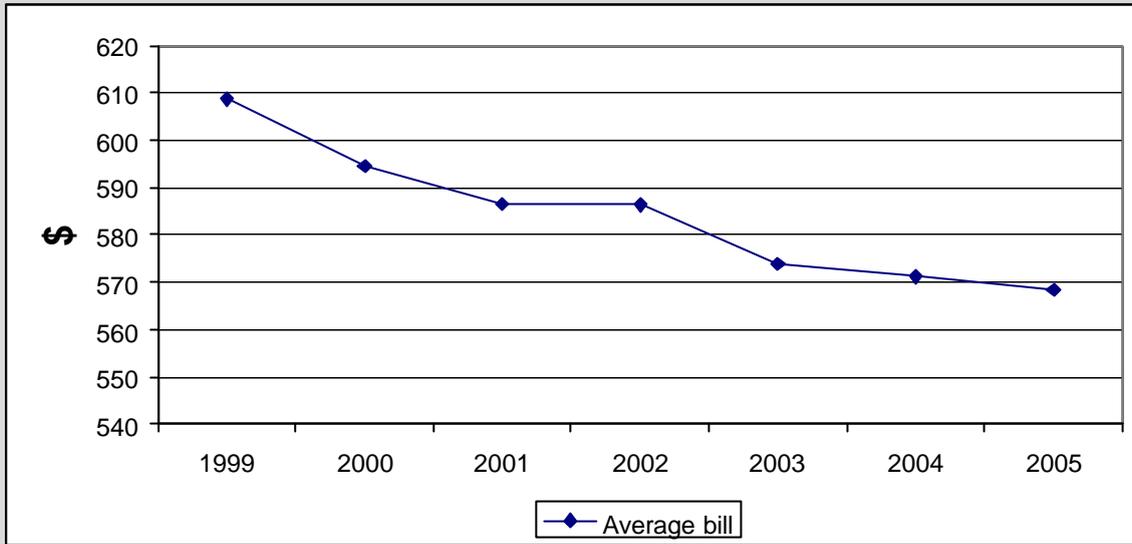


Figure 5.2 shows that Wyong Council customers have experienced a steady decline in real water bills since 1999.

**Figure 5.2 Historical water and wastewater charges (\$2002/03)\***



Source: IPART financial model for Wyong Council.

\* Assumes average consumption of 210 kLs/per annum

## 6 IMPLICATIONS FOR THE ENVIRONMENT

Section 15 of the IPART Act requires the Tribunal to explicitly consider the impact of its pricing decisions on ecologically sustainable development.

For this price review, the key environmental issues related to water services facing the Wyong area is the pressure on water supply due to population growth, and therefore the need to improve demand management, and potential to augment the Gosford/Wyong Joint water supply in the future. Other important issues include the desirability to continually improve methods of effluent disposal and reuse and methods to prevent polluted water runoff into rivers and beaches. The Tribunal believes its pricing decisions will contribute to the resolution of these issues. Their key implications for the environment are as follows:

- Prices have been restructured by increasing water use charges and decreasing fixed charges to send a better conservation signal to water users.
- The Tribunal has decided not to set prices based on Wyong Council's water consumption projections (which take into account the effects of the current drought and water restrictions in the Wyong area), but to use a long-run average estimate of water consumption. This decision will reduce likelihood that Wyong Council will receive windfall profits if the water restrictions fail to reduce consumption to the anticipated level.
- Wyong Council will need to continue its demand management program, to ensure the long term sustainability of the water supply in its area of operations
- The Tribunal believes its decisions will allow Wyong Council to address the other specific environmental issues it faces in the pricing period.

In addition, the Tribunal notes that Wyong and Gosford Councils are examining options to improve the security of their water supply in the future, and will be interested in their findings.

Each of these implications and issues going forward are discussed in more detail below.

### 6.1 Prices have been restructured to better signal the need for demand management

The Tribunal's decision to restructure water prices, so that the variable usage charge comprises a larger proportion of most customers water bills compared with the fixed charge may have a positive impact on ecologically sustainable development. This decision will mean that 26 per cent of an average customer's water and wastewater bill will now be driven by water usage charges, compared with 23 per cent in the previous determination.

In making this decision, the Tribunal intended to strengthen the incentive for water users to adopt water saving appliances and practices, and give them greater control over their overall water bills. This is expected to have some impact on total water use, however, this impact is likely to be relatively small. Empirical evidence from a range of countries suggests customer water use patterns do not change significantly in response to changes in water prices<sup>17</sup>, although it may be that pricing has more impact on discretionary water use (such as

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<sup>17</sup> See for example summary in OECD, *The price of water trends in OECD countries*, OECD, Paris, 1999.

watering gardens). However, it is important to remember that price is not the only policy response to curb excessive water demand.

The Tribunal is aware of work being undertaken by other agencies within the NSW Government on this issue. It hopes that a coordinated policy response will be available by the time of 2005 price review, to allow it to examine the impact of prices on water demand in more detail.

## **6.2 Tribunal has used long-term average estimate of water consumption to set prices**

The Tribunal decided not to use Wyong Council's water consumption forecasts for the purposes of setting prices, but to use its own estimate of the Council's customers' long-term average consumption (see section 4.1 for more detail).

The Tribunal believes its decision to use a long-term average estimate of consumption for price setting is appropriate, because the impact of water restrictions on demand is difficult to forecast at this stage. In addition, it believes in principle, prices should not be set on predicted variations in demand due to short-term weather patterns. (This principle will be even more important for the 2005 review, when the Tribunal intends to set a longer price path.)

In making this decision, the Tribunal accepts that actual consumption could differ from these estimates due to the impact of weather conditions and the possibility that water restrictions may be continued or phased out. These risks are commercial risks which are borne by Wyong Council and are compensated for through a higher than risk free rate of return on the regulatory asset base.

## **6.3 Wyong Council needs to continue its demand management program**

The Tribunal considered the likely impact of Wyong Council's demand management program as part of the price review. This impact is relevant because an imbalance between water demand and sustainable water supply would increase the pressure on the Council and its customers to reduce demand, which the Tribunal may need to address through its price regulation. In addition, forecast demand for water over the determination period is one of the key inputs to the Tribunal's price setting approach.

The Tribunal found that the need to effectively manage water demand is very likely to become increasingly important in the coming years. Wyong Council has imposed mandatory water restrictions on customers because of ongoing low dam levels and impacts of the current drought. Council also has other demand management strategy initiatives in place but reports that they have had limited success. For example, initiatives such as the SEDA Smart Showerhead Program and proposals for effluent re-use at power stations and golf courses did not achieve the results the Council expected, due to cost and community attitude problems.<sup>18</sup> In January 2003, it adopted a new initiative that requires all new dwellings and additions to install water efficient fixtures such as "AAA" rated cisterns, and

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<sup>18</sup> Wyong Shire Council, Submission to IPART, 2003, p 10.

rainwater tanks of at least 5000L capacity for toilet flushing, laundry, garden watering and other external uses.

In addition, the Tribunal notes that Gosford and Wyong Council's are undertaking a joint project to examine the options for improving the security of their water supply, including demand management options (see section 6.4). It hopes that the findings will enable the Council to significantly improve the effectiveness of its demand management program.

#### **6.4 Wyong Council expected to be able to address specific environmental issues**

The environmental impacts of Wyong Council's water, sewerage and drainage activities are regulated in various ways—including through the Tribunal's price regulation, the Environmental Protection Authority's (EPA's) regulation of discharges to the environment, and the Department for Sustainable Natural Resource's (DNSR's) regulation of water abstraction from the environment. As a result of this regulation and other Government environmental policies, the Council needs to address several specific environment-related issues in the coming pricing period:

- The EPA is finalising a 'country' sewerage system licensing system. Once Wyong Council's licence is in place, it will be required to investigate the sewerage system over three to four years and identify environmental and public health requirements.
- As a result of the Healthy Rivers Commission Inquiry into the Hawkesbury River System, an expert panel was established to review the health of the Central Coast's rivers. This panel identified a number of issues, including the need to develop a streams management strategy, which the Council is pursuing.
- Water sharing plans under the Water Management Act are likely to influence capital expenditure by the Gosford Wyong Joint Board in the future. Although not currently a priority for DNSR, it may need to develop a water sharing plan for Wyong Creek. This could have a substantial impact on Wyong Council, as the entire base extraction of water for the Wyong Shire comes from this source.

The Tribunal believes its decisions will allow the Council to successfully address these issues. However, it was not able to consider the impact of its decisions on the Council's ability to meet any environment-related capital expenditure needs that could potentially result from Wyong and Gosford Councils' joint review of bulk water supplies, as the findings of this review were not available in time for the determination.

#### **6.5 Issues Tribunal will consider going forward**

To address the ongoing problems relating to declining storage levels in the Gosford/Wyong supply area, the Gosford/Wyong Joint Water Authority has commissioned a consulting firm to examine options for improving the security of its water supply, including demand management and supply augmentation options. The outcome of this project will be a key issue for both the councils and the Tribunal going forward.

The Tribunal will be particularly interested in the findings, as they could potentially result in the addition of some large capital projects to Wyong Council's future capital expenditure program. In addition, if a large supply augmentation is found to be necessary, there may be some future upward pressure on prices. The Tribunal would want to be satisfied that all viable alternatives, such as demand management options, had been identified and were being pursued before supply augmentation went ahead.

## 7 SUMMARY OF PRICING DECISIONS

In its submission, Wyong Council suggested that the Tribunal abandon the CPI-X methodology for setting prices, and proposed a series of nominal charges for 2003/04 and 2004/05. The proposed charges represented a 3 per cent increase in real terms in 2003/04 and the maintenance of charges in real terms in 2004/05.

The Tribunal carefully considered the Council's pricing proposals for water, wastewater and stormwater services. It decided to continue using the CPI-X approach, to maintain a consistent approach across each of the metropolitan water businesses. It also prefers the CPI-X approach, as it provides more certainty about the outcomes of the Tribunal's pricing decisions in real terms. The Tribunal also decided to increase prices overall, but in line with movements in inflation.

In making its pricing decisions the Tribunal has:

- increased the real water usage charge but decreased real water fixed charges
- decreased real wastewater fixed charges, but increased real wastewater usage charges
- determined that the sewerage portion of vacant land charges be 75 per cent of the residential sewerage charge, but determined that it should be implemented in the second year of the price path
- accepted Wyong Council's proposals for trade waste charging over the two year period
- accepted Wyong Council's proposals to maintain the majority of miscellaneous charges at the same level as current charges without any increase linked to movements in inflation (a decrease in real terms)
- accepted Wyong Council's proposal to reformat the structure and level of effluent and sludge removal charges.

This chapter outlines the Tribunal's pricing decisions for each service and compares them with Wyong Council's pricing proposals and explains the Tribunal's rationale.

### 7.1 Water charges

*Decision 1: The Tribunal decided to set maximum water charges for 2003/04 and 2004/05 as set out in Table 7.1.*

The Tribunal has decided to restructure charges by increasing water use charges and decreasing fixed water charges to send a better water conservation signal to water users (see Chapter 6 generally for a more detailed explanation of the Tribunal's reasoning).

**Table 7.1 Tribunal's proposed water charges**

| <b>Tribunal's determined charges (\$)</b>                      | <b>2002/03 Current</b> | <b>2003/04</b> | <b>2004/05</b>               |
|--|------------------------|----------------|------------------------------|
| Usage charge (per kL)<br>- residential & non-residential       | 0.70                   | 0.73           | 0.73 x (1.01+ $\Delta$ CPI)  |
| Service charge (per annum)*<br>- residential & non-residential | 80.00                  | 81.68          | 81.68 x (0.99+ $\Delta$ CPI) |

\* The water service charge is based on the size of the meter connection to the property. This charge is calculated for a 20mm connection.

**Table 7.2 Wyong's current and proposed water charges**

| <b>Wyong's proposed charges (\$ of the day)</b>                | <b>2002/03 Current</b> | <b>2003/04</b> | <b>2004/05</b> |
|--|------------------------|----------------|----------------|
| Usage charge (per kL)<br>- residential & non-residential       | 0.70                   | 0.75           | 0.80           |
| Service charge (per annum)*<br>- residential & non-residential | 80.00                  | 82.00          | 77.00          |

\* The water service charge is based on the size of the meter connection to the property. This charge is calculated for a 20mm connection.

## 7.2 Wastewater charges

*Decision 2: The Tribunal decided to set wastewater service charges as set out in Table 7.3.*

The Tribunal decided to decrease wastewater service charges and increase wastewater usage charges in line with the changes in water prices.

**Table 7.3 Tribunal's proposed wastewater charges**

| <b>Tribunal's determined charges (\$)</b>                  | <b>2002/03 Current</b> | <b>2003/04</b> | <b>2004/05</b>                |
|--|------------------------|----------------|-------------------------------|
| Wastewater service charge (per annum)*<br>- Residential    | 347.00                 | 354.29         | 354.29 x (0.99+ $\Delta$ CPI) |
| Wastewater service charge (per annum)*<br>-non-residential | 125.00                 | 127.63         | 127.63 x (0.99+ $\Delta$ CPI) |
| Wastewater usage charge (per kL)<br>- non-residential      | 0.60                   | 0.62           | 0.62 x (1.01+ $\Delta$ CPI)   |

**Table 7.4 Wyong's current and proposed wastewater charges**

| Wyong's proposed charges<br>(\$ of the day)                | 2002/03<br>Current | 2003/04 | 2004/05 |
|--|--------------------|---------|---------|
| Wastewater service charge (per annum)*<br>- Residential    | 347.00             | 366.00  | 375.00  |
| Wastewater service charge (per annum)*<br>-non-residential | 125.00             | 132.00  | 135.00  |
| Wastewater usage charge (per kL)<br>- non-residential      | 0.60               | 0.635   | 0.65    |

\* Based on 20mm wastewater service connection.

### 7.3 Vacant land charges

*Decision 3: The Tribunal has decided to set vacant land charges as set out in Table 7.5.*

During its price review, the Tribunal looked closely at the issue of vacant land charges levied by Wyong Council, and concluded that the existing sewerage charge for holders of vacant land is not appropriate.

These customers currently pay the same sewerage charge as normal residential customers. However, the residential sewerage charge is designed to recover both the costs of access to and usage of the sewerage system. Because vacant land does not make use of the sewerage system, the Tribunal has determined that where a sewerage charge for vacant land is levied it should be set at 75 per cent of the residential sewerage charge.

Wyong Council argued that vacant land charges assist in urban consolidation by encouraging the development of vacant blocks. In addition, it claimed that not charging for vacant land would create inconsistencies in levying developer charges.<sup>19</sup>

The Tribunal believes that its decision will still enable the Council to send a price signal for vacant land to encourage development of existing vacant blocks. Moreover, it believes that as these customers do not utilise the system at all, charging the 75 per cent of the full sewerage charge more appropriately reflects the costs of network availability only.

The Tribunal has also accepted Wyong's request that introduction of the new charging structure be delayed until 1 July 2004, this will enable Council time to adjust their computer billing systems to capture the information necessary to charge vacant land holders a charge different to residential customers.

<sup>19</sup> Wyong Shire Council, Submission to IPART Pricing Proposal for 2003/04 and 2004/05, p 14.

**Table 7.5 Tribunals' proposed vacant land charges**

| Tribunal's determined charges (\$) | 2002/03 Current | 2003/04 | 2004/05                      |
|------------------------------------|-----------------|---------|------------------------------|
| Water (per annum)                  | 80.00           | 81.68   | 81.68 x (0.99+ ΔCPI)         |
| Wastewater (per annum)             | 347.00          | 354.29  | 354.29 x (0.99+ ΔCPI) x 0.75 |

**Table 7.6 Wyong's current and proposed vacant land charges**

| Wyong's proposed charges (\$ of the day) | 2002/03 Current | 2003/04 | 2004/05 |
|--|-----------------|---------|---------|
| Water (per annum)                        |                 | 82.00   | 77.00   |
| Wastewater (per annum)                   |                 | 366.00  | 375.00  |

## 7.4 Trade waste charges

*Decision 4: The Tribunal has decided to set trade waste charges as set out in table 7.7 to apply for the period 1 July 2003 to 30 June 2005.*

The Tribunal employed GHD Pty Ltd to analyse the Trade Waste charging proposals submitted by Wyong Council. GHD Pty Ltd found that the proposed charges were reasonable and of the right order of magnitude, particularly because current charges are not recovering the costs of trade waste services. The Tribunal accepts these findings and has determined Trade Waste charges in line with those proposed by Wyong Council.

**Table 7.7 Tribunal's determined trade waste charges (\$ of the day)**

|                       | 2002/03 Current | 2003/04 | 2004/05 | Unit of measurement/ comments  |
|-----------------------|-----------------|---------|---------|--|
| <b>Category A</b>     |                 |         |         |  |
| Volume                | 0.35            | 0.37    | 0.38    | per kilolitre  |
| BOD                   | 0.59            | 0.62    | 0.64    | per kilogram   |
| SS                    | 0.48            | 0.50    | 0.52    | per kilogram   |
| Oil and Grease        | 1.19            | 1.26    | 1.29    | per kilogram   |
| Annual agreement fee  | 272.00          | 287.00  | 294.00  | Includes inspection fee  |
| Re-inspection Fee     | 38.00           | 40.00   | 41.00   |  |
| <b>Category B</b>     |                 |         |         |  |
| Agreement Fee         | 38.00           | 40.00   | 41.00   | Inspection of oil arresters with water consumption less than 2,000 kL/year (inspection of premises plus collection of sample). |
| Excess BOD            | 0.59            | 0.62    | 0.64    | per kilogram   |
| Excess SS             | 0.48            | 0.50    | 0.52    | per kilogram   |
| Excess Oil and Grease | 1.19            | 1.26    | 1.29    | per kilogram   |

## 7.5 Other sewerage charges

### 7.5.1 Effluent and sludge removal charges

*Decision 5: The Tribunal decided to set maximum effluent removal charges as set out in Table 7.8.*

Wyong Council proposed to restructure its charges for effluent and sludge removal. Up until now, customers using these services have been subsidised by other customers because the charges did not recover the full costs of removal.

The Council recently put the service to tender and engaged the most competitive tenderer to provide the service. It proposed to set charges so they would recover the tenderer's fees, the applicable disposal cost, and the Council's costs to administer the service. It also proposed to modify sludge removal charges to reflect the different types of septic systems and provide a fairer allocation of costs based on the actual quantities collected and disposed of.

The Tribunal accepted Wyong's Council's proposed changes to the structure of these charges, and the proposed increases in charges of fortnightly effluent removal and disposal to reflect the costs of providing this service. However, it modified the Council's proposed timing of these increases to lessen the impact on customers. Instead of a large increase in 2003/04 and a small increase in 2004/05, the charge will increase at an even rate over the two years. The charges for an additional effluent service will not change while charges for commercial effluent collection and disposal will decrease.

**Table 7.8 Tribunal's determined effluent and sludge removal charges (\$ of the day)**

| Service   | 2002/03<br>Current | 2003/04 | 2004/05 |
|---|--------------------|---------|---------|
| Fortnightly effluent removal and disposal service (per year)                  | 712.00             | 770.00  | 827.00  |
| Effluent removal and disposal service (per visit)                             | 32.00              | 32.00   | 32.00   |
| Commercial effluent removal and disposal service (per kL)                     | 12.00              | 10.20   | 10.50   |
| Routine maintenance of septic tanks (per visit)                               | 180.00             |         |         |
| Final cleanout of septic tank collection well (per visit)                     | 180.00<br>per tank |         |         |
| Sludge removal and disposal services:   |                    |         |         |
| i. Septic tanks with a capacity up to 2750 litres<br>(per service)            |                    | 226.00  | 232.00  |
| ii. Septic tanks exceeding 2750 litres or AWTS with one<br>tank (per service) |                    | 294.00  | 301.00  |
| iii. AWTS with more than one tank<br>(per system)                             |                    | 438.00  | 449.00  |

### 7.5.2 Chemical closet charges

*Decision 6: The Tribunal decided to set maximum chemical closet charges as set out in Table 7.9.*

Wyang Council proposed that chemical closet charges increase in nominal terms, however the Tribunal has determined that prices will rise in line with movements in inflation.

**Table 7.9 Tribunal's determined chemical closet charges (\$)**

|                                       | 2002/03<br>Current | 2003/04  | 2004/05                  |
|---------------------------------------|--------------------|----------|--------------------------|
| Fortnightly service (annual charge)   | 1,129.00           | 1,164.00 | 1,164.00 x<br>(1 + ΔCPI) |
| Each requested weekly special service | 22.00              | 22.90    | 22.90 x<br>(1 + ΔCPI)    |

### 7.5.3 Exempt properties

*Decision 7: The Tribunal has not set specific water access and usage maximum charges for exempt properties.*

Wyang Council proposed specific water service fees for properties exempt from service charges under the Water Management Act 2000. In addition it proposed several specific sewerage charges, based on the number of water closets on the property, for certain classes of property including that belonging to religious bodies and schools.

The water service fees proposed by Wyong Council comprised a fixed charge based on meter size which is identical to the water supply service charge applying to other properties and a water usage charge identical to the water usage charge applying to other properties.

The Tribunal has reviewed the water charges proposed by Wyong Council for these properties. In light of legal advice it has received, it has not set a separate maximum charge in the nature of a fixed or service charge for these properties. Further, the Tribunal does not consider it necessary to set a separate water usage maximum charge for these properties.

The sewerage charges proposed by Wyong for certain exempt properties are based on a charge per water closet or cistern in the case of urinals. Two different levels of charge were proposed by Wyong depending on the specific property with lower charges proposed for land owned or used by religious bodies or schools. Wyong advised that the difference reflected its intention to effectively allow as a community service obligation payment a reduced charge for religious bodies and schools.

Having carefully considered Wyong's proposals the Tribunal has set a single rate of maximum charges for water closets for exempt properties which is applicable to all properties classified as exempt under the Water Management Act. The Tribunal is of the view that it is inappropriate for it to distinguish between different categories of property classified by relevant legislation as exempt. Whether Wyong Council wishes to partially rebate the charges for certain properties as a community service contribution is a matter for Council consideration.

**Table 7.10 Tribunal's determined charges for exempt properties (\$)**

|                                | <b>2002/03<br/>Current</b> | <b>2003/04</b> | <b>2004/05</b>        |
|--------------------------------|----------------------------|----------------|-----------------------|
| per water closet               | 48.00                      | 49.49          | 49.49 x<br>(1 + ΔCPI) |
| per cistern servicing a urinal | 17.00                      | 17.53          | 17.53 x<br>(1 + ΔCPI) |

## 7.6 Miscellaneous charges

*Decision 8: The Tribunal decided to set miscellaneous service charges as set out in Table 15 of the determination, to apply for the period 1 July 2003 to 30 June 2005.*

The Tribunal sets miscellaneous charges for the range of ancillary services Wyong Council provides, including special meter readings, statements of available pressure and flows and an application for water service connection. Although these charges do not account for a large proportion of the total revenue earned by the Council, they can be significant for those customers who are required to pay them.

Since the last determination, the Tribunal established a working group of representatives from each of the water agencies and the Tribunal Secretariat to draw up and agree on a list of the 20 main miscellaneous services. This list formed the basis for the miscellaneous charges proposals for each of the agencies.

The Tribunal has not attempted to align the prices of each of these service charges across the four water agencies. This is because there may be significant cost justifications for the services being priced differently. Where prices varied substantially between the agencies, the agency was asked to provide a justification for the variation.

The water agencies adopted the following formula to calculate the level of charges:

$$\text{Miscellaneous charge} = \text{base cost} + \text{direct material cost}$$

Since the last determination, three services have become contestable<sup>20</sup>. For these fully contestable services, the Tribunal has accepted Wyong Council's proposal that the Tribunal not set a fee. The Tribunal has accepted Wyong's proposal to increase 'major works inspection fees' and 'fees for statements of available pressure and flow' up to the level of Gosford Council's. The statement fees will now be at full cost recovery but the inspection fees will still be below full cost recovery. For all other miscellaneous charges, the Tribunal has accepted Wyong Council's list of proposed charges for 2003/04 and 2004/05 with the charges being maintained (ie the actual level of the charge will not vary with movements in inflation). A detailed list of these charges can be found in the attached determination (see determination Table 15).

<sup>20</sup> Underground plant locations; Water analysis; Raise/lower/adjust existing water service

## **8 ISSUES ARISING FROM THIS DETERMINATION FOR WYONG COUNCIL TO CONSIDER PRIOR TO THE 2005 REVIEW**

The 2003 review of prices for Wyong Council's water, wastewater and stormwater services has raised a number of broader regulatory policy issues that the Tribunal wishes to consider in more detail during the two years leading up to the 2005 price review. The most significant of these issues are:

- whether the water business can pay dividends to the general council
- responsibility for and structure of stormwater costs
- the implications of the joint review by Gosford and Wyong councils of water supply options
- Halcrow's suggestions for improving the Council's planning, documentation, systems, procedures and organisational capabilities
- the approach taken to regulating capital expenditure
- the effect of alternative pricing structures on demand.

The Tribunal also intends to:

- review the developer charging methodology, including auditing development servicing plans and their relationship to annual charging

The Tribunal intends to establish a reference group that comprises representatives of each agency and other interested stakeholders, to allow the formal discussion of proposals as they are developed. Where needed, it will also release issues papers or undertake further consultation.

The Tribunal recognises that all of these issues may not be fully resolved by the next price review. Many of the recommendations that result from this process may, if implemented, require the water agencies to develop their information reporting capabilities. Where this is the case, the Tribunal will specifically discuss the requirements with each agency to identify how feasible meeting the information reporting needs will be.



**GLOSSARY**

|           |  |
|-----------|--|
| CPI       | Consumer price index   |
| EPA       | Environment Protection Authority of NSW                        |
| Halcrow   | Halcrow Pacific Pty Ltd  |
| IPART     | Independent Pricing and Regulatory Tribunal of New South Wales |
| IPART Act | <i>Independent Pricing and Regulatory Tribunal Act, 1992</i>   |
| kL        | Kilolitre (1000 litres)  |
| STP       | Sewerage treatment plant                                       |
| Tribunal  | Independent Pricing and Regulatory Tribunal                    |
| WACC      | Weighted average cost of capital                               |

## **APPENDIX 1 LIST OF SUBMISSIONS**

### **Submissions in relation to the Issues Paper of June 2002**

Australian Water Association  
Central Coast Community Environment Network  
Colong Foundation for Wilderness  
Economic Planning Advocacy  
Environment Protection Agency of New South Wales  
Energy and Water Ombudsman  
Gosford City Council  
Gosford Wyong Joint Water Authority  
Hornsby Shire Council  
Department of Housing  
Hunter Water Corporation  
Incitec Pty Ltd  
National Standards Commission  
Nature Conservation Council of New South Wales  
National Parks and Wildlife Service of New South Wales  
Public Interest Advocacy Centre  
Stormwater Industry Association  
Sydney Catchment Authority  
Sydney Water Corporation  
Total Environment Centre  
Urban Development Institute of Australia  
Warringah Council  
Wingecarribee Shire Council  
Wyong Shire Council

Mr R Banyard

Mr F Keep

Mr Walter Wood

## **APPENDIX 2 PRESENTERS AT THE PUBLIC HEARING**

**The list of presenters at the public hearing on 10 December 2002 were:**

Mr Peter Wilson, Gosford City Council  
Mr Rod Williams, Gosford City Council  
Mr John Davis, Gosford City Council

Mr John Dawson, Wyong Shire Council  
Mr David Cathers, Wyong Shire Council  
Mr Ken Grantham, Wyong Shire Council  
Mr Graeme Thomas, Wyong Shire Council

Mr David Murdoch, Gosford Wyong Joint Water Authority

Mr John Asquith, Central Coast Community Environment Network

## APPENDIX 3 IPART ACT REQUIREMENTS

Section 15 of the IPART Act 1992 details the matters to be considered by the Tribunal when making a determination. The section is reproduced in full below.

### 15 Matters to be considered by Tribunal under this Act

(1) In making determinations and recommendations under this Act, the Tribunal is to have regard to the following matters (in addition to any other matters the Tribunal considers relevant):

- (a) the cost of providing the services concerned,
- (b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services,
- (c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales,
- (d) the effect on general price inflation over the medium term,
- (e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
- (f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the [Protection of the Environment Administration Act 1991](#) ) by appropriate pricing policies that take account of all the feasible options available to protect the environment,
- (g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets,
- (h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body,
- (i) the need to promote competition in the supply of the services concerned,
- (j) considerations of demand management (including levels of demand) and least cost planning,
- (k) the social impact of the determinations and recommendations,
- (l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

(2) In any report of a determination or recommendation made by the Tribunal under this Act, the Tribunal must indicate what regard it has had to the matters set out in subsection (1) in reaching that determination or recommendation.

(3) To remove any doubt, it is declared that this section does not apply to the Tribunal in the exercise of any of its functions under section 12A.

(4) This section does not apply to the Tribunal in the exercise of any of its functions under section 11 (3).

Table A4.1 indicates where the matters have been considered throughout the report by the Tribunal in making this determination.

**Table A4.1 Consideration of section 15 matters by Tribunal for Wyong Council determination**

| <b>Section 15(1)</b>   | <b>Report reference</b>        |
|--|--------------------------------|
| (a) cost of providing the service                                | Sections 4.3 and 4.4           |
| (b) protection of consumers from abuse of monopoly power         | Chapter 5 generally            |
| (c) appropriate rate of return and dividends                     | Section 4.5                    |
| (d) affect on general price inflation                            | Sections 5.2 and 5.3 generally |
| (e) improved efficiency in supply of services                    | Chapter 4 generally            |
| (f) ecologically sustainable development                         | Chapter 6 generally            |
| (g) impact on borrowing, capital and dividend requirements       | Section 4.5                    |
| (h) additional pricing policies                                  | Section 7.4                    |
| (i) need to promote competition                                  | Section 7.6                    |
| (j) considerations of demand management                          | Chapter 6                      |
| (k) the social impact on customers                               | Sections 5.1 to 5.5 inclusive  |
| (l) standards of quality, reliability and safety of the services | Section 5.6                    |

*Section 16 requirements*

Section 16 of the IPART Act requires the Tribunal to report on the likely impact to the Consolidated Fund if the price was not increased to the maximum permitted.

As Wyong Council does not contribute to Consolidated Revenue there will be no impact.

## APPENDIX 4 BUILDING BLOCK METHODOLOGY AND INCENTIVE REGULATION USING CPI ± X

### *Building Block Methodology*

The Tribunal has adopted a building block approach to calculate the revenue requirement needs of the metropolitan water agencies. The revenue requirement for a particular year in the price path can then be expressed as:

$$\text{Revenue Requirement} = \text{Operating Expenditure} + \text{Depreciation} + \text{Return on Assets}$$

The return on assets can be further broken down into:

$$\text{Return on Assets} = \text{Rate of Return} \times \text{Regulatory Asset Base}$$

Each element of the building block revenue requirement is considered in detail below.

### *Operating expenditure*

Operating expenditure is determined by reviewing the proposals of the water agency to determine what an efficiently operating business could be expected to need to operate the business effectively, without compromising service quality.

For this review, Halcrow was engaged to review operating expenditure for efficiency, which was a key input to the Tribunal's operating expenditure allowance decision. Halcrow's approach to reviewing operating expenditure involved starting with a base year (2001-02) actual operating expenditure. Efficient operating expenditure in subsequent years was calculated by increasing base year operating expenditure for reasonable uncontrollable cost rises, such as real wage increases, electricity cost rise, growth allowances, while assuming a degree of efficiency attainment by the business during the same period. The subsequent operating expenditure was Halcrow's view as to what an efficiently run water business in Wyong Council's position could be expected to operate the business for.

On the basis of Halcrow's review and comments by the agency, the Tribunal decided upon an allowance for operating expenditure for the periods of the price review.

### *Capital Maintenance*

An allowance is made for capital maintenance, recognising that during the provision of services to customers, the water agencies capital infrastructure will wear out. An efficiently operating water business will therefore allow for the cost of maintaining the financial capital base within current revenue requirements.

Capital maintenance is calculated on a straight line basis, over the average life of the assets. This means that the total value of the regulatory asset base is recovered within that period, which is assumed to be 70 years for water assets.

It is the combination of an allowance for capital maintenance, and a return of assets which ensures that the existing investment in the water business is maintained in perpetuity.

*Return on assets*

The return on assets is an allowance for a return to the capital investor in the water business. It ensures that efficient investment in capital continues into the future for the maintenance and growth of the infrastructure system.

It is calculated as a percentage of the regulated asset base, reflecting a commercial return to the financial assets of the business. All new investment is rolled into the regulatory asset base resulting in it earning a commercial rate of return, set by the Tribunal. The rate of return is determined with reference to the weighted average cost of capital – a measure of the cost to the business for investing in capital.

The building block methodology is an important part of the Tribunal's considerations when determining prices for the regulated agencies. However, it is not used in isolation from the exercise of the Tribunal's regulatory judgement, and may be modified reflecting the Tribunal's considerations of the social or environmental impacts of its pricing decisions.

*Incentive regulation using CPI±X*

The determination of the revenue requirement using the building block methodology gives the Tribunal an indication of the amount of revenue which an efficiently operated water business requires. An important part of regulation however, is to encourage the regulated water businesses to achieve the efficiency targets implied in the building block approach. This is what is known as incentive regulation, and the Tribunal's preferred approach is the use of CPI±X.

CPI±X means that once the revenue requirement is determined within a year, subsequent years prices are increased by movements in general price inflation measured by the CPI index, modified by an X factor. The X factor represents positive or negative adjustments to prices, above or below general price rises.

The CPI±X approach provides an incentive to the business to pursue efficiencies because for the regulatory period they retain the benefits in full of any efficiency gains through higher profits (compared to their profits if they had not achieved these efficiencies). If the agency betters the efficiency target allowed in the revenue build-up, actual profits will be higher than the rate of return allowed in the revenue build-up. If the agency does not achieve the expected efficiency improvements the reverse applies.

It is through the separation of actual revenues from actual costs and profits once the CPI±X price path has been set that provides the incentives for the achievement of efficiency improvements in the delivery of the business' services to customers.

## APPENDIX 5 PROVISION OF SUFFICIENT REVENUE FOR ESSENTIAL RENEWALS AND MAINTENANCE EXPENDITURE

The provision of infrastructure by regulated utilities, especially for water, electricity, gas and rail transport, is an integral part of the delivery of these services to customers. Infrastructure related costs account for a large proportion of the total annual costs for delivery of these services.

IPART, like many price regulators, allows funding of infrastructure related costs through its use of the building block revenue approach to calculating the revenue requirements of regulated utilities. Any annual operating costs relating to infrastructure, for example repairs and maintenance, is allowed for directly in the building block revenue. Capital expenditure to replace worn out infrastructure and due to an increase in customers is funded through an allowance for capital maintenance (depreciation) and a return on capital. This is calculated indirectly as capital expenditure is included in the regulatory asset base (RAB) which subsequently earns a rate of return and is depreciated.<sup>21</sup>

While this existing approach ensures that sufficient revenue is provided to fund capital expenditure and ongoing infrastructure operating expenditure, it relies on a number of key assumptions which have implications for the operation of the regulated utility.

First, it assumes that the utility can fund capital expenditure through debt or equity financing. Once the capital expenditure has been incurred, by inclusion in the regulatory asset base, it attracts a rate of return and is depreciated which should provide sufficient revenue to pay any debt or equity financing costs.

The ability of the utility to fund capital expenditure, through debt financing especially, depends on its overall financial viability and cash flow. If debt levels are already high, then the utility's inability to debt finance may become a limiting factor to the provision of infrastructure especially when unexpected capital expenditure is required to maintain the system. In a workably competitive market, it would be expected that in these circumstances the injection of additional equity from the owners may be required. For a regulated business, the regulator may also need to consider whether a temporary increase in prices to increase cash flows is appropriate.

Second, the building block approach to funding capital expenditure relies on an estimate of the average asset life of the assets. To the extent that this estimate is incorrect, then revenue shortfalls could occur unless significant price increases are allowed. For this reason the Tribunal uses conservative average asset lives of 70 years for water infrastructure. As the actual average asset life of these assets are likely to be well in excess of 70 years, the existing approach should amply provide for asset replacement.

Third, the utility may reduce investment in renewing infrastructure or reduce expenditure in essential repairs and maintenance, as an easy short term way of achieving cost efficiencies. The regulatory approach assumes that the utilities' capital expenditure priority setting process and operating budget allocation process assesses the risk to the business of reducing renewals related expenditure to achieve cost savings. To the extent that these risks are not considered by the business when reducing renewals expenditure, this may lead to problems in the medium to long term.

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<sup>21</sup> See Appendix 4 for further details on the building block approach and incentive regulation.

Finally, there appears to be general concern amongst regulated utilities about the need to fund renewals capital expenditure through existing depreciation allowances, reflecting an adversity to debt or equity finance renewals capital expenditure. As depreciation reflects past capital expenditure - many of which have been considered sunk costs by regulators - it need not equal current renewals capital expenditure requirements. Looking forward however, future renewals capital expenditure will be funded through depreciation allowances for the life of these new replacement assets rendering any comparisons with current depreciation allowances of limited value.

The validity of each of these assumptions can affect the regulated utilities ability to in practice ensure the continued maintenance of the infrastructure of their businesses. Where the availability of capital is limited, there is considerable uncertainty surrounding asset lives and where the business culture results in efficiency gains resulting in a reduction in expenditure on key repairs and maintenance then infrastructure may not be properly maintained.

The impact of regulation on the provision of sufficient revenue is of critical concern to the Tribunal. Assessing the use of asset management plans will increasingly become an approach adopted by the Tribunal to address this concern at future price reviews.

## APPENDIX 6 REGULATORY ASSET BASE AND RATE OF RETURN

**Table A6.1 FORECAST REVENUE REQUIREMENTS (pre-tax and excluding capital contributions and unregulated income, \$ millions, nominal)**

| Financial year ending 30 June                      | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Opening fixed asset value                          | -            | 183.5        | 201.0        | 211.0        | 224.9        | 242.2        |
| plus net capital expenditure <sup>1</sup>          | -            | 8.9          | 6.9          | 10.4         | 13.2         | 20.4         |
| less disposals                                     | -            | -            | -            | -            | -            | -            |
| less depreciation                                  | -            | (2.6)        | (2.8)        | (3.0)        | (3.2)        | (3.4)        |
| plus indexation                                    | -            | 11.2         | 5.8          | 6.5          | 7.2          | 7.6          |
| Closing fixed asset value                          | 183.5        | 201.0        | 211.0        | 224.9        | 242.2        | 266.7        |
| Working capital (closing balance)                  | 5.0          | 5.1          | 5.0          | 5.7          | 5.7          | 6.4          |
| Total regulatory asset base                        | <b>188.5</b> | <b>206.1</b> | <b>216.0</b> | <b>230.6</b> | <b>247.8</b> | <b>273.1</b> |
| Operating expenditure                              | 17.4         | 16.7         | 19.3         | 20.2         | 20.8         | 21.6         |
| Depreciation                                       | 2.5          | 2.7          | 2.8          | 3.0          | 3.2          | 3.4          |
| Tax payable (less franking credits)                | -            | -            | -            | -            | -            | -            |
| Expected return on assets                          | 11.7         | 11.6         | 12.0         | 10.1         | 12.3         | 12.6         |
| Expected revenue                                   | 31.6         | 31.0         | 34.2         | 33.3         | 36.3         | 37.6         |
| <i>Indexation of working capital<sup>2</sup></i>   | 0.1          | 0.3          | 0.1          | 0.2          | 0.2          | 0.180        |
| Return on assets (% , real pre-tax) <sup>2,3</sup> | <b>nc</b>    | <b>5.7%</b>  | <b>5.6%</b>  | <b>4.4%</b>  | <b>5.1%</b>  | <b>4.8%</b>  |

Notes:

1. Net capital expenditure is capital expenditure net of all capital contributions.
2. The indexation of working capital (\$ value) is subtracted from the total expected return on assets to calculate the real return. The opening balance plus half of the change during the year is indexed, if working capital is included in the RAB.
3. The real return on assets is calculated on the average asset base for the year.

*What is the regulatory asset base, and how is it rolled forward?*

The regulatory asset base (RAB) is a measure of the financial value invested in the water business and bears no relationship to the value of the physical assets. It represents the value a market would place on the business if it was to be sold, given its potential to earn revenue and profits under existing prices.

The RAB exists as the basis for determining the return of and on capital in the revenue requirement calculation based on the building block approach. The reason for adopting a financial capital base for regulatory purposes is to ensure that an appropriate rate of return is given to the shareholder value of the business. It also ensures that efficient investment is made in the refurbishment and enhancement of existing assets, by allowing new financial investment to attract a commercial rate of return, reflecting risks associated with the business.

The regulatory asset base is rolled forward by adding new, prudent capital expenditure from the closing value of the previous year. The RAB is modified to account for inflation, disposal of assets and depreciation.

## APPENDIX 7 WEIGHTED AVERAGE COST OF CAPITAL PARAMETERS

The parameters used to generate the weighted average cost of capital are presented in Table A7.1 below.

**Table A7.1 Parameters used to generate the weighted average cost of capital**

| Parameter                          | Value             |
|------------------------------------|-------------------|
| Nominal risk free rate             | 5.1% <sup>1</sup> |
| Real risk-free rate                | 2.9%              |
| Inflation                          | 2.2% <sup>2</sup> |
| Market risk premium                | 5 - 6%            |
| Debt margin                        | 0.7 - 1%          |
| Debt to total assets               | 60%               |
| Dividend imputation factor (Gamma) | 0.5 - 0.3         |
| Tax rate                           | 30%               |
| Asset Beta                         | 0.3 - 0.45        |
| Debt Beta                          | 0.06 - 0.14       |
| Equity Beta                        | 0.65 - 0.90       |
| Cost of equity (nominal post tax)  | 8.4 - 10.5%       |
| Cost of debt (nominal pre tax)     | 5.8 - 6.1%        |
| WACC (nominal post tax)            | 5.2 - 6.3%        |
| WACC (real post tax)               | 3.0 - 4.1%        |
| <b>WACC (real pre tax)</b>         | <b>5.2 - 6.7%</b> |

Notes:

1. The nominal risk free rate is based on 20 days average of the 10 year Commonwealth bond rate up to 15 April 2003.
2. The inflation rate used in the WACC calculation is based on observed differences in nominal and real 10 year bond rate indexes. These differences reflect market expectations of the long term inflation rate.

The Tribunal reviewed its methodology for calculating the WACC range in 2002, and sought stakeholder comments on whether the WACC range should be presented in real or nominal terms - pre or post-tax. Additionally, it considered the advantages and disadvantages of using a statutory or effective tax rate.<sup>22</sup>

As the regulatory asset base is rolled forward in real terms, it is appropriate to report the WACC in real terms. Additionally, for consistency with previous water price determinations, the Tribunal has maintained the pre-tax WACC range, using a statutory tax rate for this price review.

The Tribunal has reviewed the WACC parameters used at the 2000 determination. This has resulted in a reduction in the upper bound of the equity beta to 0.9, reflecting a view that water utilities in general are likely to have lower than market risk characteristics. Additionally, the lower bound of the debt margin was reduced to 0.7, reflecting information on the debt margins charged by Treasury Corporation to the Government owned water businesses.

<sup>22</sup> For details of the alternative approaches see the Tribunal's discussion paper, *Weighted Average Cost of Capital*, DP56, August 2002.

The Tribunal is undertaking a comprehensive review of all of the parameters used to calculate the WACC range prior to the forthcoming distribution network service price review. This is expected to lead to additional revisions to the WACC parameters, and these will form the basis of a metropolitan water WACC range for the next price determination.

The combined impact of these parameter changes, including an update of the long term market inflation rate and 20 day average 10 year bond rate, resulted in the WACC range being 5.2 to 6.7 per cent.

## APPENDIX 8 FINANCIAL VIABILITY AND CREDIT RATINGS

Table A8.1 Financial indicators and credit ratings for Wyong Council

|  | 2001/02<br>Actual | 2002/03<br>Current | 2003/04 | 2004/05 |
|--|-------------------|--------------------|---------|---------|
| <b>Ability to service debt</b>                             |                   |                    |         |         |
| 1. EBITDA interest cover                                   | 15.71             | 66.65              | 32.83   | 57.64   |
| NSW Treasury ratings (2002)                                | AAA               | AAA                | AAA     | AAA     |
| 2. Funds from operations interest coverage                 | 13.97             | 64.41              | 33.42   | 58.20   |
| Standard and Pours US ratings (1995)                       | AA                | AA                 | AA      | AA      |
| 3. Pre-tax interest coverage                               | 3.70              | (2.55)             | 7.02    | 13.00   |
| Standard and Pours US ratings (1995)                       | AA                | <BB                | AA      | AA      |
| <b>Ability to repay debt</b>                               |                   |                    |         |         |
| 4. Funds flow net debt payback                             | 0.07              | 0.04               | (0.09)  | 0.07    |
| NSW Treasury ratings (2002)                                | AA+               | AA+                | AAA     | AA+     |
| 5. Funds from operations/total debt (%)                    | 36%               | 34%                | 47%     | 48%     |
| Standard and Pours US ratings (1995)                       | AA                | AA                 | AA      | AA      |
| 6. Debt gearing (regulatory value)                         | 1%                | 0%                 | -1%     | 1%      |
| NSW Treasury ratings (2002)                                | AA+               | AA+                | AAA     | AA+     |
| Standard and Pours US ratings (1995)                       | AA                | AA                 | AA      | AA      |
| <b>Ability to finance investment from internal sources</b> |                   |                    |         |         |
| 7. Internal financing ratio                                | 216%              | 115%               | 121%    | 82%     |
| NSW Treasury ratings (2002)                                | AAA               | AAA                | AAA     | AA      |
| 8. Net cash flow/capital expenditure (%)                   | 190%              | 111%               | 123%    | 80%     |
| Standard and Pours US ratings (1995)                       | AA                | AA                 | AA      | AA      |
| <b>NSW Treasury overall score and rating</b>               |                   |                    |         |         |
| NSW Treasury total score (0-10)                            | 9.50              | 9.50               | 10.00   | 9.00    |
| Overall rating   | AA+               | AA+                | AAA     | AA+     |
| 9. Net debt (\$m of the day)                               | 2                 | 1                  | (2)     | 2       |

|  |   |
|--|---|
| 1. EBITDA interest cover                   | (EBITDA excl capital contributions) / net interest                          |
| 2. Funds from operations interest coverage | (Pre-tax funds flow + net interest) / (net interest)                        |
| 3. Pre-tax interest coverage               | (EBIT - capital contributions) / net interest                               |
| 4. Funds flow net debt payback             | (Debt - cash assets) / (NPAT + depreciation + tax expense - tax paid)       |
| 5. Funds from operations/total debt (%)    | see note below for definition of funds from operations                      |
| 6. Debt gearing (regulatory value)         | (Debt - cash assets) / (regulatory value of fixed assets + working capital) |
| 7. Internal financing ratio                | (NPAT - cap cons + depreciation - dividends payable) / net capex            |
| 8. Net cash flow/capital expenditure (%)   | (Funds from operations - dividends) / (capex net of capital contributions)  |
| 9. Net debt                                | Total debt less cash, short-term and long-term investments                  |

## APPENDIX 9 FINANCIAL INDICATORS

The indicators of financial performance include notional credit ratings of regulated businesses. Indicative benchmarks supplied by Standard and Poor's (S&P) ratings group that are published from time to time<sup>23</sup> are used to estimate these ratings. The indicative ratios are used by S&P as one of its analytical tools in setting overall ratings, and the Tribunal uses the indicators in a similar manner, ie as part of the overall financial analysis of the regulated business. The overall ratings that have been or may be derived by S&P for a business cannot be derived from simple inspection of these ratios.

Indicative ratios for each ratio for each year during the medium term price paths set in 2000 were published in the Tribunal's Determinations for each of the regulated water businesses. In Tables 4.8 and Appendix 8, the Tribunal has

- calculated various financial ratios for the one year of results considered in this report in accordance with the methodologies used by S&P and
- indicated the rating applicable for each ratio based on the bands published by S&P.

The calculation and assessments are those of the Tribunal and not S&P.

The actual rating process used by S&P is very broad, involving subjective judgements of industry risk and cost structures, not just financial ratios. S&P use both qualitative and quantitative analyses in determining an entity's rating. The ratios used by the Tribunal in its financial analysis are part of the latter – they should be used as a guide rather than as blanket reasons for giving a certain rating. The overall ratings that have been or may be derived by S&P for a business cannot be derived from simple inspection of these ratios.

S&P divide its analysis into:

- business risk - including market position, technology, efficiency and management capabilities, the prospects for growth in the industry, and vulnerability to technological changes or labour unrest or regulatory changes and
- financial risk - looking at financial management policies, cash flow protection, capital structure and profitability.

S&P's analysis incorporates an evaluation of a company's business and financial risks. In its guideline ratios, S&P provided financial indicator ranges for each of 'above average' business position, 'average' business position and 'below average' business position. During the analysis undertaken in 2000 as part of the determination process, the Tribunal decided that each of the regulated water businesses had an 'excellent' risk profile.

An acceptable range of financial ratios for each rating category will differ from time to time according to the unique characteristics of the business. There may not be a perfect match between the ratios and the indicator rating; the ratios represent midpoints of ranges, and vary during an investment cycle, particularly the internal financing ratio. In addition, S&P's credit ratings are prospective, with ratings reflective of a company's expected financial

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<sup>23</sup> Two sets of ratios have been used, for consistency with the financial analysis undertaken by the Tribunal during the 2000 determination process. The 'NSW Treasury Rating' indicators are from *The Capital Structure for NSW Government Trading Enterprises* report produced in August 1994 by NSW Treasury as part of its financial policy framework for GTEs, and are based on ratios provided to Treasury by S&P. The "S&P" criteria are from S&P's Corporate Finance Criteria for 1995.

profile. For this reason, the ratings indicated by the ratios for each of the regulated businesses based on one year's financial results may not be the same as the actual rating given by S&P.

## APPENDIX 10 COMPARISON STATISTICS FOR KEY FINANCIAL AND PERFORMANCE DATA FOR METROPOLITAN WATER AGENCIES

The information following is for the period up to 30 June 2002 and is mainly taken from Annual Information Returns provided by the water agencies (Gosford City Council, Hunter Water Corporation, Sydney Water Corporation, Wyong Shire Council) to the Tribunal. Wherever possible, the information relates to the monopoly elements of each water business. Although the Tribunal regulates the Sydney Catchment Authority, this attachment does not analyse the Authority's performance. The Authority is a bulk supplier of water to Sydney Water without the large retail customer base of the four water retailers. These differences make performance comparisons inappropriate.

The four retail water agencies are similar in that they provide water, wastewater and stormwater services to large numbers of retail customers. However they vary in their size and in their operating environments and this can often explain differences in individual performance. Table A10.1 below provides an insight into those variations. When setting prices, of particular interest is the two corporations' obligation to pay tax equivalents and dividends and to have Operating Licences with the State Government. The licences are regulated by the Tribunal. While the councils currently do not pay tax equivalents or dividends, legislation has been proposed which, if passed, will allow the water business area of local councils to pay dividends to the general council area. This may affect prices in future determinations.

Sydney Water differs in one important respect to the other three water retailers. While Hunter Water, Gosford Council and Wyong Council are responsible for their own bulk water supplies, Sydney Water purchases water in bulk from the Sydney Catchment Authority. The creation of the Catchment Authority has influenced the trend in Sydney Water's costs since 2000. The cost of supplying bulk water has increased because the Authority is required to perform a greater range of activities in the catchment area than Sydney Water did when it had that responsibility.

**Table A10.1 Agency characteristics (for 2001/02)**

|  | Gosford | Hunter  | Sydney    | Wyong  |
|--|---------|---------|-----------|--------|
| Operating area (kms <sup>2</sup> )         | 1,028   | 5,400   | 13,000    | 827    |
| Number of residential customers/properties | 60,000  | 195,000 | 1,526,000 | 53,000 |
| Number of employees                        | 161     | 526     | 3,556     | 157    |
| Metered consumption (GLs)                  | 16      | 62      | 535       | 15     |
| Gross tariff revenue (\$million)           | 39      | 115     | 1,247     | 35     |
| Dividend/tax payments?                     | No      | Yes     | Yes       | No     |
| Operating licence?                         | No      | Yes     | Yes       | No     |

## PRICING

Figure A10.1 shows the change in the combined water and wastewater bill for a residential customer consuming 250kL per annum. The elimination of property based charges has heavily influenced the reductions in bills, while the wastewater portion of bills has reduced more than the water portion.

**Figure A10.1 Residential water and wastewater bills (250kL consumption)**

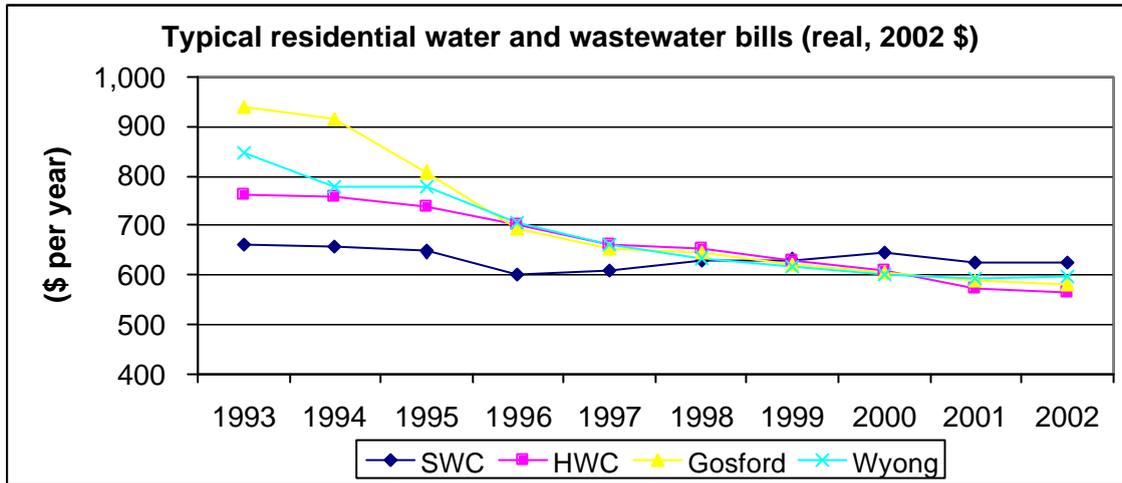
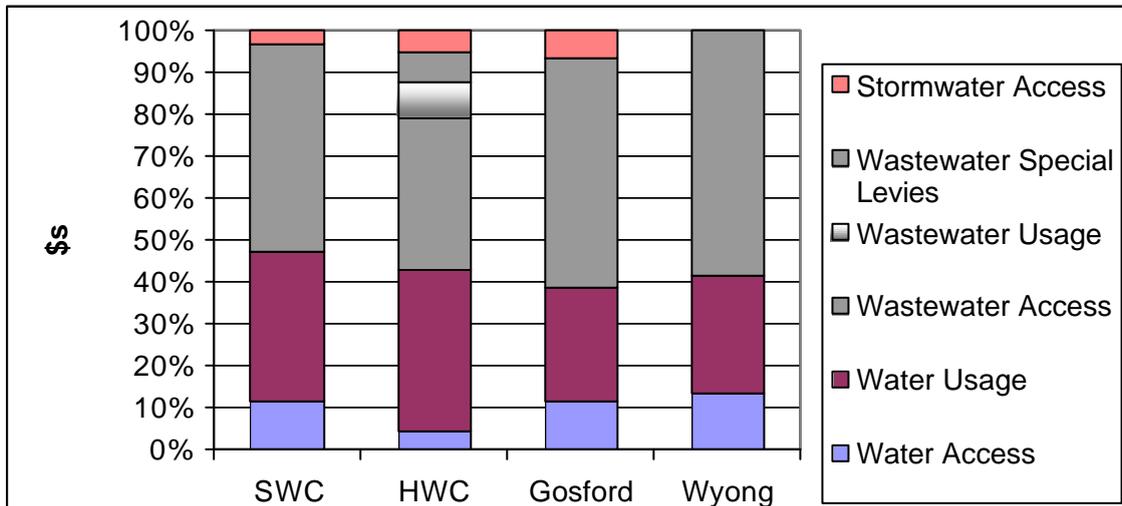


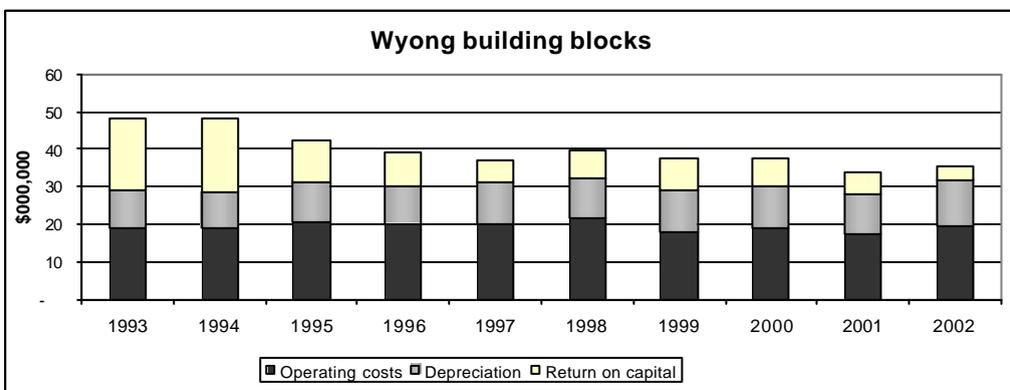
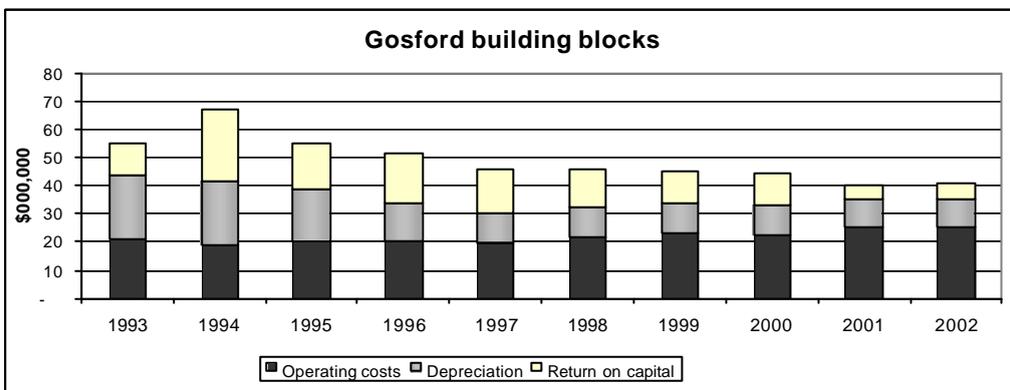
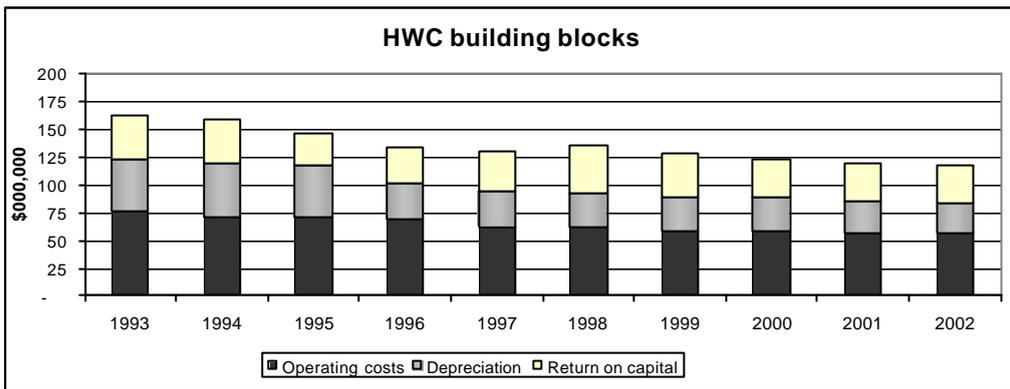
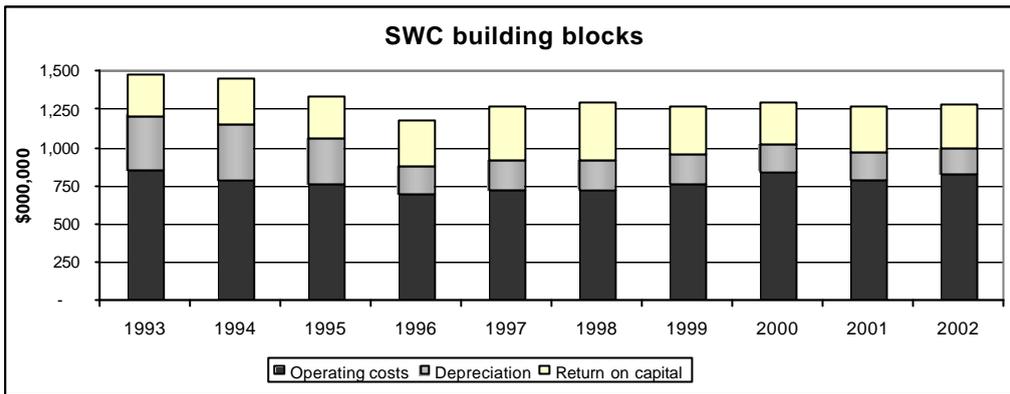
Figure A10.2 breaks the bill of a residential customer consuming 250kLs per annum into the various types of charges levied by the water agencies. The corporations' customers pay a significantly higher percentage of the water portion of their bills through usage charges than the councils' customers.

**Figure A10.2 Residential bill components (2002)**



The Tribunal uses a methodology to determine prices known as the building block method. Prices are formulated to provide levels of revenue calculated by adding forecast operating expenditure, forecast return of capital (sometimes measured by depreciation), and a return on capital. Figure A10.3 shows the movement in those building blocks since 1993.

Figure A10.3 Building block components (real, 2002\$s)



## CONSUMPTION

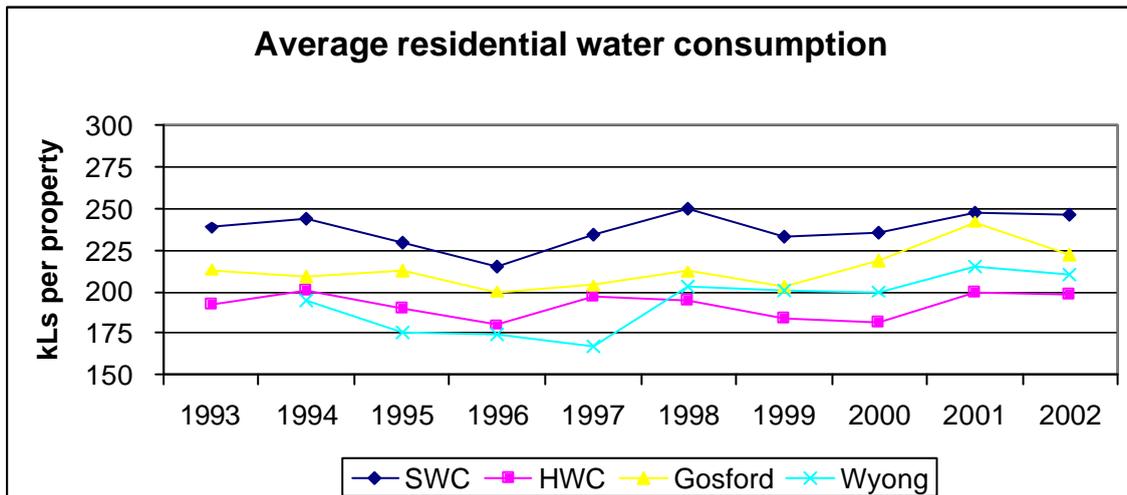
Table A10.2 shows the volume of water delivered to residential and non-residential properties.

**Table A10.2 Total metered water consumption (GLs)**

|                 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|-----------------|------|------|------|------|------|------|------|------|------|------|
| Sydney Water    | 477  | 495  | 472  | 447  | 480  | 516  | 495  | 508  | 537  | 535  |
| Hunter Water    | 60   | 63   | 62   | 61   | 64   | 66   | 62   | 61   | 64   | 62   |
| Gosford Council | 14   | 14   | 15   | 14   | 15   | 16   | 15   | 16   | 17   | 16   |
| Wyong Council   | -    | 12   | 12   | 12   | 11   | 13   | 14   | 14   | 15   | 15   |

Figure A10.4 shows the change in water consumption on a per property basis for residential customers. Seasonal weather conditions and the introduction of usage pricing in the early part of the review period influenced interim reductions, but current average consumption levels are still at 1993 levels.

**Figure A10.4 Average metered residential water consumption (kLs/property)**



## REVENUE

Figure A10.5 shows that total tariff revenue in real terms has declined since 1993. This has occurred while customer numbers have increased.

**Figure A10.5 Change in total tariff revenue (1993 as the base year)**

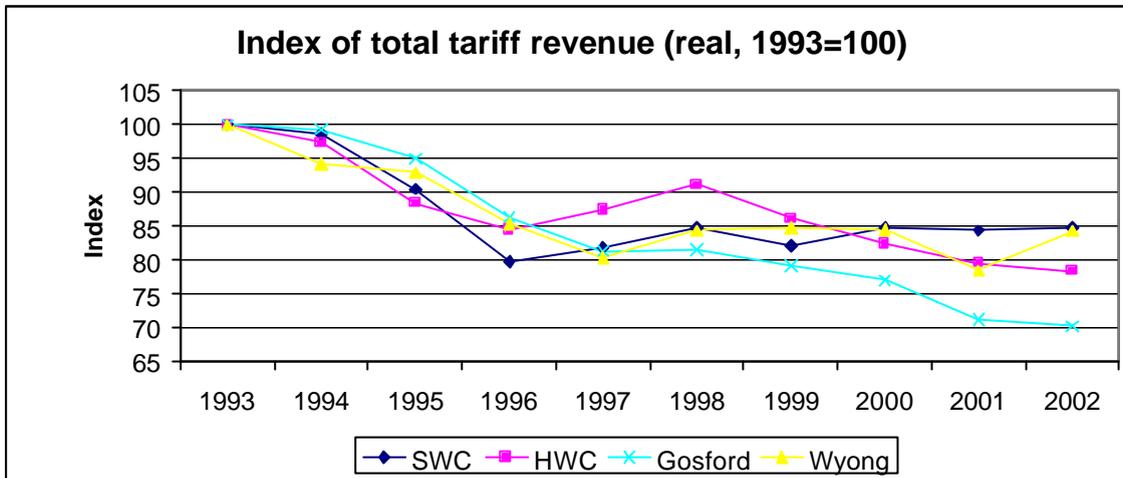


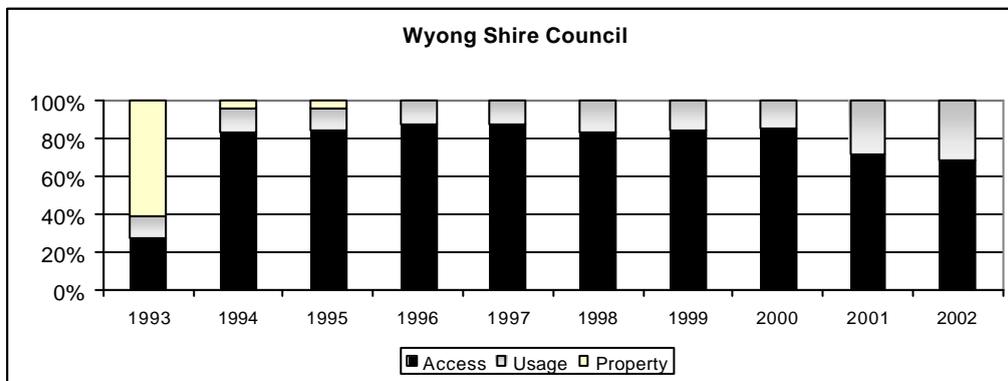
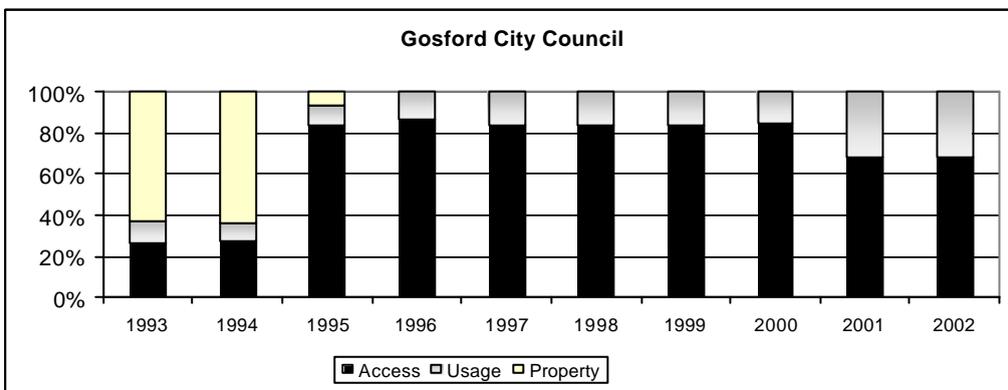
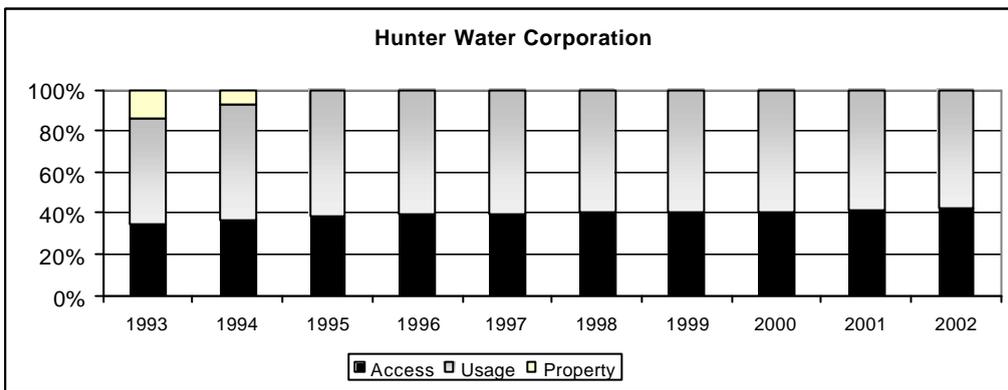
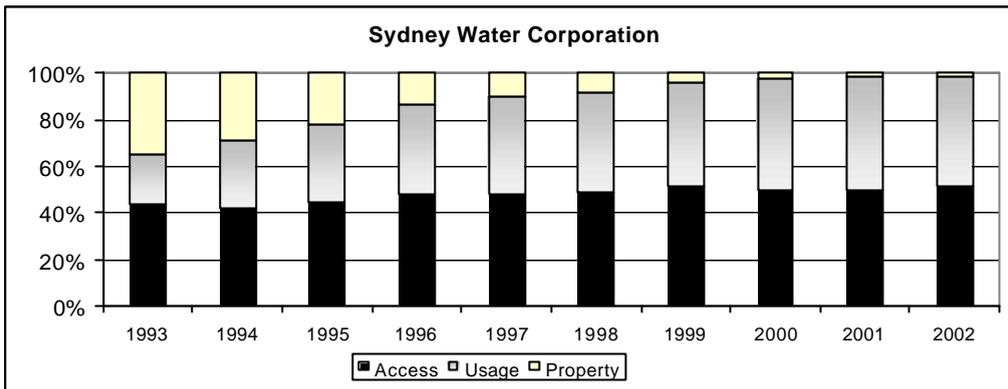
Table A10.3 shows the trend in residential and non-residential tariff revenue per property. Of note is that cross-subsidisation to residential in the early part of the review period has been progressively reduced.

**Table A10.3 Average water and wastewater sales revenue per property (real, 2002 \$s)**

|                        | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  | 2002  |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Sydney Water</b>    |       |       |       |       |       |       |       |       |       |       |
| Residential            | 565   | 601   | 610   | 553   | 570   | 599   | 587   | 605   | 591   | 597   |
| Non-residential        | 7,434 | 6,475 | 4,880 | 3,859 | 3,748 | 3,575 | 3,148 | 3,084 | 2,999 | 2,809 |
| <b>Hunter Water</b>    |       |       |       |       |       |       |       |       |       |       |
| Residential            | 542   | 548   | 515   | 460   | 489   | 478   | 461   | 439   | 430   | 424   |
| Non-residential        | 4,938 | 4,299 | 3,358 | 3,520 | 3,637 | 3,031 | 2,892 | 2,831 | 2,514 | 2,383 |
| <b>Gosford Council</b> |       |       |       |       |       |       |       |       |       |       |
| Residential            | 938   | 907   | 822   | 719   | 648   | 625   | 620   | 597   | 571   | 546   |
| Non-residential        | 2,551 | 2,530 | 2,885 | 3,006 | 2,937 | 3,199 | 2,537 | 2,390 | 1,905 | 2,081 |
| <b>Wyong Council</b>   |       |       |       |       |       |       |       |       |       |       |
| Residential            | 836   | 739   | 711   | 647   | 595   | 625   | 621   | 601   | 539   | 565   |
| Non-residential        | 3,414 | 4,097 | 3,773 | 3,046 | 2,750 | 2,350 | 2,193 | 1,554 | 1,431 | 1,659 |

Figure A10.6 shows how changes in agency pricing structures have changed revenue patterns over time. Property value based charges have been progressively replaced by service and usage charges. Removal of the councils' pre paid water allowances in 2001 has led to an increase in usage charges revenue.

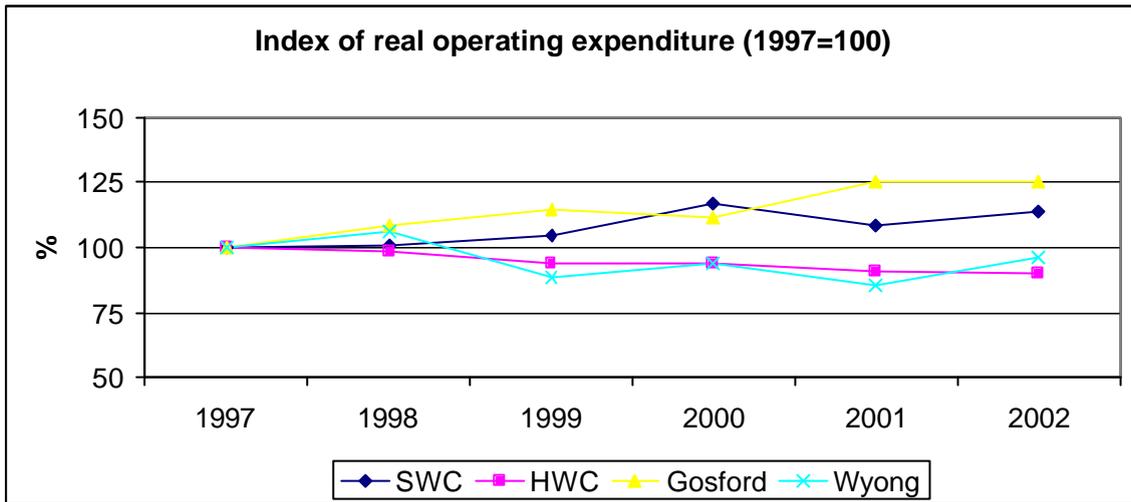
Figure A10.6 Sources of revenue (water and wastewater)



## OPERATING EXPENDITURE

Operating costs are one of the most controllable areas of an agency’s operations. The Tribunal uses an incentive based process for price setting based on forecast levels of operating costs, return of capital and return on capital (ie building blocks). If agencies can control their operating costs, they can achieve a higher return on capital during the price path. Figure A10.7 shows the trends in operating expenditure.

Figure A10.7 Index of operating costs



Because each agency operates in its own unique environment, measuring performance is best achieved by analysing the trend in each agency’s performance over time rather than comparing one agency to another. Figure A10.8 shows those trends on a per kilolitre basis.

Figure A10.8 Operating costs per volume sold (c/kL)

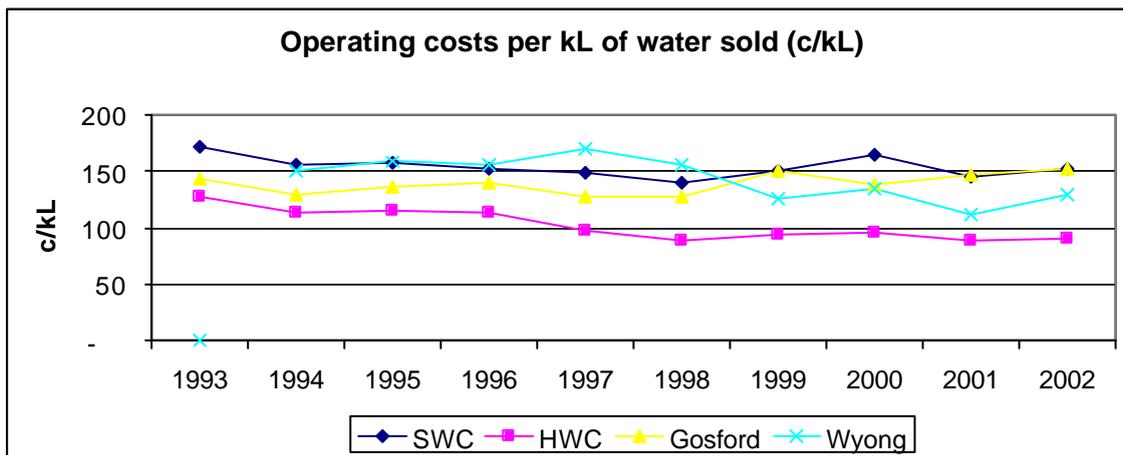
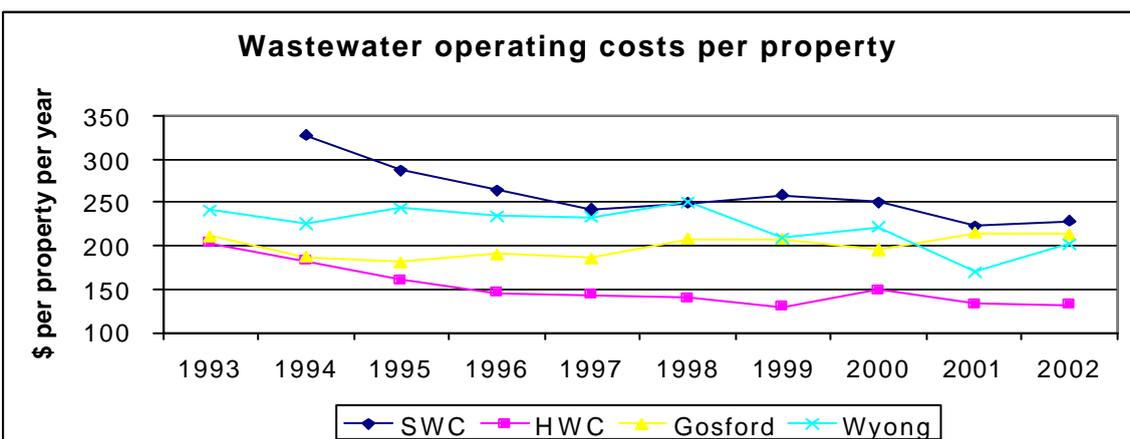
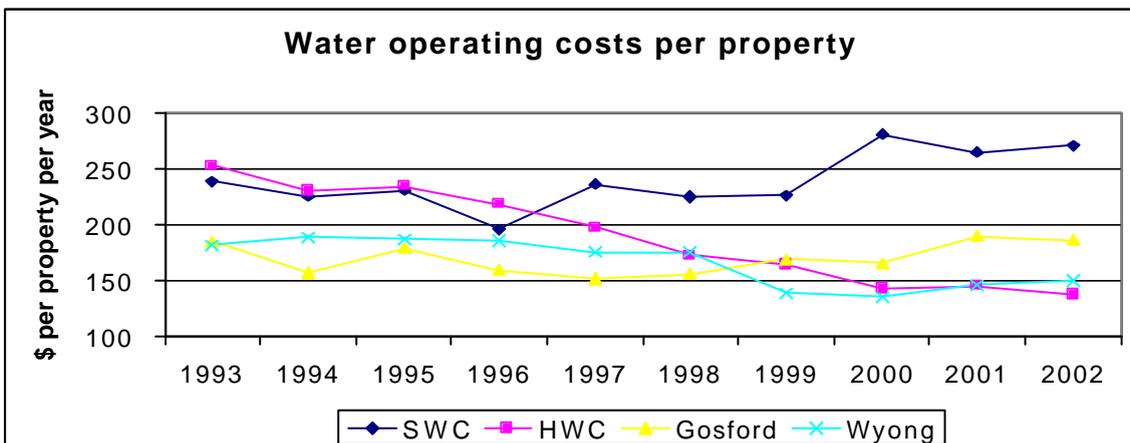
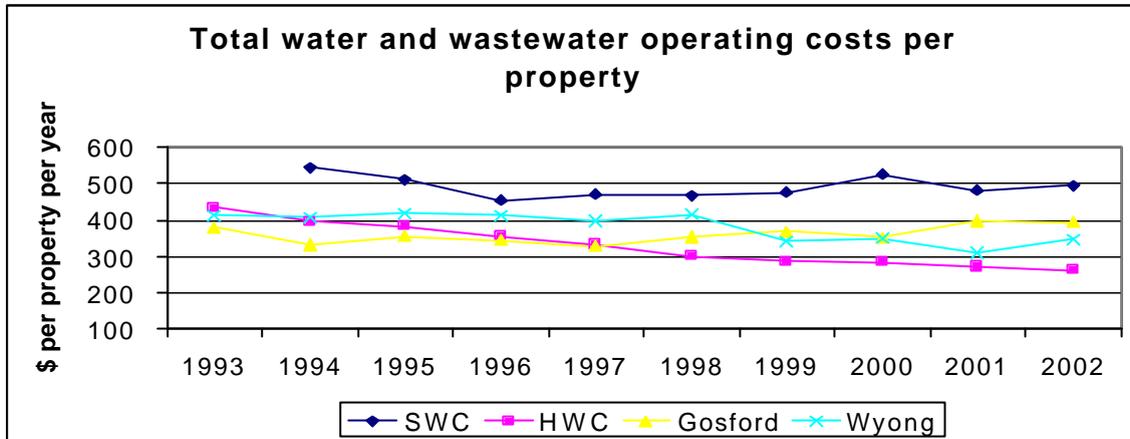


Figure A10.9 shows costs on a per property basis. This shows how costs have moved without the impact caused by increasing customer numbers. Note the increase in Sydney Water's costs in 2000 after the creation of the Sydney Catchment Authority.

**Figure A10.9 Water and wastewater operating costs per property (real, 2002 \$s)**



## CAPITAL EXPENDITURE

Capital expenditure measures the expenditure needed to replace existing assets and purchase new assets. Figure A10.10 shows the trend in capital expenditure of the water agencies compared to 1993 levels.

Figure A10.10 Index of capital expenditure

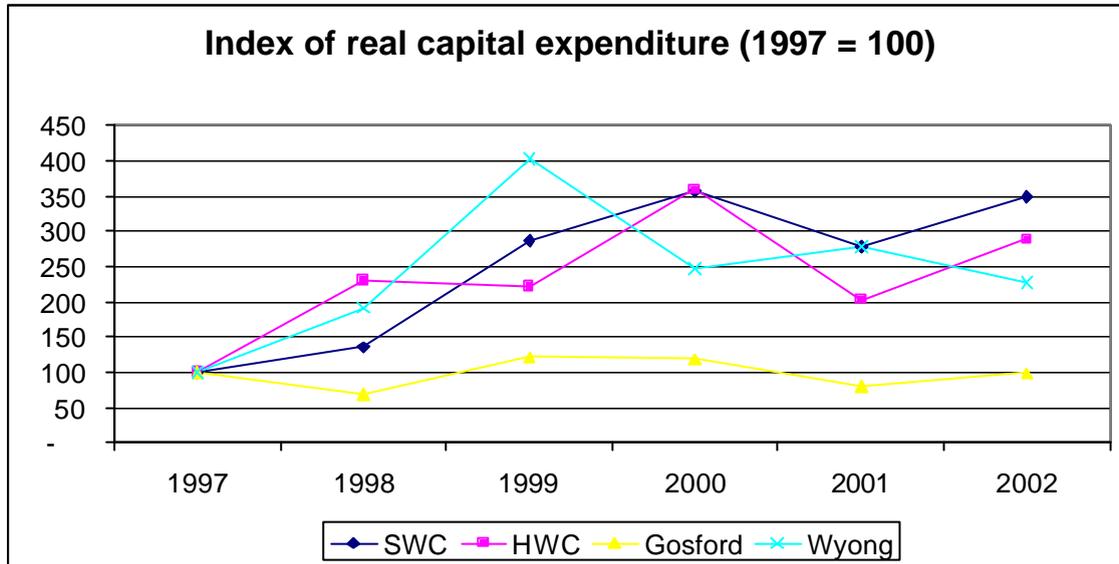
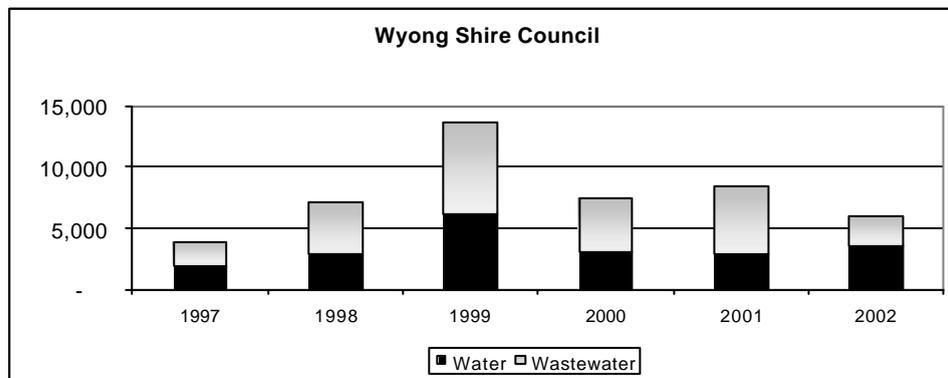
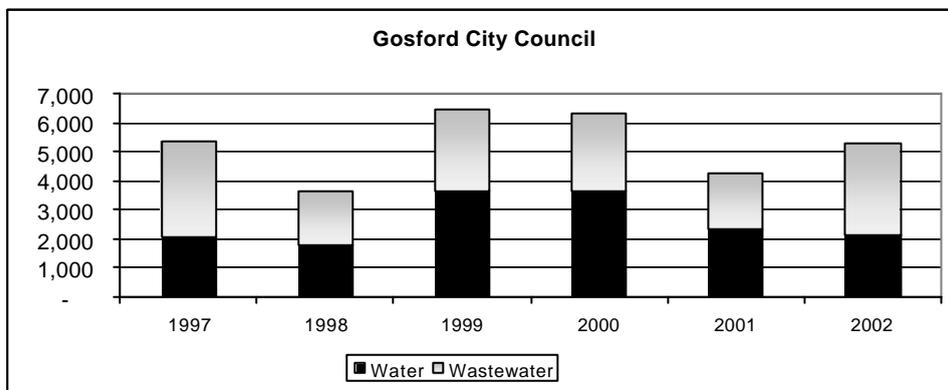
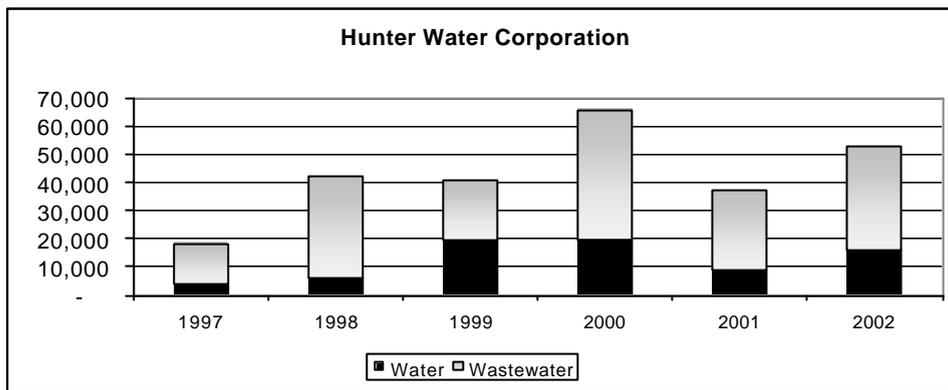
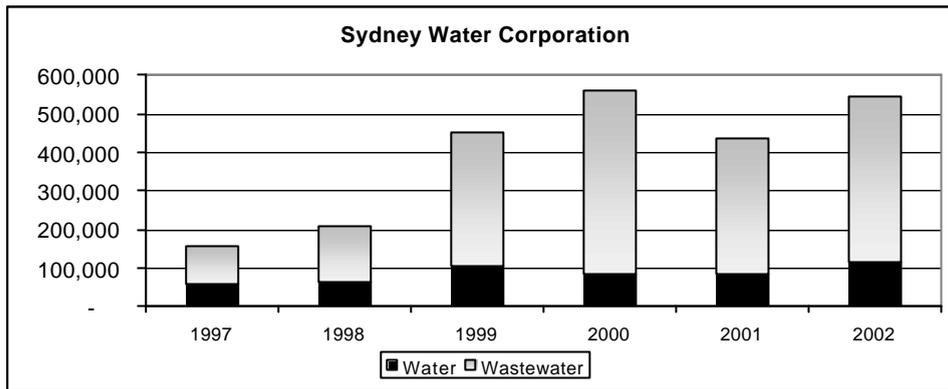


Figure A10.11 shows that SWC and HWC have directed the majority of their expenditure towards wastewater assets. The two councils are currently undertaking a study to determine the needs of their water supply system, the study initiated because of continuing low dam levels and influenced by the current drought conditions. With the potential introduction of environmental flow regimes, greater expenditure may soon be needed in the water areas of all agencies. In the Sydney area, capital expenditure on water supply assets will be incurred mainly by the Sydney Catchment Authority. The impact on Sydney Water will be as a result of increases in the cost of bulk water and will actually be recorded as increases in operating expenditure.

**Figure A10.11 Water and wastewater capital expenditure (000, 2002 \$s)**



## APPENDIX 11 PRINCIPLES FOR TRADE WASTE CHARGES

The application of appropriate pricing principles to trade waste requires that:

- Standards for acceptance should be set on the basis of the capacity of current systems to transport, treat and dispose of the wastes, having regard to the health and safety of wastewater workers.
- Trade waste charges should at least cover the costs to the water supplier of handling these wastes.
- Charges should vary to reflect differences in the cost of treating waste to the required standards at particular locations (for example, the inland treatment of works of Sydney Water Corporation).
- Water suppliers should set charges and standards in a manner that is transparent and accurate. The method of measurement should be reliable and the basis for setting charges should reflect costs incurred as far as possible.

Where environmental reasons are made for variations from the pricing principles detailed above then sufficient evidence needs to be available to justify these variations. The basis for calculating greater than cost charges where environmental justifications exist should also be justified.





**INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
OF NEW SOUTH WALES**

**DETERMINATION UNDER SECTION 11 (1) OF THE INDEPENDENT PRICING AND  
REGULATORY TRIBUNAL ACT, 1992**

**Reference No:** 02/37  
**Determination:** No 2, 2003  
**Agency:** Wyong Shire Council



## Preamble

Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act), provides the Tribunal with a standing reference to conduct investigations and make reports to the Minister on the determination of the pricing for a government monopoly service supplied by a government agency specified in Schedule 1 of the IPART Act.

Wyong Shire Council (the Council) (as a water supply authority constituted under the *Water Management Act 2000*) is listed as a government agency for the purposes of Schedule 1 of the IPART Act. Accordingly, the Tribunal may determine the prices for the Council's monopoly services.

The services of the Council that have been declared as monopoly services under the *Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997* are:

- (a) water supply services,
- (b) sewerage services,
- (c) stormwater drainage services,
- (d) trade waste services,
- (e) services supplied in connection with the provision or upgrading of water supply and sewerage facilities for new developments and, if required, drainage facilities for such developments,
- (f) ancillary and miscellaneous customer services for which no alternative supply exists and which relate to the supply of services of a kind referred to in paragraphs (a) to (e),
- (g) other water supply, sewerage and drainage services for which no alternative supply exists.

In investigating and reporting on the pricing of the Council's monopoly services, the Tribunal has had regard to a broad range of matters, including the criteria set out in s.15(1) of the IPART Act. The s.15 criteria and other matters the Tribunal have considered are addressed in the Report to this Determination.

In accordance with s.13A of the IPART Act, the Tribunal has fixed a maximum price for the Council's monopoly services or established a methodology for fixing the maximum price.

By s.18(2) of the IPART Act, the Council may not fix a price below that determined by the Tribunal without the approval of the Treasurer.

## **Operative Provisions**

### **1. Application**

This Determination is made under section 11 of the IPART Act.

This Determination sets the maximum prices that the Council may charge for the declared monopoly services listed in the Order and specified in this Determination.

### **2. Term of Determination**

This Determination commences on the later of 1 July 2003 and the date that it is published in the NSW Government Gazette.

If this Determination is published in the Government Gazette after 1 July 2003, it will, upon publication, also apply in relation to the period between 1 July 2003 and the date of publication (instead of determination No. 5 of 2000), and any bills issued to customers for the period between 1 July 2003 and the date of publication must be subsequently adjusted, if necessary, so as to comply with this Determination.

This Determination will apply until it is replaced or revoked. If this Determination continues after 30 June 2005, the prices in this Determination for the period 1 July 2004 to 30 June 2005 will continue to apply.

### **3. Continuation of Determination No. 9 of 2000 and No. 4 of 1997**

Nothing in this Determination affects determination No. 9 of 2000 and determination No. 4 of 1997, which continue to apply within their terms to the services listed in paragraph (e) and paragraph (b) of the Order respectively.

### **4. Repeal of determination No. 5 of 2000**

Tribunal Determination No. 5 of 2000 is repealed from the commencement of this Determination. The repeal does not affect anything done or omitted to be done, or rights or obligations accrued, under that determination prior to its repeal.

### **5. Schedules**

Schedules 1 - 5 apply.

# Schedule 1

## Water Supply Services

### 1. Application

This Schedule sets the maximum prices that the Council may charge for services under paragraph (a) of the Order (water supply services).

### 2. Categories for pricing purposes

Prices have been determined for 2 categories:

- metered (residential or non residential) properties (other than vacant properties)
- vacant properties and unmetered properties.

### 3. Charges for water supply services to metered properties (residential and non residential)

3.1 The maximum price that may be levied by the Council for the provision of water supply services to a metered residential property or a metered non residential property is the sum of the following:

- (a) the water service charge set out in Table 1, corresponding to the applicable meter size and period, and
- (b) the water usage charge set out in Table 2, corresponding to the applicable period, and
- (c) the fire service charge set in Table 3, corresponding to the applicable fire pipe service connection size and period, for a property that has a fire service pipe that is separate from the water service pipe and separately connected to the Council's water main.

3.2 The maximum price that may be levied by the Council for the provision of water supply services to a metered residential property or a metered non residential property, each with a combined fire service pipe and water service pipe that shares a connection to the Council's water main, is the sum of the following:

- (a) the water usage charge set out in Table 2, corresponding to the applicable period, and
- (b) which ever is the greater of:
  - (i) the water service charge set out in Table 1, or
  - (ii) the fire service charge in Table 3, corresponding to the applicable meter or pipe size and period.

3.3 For the purposes of clause 3.1 and clause 3.2, the fire service charge in Table 3 may not be levied by the Council on:

- (a) a residential property with a 20mm fire service pipe, or
- (b) a community hall.

**Table 1 Water service charges for metered (residential and non residential) properties**

| Basis of charge   | Maximum charge for the period<br>1 July 2003 to 30 June 2004 | Maximum charge for the period<br>1 July 2004 to 30 June 2005              |
|---|--|---|
| Meter size  | \$   | \$  |
| 20mm  | 81.68  | $81.68 \times (0.99 + \Delta\text{CPI})$                                  |
| 25mm  | 127.63   | $127.63 \times (0.99 + \Delta\text{CPI})$                                 |
| 40mm  | 326.72   | $326.72 \times (0.99 + \Delta\text{CPI})$                                 |
| 50mm  | 510.50   | $510.50 \times (0.99 + \Delta\text{CPI})$                                 |
| 80mm  | 1,306.88   | $1,306.88 \times (0.99 + \Delta\text{CPI})$                               |
| 100mm   | 2,042.00   | $2,042.00 \times (0.99 + \Delta\text{CPI})$                               |
| 150mm   | 4,594.50   | $4,594.50 \times (0.99 + \Delta\text{CPI})$                               |
| 200mm   | 8,168.00   | $8,168.00 \times (0.99 + \Delta\text{CPI})$                               |
| For meter sizes not specified above the following formula applies | $(\text{Meter size})^2 \times 81.68/400$                     | $(\text{Meter size})^2 \times 81.68/400 \times (0.99 + \Delta\text{CPI})$ |

**Table 2 Water usage charge for metered (residential and non residential) properties**

| Basis of charge             | Maximum charge for the period<br>1 July 2003 to 30 June 2004 | Maximum charge for the period<br>1 July 2004 to 30 June 2005 |
|-----------------------------|--|--|
|                             | \$/kL  | \$/kL  |
| Per kilolitre of water used | 0.73   | $0.73 \times (1.01 + \Delta\text{CPI})$                      |

**Table 3 Fire Service charges for metered residential properties and metered non residential properties (other than residential properties with a 20mm fire service pipe and community halls)**

| <b>Basis of charge<br/>Service Connection<br/>Pipe Size</b> | <b>Maximum charge for the period<br/>1 July 2003 to 30 June 2004<br/>\$</b> | <b>Maximum charge for the period<br/>1 July 2004 to 30 June 2005<br/>\$</b> |
|---|---|---|
| 20mm  | 40.84   | 40.84 x (0.99 + ΔCPI)   |
| 25mm  | 63.82   | 63.82 x (0.99 + ΔCPI)   |
| 40mm  | 163.36  | 163.36 x (0.99 + ΔCPI)  |
| 50mm  | 255.25  | 255.25 x (0.99 + ΔCPI)  |
| 80mm  | 653.44  | 653.44 x (0.99 + ΔCPI)  |
| 100mm   | 1,021.00  | 1,021.00 x (0.99 + ΔCPI)  |
| 150mm   | 2,297.25  | 2,297.25 x (0.99 + ΔCPI)  |
| 200mm   | 4,084.00  | 4,084.00 x (0.99 + ΔCPI)  |
| For pipe diameter size not specified above                  | Half the service charge in Table 1, for the applicable meter size           | Half the service charge in Table 1, for the applicable meter size           |

#### **4. Charges for water supply services to vacant property and unmetered properties**

The maximum price that may be levied by the Council for the provision of water supply services to a vacant property (whether metered or not) or an unmetered property shall consist of the water service charge set out in Table 4, corresponding to the applicable period.

**Table 4 Water service charge for vacant properties and unmetered properties**

| <b>Charge</b>        | <b>Maximum charge for the period<br/>1 July 2003 to 30 June 2004<br/>\$</b> | <b>Maximum charge for the period<br/>1 July 2004 to 30 June 2005<br/>\$</b> |
|----------------------|---|---|
| Water service supply | 81.68   | 81.68 x (0.99 + ΔCPI)   |

## **5. Levying water supply charges on multiple premises residential and non residential properties**

5.1 The charges in this Schedule levied by the Council in relation to a residential or non-residential strata title building with a common water meter must be on the following basis:

- the water service charges in Table 1 may only be levied on each strata title unit,
- the maximum water service charge in Table 1 that may be levied on each strata title unit is that for a 20mm water meter (regardless of the actual size of the common water meter), and
- the aggregate water usage charge in Table 2 for the strata title building is to be apportioned to each strata title unit in accordance with the unit entitlement for the property.

5.2 The charges in this Schedule levied by the Council in relation to multi premises non strata property (such as a community title property) with a common water meter must be on the following basis:

- the water service charge in Table 1 and water usage charge in Table 2 may only be levied on the owner of the property.

5.3 Each premises in a multi premises property that has its own water meter is treated as a single property for the purposes of levying charges in this Schedule.

## Schedule 2

### Sewerage services

#### 1. Application

This Schedule sets the maximum prices that the Council may charge for services under paragraph (b) of the Order (sewerage services).

#### 2. Categories for pricing purposes

Prices for sewerage services have been determined for 4 categories:

- residential properties (other than exempt properties)
- non-residential properties (other than vacant properties and exempt properties)
- vacant properties
- exempt properties.

#### 3. Charges for sewerage services to residential properties

3.1 The maximum price that may be levied by the Council for sewerage services to a residential property (other than an exempt property) connected to the Council's sewerage system is the sewerage service charge set out in Table 5 corresponding to the applicable period.

**Table 5 Sewerage service charge for residential properties**

| Charge           | Maximum charge for the period | Maximum charge for the period             |
|------------------|-------------------------------|---|
|                  | 1 July 2003 to 30 June 2004   | 1 July 2004 to 30 June 2005               |
|                  | \$                            | \$  |
| Sewerage service | 354.29                        | $354.29 \times (0.99 + \Delta\text{CPI})$ |

3.2 The maximum prices that may be levied by the Council for sewerage services of a kind listed in Table 6 to a residential property not connected to the Council's sewerage system are the effluent and sludge removal charges set out in Table 6 corresponding to the applicable service and period.

**Table 6 Residential effluent and sludge removal charge**

| Basis of charge  | Maximum charge for the period<br>1 July 2003 to 30 June 2004 | Maximum charge for the period<br>1 July 2004 to 30 June 2005 |
|--|--|--|
| Type of service  | \$   | \$   |
| Fortnightly effluent removal and disposal service (per year)             | 770.00   | 827.00   |
| Additional requested effluent removal and disposal service (per visit)   | 32.00  | 32.00  |
| Sludge removal and disposal services:                                    |  |  |
| • Septic tanks with a capacity up to 2750 litres (per service)           | 226.00   | 232.00   |
| • Septic tanks exceeding 2750 litres or AWTS with one tank (per service) | 294.00   | 301.00   |
| • AWTS with more than one tank (per system)                              | 438.00   | 449.00   |
| Chemical Closet  |  |  |
| • Fortnightly service (per year)   | 1164.00  | 1164.00 x (1 + ΔCPI)   |
| • Each requested weekly special service                                  | 22.68  | 22.68 x (1 + ΔCPI)   |

#### **4. Charges for sewerage services to non-residential properties**

- 4.1 The maximum price that may be levied by the Council for sewerage services to a non-residential property (other than a vacant property or an exempt property) connected to the Council's sewerage system is which ever is the greater of:
- (a) the charge set out in Table 7 corresponding to the applicable period, or
  - (b) the sum of the sewerage service charge set out in Table 8 and the sewerage usage charge set out in Table 9, corresponding to the applicable period.

**Table 7 Non-residential sewerage service charge**

| Charge                          | Minimum charge for the period<br>1 July 2003 to 30 June 2004<br>\$ | Minimum charge for the period<br>1 July 2004 to 30 June 2005<br>\$ |
|---------------------------------|--|--|
| Minimum sewerage service charge | 354.29   | 354.29 x (0.99 + ΔCPI)   |

**Table 8 Non-residential sewerage service charge**

| Basis of charge   | Maximum charge for the period<br>1 July 2003 to 30 June 2004<br>\$ x df%* | Maximum charge for the period<br>1 July 2004 to 30 June 2005<br>\$ x df% |
|---|---|--|
| <b>Meter size</b>   |   |  |
| 20mm  | 127.63  | 127.63 x (0.99 + ΔCPI)   |
| 25mm  | 199.42  | 199.42 x (0.99 + ΔCPI)   |
| 40mm  | 510.52  | 510.52 x (0.99 + ΔCPI)   |
| 50mm  | 797.69  | 797.69 x (0.99 + ΔCPI)   |
| 80mm  | 2,042.08  | 2,042.08 x (0.99 + ΔCPI)   |
| 100mm   | 3,190.75  | 3,190.75 x (0.99 + ΔCPI)   |
| 150mm   | 7,179.19  | 7,179.19 x (0.99 + ΔCPI)   |
| 200mm   | 12,763.00   | 12,763.00 x (0.99 + ΔCPI)  |
| For meter sizes not specified above the following formula applies | (meter size) <sup>2</sup> x 127.63/400                                    | (meter size) <sup>2</sup> x 127.63/400 x (0.99 + ΔCPI)                   |

[\*Note: - A discharge factor is applied to the charge based on the volume of water discharged into Council's sewerage system.]

**Table 9 Non-residential sewerage usage charge**

| Basis of charge             | Maximum charge for the period<br>1 July 2003 to 30 June 2004<br>\$/kL | Maximum charge for the period<br>1 July 2004 to 30 June 2005<br>\$/kL |
|-----------------------------|---|---|
| per kilolitre of water used | 0.62 x df%  | 0.62 x (1.01 + ΔCPI) x df%  |

[Note: A discharge factor is applied to the charge based on the volume of water discharged into Council's sewerage system.]

- 4.2 The maximum prices that may be levied by the Council for sewerage services of a kind listed in Table 10 to a non residential property (other than a vacant property) not connected to the Council's sewerage system are the effluent and sludge removal charges set out in Table 10 for the applicable service and period.

**Table 10 Non-residential effluent and sludge removal charge.**

| <b>Basis of charge</b>  | <b>Maximum charge for the period<br/>1 July 2003 to 30 June 2004</b> | <b>Maximum charge for the period<br/>1 July 2004 to 30 June 2005</b> |
|---|--|--|
| <b>Type of service</b>  | <b>\$</b>  | <b>\$</b>  |
| Commercial effluent removal and disposal service (\$/ kL)                   | 10.20  | 10.50  |
| Sludge removal and disposal services:                                       |  |  |
| • Septic tanks with a capacity up to 2750 litres (\$ per service)           | 226.00   | 232.00   |
| • Septic tanks exceeding 2750 litres or AWTS with one tank (\$ per service) | 294.00   | 301.00   |
| • AWTS with more than one tank (\$ per system)                              | 438.00   | 449.00   |
| Chemical Closet   |  |  |
| • Fortnightly service (\$ per year)   | 1,164.00   | 1,164.00 x (1 + ΔCPI)  |
| • Each requested weekly special service (\$ per service)                    | 22.68  | 22.68 x (1 + ΔCPI)   |

## 5. Charges for sewerage services to vacant properties

The maximum price that may be levied by the Council for sewerage services to a vacant property is:

- the sewerage service charge set out in Table 11 corresponding to the applicable period.

**Table 11 Sewerage service charge for vacant properties**

| <b>Charge</b>           | <b>Maximum charge for the period<br/>1 July 2003 to 30 June 2004</b> | <b>Maximum charge for the period<br/>1 July 2004 to 30 June 2005</b> |
|-------------------------|--|--|
|                         | <b>\$</b>  | <b>\$</b>  |
| Sewerage service supply | 354.29   | 354.29 x (0.99 + ΔCPI) x 0.75  |

## 6. Charges for sewerage services to exempt properties

6.1 The maximum price that may be levied by the Council for sewerage services to an exempt property is:

- the water closet or cistern charge set out in Table 12 corresponding to the applicable period.

**Table 12 Charges for sewerage services to exempt properties**

| Basis of charge                   | Maximum charge for the period<br>1 July 2003 to 30 June 2004<br>\$ | Maximum charge for the period<br>1 July 2004 to 30 June 2005<br>\$ |
|-----------------------------------|--|--|
| Per water closet                  | 49.49  | 49.49 x (1 + ΔCPI)   |
| Per cistern<br>servicing a urinal | 17.53  | 17.53 x (1 + ΔCPI)   |

**7. Levying charges for sewerage services on multi premises (residential or non residential) properties**

The charges in this Schedule levied by the Council in relation to the following multi premises properties must be on the following basis:

- a retirement village or a multi premises (residential or non residential) property which is not a strata title building is to be treated as a single non residential property for the purposes of levying charges in this Schedule (with the charge for each service being levied on the relevant body in relation to the multi premises property);
- a residential strata title unit (with either its own water meter or a shared water meter) is to be treated as a single residential property for the purposes of levying charges in this Schedule (with the entire charge for each service being levied on each unit, and not on the owners corporation);
- a non residential strata title unit with its own water meter is to be treated as a single non residential property for the purposes of levying charges in this Schedule (with the entire charge for each service being levied on each unit, and not on the owners corporation);
- for a non residential strata title or a community title property where there is a shared common water meter, the applicable charge in this Schedule is to be levied on each premises in the multi premises property.

## Schedule 3

### Trade waste services

#### 1. Application

This Schedule sets the maximum prices that the Council may charge for services under paragraph (d) of the Order (Trade Waste Services).

#### 2. Categories for pricing purposes

Prices for trade waste services have been determined for 1 category:

- non residential properties.

#### 3. Charges for trade waste services to non residential properties

3.1 The maximum price that may be levied by the Council to a non residential property connected to the Council's sewerage system for trade waste discharge is the sum of the following:

- the trade waste sewerage usage charge set out in Table 13 corresponding to the applicable category and period, and
- the annual licence fee and inspection fee set out in Table 14 for the applicable category and period.

3.2 For the purpose of Tables 13 and 14, the terms "Category A" and "Category B" are defined in the Council's Trade Waste Policy.

**Table 13 Trade waste usage charges**

| Basis of charge        | Parameter                       | Maximum charge for<br>the period 1 July 2003<br>to 30 June 2004<br>\$ | Maximum charge for<br>the period 1 July 2004<br>to 30 June 2005<br>\$ |
|------------------------|---------------------------------|---|---|
| <b>Category A</b>      |                                 |   |   |
| Trade Waste Discharger |                                 |   |   |
|                        | Volume                          | 0.37/kL   | 0.38/kL   |
|                        | Biological Oxygen Demand        | 0.62/kg   | 0.64/kg   |
|                        | Suspended Solids                | 0.50/kg   | 0.52/kg   |
|                        | Oil and grease                  | 1.26/kg   | 1.29/kg   |
| <b>Category B</b>      |                                 |   |   |
| Trade Waste Discharger |                                 |   |   |
|                        | Volume                          | 0.62/kL   | 0.62/kL<br>x (1.01 + ΔCPI)  |
|                        | Excess Biological Oxygen Demand | 0.62/kg   | 0.64/kg   |
|                        | Excess Suspended Solids         | 0.50/kg   | 0.52/kg   |
|                        | Excess Oil and grease           | 1.26/kg   | 1.29/kg   |

**Table 14 Trade waste annual licence and re-inspection fees**

| <b>Basis of charge</b>             | <b>Maximum charge for the period<br/>1 July 2003 to 30 June 2004<br/>\$</b> | <b>Maximum charge for the period<br/>1 July 2004 to 30 June 2005<br/>\$</b> |
|------------------------------------|---|---|
| Annual licence fee<br>(Category A) | 287.00  | 294.00  |
| Re-inspection fee                  | 40.00   | 41.00   |
| Annual licence fee<br>(Category B) | 40.00   | 41.00   |

## **Schedule 4**

### **Ancillary and miscellaneous customer services**

#### **1. Application**

This Schedule sets the maximum prices that the Council may charge for services under paragraph (f) of the Order (ancillary and miscellaneous customer services for which no alternative supply exists).

#### **2. Categories for pricing purposes**

Prices have been determined for the services listed in Table 15.

#### **3. Ancillary and miscellaneous charges**

3.1 The maximum charges that may be levied by the Council for the ancillary and miscellaneous services set out in Table 15 are the amounts listed in those Tables corresponding to the service for the relevant period.

3.2 A reference in Table 15 to "NA" means that the Council does not provide the relevant service.

**Table 15 Charges for ancillary and miscellaneous services**

| Service No. | Description   | Maximum price per service for the period 1 July 2003 to 30 June 2005<br>\$ |
|-------------|---|--|
| 1           | <b>Conveyancing Certificate</b><br><i>Statement of Outstanding Charges</i>  |  |
|             | a) Over the Counter   | 15.00  |
|             | b) Electronic   | NA   |
| 2           | <b>Property Sewerage Diagram - Up to and including A4 size (where available)</b><br><i>Diagram showing the location of the house-service line, building and sewer for a property</i>  |  |
|             | a) Certified  | 15.00  |
|             | b) Uncertified  |  |
|             | 1. Over the Counter   | 15.00  |
|             | 2. Electronic   | NA   |
| 3           | <b>Service Location Diagram</b><br><i>Location of Sewer and/or Water Mains in relation to a property's boundaries</i>   |  |
|             | a) Over the Counter   | 15.00  |
|             | b) Electronic   | NA   |
| 4           | <b>Special Meter Reading Statement</b>  | 45.00  |
| 5           | <b>Billing Record Search Statement - Up to and including 5 Years</b>  | 15.00  |
| 6           | <b>Building Over or Adjacent to Sewer Advice</b><br><i>Statement of approval status for existing building over or adjacent to a sewer</i>   | NA   |
| 7           | <b>Water Reconnection</b>   |  |
|             | a) During business hours  | 30.00  |
|             | b) Outside business hours   | 125.00   |
| 8           | <b>Workshop Test of Water Meter</b><br><i>Removal and full mechanical test of the meter by an accredited organisation at the customer's request to determine the accuracy of the water meter. This involves dismantling and inspection of meter components.</i> |  |
|             | 20mm  | 150.00   |
|             | 25mm  | 150.00   |
|             | 32mm  | 150.00   |
|             | 40mm  | 150.00   |
|             | 50mm  | 150.00   |
|             | 60mm  | 150.00   |
|             | 80mm  | 150.00   |
|             | 100mm   | NA   |
|             | 150mm   | NA   |
| 9           | <b>Application for Disconnection - All Sizes</b>  | 25.00  |
| 10          | <b>Application for Water Service Connection (up to and including 25mm)</b><br><i>This covers the administration fee only. There will be a separate charge payable to the utility if they also perform the physical connection.</i>                              | 25.00  |

| Service No. | Description   | Maximum price per service for the period<br>1 July 2003 to 30 June 2005<br>\$ |
|-------------|---|---|
| 11          | <b>Application for Water Service Connection (32-65mm)</b><br><i>This covers administration and system capacity analysis as required. There will be a separate charge payable to the utility if they also perform the physical connection.</i>   | 25.00   |
| 12          | <b>Application for Water Service Connection (80mm or greater)</b><br><i>This covers administration and system capacity analysis as required. There will be a separate charge payable to the utility if they also perform the physical connection.</i>   | 25.00   |
| 13          | <b>Application to Assess a Water Main Adjustment</b><br><i>(Moving a fitting and/or adjusting a section of water main up to and including 25 metres in length)</i><br><i>This covers preliminary advice as to the feasibility of the project and will result in either:</i><br>1. <i>A rejection of the project in which cases the fee covers the associated investigation costs</i><br><i>Or</i><br>2. <i>Conditional approval in which case the fee covers the administrative costs associated with the investigation and record amendment.</i> | NA  |
| 14          | <b>Standpipe Hire</b><br>Security Bond (25mm)   | 309.00  |
|             | Security Bond (63mm)  | 595.00  |
| 15          | <b>Standpipe Hire</b><br>Annual Fee   | See Note 1  |
|             | Quarterly Fee   | See Note 1  |
|             | Monthly Fee (or part thereof)   | See Note 1  |
| 16          | <b>Standpipe Water Usage Fee (All usage)</b>  | As per standard water usage charges per kilolitre                             |
| 17          | <b>Backflow Prevention Device Application and Registration fee</b><br><i>This fee is for the initial registration of the backflow device</i>  | 52.00   |
| 18          | <b>Backflow Prevention Application Device Annual Administration Fee</b><br><i>This fee is for the maintenance of records including logging of inspection reports</i>  | NA  |
| 19          | <b>Major Works Inspection Fee</b><br><i>This fee is for the inspection, for the purpose of approval, of water and sewer mains, constructed by others that are longer than 25metres and/or greater than 2 metres in depth</i><br>Rural Development (\$ per metre)  | NA  |
|             | Water Mains (\$ per metre)  | 4.50  |
|             | Gravity Sewer Mains (\$ per metre)  | 6.00  |
|             | Rising Sewer Mains (\$per metre)  | 4.50  |
| 20          | <b>Statement of Available Pressure and Flow</b><br><i>This fee covers all level whether modelling is required or not</i>  | 96.00   |

Note 1: As per water availability charge based on meter size (pro rata for part of year).

| Service No. | Description   | Maximum price per service for the period<br>1 July 2003 to 30 June 2005 |  |
|-------------|---|---|--|
|             |   | Fixed   | Hourly   |
| 21          | <b>Underground Plant Locations</b><br><i>Provision of uncertified plan showing location of underground mains:</i> |   |  |
|             | Council assists in on-site physical locations:  | See Note 1  | See Note 1   |
|             | Council undertakes on-site physical locations   | See Note 1  | See Note 1   |
| 22          | <b>Plumbing and Drainage Inspection</b><br><i>Maximum of 2 inspections</i>  |   |  |
|             | Single dwelling, villas & units, commercial & industrial  | 121.00  | NA   |
|             | Alterations/Caravan Parks & Mobile Homes for 1 Unit   | 61.00   | NA   |
|             | Additional Inspections  | 45.00   | NA   |
| 23          | <b>Billings Record Search - Further Back than 5 Years</b>   | NA  | \$15 for first 15 minutes or part thereof, then \$10 per 15 minutes or part thereof, thereafter.                       |
| 24          | <b>Relocate Existing Stop Valve or Hydrant</b>  | NA  | \$100 per hour for the first hour or part thereof, then \$25 per ¼ hour or part thereof, thereafter.<br><br>See Note 2 |
| 25          | <b>Provision of Water Services</b><br><i>Application for water service connection fee is also applicable.</i>     |   |  |
|             | Meter Only (20mm):  | 86.00   | NA   |
|             | Short service - 20mm:   | 521.00  | NA   |
|             | Long service - 20mm:  | 521.00  | NA   |
|             | Short service - 25mm:   | 633.00  | NA   |
|             | Long service - 25mm:  | 633.00  | NA   |
|             | Short service - 40mm:   | 1189.00   | NA   |
|             | Long service - 40mm:  | 1541.00   | NA   |
|             | Short service - 50mm:   | 1696.00   | NA   |
|             | Long service - 50mm:  | 2091.00   | NA   |
|             | Larger services - provision of live main connection only:   | NA  | \$100 per hour for the first hour or part thereof, then \$25 per ¼ hour or part thereof, thereafter.<br><br>See Note 2 |
| 26          | <b>Water Sample Analysis</b><br><i>For testing of standard water quality parameters</i>                           | See Note 1  | See Note 1   |
| 27          | <b>Raise / Lower / Adjust Existing Service</b>  | See Note 1  | See Note 1   |
|             | 20mm service only - no materials:<br>Larger services or requiring materials:                                      | See Note 1  | See Note 1   |

| Service No. | Description  | Maximum price per service for the period<br>1 July 2003 to 30 June 2005<br>\$ |  |
|-------------|--|---|--|
| 28          | <b>Relocate Existing Services</b><br>Short - 20mm:<br>Long - 20mm:<br>Larger services – provision of live main connection only:  | 254.00<br>395.00<br>NA  | NA<br>NA<br>\$100 per hour for the first hour or part thereof, then \$25 per ¼ hour or part thereof, thereafter. |
|             |  |   | See Note 2   |
| 29          | <b>Alteration from Dual Service to Single Service</b><br>20mm service only:  | 304.00  | NA   |
| 30          | <b>Sewerage Drainage Arrestor</b><br>Approval:<br>Annual Inspection:   | 82.00<br>25.00  | NA<br>NA   |
| 31          | <b>Sewerage Junction Cut-in (150mm)</b><br><i>No excavation, no concrete encasement removal, no sideline, junction within property. Excavation provided by customer</i>                | 225.00  | NA   |
| 32          | <b>Sewerage Junction Cut-in (150mm) with sideline less than 3m</b><br><i>No excavation, no concrete encasement removal, junction outside property. Excavation provided by customer</i> | 235.00  | NA   |
| 33          | <b>Sewerage Junction Cut-in (225mm)</b><br><i>No excavation, no concrete encasement removal, no sideline, junction within property. Excavation provided by customer</i>                | 525.00  | NA   |
| 34          | <b>Sewerage Junction Cut-in (225mm) with sideline less than 3m</b><br><i>No excavation, no concrete encasement removal, junction outside property. Excavation provided by customer</i> | 555.00  | NA   |
| 35          | <b>Sewerage Junction Cut-in Greater than 225mm or where excavation or removal of concrete encasement required by Council</b>   | NA  | \$100 per hour for the first hour or part thereof, then \$25 per ¼ hour or part thereof, thereafter.             |
|             |  |   | See Note 2   |
| 36          | <b>Sewer Main Encasement with Concrete</b><br>Encasement inspection fee:<br>Construction by Council  | 76.00<br>See Note 1   | NA<br>See Note 1   |
| 37          | <b>Sewer Advance Scheme - Administration Charge</b>  | 198.00  | NA   |
| 38          | <b>Raise &amp; Lower Sewer Manholes</b><br>Raise manhole up to 300mm:  | 0.00  | 0.00   |

| <b>Service No.</b> | <b>Description</b>                         | <b>Maximum price per service for the period<br/>1 July 2003 to 30 June 2005<br/>\$</b> |
|--------------------|--|--|
|                    | Raise or lower manhole greater than 300mm: | 76.00<br>See Note 3  |

Notes:

1. This service is contestable and can be provided by Council or other service providers based on market rates. As such these charges are not regulated by the Tribunal.
2. Price exclusive of plant hire charges, material costs and traffic control were applicable.
3. Price listed is the manhole adjustment inspection fee. Charges for actual physical adjustment of manhole are contestable.

## Schedule 5

### Definitions and Interpretation

#### 1. DEFINITIONS

In this Determination:

**AWTS** means the Aerated Wastewater Treatment System to treat sewage and liquid waste in a septic tank system.

**Council** means the Wyong Shire Council constituted as a water supply authority under the *Water Management Act 2000*.

**community association** has the meaning given to that term under the *Community Land Development Act 1989*.

**community development lot** has the meaning given to that term under the *Community Land Development Act 1989*.

**community title property** means community property as defined in the *Community Land Development Act 1989*.

**Determination** means this determination, including all appendices, attachments, schedules, tables and documents forming part of this determination.

**df%** or **discharge factor** means, in relation to a property, the percentage of water supplied to that property which the Council assesses or deems to be discharged into the Council's sewerage system.

**exempt property** means land described in Schedule 4 of the *Water Management Act 2000*.

**GST** means the Goods and Services Tax as defined in *A New Tax System (Goods and Services Tax) Act 1999*.

**IPART Act** means the *Independent Pricing and Regulatory Tribunal Act 1992*.

**kL** means kilolitre or one thousand litres.

**meter** means a meter or other apparatus for the measurement of water, including any pipes and like fittings ancillary to such apparatus.

**metered property** means a residential property or a non residential property (as the case may be) that:

- (a) has a meter, and
- (b) is connected either directly or jointly with other properties to the Council's water supply system.

**Multi premises property** means

- (a) a strata title building
- (b) a company title building
- (c) a community parcel
- (d) a retirement village, or
- (e) a building comprised of separate premises

However, it does not include a hotel, motel, guest-house or backpacker hostel.

**non-residential property** means a property that is not a residential property.

[Note: the main land uses that fall within the 'non-residential' property category are commercial and industrial].

**owners corporation** has the meaning given to that term under the *Strata Schemes Management Act 1996*.

**Order** means *Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997* made on 5 February 1997 and published in the Government Gazette No.18 on 14 February 1997.

**premises** means each of the following within a multi premises property:

- (a) a strata title unit
- (b) company title unit
- (c) a community development lot
- (d) a retirement village unit, or
- (e) a part of a building lawfully occupied or available for occupation, each of which has a direct or indirect connection to the Corporation's water supply system (in the case of water supply charges) or the Corporation's sewerage system (in the case of sewerage charges).

**property** means:

- (a) premises used for any purpose, or
- (b) land, whether built on or not. (However, if there are one or more premises on the land, then the land does not constitute a separate property in addition to those premises.)

**residential property** means a property where:

- (a) in the case of rateable land under the *Local Government Act 1993*, the land is categorised as residential under section 516 of that Act, and
- (b) in the case of each premises upon land (where there is more than one premises upon that land):
  - (i) the land upon which the premises are located is categorised as residential under section 516 of the *Local Government Act*, or
  - (ii) the dominant use of those premises is residential, as defined in section 516 of that Act and any regulations under it.

[Note: section 516 of the *Local Government Act 1993* defines how land is categorised as residential. Under the *Local Government Act*, hotels, motels, guest-houses, backpacker hostels or nursing homes or any other form of residential accommodation (not being a boarding house or a lodging house) prescribed by the regulations), are not included in this definition].

**strata title building** means a building that is subject to a strata scheme under the *Strata Schemes (Freehold Development) Act 1973*.

**strata title unit** means a lot as defined under the *Strata Schemes (Freehold Development) Act 1973*.

**Trade Waste Policy** means the Council's Trade Waste Policy (September 1999) as amended from time to time.

**Tribunal** means the Independent Pricing and Regulatory Tribunal of New South Wales established under the IPART Act.

**unmetered property** means a property that is:

- (a) connected or reasonably available for connection to the Council's water supply system, and
- (b) neither a metered property nor a vacant property.

**vacant property** means a property that:

- (a) has no capital improvements, and
- (b) for the purposes of Schedule 1, is connected or reasonably available for connection to the Council's water supply system, and
- (c) for the purposes of Schedule 2, is connected or reasonable available for connection to the Council's sewerage system.

## 1.2 Consumer Price Index

In this determination:

- (a) **CPI** means the consumer price index All Groups index number for the, weighted average of eight capital cities, published by the Australian Bureau of Statistics, or if the Australian Bureau of Statistics does not or ceases to publish the index, the CPI will mean an index determined by the Tribunal that is its best estimate of the index.

$$(b) \Delta CPI = \left( \frac{CPI_{Jun2003} + CPI_{Sep2003} + CPI_{Dec2003} + CPI_{Mar2004}}{CPI_{Jun2002} + CPI_{Sep2002} + CPI_{Dec2002} + CPI_{Mar2003}} \right) - 1$$

- (c) The subtext (for example <sub>June 2003</sub>) when used in relation to CPI means the CPI for the quarter and year indicated (in the example the June quarter for 2003).

## **2. Interpretation**

### **2.1 Prices exclusive of GST**

Prices or charges specified in this Determination do not include GST.

### **2.2 Billing cycle of the Council**

For the avoidance of doubt:

- (a) nothing in this Determination affects when the Council may issue a bill to a customer for prices or charges under this Determination; and
- (b) the maximum prices set out in this Determination apply in respect of the periods set out in this Determination, even if a bill traverses more than one period.

### **2.3 General provisions**

- (a) A schedule means a schedule to this Determination.
- (b) A clause means a clause in this Determination and when used in a schedule means a clause in that schedule, unless otherwise indicated.
- (c) Words importing the singular include the plural and vice versa.
- (d) The explanatory notes do not form part of this Determination, but in the case of uncertainty may be relied on for interpretation purposes.