

WATER NEWSLETTER

February 2013

Welcome to the February 2013 edition of the IPART Water Newsletter. It has been some time since our last newsletter and since then a lot has happened. 2013 is already turning out to be a busy year.

Highlights:

- ▼ We are holding a Public Hearing on 5 March and consulting on a new draft licence package for State Water.
- ▼ The annual audits demonstrated that the major public water utilities continue to manage their operations well and are improving compliance with their operating licences.
- ▼ IPART made a submission to the review of the Water Industry Competition Act.
- ▼ We released draft prices for Gosford and Wyong Councils from 1 July 2013 for comment by 15 March 2013.
- ▼ We released draft a report on Gosford and Wyong Council developer charge parameters for comment by 15 March 2013.
- ▼ 3 new WICA licences have been granted.
- ▼ Reviews of WACC and Financeability are underway.

Public Water Utilities

State Water's Draft operating licence public hearing 5 March

IPART is developing a new State Water Corporation operating licence as the current licence expires on 23 June 2013.

We released an Issues Paper on the review of the operating licence and received submissions. We have considered the submissions and completed a preliminary cost benefit analysis of each of the options considered in the Issues Paper. Based on that analysis we have drafted a proposed operating licence.

A draft licence package which includes the proposed operating licence, reporting manual and the CBA are all available on our website.

A public forum on the draft licence package will be held at our offices on 5 March from 10am.

The public forum will provide an additional opportunity for stakeholders to understand, ask questions and comment on IPART's draft licence package for State Water Corporation.

If you are interested in attending the forum please RSVP Emma Smith on (02) 9290 8472 or emma_smith@ipart.nsw.gov.au.

Submissions on licence package are due 20 March 2013.

2011/12 Price and Performance Report

Each year we examine the performance of the 4 metropolitan retail water utilities, the bulk water utilities and the NSW Office of Water. In February, we released our 2011/12 report.

The report provides information on the utilities' performance by presenting data in the areas of water quality, water and sewerage system continuity and reliability, environment and customers. It also includes data, tracking the financial performance of the utilities against our

determinations, and also tracks the capital expenditure programs laid out in the respective determinations.

Our report gives customers more information on what their bills are paying for, and gives customers information on where their utility's performance can improve and where it is deteriorating. The report is a useful source of information for customers and other stakeholders who wish to know more about the performance of water utilities in NSW.

Operating Licence Audits for 2011/12

IPART completed Public Water Utility Annual Operating Licence audits of Sydney Water, Hunter Water, SCA and State Water in October 2012.

All 4 utilities continue to manage their operations well and are improving compliance with their operating licences.

The auditor's findings confirm that all utilities have been working collaboratively with customers, NSW Health, NSW Office of Water (NOW), local councils, stakeholder groups and IPART to achieve their water quality objectives and water supply functions through their operations and catchment management activities.

Where compliance issues were identified recommendations were made as to how the utility could improve or manage these compliance issues. All recommendations endorsed by IPART will be followed up in future audits and we will continue to monitor and audit any outstanding recommendations from past audits until they are completed.

For details about the outcome of all Public Water Utility audits, please refer to IPART's reports to the Minister for each utility.

WICA

5-year review of WICA

IPART made a submission in response to the Department of Finance and Services' discussion paper "Review of the Water Industry Competition Act 2006 and regulatory arrangements for water recycling under the Local Government Act 1993".

Our submission proposes a new approach to the licensing of private water utilities. The new approach separates the current licensing process into 3 steps. The initial step would be to licence a private utility to construct, operate and maintain water industry infrastructure but not link the licence to a specific scheme. This will reduce the need for a licence holder to apply for a new licence or a variation when they wish to undertake new work.

The proposed new approach aims to remove barriers to completion while protecting public health and the environment, through reducing red tape and resulting in an equitable approvals process between private and public water utilities.

WICA Licences

15 WICA licences have now been granted.

New licenses were granted in the last 3 months.

- ▼ Central Park Water Factory (network operators licence) – this licence enables the company to provide potable, recycled water and sewage services to a large residential/commercial development located at Broadway in Sydney.
- ▼ Mirvac Real Estate (network operator and retail supplier's licences) – these licences enable the company to operate a black water plant in a high rise building (Chifley Square, Sydney CBD) and supply recycled water for toilet flushing air-conditioning and minimal irrigation within that building.

We are currently processing 6 applications for licences including 2 recent new applications.

- ▼ Discovery Point Water Factory – the company is seeking a network operator’s licence to provide potable water, recycled water and sewerage services to Discovery Point, a residential/ commercial development located at Wooli Creek, a suburb in southern Sydney. We were currently seeking comment on this application.
- ▼ Lend Lease Recycled Water (Barangaroo South) – the company is seeking network operator’s and retail supplier’s licences to supply potable water, recycled water and sewerage to a large commercial and residential development at Barangaroo. We will shortly advertise this application for public comment.

In December 2012, Osmoflow’s network operator’s and retail supplier’s licences were cancelled by the Minister at the company’s request. Osmoflow was intending to operate a recycled water plant at the Caltex Oil Refinery at Kurnell. However, a decision has been made to close the refinery and the recycled water plant is no longer required.

Consultation on standard conditions

We are currently seeking comment on proposed changes to our standard insurance and other licence conditions under the *Water Industry Competition Act 2006* (WICA).

We have reviewed the standard licence conditions and have found ways to improve consistency and gain efficiencies in implementing and administering WICA licenses. The most significant proposed change relates to the reporting of appropriate insurance arrangements.

We have written to all current licensees and applicants about the proposed changes.

At the end of this consultation process we will make a recommendation to the Minister that existing licences be amended consistent with the new templates to gain efficiencies in administering and enforcing the licences, Act and Regulation.

We have published on our website the following information:

- ▼ background on our proposed changes and the new licence templates
- ▼ detailed explanation of the proposed changes to the insurance reporting clauses.

Submissions on these licence conditions are due 1 April 2013.

Water Pricing

Gosford and Wyong Councils

On the 19th February, IPART released its Draft Reports on prices that Gosford City and Wyong Shire Councils can charge for water, sewerage and stormwater drainage services.

Under the draft pricing determinations, typical annual residential water and sewerage bills in Gosford City Council’s area will rise by an average of 5.3% or \$72 in 2013/14 and increase by 23.1%, or \$244, over the 4 years to 2017. This increase includes inflation.

In Wyong Shire Council area bills will not rise as much. A typical annual residential water and sewerage bill in Wyong will rise by an average of 0.4% or \$4 in 2013/14 and increase by 1.8% or \$19, over the 4 years to 2017. This increase includes inflation.

The different outcomes for Gosford City and Wyong Shire reflect the varying costs faced by the 2 councils in providing water and sewerage.

Over the past 4 years, Gosford City has been required to invest significantly in sewerage infrastructure, increasing the costs of maintaining this sewerage network. At the same

time, the cost of sludge disposal in Gosford City has increased significantly and will require more expenditure over the next 4 years.

IPART's proposed increases are lower than those requested by both councils, reflecting our analysis of the costs to be met in providing water, sewerage and stormwater services in the most efficient way.

Submissions on the draft prices are due 15 March 2013.

Developer Charges

The Draft Determination for the calculation parameters for developer charges sets out new parameters for the Councils to use in calculating developer charges for new water, sewerage and drainage services for land developments.

The Draft Determination bases developer charges on present day conditions and calculates them on a basis that is consistent with other water charges.

Submissions to our Draft Report are due 15 March 2013.

Hunter Water

On 12 March, IPART will release its Draft Report on the maximum prices that Hunter Water may charge its customers from 1 July 2013.

The Draft Report will provide our findings on Hunter Water's full, efficient costs in providing the regulated services for each year of the determination period, and prices that will allow Hunter Water to recover those costs from customers.

Financeability test for price regulation

We held a workshop about our current review of the financeability test on 18 February 2013.

The purpose of the financeability test is to allow us to consider the impact of our price decisions on the short-term financial viability of a utility.

The review is considering the use of a test based on actual gearing and interest payments. As part of the review we released a Discussion Paper that sets out our view that the utility and its owners holds the core responsibility for financial sustainability. If there are short-term financeability issues the utility or that its owners cannot address, we may consider a temporary NPV-neutral financeability adjustment.

We will release a Final Decision at the end of April / early May 2013.

WACC

We released a Discussion Paper on the WACC methodology in December 2012. The purpose of the paper is to assess how we can improve the methodologies we use to estimate the cost of debt and the cost of equity and how we should take into account changing market conditions when choosing a WACC.

We will host a workshop on the WACC methodology to discuss stakeholders' views.

Submissions to our WACC methodology Discussion Paper are due on 15 March 2013. A Final Decision will be released in May 2013.

Key dates

Table 1 Key upcoming submission due dates

Review	Due date
Gosford and Wyong Councils price review – Draft Report	15 March 2013
Gosford and Wyong Councils developer charges – Draft Report	15 March 2013
WACC methodology	15 March 2013
State Water's draft licence package	20 March 2013
Standard WICA licence conditions	1 April 2013
Hunter Water price review – Draft Report	12 April 2013