

## FACT SHEET

# Determining water prices for customers on the Central Coast

Based on the *Issues Paper for the review of prices for water and sewerage customers of Gosford City Council and Wyong Shire Council*  
22 June 2012

On 20 June 2012, we released an Issues Paper to start our review of the prices that Gosford City Council and Wyong Shire Council can charge their customers for providing water and related services from 1 July 2013. The Issues Paper outlines our approach to this review and the key issues that we will need to consider. It is available on IPART's website ([www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)).

The Councils and other interested stakeholders are invited to provide responses to this paper and to any issues they consider to be important. The Councils will provide us with pricing submissions on 14 September 2012. We ask other interested stakeholders to provide comments on the Issues Paper and the Councils' responses by 12 October 2012.

This Fact Sheet has been prepared to assist stakeholders to prepare their comments. We suggest that stakeholders should also read the Issues Paper. We ask for comments on various issues including the following:

### **Length of the determination period**

There are advantages in having a longer determination period, including stronger incentives for the Councils to increase efficiency. There are also disadvantages, such as possible delays in customers benefitting from the efficiency gains. We try to strike the right balance between these considerations.

### **Determining the revenue requirement**

We will use the 'building block' methodology to calculate Gosford and Wyong Councils' individual revenue requirements. The 'building block' costs include operating costs, capital costs (depreciation and rate of return) and taxation costs. This ensures that the Councils recover the full, efficient costs of providing the services but that customers do not pay for inefficient costs.

The Councils will provide us with information on their proposed operating expenditure and capital expenditure. We then calculate the depreciation and rate of return building blocks.

We are interested in obtaining comments about the Councils' proposed operating and capital expenditures, and the allowances that we should make for depreciation and rate of return.

### **Forecasting metered water sales and customer numbers**

Prices are set based on forecast water sales and customer numbers. Customer numbers are used to calculate fixed charges and water sales are used to calculate usage charges. It is important that these forecasts should be accurate. If the forecasts differ greatly from actual figures, the Councils may either earn too much or too little revenue.

We are interested in obtaining views on the Councils' forecast water sales and customer numbers.

### **Price Structures, price levels and price impacts**

Section 15 of the IPART Act sets out the matters we are to take into account in setting prices. These include the Councils' financial viability and the impact of prices on customers. Balancing these competing interests may mean the actual revenue to be recovered through prices is less or more than the revenue requirement we determine to recover the Councils' costs.

In setting price structures, we attempt to ensure that usage charges reflect the cost of purchasing more water and that fixed charges apply fairly to the various customer groups.

We are interested in obtaining views from stakeholders on the Councils' proposed price structures and price levels. This includes:

- ▼ whether customers are willing to pay for the Councils' service levels and proposed expenditures
- ▼ the impact of the Councils' proposed prices on customers
- ▼ the potential for the prices to be aligned in preparation for the transfer of functions to the new Central Coast Water Corporation.

### **Service quality standards and output measures**

We expect that the Councils will propose prices that will, at a minimum, enable existing standards of service to be maintained.

In the 2009 determinations, we specified a set of output measures based on each Council's proposed expenditure program. We also asked each Council to provide a list of its proposed capital projects. For this review, we will be seeking information from the Councils on their performance against those output measures. This will assist us in determining whether the Councils meet the standards on which the 2009 determinations were based. We will also set new targets for the upcoming determination period.

We are interested in obtaining stakeholders' views about appropriate service levels and the Councils' results against their output measures.

For more information, please see the Issues Paper on IPART's website ([www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)).