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Thank you for the opportunity to provide feedback on the water utilities issues paper. Responses to some of the issues paper questions are provided below.

1. *What are the key factors that affect local water utilities' ability to recover costs through user charges?*

There are considered to be three key factors – the availability/consumption charge split (for water only), pensioner rebates and (for LWUs which are also General Purpose Councils) the impact of rate variations.

- Until recent (July 2023) changes to best practice guidance, LWUs were required to set their water prices with an aim of 75% of residential income being from user charges. This makes LWUs vulnerable when consumption decreased (e.g. during wet years). While it is acknowledged this requirement is no longer a DCCEEW requirement, many utilities have not changed their availability/consumption charge split
- For some LWUs a significant number of customers are pensioners – for example 31.48% of Clarence Valley Council water assessments received a pensioner rebate in 2022/23 and this is expected to increase to at least 35% within the next three financial years. LWUs may not have the capacity for the balance of their customers to contribution the Council portion of the rebate.
- A third significant factor where LWUs are also General Purpose councils is that when setting sewer and water charges the councillors are also conscious of the impact of rate increases. For example, when Clarence Valley Council resolved in November 2015 to apply to IPART for a Special Rate Variation (SRV) of 6.50% (including the estimated rate peg of 2.5%) per year for five (5) years (which was successful), the Councillors also resolved to cap sewage and water fund increases to a maximum of 1.5% per year for the same period in order to reduce the financial impact on ratepayers. For Clarence Valley Council, the five year capping resulted in a “real” decrease in charges of 5.1% (when compared with inflation).

2. *What might be reasons for some local water utilities with similar size and remoteness to perform differently in terms of level of cost recovery?*

One of the major reasons for different levels of cost recovery is that operational costs for Local Water Utilities (LWU) are largely related to factors other than size and remoteness. It is considered there are three key factors impacting operational costs - the number of treatment facilities, terrain and treatment standards. The higher the operational cost, the more difficult it is to achieve full cost recovery.

- The first key factor for operational costs is the number of water and sewer treatment facilities operated by the LWU – similar sized LWUs may have only one town serviced (with a single water and single sewer treatment plant) or may have multiple plants. There are also cost efficiencies in operating larger sized treatment plants.
- The second key factor for operational costs is terrain, which influences pumping (and hence energy) requirements. The operational cost of a gravity sewerage system located in a relatively flat town, which would require numerous sewage pump stations, would be much higher than a similarly sized town which only requires a few sewage pump stations. Likewise for water, towns with pumped supplies will have much higher operational costs than towns where supplies can be gravitated.
- The third key factor is treatment standards. For sewage, the Environmental Regulator (EPA) is frequently requiring LWUs to implement higher levels of treatment (which come at significant capital and increased operational cost) without demonstrating an environmental need or an environmental benefit for the higher treatment standard. In one example a LWU asked the EPA “Could you please advise Council on the reasons for the proposed new licence limits given that... Council is unaware of any study undertaken by EPA or others to indicate the present licence limits are creating an adverse environmental impact” and the EPA’s

response to the LWU was “we consider the proposed performance upgrade as an opportunity to improve the quality of effluent discharged to waters from the xxx Wastewater Treatment Plant (including beneficial re-use options) and bring the plant into alignment with Accepted Modern Technology discharge parameters.” The EPA was unable to demonstrate any environmental requirement or benefit but still proposed an upgrading requirement. This approach requiring LWUs to upgrade to Accepted Modern Technology Standard (AMT) is very different to that applied to Sydney Water, which is still permitted to release primary treated sewage into the ocean. For water treatment, following the recent (September 2022) introduction into the Australian Drinking Water Guidelines (ADWG) of “Health Based Targets” (HBT), the regulators (NSW Health and DCCEE) have indicated that any proposed upgrade to a Water Treatment Plant requiring a Section 60 application will have a condition that the plant meets HBTs. The ADWG indicates in Section 1 (p2) that when determining the quality of water to be supplied to consumers, the determination needs to consider “customer expectations and willingness and ability to pay” and also indicates on (p4) that “excessive caution can have significant social and economic consequences...installing treatment processes that are not required could have a high financial cost and divert funds needed elsewhere”, but these two ADWG requirements are not taken into account by the regulators when requiring upgrading to meet HBTs, which comes at a significantly increased treatment cost that customers may not consider is justified by the reduction in health risk. Imposition of HBTs removes the “choice” from the LWU customers to balance water quality and cost which is clearly outlined in the ADWG’s introduction.

These three key factors are not reflected when benchmarking is undertaken by only location or size.

4. *What factors should be taken into account in calculating government subsidies for local water utilities?*

Two factors which should be taken into account (for sewer) are the different standards imposed on LWUs compared with large utilities such as Sydney Water and that requirements are imposed on LWU customers which benefit the whole community (including those outside of the LWU area) but without subsidies are achieved solely at the cost of the LWU customer.

- There are significantly different environmental requirements imposed on large utilities such as Sydney Water compared with LWUs. As one example noted in the response to question 2, Sydney Water is permitted to discharge primary treated effluent to the ocean whereas LWUs are required to upgrade their sewage plants (at the cost of their customers) to achieve AMT requirements. Likewise Sydney Water releases recycled water to the environment at Bents Basin and received environmental credits for this release as environmental flow when LWUs are generally charged load based licence fees for returning recycled water to the source water and do not receive environmental credits. When there is not a regulatory “level playing field”, subsidies should be provided for the additional costs related to higher requirements.
- Also as noted in the response to Question 2, regulators are seeking to impose upgrading conditions without evidence of environmental requirement or benefit. As it is the whole community which “benefits” from these higher standards, the whole community should be contributing to the increased treatment requirements (through subsidies) rather than just the LWU customers.

5. *What might be the typical costs for delivering water and sewerage services for a well-run local water utility*

As noted in the first and second response to question 2 there is not a “typical” cost. The cost of service delivery is dependent on the number and geographic location of treatment facilities, size of treatment facilities, terrain, licence requirements and capacity for tourism. Clarence Valley Council for example has towns where populations can increase in peak holiday periods by up to 50% so its network and treatment facilities are designed for these peak transient loads rather than the permanent population, which means there is “excess” capacity outside of the peak periods. Other factors which influence asset life may include location (e.g. assets in coastal locations have shorter lives than in non-coastal locations) and soil type (aggressive soils may result in shorter asset lives).

Thank you for the opportunity to provide input to the review.

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