



HEATH CONSULTING ENGINEERS

HENGCON PTY LTD
ACN 103 488 348

Postal Address:
PO BOX 2501
ORANGE NSW 2800

Office Location:
351 SUMMER STREET
ORANGE NSW

Our Ref: L02_08_064.doc

13 May 2009

Cambrune Pty Ltd
233 College Road
BATHURST NSW 2795

Attention: Mr Ray Carter

Dear Sir

RE. SEWER ACCESS CHARGES, BATHURST REGIONAL COUNCIL

Reference is made to the letter from the Mayor of Bathurst Regional Council, Mr Paul Toole, dated 19 February 2009 to the Bathurst Business Chamber, regarding sewer access charges.

We wish to draw your attention to Item 2 of this letter (copy attached) which the Mayor explains that Council has adopted part (b). Careful reading of part (b) shows that it is actually dependant on Part (a). Part (a) allows for an expert report to be presented to Council for Council's consideration establishing the peak load in equivalent tenements their operations place on the sewerage system. Part (b) then goes on to say that "*In the absence of such a report the Council can determine the access charge based on the.....*". Therefore, if Council have been presented with an expert report then they are obliged to consider it. Once a report is submitted then Part (a) comes into affect.

Council's Management Plan outlines the pricing policy principles adopted by the plan. For sewerage servicing pricing there are five (5) principles adopted which are listed below:

- (i.) *Follows the Ministry of Energy & Utilities Draft Based Best Practice Pricing Guideline and is a combination of uniform annual charges, access and usage charges;*
- (ii.) *Collects revenue to fund the sewerage system from ratepayers who actually benefit from availability or use of Council's sewerage system;*
- (iii.) *Ensures Council derives sufficient income to operate the sewerage system and provide for future capital expenditure and debt servicing;*
- (iv.) *Sends appropriate pricing signals, can be administered relatively simply and inexpensively and can be understood by the public;*
- (v.) *No subsidisation between residential and non-residential categories.*

We offer comment on items (i) and (iv).

The Department of Water & Energy's (DWE) "Best Practice Management of Water Supply and Sewerage Guidelines" states that:

Best-practice sewerage pricing involves a uniform annual sewerage bill for residential customers. For non-residential customers an appropriate sewer usage charge is required for the estimated volume discharged to

the sewerage system, together with an access charge based on the capacity requirements that their loads place on the system relative to residential customers."

The pricing checklist contained within the guidelines suggests that the sewer usage charge per kilolitre reflects the long-run marginal cost of sewerage business whilst the sewerage access charge for non-residential customers is reflective of the customers peak load on the system.

Typically Councils base the access charge on the size of the water meter connected to the property. For non-residential properties the water meter is more often sized to accommodate fire hose reels or fire hydrants installed on the property. The majority of Council's require fire hose reels to be connected to the metered supply. This was typically done as in the past fire hose reels were used to wash down hardstand areas or used to wash vehicles and as such Councils wanted to ensure that customers paid for the water that was used. This water typically does not and would have great difficulty entering the sewerage system.

In the spirit of true user pays principles many Council's have adopted a policy of either reducing the sewer discharge factor (SDF) or allowing the "nominal" size water meter to be adopted when levying the sewerage pricing for non-residential properties. This is to account for the properties where larger water meters are installed for fire services. This enables the principles of best practice sewerage pricing to be adhered to by ensuring that the access charge applied to the property reflects the true capacity requirements that the property places on the Council's sewerage system. It also ensures that sewerage charges are applied in an equitable manner and are not penalized by having to comply with building code requirements.

To ensure that there are no cross subsidies the sewer usage charge would therefore be higher. This is much more consistent with the true principles of pay for use, ie. the more water that is used by the property the more that is paid. Bathurst Regional Council appear to have adopted a much higher access charge with a low water usage charge. We have noted that many other Councils have similar pricing structures to that of Bathurst Regional Council but the majority either offer a reduction in the SDF or levy the sewer access charge based on the "nominal" water meter size that is required by the property assuming no fire services are installed.

In the case of the recent analysis carried out by us on 16 Vale Road, Bathurst (copy of report attached) the property had a peak annual water usage over the last three years of 313kL which equates to a sewer usage charge of approximately $313 \times 0.95 \text{ (SDF)} \times 0.78 = \231.93 . In addition a sewer access charge of approximately \$1229.00 (based on 2006/2007 fees and charges) was levied against the property. This difference is further compounded when lesser quantities of water are used, which was the case for this property.

The above example shows that the sewerage charges paid by this property were in no way a reflection of the sewerage loads placed on the Council's sewerage system by the property. In actual fact they are at odds with DWE's best practice guidelines and also the true principles of pay for use, ie. The property is paying substantial access charges, between 5 ½ and 150 times the sewer usage charge and not actually placing much of a load on the sewerage system.

To better reflect DWE's best practice guidelines and the true principles of pay for use a better approach would be to adopt a lesser sewer access charge or base the access charge for a property on the nominal water meter size required but increase the sewer usage charge. This means that the more water that is used the more that is paid in sewer usage charges. With the correct pricing structure Council would still ensure that there is no cross subsidy between residential and non-residential customers.

It is worth noting that the Department of Land & Water Conservation's *Water Supply, Sewerage and Trade Waste Pricing Guidelines (2002)* suggests that the sewerage long-run marginal cost can be reasonably estimated as 100% to 150% of the Local Water Utilities operating cost/kL. In 2002 the State-wide median operating cost was 82c/kL, which indicated that a typical sewer usage charge would be between 82c/kL and 123c/kL. This figure is now almost seven years old. With ever increasing costs it is fair to expect that this figure would be higher today. Bathurst Regional Council's Draft Management plan for 2009/2010 has proposed a figure of 89c/kL, which is at the lower end of the 2002 State-wide median figure.

This leads to item (iv). The higher the usage charge means that customers would be much more conscious of the amount of water being used and ultimately discharged to sewer. This sends the appropriate pricing signals to the customers and should ultimately lead to a conservation of water and long term sustainability. After all that is part of what the Best-Practice Management Guidelines are trying to achieve. Under the present pricing structure, customers which have a large water meter solely for compliance with the building code fire fighting requirements are being penalised and treated as if they were placing excessive demands on Council's sewerage system. This is not a fair and equitable arrangement and does nothing to encourage water conservation and sustainability. The excessive sewer access charge may mean that this property is actually subsidising residential or other high water use non-residential businesses.

We have noted in Council's Draft Management Plan the Water Availability charge proposed for the upcoming financial year is approximately half that of the current year. This is coupled with an approximate increase in the water usage charge of 50%. It is also noted that there are slight increases in the sewer access charges and sewer usage charges.


It appears that Bathurst Regional Council are moving towards true pay for use principles for their water supply but have not followed this through with their sewerage pricing.

We trust that this information satisfies your requirements at this stage and it may be able to form part of a submission to Bathurst Regional Council to point out that their sewerage pricing policy principles are at odds with their adopted sewer charges.

We trust that this information satisfies your requirements, however, if you require further information do not hesitate to contact the undersigned.

Yours faithfully

Heath Consulting Engineers



Per:

ROGER HEATH

Enc