

Our reference:
Your reference:

PO Box Q290, QVB Post Office NSW 1230
Level 8, 1 Market Street Sydney NSW 2000
T (02) 9290 8400 F (02) 9290 2061
ABN 49 202 260 878

23 September 2011

www.ipart.nsw.gov.au

Mr Paul Gerlach
Project Director
Lend Lease Communities
PO Box141
Picton NSW 2571

Contact Gary Drysdale
T (02) 9290 8477
E gary_drysdale@ipart.nsw.gov.au

Dear Paul

BINGARA GORGE DEVELOPMENT - CUSTOMER FEES AND CHARGES

I refer to your letter of 20 September 2011 regarding customer fees and charges at Bingara Gorge.

In response to your letter I wish to confirm that:

- ▼ IPART considers proposed customer fees and charges when it reviews WICA licence applications. Proposed charges are one of a number of things reviewed as part of our consideration of whether or not it is in the public interest to recommend the granting of a licence. As you are aware, IPART does not regulate a licensee's prices unless the Minister declares a licensee to be a monopoly supplier pursuant to Section 51 of the *Water Industry Competition Act 2006*.
- ▼ In reaching the view that the granting of a licence for Bingara Gorge was in the public interest, IPART considered the proposed fees and charges for non potable water and sewage services and reached the view that the charges were reasonable. When a licence variation was sought in May/ June 2011, IPART did note the revised fees and charges.
- ▼ It is a matter of fact that relative to Sydney Water's total infrastructure, the Bingara Gorge development is a small, isolated estate which uses a high level of sewage treatment. Due to the small scale of this treatment system and the high level of treatment, the sewerage costs per customer at Bingara Gorge are likely to be significantly higher than the costs per customer of Sydney Water.
- ▼ The proper statutory processes were followed by IPART and the Minister when granting (and subsequently amending) a retail supplier licence to Veolia Water Solutions and Technologies (Australia) for the supply of non potable water and sewage services to the Bingara Gorge development.

IPART has responded to customer enquiries in regard to fees and charges at Bingara Gorge. I have attached a copy of the information that we have included in our replies.

If you require any further information, please contact Gary Drysdale, Program Manager Compliance on the contact details provided above.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Amanda Chadwick', with a large, stylized flourish at the end.

Amanda Chadwick
Director Water

2011/8/5 Amanda Chadwick <Amanda_Chadwick@ipart.nsw.gov.au>

Thank you for your email about the sewerage pricing at Bingara Gorge. I have addressed each of your 3 questions below. The complexity of the issues has meant that my email is a little long.

Why are Bingara Gorge fees higher than Sydney Water's?

Relative to Sydney Water's total infrastructure, the Bingara Gorge development is a small, isolated estate which uses a high level of sewage treatment. Due to the small scale of this treatment system and the high level of treatment (i.e. 100% tertiary treatment) the sewerage costs per customer at Bingara Gorge are likely to be significantly higher than the costs per customer of Sydney Water. In addition, recycled water generally costs more to produce than potable water, as a result of the greater level of treatment required to produce it.

By way of comparison, Sydney Water treats 90% of its sewage to only primary treatment - which is the lowest level of sewage treatment. A small treatment system has fixed costs that are spread across a small number of customers (i.e. hundreds of customers) whereas the fixed costs for Sydney Water's larger treatment systems can be spread across tens of thousands of customers. Given the lower level of sewage treatment for Sydney Water, and the capacity to spread their fixed costs across a large customer base, Sydney Water's average cost per customer are likely to be significantly lower than that for Bingara Gorge.

In the case of both Bingara Gorge and Sydney Water, these costs could be charged to customers through either sewerage and recycled water prices or via charges that are included in the price of land development, or through a mix of both service and land prices.

In the case of Sydney Water, the charges that are included in land prices are known as developer service charges. Sydney Water currently levies developer charges for its recycled water services and for some of its sewerage services.

Are the sewerage/water prices regulated by IPART or by some other government entity?

IPART has a role in the regulation of the performance and safety of the sewerage and recycled water infrastructure provided to the Bingara Gorge development. However, the prices of sewerage and recycled water for the Bingara Gorge development are not currently regulated by IPART or another government entity.

Under the *Water Industry Competition Act 2006*, IPART only has a pricing role for suppliers that have been declared a monopoly supplier by the Minister. The Act sets criteria for the declaration of a monopoly supplier. These include if the supplier provides a service for which there are no other suppliers to provide competition in that market, and for which there is no contestable market by potential suppliers in the short term. In the case of a water supply service for recycled water, the Minister must also be satisfied that connection of land to the recycled water service is required by, or under, some other Act. If declared a

monopoly supplier, the licensee may be subject to a pricing determination or periodic review of their pricing policies by IPART.

As the Minister has not declared the Bingara Gorge scheme to be a monopoly supplier, IPART has no role in the pricing of these services.

Please note that, if in the future Bingara Gorge were declared a monopoly supplier, IPART's role would be to review the pricing of a monopoly supplier to check that the charges for services and the charges included in land development together reflect the costs of providing that service to the particular area. As explained above, the average cost per customer of providing a sewerage service at Bingara Gorge is likely to be higher than the average cost per customer of the sewerage service provided by Sydney Water.

Can we make a complaint?

The Energy and Water Ombudsman NSW (EWON) provides a free, fair and independent dispute resolution service for all electricity and gas customers in NSW, and some water customers.

After considering our preliminary advice above, if you still feel that you have been unfairly treated by the licensed retail supplier, Veolia Water Solutions & Technologies (Australia) Pty Ltd, then you can lodge a complaint to EWON. The website is www.ewon.com.au and the free call number is 1800 246 545.

I hope this helps you.

Yours sincerely,

Amanda Chadwick
Director Water