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LOWER MACQUARIE WATER UTILITIES ALLIANCE

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**LOWER MACQUARIE WATER UTILITIES  
ALLIANCE**

**PRICING POLICY**

**October 2011**

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*Strategies for a water efficient future*

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## **Foreword**

This document is the Pricing Policy which has been adopted for use by the eight (8) Councils of the Lower Macquarie Water Utilities Alliance.

The Policy takes account of and is based on the charging and pricing requirements of the NSW Office of Water.

**It is recognized and accepted that each Council will set its own water supply and sewerage charges and prices, which will be based on the criteria outlined in this Policy.**

The Councils of the Alliance are:

- Bogan Shire Council
- Bourke Shire Council
- Brewarrina Shire Council
- Cobar Shire Council
- Dubbo City Council
- Narromine Shire Council
- Warren Shire Council
- Wellington Shire Council.

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Lower Macquarie Water Utilities Alliance  
Pricing Policy Register

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Responsible Officer: Services Manager

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## **1. INTRODUCTION**

This Pricing Policy has been developed by the Lower Macquarie Water Utilities Alliance to provide uniformity in setting water supply, sewerage and liquid trade waste prices and charges across the eight Councils of the Alliance.

The Policy complies with the pricing criteria developed by the NSW Office of Water.

Each Council will set its own prices and charges, on an annual basis, in line with the requirements of this Policy.

## **2. OBJECTIVE**

The aim of this Pricing Policy is to ensure uniformity across the Alliance Councils in the setting of fees and charges for water supply, sewerage and liquid trade waste services.

### **3. FULL COST RECOVERY**

Full cost recovery is essential for the long term financial viability of water supply and sewerage services and for communicating the value of the services to customers through cost reflective pricing signals.

Full cost recovery involves annually raising sufficient revenue to cover the operation, maintenance and administration costs, together with the current cost depreciation of water supply and sewerage infrastructure.

#### **Policy Statement**

- Alliance Councils will set each year's water supply tariff to raise the required revenue (disclosed in Council's current Strategic Business Plan) on the basis of a careful estimate of the volume of water to be supplied to customers over the next financial year.
  - Annually setting the water supply tariff on the above basis allows the Councils to respond to any changes in the available supply and customer demand, whilst continuing to raise the required annual revenue through the Typical Residential Bill (TRB) in accordance with the Strategic Business Plan. While maintaining the TRB and annual revenue, Council will adjust its annual water supply charges as necessary in order to raise the required revenue.
  - Achieving its full cost recovery for water supply in periods of drought and water restrictions is a challenge requiring a careful response on the above basis.
- The basis for estimating the residential water to be supplied per property will be:
  1. Each Council will annually review any trends in the residential water supplied per property in its TBL Performance Report, paying particular attention to the results for the last 2 years. In April each year, the LWU will review its water production for the first 9 months of the current financial year, comparing those volumes with the corresponding volume for the previous 2 financial years. In general the **initial estimate** of residential water to be supplied per property should be on the basis of its results for the last 2 years, together with 'fine tuning' on the basis of the current year's water production.
  2. Council will identify whether either of the last 2 years in its TBL Report or the first 9 months of the current financial year involved extreme climatic conditions (e.g. a very wet year, or a very hot dry year). In which case an adjustment will be applied to the initial estimate in Step 1 above.
  3. Councils will then consider whether there will be a change in the drought water restrictions for its system in the next financial year in comparison with the present circumstances, e.g.:
    - introduction of new significant drought water restrictions;
    - removal or significant easing of existing drought water restrictions.

If so, it should apply a relevant adjustment to the value in Step 2 above.

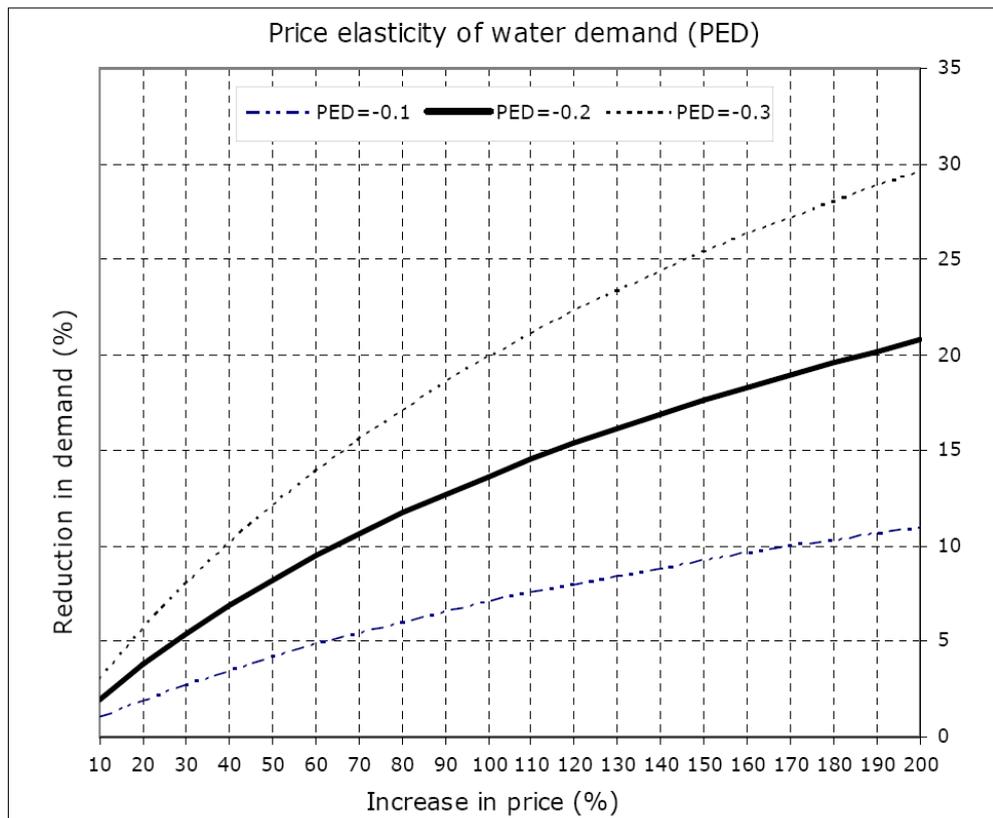
4. Where the proposed water usage charge/kL for the next financial year will involve a significant real increase over the present charge, Councils will estimate the impact of the price elasticity of demand (PED) and apply it to the Step 3 value. Some iteration may be needed in order to obtain the Typical Residential Bill required to achieve full cost recovery.

Reported PEDs are generally in the range -0.7 to 0. It is suggested that the PED should generally be estimated on the basis of a 'mid-range' value of 0.2. In addition, sensitivity should be calculated for PEDs of -0.1 and -0.3 using the table and graphs on page 5.

In addition, Councils will review the volumes of **non-residential water supplied** over the last 3 years to identify any changes or trends, especially among large water users. In particular, any new industries with significant water use should be identified and account should be taken of any industries which have closed down.

### Price Elasticity of Water Demand (PED)

Increase in Price (%)	Reduction in Water Demand (%)		
	PED=0.1	PED=0.2	PED=0.3
10	1.0	2.0	3.0
20	1.9	3.8	5.7
30	2.7	5.4	8.0
40	3.5	6.9	10.2
50	4.2	8.2	12.2
60	4.8	9.5	13.9
70	5.4	10.6	15.6
80	6.0	11.7	17.1
90	6.5	12.7	18.5
100	7.0	13.7	19.9
110	7.5	14.6	21.1
120	8.0	15.4	22.3
130	8.4	16.2	23.4
140	8.8	16.9	24.4
150	9.2	17.7	25.4
160	9.6	18.3	26.3
170	9.9	19.0	27.2
180	10.3	19.6	28.0
190	10.6	20.2	28.8
200	10.9	20.8	29.6



## 4. WATER PRICING

### 4.1 *Water Usage Revenue*

- The Best Practice Management of Water Supply and Sewerage Guidelines, 2007 require NSW local water utilities (LWUs) with over 4,000 connected properties to raise at least 75% of residential revenue from water usage charges. Smaller utilities need to raise at least 50% of such revenue from usage charges.
- The reason for requiring at least 75% (or 50%, as appropriate) of revenue from usage charges is to ensure residents receive a strong pricing signal to encourage them to use water wisely.
- The 75% requirement does **not** increase the Typical Residential Bill (TRB), which is the principal **indicator of the overall cost** of a water supply system and is the bill paid by a residential customer using the utility's average annual residential water supplied per property. It only raises the usage component of the bill, whilst lowering the fixed component.

#### **Policy Statement:**

**Each Council of the LMWUA will set water supply usage charges such that they will raise at least 50% of revenue of usage charges, except for Dubbo City Council which will raise at least 75% of revenue from usage charges.**

### 4.2 *Access Charges*

#### **Policy Statement:**

**Each Council will set water supply access charges in accordance with the principles outlined under Section 3: Full Cost Recovery and Section 4.1: Water Usage Revenue outlined above.**

## **5. SEWERAGE PRICING**

### **Policy Statement:**

Each Council will annually set sewerage charges in accordance with the following criteria:

- **Full cost recovery;**
- **Residential properties: a uniform annual sewerage bill per residential property;**
- **Non-residential properties: a two-part tariff with an appropriate sewer usage charge / kL for non-residential properties, plus an access charge based on the capacity requirements that their discharge and load places on the overall sewerage system (collection, distribution and treatment), relative to residential customers;**
- **No land value component in sewerage charges.**

## 6. LIQUID TRADE WASTE FEES & CHARGES

Best practice liquid trade waste pricing requires appropriate annual trade waste fees and re-inspection fees for all liquid trade waste dischargers.

**These fees are in addition to the non-residential sewerage bill.**

Councils must also levy an appropriate trade waste usage charge for trade waste dischargers with prescribed pre-treatment, and appropriate excess mass charges for large trade waste dischargers (>about 20 kL/d) and for dischargers of industrial waste.

The Liquid Trade Waste Fees and Charges can be calculated using the charges specified in Appendix I of the *Liquid Trade Waste Regulation Guidelines, April 2009* as published by the NSW Office of Water.

**The Charges specified by the Office of Water were current at 2007/08 and these need to be adjusted annually, in line with the CPI for Sydney in the preceding 12 months to December each year for adoption in the following years Council Fees and Charges.**

Water Utilities have the option of calculating their own Fees and Charges, independent of those published in the Guidelines; but these will need approval from the Trade Waste Section of the Office of Water.

### **Policy Statement:**

- **Each Council will develop and adopt a Liquid Trade Waste Policy in accordance with the Liquid Trade Waste Regulation Guidelines, NSW Department of Water & Energy, April 2009.**
- **Each Council will annually set trade waste fees and re-inspection fees for all defined liquid trade waste dischargers, which will be in addition to the non-residential sewerage bill; such charges to be set in line with those stipulated by the NSW Office of Water in the *Liquid Trade Waste Guidelines, April 2009*, annually adjusted in line with CPI movements for Sydney in the preceding 12 months to December.**
- **Trade waste dischargers with prescribed pre-treatment and large trade waste dischargers (>20 kL/d) will be charged excess mass charges as defined in the adopted Liquid Trade Waste Policy.**

## **7. DEVELOPER CHARGES**

Developer charges are up front charges levied to recover part of the infrastructure costs incurred in servicing new developments or additions / changes to existing developments.

The power for local government councils to levy developer charges for water supply, sewerage and stormwater derives from section 64 of the *Local Government Act 1993* by means of a cross reference to sections 305 to 307 of the *Water Management Act 2000*.

Developer charges for water supply and sewerage (section 64 contributions) and section 94 contributions involve the same underlying principle – development creates a demand for services, and it is therefore equitable that new development pays a contribution towards the capital cost of infrastructure and facilities required to meet that demand.

Developer charges serve two related functions:

1. they provide a source of funding for infrastructure required for new urban development; and
2. they provide signals regarding the cost of urban development and thus encourage less costly forms and areas of development.

### **Policy Statement:**

**Each Council will prepare a Developer Servicing Plan (DSP) for both water supply and sewerage services, in accordance with the requirements of the NSW Office of Water and will annually levy Developer Charges, as applicable and as developed in their DSPs.**

**(Note: A utility is exempt from the need to calculate developer charges for water supply or sewerage if it expects growth of fewer than five new lots per annum over the next five years. A utility wishing to exercise this exemption needs to prepare a short Exemption Document reporting its growth of new lots over the last five years and its forecast growth for the next five years.**

**Exemptions apply for Bogan, Bourke, Brewarrina and Warren Shire Councils).**

## **8. REFERENCES**

1. Best Practice Management of Water Supply and Sewerage Guidelines, NSW Government, 2007 (available at [www.water.nsw.gov.au](http://www.water.nsw.gov.au)).
2. Pricing Principles for Local Water Authorities, Independent Pricing and Regulatory Tribunal of NSW, 1996.
3. National Guidelines for Residential Customers' Water Accounts 2006, Natural Resource Management Ministerial Council.
4. Integrated Planning & Reporting Guidelines for local government in NSW, 2010 (available at [www.dlg.nsw.gov.au](http://www.dlg.nsw.gov.au)).
5. Integrated Planning & Reporting Manual for local government in NSW, 2010 (available at [www.dlg.nsw.gov.au](http://www.dlg.nsw.gov.au)).
6. Liquid Trade Waste Regulation Guidelines, NSW Office of Water, 2009 (available at [www.water.nsw.gov.au](http://www.water.nsw.gov.au)).
7. Circular LWU 11 and Pricing Information Sheets 1 to 4, NSW Office of Water, March 2011.
8. Developer Charges Guidelines for Water Supply, Sewerage and Stormwater, NSW, 2002.
9. NWI Pricing Principles, April 2010 (available at [www.nwc.gov.au](http://www.nwc.gov.au)).
10. Local Government Code of Accounting Practice and Financial Reporting Guidelines 2009-10, NSW (available at [www.dlg.nsw.gov.au](http://www.dlg.nsw.gov.au)).
11. Wise Water Management – A Demand Management Manual for Local Water Utilities, Water Services Association of Australia, 1998.
12. Water Supply, Sewerage and Trade Waste Pricing Guidelines, NSW 2002.
13. NSW Water and Sewerage Strategic Business Planning Guideline, NSW Office of Water, March 2011.
14. Water Supply and Sewerage Management Guidelines, NSW 1991.