

**2.2006/07 DRAFT MANAGEMENT PLAN – SUPPLEMENTARY REPORT**

As alluded to in the Business Paper, the Draft Management Plan has been prepared using the “65%” method of calculation of charges to the “Bulk” Councils. The Chairman and General Manager were invited to meet with representatives from the three “Bulk” Councils on Tuesday 18 April to discuss the proposed changes following correspondence from the General Manager to the councils dated 23 March 2006.

The discussions focused on what the Bulk Councils perceived to be an unfair increase in the pricing structure. The following points (in no particular order) were put forward:-

- There is no relationship between “Retail” customers and “Bulk” councils therefore the number of connections in each “Bulk” council area is irrelevant.
- The three councils should be considered as “Bulk” customers.
- The method of calculation used to date (carried over from SWTWS) was based on the “purchase” of a guaranteed amount of water.
- The present method of calculation (referred to above) was fundamentally acceptable to the three councils.
- The distribution of “Administration” costs on a “percentage of production” basis does not reflect the “real” costs.
- The councils are prepared to pay a “reasonable” cost of production plus an “acceptable” administration charge and an amount towards the “cross subsidy” of the minor schemes but when asked what was ‘reasonable’ and “acceptable” no suggestions were put forward.

In considering the points above it should be noted that the method of calculation used by SWTWS was:-

- Based on a fixed charge for the “guaranteed” supply of a fixed amount of water per week plus a charge for each kilolitre up to that amount. Consumption over that fixed amount was charged at double the standard rate.
- The prices were reviewed and set by Ministerial consent annually and were “formalised” as a Regulation under the South West Tablelands Water Supply Administration Act 1941.
- The South-west Tablelands Water Supply Administration (Price of Water) Amendment Regulation 1996 states (in part):  
*“The alterations will increase the price of water in line with increases in the Consumer Price Index. The Regulation has effect in relation to water supplied in 1997 and each subsequent year.”*
- The South-west Tablelands Water Supply Administration (Repeal) Act 1997 repealed the requirement for the Minister to set the charges annually.
- GWCC amended the method of calculation from “per fortnight” to “per month” in 2002/03 and amended the consumption charge to a percentage (54%) of the “Retail” price.

- The “fixed” charge has remained unchanged since then and the “consumption” charge has increased in line with the “retail” consumption charge.

Subsequent discussions with DEUS have revealed that the original method of calculation was devised to “send a clear message to the Bulk councils that there is a need to conserve water and that the price for going over the agreed amount would act as a penalty for exceeding the predetermined quantity.” It was also stated that it was intended that the pricing structure be indexed annually by CPI.

The attached spreadsheet shows a comparison of four methods of calculation. By using the ‘existing method’ with the 2006/07 retail price a minor increase in revenue of approximately \$60,000 will be realised. It can be seen that the ‘65 percent’ method generates less income than if GWCC had indexed the 1998 charges by CPI. Were GWCC to classify the three councils as “Bulk” customers (similar to other large volume users) then whilst the fixed charges would be considerably less, the consumption charges would dramatically increase. The income generated from this method would be higher than the ‘65 percent’ method but still below that generated using CPI increases.

A copy of correspondence received from Young Shire Council dated 26/04/06 is attached in which an alternative pricing structure is proposed. Whilst the proposal is simple and transparent, it disregards the whole of system philosophy adopted by this Council and promotes segmentation of the system into schemes.

In considering a suggested way forward staff are of the opinion that the ‘65 percent’ method of calculation is still the preferred option. Alternatively, if the existing system is to continue then steps should be taken to recoup lost CPI increases that were clearly the intent of the State Government.

### **Recommendation**

That the Draft Management Plan, as amended, be adopted and exhibited; and that Council make a final Management Plan for the 2006/2007 year at its June Meeting.