

4.8 Priority Sewerage Program

20. Should the new operating licence contain any obligations for the Priority Sewerage Program (for example, what, if any, requirements should be included in relation to the outstanding Priority Sewerage Program areas of Yanderra, Austral, Menangle and Menangle Park)?

No, the new licence should not contain any obligations for the Priority Sewerage Program (PSP). The licence is meant to reflect minimum standards for servicing our broad customer base. It should not be used as a vehicle to deliver specific, localised programs.

21. Should the Government consider alternative mechanisms to achieve the policy objectives of the Priority Sewerage Program in the remaining areas?

There are other mechanisms available to Government to deliver this program. We are happy to work with Government to explore alternative options.

4.8.1 Background to the Priority Sewerage Program

There are many existing properties in Sydney Water's area of operations that are not connected to our reticulated wastewater system, for various reasons. These properties typically have onsite wastewater disposal systems. Property owners can either continue to use onsite systems, or seek to transition away from this by connecting to Sydney Water's reticulated system.

The Priority Sewerage Program (PSP) was initiated by the NSW Government in the 1990s. The program provides improved wastewater services to selected existing but unsewered urban towns and villages in environmentally sensitive areas identified at that time by the Environment Protection Authority.

PSP schemes were first delivered by Sydney Water and largely funded through charges from Sydney Water's wastewater customers.²⁰ From 2005, specific obligations to deliver and plan for PSP schemes were included in Sydney Water's Operating Licence. Using the Operating Licence as the regulatory mechanism to deliver the program has been one way of requiring that Sydney Water's 1.7 million wastewater customers largely pay for sewerage of these PSP villages. By contrast, under IPART's determination of Sydney Water's prices, if other existing unsewered properties outside PSP villages seek to connect to our wastewater system, they need to fund the full cost of this themselves.

To date, the PSP has made improved wastewater services available to more than 8,500 properties. Through this program, Sydney Water has already spent over \$660 million (\$2014-15) providing wastewater services to 27 previously unsewered communities. This will exceed \$870 million (\$2014-15) when Sydney Water completes the schemes now in progress.

PSP is funded in a similar way to new growth properties, though is more generous. In PSP schemes, Sydney Water's 1.7 million wastewater customers pay for delivery of both large trunk and smaller reticulation infrastructure. In new growth areas, Sydney Water's 1.7 million wastewater

²⁰ The program was implicitly referred to in the *Operating Licence 2000-2005* via the Clean Waterways Program objective to 'sewer existing properties'. Some initial schemes were also mentioned in Sydney Water's 1998-2003 Environment Plan.

customers pay for delivery of the large trunk wastewater infrastructure, which on average costs around \$12,000 per lot. Developers fund the smaller reticulation assets.

PSP schemes are expensive, with costs dependent on the specific site conditions and solution options selected (see Table 3 below). These costs are substantially higher than the \$12,000 average cost to provide wastewater services to a typical lot for a new house in greenfield developments.

Table 3 Cost of previous and current PSP schemes

Scheme	Capital cost per lot	
	Range	Average
Completed Stage 1 schemes	\$23,000 to \$113,000 (actual)	\$67,000
Completed Stage 2 schemes	\$79,000 to \$135,000 (actual)	\$95,000
Stage 2 schemes currently in delivery	\$44,000 to \$109,000 (forecast, \$2014-15)	\$75,000 (\$2014-

Post implementation monitoring of completed Stage 1 schemes indicates that there are demonstrated environmental and public health benefits in the immediate vicinity of the village, although no benefits have been demonstrated beyond the localised area.

There are six PSP areas identified in Sydney Water's current licence that are yet to be delivered: Austral, Menangle and Menangle Park (required to be delivered if growth areas are serviced nearby); and Yanderra, Nattai and Scotland Island.

IPART has asked if Sydney Water's new licence should contain any obligations in relation to the PSP in the future. We will address the remaining six schemes in two groups.

4.8.2 Austral, Menangle and Menangle Park

These three villages will be serviced through other means (growth servicing).

The current Operating Licence clearly links the requirement to service Austral, Menangle and Menangle Park villages to the provision of wastewater services to a significant development in an adjoining area. Austral, Menangle and Menangle Park are within or near major development areas that have now been released for greenfield development by the NSW Government. Sydney Water is planning to deliver staged wastewater services for these areas, aligned to the sequencing and timing of proposed development in these areas. This is a more cost effective and efficient way to deliver wastewater services for these areas than through delivering a PSP scheme in isolation.

As the Austral, Menangle and Menangle Park villages would receive wastewater services as part of servicing broader greenfield development in the NSW Government's urban release program, the community and environmental benefits are likely to be greater than those for other PSP identified villages. Accordingly, Sydney Water considers the investment in servicing these three villages to provide an acceptable level of value to our overall customer base, making it appropriate for this cost to be spread across the broader Sydney Water customer base.

Austral

The Austral village identified in the current PSP requirement (about 50 lots) is located within the Austral precinct (ultimately about 6,700 new dwellings) in the South West Growth Centre. The Austral precinct was rezoned for development by the NSW Government in March 2013 and the existing Austral village was rezoned for higher density development. The Austral village will receive wastewater services as part of the staged wastewater servicing of the broader Austral precinct.

Sydney Water has started planning for wastewater servicing of the first proposed development area in the Austral precinct, but this is remote from the Austral village. Based on current development forecasts from the Department of Planning and Environment, Sydney Water would provide wastewater services to the Austral village identified in the current PSP requirement between 2022 and 2027.

Menangle

The existing Menangle village identified in the current PSP requirement (about 100 lots) is located about three kilometres south of the Menangle Park Release Area. While Sydney Water has not started planning for wastewater services to the Menangle village, an allowance for wastewater flows from the village were included in planning the wastewater services for the Menangle Park Release Area. In line with Sydney Water's written advice of 21 June 2006 to the then Minister for Energy and Utilities, the Menangle village identified in the current PSP requirement will be serviced as part of servicing the Menangle Park Release Area. Depending on the actual development sequencing and timing in the Release Area, it could be serviced between 2020 and 2025.

Menangle Park

The Menangle Park village identified in the current PSP requirement (120 lots) is situated within the Menangle Park Release Area (ultimately about 3,600 new dwellings). This Release Area is about to be rezoned and higher density housing is planned within the existing Menangle Park village. The village area will receive wastewater services as part of the staged wastewater servicing of the broader Menangle Park Release Area. Sydney Water has completed detailed planning for wastewater services to the Menangle Park Release Area, including the Menangle Park village identified in the current PSP requirement. Based on current development forecasts from the Department of Planning and Environment and Urban Growth NSW (the major developer in the area), Sydney Water would provide wastewater services to the Menangle Park village between 2018 and 2023.

4.8.3 Yanderra, Scotland Island and Nattai

These three remaining PSP Stage 2 schemes would be some of the most expensive schemes in the program, as shown in Table 4. These estimates are more than ten times the cost of providing wastewater services to a typical new growth area, which costs around \$12,000 per property.

Table 4 Estimated cost of remaining PSP schemes

Scheme	Approximate number of lots	Estimated capital cost (\$2014-15)	Capital cost per lot (\$2014-15)
Yanderra	220	\$51 million	\$234,000
Scotland Island	350	\$82 million	\$235,000
Nattai	30	\$4 million	\$137,000

The villages of Yanderra and Scotland Island do not have an existing water supply provided by Sydney Water. The cost estimates in Table 4 do not include the provision of a reticulated water service to these villages. We believe a manageable wastewater scheme can be provided without reticulated or 'town' water.

There is local community support for these PSP schemes to proceed, based on the number of enquiries made to Sydney Water about the timing for the provision of wastewater services to the villages involved. Sydney Water has met with community interest groups and local members of parliament for both Wollondilly and Pittwater a number of times about the remaining PSP schemes. Past discussions with some residents suggest some do not support the improvement in

wastewater services through the PSP (particularly in Yanderra and Nattai), as they fear it may lead to further urban development in the area.

4.8.4 Future delivery and funding of improved wastewater services

Servicing the remaining three villages as a requirement on Sydney Water through its Operating Licence would require all Sydney Water wastewater customers to fund it. This would add nearly \$5 to the bill of each of Sydney Water's 1.7 million wastewater customers, every year for a period of 78 years.²¹ The 27 schemes serviced to date have already added around \$48 to each bill for the same period.

Some alternative implementation and funding mechanisms are discussed below.

Regardless of the funding mechanism used, the design and delivery of the remaining schemes should be flexible, involving a performance based specification. In addition, depending on the funding mechanism adopted, their delivery timeframes should be staggered over several years, to spread the expenditure and reduce the impact on those funding it.

IPART's suggestion of government funding

As noted above, areas listed in the PSP were previously identified as having a high environmental priority. There may be value in a process to re-consider the environmental benefits that could be delivered from this program.

As suggested by IPART in its Issues Paper, it may be more appropriate for Government to consider funding the provision of improved wastewater services directly, as a community service obligation. This would align with the localised nature of environmental benefits. A contestable mechanism could be used, potentially testing Sydney Water and/or private providers to ensure the most efficient option is used for delivering the service.

Contestability mechanism funded by local customers

A contestability mechanism would not necessarily mean that the Government had to fully fund the scheme. Under the *Water Industry Competition Act 2006* (WIC Act), utilities who obtain a licence in a particular area can collect location-specific charges from local customers to recover their costs.

A performance based specification could be put out to tender by the Government for the market to identify innovative and cost effective wastewater improvement options, not necessarily involving reticulated wastewater systems. Services could then be provided by a new entrant, such as a private operator licensed under the WIC Act. The WIC Act licensee would be Network Operator and Retail Supplier and could recover the costs through location-specific charges paid by the customers of each scheme.

A different level of service

It may be possible to provide a different level of wastewater disposal service (or type of service) in some areas for a lower cost. For example, a centrally managed pump out service may be possible for Nattai for a capital cost of about \$33,000 per lot. The affected community would be consulted as part of any decision making process about accepting a different level or type of service.

Alternatively, in addition to the options already canvassed, a cap could be placed on servicing costs (such as \$75,000 per property – the average cost of PSP schemes completed or in delivery) and the market asked what level of service could be provided for this cost. The village residents could then be asked if they want to be serviced at this level, or if they would prefer to stay with their current onsite systems. Depending on the state of the onsite systems, Councils may seek to make

²¹ As the additional revenue in sewerage service charges from the remaining 600 PSP properties would not cover the estimated additional operating and maintenance costs for the three schemes. This shortfall would be spread across the broader customer base.

connection to a new system mandatory. Alternatively, it may be necessary to set a minimum number of residents who are willing to connect, as a threshold for proceeding with the scheme at the identified level of service.

In addition, consideration could be given to seeking a fair co-contribution from benefitting customers. For example, residents of the village may not be willing to accept a servicing option that can be delivered for \$75,000 per lot. However, if the Government were to fund up to this amount, the customers may be willing to contribute further funding at their own expense, to achieve a higher level of service.

State Owned Corporations Act direction

If the above mechanisms cannot identify an efficient means of servicing the villages, the Government may seek that Sydney Water do so. In this case a formal direction under the *State Owned Corporations Act 1989* (SOC Act) may be appropriate. Such directions are intended for delivering projects or outcomes that are not commercial, but may be in the public interest and / or represent exceptional circumstances. Delivery of a PSP scheme to remaining villages could be suited to this mechanism.

SOC Act directions can be funded in different ways: through passing the costs on to Sydney Water's 1.7 million wastewater customers (similar to including the projects in the Operating Licence), or requiring Government to bear the costs.

4.8.5 Sydney Water's Operating Licence is not the appropriate regulatory mechanism

In our view the Operating Licence is the least appropriate mechanism to deliver and fund improved wastewater services to identified PSP areas.

Sydney Water's Operating Licence should set minimum standards for the levels of service we provide to our broad customer base. It should not be used as a vehicle to deliver specific, localised programs at extremely high cost. As noted above, if there are exceptional circumstances and to do so is considered in the public interest, a formal direction under the SOC Act is a more appropriate mechanism.

Sydney Water is happy to work with Government to develop concepts and frameworks for alternative ways that the remaining three PSP schemes could be delivered.

4.8.6 Minor drafting error in PSP clause of licence

Sydney Water has identified a minor drafting error in the PSP clause of the current licence. If IPART's proposal to have no PSP obligations in the new licence is adopted, which Sydney Water supports, the error is irrelevant. However if the Government decides to retain PSP obligations in the next licence, the error should be corrected.

Clause 3.6 of the Operating Licence currently reads (emphasis added):

- (a) *Sydney Water must continue with the planning and delivery of the Priority Sewerage Program such that wastewater services are provided to the requisite number of lots in the following areas by the dates specified below:*
- (1) *Agnes Banks and Londonderry by 31 December 2012*
 - (2) *Glossodia, Freeman's Reach and Wilberforce by 31 December 2012*
 - (3) *Yellow Rock and Hawkesbury Heights by 31 December 2012*
 - (4) *Appin by 30 June 2015*
 - (5) *Wilton and Douglas Park by 30 June 2014*
 - (6) *West Hoxton by 30 June 2014*
 - (7) *Bargo and Buxton by 30 June 2014*
 - (8) *Cowan by 30 June 2014*
 - (9) *Galston and Glenorie by 30 June 2015.*
- (b) *Sydney Water will commence planning for Yanderra by 30 June 2015.*
- (c) *If either Sydney Water or a licensee under the Water Industry Competition Act 2006 provides wastewater services to a significant development (as determined by the Minister) in an adjoining area to one of the following areas in the Priority Sewerage Program:*
- (1) *Austral*
 - (2) *Menangle and Menangle Park,*
- then Sydney Water must deliver the Priority Sewerage Program in that area such that wastewater services are made available to customers within 24 months of wastewater services being available to service the significant development.*
- (d) *Clause **3.6(b)** does not apply where a licensee under the Water Industry Competition Act 2006 provides wastewater services to the relevant area of the Priority Sewerage Program.*

We believe the intent of clauses 3.6(c) and 3.6(d) is to specify that Sydney Water must deliver the PSP to Austral, Menangle and Menangle Park if we or a WIC Act licensee services a growth area nearby. However, if the WIC Act licensee services these three PSP villages as well as the nearby growth area, then Sydney Water does not need to deliver the PSP to them.

On this basis, clause 3.6(d) refers to the wrong preceding clause. It should read (emphasis added):

- (d) *Clause **3.6(c)** does not apply where a licensee under the Water Industry Competition Act 2006 provides wastewater services to the relevant area of the Priority Sewerage Program*