

EXTRACT: IPART PSP Draft Report - Cost Benefit Analysis of proposed changes to Sydney Water Corporations Operating Licence February 2015

3.5 Priority Sewerage Program (PSP)

The PSP was announced by the NSW Government in 1997 and was a component of the Government's waterways package to address wastewater and stormwater problems by 2021.²⁹ The aim of the PSP is to achieve environmental improvements and reduce human health risks by improving the sewerage management in unsewered areas in Sydney and the Illawarra. The PSP consisted of 2 stages. Stage 1 included the initial 16 suburbs, towns and villages in areas with high environmental sensitivity. A further 20 unsewered urban village areas were added in the Stage 2 extension of the program in 2001.³⁰

3.5.1 Current Priority Sewerage Program (PSP) provisions in the operating licence

PSP obligations have been included in the infrastructure section of Sydney Water's previous two operating licences. These obligations have required Sydney Water to meet certain milestones in the completion of the planning and delivery of Stage 1 and Stage 2 areas.

The current licence requires Sydney Water to:

- ▼ Deliver 16 of the Stage 2 areas by the end of the term of the licence (clause 3.6(a)).
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- ▼ Provide sewerage services to Austral, Menangle or Menangle Park within 24 months of either Sydney Water or a WICA licensee providing wastewater services to a significant development in an adjoining area.³¹ Sydney Water is not required to do this if a WICA licensee provides wastewater services to the relevant area of the PSP.³² (Clause 3.6(c) to (d)).

Schedule 4 of the operating licence also includes Nattai and Scotland Island as Stage 2 areas for the PSP. However, there are no requirements in the current licence with regard to the planning or construction of these areas.

²⁷ Department of Infrastructure, Planning and Natural Resources, *Sydney Water Corporation Priority Sewerage Program Jamberoo Director General's Report Section 115C of the Environmental Planning and Assessment Act*, September 2003 available online at: http://www.planning.nsw.gov.au/assessingdev/pdf/d-g_reprt_jamberoo.pdf.

²⁸ Gosford City Council and Sydney Water Corporation, *Brooklyn, Dangar Island, Mooney Mooney and Cheero Point Preferred Strategy for improved sewerage services*, December 2003, Available online at: http://www.gosford.nsw.gov.au/customer/document_gallery/public_studies/prefss_for_mooney_cheero_bdi.pdf

²⁹ *Sydney Water Operating Licence 2010-2015*, cl 3.6(a) - (c).

³⁰ *Sydney Water Operating Licence 2010-2015*, cl 3.6(a) - (d).

The licence also imposes two reporting obligations on Sydney Water:

- ▼ to write to the Minister to advise reasons for delays (in the event of delays by consent authorities) (Clause 3.6(e))
- ▼ an annual report to IPART on the progress of the scheme's implementation (clause 3.6(f)).

3.5.2 Sydney Water's progress in implementing the PSP

To date, Sydney Water has achieved full compliance with its PSP obligations.

Sydney Water has complied with clause 3.6(a) in the current operating licence, with wastewater services provided to the PSP areas as outlined in Table 3.1 below.

Table 3.1 Completion status of PSP areas

PSP Areas	Status
Agnes Banks and Londonderry	Services were made available by December 2010
Glossodia, Freeman's Reach and Wilberforce	Services were made available by January 2011
Hawkesbury Heights and Yellow Rock	Services were made available by June 2010
Appin	Completed in June 2012
Wilton and Douglas Park	Services were made available by June 2014
West Hoxton	Services were made available by December 2013
Bargo and Buxton	Services were made available by June 2014
Cowan	Services became available by December 2013
Galston and Glenorie	Detailed planning was complete in early 2014. Construction was scheduled to commence in 2014.

Source: Sydney Water PSP Annual Report to IPART 2014.

In servicing PSP areas, Sydney Water states that it considers all feasible alternatives, including both centralised and decentralised systems.³³

Sydney Water's progress in 'commencing planning' for Yanderra (clause 3.6(b) of the current licence) will be monitored through the upcoming 2014/15 operating licence audit.

³¹ Sydney Water, internal communication with IPART.

The remaining PSP areas

In terms of the remaining PSP areas listed in the current operating licence, Sydney Water notes that 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 therefore planning to deliver staged wastewater services to these areas, aligned to the sequencing and timing of proposed development. It notes that this is “a more cost effective and efficient way to deliver wastewater services for these areas than through delivering a PSP scheme in isolation.”³⁴ The planned timelines for delivering these proposed schemes are as follows:³⁵

- ▼
- ▼
- ▼

Sydney Water provides no indication of when it plans to service the other three remaining PSP schemes of Yanderra, Nattai and Scotland Island. However, it notes that they would be some of the most expensive in the program, and would add nearly \$5 per annum to the bill of each of Sydney Water’s 1.7 million wastewater customers for a period of 78 years – if funded by the broader customer base.³⁶ Table 3.1 below provides Sydney Water’s estimated costs of servicing these schemes, with the cost per property more than 10 times the cost of providing wastewater services to a typical new growth area (which costs around \$12,000 per property).

Sydney Water also states that its operating licence is not the appropriate instrument for requiring it to deliver specific, localised community service obligations (CSOs) or programs, such as providing sewerage services to the remaining PSP areas. Instead, it argues that a formal direction under the *State Owned Corporations Act* is a more appropriate mechanism.³⁷

Sydney Water’s submission states that it is happy to work with the Government to develop concepts and frameworks for alternative ways that these three remaining PSP schemes could be delivered.³⁸

³² Sydney Water submission to the Review of the Operating Licence for Sydney Water, July 2014, p 54.

³³ Sydney Water submission to the Review of the Operating Licence for Sydney Water, July 2014, p 54-55.

³⁴ Sydney Water submission to the Review of the Operating Licence for Sydney Water, July 2014, p 56

³⁵ Ibid, p 57.

³⁶ Ibid, p 57.

Table 3.2 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

Source: Sydney Water submission to the Review of the Operating Licence for Sydney Water, July 2014, p55.

3.5.3 Proposed changes to PSP provisions in the operating licence

We propose to remove the requirement outlined in clause 3.6(a) of the current licence, as this clause is redundant (ie, Sydney Water has delivered wastewater services to the areas listed). Similarly, we propose to remove Clause 3.6(b) from the current operating licence (the requirement to commence planning for the Yanderra area by 30 June 2015), as this will be monitored through the upcoming 2014/15 operating licence audit, making this clause also redundant.

We propose to maintain all other clauses that relate to the PSP for the 2015 operating licence, including the requirement for Sydney Water to provide an annual report on its progress in implementing the PSP. The proposed licence will require this report to be made publically available, which will provide transparency and information to stakeholders around the delivery of wastewater services to the remaining PSP areas of Austral, Menangle, Menangle Park, Yanderra, Nattai and Scotland Island. The remaining areas will be clearly specified in Sydney Water’s operating licence.

Relative to the current operating licence requirements, there will be no additional costs of the proposed changes, as we would simply be removing redundant clauses from the operating licence. The benefits of the proposed licence requirements would relate to enhanced transparency and information to stakeholders from the public reporting requirement.

We note that if the Government would like Sydney Water to provide services to the remaining PSP areas within a specified time (which is not included in the current licence), it could issue a direction under the *State Owned Corporations Act 1989* or contract with another provider to undertake the work.³⁹

In doing so, we recommend the Government consider the full economic costs and benefits of delivering these schemes. Sydney Water’s indicative cost estimates are outlined above. Benefits would likely include improved environmental and amenity outcomes.

³⁷ As noted by Sydney Water, such directions are intended for delivering projects or outcomes that are not commercial, but may be of public interest and/or represent exceptional circumstances.