

Level 7, 134 Macquarie Street, Hobart TAS
GPO Box 1550, Hobart, TAS 7001 Australia

Enquiries: Glen Naphthali
Ph: +61 3 6165 4580
Email: glen.naphthali@epa.tas.gov.au
Web: www.epa.tas.gov.au
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Mr Glenn Bounds
Office of the Tasmanian Economic Regulator
GPO Box 770
HOBART TAS 7001

Dear Mr Bounds

2018 WATER AND SEWERAGE PRICE INVESTIGATION - DRAFT REPORT

I refer to the *2018 Water and Sewerage Price Investigation – Draft Report* released 30 November 2017 for public consultation.

EPA officers have reviewed the draft report in conjunction with TasWater's *Long Term Strategic Plan* (LTSP), its PSP3 submission, and the draft document: *Wastewater Management Plan 2017-20, Parts A and C*.

First, I note that the EPA and TasWater have recently agreed to extend the timeframe and compliance targets for the Memorandum of Understanding on Public Wastewater Management (MOU) between our two organisations, to align with PSP regulatory periods. Since, this agreement is quite recent, the capex proposals in the draft report and the draft WWMP do not reflect key projects in the next tranche of 'Top 20' that are yet to be negotiated between the EPA and TasWater.

Nonetheless, the updated drafts of Parts A and C of the *Wastewater Management Plan 2017-20* (WWMP) describe criteria for determining the priorities for the third regulatory period and give information about expected actions and capex required for the 'Big 13' and 'Top 20' projects described in the MOU. Despite limited detail in the WWMP, I am satisfied that these priorities have informed the capex projects listed in the draft report, which in turn should achieve acceptable environmental compliance improvements over PSP3.

Below, I make some specific comments regarding the Economic Regulator's proposals contained in Sections 3.6, 4.4.3, 4.8, 6.4.3 and 7.9 of the draft report.

Section 3.6 Regulatory Compliance Improvement

I support each of the Economic Regulator's draft proposals for regulatory compliance improvement as per Section 3.6 of the draft report.

In particular, and in regard to the proposal to require TasWater to further justify its proposed capex for the fourth regulatory period in the context of a long-term plan, I note that through the MOU, the EPA and TasWater agreed to a narrowed focus for the short-term to facilitate step change in environmental compliance. In the most part, the MOU initiatives are focussed on improvements with relatively low capex requirements that can be delivered within three years.

Notwithstanding that, I agree with the finding of the draft report that TasWater does not have a fully articulated strategy to deliver regulatory compliance and operational efficiencies, and hence endorse this draft proposal on the basis that it is likely to provide for better short and medium term planning.

In regard to the draft proposal to amend the *Tasmanian Water and Sewerage Industry Performance and Information Guidelines* (November 2016), I note the MOU supports an open dialogue between

the EPA and TasWater, and requires regular reviews of progress which is beneficial to delivery of key projects. More frequent reporting on the status of scheduled and completed projects, as proposed in the draft report, will likely complement the objectives of the MOU. I support this being undertaken in a way that makes use as appropriate of TasWater's existing reporting mechanisms.

Section 4.4.3 Service Standards

I note the Economic Regulator's draft proposals in relation to service standards for PSP3. Although service standards are not regulated by the EPA, I offer my regulator's perspective on two that have relevance to environmental protection.

Service standard concerning response times to attend sewer spills, breaks and chokes: Failure to set this service standard at an acceptable level may give rise to unacceptable impacts on human health and environmental outcomes, perhaps depending on interpretation by TasWater staff. Hence, I question what practical effect the proposed drop in the associated performance target for the first two years of PSP3 might have for timely response to spills, breaks and chokes, including time to attend. I appreciate the relaxed targets are likely to be consistent with TasWater's recent performance, and in that regard might be pragmatic and realistic. However, response times to spills, breaks and chokes by TasWater can be variable, and overall, my observation is that performance needs to improve.

Percentage of spills contained within 5 hrs: I am advised that recent significant spills have typically taken considerably longer than 5 hours to contain. By nature, these spills are complex to manage and require mobilisation of diverse resources. While I support the 99% target for this service standard, I question whether recent performance shows that target is being met, and hence is likely to be met, in PSP3. It is possible the spills reported to the EPA represent the small number of more complex spills and have little effect on the target. However, these complex spills are likely to represent a significant portion of the total volume of spilled sewage.

I would be open to further discussion about this, including whether these service standards remain appropriate, in preparation for PSP4, perhaps in the context of an OTTER-convened Regulator Forum.

Section 4.8 Trade waste policy

I note the Economic Regulator's draft proposals in relation to TasWater's Trade Waste Policy.

Again, and although the EPA does not directly regulate trade waste inputs to sewer, the management of these is a significant factor affecting environmental compliance and performance at L2 WWTPs. Consistent management of trade waste and tankered waste is beneficial to TasWater's regulatory compliance.

Tanker waste is a known source of nuisance odour at receiving WWTPs, and has potential to impact upon WWTP performance. The inclusion of tanker waste in the trade waste policy is anticipated to lead to better tanker waste management. I expect to further discuss trade waste policy and management, so far as it impacts upon WWTP compliance, with TasWater across PSP3.

Section 6.4.3 Timing of recognising assets

The Economic Regulator has sought feedback on the notion of requiring TasWater to only recognise assets for the purpose of regulatory depreciation at the time of asset commissioning, shifting from the current regulatory accounting arrangement that allows this to occur as soon as construction commences, and hence TasWater may claim a depreciation allowance before an asset becomes operational.

I am open to this proposal and support its intent – to incentivise project completion. However, my observation is that delays in WWTP-related project delivery tend to occur during the planning and approval stages, which are typically undertaken by TasWater. Once construction commences, projects are largely handed over to contractors or project managers who generally complete them in a timely manner. Hence, it is difficult to see how the proposed change will have the desired effect of incentivising TasWater to complete capex projects for WWTPs more efficiently. I am also interested in evidence of better project delivery in jurisdictions that use this form of accounting, directly attributable to it, and whether there is potential for perverse outcomes.

If convenient, I would appreciate hearing further detail about the proposal at the next Regulator Forum.

Section 7.9 Re-use Water

I note the inclusion of costs for the provision of re-use water in the draft report. Re-use water is an area of particular interest to the EPA as it provides for load reduction in environments that would otherwise receive treated effluent.

TasWater describes re-use water schemes as preferred where these provide a least cost disposal option. I accept that a case-by-case assessment is appropriate and would hope that regard is given to environmental benefits of load reduction in the receiving environment, reduction in future capex requirements by diverting treated effluent to reuse, and economic benefit to the reuse water end user.

Discharge to the environment after treatment is usually a no-cost/very low cost option for TasWater, whereas re-use water incurs additional costs in the form of managing the scheme, pumping and pipeline costs outside the WWTP. Whilst the level of treatment required for re-use may be lower in the long-term, at present due to legacy compliance limits and the EPA's approach of setting limits based on achievable performance, there is often very little difference between the levels of treatment required for re-use and environmental discharge. In a situation where major capex upgrades are required to achieve environmental discharge compliance, re-use presents an opportunity to reduce or even avoid the capital investment.

I also attach a copy of the draft report with some minor corrections and amendments marked up, for your consideration.

If you should have any queries regarding the above, please contact Glen Naphthali on 6165 4580.

Yours sincerely



Wes Ford
DIRECTOR, ENVIRONMENT PROTECTION AUTHORITY

Encl: 2018 PSP3 Draft Report – EPA Comments

cc: office@economicregulator.tas.gov.au