



## Yannathan Road Development Group

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12 December 2012

Mr Dennis Cavagna  
Commissioner  
Essential Services Commission  
Level 2 / 35 Spring Street  
Melbourne, Victoria 3000

Dear Commissioner Cavagna,

I am writing this letter on behalf of the Yannathan Road Development Group (the Group) to express the Group's concerns that proposals contained within South Gippsland Water (SGW; the Authority) Authority's Water Plan 111 fail to reflect the best interests of the community of South Gippsland.

Specifically, it is the Group's contention that the proposal for the development of a waste water treatment plant (WWTP) at a property on Hills Road, Nyora (Hills Road) in support of the proposed Poowong, Loch, Nyora sewerage scheme is economically and technically flawed and, as such, will result in a major overspend of public monies.

These flaws will be directly reflected in the price of the services the Authority provides and will thus fail the long-term best interest of its customers within the region.

The Group has completed more than one year's investigation of this issue and has despaired at the lack of effort of the Authority to engage professionally on this matter.

The Authority chose to make an unconditional purchase of the Hills Road property for this purpose prior to any consultation with any other relevant authority – despite having already commenced the compulsory acquisition of another more suitable property. From the day of purchase there has been the strong suggestion that the proposal is being 'fitted' or 'retrofitted' to the site. (The decision to purchase the property was made only after direct political intervention).

Retrofitting or 'shaping the outcome' suggests agendas that are not consistent with current government policy platforms regarding transparency of government.

The Group contends that SGW has failed to pursue this site with due process. This has compromised the community's trust; highlighted SGW's preparedness to look for the least painful solution, and displays a disregard for the processes of modern government and for the expectations of the community it serves.

In addition, the Hills Road WWTP proposal is further tainted by local concerns about inappropriate Shire and developer links to a nearby proposed property subdivision – concerns also shared by the neighboring Cardinia Shire Council. (The Group's position on this matter has resulted in attempts to proposition and bully it by both the local development industry and key South Gippsland Shire personnel).

It is the Group's position that SGW has demonstrated conflicted decision making, a failure of process and governance, and exposed the State Government to risks not of its making. In other words, on this matter, South Gippsland Water has failed to meet the community expectations by which it is bound.

When the matter was raised with the Department of Sustainability and Environment (DSE), the management of SGW commissioned RSM Bird Cameron in June 2012 to 'conduct an independent review of the project management process specifically regarding the PLN strategic land acquisition' which found no 'serious deficiencies' in the conduct of the Authority.

Yet, less than six months later, the new Board (October 2012) is in the process of initiating another formal review by the Authority itself seeking to, amongst other terms of reference, review: 'The adequacy and appropriateness for Board governance of the core information contained in the Strategic Approval Statement (SAS) and Capital Justification Statement (CJS) format documentation, incorporating those specifically submitted to the Board in 2011/12'. Essentially, the Board is concerned about both internal processes and the information flow to it especially that relating to capital programs like the WWTP at Hills Road.

Forgive me Commissioner, but it appears to me that alarm bells are ringing and the new Board is particularly concerned as to how capital works approvals on this project could have reached the stage they have. It appears the new Board has a different perspective on probity and governance issues from that which might have existed in the past.

It has been made clear to the Group that SGW bought the property for three main reasons: (1) it was from a 'willing seller'; (2) it potentially offered less legal fees and less public outcry and, (3) time, it believed it was running out of time.

Not one of these is technical justification for the choice of this site. None will ensure efficiency and financial viability nor ensure customers benefit from the gains delivered by either or both.

The Group has chosen to address this matter through a constructive solutions-focussed approach and avoid the more typical protests and arm-waving in the media.

Many of the Group's concerns fall beyond your terms of reference. Yet, the Group contends that South Gippsland Water's Water Plan 111 is a derivative of our concerns and, as such, it will fail to meet the Essential Services Commission (ESC) expectations.

It is the Group's request that the ESC undertake a formal review of South Gippsland Water's Water Plan 111 with specific reference to the proposed capital profile of the Loch, Poowong and Nyora sewerage scheme and the appropriateness of siting of the Waste Water treatment Plant at Hills Road Nyora, and associated capital risk(s) with a technically flawed development. This should also be considered in light of the recent objectives specified in the Living Victoria Plan with opportunity for a strategic alliance with South East Water to avoid the necessity for the WWTP.

Some of the Group's reasons for this request follow in the attached document. This reasoning needs verbal support and the Group respectfully requests that it be consulted by any reviewer commissioned by the ESC to undertake such a review.

Thank you for your time in facilitating the public meeting which the Group attended and I, on behalf of the Group, look forward to participating in any review you deem appropriate.

Yours Faithfully,



Mick Maguire  
On behalf of the Yannathan Road Development Group

## **SUBMISSION TO THE ESSENTIAL SERVICES COMMISSION WATER PRICE REVIEW 2013 – 2018**

This document has been prepared by the Yannathan Road Development Group.

The Group's role is to protect the environmental, visual and social amenity of the Yannathan Road district of Nyora and Lang Lang East and its charter is to defend the social justice entitlements of our 248 members who live in the South Gippsland and Cardinia Shires.

### **Introduction**

The Yannathan Road Development Group has developed a compelling proposition to avoid the misuse of public monies inherent in a proposal by the local water authority, South Gippsland Water, to establish a waste water treatment plant at a property known colloquially as 'Hills Road'. This site is located approximately 6 kilometres from Nyora in South Gippsland Shire and directly abuts the shire boundary with Cardinia Shire.

This property was purchased unconditionally by South Gippsland Water, without prior approvals.

The Group contends that the choice of this proposed site has been driven by factors inconsistent with good project management; good water management, or good re-use water management. These factors have been confirmed as a ready seller for the site, the prospect of less legal fees and less public outcry, and time pressure to complete the project.

Consultancy works completed since that purchase have been focused on retro-fitting the site to the intended purchase. Through Freedom of Information the Group has requested the cost:benefit analysis underpinning the rationale for the site only to receive what can best be described as 'white board' justifications.

Community consultation efforts with those affected by this proposal have been professionally inadequate and verge on being disrespectful.

The decision to pursue the Hills Road option was made under the previous Chair, Mr. Llew Vale, and previous Managing Director, Mr. Steven Evans.

The Group has researched and proposed a better site solution which solves the significant shortcomings of the Hills Road site with no community impact.

This solution was re-presented to the new Chair and Managing Director in September who, despite making verbal commitments to do some exploration of the Group's position with the Group, have chosen not to do so.

It is clear that the process of selecting Hills Road, Nyora, has been fundamentally flawed. Subsequent behavior by South Gippsland Water suggests a lack of transparency, conflicted decision-making, a lack of probity and very poor governance which fails to meet community expectations and exposes the State Government to unnecessary risks. Subsequent refusal to address the solution proffered by the Group only serves to confirm this.

Yannathan Road Development Group contends that the solution it has pursued and presented to South Gippsland Water dramatically reduces the capital cost of the waste water treatment facility and solves the issue of disposal of waste water in a manner that significantly minimises ongoing operating expenses.

Thus, the Group's solution translates to a direct and significant lessening of both the water and waste water fees borne by the customers of South Gippsland Water.

## **Background**

Since **2003** South Gippsland Water has been investigating opportunities to undertake an active sewage treatment and disposal strategy for the townships of Loch, Nyora and Poowong.

In **2008** the Board of SGW approved the Business Case for the development and implementation of the project which was submitted to Treasury for approval with capital expenditure contribution from the Victorian Country Town Water Supply and Sewerage Program. At the time the cost estimates for the project was a capital cost of \$15-16 million with a 40% contingency.

Most recently, in June **2012**, revised costing has seen the original estimate blow out to approximately \$29 million plus an effective 45% contingency.

In the four years since the original business case reticulation cost estimates have increased by 50%, the cost of the Waste Water Treatment Plant (WWTP) by 200%, re-use and reticulation by 100%, and land purchase for the WWTP by another 50%.

The sewerage treatment and disposal strategy for the townships of Loch, Nyora and Poowong is now anticipated to cost South Gippsland Water and the State Government a minimum of approximately \$46,000 per assessment (650 in total) for approximately 3-4% of South Gippsland Water's customers. Water Plan 3 (2103 – 2018) outlines the proposed revenue and expenditure requirements for South Gippsland Water.

The Plan highlights that capital expenditure is predominately driven by two factors: growth (as illustrated by the *Small Country Town Sewerage Scheme for Poowong, Loch and Nyora and the Northern Towns Supply Connection*) and renewals (water/wastewater mains rehabilitation and water and wastewater plant renewals).

At \$71.99M, the capital expenditure forecast for the regulatory period (2013-2018) substantially exceeds net cash from operations, *meaning that South Gippsland Water will continue to draw down considerable amounts of debt in order to finance work*. This will impact both available capital and return-of-capital which will in turn place pressure on pricing.

Capital expenditure is predominately driven by growth e.g. development of the sewage treatment and disposal strategy for the townships of Loch, Nyora and Poowong – \$28.6M – which consumes 40% of capital expenditure over the regulatory period.

The Northern Towns Supply Connection - \$21.2M) and renewals (water/wastewater mains rehabilitation and water and wastewater plan renewals) comprises the bulk of the remainder.

The envisaged capital works will provide for meeting community growth and levels of service, regulatory obligations (including drinking water quality and environmental performance), and customer service standards.

### **Issues and concerns**

The Yannathan Road Development Group has identified a number of issues of concern:

#### **1. Inadequate business planning and project management has led to the unrealistic capital costs proposed in the Water Plan 3**

The prudence and efficiency of the capital expenditure proposed by the regional water business – South Gippsland Water – must be questioned given the inadequate project management demonstrated thus far.

By way of example, a major contribution to the blow-out in costs can be traced back to failed processes in choosing the location of the WWTP.

Originally South Gippsland Water had chosen an alternative site which fully met requirements; the Board had approved it and the process of compulsory acquisition had begun. Suddenly, this decision was shelved and a site on the edge of the Shire was purchased – unconditionally at a site cost of \$1.45 million.

This decision has had significant impact on project costs, stemming primarily from the unsuitability of the site for the disposal and re-use of the treated wastewater – a priority in a constrained catchment.

The Yannathan Road Development Group has since undertaken its own investigations and has identified a superior site with capability for 100% recycling of waste water effectively on-site at a massively reduced capital cost.

This is despite South Gippsland Water submitting in the forthcoming Plan that: *A re-examination of the potential for recycling/reuse of treated wastewater has verified that the relatively small industrial base in South Gippsland offers few practical opportunities for recycling of treated wastewater to industry.*

The proposed Hills Road site reflects poor site selection and is fundamentally without an adequate and approved recycled water disposal strategy; it is clear that the current site is technically inferior and is being 'retrofitted' into South Gippsland Water's Business Case Development.

Given the impact this project will have on all rate payers, despite servicing just 3-4% of the water authority's customers, we ask that the Essential Services Commission ensures that the capital cost of this aspect of the project is actively investigated prior to approval of South Gippsland Water's Water Plan 111.

## 2. A lack of strategic interagency planning is causing a blowout in statutory charges

A unique opportunity exists for interagency collaboration (shared services) with respect to sewage treatment and disposal strategy in this region which has the potential to dramatically reduce capital and operating costs.

The neighboring water authority, South East Water, is currently planning to upgrade the Lang Lang treatment facility. This is a significant capital investment in mechanization in an already established waste water treatment facility.

One of South Gippsland Water's reuse options proffered in Water Plan 111 is the idea of 'tapping' the South East Water re-use pipeline which it (SEW) plans to build for disposal of re-use water to farmers who have agreed to take recycled water from its own facility.

However, direct communication with the management of South East Water suggests that, while it has been discussed, the key constraint is not the pipeline, or tapping into it, but the actual number of farmers prepared to take it!

Given these two areas nearly overlap, South East Water has stated that they need the farmers they have 'got' to take the waste from the Lang Lang plant. They also noted the apparent 'fickleness' of farmers – this was not meant to be derogatory merely an observation that farmers could, at any time, renege on their commitment to take the water due to circumstances beyond their control such as flood or changed practice on-farm – resulting in a stranded asset as well as a disposal risk.

However, provided the agencies involved are prepared to think beyond their regional boundaries, there is huge potential for the treatment of sewage waste from Loch, Nyora and Poowong to be linked to South East Water's upgraded facility which borders the SGW operating area.

Both facilities are on a similar timeline; and the Lang Lang WWTP is just 14.4 kilometres from Nyora **OR just 8 kilometres further on than the proposed WWTP site at Hills Road.**

South Gippsland Water has already indicated its willingness to engage with South East Water to solve the waste water reuse issue. In fact its Water Plan states:

*South Gippsland Water is fully aware that the services it provides are essential to the economic survival, development and well-being of the region. Accordingly, South Gippsland Water takes into account the programs and activities of other regional agencies in developing its strategies and plans, in so doing, contributing to an integrated regional approach to natural resource management.*

A similar 'shared services' precedent exists with South Gippsland Water's decision to link its water supply with the construction of the Northern Towns Supply Connection at a cost \$21.2M.

The Yannathan Road Development Group questions why a similar strategic approach has not been taken with the potential to link the proposed Poowong, Loch, Nyora scheme with that of South East Water's in upgrading the Lang Lang/Koo Wee Rup treatment capability?

This would avoid the 33% of capital expenditure in the WWTP that South Gippsland Water has specified as required.

The Group has met with South East Water to discuss this option. In discussion, they began to explore the opportunity for shared services which could deliver a better outcome for both the Lang Lang and the South Gippsland schemes.

Management of that authority has expressed a willingness to engage with South Gippsland Water to pursue this matter.

Furthermore, such an approach would be entirely consistent with, and fully complementary to, the government's Living Victoria Initiative which aims to deliver better, smarter use and reuse of water without building unnecessary infrastructure.

In this context, a shared services approach to this issue between these two water authorities provides an ideal illustration of this policy in action.

South East Water believes that the technology that they currently employ opens the door to a whole new approach to the entire scheme which would provide substantial savings and efficiencies for the entire project.

They fully recognise the economies of scale in their operation have enabled them to develop and utilise newer technologies that might not have been considered by smaller authorities AND they are fully prepared to share this knowledge and resource.

Support from the Essential Services Commission would further this consideration and potentially offer substantial cost savings and benefits to customers.

### **3. The need for review of the South Gippsland Water business plan**

In view of the above issues the Yannathan Road Development Group is seeking ESC review of the SGW Business Plan for the Poowong, Loch, Nyora waste water sewerage scheme to ensure that the project – which has doubled in price since formal approval by Treasury in 2008 – is adequate and correct.

The Group contends that key management shortcomings associated with this project will directly and negatively impact the pricing framework that the water authority (South Gippsland Water) will charge the community for prescribed services.

In light of communication with South East Water, the Group also contends that the proposed scheme will result in a sub-standard scheme which does not reflect best practice or innovative use of currently available technology. There is a compelling case for formal consultation with South East Water.

The Group also contends that South Gippsland Water's plan with respect to the Waste Water Treatment Plant is highly inefficient and negatively impacts the longer term financial viability of the water authority.

The Group has proposed alternative and more effective solutions to the issue of waste water treatment and disposal for Loch, Nyora and Poowong which offer cost efficiencies in the vicinity of \$4 million, a saving of more than 13% on the total cost of the sewage treatment and disposal scheme for the townships of Poowong, Loch and Nyora.

The Group is writing to the Commission seeking formal decisions on these matters (based on the role of the ESC – Appendix 1) to determine if the proposed investment and strategy is legitimate and proper, and to ensure that a comprehensive review process has been undertaken.



## Appendix 1

### Role of the ESC

Our primary objective under the *Essential Services Commission Act 2001* is to promote the long term interests of Victorian consumers with regard to the price, quality and reliability of essential services.

In working to achieve our primary objective, the ESC must have regard to the following objectives:

- to facilitate efficiency in regulated industries and provide the incentive for efficient long-term investment
- to facilitate the financial viability of regulated industries
- to prevent the misuse of monopoly or non-transitory market power
- to facilitate effective competition and promote competitive market conduct
- to ensure that regulatory decision making observes the relevant health, safety, environmental and social legislation applying to the regulated industry
- to ensure that users and consumers (including low income or vulnerable customers) benefit from the gains from competition and efficiency
- to promote consistency in regulation between States and on a national basis.