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Tasmanian Water and Sewerage Service Introduction Policy

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1 Introduction

1.1 Purpose of the Policy

The *Water and Sewerage Industry Act 2008* requires regulated water and sewerage entities to develop a policy that sets out the circumstances in which they will 'extend or expand' their water and sewerage infrastructure.

However, given that the regulatory framework in which the regulated entities operate has not been finalised, it is considered important to have a broad service introduction¹ policy which:

1. provides guidance to regulated entities and Tasmanian communities regarding the circumstances in which an 'options assessment' for introducing reticulated water and sewerage services might reasonably be expected to be undertaken for communities which do not currently receive services;
2. outlines a process that a regulated entity could follow when a request is received to introduce water and sewerage services to an area that does not have an existing reticulated water and/or sewerage network; and
3. helps clarify the roles and responsibilities of various stakeholders (such as, the health, environmental and economic regulators, local councils, and regulated water and sewerage service providers) in relation to service introduction proposals.

Six key principles have underpinned the development, and shaped the purpose, of the Service Introduction Policy. These principles, as outlined below, should also be considered when implementing the Policy.

Principle 1: The policy should assist the sector adjust to (and clarify) the new roles, responsibilities, and expectations of different stakeholders during the transitional period.²

Principle 2: The policy should support a financially sustainable sector with affordable prices for customers.

Principle 3: The policy should ensure that decisions relating to service introduction are transparent and that community engagement is a central element of the process.

Principle 4: The policy should be consistent with relevant land use planning strategies/frameworks.

¹ Despite the terms 'extension and expansion' being used in the *Water and Sewerage Industry Act*, the term 'introduction' is considered to be more appropriate for this policy. This is explained further in section 1.3.

² The 'transitional period' refers to the period up until the end of the first independent price determination by the Economic Regulator. During this time much of the economic regulatory framework is expected to be completed and implemented.

Principle 5: The policy should help to ensure that public health and environmental considerations and other externalities (such as economic development) are taken into account when considering service introduction options.

Principle 6: The policy should help to clarify how service introductions are funded and paid for in the absence of a commercially sustainable business case.

1.2 Objectives of the Policy

The Service Introduction Policy outlines the Government's expectations in relation to:

- the type of communities that could reasonably expect a regulated entity to undertake a fully developed feasibility study for introducing reticulated water and sewerage services;
- the decision-making processes to be followed when a regulated entity is approached by a proponent requesting a service be introduced to a community;
- the circumstances and the mechanism for considering public health, environmental and other public interest reasons when assessing options for introducing reticulated water and/or sewerage services;
- the circumstances where funding support may be required to subsidise a service introduction project; and
- transparent community engagement.

The Policy does not explicitly identify communities that should receive reticulated services nor does it specify a timeframe for service introduction. Instead, the Policy presents 'criteria' for identifying established communities that could reasonably expect to have an options assessment undertaken regarding service introduction; and a process for initiating and undertaking such analysis.

1.3 What is service introduction?

The term service 'introduction' is used throughout this Policy as an alternative to the terms 'extend or expand' which are used in the *Water and Sewerage Industry Act 2008*. 'Extend and expand' are not defined under the Act and it is considered that the term 'introduction' better describes the scenarios that are covered by this Policy.

'Service introduction' refers to:

the introduction of regulated water and/or sewerage services to an established urban community, or parts thereof, which does not currently receive a service.

Service introduction does not include:

- the incremental/organic expansion of an existing service network (within an identified 'serviced land' area as defined by the regulated entities);
- the provision of new services to a proposed new community development; or
- an increase in the number of connections to an existing network, through in-fill development (within an identified 'serviced land' area as defined by the regulated entities).

The scenarios described above which are *not* considered to be service introduction are adequately addressed by other existing regulatory mechanisms. (Appendix 1 provides further detail on what this Policy does not cover.)

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2 Service Introduction Policy

This Policy outlines both:

1. the criteria for identifying communities that the Government expects a regulated entity to undertake a fully developed feasibility study³ of service introduction, if requested; and
2. the process to instigate and undertake a fully developed feasibility study of, and guide subsequent decisions in relation to, new service introduction proposals.

Note: this Policy is part of a broader regulatory framework and should be read in conjunction with other relevant policies, codes and regulations, such as: Pricing Regulations; Price and Service Plan Guidelines; Service Introduction Charge Policies; Customer Service Code; and Customer Charters.

2.1 Criteria for identifying communities eligible for a detailed assessment of service introduction

2.1.1 Location specific criteria

The criteria outlined in Table 1 provide a 'threshold' for identifying communities for which regulated entities should, if requested, undertake a fully developed feasibility study into introducing services to un-serviced established communities.

Table 1 also outlines the rationale/justification for the 'community characteristics' that have been included in this policy and provides a ranking of importance for these criteria. For example, some criteria are classified as 'mandatory' (which means that if a community does not meet these criteria there is no need to undertake a detailed feasibility study) and other criteria are classified as 'non-mandatory' (which primarily aim to help assess the merits of, and prioritise, proposals to introduce a new service).

However, it should be noted that a community that exhibits these characteristics is **not** entitled to receive a service simply by virtue of fitting that profile.

It is expected that these characteristics will inform the prioritisation of projects in the Price and Service Plan approval process.

³ A fully developed feasibility study is expected to include an options assessment, a cost-benefit analysis, a financial assessment, and where relevant a review and/or assessment of public interest reasons for introducing reticulated water and/or sewerage services.

Table 1: Characteristics of un-serviced communities that could reasonably expect a feasibility study to be undertaken in relation to introducing services to that area

Community Characteristics	Justification for the characteristic	Requirement for feasibility study
Existing populated and/or developed area with a total of 250 or more potential connections (assumed to a service population of at least 500.)	<ul style="list-style-type: none"> • Consistent with other policies - the Department of Health and Human Services used a population figure of 500 for their Priority List which provided guidance for regulated entities to determine priority capital works projects on drinking water supply systems. • Trialled, tested and used in other jurisdictions - Victorian government policy aimed to ensure that towns with populations of more than 500 received reticulated sewerage services. • Consistent with the licensing framework - A licence is not required for the provision of water and/or sewerage services for a provider that does not service a total of more than 250 connections. • Good proxy measure of service demand - Using potential connections rather than population is likely to better assess areas with fluctuating seasonal populations, although it still fails to take into account the demand for water and sewerage associated with the presence of either a significant economic activity or community facility, such as a school, which might significantly increase the population of a town during any given 24 hour period. 	Mandatory
At least 75% of allotments within an area being considered for service introduction are less than or equal to 1 500 sq metres in size ⁴ .	<ul style="list-style-type: none"> • Consistent with the intent of the reform - Properties of less than 1 500 sq metres was the measure used by the Ministerial Water and Sewerage Taskforce when reviewing the status of the sector and assessing the type of properties that could generally be expected to be connected to the network. • Trialled, tested and used in other jurisdictions - At least 75% of allotments being less than a particular size is one of the key criteria used in the Victorian Department of Sustainability and Environment preliminary risk assessment framework for assessing whether towns with septic tanks are high risk. • Good proxy measure of service demand – this characteristic is considered better than using an average allotment size, which has the potential to skew results. 	Mandatory
Growth strategy aligns with regional land use strategies	<ul style="list-style-type: none"> • Consistent with broader planning and infrastructure development objectives - Areas that have been identified as having growth potential in regional planning projects and local planning schemes should be seriously considered. 	Mandatory
Adequate community support	<ul style="list-style-type: none"> • Buy-in from Stakeholders - As it is likely that communities will have to contribute to the costs of extending water and sewerage services into an un-serviced area, community support is highly desirable. 	Highly Desirable
Consistent population growth	<ul style="list-style-type: none"> • Good proxy measure for ongoing service demand - Depending on the current population and the rate of growth, extending services to particular areas may not be sustainable in the longer term, especially where population growth rates are negative. • Good proxy measure for ongoing service demand - Candidates for service introduction should be able to demonstrate population growth in the last five years. 	Desirable

⁴ Aligning this characteristic with housing density thresholds in regional land use planning frameworks is also a possibility.

2.1.2 Broader community criteria

Two other main criteria which need to be considered when assessing the merits of introducing new services are outlined below.

1. The absence of reticulated services is contributing to the existence of significant environmental harm and/or public health issues.
2. There are other public interest reasons why a reticulated service should be considered; such as facilitating broader economic development.

Meeting these 'broader community' criteria is not absolutely necessary if all the criteria in Table 1 are met and if the new services can be introduced in a commercially sustainable manner. However, the 'broader community' criteria are important factors to consider in the event that new services are deemed to be not commercially viable but would provide net benefits to the community.

The 'broader community' criteria are also particularly important factors for determining who pays (and in what proportions) for the introduction of services if they are deemed to be of value to the broader community but not commercially viable.

2.2 Decision making process for introducing new services

Regulated entities do not need to undertake detailed feasibility studies of introducing new services to communities that align with the 'location specific' and 'broader community' criteria, unless they receive a proposal to do so.

Figure 1, outlines the process and issues that need to be considered when examining the options, costs and benefits of introducing a new service to a community.

As outlined in Figure 1, whether or not a proposed project is commercially sustainable determines the decision making process to be followed for a service introduction proposal.

- Scenario A outlines the decision making process for proposals which are considered to be potentially commercially feasible (as determined by the regulated entity).
- Scenario B outlines the decision making process for proposals which are considered to be potentially not commercially feasible.

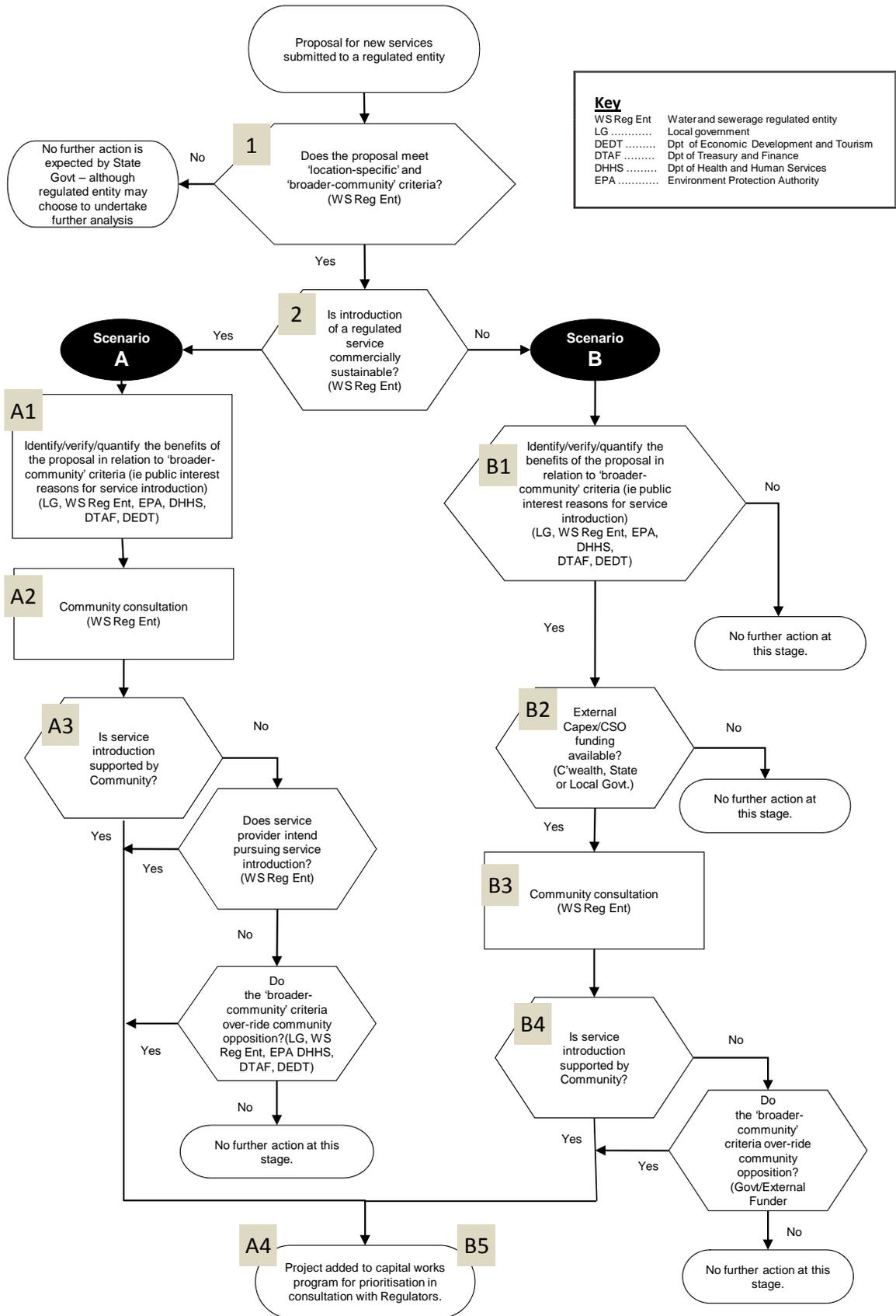
Section 3 provides a broad guideline in relation to how the decision making process should be followed under both the commercially feasible and not commercially feasible scenarios.

Figure 1 demonstrates that numerous stakeholders have a role to play in undertaking assessments of new services. For example, it is not solely the regulated entities' role to demonstrate the broader community benefits of introducing new services to various communities, rather various regulators need to either identify and/or verify broader public health and/or environmental benefits. Local councils (in various capacities such as, owner and/or regulator) also have a role to play in the decision making process.

At each stage of the decision making process various stakeholders have a role to play. Figure 1 identifies some of the stakeholders that may be involved at various stages.

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Figure 1: Service Introduction decision-making process



3 Guide to implement the decision making process

The following sections provide a general guide to the decision making process, the issues that need to be considered, and the role of various stakeholders when assessing proposals to introduce new services to established communities.

3.1 Scenario A: Commercially feasible proposals

<p>Step 1 – assessment of proposal against ‘criteria’</p>	<p>Regulated entities should assess proposals for introducing new services to identify whether they meet government criteria. If either set of criteria are met (ie ‘location-specific’ or ‘broader-community’ criteria) the Government expects the entity to undertake a feasibility study of introducing new services.</p> <p>If the proposal does not meet these criteria there is no expectation for a regulated entity to undertake further analysis. However, a regulated entity may choose to undertake further analysis of any proposal if it is considered to align with its commercial and/or strategic objectives.</p>
<p>Step 2 – fully developed feasibility study</p>	<p>A regulated entity is to undertake a fully developed feasibility study of introducing new services. The feasibility study is to include an options assessment, cost benefit analysis, and financial assessment.</p>
<p>A1 - Identification and verification of public interest reasons for service introduction</p>	<p>It is expected that commercially feasible projects will most likely proceed on the strength of the commercial business case. However, in the event that a proposal does not identify ‘broader community criteria’, a regulated entity is expected to investigate whether compelling public interest reasons exist for the introduction of a reticulated service, to inform the options (and cost-benefit) analysis of service introduction proposals, and to ensure that the community can be fully informed during the consultation process.</p> <p>The regulated entity will be expected to engage local councils, EPA and Public Health officers and other relevant stakeholders to determine the existence of public interest reasons for service introduction. This investigation is expected to be a scan of existing information sources, not a process of engaging in new discovery work.</p> <p>The net benefits of the proposal should be considered, verified, and where possible quantified, in consultation with relevant regulatory and policy authorities.</p>

<i>A2 - Community Consultation</i>	<p>The regulated entity will be expected to consult with the relevant community groups and persons directly impacted by a service introduction proposal. The nature and level of consultation will be primarily determined by the need for the regulated entity to be able to justify service proposals to the Economic Regulator as part of a price and service plan submission.</p>
<i>A3 - Community Support</i>	<p>A regulated entity should gauge community support for a proposal to introduce reticulated services, in accordance with the Price and Service Plan Guidelines.</p> <p>It is not expected that service introduction proposals that are not supported by the proposed receiving community will proceed, unless the proposal is necessary to address an identified public interest issue.</p> <p>If during this process it is identified that the community does not support the introduction of a new service and there is a compelling public interest reason for doing so, then the regulated entity must consult with the regulators prior to pursuing the service introduction proposal.</p>
<i>A4 - Service introduction added to capital works program for prioritisation</i>	<p>Service introduction projects will be prioritised within the Price and Service Plan assessment process.</p>

3.2 Scenario B: Proposals that are not commercially feasible

<p>Step 1 – assessment of proposal against ‘criteria’</p>	<p>Regulated entities should assess proposals for introducing new services to identify whether they meet government criteria. If either set of criteria are met (ie ‘location-specific’ or ‘broader-community’ criteria) the Government expects the entity to undertake a feasibility study of introducing new services.</p> <p>If the proposal does not meet these criteria there is no expectation for a regulated entity to undertake further analysis. However, a regulated entity may choose to undertake further analysis of any proposal if it is considered to align with its commercial and/or strategic objectives.</p>
<p>Step 2 – fully developed feasibility study</p>	<p>A regulated entity is to undertake a fully developed feasibility study of introducing new services. The feasibility study is to include an options assessment, cost benefit analysis, and financial assessment.</p>
<p>B1 - Identification and verification of public interest reasons for service introduction</p>	<p>If a regulated entity assesses a project as being not commercially viable (and if the proposal has not identified a public interest reason for the proposed new service) the regulated entity should refer the proposal to the relevant local council. The local council, in conjunction with other relevant authorities, will need to demonstrate whether there is a significant environmental or public health issue in the area or a broader public interest reason for introducing reticulated services.</p> <p>When a regulated entity receives a proposal that identifies public interest reasons for the proposed new service it should forward it to the Environmental Health Officer (EHO) of the local council to assess the issue, in conjunction with other relevant authorities, to determine whether the issue can be addressed adequately through a non-reticulated measure. If the EHO, in conjunction with other relevant authorities, can build a sufficient case for reticulated service introduction, then the EHO (with the support of the Director, Environment Protection Authority and/or the Director of Public Health) should request a regulated entity to investigate funding options available for cost effective solutions.</p> <p>In the case that the Director, EPA and/or the Director of Public Health submits a proposal, it is expected that they will have evidence to support the proposal and on that basis should request a regulated entity to investigate water and/or sewerage management options for the area.</p> <p>If no compelling public interest reason is identified no further action is required.</p>
<p>B2 – Funding options</p>	<p>Where:</p>

	<ul style="list-style-type: none"> a) a reticulated service is the preferred solution to address an environmental and/or public health issue; b) a broader public benefit will be realised if reticulated service are introduced; and/or c) the community fits the Government community profile of communities that are expected to have reticulated services <p>and the proposal is assessed as being not commercially viable, a relevant stakeholder should investigate the availability of external funding sources. Relevant stakeholders include the regulated entities, their owners and the Regulators.</p> <p>If funding is available for the proposal, in-principle funding arrangements should be established before the proposal is developed further.</p>
B3 - Community Consultation	<p>Consultation with the relevant community should take place in a regulated entity's development of a service introduction proposal. The nature and level of consultation will be primarily determined by the need for regulated entities to be able to justify service proposals to the Economic Regulator as part of a price and service plan submission.</p>
B4 - Community Support	<p>A regulated entity should gauge community support for a proposal to introduce reticulated services, in accordance with the Price and Service Plan Guidelines.</p> <p>It is not expected that service introduction proposals that are not supported by the proposed receiving community will proceed, unless the proposal is necessary to address an identified public interest issue. In the absence of a compelling public interest reason, decisions in relation to service introduction proposals will be made by the regulated entity and the Economic Regulator.</p>
B5 - Service introduction added to capital works program for prioritisation	<p>Service introduction projects will be prioritised within the Price and Service Plan assessment process.</p>

Appendix 1: What service introduction does not apply to

The purpose of a service introduction policy is to provide guidance to regulated entities (and the Tasmanian community) regarding the circumstances in which the provision of regulated water and sewerage services might reasonably be expected to be introduced to communities, or parts thereof, which do not currently receive services.

Table A.1 indicates the main policy or regulatory mechanism that applies to the provision of services to new customers under each scenario.

Table A.1. Provision of water and sewerage services.

	New Service	Existing Service
New Residences	Developer Charges Policy Planning referrals	Connections Policy
Existing Residences	Service Introduction Policy	N/A ^a

^a Withdrawal of services may apply in this situation.

The service introduction policy does not apply to legacy issues, organic growth or withdrawal of services for the following reasons:

Legacy Issues

In 2008, Tasmania's water and sewerage industry underwent a major structural reform which resulted in the transfer of the water and sewerage services of 28 councils and three bulk water authorities to three regional water and sewerage corporations (the corporations). The Councils in each region own the regional corporations.

As part of the reforms local councils have transferred their water and sewerage assets to the regional water corporations. There are a number of legacy issues that the water corporations will need to resolve due to a number of the water and sewerage systems being non-compliant with drinking water quality standards and wastewater emissions respectively. Such legacy issues will not be dealt with in the Service Introduction Policy as it can be expected that they will be addressed in other mechanisms such as the Compliance Implementation Plan. The intent of this Policy is to address areas that do not currently receive any reticulated water and/or sewerage services.

It should be noted that the Health Regulator is not presently aware of any communities in Tasmania that do not receive a reticulated water service that should for public health reasons. Therefore, the Service Introduction Policy will initially be strongly focussed on the introduction of reticulated sewerage services.

Organic Growth

The Policy does not take into account organic growth of areas which make use of existing reticulated network capacity or the provision of regulated services in a new (greenfield) location as part of a property development. It is considered that this kind of service growth is catered for under other mechanisms, including:

- **Division 2A Subdivision 3 – Planning Referrals** of the *Water and Sewerage Industry Act 2008*; and
- **Developer Charges Policy** as it will be set out in the yet to be developed pricing regulations.

Service withdrawal

There are a number of small communities throughout Tasmania that receive reticulated water and/or sewerage services. A number of these systems are likely to be expensive to operate and a low cost alternative may be to remove reticulated services from these areas and to provide residents with alternative water and sewerage supply solutions such as water tanks or onsite wastewater treatment.

The Policy will help identify which un-serviced communities should receive reticulated water and/or sewerage services. It is likely that a number of communities that currently receive such services would not be considered to require a service under the Service Introduction Policy.

However, this does not automatically mean that the corporations can stop providing a reticulated service to those communities. A separate policy for the withdrawal of reticulated water and sewerage services is under consideration for development in the future.