Pricing Attachment

How We Propose IOP Works

2024 Price Proposal

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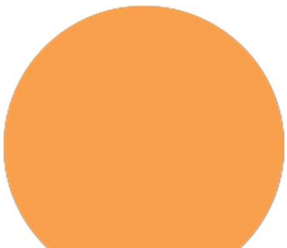

Interim Operating Procedure

Context

Developers are approaching Sydney Water seeking interim operating procedure (IOP) servicing options so they can accelerate their developments ahead of our planned delivery for permanent infrastructure.

This requirement is either due to:

- Sydney Water's delay in delivering the permanent infrastructure resulting from our just-in-time investment approach[1] or
- the developer's own decision to accelerate their development ahead of Sydney Water's delivery timeframe.

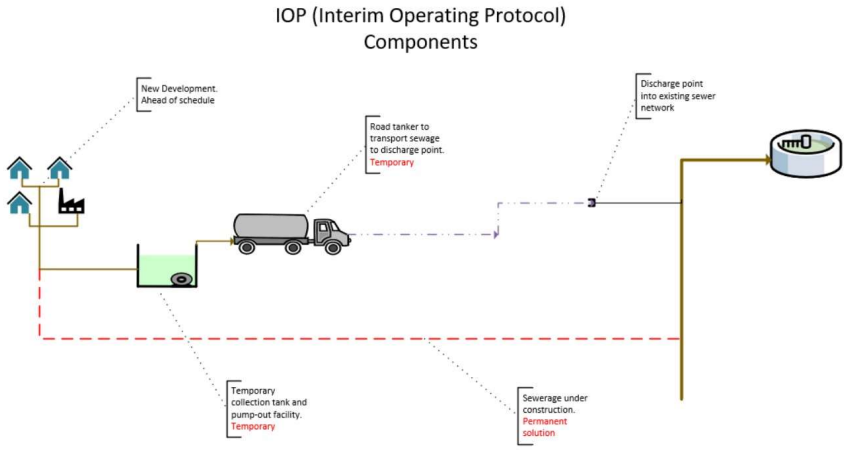

Figure 1 Overview of the IOP process

To help address the issue with accelerated demand, Sydney Water proposes introducing new Interim Operating Servicing facilities for effluent receival and treatment at Sydney Water network sites. Interim Operating Procedure may be the most efficient and appropriate option to address this demand when compared to the costs of accelerating major capital programs.

IOP supports growth servicing

Interim Operating Procedure servicing would allow customers who are undertaking developments but do not have access to a centralised wastewater connection, to transport (via tanker) effluent to selected treatment facilities for effluent disposal. This avoids the need to delay development construction while Sydney Water is still delivering the permanent connection.

[1] This minimises the risk that Sydney Water over-invests or invests too early into infrastructure that our customers pay for.

The IOP service involves several components (storage, transport, treatment and disposal). SWC would like to offer to developers effluent receival and treatment facility and leave developers to manage the storage and transport supply chain components at their own cost and risk.

Sydney Water will plan to offer effluent disposal facilities at multiple locations, reducing the distance required for transportation to minimise costs, impact on the public and to reduce transport emissions. This will also increase the available options for IOP effluent disposal services in the proposed regions.

This reduces Sydney Water's capital costs (in the instance of inefficient out of sequence capital works), risk (providing tankering and effluent disposal services) and allows the developers an efficient choice of service to choose between delaying development until their developments wastewater connection is commissioned or incurring higher costs of tanker age and effluent disposal to Sydney water.

1.1 What Is the proposed charge

A standard charge across sites

We propose a single volumetric price that applies across all sites that reflects the real costs of providing the service over a range of wastewater treatment plants.

A single tariff allows for a simpler less administratively burdensome charge that reflects the cost of providing this service across the network. We already do this with water pricing to socialise the cost of providing water to more expensive parts of the network. Likewise, under this price it will be more expensive to accept wastewater at certain sites due to the configuration of the site and the associated costs of augmentation. Our customer engagement on infrastructure contributions found developer customers preferred this pricing structure for its simplicity.

By adopting a single price we share the demand risk of these services across sites and provide a simple service offering to developer customers. This will ensure that developers can choose the site that costs them the least to tanker to strengthening the incentive to utilise the service.

1.2 How do we propose the charges function?

Developers enter an agreement

Similarly to trade waste customers, developers will be required to enter an IOP agreement specifying volumes, timing and other operational terms with Sydney Water. Each discharge of wastewater at one of our designated discharge points will be metered.

The customer will have their unique identifier that will allow SW to create a bill levied to the commercial customers who receive this service quarterly. The charge will be equal to the volume discharged x IOP volume rate ($). As this scheme will follow It is a user pays system, there are no fixed charges.

1.3 Proposed expenditure

Capital expenditure (CAPEX)

IOP will require us to deliver capital works in order to build the capability to deliver these services on existing sites. Namely the creation of purpose-built tanker unloading points at each site.

Our pricing is derived on cost estimations to deliver unloading points with the following qualities:

- Unloading points must minimise traffic disruptions due to tankers turning into sites
- Unloading points should minimise the need for tankers to manoeuvre into position thus reducing time to discharge and increasing the capacity of the facility to accept loads.
- Unloading points include wash down and small spill catchments to minimise odour and improve environmental protection.
- Sites include metering and customer login capability to enable billing functions and monitor usage.
- Sites have suitable security fencing and access control, to reduce the risk of unauthorised use and protect the public from injury.

We plan to deliver these capital works across between 2025 and 2027 to service the higher forecast demand in the earlier years on the upcoming regulatory period.

Table 1 Forecast CAPEX for IOP services

Sites: Glenfield, St Marys, Liverpool	2025-26	2026-27	2027-28	2028-29	2029-30
Total capex ($ million, $ nominal)	15.1	7.4	–	–	–

Operating expenditure (Opex)

IOP operating expenditure is related to the following functions to maintain and administer the capital works to facilitate delivery of the IOP scheme. This expenditure reflects the need to:

- Day to day management of environmental and safety requirements (audits and investigations) including incident management functions.
- The administration of customers and billing
- Maintenance of discharge facilities

These costs vary by site typically costing between $45,000 to $65,000 per site per year totaling to approximately $200,000 per year of additional operating costs.

Table 2 Forecast OPEX for IOP services

Sites: Glenfield, St Marys, Liverpool	2025-26	2026-27	2027-28	2028-29	2029-30
Total opex ($ million, $ nominal)	0.2	0.2	0.2	0.2	0.2

1.4 Forecast demand

Assumed demand volumes are based on signed agreements and known IOP services that are under development and consultation with developer customers.

There is known demand for IOP services. Market research indicates that the sole private supplier of wastewater transport and disposal services (Brandsters) currently discharges between 700 and 800 kL/day to the SW wastewater network. As this firm has received further application to increase this quantity by another 700 kL. We believe this increase is driven, in part, by demand for IOP services. As Sydney Water can deliver this service at a lower cost than the current market rate, we derive that there will be further demand for these services above this 700kL/day step.

The demand for IOP is growing. We predict the demand for this service will grow are more property developers look to open new areas before their developments are connected to Sydney Water's wastewater treatment network. This assumption is informed by our direct engagement with value makers and developers and acknowledges the need for alternative servicing options to support ambitious housing growth targets in growth areas across our area of operations. We therefore assume that by delivering additional market capacity for these services Sydney Water will be able to immediately service additional demand from development customers.

Table 3 Forecast demand for IOP services between 2025-30

Sites: Glenfield, St Marys, Liverpool	2025-26	2026-27	2027-28	2028-29	2029-30
Total IOP volume demand (ML/year)	112	63	41.3	23.8	23.8

1.5 Proposed IOP pricing model

Key assumptions of our pricing model

Sydney Water makes three key assumptions in its IOP pricing model:

1. The total capex is to upgrade all three facilities (Glenfield, St Marys and Liverpool). The price estimation is based on concept design to upgrade them as IOP Effluent receival facilities.
2. The pricing does not include any applicable EPA levies or other licensing costs.
3. The total demand is based on current forecast demand volume and timing from developers who would like to accelerate their growth.

Based on these assumptions we have estimated the following costs, ARR across the upcoming regulatory period and as a result our proposed single tariff price.

Table 4 Outputs of the IOP pricing model

Sites: Glenfield, St Marys, Liverpool	2025-26	2026-27	2027-28	2028-29	2029-30	**Volume weighted average price**
Total capex ($ million, $ nominal)	15.1	7.4	–	–	–	
Total opex ($ million, $ nominal)	0.2	0.2	0.2	0.2	0.2	
Aggregated ARR ($ 000, $ real 2023/24) for 3 sites	619.6	1179.5	1333.4	1332.2	1337.6	
Total IOP volume demand (ML/year)	112	63	41.3	23.8	23.8	
Maximum available plant capacity (ML/year)	1,200	1,200	1,200	1,200	1,200	
Real spot price if we proposed prices changed each year ($ real 2023/24 per kL)	5.5	18.7	32.3	56	56.2	**$22**
Nominal spot price if we proposed prices changed each year ($ nominal per kL)	5.9	20.4	36.0	64	65.9	**$24.7**

We propose taking a volume weighted average price

The prices we propose take the volume weighted average price across the regulatory period. This smooths prices throughout the period ensuring prices are held constant in real terms and only escalate with inflation each year.

1.6 Proposed prices

Functional of our proposed expenditure, forecast demand, forecast revenue and decision to volume weight the price of IOP services across the regulatory period we propose ~~a~~ the following prices for IOP services in real $2024-25.

Table 5 Effluent disposal charges ($2024-25)

	Units	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35
IOP Charge	$/kL	NA	$22.65	$22.65	$22.65	$22.65	$22.65	$20.67	$20.67	$20.67	$20.67	$20.67