



28 April 2025

Mr Andrew Nicholls
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
via email: [REDACTED]

Potential acquisition of Hawkesbury City Council wastewater assets

Dear Andrew

I am writing to advise IPART of a proposed adjustment to our 2025-2030 Price Proposal to reflect new information that has arisen since our submission to IPART in September 2024.

In August 2024, Hawkesbury City Council (HCC) approached Sydney Water Corporation (SWC) to discuss the potential divestiture of its wastewater assets and connected customers. Our 2025–2030 Price Proposal was essentially complete at that time and there was insufficient information to include the impacts of any potential divestiture in the Proposal.

Following this approach from HCC, SWC conducted a rapid due diligence process. The due diligence revealed that significant capital expenditure is required to upgrade the assets to meet regulatory standards, some of which would be needed almost immediately. Subject to further engineering assessment, we anticipate the most efficient solution involves:

- Decommissioning the HCC McGraths Hill Wastewater treatment plant, with flow diverted to SWC's nearby Riverstone Wastewater Resource Recovery Facility;
- Retaining and upgrading the HCC South Windsor Treatment Plant; and
- Retaining and upgrading the HCC wastewater network assets as needed.

We anticipate the necessary investments could amount to several hundred million dollars, based on initial engineering work and our experience in managing similar assets, with one option of achieving the divestiture being to include an *indicative* annual average bill impact on SWC customers of up to \$3 per year (real \$FY25) by 2035. We are continuing to engage with stakeholders to determine the most acceptable option to achieve the divestiture, given customer bill impacts.

Given the imminent commercial negotiations between SWC and HCC and to assist IPART, we have provided more detail on the most current indicative outcomes of the due diligence process in the commercial-in-confidence Appendix & Attachments and will continue to provide IPART regular updates arising from negotiations. Sydney Water requests that IPART does not disclose the content of the confidential attachment.

We understand that the Environment Protection Authority (EPA) is generally supportive of SWC acquiring and operating these assets, as the EPA is of the view that this will ultimately lead to better long-term environmental outcomes. However, we have yet to receive assurance from the EPA regarding potential compliance issues from 1 July 2025.

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While SWC would be unlikely to acquire the HCC wastewater scheme purely for commercial reasons, the broader environmental and social benefits mean the proposal is likely to be in the long-term interest and benefit of customers and the environment.

From a customer perspective, residential customers serviced by HCC's scheme currently pay nearly double the wastewater charges compared to SWC customers and would therefore receive a material benefit, if they transition to SWC regulated wastewater prices. If the HCC scheme were to remain 'ring-fenced' and similar investments were to also be made by those proposed by SWC, it is anticipated that the HCC customer bill would double. This would make the HCC wastewater customer bill approximately four times higher than the postage stamp price. HCC customers are already supplied with drinking water from SWC, which may reduce the complexity of transitioning their wastewater service to us.

As the terms of any divestiture are still being negotiated and will be subject to stakeholder agreement and internal SWC approvals, there is risk that an agreement may not be finalised prior to the Final Determination of SWC's retail prices in September 2025. It may therefore be appropriate to deal with this proposal, if it is determined appropriate to recover costs via average annual customer bills, via the relevant suite of tools open to businesses and IPART to manage revenue uncertainty within the 2025 determination period, ensuring costs will only flow through to customer prices if the divestiture proceeds. We will continue to work with IPART to determine the appropriate tool.

Please contact [REDACTED] if you need clarification of anything in this letter or require further information. Sydney Water will update IPART as we continue to assess this opportunity with HCC.

Yours sincerely,

[REDACTED]

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Executive General Manager

Finance, Commercial & Digital