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Sydney Water Operating Licence Review 2023-24
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, Sydney NSW 1240

Dear Ms Donnelly

SYDNEY WATER OPERATING LICENCE REVIEW 2023-24 – DISCUSSION PAPER

Hunter Water welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART's) Discussion Paper on the proposed recommendations for the Sydney Water Operating Licence Review 2023-2024.

Hunter Water is supportive of the six guiding principles that IPART has applied in their review:

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| 1. <i>Protecting customers, community, and the environment</i> | 4. <i>Focusing on outcomes</i> |
| 2. <i>Setting minimum protections</i> | 5. <i>Removing redundancy</i> |
| 3. <i>Supporting the pricing framework</i> | 6. <i>Recognising new strategies or policies</i> |

Hunter Water acknowledges the need for an Operating Licence review framework that complements IPART's application of the 3Cs pricing framework. The 3Cs pricing framework seeks to promote customer value and ensure water businesses deliver outcomes that are in the long-term interest of customers.

Hunter Water commends IPART for the comprehensive, consultative review process undertaken for the Sydney Water Operating Licence and its vision to ensure alignment with the 3c's pricing framework.

Hunter Water's Operating Licence was reviewed during 2021-22, which resulted in a [new licence](#) effective from 1 July 2022 until 30 June 2027.

Hunter Water is well positioned to provide feedback to IPART on proposed recommendations, as there is a strong degree of commonality between Hunter Water's Operating Licence and Sydney Water's Operating Licence.

Hunter Water provides comment on four of IPART's recommendations:

1. *Clarify that it is an unplanned service interruption if Sydney Water has not provided at least one week's written notice prior to the event. The current operating licence states that a property is taken to have experienced an unplanned service interruption if Sydney Water did not provide prior notice of the service interruption but does not specify a time period for this*

notification. A week's prior notice is consistent with Sydney Water's customers' expectations, as expressed in Sydney Water's customer engagement process.¹

Hunter Water's current Customer Contract requires notification periods of two days for residential customers and seven days for non-residential customers.²

There are important trade-offs that must be considered when increasing or reducing the mandatory notification period for planned interruptions. To ensure any change to the notification period is in the long-term interests of customers, it is necessary to undertake a cost-benefit analysis and be informed by customer and community engagement.

These processes must consider potential trade-offs, including potential unintended consequences such as higher costs, customer inconvenience, or increased leakage. Customers may favour a longer notification period in isolation from other factors, but have different preferences and expectations when considering such trade-offs. There is also potential interaction with the water continuity standard.

- 2. Include a new operating licence condition requiring Sydney Water to maintain and implement a system to identify properties that may have experienced any service interruptions. We consider that this will not be a substantial change as Sydney Water would already have a system or process in place.³*

Hunter Water understands this recommendation does not seek to add additional requirements to the Operating Licence, but rather to address legal ambiguity in the previous licence. The recommendation should reflect current business practices undertaken by Sydney Water.

Hunter Water does not currently have such a 'system' and relies on a combination of system data, water network modelling and customer notifications to identify properties that have experienced a service interruption. Any similar recommendation for Hunter Water that may necessitate additional investment to ensure compliance should be assessed through a cost-benefit analysis to ensure it is in the long-term interests of customers. Transitional arrangements should also be considered.

- 3. Include new operating licence conditions requiring Sydney Water to establish a management program that addresses climate-related risks specifically, consistent with the NSW Climate Risk Ready Guide.⁴*

Hunter Water acknowledges the importance of adapting to the impacts of climate change and the challenges associated with the delivery of our services to customers. It is agreed that any new Operating Licence conditions should seek to ensure good industry practice in climate risk management and align with the most recent NSW Government policy and requirements on managing climate related risk.

IPART should consider the need for a transition period during licence periods when prescribing a compliance date for specific maturity levels within a NSW Government framework for managing climate-related risks. This would ensure that water businesses are afforded an appropriate amount of time to respond to requirements and undertake necessary planning actions as required.

¹ Section 2.5.1, page 27

² Hunter Water Customer Contract 2022-2027, page 10

³ Section 1.4, page 4

⁴ Section 4.3, page 78

4. *Include a new environmental indicator in the Reporting Manual requiring Sydney Water to report to IPART on its progress towards achieving net zero.*⁵

Under IPART's 3Cs pricing framework, a water business' proposal will include a set of outcomes aligned to their customer's preferences. Water businesses must demonstrate associated performance measures, activities and mechanisms that hold the business accountable for delivering on outcomes.

Hunter Water notes that the legislative frameworks for regulated water businesses differ in their requirements for reporting environment indicators, such as progress in achieving net zero. The legislative frameworks of Sydney Water and WaterNSW require their operating licences to include a compilation of environmental indicators, whereas Hunter Water's legislative framework does not.

Notwithstanding this difference, Hunter Water makes the general observation that there may be an overlap between reporting on customer outcome performance measures and IPART performance indicators. In the circumstance that:

1. A water business' customers expect the business to report on an annual basis on their progress towards net zero, as part of a customer outcome performance measure; and
2. A water business has a Reporting Manual obligation to provide the same information to IPART via an IPART performance indicator.

The water business should be afforded the flexibility to meet the Reporting Manual requirement through public customer outcome performance measure reporting. Hunter Water's view is that this would eliminate duplicative reporting of the same information.

Yours faithfully



JENNIFER HAYES
Executive Manager Finance and Business Performance

⁵ Section 4.4.1, page 88