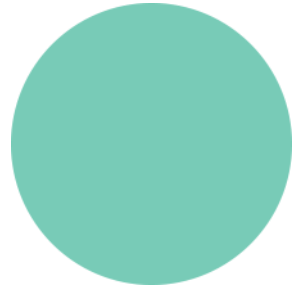


# **Sydney Water's Operating Licence Review 2023-24**

**Response to IPART's Approach  
to Cost-Benefit Analysis  
Information Paper**

Sydney  
**WATER**





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# Executive summary

Sydney Water welcomes the opportunity to share our views on IPART's approach to conducting cost-benefit analysis on clauses relating to revisions to our *Operating Licence 2019-2023* (the Licence).

This submission provides our comments on IPART's proposed approach, including IPART's identified factual and counterfactual scenarios, and benefits and costs of existing or proposed operating licence conditions. We also provide our views on the questions posed by the Independent Pricing and Regulatory Tribunal's (IPART) *Sydney Water Operating Licence Review – Approach to the Cost-Benefit Analysis* (the CBA Approach Paper).

This response is supplementary to our response to IPART's Issues Paper.

## Objectives for this review

As noted in our response to IPART's *Sydney Water Operating Licence Review 2023-24 Issues Paper* (the Issues Paper),<sup>1</sup> we support a regulatory framework that is simple with clear accountabilities, and which enables us to focus on our core business of meeting customer outcomes and investing in Sydney's future infrastructure. To do this, we think the Operating Licence should:

- value customers and reflect their views
- focus on outcomes, rather than being overly prescriptive
- allow Sydney Water flexibility to respond to changing circumstances and our customers' preferences and expectations, and
- allow Sydney Water to meet its principal objectives under the *Sydney Water Act 1994* (NSW) to be a successful business, protect public health and protect the environment.



We are supportive of IPART's customer-focused approach for our Operating Licence review and agree that the Operating Licence should aim to reflect customers' preferences and needs. We also support IPART's six identified principles for the Operating Licence review.<sup>2</sup>

For this review, we have focused on ensuring that requirements are clear, fair, and relevant. We should be held accountable for our responsibilities and obligations, but not for items outside of our control or remit. We have also considered whether the Operating Licence is the best mechanism for responding to changes in business or government policy, the ability to measure our

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<sup>1</sup> Independent Pricing and Regulatory Tribunal (IPART) (2023) *Sydney Water Operating Licence Review 2023-24 Issues Paper*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Issues-Paper-Sydney-Water-Operating-Licence-Review-July-2023.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Issues-Paper-Sydney-Water-Operating-Licence-Review-July-2023.PDF).

<sup>2</sup> Independent Pricing and Regulatory Tribunal (IPART) (2023) *Sydney Water Operating Licence Review 2023-24 Issues Paper*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Issues-Paper-Sydney-Water-Operating-Licence-Review-July-2023.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Issues-Paper-Sydney-Water-Operating-Licence-Review-July-2023.PDF), p. .



performance or outcomes in a clear and meaningful way, and what costs may be involved to meet requirements.

## IPART's cost-benefit analysis approach

In general, we support IPART's cost-benefit analysis (CBA) approach for our Operating Licence review. We consider that IPART's approach to rely on CBA undertaken in the 2019 end-of-term review, where substantial changes to existing operating licence conditions are not being proposed, is sensible and practicable. We also support IPART's approach to conduct CBA on new operating licence conditions and will endeavour to provide cost and benefit data as requested to enable this.

IPART's CBA approach marks a shift towards a more outcomes-focussed and targeted approach. We welcome the shift in this review and support moving towards an Operating Licence review 'by exception' in future. We consider that operating licence reviews could be targeted to focus on areas of greatest concern or potential gaps for our customers and stakeholders, rather than revisiting every clause at each review. This would continue to deliver value to our customers and community, while making the best use of available resources.

## Our response to the CBA Approach Paper

IPART's CBA Approach Paper presents 13 questions for public comment. We have structured our response to follow the order of IPART's CBA Paper, as follows:

- **Section 1** covers general proposed approach
- **Section 2** covers performance standards, including for water quality, system performance standards for service interruptions and asset management
- **Section 3** covers water conservation and efficiency
- **Section 4** covers climate risk resilience
- **Section 5** covers tenancy protections
- **Section 6** covers Sydney Water's relationship with Fire and Rescue NSW (FRNSW).

Table 1 outlines our positions in response to IPART's 13 questions in the CBA Approach Paper. Further detail and information is provided in the following sections of this submission.

We look forward to reading the views of our customers and stakeholders in their submissions to IPART's review, and to participating in the public hearing later in the review process.

Table 1. Summary of IPART's CBA Approach Paper questions and Sydney Water's response

### General proposed approach

#### **Q1: Do you have comments on the identified factual and counterfactual scenarios discussed in this CBA Approach paper?**

In general, we support IPART's approach for identifying factual and counterfactual scenarios.

We have included our specific comments on IPART's identified factual and counterfactual scenarios for each relevant area in other sections of our response.

#### **Q2: Do you have comments on the identified costs and benefits discussed in this CBA approach paper?**

We generally support IPART's approach for identifying costs and benefits. We consider that a broad approach, which takes into account both quantitative and qualitative benefits and costs experienced by our customers and the wider community, is appropriate.

We have included our specific comments on IPART's identified costs and benefits for each relevant area in other sections of our response.

#### **Q3: Do you have comments on our general proposed approach to the CBA?**

We support IPART's general proposed CBA approach and will aim to provide IPART with cost and benefit data in a timely manner, as required, to conduct CBA on new operating licence conditions.

We welcome IPART's shift towards a more outcomes-focussed and targeted approach and support moving towards an Operating Licence review 'by exception' in future. We consider that operating licence reviews could be targeted to focus on areas of greatest concern or potential gaps for our customers and stakeholders, rather than revisiting every clause at each review. This would continue to deliver value to our customers and community, while making the best use of available resources.

### Performance standards

#### **Q4: Are there any additional costs or benefits that we need to consider when deciding the net benefit of specifying the *Australian Drinking Water Guidelines* and *Australian Guidelines for Water Recycling* as the water quality standards in the operating licence?**

Sydney Water does not believe additional costs or benefits need to be provided or factored in as part of this review.

We support IPART's view that previous rounds of cost-benefit analysis for the water quality management clauses in both previous Sydney Water and Hunter Water Operating Licence reviews have adequately established that maintaining and implementing management systems in accordance with national guidelines is of net benefit to our customers. Our view remains that the *Australian Guidelines for Drinking Water* and the *Australian Guidelines for Water Recycling* are the most appropriate guidelines to apply to protect public health and provide a net benefit to customers.

**Q5: Do you agree with our proposed approach for identifying the minimum service levels that balances customer inconvenience with willingness to pay?**

We agree with IPART's identified factual scenario of retaining the current licence levels for all our system performance standards of water continuity, water pressure and dry weather wastewater overflows. We also agree with IPART's identified counterfactual scenario of a lower/higher current licence level for the water continuity standard.

We consider, however, that other counterfactual scenarios may be defined for water pressure and dry weather wastewater overflow standards. In particular, we have proposed the counterfactual scenarios of removing the water pressure standard and removing the wastewater overflow standard altogether from the licence.

We also note that there can be multiple drivers of performance outcomes, and any given driver can also affect multiple outcomes. For example, our work crews are a critical determinant of customer experience, however they work across multiple assets on any given days. While cost-benefit analysis traditionally takes an incremental approach to the assessment of different options or scenarios, in practice it can be challenging to untangle the underlying links and interactions.

**Q6: Are there any additional costs or benefits that we need to consider when establishing the minimum service levels for the operating licence?**

We do not consider that there are any additional costs or benefits that need to be taken into account. We note that our proposed factual and counterfactual scenarios for the minimum levels of performance for the water pressure and dry weather wastewater overflows standards (as discussed in our response to Question 5) may substantially change the magnitude of IPART's identified costs and benefits.

**Q7: Are there any additional costs or benefits that we need to consider when deciding the net benefit of requiring Sydney Water to maintain and implement an asset management system in the operating licence?**



We do not believe additional costs or benefits need to be provided or factored in as part of this review.

We note we have proposed a minor change to the wording of the AMS clause to enable us flexibility to transition to the expected ISO55001 update and enable the AMS clause in the next Licence to remain up to date throughout the period. Sydney Water does not believe that the minor changes in wording will necessitate a fresh CBA.

**Water conservation & efficiency**

**Q8: Are there any additional costs or benefits that we need to consider when deciding the net benefit of requiring Sydney Water to undertake (and implement) water conservation consistent with the Current Economic Method?**

IPART has proposed a counterfactual scenario that Sydney Water would still undertake water conservation works voluntarily in the absence of an operating licence mandate as part of our obligations under the Greater Sydney Water Strategy (GSWS) but may not apply an economic approach for prioritising investment decisions for water conservation. We wish to clarify that in the counterfactual scenario of there being no licence clause, our broader obligations to operate as a



successful business under the *Sydney Water Act 1994* (NSW), and being accountable to our shareholders for our financial performance, means there is likely to be a practical limit to how much we could deviate from an economic approach for prioritising investment decisions for water conservation.

We also consider that there may be additional reporting and audit costs from retaining a licence requirement for Sydney Water to undertake and implement water conservation measures consistent with the Current Economic Method.

**Q9: Are there any additional costs or benefits that we need to consider when deciding the net benefit of requiring Sydney Water to develop, review and implement a 5-year Water Conservation Plan?**

We consider that there may be additional compliance, reporting and audit costs from introducing a licence requirement for Sydney Water to develop, review and implement a 5-year WCP.

**Climate risk resilience**

**Q10: Are there any additional costs or benefits that we need to consider when deciding the net benefit of requiring Sydney Water to develop and maintain a climate-related risk management program consistent with the NSW Climate Risk Ready Guide?**

Subject to more clarification from IPART, we consider that there may be additional compliance, reporting and audit costs from introducing a licence requirement for Sydney Water to develop and maintain a climate-related risk management program consistent with the NSW Climate Risk Ready Guide.

**Tenancy protections**

**Q11: Are there any additional costs or benefits that we need to consider when deciding the net benefit of the operating licence providing greater protections for tenants paying water usage charges, where they live at separately metered properties?**

As noted in our response to IPART's Issues Paper, we consider that there are significant hurdles to IPART's preliminary view to bill tenants directly for usage charges only, where they are separately metered.

Setting these hurdles aside, we agree with IPART's identified costs and benefits of providing billing information for water usage charges directly to tenants renting their homes from property owners.

We wish to clarify that the costs of developing and operating such a billing system would involve:

- a reconfiguration of the billing system to issue split bills and an initial data download of tenanted properties,
- significant increase to annual operating costs to enable the issuing/ posting of tenant bills (in addition to owner charges),
- increased staffing to manage on and off-boarding of tenants, and
- account management, meter readings, customer contact, data management and debt recovery





activities for these additional customers.

**Q12: How should we quantify the benefits for this significant change in billing arrangements?**

We consider that many of the benefits of tenant billing may be quite subjective and challenging to quantify. That said, if there were to be a net benefit from this change, then it is perhaps reasonable to expect we could already observe a level of dissatisfaction from tenants regarding the current arrangements for the use of, and payment for, water services. For example, if tenant billing represents an improvement, then it might be possible to observe differences across measures such as well-being or satisfaction, or the use of assistance services, between tenants that currently pay for water and those that don't.

Better access to information about water use and other services, and a clearer price signal about water use behaviours, may also enable a range of benefits, such as improved willingness to participate in water saving initiatives (either utility offered or self-generated) and therefore lower water use over time.

**Sydney Water's relationship with FRNSW**

**Q13: Are there any additional costs or benefits that we need to consider when deciding the net benefit of requiring Sydney Water to provide water pressure information to FRNSW by a certain date(s) in the operating licence?**

We consider that there may be additional compliance, reporting and audit costs from introducing a licence requirement for Sydney Water to provide water pressure information to FRNSW by a certain date(s).

# 1 General proposed approach

## **Q1: Do you have comments on the identified factual and counterfactual scenarios discussed in this CBA Approach paper?**

In general, we support IPART's approach for identifying factual and counterfactual scenarios. As IPART sets out in its CBA Approach Paper:<sup>3</sup>

- The factual scenario assumes that an existing or proposed licence condition is in force;
- The counterfactual scenario assumes that the existing or proposed licence condition is not included in the operating licence and takes into account what other outcomes and activities Sydney Water may realistically deliver or refrain from in the absence of the licence condition. This may be due to other regulatory requirements being in place or Sydney Water undertaking voluntary measures.

We have included our specific comments on IPART's identified factual and counterfactual scenarios for each relevant area in the following sections of our response.

## **Q2: Do you have comments on the identified costs and benefits discussed in this CBA approach paper?**

We support IPART's approach for identifying costs and benefits. We consider that a broad approach, which takes into account both quantitative and qualitative benefits and costs experienced by our customers and the wider community, is appropriate. These may include the costs of undertaking activities, compliance and reporting, and benefits such as service reliability, public health, better environmental outcomes and transparency.

In some cases, we note there may be a benefit to the broader customer base or community at the expense of a small group of customers or part of the community. It is necessary in these cases to look beyond benefits and costs, and consider equity concerns.

We have included our specific comments on IPART's identified costs and benefits for each relevant area in the following sections of our response.



## **Q3: Do you have comments on our general proposed approach to the CBA?**

IPART has proposed in its CBA Approach Paper to:<sup>4</sup>

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<sup>3</sup> Independent Pricing and Regulatory Tribunal (IPART) (2023) *Sydney Water Operating Licence Review – Approach to the Cost-Benefit Analysis*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF), p. 3.

<sup>4</sup> Independent Pricing and Regulatory Tribunal (IPART) (2023) *Sydney Water Operating Licence Review – Approach to the Cost-Benefit Analysis*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF), p. 4.

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- rely on the CBA undertaken in the 2019 end-of-term review for Sydney Water's *Operating Licence*, where substantial changes to existing operating licence conditions are not being proposed, and
  - conduct CBA on new operating licence conditions, relying on the general CBA approach it took in Hunter Water Operating Licence Review 2021-22 for any new conditions similar to those in the Hunter Water *2022-2027 Operating Licence*.

We support IPART's general proposed CBA approach and consider it to be sensible and practicable. We will further aim to provide IPART with new cost and benefit data in a timely manner, as required.

IPART's general proposed CBA approach for this review shows a continuing shift towards a more outcomes-focussed and targeted approach. We welcome this shift and support IPART moving towards reviewing the Operating Licence 'by exception' in future. We consider that operating licence reviews could be targeted to focus on areas of greatest concern or potential gaps for our customers and stakeholders, rather than revisiting every clause at each review. This would continue to deliver value to our customers and community, while making the best use of available resources.

Once minimum service levels are set for our system performance standards in this licence review, for example, we may 'check in' with customers whether these standards and levels remain appropriate at the next review. It however may not be necessary to review these standards and levels in detail at the next review, unless our customers and/or stakeholders raise concerns.

We have provided further specific commentary for each relevant area in the following sections of our response.



## 2 Performance standards

### 2.1 Water quality management

**Q4: Are there any additional costs or benefits that we need to consider when deciding the net benefit of specifying the *Australian Drinking Water Guidelines* and *Australian Guidelines for Water Recycling* as the water quality standards in the operating licence?**

Sydney Water does not believe additional costs or benefits need to be provided or factored in as part of this review.

As per our Issues Paper response,<sup>5</sup> Sydney Water supports the retention of this clause. Sydney Water remains committed to maintaining and implementing a drinking water management system consistent with the 'Framework for management of drinking water quality' in the *Australian Drinking Water Guidelines* and a recycled water management system consistent with the 'Framework for management of recycled water quality' in the *Australian Guidelines for Water Recycling*.

Sydney Water supports IPART's viewpoint that previous rounds of cost-benefit analysis for the water quality management clauses in both previous Sydney Water and Hunter Water Operating Licence reviews have adequately established that maintaining and implementing management systems in accordance with national guidelines is of net benefit to our customers. Our view remains that the *Australian Guidelines for Drinking Water* and the *Australian Guidelines for Water Recycling* are the most appropriate guidelines to apply to protect public health and provide a net benefit to customers. The costs and benefits associated with maintaining and implementing frameworks for drinking and recycled water management have not changed substantially from previous reviews.

### 2.2 System performance standards for service interruptions

**Q5: Do you agree with our proposed approach for identifying the minimum service levels that balances customer inconvenience with willingness to pay?**



In determining the level of minimum acceptable performance for Sydney Water's system performance standards, IPART has set out the following scenarios in its CBA Approach Paper:<sup>6</sup>

1. **Factual:** Sydney Water retains the current licence levels as the minimum acceptable performance level for system performance standards without change.

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<sup>5</sup> Sydney Water (2023) *Response to IPART Sydney Water Operating Licence Review 2023-24 – Issues Paper*, 1 September.

<sup>6</sup> IPART, 2023, *Sydney Water Operating Licence Review Approach to Cost-Benefit Analysis Information Paper*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF), p. 13.



2. **Counterfactual:** Sydney Water changes to a lower/higher level of minimum acceptable performance for system performance standards.

We agree with IPART's identified factual scenario across all our system performance standards of water continuity, water pressure and dry weather wastewater overflows. We also agree with IPART's identified counterfactual scenario for the water continuity standard.

We consider, however, that other counterfactual scenarios may be defined for the water pressure and dry weather wastewater overflows standards.

For water pressure, we consider that there is an alternative counterfactual scenario of removing the water pressure standard such that Sydney Water would not undertake any expenditure to limit the number of properties experiencing low water pressure other than the expenditure required by other drivers which incidentally affects water pressure. This would mean that the National Plumbing Code (AS3500:2003) would instead largely regulate water pressure, with customers retaining a right to access change as a group in infill areas where development impacts their pressure.



We consider that this would be a more appropriate counterfactual scenario, as our 'whole-of-system' approach to managing water pressure makes it difficult to test a meaningful, marginal change to current licence levels. As noted in our response to the Issues Paper,<sup>7</sup> we have had a good record of performance, with only 52-72 properties a year being impacted by chronic low pressure issues since the start of our current Operating Licence. This represents 0.0025% out of just over 2 million connected properties.

This performance is the outcome of various asset management strategies for our drinking water network across areas such as leakage, water continuity and water quality. While this may result in performance that appears to 'overservice' the current licence standard for water pressure, this is the most cost-efficient way to meet all required standards, as well as customer and regulator expectations. Additionally, our systems have been designed and sized to accommodate this level, over the various terrain levels in the Sydney Basin, to ensure that for a two-storey residential house, water can be normally supplied to the upper level without the use of an onsite pump. In order to test a marginal change to our current licence levels for water pressure, this would mean that we would have to substantially change our 'whole-of-system' approach. Significant changes would have to be made across our asset management strategies and we would experience different impacts in other areas such as leakage, water continuity and water quality, the costs and savings of which would be difficult to quantify. The counterfactual scenario of having a lower/higher level of minimum acceptable performance for water pressure in our licence thus would not represent a 'realistic alternative set of arrangements'.

As such, we would support investigating a counterfactual scenario of having no water pressure standard in our licence. We note that the counterfactual scenario of having no pressure standard

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<sup>7</sup> Sydney Water (2023) *Response to IPART Sydney Water Operating Licence Review 2023-24 – Issues Paper*, 1 September.



was most recently identified by Hunter Water and accepted by IPART in the *Hunter Water Operating Licence Review 2021-22*.

For dry weather wastewater overflows, we also consider that there is a similar alternative counterfactual scenario of having no wastewater overflow standard. In the absence of a wastewater overflow standard in our Operating Licence, we would realistically continue to manage our wastewater network, based on the wet and dry weather wastewater overflow requirements specified in our Environmental Protection Licences (EPLs). This would in turn have an ancillary impact on customer properties.

We consider that this would be a more appropriate counterfactual scenario, as our approach to managing wastewater overflows makes it difficult to test a meaningful, marginal change to current licence levels. As noted in our response to the Issues Paper,<sup>8</sup> we have maintained a good level of performance against both our single and repeated dry weather wastewater overflow standards in our current licence. This is because we manage our wastewater network using a least-cost approach to ensure we service all mandatory requirements under our OL and EPLs in an efficient manner. As our EPLs have relatively stricter requirements, this has generally led to our better performance on the OL standard for dry weather wastewater overflows on customer properties while we are also servicing EPL requirements. Testing a marginal change to our current licence levels for dry weather wastewater overflows can therefore pose challenges, as these changes would realistically not have an impact on our management of wastewater overflows and we would continue to aim to service our stricter EPL requirements. A more realistic counterfactual scenario would be to remove the wastewater overflow standard in our licence altogether.

Our proposed factual and counterfactual scenarios for each of the system performance standards are summarised in Table 2.

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<sup>8</sup> Sydney Water (2023) *Response to IPART Sydney Water Operating Licence Review 2023-24 – Issues Paper*, 1 September.

Table 2. IPART's identified and Sydney Water's proposed factual and counterfactual scenarios for system performance standards

	IPART preliminary position	Sydney Water position
<b>Water Continuity</b>		
<b>Factual</b>	Retain current standard and level without change	Retain current standard and level without change
<b>Counterfactual</b>	Lower/raise the current service level	Lower/raise the current service level
<b>Water Pressure</b>		
<b>Factual</b>	Retain current standard and level without change	Retain current standard and level without change
<b>Counterfactual</b>	Lowering or raising the current service levels	Remove water pressure standard in licence
<b>Dry Weather Wastewater Overflows</b>		
<b>Factual</b>	Retain current standard and level without change	Retain current standard and level without change
<b>Counterfactual</b>	Lowering or raising the current service levels	Remove wastewater overflow standard in licence

**Q6: Are there any additional costs or benefits that we need to consider when establishing the minimum service levels for the operating licence?**

Outside of the costs and benefits identified by IPART, we do not consider that there are any additional costs of benefits that need to be taken into account.

We note that our proposed factual and counterfactual scenarios (as discussed in our response to Question 5) may substantially change the magnitude of IPART's identified costs and benefits. We would be happy to provide more detailed estimates of these costs and benefits to IPART, as part of the CBA information request process.

**2.3 Asset management**

**Q7: Are there any additional costs or benefits that we need to consider when deciding the net benefit of requiring Sydney Water to maintain and implement an asset management system in the operating licence?**



We do not believe additional costs of benefits need to be provided or factored in as part of this review.

As per our Issues Paper response, Sydney Water supports the retention of this clause. Sydney Water remains committed to maintaining and implementing an Asset Management System that is consistent with, and even certified to, the ISO standard compliant with ISO55001.

We support IPART's position that having a clause for Sydney Water to maintain and implement an AMS consistent with the ISO55001 standard is of net benefit to our customers, as assessed during the last review of our Licence, and the last review of Hunter Water's Operating Licence.

Sydney Water has proposed a minor change to the wording of the AMS clause to enable us flexibility to transition to the expected ISO55001 update and enable the AMS clause in the next Licence to remain up to date throughout the period. Sydney Water does not believe that the minor changes in wording will necessitate a fresh CBA.





## 3 Water conservation & efficiency

### 3.1 Water conservation consistent with an economic approach

**Q8: Are there any additional costs or benefits that we need to consider when deciding the net benefit of requiring Sydney Water to undertake (and implement) water conservation consistent with the Current Economic Method?**

In determining whether there is net benefit to a licence clause requiring Sydney Water to undertake (and implement) water conservation consistent with the Current Economic Method, IPART has set out the following scenarios in its CBA Approach Paper:<sup>9</sup>

1. **Factual:** Sydney Water must maintain a water conservation work program consistent with the current economic method and must implement water conservation measures that have been assessed as economic under that method.
2. **Counterfactual:** Sydney Water will still undertake water conservation works voluntarily in the absence of an operating licence mandate as part of our obligations under the Greater Sydney Water Strategy (GSWS), but may not apply an economic approach for prioritising investment decisions for water conservation.



While we agree in principle with the two scenarios, we wish to clarify that in the counter-factual scenario of there being no licence clause, there is a limit to how much we can deviate from an economic approach for prioritising investment decisions for water conservation.

As part of our price reviews, IPART applies a prudence and efficiency test to determine whether our past and proposed expenditure represents the best and most cost-effective way of delivering our services to customers and set our expenditure allowance accordingly. In our last price review, for example, IPART determined our baseline operating expenditure allowance for water conservation to be \$10 million per annum over 2020-24, with an additional drought cost pass-through allowance of up to \$62 million depending on dam levels. This was based on an efficiency review of our proposed expenditure. While we are able to deviate from IPART's expenditure allowances during the course of a price period, where there is a significant change in circumstances, we must still ensure that our past and proposed expenditure on water conservation is cost-effective to meet IPART's efficiency test. In the absence of a licence clause, IPART's review of our prices and application of an efficiency test to both our past and proposed water conservation expenditure would still therefore constrain us from taking an approach that does not consider an economic evaluation of measures.

In practice, we observe that IPART's expenditure allowances determined through our price review also pose a funding (and thus, financial) constraint on our water conservation program. This

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<sup>9</sup> IPART (2023) *Sydney Water Operating Licence Review Approach to Cost-Benefit Analysis Information Paper*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF), p. 13.



means that even in the absence of a licence clause requiring us to maintain a water conservation work program consistent with the current economic method, the structure of our funding would require us to take into account financial considerations when undertaking any water conservation program and implementing measures. Exploring more options may lead us to reach the limits of our funding such that we may need to re-prioritise activities within our water conservation program and against other outcomes to be delivered as part of our Operating Licence.

We note that in our response to IPART's Issues Paper, we have proposed a change to the current licence clause to enable a more flexible and adaptive planning approach that is outcomes-based and takes into account a broad range of factors, of which the Current Economic Method is one factor.

With respect to benefits and costs, IPART has identified a key cost would be the cost of undertaking the investigation of possible water conservation measures and then investing in implementing the ones found to be economic. We wish to clarify that these implementation costs should be the costs of implementing all water conservation measures determined to be economic under the Current Economic Method, beyond the funding we have been provided in our price reviews, or otherwise re-prioritising our water conservation measures to ensure we work within our funding.

Outside of the benefits and costs outlined by IPART, we consider there are additional costs as below:

- reporting costs, including preparing and publishing documents on the Current Economic Method or measures that have been assessed by the Method (eg Elements of the Annual Water Conservation Report; making publicly available a plain English summary of the Current Economic Method and the economic level of water conservation),
- licence audit costs, including costs of the audit, and the time for the auditees to attend audits.

We would be happy to provide more detailed estimates of these costs and benefits to IPART, as part of the CBA information request process.

## 3.2 5-year Water Conservation Plan

### **Q9: Are there any additional costs or benefits that we need to consider when deciding the net benefit of requiring Sydney Water to develop, review and implement a 5-year Water Conservation Plan?**

IPART has set out the following scenarios in its CBA Paper to determine whether there is net benefit to a licence clause requiring Sydney Water to develop, review and implement a 5-year water conservation plan:<sup>10</sup>

1. **Factual:** Sydney Water must develop, review and/or implement a 5-year water conservation plan (WCP) consistent with the NSW Water Strategy, Greater Sydney Water Strategy and the NSW Water Efficiency Framework.
2. **Counterfactual:** Sydney Water will still develop and implement a 5-year WCP voluntarily in the absence of an operating licence mandate as part of our obligations under the GSWS, but may not apply an economic approach as set out in the NSW Water Efficiency Framework.

Similar to our response to Question 8 above,<sup>11</sup> we wish to clarify that in the counterfactual scenario of there being no licence clause to develop a 5-year WCP, there is a limit to how much we can deviate from an economic approach in developing the WCP. This is because in the absence of a licence clause, IPART's review of our prices and application of an efficiency test to both our past and forecast water conservation expenditure would nevertheless require us to take an economic approach and consider cost effectiveness in developing our WCP. Relatedly, the structure of our funding for water conservation, which is determined through IPART's setting of allowances in our price review process, would further require us to take into account financial considerations when developing the WCP.

We also observe that the NSW Water Efficiency Framework<sup>12</sup> provides a guide, rather than a set of prescriptive requirements, for applying an economic evaluation (eg cost-benefit analysis, cost-effectiveness analysis using levelised cost) as part of a broader assessment of water conservation measures.

Outside of the benefits and costs outlined by IPART, we consider there are additional costs as below:



- compliance costs of ensuring that our 5-year WCP is consistent with the NSW Water Strategy, Greater Sydney Water Strategy and the NSW Water Efficiency Framework and

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<sup>10</sup> IPART (2023) *Sydney Water Operating Licence Review Approach to Cost-Benefit Analysis Information Paper*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF), p. 14.

<sup>11</sup> As IPART notes in its CBA Approach Paper, having a licence requirement for a 5-year WCP per Question 9 would in turn replace the licence requirement to maintain a water conservation work program per Question 8. As such, our clarification regarding Question 9 is similar to that in Question 8.

<sup>12</sup> Department of Planning, Innovation and Environment (DPIE) (2022) *NSW Water Efficiency Framework*, [https://water.dpie.nsw.gov.au/data/assets/pdf\\_file/0010/538759/water-efficiency-framework.pdf](https://water.dpie.nsw.gov.au/data/assets/pdf_file/0010/538759/water-efficiency-framework.pdf).



applies an economic approach as set out in the NSW Water Efficiency Framework, and reviewing and updating the 5-year WCP annually,

- reporting costs, including preparing any required documents to demonstrate our 5-yr WCP is consistent with the NSW Water Strategy, Greater Sydney Water Strategy and the NSW Water Efficiency Framework, preparing and providing a copy of our updated 5-year Water Conservation Plan and the outcomes of the annual review and update of the 5-year WCP, including an explanation of any changes made to the plan, and
- licence audit costs, including costs of the audit, and the time for the auditees to attend audits.

We would be happy to provide indicative estimates of these costs and benefits to IPART, as part of the CBA information request process.



## 4 Climate risk resilience

**Q10: Are there any additional costs or benefits that we need to consider when deciding the net benefit of requiring Sydney Water to develop and maintain a climate-related risk management program consistent with the NSW Climate Risk Ready Guide?**

IPART has indicated in its CBA Approach Paper that it will undertake a CBA in determining whether to introduce a new licence requirement for Sydney Water to develop and maintain a climate-related risk management program consistent with the NSW Climate Risk Ready Guide.

As noted in our response to IPART's Issues Paper,<sup>13</sup> Sydney Water's enterprise-level climate risks are not all captured in our current management systems, falling outside of their frameworks. IPART's proposed licence requirement could address this gap. However, there is potential that a climate risk management program that is separate to existing risk management becomes duplicative. We have sought further clarity from IPART on what this requirement would mean in practice.

Nevertheless, at a high-level, we agree with IPART's identified benefits that a climate risk management program could:

- specifically address climate-related risks including priority risks and mitigative actions, and
- provides a mechanism for IPART to review and audit Sydney Water's management of climate-related risk generating greater transparency and accountability.

Outside of the costs of developing and maintaining a specific climate-related risk management program, we consider that there may also be additional costs, such as:

- compliance and reporting costs incurred as part of demonstrating that the program is consistent with the NSW Climate Risk Ready Guide and preparing and publishing any required reporting, and
- licence audit costs, including costs of the audit, and the time for the auditees to attend audits.

With further clarification from IPART, we would be happy to provide a better view of possible additional costs and benefits. We would also be happy to provide more detailed estimates of these costs and benefits to IPART, as part of the CBA information request process.

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<sup>13</sup> Sydney Water (2023) *Response to IPART Sydney Water Operating Licence Review 2023-24 – Issues Paper*, 1 September.



## 5 Tenancy Protections

**Q11: Are there any additional costs or benefits that we need to consider when deciding the net benefit of the operating licence providing greater protections for tenants paying water usage charges, where they live at separately metered properties?**

IPART has indicated in its CBA Approach Paper that it will undertake a CBA in determining whether the OL could require Sydney Water to provide billing information for water usage charges directly to tenants renting their homes from property owners.

As noted in our response to IPART's Issues Paper,<sup>14</sup> we consider that there are significant hurdles to IPART's preliminary view to bill tenants directly for usage charges only, where they are separately metered. Under the *Sydney Water Act 1994* (NSW), our billing relationship is legally with the landlord as the responsible landowner, and not the tenant. The *Residential Tenancies Act 2010* (NSW) further provides that strictly speaking, a tenant is not required to pay the water usage charges, unless the landlord gives the tenant a copy of the part of the water supply authority's bill setting out the charges, or other evidence of the cost of water used by the tenant.<sup>15</sup> As such, changes to the *Sydney Water Act 1994* (NSW) and the *Residential Tenancies Act 2010* (NSW) may be required.

Setting aside these possible legislative barriers, IPART has noted the following costs and benefits in its CBA Approach Paper:<sup>16</sup>

- costs to Sydney Water from developing and operating a billing system that provides tenants with water usage bills separate to billing of the landlord/property owner who would receive bills for fixed charges for water services.
- benefits of tenants receiving real time billing information and having a direct billing relationship with Sydney Water to make enquiries and register complaints, with some tenants additionally being able to access payment arrangements.

With respect to those benefits, we estimate that up to 40% or 820,000 residential properties within our area of operations are currently tenanted. Around half (405,000) are managed by a managing agent, based on assumptions using our available data. Of these 'tenanted' properties, around 48% or 390,000 are separately metered.



We further wish to clarify that the costs of developing and operating such a billing system would involve:

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<sup>14</sup> Sydney Water (2023) *Response to IPART Sydney Water Operating Licence Review 2023-24 – Issues Paper*, 1 September.

<sup>15</sup> *Residential Tenancies Act 2010* (NSW), s 39.

<sup>16</sup> IPART (2023) *Sydney Water Operating Licence Review Approach to Cost-Benefit Analysis Information Paper*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Information-Paper-Approach-to-Cost-Benefit-Analysis-Sydney-Water-Operating-Licence-Review-July-2023.PDF), p. 13.

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- a reconfiguration of the billing system to issue split bills and an initial data download of tenanted properties,
  - significant increase to annual operating costs to enable the issuing/ posting of tenant bills (in addition to owner charges),
  - increased staffing to manage on and off-boarding of tenants, and
  - account management, meter readings, customer contact, data management and debt recovery activities for these additional customers.

We have initiated the process of quantifying these costs, and would be happy to provide more detailed estimates of these, as well as benefits, to IPART, as part of the CBA information request process.

**Q12: How should we quantify the benefits for this significant change in billing arrangements?**

The benefits of this billing arrangement may be difficult to quantify for Sydney Water, however, it will allow us to have a relationship with tenants that enables:

- more timely notice of water consumption and charges. Currently, the landlord has up to three months from the bill issue date to provide the usage charges to the tenant for payment.
- direct communications about our programs such as improving water efficiency in the home and financial assistance options that are included in our Waterwrap articles,
- the ability to fully realise benefits of any future smart meter program roll out with reduced water usage for both residential user groups,
- allow us to contact tenants to notify them of any service interruptions and encourage them to sign up for outage alerts,
- provide service interruptions rebates directly to the tenant who experienced the outage,
- proactive contact and assistance for tenants who may be experiencing financial hardship,
- increased awareness about the services provided and the ability for Sydney Water to better understand tenants needs and experiences, and
- increased contact details may make arranging access to Sydney Water assets located within private property easier.

If there were to be a net benefit from this change, then it is perhaps reasonable to expect we could already observe a level of dissatisfaction from tenants regarding the current arrangements for the use of, and payment for, water services. For example, if tenant billing represents an improvement, then it might be possible to observe differences across measures such as well-being or satisfaction, or the use of assistance services, between tenants that currently pay for water and those that don't. These benefits may be measured through customer satisfaction surveys or advocacy scores and improved uptake of assistance and services available to tenants.



## 6 Sydney Water's relationship with Fire and Rescue NSW

### 6.1 Information sharing with Fire and Rescue NSW

**Q13: Are there any additional costs or benefits that we need to consider when deciding the net benefit of requiring Sydney Water to provide water pressure information to FRNSW by a certain date(s) in the operating licence?**

As noted in our response to IPART's Issues Paper, we have developed a refreshed program to rebuild our hydraulic models to include fire hydrants and requirements associated with FRNSW's request. This is a significant program of work, which is both labour-intensive and requires specialist resources.

Beyond the benefits and costs outlined by IPART, we consider there are additional costs as below:

- compliance costs of providing water pressure information to FRNSW by the proposed dates to be specified in the licence, including any cost savings associated with being able to defer or spread data provision over a potentially longer period,
- reporting costs, including preparing and publishing any required reporting, and
- licence audit costs, including costs of the audit, and the time for the auditees to attend audits.

We would be happy to provide indicative estimates of these costs to IPART, as part of the CBA information request process.