

24 May 2018

Mr Hugo Harmstorf
Chief Executive Officer
Independent Pricing and Regulatory Tribunal of NSW
PO Box K35
Haymarket Post Shop NSW 1240

Submission on the review of water utility performance indicators and Reporting Manual

Dear Mr Harmstorf

Please find attached Sydney Water's submission on IPART's draft report on the review of water utility performance indicators, and the draft Sydney Water Reporting Manual.

Sydney Water appreciates IPART's effort to reduce unnecessary regulatory cost through the removal of performance indicators where compliance monitoring is sufficient to monitor performance.

Overall Sydney Water agrees with IPART's proposals. We have provided some minor comments for consideration.

If you or your staff have any questions regarding this submission, please contact Sandra Spargo Corporate Compliance Manager on [REDACTED].

Yours sincerely

[REDACTED]

Kevin Young
Managing Director

IPART review of water utility performance indicators

Sydney Water submission on Draft Report and Reporting Manual

May 2018



Table of contents

Executive summary	2
1. Proposed water utility performance indicators.....	3
1.1 Collection of Licence data for administrative functions	3
1.2 Water quality indicators.....	3
1.3 Water quantity indicators	3
1.4 Asset indicators.....	4
1.5 Environment indicators	4
1.6 Customer Indicators.....	5
2. Revised Sydney Water Reporting Manual	6
2.1 Water quality public reporting.....	6
2.2 Appendix E	7

Executive summary

Sydney Water appreciates the opportunity to comment on both IPART's Draft Report on the review of water utility performance indicators (Draft Report) and the Draft Sydney Water Reporting Manual.

Sydney Water supports IPART's 'first principles' approach to the review, to reduce regulatory burden through streamlining the IPART performance indicators reported by water utilities. We agree with removing indicators that are not useful to IPART or stakeholders or where compliance monitoring is sufficient to monitor performance. We also support a single set of performance indicators for water utilities where possible, and consistency in the timing and format for reporting to IPART. Further, we consider the assessment criteria used by IPART to review the indicators provide a useful focus on the purpose and expected outcome for each of the performance indicator groups.

The Draft Report notes that IPART intends to consider the following areas in its upcoming review of Sydney Water's 2015-2020 Operating Licence:

- **opportunities for customers to be engaged in decisions about performance standards**

Sydney Water strongly supports a transition towards performance standards that are better aligned with customer value. Some early engagement has been conducted to understand our customers' views and expectations of our services, which is likely to be the start of a longer-term engagement program. This understanding will help inform our regulatory submissions, but also be used within our business to make ongoing decisions about how we can improve customer experience, for example, how we communicate with customers once a fault occurs.

- **linking incentives (reputational or financial) to any licence obligations including performance standards**

As noted in our submission to the Issues Paper, Sydney Water is interested in exploring the use of incentives with IPART and other utilities. This is consistent with the direction in which we believe our regulatory framework should move over time, towards an arrangement in which we deliver specified outcomes for customers with our shareholder returns related to our performance in delivering those outcomes. We expect our 2020 price review to make progress in this direction. However, we agree with Hunter Water's comments that "there is further investigation, including research, analysis and stakeholder consultation, required to consider incentives for performance beyond the reputational incentives arising from publishing information." (page 25)

Overall, Sydney Water supports the decisions in IPART's Draft Report. Our detailed comments on the review of water utility performance indicators are provided in Section 1 of this submission. Section 2 contains specific comments on the *Draft Sydney Water Reporting Manual – Operating Licence 2015-20 (April 2018)*.

1. Proposed water utility performance indicators

1.1 Collection of Licence data for administrative functions

IPART has proposed to collect additional licence data from Sydney Water related to customer numbers for non-potable water. Sydney Water is able to provide this information; however, we note an inconsistency between the terms used in the Draft Report and the Draft Sydney Water Reporting Manual for the proposed new indicators L8 and L9. In some instances, the indicators refer to non-potable water and in other parts they refer to recycled water – see below.

- **Draft Report - Draft Decisions** (pages 12 and 30)
 - L8 Connected residential properties – **non-potable** water supply (000s)
 - L9 Connected non-residential properties – **non-potable** water supply (000s)
- **Draft Report - Appendix B** (page 7)
 - L8 Connected residential properties – **recycled** water supply (000s)
 - L9 Connected non-residential properties – **recycled** water supply (000s)
- **Draft Sydney Water Reporting Manual** (page 54)
 - L8 Connected residential properties – recycled water supply (000s)
 - L9 Connected non-residential properties – recycled water supply (000s)

The terms ‘non-potable’ and ‘recycled’ water are not interchangeable. The term non-potable is a broad term that can include raw water, unfiltered water as well as recycled water. However, not all recycled water is classed as non-potable water, as recycled water can be treated to a level where it is fit for drinking and would therefore be classed as potable water. Sydney Water currently supplies a small volume of unfiltered water for industrial use in the Illawarra, which would be categorised as non-potable water.

Sydney Water suggests the new indicators (L8 and L9) should refer to recycled water. If the intent is to collect the customer numbers for non-potable water, then a clear definition should be included, with guidance on inclusions and exclusions.

1.2 Water quality indicators

Sydney Water agrees there is no benefit in additional performance indicators for monitoring water quality performance, as the existing level and frequency of water quality monitoring and reporting to our customers and regulators provides sufficient oversight and transparency of our performance.

1.3 Water quantity indicators

We support the decision that no water quantity performance indicators are required for Sydney Water. We agree that the current Water Conservation reporting requirements ensure that Sydney

Water promotes economically efficient investment in water conservation, including water efficiency, leakage and water recycling.

We note IPART's decision not to introduce demand forecast indicators. Sydney Water freely shares its detailed water demand data as part of the metropolitan water planning process. We are committed to supporting the government to ensure that the best planning outcomes are obtained for the people of NSW.

1.4 Asset indicators

We agree with IPART's overall approach to align the service interruption performance indicators with the System Performance Standards for water continuity, water pressure and wastewater overflows, as these provide useful information on asset management performance and the level of service provided to customers. As discussed in the Draft Report, the asset management obligations in Sydney Water's Operating Licence, are monitored by IPART through compliance reporting and a detailed assessment of our asset management system and performance by independent subject matter expert auditors as part of IPART's annual Operating Licence Audit. We support the proposal for a single set of performance indicators for those water utilities providing a network or retail function.

IPART has decided to retain Sydney Water's performance indicators related to response times for watermain breaks and leaks, but intends to review this position as part of our operating licence review in 2018. We support this approach, given our continued high-level of performance over the three years since response time targets were removed from our operating licence system performance standards. Further, as Sydney Water is the only water utility regulated by IPART that is required to report these indicators, there may be an opportunity to further reduce regulatory burden.

Sydney Water supports IPART's proposal not to include performance indicators on planned service interruptions. In our submission to IPART's Issues Paper, we nominated indicators we considered relevant for planned service interruptions only in the event that IPART or other stakeholders required this information.

Sydney Water notes IPART's proposal not to include indicators related to water flows. We agree that water capacity for firefighting is an important and complex issue that would benefit from a broader government review. In the meantime, Sydney Water is actively engaged in discussions with Fire and Rescue NSW through the Memorandum of Understanding between our two agencies.

1.5 Environment indicators

Sydney Water largely supports IPART's proposed set of environmental indicators. However, we reiterate our comment in the Issues Paper concerning indicator E9 '*Percent of solid waste recycled or reused expressed as a percentage of solid waste generated*'. We believe that the indicator should be changed to report on the recycled or reused of waste streams as a

percentage of the total waste that is capable of being recycled. The current denominator does not provide a true indication of waste recycling performance due to the inclusion of waste that cannot be recycled, such as contaminated land, asbestos waste, acid solvate soils, etc.

We welcome the opportunity to further review the environmental indicator set as part of IPART's review of the Sydney Water's Operating Licence in mid-2018, as noted in the Draft Report.

1.6 Customer Indicators

Sydney Water notes IPART's proposal to remove the existing customer indicators. We agree that a compliance-based approach to monitoring customer service is appropriate in ensuring that service levels are assessed and maintained.

Through our customer engagement activities, we are developing a knowledge base to help us make ongoing decisions about how we can improve customer experience. In line with this, we look forward to participating in IPART's review of customer satisfaction indicators in 2018-19.

2. Revised Sydney Water Reporting Manual

2.1 Water quality public reporting

As required by Section 2.1.5 of our 2015-2020 Operating Licence, Sydney Water conducted a review of its public reporting on drinking water quality and reported the outcomes to IPART in late 2016. Through the review we consulted with NSW Health and our Customer Council to consider improvements to the content and format of our public drinking water quality reporting.

The review found that generally our customers do not find the current format of the quarterly drinking water quality reports useful or engaging. In July 2016, we introduced a new daily drinking water quality report on our website, to inform our customers in a meaningful way about the performance of critical control points in drinking water. Website traffic indicates that the daily report is popular with our customers. Our review proposed that we continue this approach by replacing the traditional document style format of quarterly drinking water quality report with a user experience-informed, web-based format.

A further proposal from the review was to replace what is now the draft Appendix B (Drinking water health and aesthetic water characteristics and raw water operational characteristics) with a Schedule of Public Reporting in our Drinking Water Quality Management System. Consistent with the current arrangements, Sydney Water would continue to monitor and report on the characteristics under the *Australian Drinking Water Guidelines* as required by NSW Health. This arrangement would provide the flexibility to enable our public reporting to be more relevant and meaningful to customers, by being able to more readily respond to changing customer interests and public health risks.

Suggested changes the Draft Sydney Water Operating Licence Reporting Manual (April 2018) – page 7:

1. Remove Appendix B Drinking water health and aesthetic water characteristics and raw water operational characteristics from the Draft Sydney Water Reporting Manual
2. Replace all references to Appendix B with 'Sydney Water Drinking Water Management System'.
3. Insert a note in the Reporting Manual:
The characteristics specified in the Drinking Water Quality Management System and reported in the Quarterly Water Quality Monitoring Report are to be as required by NSW Health.
4. Should IPART decide to retain Appendix B in the Reporting Manual, we request that the characteristics and structure remain unchanged from those currently included in Appendix F of our existing Reporting Manual (August 2017). We note that IPART has amended the characteristics in Appendix B in line with the draft schedule proposed by Sydney Water in our 2016 report on the review of public reporting on water quality. Sydney Water would prefer to implement any changes with the commencement of our next Operating Licence.

2.2 Appendix E

IPART indicators L8 and L9

As discussed in Section 1, there is an interchangeable use of the terms non-potable water and recycled water (pages 53-54 of the Draft Sydney Water Reporting Manual). The use of the term non-potable could cause confusion. Although Sydney Water does not supply recycled water for drinking purposes, recycled water can be treated to a level where it is fit for drinking and would therefore be classed as potable water. The term non-potable is a broad term that can include raw water, unfiltered water as well as recycled water. However, not all recycled water is classed as non-potable water. Sydney Water currently supplies a small volume of unfiltered water for industrial use in the Illawarra, which would be categorised as non-potable water.

Sydney Water suggests that the new indicators (L8 and L9) should refer to recycled water and that page 53 should refer to recycled water. If the term non-potable is chosen by IPART, then the wording of performance indicators L8 and L9 should be changed to refer to non-potable and a clear definition should be included with specific inclusions and exclusions.

We also query the footnote references under table E.1, which seem to link IPART indicators L8 and L9 with NWI indicators C6 and C7. As these NWI indicators relate to wastewater, we are uncertain of their relevance (refer National urban water utility performance reporting framework: Indicators and definitions handbook - January 2018, page 53).

