

Sydney Water's response to IPART's Issues Paper

Review of the WaterNSW Operating Licence

13 September 2016

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1 Introduction

This submission provides Sydney Water's comments on various issues raised by the Independent Pricing and Regulatory Tribunal (IPART) in its Review of the WaterNSW Operating Licences – Issues Paper, June 2016 (the Issues Paper). We welcome the opportunity to respond to this Issues Paper and support IPART's objective of providing an operating licence(s) that enables WaterNSW to function efficiently in meeting its regulatory obligations and customer expectations. We also support IPART's recommendation that any terms and conditions should not impose unnecessary compliance and administration costs, and should provide a net benefit to society.

Sydney Water has an ongoing relationship with WaterNSW as our main supplier of bulk drinking water. Our submission provides insights as not only a bulk water customer, but also as a major water utility.

Our key positions regarding the new WaterNSW licence(s) are:

- that current standards and requirements for catchment management and water quality in the declared catchment area for Sydney are not diminished in any way
- that new Operating Licence conditions do not replicate or replace obligations currently managed under the Raw Water Supply Agreement (as required under section 25 of the *Water NSW Act 2014*)
- general support for IPART's preference for consistency between major utility licences, where possible
- general support for WaterNSW's request that the licence allow flexibility for the delivery of services, where possible.

The rest of this submission provides comments on issues we consider relevant to our business and relationship with WaterNSW. In some instances we have grouped our responses to questions that relate to a similar issue.

- Chapter 2 addresses issues related to the configuration of the licence(s).
- Chapter 3 addresses issues related to the capture, store and release of water.
- Chapter 4 addresses issues related to the supply of water.
- Chapter 5 addresses aspects of asset management related to the construction, operation and maintenance of water management works.
- Chapter 6 addresses issues related to catchment management
- Chapter 7 addresses issues related to flood mitigation and management
- Chapter 8 addresses issues related to education of the community
- Chapter 9 addresses other licence issues relating to environmental management, performance standards, area of operations, Memoranda of Understanding, metering, retail services, metropolitan water planning, synergies with price regulation and reporting requirements.

2 Configuration of Licences

- 2. What is the optimal design of the WaterNSW operating licence(s), when considering the licensing objectives, Best Practice Regulation principles and organisational/administrative goals? What are the pros and cons of the optimal design?**
- 3. Are there other designs for the operating licence(s) that are not proposed by this Issues Paper? If so, what are they?**

Sydney Water has no preference on the configuration of the new operating licence(s) for WaterNSW.

We note that WaterNSW has proposed the formation of a single licence. If this occurs, our major concern would be ensuring that current standards relating to the Sydney region, particularly for water supply, water quality and catchment management in the declared Sydney catchment area, are not diminished in any way. In this respect Sydney Water would object to any licence configuration or design that results in a reduction of the current standards.

3 Capture, store and release water

5. Should the operating licence(s) authorise WaterNSW to capture, store and release water to persons entitled to take the water? If authorised, what terms and conditions should the operating licence include that require WaterNSW to undertake this function?

The new operating licence(s) should authorise WaterNSW to capture, store and release water to persons entitled to take the water.

The operating licence(s) should contain appropriate terms and conditions to ensure the current standards for water quality and catchment management in the declared Sydney catchment area are not diminished in any way.

8. Is there benefit in increasing WaterNSW's responsibilities to monitor and provide information on the quality of bulk raw water supplied to local water utilities?

Sydney Water does not see a driver to increase WaterNSW's responsibility to monitor the quality of bulk water in the new operating licence(s), with regard to water supplied to Sydney Water.

The current operating licence requirements for WaterNSW to meet the relevant components of the Australian Drinking Water Guidelines coupled with our Raw Water Supply Agreement (RWSA) satisfies our requirements and provides appropriate flexibility to both organisations. We support maintaining the current requirements in clause 2 of the Sydney Catchment Authority Operating Licence 2012-2017.

Sydney Water would prefer that specific monitoring and information requirements with regard to bulk raw water supplied to Sydney Water continue to be set under the RWSA established through mutual negotiation in consultation with NSW Health and downstream service providers. This will allow both organisations the flexibility to negotiate standards that meet our customers' needs and expectations through commercial terms. Including additional requirements in the operating licence(s) relating to information on the quality of bulk raw water supplied to Sydney Water is considered inefficient. This would add the burden of additional reporting requirements with no discernible added benefit. We believe it is sufficient that WaterNSW report to us as the contracting party.

4 Supply water

4.1 Terms and conditions to regulate supply of water to customers

- 13. Should the operating licence(s) authorise WaterNSW to supply water to its customers? If authorised, what terms and conditions should the operating licence(s) include that require WaterNSW to undertake this function?**
- 14. What other terms and conditions should be included in the operating licence(s) to regulate WaterNSW's supply of water to its customers? Should they constrain where WaterNSW undertakes this function (ie, if not in all of NSW)?**
- 17. Should the operating licence(s) retain the terms and conditions under Part 6 of the SCA operating licence relating to customer contracts or agreements? Should they be made consistent with the Fish River Water Supply Scheme customer contracts?**

Section 25 of the *Water NSW Act 2014* (the Act) already requires WaterNSW to enter into arrangements with Sydney Water regarding the supply of water. The Act stipulates the matters to be included in the arrangement as well as stringent consultation and negotiation requirements. Accordingly, we do not believe additional or duplicate requirements are needed in the operating licence(s) with respect to customer agreements with Sydney Water.

We note that the current operating licence for the Sydney Catchment Authority (SCA) also contains requirements for customer agreements for customers other than Sydney Water¹. These requirements are generally consistent with the requirements stipulated in the *Water NSW Act 2014*². It is expected that these requirements would be applied to third party entrants under the *Water Industry Competition Act 2006*. Sydney Water supports maintaining these requirements in any new operating licence(s) for service providers supplying drinking water in the greater Sydney area.

16. Should terms and conditions apply differently to water supply functions in 'declared catchments' as defined by the Water NSW Act?

Sydney Water has no position on whether different terms and conditions should be applied to the 'declared catchments'.

Sydney Water's interest in this issue relates to ensuring the declared Sydney catchment is protected to an appropriate level to maintain the current drinking water quality for customers in the Sydney metropolitan area.

¹ SCA Operating Licence 2012-2017, clause 6.1.2

² *Water NSW Act 2014*, section 25(2)

4.2 Water quality management systems

15. Should all water supplied, including the Fish River Water Supply Scheme, be subject to a water quality management system depending on the risk level of the customer's end use?

Sydney Water has a responsibility to ensure that the drinking water it supplies is subject to a quality management system from 'catchment to tap'. Consequently, Sydney Water supports the application of a water quality management system for any water supplied by WaterNSW.

Requiring WaterNSW to maintain a quality management system is consistent with the requirements imposed on Sydney Water for providing drinking water to Sydney. A disproportionate burden may be placed on Sydney Water if the water it is supplied by WaterNSW was not subject to a water quality management system.

Sydney Water also supports water quality management systems because they enable the embedding of good business practices that improve the services and products provided to customers. Including this requirement would be consistent with the requirements in the operating licence(s) issued by IPART for other water utilities in NSW.

In order to maintain consistency with Sydney Water's Operating Licence, the WaterNSW Drinking Water Quality Management System (DWQMS) should be subject to NSW Health oversight. Sydney Water would prefer the wording of this requirement to mimic the related clause in Sydney Water's Operating Licence, that is, that WaterNSW must maintain a DWQMS that is consistent with the Australian Drinking Water Guidelines, except to the extent that NSW Health specifies otherwise. As highlighted in IPART's Issues Paper for the current review of Hunter Water's Operating Licence, this wording is clearer than that used in various operating licences (including the previous Sydney Water and current Hunter Water operating licences).

4.3 Water supply agreement with Sydney Water

19. Is the level of coordination between WaterNSW and its customers resulting in maximum end user benefits, such as optimal overall levels of investment in water quality improvement infrastructure and efficient, coordinated and commercially viable systems? What terms or conditions could the operating licence contain to enhance or require this level of coordination?

Sydney Water and WaterNSW already have protocols in place under the RWSA to address this issue³. The RWSA also contains a requirement for a relationship framework between the two organisations⁴. The RWSA and associated relationship framework are currently under review by both parties.

Introducing mutual responsibility requirements into the operating licence(s) to plan, operate and maintain systems to promote efficiency of products and services to the end customers could improve benefits to customers. If this were to occur, Sydney Water would prefer the terms and

³ SCA and SWC Raw Water Supply Agreement, clause 7.1 & 8

⁴ SCA and SWC Raw Water Supply Agreement, clause 13.2

conditions to be set in the RWSA as this allows both organisations the flexibility to develop processes that integrate into existing structures.

We note that the water quality incentive process in the current RWSA is not in force due to the recent extensions and changes to contracts (including the Build Own Operate contracts for the water filtration plants) as well as a review of the RWSA. The existing protocols ensure water quality is optimised for the customer in lieu of the incentive process.

Sydney Water's view is that an incentive process with a wider range of performance indicators (not just water quality) would address risks more efficiently and could be introduced under a renegotiated RWSA. The current incentive mechanism and performance indicators will be reviewed as part of a broader review of the RWSA to be completed by the end of 2017.

Sydney Water's view is that no additional or new requirements are required in the new operating licence(s).

20. Should the operating licence(s) contain terms and conditions relating to the reviews or amendment of water supply agreements with Sydney Water Corporation or any other customers?

The *Water NSW Act 2014* already contains terms and conditions for the review of the arrangements between WaterNSW and Sydney Water.⁵ Specific details regarding the review of the current RWSA are the outcome of commercial negotiations.⁶ Our preferred position is to continue to negotiate specific details as commercial arrangements as part of the RWSA.

Accordingly, we do not feel there is a need for any additional terms and conditions regarding the review of water supply agreements that relate to Sydney Water.

4.4 Yield calculations for long-term planning

22. Is long term planning and supply sufficiency appropriately informed by the obligations to calculate water supply system yield? Is the water supply system yield appropriately defined and calculated? Are the design criteria appropriately defined and weighted?

Sydney Water believes the requirements in the former SCA operating licence to calculate and report yield should be retained for the part of WaterNSW's business that supplies bulk water to metropolitan Sydney. On the whole, the current requirements are sufficient for long-term planning needs. These requirements could be enhanced by introducing additional reporting requirements, as outlined below.

WaterNSW's practice of contributing calculations of long term average water yield to the metropolitan water planning process is complemented by Sydney Water's role of providing long term (50 year) water demand forecasts (including forecasts of demand with water restrictions). Sydney Water's forecasting, and discussions with stakeholders and customers about long term planning, would be more transparent if data and assumptions underlying calculations about yield

⁵ *Water NSW Act 2014*, sections 25(3) – 27.

⁶ SCA and SWC Raw Water Supply Agreement, clauses 4, 15 and 16

were more easily available. It would be useful for this information to be included as a reporting requirement in the Reporting Manual and made publically available.

WaterNSW calculates yield using its WATHNET model. The model used to optimise the water supply portfolio for greater Sydney is a related model, MetroNet. MetroNet is now managed by the Metropolitan Water Directorate (MWD) within the Department of Primary Industries-Water (DPI Water). DPI Water uses outputs from MetroNet to inform the periodic review of the Metropolitan Water Plan. To ensure consistent, good quality metropolitan water planning, we suggest WaterNSW's Operating Licence or Reporting Manual include an obligation for WaterNSW to provide this information to DPI Water, with defined terms of service. This could ensure that the transfer of important information is not compromised during times of organisational change, or when key staff leave. It will ensure metropolitan water planning continues to be robust, and be based on consistent information.

The design criteria for WaterNSW's supply of water for Sydney have usefully underpinned metropolitan water planning. However, it is not necessarily clear how the design criteria were developed in the past. The current operating licence does not require WaterNSW to review the design criteria, or publish information about the trade-offs between cost to operate the system, available yield, and time in restrictions. We support the continuation of a condition to make the design criteria publically available. We also recommend consideration of whether there should be any triggers for their review included, as they can have a significant influence on potential future augmentation and overall cost of the water supply system.

Ideally, the design criteria should be reviewed in conjunction with reviews of the Metropolitan Water Plan and be informed by community preferences. Our customers ultimately pay for the water supply system and the community as a whole is impacted by water restrictions that they are required to comply with. Customers may wish to make trade-offs between the cost of operating a system that has high levels of robustness (frequency with which restrictions are needed) and reliability (how long water restrictions last).

5 Construct, operate and maintain water management works

5.1 Asset management

25. Should WaterNSW be required to develop, implement and maintain an Asset Management System (AMS)? Is there benefit in requiring certification of the AMS to ISO 55001 (or other relevant standards)?

Sydney Water supports a requirement that WaterNSW develop, implement and maintain an asset management system certified to ISO 55001.

A certified system would provide a high level of assurance to customers, regulators and stakeholders that WaterNSW's systems and processes are managed according to international standards, while facilitating improvements and efficiencies in the provision of services to customers. ISO 55001 is the international standard for asset management, specifying all elements necessary to manage assets to achieve service and product outcomes. Certification to ISO 55001 and regular maturity assessments would provide robust assurance that WaterNSW has good practices in place to effectively manage its assets. This can allow lighter regulatory surveillance to be applied in the long term.

Sydney Water considers it preferable that there is consistent regulation of all water utilities in NSW, where circumstances allow. In the 2014-15 review of Sydney Water's Operating Licence IPART introduced a requirement to implement ISO 55001. Sydney Water supported this requirement as it should allow for regulatory efficiencies in the future. Deviating from the direction set in Sydney Water's last operating licence review would not enable a comparison of the different utilities or enable the other utilities to realise similar regulatory efficiencies.

6 Catchment management

28. Should the WaterNSW operating licence(s) authorise WaterNSW to undertake its listed declared catchment management functions, under the Water NSW Act, in the Sydney catchment area?

If authorised, do you agree with our preliminary view that the operating licence(s) can include terms and conditions that require WaterNSW to undertake these functions?

29. What terms and conditions should be included in the operating licence(s) to regulate how WaterNSW undertakes its listed declared catchment management functions?

30. Are there any catchment management functions currently being undertaken in the Sydney catchment area that should be performed in the rest of NSW, or vice versa? If so should they be authorised and/or required by terms and conditions in the operating licence(s)

Sydney Water supports WaterNSW being authorised to undertake its listed declared catchment management functions in the declared Sydney catchment area.

Sydney Water asks that any terms and conditions included in the relevant operating licence(s) with regard to catchment management ensure that the level of stringency in the declared Sydney catchment area is maintained to at least the current standard.

We do not have a view on catchment management functions performed in the rest of NSW.

7 Flood mitigation and management

32. Should the WaterNSW operating licence(s) authorise WaterNSW to undertake flood mitigation and management or is this more appropriate for other regulatory instruments (eg, the water supply work approvals under the Water Management Act 2000 [WMA])?

If authorised, do you agree with our preliminary view that the operating licence(s) can include terms and conditions that require WaterNSW to undertake this function?

Sydney Water is aware of the NSW government's announcement to increase the height of the Warragamba Dam for flood management purposes. Should this proposal proceed Sydney Water favours WaterNSW being authorised to undertake flood mitigation and management in the Sydney catchment area. We believe WaterNSW is the most appropriate agency to balance the competing needs of water supply and flood management in this instance.

Under the *Water NSW Act 2014*, WaterNSW is not currently authorised to undertake flood mitigation and management in the Sydney catchment area. Sydney Water understands that terms and conditions requiring WaterNSW to undertake flood mitigation and management in the Sydney catchment area could not be included in the new operating licence(s) unless the Act was amended.

33. What terms and conditions should be included in the operating licence(s) to regulate how WaterNSW undertakes its listed flood mitigation and management functions?

We do not have any view on the need for specific terms and conditions regarding flood mitigation and management functions.

If WaterNSW is authorised to undertake these functions, and does make investments into flood mitigation and management in the Sydney catchment area, a separate matter for IPART and Government to consider will be how WaterNSW should recover the costs of these activities. Sydney Water does not believe it is necessarily appropriate for these costs to be automatically passed through to Sydney Water's entire customer base via bulk water prices. Rather, consideration should be given to an appropriate proportioning of costs between the direct beneficiaries of flood mitigation and management activities, indirect beneficiaries, and whether additional funding sources are required. For example, people living and businesses operating in areas that are directly impacted by flooding will receive a larger benefit from flood mitigation than those living in other parts of Sydney. Part of this consideration should be whether it is appropriate for Sydney Water customers living outside the direct Sydney region (for example, in the Illawarra) to contribute to the recovery of these costs. We acknowledge that many direct beneficiaries will also be Sydney Water customers, and Sydney Water itself will gain some direct benefit with regard to the additional protection provided to our assets located in flood affected areas.

8 Education of the Community

36. Should the WaterNSW operating licence(s) authorise WaterNSW to undertake an educative role within the community?

- If authorised, do you agree with our preliminary view that the operating licence(s) can include terms and conditions that require WaterNSW to undertake this function?**

Sydney Water supports WaterNSW being authorised to undertake an educative role in the community. With regard to WaterNSW's educative role in the Sydney region, our view is that a general authorisation in the licence would be sufficient.

There is a general community expectation for access to information and education on water, as evident by its inclusion in school curriculums, university courses, and the level of community interest. WaterNSW has a key role to play in providing education on the value of water, management of water and systems to protect water quality, and the role of water in environmental health. Sydney Water had a long running relationship with the Sydney Catchment Authority to provide information and education on the entire drinking water cycle. Sydney Water believes this relationship should be continued with WaterNSW.

Sydney Water has established a relationship framework with WaterNSW as part of the RWSA. For joint education projects, our preferred approach for specifying terms and conditions is to include these in the relationship framework.

The Sydney Catchment Authority has used education and community engagement as a core element in its catchment management program to support sustainable land management and catchment protection. Sydney Water believes this function should be continued by WaterNSW.

9 Other Issues

9.1 Environmental management

38. Should WaterNSW be required to develop, implement and maintain an Environment Management System (EMS)? Is there benefit in requiring certification of the EMS to ISO 14001 (or other relevant standard)?

Sydney Water believes there is significant value in retaining the environmental management system requirements in the new operating licence(s).

Sydney Water considers an environment management system is a valuable resource management tool to ensure our catchments are protected to maintain water quality to a standard suitable for drinking. Implementing an environment management system:

- provides an assurance function that the environment is protected and environmental impacts mitigated
- enables the embedding of good business practices that improve the services and products provided to customers.

Sydney Water suggests that the WaterNSW operating licence(s) refer to the most recent version of the ISO14001 standard which was released in 2015. This would be consistent with the requirements in other operating licence(s) issues by IPART for water utilities in NSW.

9.2 Performance standards

39. For which services or classes of customers should the operating licence(s) prescribe performance standards, if any?

Sydney Water understands that WaterNSW's Act requires the new operating licence(s) to specify performance standards in relation to water delivery if the operating licence(s) authorises WaterNSW to capture, store, release, or supply water. We note this must include performance standards relating to water delivery, water quality and service interruptions.

However, the Act also contains a specific requirement under section 25 for WaterNSW to enter into arrangements with Sydney Water regarding the supply of water by WaterNSW. These arrangements must address:

- (a) quality of the water supplied
- (b) continuity of water supply
- (c) maintenance of adequate reserves of water by Water NSW
- (d) cost to be paid by the Sydney Water Corporation for the supply of water to it.

Sydney Water believes the intent of the Act is to allow both organisations the flexibility to negotiate standards that meet our customers' needs and expectations through commercial terms.

In order to avoid duplication and/or confusion, our first preference would be for any general performance standards included in the operating licence to explicitly not apply to the delivery of

water to Sydney Water. If this exclusion does not occur, any performance standards that are included in the licence should not compromise the intent and function of section 25 of the Act.

We note that WaterNSW has proposed the following performance standards to be included in the licence as minimum standards, to satisfy the requirement in the Water NSW Act that the licence include performance standards:

- water supplied to customers meets raw water quality standards < 95% of the time
- water supplied to customers meets health standards 100% of the time
- water is supplied to customers on time 100% of the time
- water is supplied to customers in the agreed quantities 100% of the time.

Our strong preference is for standards relating to the delivery of water to Sydney Water to be dealt with via the agreement required by the two parties under section 25 of the Act and excluded from the application of any general performance standards. Instead, the licence could make explicit reference to the legislative requirement for WaterNSW and Sydney Water to negotiate agreed performance standards that are specific to Sydney Water's needs through the RWSA. The standards proposed above would not meet Sydney Water's current needs and expectations with regard to water quality.

We note that there appears to be a typographical error in WaterNSW's submission with regard to the first dot point above. We suggest that "< (less than) 95%" was meant to be "> (greater than) 95%. Even with this error rectified, this proposed standard would still not sufficiently meet Sydney Water's needs regarding water quality.

40. What is the scope to convert any of the existing performance indicators of the SCA and State Water operating licences and Reporting Manuals to standards?

As noted in our response to question 39, our strong preference is for performance standards that specifically relate to Sydney Water to be addressed through the RWSA.

9.3 Area of operations

44. Other than for the circumstances already discussed in this Issues Paper, when is it appropriate for a function of WaterNSW to be constrained to a particular area (ie, not the whole of NSW)?

Sydney Water's main concern is that the current requirements and standards for drinking water in the Sydney catchment area are maintained in the new operating licence(s). We have no position on WaterNSW's functions in other areas of NSW.

46. Should WaterNSW be authorised to exercise functions conferred or imposed on Sydney Water, Hunter Water or a water supply authority under the *Water Management Act 2000* (WMA), in their areas of operations? What operating licence(s) terms and conditions are appropriate to regulate (and/or limit) how WaterNSW performs these functions?

Sydney Water has no objection to WaterNSW being authorised to exercise functions conferred or imposed on Sydney Water in our area of operations provided these functions are only carried out under a negotiated agreement or with our approval.

47. When and why should WaterNSW be required to obtain other entities' agreement before operating in their areas of operations?

Sydney Water considers the current commercial arrangements with WaterNSW sufficiently address this issue. Additional requirements are not required in the operating licence(s) with respect to agreements with Sydney Water.

9.4 Memorandum of Understanding

50. Should the operating licence(s) require WaterNSW to enter into MoUs with the EPA and NSW Health for all of NSW? Or, should it be constrained to parts of NSW (eg, the Sydney catchment area)?

Sydney Water supports the role of a Memorandum of Understanding (MOU) between a water utility and its environmental and health regulators. All MoUs are important given the high degree of coordination and communication needed between agencies on matters of environmental and public health.

Sydney Water sees the role of an Operating Licence as providing some direction on the content and purpose of the MoUs. Sydney Water does not view this as duplication, but rather a means of clarifying the way the MoUs should operate and ensuring that the MoUs are maintained over time (there is no requirement in the Act to maintain the MoU after it is entered into). Consequently, we would support the operating licence(s) containing terms and conditions for any MoUs. These terms and conditions should be at a high level, rather than be overly prescriptive.

Sydney Water has no preference for whether the MOUs for WaterNSW apply to the whole of NSW, rather than being constrained to the declared Sydney catchment area, provided there is no lessening of stringency applied to the Sydney catchment area.

51. Should the operating licence(s) include a requirement to have a MoU with any other entity and if so, for what purpose? What would be the appropriate terms and conditions requiring such a MoU?

Under the *Water NSW Act 2014* WaterNSW is required to enter into an agreement with Sydney Water for the supply of water⁷. The current agreement (RWSA) contains many terms and conditions similar to a MoU. For this reason Sydney Water does not support an additional requirement for WaterNSW to enter into a MoU with an entity for which it already has a commercial agreement.

Sydney Water has no position on whether a potential MoU with other entities, other than those stipulated by the Act, should be a requirement in the new operating licence(s).

9.5 Metering

52. Should the WaterNSW operating licence(s) authorise WaterNSW to operate, replace, repair, maintain, remove, connect, disconnect or modify metering equipment that it does not own?

Sydney Water has no objection to WaterNSW being authorised to operate, replace, repair, maintain, remove, connect, disconnect or modify metering equipment that it does not own, provided that these functions are only carried out with the agreement of the asset owner.

9.6 Retail services

57. Should the WaterNSW operating licence(s) contain an obligation requiring compliance with the pricing determinations?

Sydney Water supports the WaterNSW operating licence(s) containing an obligation requiring compliance with pricing determinations. A general objective of price regulation is to ensure that there is no potential abuse of monopoly power. This is achieved through the setting of maximum prices. As a provider of monopoly services, WaterNSW should be required – whether via its enabling legislation, operating licence or a combination of both – to ensure that compliance with pricing determinations occurs.

Both Sydney Water and Hunter Water’s operating licences contain such an obligation⁸. Including this requirement in the WaterNSW operating licence(s) would contribute to a consistent approach to licences issued by IPART for major water utilities in NSW.

⁷ *Water NSW Act 2014*, section 25

⁸ Sydney Water Operating Licence 2015-2020, clause 1.9 and Hunter Water Corporation Operating Licence 2012-2017, clause 1.9.

9.7 Metropolitan Water Plan

67. Should WaterNSW be required to meet specific requirements of the Metropolitan Water Plan? What operating licence(s) terms and conditions are appropriate to regulate this?

Sydney Water does not support including a requirement in WaterNSW's operating licences that requires WaterNSW to meet specific requirements of the Metropolitan Water Plan (MWP)

A revised MWP is likely to be released in late 2016. The final plan may include recommendations for agencies and state owned corporations (SOCs) to undertake activities or make investments. Significant investments require agencies and SOCs to complete additional investigations and feasibility studies, develop and seek approval for business cases, and identify suitable funding mechanisms. If projects are not feasible at any stage of the project development, and it becomes prudent that they not be pursued, the SOC should not be in breach of their Operating Licence.

68. Should the operating licence(s) require WaterNSW to develop a protocol with the Metropolitan Water Directorate, outlining WaterNSW's roles and responsibilities in developing and implementing the Metropolitan Water Plan? If so, what constraints or parameters should be put around this requirement?

Sydney Water supports a requirement for WaterNSW to develop and maintain a Roles and Responsibilities Protocol with MWD. Including such a requirement will be consistent with requirements included in the Operating Licences for Hunter Water and Sydney Water. As meeting this requirement will be reliant on the cooperation and input of a third party, the obligation should be limited to WaterNSW using its best endeavours to meet the requirement.

9.8 Synergies with price regulation

69 How could the WaterNSW operating licence(s) be amended to enhance links with IPART's pricing function?

See our response to question 57 above.

70 Is there merit, or otherwise, in ongoing sequencing of the operating licence(s) reviews and the price reviews, such that operating licence(s) review immediately informs the price review?

Operating licence standards, particularly those relating to levels of service, are a key input to pricing submissions. There needs to be a sufficient period of time for planning and budgeting relating to levels of service, in order for the regulated utility to incorporate robust costs into pricing proposals, especially where there may be major changes or new conditions added to operating licence requirements. Typically, this would appear to be most easily achieved by having licence reviews precede price determinations. However, in practice, the exact timing required to sufficiently incorporate licence standards into price reviews may differ between utility and even between determinations (for example, depending on the extent of changes sought in that particular review).

Due to the historical practice of setting licence periods for their maximum length of five years and price periods for periods of four years, there is no standard or typical timing of operating licence and price review processes. Rather, licence reviews sometimes precede, sometimes follow and

sometimes coincide with the timing of price reviews. Sydney Water considers that the optimal sequencing and timing of any given review is a matter for the relevant utility in light of the circumstances at the time.

9.9 Reporting Manual

71 Should reporting obligations be imposed on WaterNSW by the reporting manuals through the operating licence(s)? What term(s) and condition(s) are appropriate to regulate this? What type of information should be reported?

Sydney Water supports reporting obligations being imposed on WaterNSW by a Reporting Manual through the operating licence(s). This approach is consistent with the other operating licences issued by IPART for water utilities in NSW.

With respect to the terms and conditions, we support transparent reporting to IPART and customers on the quality and safety of water they receive and the context of how we achieve this.

With regard to water quality, the Reporting Manual should contain reporting requirements that focus on outcomes achieved by the Drinking Water Quality Management System (that is, high quality drinking water).

72 Do the performance indicators provide value and are the definitions practical to implement including data collection and reporting?

In general we have no strong views on whether performance indicators provide value. However, Sydney Water believes there is a benefit in including a requirement in the operating licence(s) for WaterNSW to report against National Water Initiative (NWI) performance indicators as it will provide consistency with other operating licences issued by IPART for water utilities in NSW.

10 Glossary

| | |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ADWG | Australian Drinking Water Guidelines |
| AMS | Asset Management System |
| DPI Water | NSW Department of Primary Industries – Water division |
| Drinking water | Water that is intended, or likely, to be used for human consumption, or for purposes connected with human consumption |
| DWQMS | Drinking Water Quality Management System |
| EMS | Environmental Management System |
| IPART | Independent Pricing and Regulatory Tribunal of NSW |
| ISO | International Organisation for Standardisation |
| ISO 55001 | <i>ISO 55001 International Standard for Asset Management</i> |
| MOU | Memorandum of Understanding |
| MWD | Metropolitan Water Directorate |
| MWP | <i>The 2010 Metropolitan Water Plan</i> |
| NWI | National Water Initiative |
| RWSA | Sydney Catchment Authority and Sydney Water Corporation Raw Water Supply Agreement. The arrangement with the Sydney Water Corporation regarding the supply of water by Water NSW required under section 25 of the <i>Water NSW Act 2014</i> . |
| SCA | Sydney Catchment Authority |
| SOC | State Owned Corporation |
| SWC | Sydney Water Corporation |
| Sydney catchment area | The declared catchment area known as the Sydney catchment area referred to in clause 17 of schedule 2 of the <i>Water NSW Act 2014</i> , as declared under the Act. |
| WMA | <i>Water Management Act 2000 (NSW)</i> |

