

**REVIEW OF THE OPERATING LICENCE FOR
SYDNEY WATER CORPORATION**

**SUBMISSION BY TOTAL ENVIRONMENT CENTRE TO
THE INDEPENDENT PRICING AND
REGULATORY TRIBUNAL**

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INTRODUCTION

Total Environment Centre (TEC) welcomes the opportunity to comment on the review of the Sydney Water Corporation (SWC) operating licence. TEC has serious concerns regarding several proposals outlined in the Tribunal's discussion paper (IPART, 2014). In particular we strongly oppose deletion of the current Water Conservation Target. We also oppose removing other key licence obligations in the name of avoiding 'regulatory duplication'

Responses to issues raised by Independent Pricing and Regulatory Tribunal (IPART) discussion paper are provided below.

ROLE OF THE OPERATING LICENCE

TEC notes the Tribunal's view that the primary role of the operating licence is to ensure that SWC provides an adequate level of service to its customers and that many licence provisions would be unnecessary if the corporation were operating in a competitive market (IPART, 2014).

TEC believes that this is an excessively narrow view of the role of the operating licence. The nature and scope of SWC's operations are such that they have important environmental, social and economic implications beyond the simple delivery of monopoly utility services.

The operating licence provides a simple and transparent mechanism for ensuring the SWC's operations **are publicly accountable in an effective manner**. It is essential that the operating licence be an overarching instrument that clearly sets out obligations and performance requirements. Allowing these obligations to rest solely within other instruments could lead to regulatory confusion and create barriers to review of performance by the Licence Regulator. The operating licence provides an integrating instrument that allows coherent management of SWC as a whole. No other regulatory agencies or instruments provide such a function.

TEC strongly believes that the simple, transparent and overarching nature of the operating licence should not be compromised and the licence reduced to a 'shell' instrument. This could reduce the accessibility and ease of interpretation of the licence for the public. To this end, key requirements of any licence plans or systems (i.e. required outcomes) should be retained in the licence and performance against plans or systems considered in the operational audit. Removing them from the licence will make it difficult for non-specialist readers (i.e. other than IPART) to identify key obligations or comment upon performance against them. Subsidiary licence plans should be developed by an open, transparent process with opportunity for public participation. Where SWC obligations are regulated by other instruments and agencies these should be referenced in the operating licence. Concerns about 'paper or process efficiency' are far less important than real public confidence.

WATER CONSERVATION

TEC strongly opposes removal of the current 329 litres/capita/day (lcd) water conservation target from the operating licence as proposed by the Tribunal and SWC (IPART, 2014; SWC, 2014). The target has been important in driving water conservation efforts and ensuring accountability of Sydney Water's demand management performance.

The current target is an important statement of NSW Government policy in relation to the management of the State Owned Corporation Sydney Water and the management of Sydney's water resources.

We recognise that there are some regulatory difficulties associated with auditing compliance against the current target. In particular, accounting for factors not under the direct control of SWC. Nevertheless, we remain convinced that, as the entity with the greatest degree of influence on and control over Sydney's overall water consumption SWC should remain accountable for compliance against this target.

TEC sees merit in the introduction of individual targets for leakage, water efficiency and recycled water. These should be subsidiary to the overall water conservation target and will assist in assessing the rigour of SWC's efforts to curb demand. These targets could be less prescriptive than the volumetric water conservation target thus allowing SWC some flexibility in how it meets the overall target.

TEC would thus support licence requirements for SWC to:

- Promote water efficiency and recycling
- Determine and report the economic level of leakage (ELL) and manage its leakage program in accordance with the level.
- Develop a multi-criteria decision framework to identify opportunities and investment priorities for water conservation and demand management.
- Comply with its roles and responsibilities under the Metropolitan Water Plan.

We stress, however, that these requirements should be in addition to and supportive of, the overall water conservation target.

It has been argued that the water conservation target may result in 'inefficient' expenditure in water conservation beyond what is needed to ensure security of supply (IPART, 2014; SWC 2014). TEC rejects this view. Reducing consumption of water delivers benefits beyond simply ensuring security of supply. These include reduced impacts on ecosystems and catchments from which water is sourced, reduced volumes of sewage effluent discharged to receiving waters and reduced energy consumption from pumping operations. Reducing consumption also ensures that operation of the expensive and energy intensive desalination plant will be minimised. We note that experience in Colorado USA counters the argument that reducing per capita consumption by investing in water conservation forces increased prices per unit of water

billed. In fact, rate increases needed to fund water conservation were found to be significantly smaller than would have been required to provide services to a growing population without water conservation (Feinglas, et al., 2013).

We note that SWC is currently meeting the 329 litres/capita/day (lcd) water conservation target with average consumption between 300-310 lcd (SWC, 2014). The current target would thus not appear to be imposing any undue burden on SWC but has undoubtedly played a vital role in driving performance to its current level. We can see no logic in deleting the target unless it is proposed to allow consumption to expand beyond 329 lcd and maximise water sales.

The current operating licence does not include a target for water recycling. TEC does not suggest that a separate target for recycling be included in the licence. It should be noted, however, that the water conservation target has played an important role in driving investment in recycling with around 47 million litres of water recycled annually (SWC, 2014). Deleting the water conservation target will reduce the impetus for further development of recycling.

TEC supports retention of requirements for SWC to report upon the total quantity of potable water drawn from all sources, the volume of water used by residential customers, the volume of water used by commercial customers and the average volume of water supplied to residential properties. These indicators provide important information on patterns of water use.

WATER QUALITY

TEC supports retention of the current operating licence requirements in relation to drinking water quality. Requirements to comply with the Australian Drinking Water Guidelines (ADWG) and any revisions made by the NHMRC and ARMICANZ to the health related aspects of these guidelines are essential to ensure that the Corporation meets the most up to date drinking water standards available.

TEC has reservations with proposals to delete the requirement to prepare the Five-year Drinking Water Quality Management Plan and the requirement to comply with the *Flouridation of Public Water Act 1957* and associated instruments. These provide important public health protections and should be retained. It is proposed that these requirements be replaced with a Water Quality Management System that is consistent with the Australian Drinking Water Guidelines and Australian Guidelines for Water Recycling (IPART, 2014). If such a system is adopted it should be developed with public consultation and clearly require adherence with the Australian Drinking Water Guidelines and Australian Guidelines for Water Recycling.

ENVIRONMENT

TEC supports retention of the requirement for SWC to Water to maintain an Environmental Management System certified to AS/NZS ISO 14001:2004. SWC is large corporation whose operations have a substantial environmental footprint. It is, therefore, appropriate that SWC be required to ensure that its EMS is appropriately certified.

TEC does not support removal of the requirement to produce a Five-year Environment Plan. We believe that the plan has been valuable for monitoring and communicating environmental performance. We see little benefit in deleting this requirement from the licence.

INFRASTRUCTURE

TEC believes that current system performance standards are generally appropriate and should be maintained. The current standards provide a balance between maintaining adequate levels of service and preventing 'gold plating' of assets. We see merit in adopting a systems standard approach to asset management that is consistent with and certified to ISO 5501:2014 providing current system performance standards are incorporated and maintained.

TEC does not support removing the word 'uncontrolled' from the licence definition of sewerage overflows. We believe that maintaining this distinction provides important information on the performance and management of sewerage infrastructure.

TEC notes that SWC is proposing that response times for Priority 5 breaks and leaks be modified to the next working day, rather than six hours. We acknowledge that the potential increase in water leakage of 0.4 ML/day (SWC, 2014) is relatively minor. We also acknowledge that modifying response times to Priority 5 leaks may reduce disturbance and inconvenience to customers. TEC does not oppose this change; however, we believe that SWC's proposal to send an assessor to determine if a shorter response time is required should be mandated. We also believe that response times for higher priority leak should remain unaltered.

TEC notes that fulfilling remaining obligations under the Priority Sewerage Program (PSP) covering Scotland Island, Nattai and Yanderra are predicted to be prohibitively expensive (IPART, 2014; SWC, 2014). The PSP was developed in 1997 to address specific environmental and public health risks (IPART, 2014; SWC, 2014). It is possible that other options may be able to deliver the same benefits at reduced cost. It would therefore be appropriate to replace the obligation to complete these works with a requirement to achieve the same public health and environmental outcomes.

OTHER AREAS FOR CONSIDERATION

TEC strongly supports retention of the requirements that Sydney Water prepare Memorandum of understanding (MoU) with the NSW Office of Water (NOW), the NSW Health and the Environment Protection Authority. The MoUs provide an important function in defining the relationships between SWC and these organisations. In the interests of transparency and maintaining an overarching operating licence these requirements should be retained.

TEC supports SWC's view that the current performance indicators should be maintained. We note the corporation does not believe that these indicators are unduly costly to compile (SWC, 2014).

The Tribunal has sought views on whether the operating licence should be amended to enhance links with IPART's pricing function. We note the Tribunal's comment that there is a trade-off between service standards and prices. TEC is concerned that amending the licence to enhance links with IPART's pricing function could result in pricing considerations determining the content of the licence and resulting in diminution of standards. We believe that current arrangements are appropriate and should be retained.

REFERENCES

Feinglas, S., Gray, C. & Mayer, P. (2013) "Conservation Limits Rate Increases for a Colorado Utility". Alliance for Water Efficiency, Chicago.

Independent Pricing and Regulatory Tribunal (2014) "Review of the Operating Licence for Sydney Water Corporation. Water Licensing - Issues Paper", IPART, Sydney.

Sydney Water Corporation (2014) "Review of the Operating Licence for Sydney Water. Submission to IPART's Water Licensing Issues Paper July 2014". SWC, Sydney.