



**13 October 2023**

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## **Response to WaterNSW Operating Licence Review 2022-2024 Issues Paper**

Dear Maria,

Thank you for the opportunity to provide a response to IPART's Issues Paper for the end-of-term review of Water NSW's *Operating Licence 2022-2024*. We submit this letter as our formal response to IPART's Issues Paper.

We support IPART's review approach and agree that the licence should reflect customers' and stakeholders' preferences and needs. We are also supportive of IPART's guiding principles of clarity, enforceability, setting minimum requirements and, where possible, removing redundancy in the licence.

With IPART's shift towards a more outcomes-focussed review approach, we consider there is value in moving towards an Operating Licence review 'by exception' in future. Operating licence reviews could be targeted to focus on areas of greatest concern or potential gaps for our customers and stakeholders. We believe this would continue to deliver value to our customers and community, while making the best use of available resources.

IPART has set out many questions in its Issues Paper. We have not provided a response to each of these questions. Instead, we provide comments on some specific licence areas.

### **Water planning**

Long-term water planning is critical to ensuring that we can provide a resilient and reliable water supply for our customers. We recognise the importance of our role in this area, even more so since the transfer of supply augmentation planning function in Greater Sydney to Sydney Water in 2021.

Given the transfer of planning accountabilities occurred outside the context of a licence review, we consider there is value in adjusting each of our licences to clarify the respective roles and accountabilities of Sydney Water and WaterNSW in relation to the supply augmentation planning function. The current end-of-term reviews provide a clear opportunity to ensure that roles and responsibilities are clear and appropriately reflected in the respective licences of each organisation.

Any new licence clauses should be in line with the Ministerial Direction and the MoU with WaterNSW. In particular, we consider there is value in clarifying WNSW's role to provide system yield information – including recalculation if necessary – to Sydney Water upon request so that we are able to carry out our supply augmentation planning function in a timely manner.

We remain committed to participating and contributing to long-term water planning alongside the NSW Government, WaterNSW and other agencies. To this end, we are supportive of licence requirements to participate cooperatively with all parties, including WaterNSW, in any review of the Greater Sydney Water Strategy (GSWS), to maintain a Long-Term Capital and Operational Plan (LTCOP) in cooperation with WaterNSW, and to maintain and review the Greater Sydney Drought Response Plan, jointly with WaterNSW. As these requirements require cooperation and collaboration between Sydney Water and WaterNSW, we propose they should include 'best endeavours' wording to ensure that the utility's compliance is measured only on aspects within its control.

### **Climate risk readiness**

Greater Sydney is facing an increasing number of threats, hazards, shocks, and stressors. Climate change is leading to more extreme, frequent, compounding climate hazards and failures from interdependent infrastructure systems (ie water, power, road access, supply chain). This means we will have to cope with events not previously experienced. We welcome the opportunity to consider the role of operating licences in navigating the challenges of climate change and resilience.

IPART has proposed to require WaterNSW to develop and maintain a climate-related risk management program consistent with the Climate Risk Ready NSW Guide and to report on its progress towards achieving Net Zero and against the ISSB's sustainability-related disclosure standards. These changes are similar to those IPART has proposed for our own *Sydney Water Operating Licence Review 2023-24*.<sup>1</sup>

We are generally supportive of IPART's proposed licence changes for our own operating licence<sup>2</sup> but, like WaterNSW, we see potential risks of regulatory duplication. We consider that further clarity from IPART on the content and timing of these proposed licence requirements may help to reduce the risk of regulatory duplication.

For example, from FY25, NSW Treasury will require organisations like Sydney Water and WaterNSW to publish climate-related financial disclosures every financial year in alignment with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. In June 2023, the International Sustainability Standards Board (ISSB) also released its new sustainability standards, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. The ISSB standard builds on the TCFD recommendations, foreshadowing more holistic sustainability reporting and disclosure requirements that may be adopted by NSW Treasury in the future. It is

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<sup>1</sup> IPART (2023) *Sydney Water Operating Licence Review 2023-24 Issues Paper*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Issues-PaperSydney-Water-Operating-Licence-Review-July-2023.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Issues-PaperSydney-Water-Operating-Licence-Review-July-2023.PDF), pp. 37-48.

<sup>2</sup> Sydney Water (2023) *Sydney Water Operating Licence Review 2023-24 – Response to Issues Paper*, 1 September, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Sydney-Water-Operating-Licence-Review-2023-24-Response-to-IPART-Issues-Paper-September-2023.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Sydney-Water-Operating-Licence-Review-2023-24-Response-to-IPART-Issues-Paper-September-2023.PDF).  
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unclear when this will occur or how this will be appropriately audited. So, while it may be reasonable to request further visibility on WaterNSW's progress towards achieving Net Zero, Sydney Water shares WaterNSW's concerns of introducing a licence clause that requires reporting against the ISSB's sustainability-related disclosure standards. Changes to the operating licence and reporting requirements should not be duplicative or risk conflicting with current and future requirements.

Finally, Sydney Water is pleased to hear that WaterNSW are "developing a Climate Risk and Adaptation Plan, which addresses the requirements of the Climate Risk Ready Guide".<sup>3</sup> We support the benefits of aligning to the NSW Climate Risk Ready Guide.

## Performance standards

We support IPART's outcomes-focussed approach to set minimum levels of service in the operating licence to meet legislative requirements and provide a safety net for customers. We consider that this is the appropriate role of the operating licence and that any performance above those standards, as informed by customer preferences, should occur through the price review.

Sydney Water supports the requirement for a water quality performance target to be included in the licence and to be integrated with the requirements of Sydney Water's Water Quality management system. In doing so this will not only reduce duplication and ensure alignment with respect to NSW Health and customer requirements but will also align with technical and commercial requirements downstream as part of a total water quality management system.

In adopting a system-wide approach, WaterNSW should also work collaboratively with Sydney Water to ensure they are actively supporting Sydney Water's minimum services standards for water continuity and make available the best available raw water quality.

## Water quality management

Sydney Water supports the development of an integrated water quality monitoring system from 'catchment to tap' as part of WaterNSW's water quality management.

Sydney Water believes better transparency and reporting of catchment management activities could assist in improving water quality outcomes for customers. We also consider that managing drinking water supply in Greater Sydney requires a holistic 'catchment to tap' approach, since impacts in the upstream part of the network can have significant consequences downstream. In particular, the way WaterNSW manages its assets can have potential impacts on our supply of drinking water to our customers, in relation to system outages or public health impacts. There is a need to ensure that WaterNSW's management systems align with Sydney Water's water quality management system and adopts a true system-wide perspective.

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<sup>3</sup>WaterNSW (2023) *WaterNSW Response to WaterNSW Operating Licence Review 2022-24 Issues Paper*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Water-NSW-Response-to-WaterNSW-Operating-Licence-Review-2022-2024.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Water-NSW-Response-to-WaterNSW-Operating-Licence-Review-2022-2024.PDF), p. 27.



We continue to work closely with WaterNSW to better understand the risks to our joint system. We support WaterNSW's position outlined in its response to IPART's Issues Paper<sup>4</sup> and agree that there is value in WaterNSW continuing to maintain an asset management system (AMS) consistent with ISO55001.

### **Critical infrastructure security**

The Commonwealth Government's *Security of Critical Infrastructure Act 2018* ('SOCI Act'), as amended by the *Security Legislation Amendment (Critical Infrastructure Protection) Act 2022* (Cth) ('SLACIP Act'), provides a mechanism for regulating critical infrastructure assets across a broad range of sectors.

With the new rules of the amended SOCI Act due to formally commence on 17 August 2024, we consider that the SOCI Act is the most appropriate mechanism for regulating utilities in this area and there is no longer any need for operating licences to include critical infrastructure security requirements. In particular, we do not consider there is a need for operating licences to include requirements for select staff to hold national security clearances. Many of our own staff are required to hold some level of security vetting in order to conduct their work in critical infrastructure security, regardless of whether there is a licence requirement or not. This decision can therefore be left to individual organisations.

We look forward to reading the views of WaterNSW's customers and stakeholders in their submissions to IPART's review, and to participating in the public hearing later in the review process. If you would like to discuss these matters further, please contact Michael English, Competition & Licensing Manager at [michael.english@sydneywater.com.au](mailto:michael.english@sydneywater.com.au).

Yours sincerely,

**Monika Moutos**  
**Head of Economics & Regulation**

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<sup>4</sup> WaterNSW (2023) *WaterNSW Response to WaterNSW Operating Licence Review 2022-24 Issues Paper*, [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Water-NSW-Response-to-WaterNSW-Operating-Licence-Review-2022-2024.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Water-NSW-Response-to-WaterNSW-Operating-Licence-Review-2022-2024.PDF), p. 50.

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