



**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**  
OF NEW SOUTH WALES

**Invitation to Tender**  
**2002/2003 Operational Audit of Hunter Water Corporation**  
(03/171)

The Independent Pricing and Regulatory Tribunal is seeking tenders from suitably qualified auditors to conduct an independent Operational Audit of Hunter Water Corporation's compliance against the requirements of its Operating Licence for the period 1/7/2002 to 30/6/2003. See Tenders at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

**Invitation to Tender**  
**2002/2003 Operational Audit of Sydney Catchment Authority**  
(03/174)

The Tribunal is seeking tenders from suitably qualified auditors to conduct an independent Operational Audit of Sydney Catchment Authority's compliance against the requirements of its Operating Licence for the period 1/7/2002 to 30/6/2003. See Tenders at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

**Invitation to Tender**  
**2002/2003 Operational Audit of Sydney Water Corporation**  
(03/179)

The Tribunal is seeking tenders from suitably qualified auditors to conduct an independent Operational Audit of Sydney Water Corporation's compliance against the requirements of its Operating Licence for the period 1/7/2002 to 30/6/2003. See Tenders at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

To appear in the *Sydney Morning Herald* and *The Australian* on 7 July 2003.



INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
OF NEW SOUTH WALES

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INVITATION TO TENDER

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**SYDNEY WATER CORPORATION - 2002/03 OPERATIONAL AUDIT**

**1 BACKGROUND**

The Independent Pricing and Regulatory Tribunal of New South Wales is seeking suitably qualified consultants to conduct an audit of Sydney Water Corporation's performance against its Operating Licence.

Sydney Water is a statutory State Owned Corporation wholly owned by the NSW Government. The Corporation provides water, sewerage and some stormwater drainage services to about 4 million people within Sydney, Blue Mountains and Illawarra regions.

In accordance with the *Sydney Water Act 1994*, an Operating Licence was granted to Sydney Water by the NSW Government in 1995. A copy of the Operating Licence can be found at [www.sydneywater.com.au](http://www.sydneywater.com.au). A requirement of the licence is that an annual Operational Audit be undertaken to assess the Corporation's performance against the requirements of the Operating Licence. The Audit is used by the Tribunal as the basis for its report on Sydney Water's performance and its recommendations to the Minister for Energy and Utilities (the Minister responsible for Sydney Water).

The Environment Protection Authority, the Department of Infrastructure, Planning and Natural Resources and NSW Health continue to regulate Sydney Water's activities concerning the environment, its use of water resources and public health respectively.

**2 OBJECTIVES OF CONSULTANCY**

The objective of this project is to advise and report to the Tribunal on Sydney Water's performance against its Operating Licence for the period from 1 July 2002 to 30 June 2003. In undertaking this task the auditor must:

1. Review and assess the level of compliance (or progress) achieved by Sydney Water against the Operating Licence requirements for the period 1 July 2002 to 30 June 2003.
2. Assess and report on progress by Sydney Water in implementing the Ministerial Requirements arising from the 2001/02 Operational Audit of Sydney Water (Attachment 1).
3. Review and assess the level of compliance with, or performance against, the amended System Performance Standards introduced by the Minister on 1 July 2001. These standards relate to water pressure, water continuity and sewerage overflows on private land (Attachment 2).

4. Identify any factors that have affected Sydney Water's performance for the period from 1 July 2002 to 30 June 2003 in relation to the above.
5. Identify any factors that could impact on Sydney Water achieving the performance requirements of the Operating Licence in the future.
6. Based upon the audit assessment, make recommendations on how Sydney Water can improve its performance in the future.

The audit process should take account of public submissions and the views of Sydney Water's regulators (EPA, NSW Health and the Department of Infrastructure, Planning and Natural Resources) and other stakeholders, including environmental, social welfare and public interest groups.

The auditor will be responsible for assessing and interpreting the audit requirements and ensuring that the audit process satisfies all statutory requirements. Under its Operating Licence Sydney Water is required to provide IPART with a range of reports to inform the Operational Audit. This package of information will be provided to the successful tenderer at the start of the contract.

## **2.1 Outputs**

The main outputs from the Audit are:

1. two draft reports and a final written report addressing the objectives of the consultancy relevant to the Operating Licence and the Ministerial requirements.
2. discussions and meetings with the Tribunal and/or the Tribunal Secretariat, and
3. presentations to the Tribunal and/or Tribunal Secretariat which outline the major issues and findings relevant to the objectives.

Four bound copies and 1 loose-leaf copy, as well as electronic copies in Microsoft Word format, should be provided for the draft and final reports referred to in point 1 above.

The auditor should note that the final Operating Licence report will be tabled in Parliament by Sydney Water's portfolio Minister and, as such, will become a public document. Accordingly, the report should be clearly and logically set out and written in plain English, avoiding the use of unnecessary technical language. The Tribunal will also publicly display and make the report available for downloading on its website.

On completion of the audit, the auditor's Operating Licence reports, working papers and advice provided to the Tribunal will become the property of the Tribunal.

## **2.2 Format of Report**

The Tribunal's format for the final report includes:

- a summary of compliance with the requirements of the Operating Licence and Ministerial Requirements and a summary of key recommendations.
- a summary of key audit findings providing a performance overview within the context of the Sydney Water's business, legislated objectives and regulatory environment.

- for each section of the licence and for any Ministerial Requirements:
  - a summary of findings
  - a summary of requirements
  - details of compliance
  - a discussion of any relevant factors affecting compliance
  - a discussion of any other relevant issue
  - recommendations on how performance can be improved in the future.

Further details of the Tribunal’s preferred format will be provided to the successful tenderer.

## 2.3 Audit for NSW Health

NSW Health sets standards for water quality and has responsibility for ensuring that those standards are met. NSW Health may wish to engage a consultant to conduct an audit of Sydney Water. NSW Health may desire to negotiate with the Tribunal’s preferred consultant for that consultant to conduct the audit for NSW Health, contemporaneously with the audit to be undertaken for the Tribunal.

However these are matters for the decision of NSW Health. The Tribunal provides no assurance that NSW Health will necessarily engage the Tribunal’s preferred consultant or indeed any consultant. The preferred consultant is advised to discuss these matters directly with NSW Health at the appropriate time.

## 3 CONDITIONS OF TENDER

### 3.1 Timing

The successful tenderer must be able to meet the following work schedule:

| <b>CONTRACT PROGRAM</b> |             |   |
|-------------------------|-------------|---|
| <b>Month</b>            | <b>Date</b> | <b>Activity</b>   |
| September               | Mon 1       | Start of contract   |
| October                 | Mon 20      | Delivery of first draft Audit Report ( <b>First milestone</b> )   |
|                         | Fri 24      | Discussion of first draft with Tribunal and /or Secretariat   |
| November                | Mon 17      | Delivery of second draft Audit Report ( <b>Second milestone</b> )   |
|                         | Wed 19*     | Discussion of second draft with Tribunal and/or Secretariat   |
| December                | Mon 1       | Delivery of final Audit Report ( <b>Third milestone</b> )   |
|                         | Fri 5*      | Discussion of final Audit Report with Tribunal and/or Secretariat (if required)   |
|                         | Tue 9*      | Debriefing meeting with the Tribunal and Sydney Water on the final Operating Licence audit recommendations<br>End of Contract |

\*Indicative dates – subject to negotiation between the Tribunal Secretariat and auditor.

Formal written progress updates will be required from the consultant on a weekly basis. Progress meetings in addition to those in the above program are expected. The detailed consultancy work plan should reflect these.

### **3.2 Fee**

The fee quoted is to be inclusive of all costs including Goods and Services Tax, incidental expenses and disbursements. Payments will be due within 28 days of receiving an invoice as per an agreed payment schedule. The consultant may wish to outline a draft payment schedule.

A detailed breakdown of the consultancy work program is required with the proposal. The proposal should include estimates of the time required for the project, auditors to be involved in the project, their rates, and a total fee estimate. Staff costs should be clearly reconciled to the detailed work plan. The auditor should allow for presentations to the Tribunal, discussion and meetings with the Tribunal Secretariat, and stakeholder meetings as required.

### **3.3 Proposal**

The consultancy proposal should:

- demonstrate an appreciation for the task and describe the intended approach to the audit
- provide a list of personnel to be involved in the audit, together with brief resumes detailing relevant experience
- include a detailed work plan
- outline any potential conflicts of interest
- provide details of previous clients who can be contacted.

### **3.4 Presentation**

Short listed tenderers will be required to make a presentation on their proposal as part of the tender evaluation process.

### **3.5 Criteria for selection**

In selecting the successful consultant the Tribunal will consider the following matters:

- in-depth understanding and expertise in other areas covered by the Operating Licence (water quality, system performance, customer service and environmental measures)
- extent of knowledge about water and sewerage businesses
- experience in similar projects
- understanding of Sydney Water's regulatory framework
- proposed consultancy fee
- proposed audit and quality assurance procedures
- adequate resourcing and ability to provide results within the stated time frame and guaranteed availability of key staff
- demonstrated ability to enlist the agency's cooperation while encouraging an acceptance of the audit outcomes
- any conflict of interest identified

- demonstrated ability to produce quality reports suitable for public distribution.

The successful tenderer will be able to assemble an audit team with specific expertise and experience in each of the core auditable areas (water quality, system performance standards, customer service and environmental measures) and will include in its consultancy proposal details of the audit team structure having regard to these categories. Tenderers may consider forming consortia or contracting specialist consultants to achieve this balance of skills.

### **3.6 Acceptance of Tender**

The Tribunal reserves the right to:

- accept no tender at all
- postpone indefinitely the acceptance of a tender
- call for new tenders
- appoint one or more tenderers to undertake the review
- approve or reject any sub-contractors the tenderer may wish to appoint.

### **3.7 Disclosure of information on Government Contracts**

Potential tenderers should note that Government contracting guidelines may require the routine disclosure of the following information:

- details of contract (description of project to be completed or goods/services to be provided or property to be transferred; commencement date of the contract; the period of the contract)
- the full identity of the successful tenderer including details of cross ownership of relevant companies
- the price payable by the agency and the basis for future changes in this price
- the significant evaluation criteria and the weighting used in tender assessment, and
- provisions for re-negotiation (where applicable).

### **3.8 Consultancy Contract**

The successful tenderer will be obliged to enter into a contract with the Tribunal prior to commencing the Audit. This consultancy contracts will cover issues including, but not limited to:

- consultancy information and documentation
- ownership of intellectual property
- conflicts of interest
- confidentiality
- insurance.

The Tribunal reserve the right to modify contract terms for the final contract as it considers appropriate. A copy of the draft contract is available on request.

#### **4 PARTIES TO THE AUDIT**

The party managing and commissioning the Audit is the Independent Pricing and Regulatory Tribunal of New South Wales. The primary contact at the Tribunal is:

Bob Burford                      tel: 61-2-9290-8408  
e-mail: bob\_burford@ipart.nsw.gov.au

#### **5 LODGEMENT OF TENDER**

Three bound copies and 1 loose-leaf copy of the tender should be lodged in a sealed envelope marked **2002/03 Sydney Water Operational Audit** addressed to:

Ms Meryl McCracken  
General Manager, Support Services  
Independent Pricing and Regulatory Tribunal of NSW

at                                      PO Box Q290  
QVB POST OFFICE NSW 1230

or                                      Level 2  
44 Market Street  
SYDNEY NSW 2000

The tender should be received at the Tribunal's office no later than 5.00 pm Sydney time, on Wednesday 23 July 2003.

# ATTACHMENT 1 SUMMARY OF MINISTERIAL REQUIREMENTS AND AUDIT RECOMMENDATIONS FROM THE 2002/2003 OPERATIONAL AUDIT

## Summary of Ministerial Requirements arising from the 2001/2002 Operational Audit<sup>1</sup>

| Issue                        | Requirement  |
|------------------------------|--|
| Demand Management            | 1. <i>"As a result of IPART's Mid Term Review, I have already placed a number of Ministerial Requirements on the Corporation which are designed to increase the clarity of reporting on its demand management program."</i>  |
| Leakage                      | 2. <i>"I require the Corporation to describe its approach to ascertaining, in a cost effective way, the amount of leakage from its pipes and the means it uses to validate the level of leakage reduction achieved. The corporation should report to myself and IPART on these matters by 1 September 2003."</i>   |
| Water Quality                | 3. <i>"I therefore require Sydney Water to consider risks that may occur through variations in bulk water quality or plant failure through its Annual Drinking Water Quality Improvement Plan."</i>  |
| Dispute Resolution           | 4. <i>"I require Sydney Water to prepare a comprehensive report which demonstrates the use of complaint data to identify problems of a systemic nature in specific geographical areas and the strategies used to overcome these problems. This report should be prepared using data gathered during the 2002 - 2003 Audit period, to allow it to be considered as part of next year's audit. I require delivery of this report to me and IPART by no later than 1 September 2003."</i> |
| System Performance Standards | 5. <i>"I require Sydney Water to develop as part of the Measuring and Reporting Protocol with IPART, an agreed scope, methodology and assumptions in order to provide a platform for reporting on the accuracy and confidence limits for each of the respective system performance standards. I require these arrangements to be in place by no later than 1 July 2003."</i>   |

<sup>1</sup> Letter from the Minister for Energy to the Chairman, Sydney Water, 12 April 2002.

## ATTACHMENT 2 SYDNEY WATER'S AMENDED SYSTEM PERFORMANCE STANDARDS

| Area                              | Requirement  |
|-----------------------------------|--|
| System Performance Standards      | 1. <i>"...I require Sydney Water to report to me by 1 July 2002 on its program of capital works to bring the Designated Low Water Pressure Areas in urban areas up to the amended pressure standard. The program should also reflect any of Sydney Water's existing arrangements with regard to the provision of water services to these areas."</i>                         |
|                                   | 2. <i>"...I require Sydney Water to work with the Sydney Catchment Authority with a view to develop performance measures for water reliability for further consideration at the end of term review of both Operating licences."</i>  |
|                                   | 3. <i>"...I now require Sydney Water to incorporate the Tribunal's findings regarding repeat continuity and repeat sewage overflow events into its Asset Management Framework and to provide the Framework to the Minister of Energy and Utilities for comment."</i>   |
|                                   | 4. <i>"Sydney Water is to update its Asset Management Framework by 1 January 2002"</i>   |
| Performance Indicators            | 5. <i>"I support the use of performance indicators to provide further insight into performance against system performance standards. Accordingly, I require Sydney Water to collect and report data on those performance indicators that relate to the amended standards for drinking water pressure, drinking water continuity and sewerage overflows on private land."</i> |
|                                   | 6. <i>"Performance indicators are to be reported to the Tribunal by 1 September each year with the first report due to the Tribunal on 1 September 2002."</i>  |
| Customer Service                  | 7. <i>"While I am satisfied that negotiations between Sydney Water and the Tribunal have begun, I would like Sydney Water to commence collection of data on the customer service indicators in Attachment 3 from 1 July 2001."</i>   |
| Monitoring and Reporting Protocol | 8. <i>"I require Sydney Water to finalise this Protocol in consultation with the Tribunal as soon as possible, so that data collected during the audit period commencing 1 July 2002 is covered by the new arrangements"</i>   |

The amended performance standards and indicators refer to water pressure, water continuity and sewerage overflows on private land.

The customer service indicators refer to complaints, telephone calls to a primary contact number, metered accounts where meter is not read, account contacts, and disconnections.