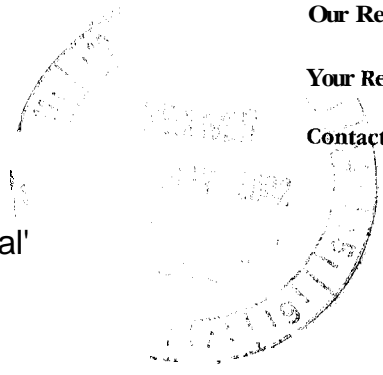


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→ Colin Reich

Dr Thomas G Parry  
 Chairman  
 Independent Pricing & Regulatory Tribunal  
 PO Box Q290  
 QVB Post Office  
 SYDNEY NSW 1230

**Our Reference:** AF99/0108  
 70672  
**Your Reference:** 01/370 & 01/372  
**Contact:** Henry Musidlak  
 (02)9793 0833



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Dear Dr Parry

I write in response to your letter of 27 March 2002 requesting input to the mid-term review of the operating licences of Sydney Water Corporation and the Sydney Catchment Authority. The remarks below are pertinent to the licence obligations of Sydney Water Corporation.

My principal concern relates to the gains that can be made from Sydney Water working in partnership with local government in stormwater management and planning. I note from the Issues Paper that, while making considerable progress towards its water conservation target Sydney Water still remains more than 10% over the 2000/01 target in its licence conditions. The gains made to date have chiefly come from implementing the most accessible and identifiable engineering based options. Further gains from these will be increasingly difficult to achieve and the investment required for marginal gain will likely become unsustainable. At the same time, the decline in the Government's per capita water consumption target for the licence period to 2004/05 and then 2010/11 will continue to put pressure on the Corporation.

Integrating stormwater planning and management into its demand management and ecologically sustainable development strategies offers significant benefits to Sydney Water and the community. For example, detention and retention of urban stormwater in backyard rainwater tanks has the multiple benefits of positive environmental protection outcomes, lowering demand for reticulated water and minimising damage to property and infrastructure. To maximise outcomes Sydney Water should work with local governments, who retain responsibilities in this regard under their environmental and management planning, across its whole area of operations and not simply where it has stormwater assets. A coherent program that encourages installation of rainwater tanks as one of its elements would be a significant advance in water cycle management.



An associated matter is the lack of specific incentive for Sydney Water to achieve performance targets within its operating licence. The only sanction for underperformance is to be found in contravention of licence (for which the Minister can require rectification, the Governor can issue a reprimand or direct the payment of a penalty not to exceed \$1 million). More serious breaches can lead to licence cancellation which, it must be said, is an extremely unlikely circumstance.

It is moot whether the non-achievement of the water conservation target, for example, would qualify as a contravention of licence. Under these circumstances there would seem to be little real incentive to meet performance targets. Evidence from other industries indicates that without clear and unambiguous incentives performance targets, a basic instrument through which the Government's expectations are expressed, are often unmet or attain a lower priority within an organisation's ethos than desired. I believe that sanctions tied to specific performance measures will provide a stimulus to innovation and initiative in Sydney Water Corporation's portfolio of operations.

I trust these comments are of use to the Tribunal in its deliberations and thank you for the opportunity to provide input.

Yours sincerely



**Garry Payne**  
**Director General**