Department of Land and Water Conservation

SUBMISSION TO THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL

MID-TERM REVIEW OF OPERATING LICENCES FOR THE SYDNEY CATCHMENT AUTHORITY AND SYDNEY WATER CORPORATION

MAY 2002.

INTRODUCTION

The comments which follow address only those issues which have relevance for the Department of Land and Water Conservation (DLWC) or on which it has some expertise or direct experience. Comments are made in the order of the issues as identified and numbered in the Issues Paper prepared by the Tribunal.

2 SYDNEY CATCHMENT AUTHORITY (SCA)

2.2 Operating licence

The Operating Licence adequately reflects the legislation and generally fulfils its objectives. Section 3.1 should include reference to the *Water Management Act 2000*.

2.3 Memorandum of Understanding (MOU)

The MOU with the Water Administration Ministerial Corporation (ie with DLWC) is a "process" rather than a "content" document. It defines the features of the cooperative relationship between the parties to enable issues of substance to be addressed. It does not cover the detail of those issues. This approach reflects the existence of a comprehensive Water Management Licence and direct involvement of SCA in other processes for dealing with "content" issues, such as the Hawkesbury Nepean Forum on environmental flows, development of catchment blueprints, and framing of the Sydney Drinking Water Catchments Regional Environment Plan. It also reflects the more integrated approach now being taken by all agencies in delivering Government commitments on such matters as Healthy Rivers Commission findings, and salinity and water management outcomes and targets.

Experience with operating under the MOU so far does not suggest that changes are warranted at this time.

2.5 Risk management plan

The SCA Risk Management Plan (RMP) is a useful management tool but relies heavily on the risk action plans required under Clauses 6.7.2 and 6.7.3 of the Operating Licence. These plans should include monitoring, critical limits, corrective actions, verification/validation procedures and record keeping for each prioritised hazard.

The RMP does not use relevant criteria in the risk assessment process as all the water quality criteria are for finished water rather than raw water. Consideration should be given to revising the water quality criteria.

Until the Sydney Water Catchments REP is finalised, and possibly until all the licensing and approval aspects of the *Water Management Act 2000* have been implemented, it would be advisable to maintain the risk management plan.

2.6 Performance criteria

- Security of Supply Criteria

There is reasonable community acceptance of the need for water restrictions in times of drought. SCA's criteria are more stringent than those normally adopted for country town water supplies, so the frequency of water restrictions is lower. While it might be reasonable to provide a higher level of security for Sydney, less conservative criteria which increase the risk of more frequent periods of restriction have the potential to significantly increase the secure yield of the Sydney system. This would minimise the need for inter-catchment transfers and reduce the pressure for SCA to withhold environmental flows in dry periods. It would seem prudent to investigate alternative (lower) security of supply criteria. Any investigations should include community consultation on the acceptable frequency and severity of water restrictions. This might be done as part of, or as a result of, IPART's current review. The Water CEOs task force, established as part of the Government's response to the Healthy Rivers Commission Inquiry into the Georges River, might be an appropriate mechanism for such a review.

- Demand Management by SWC and SCA

Demand management is a key issue among a suite of actions being pursued in the Government's water reforms to better integrate water management so that the whole water cycle is considered. This is required under the *Water Management Act 2000* and is being addressed by the Water CEOs task force mentioned above. It is a key issue for discussion under the memoranda of understanding with both SCA and SWC. A key element is a drought response protocol which is being drafted by SCA, SWC and DLWC. Among the issues for discussion between the three parties is the new provision under Section 60 of the *Water Management Act 2000* for available water determinations during severe water shortages.

Until all these matters are explored further and the processes approach finality, DLWC cannot comment more definitively on current performance criteria in relation to demand management actions. However, because SCA must manage its works to be consistent with the requirements placed on SWC, IPART should set a water conservation target for SWC for 2014/15 to ensure continuing SCA support for demand management.

3 SYDNEY WATER CORPORATION

3.2 Operating licence

The Operating Licence adequately reflects the legislation and fulfils its objectives.

3.3 & 3.4 Drinking water guidelines and annual drinking water quality improvement plan

There are new initiatives in water cycle management at an international level, in particular the World Health Organisation's push for adopting incremental improvements in water quality (via identification and management of water cycle hazards) rather than rigid numerical hazards *per se* (WHO 2002 Water Safety Plans. WHO/SDE/WSH/02-09). While SWC appears to be adopting the principles of these initiatives (see risk assessment section of SWC 5-Year Plan), IPART might consider whether any changes to the operating licence are appropriate to formally recognise this approach.

3.5 Minimum standards for non-drinking water

In paragraph two the document refers to the NSW Recycled Water Coordination Committee. This committee no longer exists.

In 3.5.1 it is stated that Sydney Water currently supplies various grades of water that comply with a range of guidelines. The *National Water Quality Management Strategy Guidelines for Sewage Systems – Use of Reclaimed Water, 2001* are the most recent guidelines. These and other guidelines under the National Water Quality Management Strategy have wide acceptance and should be adopted by Sydney Water.

The issue of standards is a different matter. DLWC is developing integrated water cycle management guidelines. It will be pursuing several water use initiatives under the *Water Management Act 2000* to promote the hierarchical "reduce/re-use/recycle" approach already adopted for general waste minimisation by the Government. These include the implementation of return flow credits and water use approvals, both of which will involve some minimum standards. However, DLWC is still in the process of developing details for implementing the relevant sections of the Act and is not in a position at this time to offer views on what minimum standards should be.

3.6 Water conservation target for 2014/2015

It is agreed that Sydney Water has committed considerable resources over a number of years in a genuine attempt to reduce average water demand and that the Sydney Water Demand Management Strategy has had some success in reducing consumption. Significant and continuing shifts in the demographic characteristics of the Sydney Water customer base pose difficulties in effectively targeting demand management initiatives.

However, considering that:

(1) the reference year for the demand targets (1990/91) was a particularly high demand year;
(2) pay-for-use volumetric tariffs were introduced after 1990/91; and
(3) drought restrictions were imposed between 1994 and 1996;

an 18 percent downturn in per capita demand since 1990/91 could be improved upon.

Sydney Water needs to improve the effectiveness of its demand management strategy, but it is not the only effective agent in this area. The NSW Water Conservation Strategy identifies actions being undertaken to address the broad issue of increasing use, and the Strategy identifies local government as a key agent in achieving the desired outcomes.

The Issues Paper notes that IPART may investigate possibilities for “ensuring” demand management is addressed by SWC. Recognition needs to be given to the possibility that, depending on the mechanism used, mandatory improvements in demand management performance may adversely affect the social justice and economic performance goals of Sydney Water which, under the *Sydney Water Act 1994*, have equal importance.

The Issues Paper notes that targets are likely to be most effective if they are part of a broader, integrated framework. Such a framework for the Sydney region is being developed at the moment by natural resource management agencies. The major drivers are the continuing population growth of Sydney, and the inability of existing infrastructure to meet the demand for water in the face of increasing requirements for environmental flows and river health. SWC and SCA are now members

of the Water CEOs Committee which is addressing the key issue of integrated demand and water cycle management.

The identification by IPART of the option for setting the conservation target in terms of water saved rather than consumption would better reflect the current situation where SWC is not in control of all factors that result in consumption.

To attain maximum benefits from a demand management program, a comprehensive understanding of end use is required. A thorough end use metering program will allow demand management measures to be more accurately targeted. Such a program should be considered and there should be separate targets for clearly identifiable and manageable sectors.

Any demand management framework should include:

- water demand monitored on a climate-corrected basis;
- reporting of estimated water savings on a per capita/per residence basis for residential users and bulk water basis for commercial and industrial users, subject to robust and independent verification;
- per capita and per property consumption, which are the most valid demand indicators;
- water demand monitored intensively in each use category and for each demographic group; and
- identification of the socio-economic drivers of demand.