

FACT SHEET

Review of Sydney Water Corporation's Operating Licence – summary of the Issues Paper

16 June 2014

Overview

IPART is conducting an end of term review of Sydney Water Corporation's (Sydney Water) operating licence.¹

IPART last reviewed Sydney Water's operating licence in 2010.² The current Sydney Water operating licence expires on 30 June 2015.

The primary purpose of the end of term review is to determine whether the operating licence is fulfilling its function and to recommend conditions to be included in Sydney Water's new operating licence to the Minister for Natural Resources, Lands and Water.

To enable IPART to do this we have produced an Issues Paper. The purpose of this paper is to identify and assist in the identification of key issues for the review. Submissions will assist in the development of a draft operating licence, reporting manual and cost benefit analysis.

Many provisions in the operating licence would not be required if Sydney Water were operating in a competitive market. In this sense, the operating licence is aimed at replicating the pressures of a competitive market in regulating Sydney Water's performance.

What is in the Issues paper?

The Issues Paper provides information on how the licence review will be undertaken, and provides relevant background information on the regulatory framework in which Sydney Water operates.

It outlines the current licence requirements, and identifies key issues for stakeholder consideration and response. These areas include water quality, infrastructure, water conservation, environment and customer rights.

We are seeking comments, supporting information and views on all aspects of the operating licence. Specific questions on which we seek responses are as follows.

Water Quality

1. Should the operating licence obligations for drinking water be retained, given the presence of similar requirements under the *Public Health Act 2010*?
2. If the licence obligation for drinking water is retained, should it be subject to the Chief Health Officer granting an exemption from requiring a quality assurance program under the *Public Health Act 2010*?

¹ The Sydney Water operating licence is granted under Part 5 of the *Sydney Water Act 1994*.

² Sydney Water Operating licence 2010-2015.

3. Given the requirements of the *Fluoridation of Public Water Supplies Act 1957*, the *Fluoridation of Public Water Supplies Regulation 2012* and the *New South Wales Code of Practice for Fluoridation of Public Water Supplies 2011* should fluoridation requirements in the operating licence be removed?
4. Should the operating licence's water quality obligations for drinking water and recycled water be changed to require Sydney Water to maintain a Water Quality Management System that is consistent with the *Australian Drinking Water Guidelines* and *Australian Recycled Water Guidelines*?
5. Should the operating licence's obligation to produce a 5-year Drinking Water Quality Management Plan be removed?
6. Should the operating licence's reporting requirements be changed to utilise the output of the Water Quality Management System?
7. Are there any other licence obligations that should be included in the operating licence to address the risks associated with drinking water or recycled water quality?
13. Should the biennial 'State of the Assets reporting' continue in its current form, with the content and format prescribed by IPART in the Reporting Manual, or would it suffice for Sydney Water to provide IPART with asset information by providing copies of reports produced as part of the ISO 55001:2014 Asset Management System?
14. Should the definition of an "unplanned water interruption" be made consistent with Hunter Water's, to exclude interruptions resulting from third parties or power failures? If so, should the target level decrease to reflect this exclusion?
15. What would be the impact of removing the word 'uncontrolled' from the definition of sewerage overflows? Should any sewerage overflow affecting private property be counted?
16. Do the current system performance standards (measures and levels) align with customer expectations and preferences, or should we consider changing or adding to these standards?

Infrastructure

8. Should Sydney Water's operating licence move to a systems standard approach for asset management, as has occurred for other public water utilities?
9. Is ISO 55001:2014 the most appropriate asset management standard or is there another standard that we should consider?
10. Should the operating licence require the Asset Management System to be certified to ISO 55001:2014 or simply be consistent with this standard?
11. What should be the required timeframe for developing and/or certifying the Asset Management System?
12. What are the costs and benefits of moving to a certified system?
17. Should Sydney Water notify IPART of significant asset failures (such as a priority 6 break/leak) within a specified timeframe after any incident?
18. What are the costs and benefits of achieving the main break/leak response time targets?
19. Are the mains break/leak response time requirements still appropriate and reflective of community expectations and customer willingness to pay?
20. Should the new operating licence contain any obligations for the Priority Sewerage Program (eg, what, if any, requirements should be included in relation to the outstanding Priority Sewerage Program areas of Yanderra, Austral Menangle and Menangle Park)?
21. Should the Government consider alternative mechanisms to achieve the policy objectives of the Priority Sewerage Program in the remaining areas?

Water Conservation

22. Why is it necessary to include water conservation obligations in the operating licence?
23. What are the objectives of water conservation obligations in the operating licence?
24. How often should Sydney Water review the economic level of leakage?
25. Should the operating licence contain any additional obligations relating to leakage in addition to those we have identified?
26. Should the operating licence require Sydney Water to develop a protocol with the Metropolitan Water Directorate, which outlines Sydney Water's roles and responsibilities in developing and implementing the Metropolitan Water Plan? If so, what constraints or parameters should be put around this requirement?
27. What are your views on our preliminary position in regard to water conservation requirements in the operating licence?
28. What water conservation requirements should be included in the new operating licence?

Environment

29. Should we continue to require Sydney Water to maintain an Environmental Management System certified to AS/NZS ISO 14001:2004?
30. As Sydney Water is required to implement an Environmental Management System, is there any additional benefit of requiring Sydney Water to produce a 5-year Environmental Management Plan?
31. Are there any other environmental obligations we should include in the operating licence?

Customer Rights

32. Is Sydney Water's customer contract easy to comprehend and can it be enhanced in any way?

33. Would it be beneficial to amend the *Sydney Water Act 1994* to eliminate the difficulties associated with varying the customer contract? Further, what should be done in the interim?
34. Are the current hardship provisions in the operating licence and customer contract sufficient?
35. Is Sydney Water's Customer Council working effectively and how could its membership and community involvement be further improved?
36. Are there any other licence obligations that should be included in the operating licence or customer contract to further enhance customer protection provisions?

Other areas for consideration

37. What are the benefits of including a licence obligation requiring Sydney Water to maintain a Memorandum of Understanding with NSW Health?
38. Should the Memorandum of Understanding requirements with the NSW Office of Water and the Environment Protection Authority be removed from the operating licence?
39. What are the benefits and costs of including an obligation in the operating licence for Sydney Water to adopt an integrated Quality Management System?
40. If the integrated Quality Management System requirement is included in the operating licence, what is a reasonable timeframe for implementation?
41. If the integrated Quality Management System requirement is included in the operating licence, should it also be required to be certified and, if so, what is a reasonable time period for certification?
42. Should we consider any other performance indicators to enhance the framework for assessing and regulating Sydney Water's performance?
43. Are any performance indicators unnecessary or unduly costly to compile?

44. Are there any licence obligations that may hinder or enhance contestability?
45. Are there any licence obligations that may hinder or enhance third party access to Sydney Water's monopoly infrastructure services?
46. How can the operating licence be amended to enhance links with IPART's pricing function?
47. Can the operating licence be amended to provide added incentives to Sydney Water to pursue efficiency gains?

What happens next?

We invite all interested parties, including Sydney Water, community groups, individuals and NSW Government departments or agencies to make a written submission to the review. Submissions from Sydney Water are due by **30 July 2014** and all other submissions are due by **20 August 2014**.

Submissions may comment on any or all of the questions raised, and on any other issues stakeholders consider relevant to the review of the Operating Licence.

We would prefer to receive submissions electronically via our online submission form <www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission>.

You can also send comments by mail to:

Review of the Operating Licence for Sydney Water Corporation
 Independent Pricing and Regulatory Tribunal
 PO Box Q290
 QVB Post Office NSW 1230

Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au> as soon as possible after the closing date for submissions.

If you would like further information on making a submission, IPART's submission policy is available on our website, as well as at the front of our Issues Paper.

Following the public release of the draft licensing package, we will hold a public workshop to provide an opportunity for interested parties to discuss the proposed changes to the licence.³ The workshop will be held prior to the closing date for submissions on the draft licensing package.

We will conduct targeted consultation with major stakeholders before finalising our recommendations to the Minister in May 2015.

Table 1 sets out our indicative review timetable.

Table 1 Indicative review timetable

Key tasks	Timeframe
Release Issues Paper	16 June 2014
Sydney Water's submission due	30 July 2014
Other stakeholder submissions due	20 August 2014
Release draft operating licence, reporting manual and cost benefit analysis	February 2015
Public workshop on draft package	March 2015
Release final recommendations to Government	May 2015

³ Please note that details regarding the release of the Draft Licensing Package and the workshop will be published closer to the date of release.