

12 March 2018

Mr Hugo Harmstorf  
Chief Executive Officer  
Independent Pricing and Regulatory Tribunal  
Level 15, 2-24 Rawson Place,  
Sydney NSW 2000

**Sydney Water submission on IPART review of water utility performance indicators issues paper**

Dear Mr Harmstorf

Please find attached Sydney Water's submission on the IPART review of water utility performance indicators issues paper.

Our submission seeks to provide our response to the specific questions and feedback raised in IPART's Issues Paper.

Overall Sydney Water supports IPART's 'first principles' approach to this review, as well as the criteria it has proposed for the assessment of performance indicators.

We look forward to reading the views of our customers and stakeholders in their submissions to IPART's review, and to participating in IPART's upcoming stakeholder roundtable.

Please contact Sandra Spargo, Corporate Compliance Manager [REDACTED] if you wish to discuss these comments or require more information.

Yours sincerely

[REDACTED]

Denisha Anbu  
A/General Manager, People and Corporate Services

# IPART review of water utility performance indicators

Sydney Water submission to IPART Issues Paper

March 2018



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# 1 Executive summary

Sydney Water welcomes the opportunity to comment on IPART's Issues Paper on the review of water utility performance indicators. This submission presents our view on IPART's approach to the indicators review and responds to the specific questions raised by IPART in the Issues Paper.

Sydney Water's strategic focus is to put customers at the heart of everything we do. We are proud of our strong performance against the current Operating Licence, which has seen us deliver outstanding value to our customers and the community. This includes providing excellent drinking water and wastewater services, as well as maintaining high standards of compliance across our other product and service offerings. Customer satisfaction with the overall quality of our service continues to be positive.

This has also been reflected in our strong performance against our Operating Licence performance indicators related to water quality, water quantity, assets, environment and customers.

As the indicators were last reviewed in 2012, we support IPART's current review to ensure that performance indicators continue to meet their intended purpose, outcomes and represent a benefit that justifies the cost in monitoring and reporting.

Overall Sydney Water supports IPART's 'first principles' approach to this review, as well as the criteria it has proposed for the assessment of performance indicators.

Sydney Water supports the retention of most performance indicators in its current Reporting Manual; however, we have suggested the removal of two environmental indicators (E9 biosolids produced and E10(S) solid waste generated) that we consider are of limited value, and the amendment of certain other indicators to better meet their intended purpose. We have also suggested that consideration be given to refining some of our infrastructure indicators to provide distinction between parameters, for example separating dry and wet weather overflows, private and public properties, etc. It should also be considered to what level any indicators should be normalised to better reflect the scale of the asset performance or customer impact.

IPART's Issues Paper presents its preliminary views and asks for feedback on specific questions. Sydney Water's response is provided in section two of this submission.

We look forward to reading the views of our customers and stakeholders in their submissions to IPART's review, and to participating in IPART's upcoming stakeholder roundtable.

## 2 Sydney Water response to questions raised in IPART's Issues Paper

### 2.1 IPART proposed assessment criteria

#### 1 Do stakeholders agree with the proposed assessment criteria for the review?

Sydney Water supports the assessment criteria for performance indicators that IPART has proposed.

The development of performance indicators should only occur once a clear purpose and desired outcome is established. In line with this, the first two elements of IPART's assessment criteria questions the regulatory purpose and the desired outcomes for performance indicators. Sydney Water suggests it would be useful to also include the stated regulatory purpose and desired outcome in utilities' reporting manuals for each grouping of indicators. This would help to ensure they meet their desired outcome, if the need for interpretation arises in the future.

The collection, monitoring and reporting of indicators has an impact in terms of time, resources and cost. When the right indicators are developed and monitored this cost is outweighed by the benefit provided to an organisation and its stakeholders by clearly tracking progress on meeting its objectives.

Sydney Water has reporting requirements under its Operating Licence, the Sydney Water Act and various other regulatory and legislative instruments. Its performance in meeting compliance obligations with its Operating Licence is further extensively assessed and publicly reported through IPART's annual operational audit. In addition to those imposed by regulatory agencies, Sydney Water monitors many internal indicators to ensure it is efficiently and effectively delivering its products and services to its customers while meeting its environmental, legal and regulatory obligations.

Due to Sydney Water's complex regulatory environment, a degree of overlap or duplication exists across our various reporting requirements. In order to ensure cost-effective use of its resources, Sydney Water supports IPART's stated criteria that the Operating Licence indicators should not duplicate existing reporting that reliably meet the desired outcome of other regulatory frameworks.

## 2.2 Approach to monitoring utility performance

### 2 Should IPART take a more active approach in incentivising performance through the use of performance indicators?

Under the current approach, IPART is able to monitor utility performance, particularly any declining trends in performance. IPART then has sufficient flexibility to set new or revised operating licence performance standards where it believes there is a need to drive improved utility performance. This approach has appeared to work well over the last decade or so, with an overall improvement in Sydney Water performance over time.

Incentives for performance can be reputational and/or financial. Under either type, it is important that metrics used to measure performance are related to areas that are important to customers.

IPART has already introduced an efficiency carryover mechanism for operating expenditure to encourage Sydney Water to adopt efficiencies at any time during a price path. The use of financial incentives for improved or maintained levels of high performance is another mechanism that could be used to drive improved outcomes for customers. While Sydney Water does not have a strong position on this now, this would seem to be a natural area to investigate further, as an option for future regulatory reform. We would be keen to be involved in any future discussions of such proposals with IPART and other utilities.

In relation to IPART's discussion on lead indicators, Sydney Water uses many lead indicators in its internal management and processes to monitor and ensure that various objectives are met. Lead indicators are a useful business tool to track progress, particularly within processes, to ensure that desired outcomes are achieved. However, it can be challenging to develop lead indicators that focus on customer and community outcomes, rather than the process of achieving the desired level of compliance. Accordingly, our preference would be to use mostly lag indicators for operating licence purposes, as these focus on performance outcomes.

### 3 Do stakeholders have a view on the format of reporting performance indicators?

Sydney Water supports the current stand-alone format for reporting performance indicators as there are many factors that prevent useful comparison of performance across utilities. As discussed in the Issues Paper, IPART currently reports extensively on public water utilities compliance and performance against the various requirements within their operating licences.

### 4 Do stakeholders agree that it is appropriate for water utilities providing the same service to be subject to the same performance indicators?

Sydney Water agrees with the principle that utilities providing the same services should be subject to the same performance indicators to provide 'a level playing field' approach to

regulation.

## 5 Do stakeholders agree with our proposed approach to the collection of licence data to allow IPART to calculate WIC Act licence fees?

Sydney Water is neutral on this question, however reporting the required information as part of the Licensees' annual indicators reporting appears to be a practical way to collect this data.



## 2.3 Performance – Water quality and quantity

### 6 Do stakeholders agree with the proposed compliance-based approach to water quality?

Sydney Water supports the compliance-based approach for water quality proposed by IPART. We consider that the existing level and frequency of water quality monitoring and reporting to our customers and regulators provides sufficient oversight and transparency of Sydney Water's performance.

### 7 Are there any performance indicators, including lead indicators, that stakeholders consider should be adopted for water quality?

Sydney Water does not propose any additional performance indicators for water quality.

### 8 Do stakeholders agree with the proposed compliance-based approach to water quantity?

Sydney Water supports the compliance-based approach for water quantity proposed by IPART. Our approach to water conservation is based on the Economic Level of Water Conservation (ELWC) methodology which has been approved by IPART. The ELWC methodology is designed to promote economically efficient investment in water conservation, including water efficiency, leakage and recycling.

### 9 Are there any performance indicators, including lead indicators, that stakeholders consider should be adopted by IPART for water quantity?

Sydney Water does not propose any additional performance indicators for water quantity, as we consider our existing annual Water Conservation Report, produced in accordance with our Operating Licence, provides comprehensive information to our customers, the community and our regulators on how we conserve water.

## 2.4 Performance – Assets

### 10 Do stakeholders agree on the proposed approach to have the same performance indicators for service interruptions for PWUs and WIC Act licensees?

Sydney Water supports the proposed approach by IPART to have standardised and comparable service interruption performance indicators for public water utilities as well as WIC Act licences. This approach provides customers and regulators an indication of the level of service provided by the utility as well as providing an important driver for utilities to improve service levels.

### 11 Do stakeholders have a view as to which approach (threshold or average) would result in a better measure of performance?

The current threshold approach used in the performance indicators for public water utilities does not allow for normalisation across the customer/asset base. An average approach would allow a greater ability to compare performance among utilities. However, the use of averages, as discussed by IPART in the Issues Paper, is not without limitations and careful consideration should be given to the most appropriate approach for each indicator.

### 12 Do stakeholders have views on the potential performance indicators for service interruptions?

Sydney Water considers the following indicators as relevant indicators for service interruptions:

- Occurrence of water interruptions to affected properties (i.e. the number of properties experiencing 3 or more Planned or Unplanned water interruptions of more than one hour duration) – per 1000 properties supplied by the utility (amended version of Hunter Water and Sydney Water indicator I2)
- NWI C15 – average duration of unplanned [water] interruption (minutes)
- WICA 6 – average duration of planned [water] interruption (minutes)

It would also be useful to distinguish between planned interruptions due to system enhancements (eg renewals/modifications) versus planned interruptions due to development (eg, new connections or large infrastructure projects such as the city light rail/WestConnex projects etc). This would provide better clarity on the drivers for planned interruptions, rather than explaining any apparent variation in performance after the fact.

### 13 Do stakeholders agree with our initial view that there is no need for any additional performance indicators for water pressure?

Sydney Water agrees that there is no need for additional performance indicators for water pressure. Our annual operating licence reports to IPART show that the number of properties affected by low water pressure has been consistently below the Licence standard. This is mainly due to the continuation of programs to address the more intractable system problems affecting properties, including pressure management, active leak detection and water main renewals.

### 14 Do stakeholders have views on the potential indicators for wastewater overflows?

Sydney Water has the following comments on the potential indicators for wastewater services suggested in IPART's Issues Paper:

Proposed areas raised in Issues Paper	Sydney Water Comment
<ul style="list-style-type: none"> <li>number of customers being impacted multiple times within the year</li> </ul>	<p>This is very similar to Sydney Water's system performance standard on the number of private properties experiencing three or more wastewater overflows in dry weather. Sydney Water's concern would be on potential duplication depending on the definition.</p>
<ul style="list-style-type: none"> <li>number of overflow instances occurring throughout the network</li> </ul>	<p>Sydney Water's view is that this should be normalised across the utilities either by network kilometres or by properties connected. It would also be important to confirm whether this includes property connection sewer (currently separate NWI indicators) to ensure consistency in reporting, taking into account the different network configurations among utilities.</p>
<ul style="list-style-type: none"> <li>duration of wastewater overflows</li> </ul>	<p>This is similar to NWI C16 (average sewerage interruption – minutes) but may enable more consistent reporting by removing the subjective interpretation applied by utilities in the definition of a service interruption. Sydney Water believes that this should be applied to dry weather overflows affecting private properties. This would allow for more of a customer impact and utility performance perspective rather than system capacity and design.</p>
<ul style="list-style-type: none"> <li>response time to contain wastewater overflows.</li> </ul>	<p>For most overflows affecting private properties, it is far more appropriate to focus attention on remediating the cause of the overflow rather than containment.</p>

## 15 Are there any performance indicators, including lead indicators, that stakeholders consider should be adopted by IPART for asset performance?

Sydney Water has no proposal for lead indicators, however we believe that consideration should be given to whether there should be separation of some parameters, for example:

- Private vs public properties
- Dry vs wet weather overflows vs internal surcharges

It should also be considered to what level any indicators should be normalised to better reflect the scale of the asset performance or customer impact.

## 2.5 Performance – Environment

### 16 Do stakeholders agree with the compliance-based approach to environmental performance with the exception of where there is a legislative requirement for environmental indicators?

Sydney Water agrees with a compliance based approach to environmental performance. We manage our environmental obligations through a certified Environmental Management System (EMS). Through our EMS we manage and report against the various environmental compliance obligations required under legislation (e.g. Environmental Protection Licences, threatened species reporting, heritage delegation etc.).

Overall, Sydney Water’s current environmental indicators are a combination of compliance and performance based indicators. As required under the *Sydney Water Act 1994*, they are reflective of those environmental aspects and activities where we have direct impact on the environment. The information collected is also a key input into our sustainability indicators and special objectives statement in our Annual Report.

### 17 Do stakeholders have a view as to what would be the most appropriate environmental indicators Sydney Water should report on?

We consider the coverage of Sydney Water’s existing indicator set is adequate for the purposes of meeting our legislative public reporting requirements.

Specific comments and suggested changes to individual indicators are provided below:

Sydney Water Operating Licence indicator		Sydney Water Comment
E1	Total number of proceedings and Penalty Notices under the <i>Protection of the Environment Operations (POEO) Act 1997</i> issued to the water utility.	No suggested change. Information is also publicly available at NSW EPA Public Register at <a href="http://epa.nsw.gov.au">epa.nsw.gov.au</a> .
E2	Total number of proceedings and Penalty Notices under <i>the Protection of the Environment Operations (POEO) Act 1997</i> issued to contractors engaged by the water utility.	No suggested change. Information is also publicly available at NSW EPA Public Register at <a href="http://epa.nsw.gov.au">epa.nsw.gov.au</a> .
E3	Total electricity consumption by water assets (kWh/ML of water supplied to be included).	No suggested change.

Sydney Water Operating Licence indicator	Sydney Water Comment
E4 Total electricity consumption by sewer assets (KWh/ML of sewage collected).	No suggested change.
E5 Electricity consumption from renewable sources or generated by the water utility expressed as a percentage of total electricity consumption.	No suggested change.
E6(S) Total volume of Controlled Sewage Overflows that occur in dry weather, expressed as a percentage of total sewage effluent discharged to the environment.	<p>The indicator does not adequately reflect Sydney Water's performance and should be changed for the following reasons:</p> <p>The total volume of effluent discharged from our treatment plants is so large, that sewage overflow volumes when reported as a proportion of the total become a relatively insignificant percentage (0.01%). This provides little value and does not drive performance improvements.</p> <p>The definition of controlled overflow means from a designed overflow structure. Very few overflows in dry weather occur from designed overflow structures. In addition, we only capture the volume if the overflow has been deemed non-compliant (ie Priority 6 &gt; 3hrs to cease the overflow, or Priority 5 &gt; 5hrs to cease the overflow). This means that we are only capturing a proportion of the volume discharged from controlled overflows in our reporting.</p> <p>Suggest removing this indicator and replacing it with a combination of the following possible indicators:</p> <ul style="list-style-type: none"> <li>• Total number of controlled sewage overflows that occur in dry weather that discharged to the environment, per km of sewer main</li> <li>• Total number of uncontrolled sewage overflows that occur in dry weather that discharged to the environment, per km of sewer main</li> </ul>
E7(S) Percentage of trade waste customers in compliance with their wastewater discharge limits as outlined in their water utility trade waste agreements.	No suggested change.
E8 Total mass of biosolids produced by the water utility	Biosolids are a waste product of existing activities and data could be captured under E9.
E9 Percent of solid waste recycled or reused expressed as a percentage of solid waste generated.	Suggest changing indicator to only report on the percent recycled/reused of waste streams that can be recycled (eg. Contaminated land, asbestos waste, acid solvate soils would be excluded from total).

Sydney Water Operating Licence indicator	Sydney Water Comment
	<p>We suggest separating this indicator into:</p> <ul style="list-style-type: none"> <li>• utility generated and controlled waste</li> <li>• contractor generated and controlled waste.</li> </ul>
<p>E10(S) Total mass of solid waste generated by the water utility</p>	<p>We suggest removing this indicator as it does not drive performance improvements. The quantity of waste generated is subject to the number and type of capital works projects that are delivered across the organisation year to year.</p> <p>Data will still be captured as part of E9.</p>
<p>E11 Total area of clearing of native vegetation.</p>	<p>No suggested change to the indicators E11, E12 and E13.</p>
<p>E12 Total area of native vegetation rehabilitated, including due to replanting and protection by the water utility.</p>	<p>Further definition of what should be included under E12 and E13 due to rehabilitation, replanting and protection would be useful. Sydney Water owns and has plans of management for land that is not currently being captured under these indicators. To better reflect Sydney Water's land management practices, it is suggested areas weeded and rehabilitated are included in E12 and E13.</p>
<p>E13 Total area of native vegetation gain due to rehabilitation, replanting and protection by the water utility.</p>	
<p>E14 Total number and nature of proceedings or Penalty Notices of conditions under licences issued to the water utility by NOW for water management.</p>	<p>No suggested change.</p>

## 18 Do stakeholders have a view as to what would be the most appropriate environmental indicators WaterNSW should report on?

IPART may wish to consider the alignment of indicators reported by Sydney Water, Hunter Water and WaterNSW where applicable, in relation to electricity, native vegetation (clearing, replanting, protection) and waste indicators.

## 19 Are there any environmental performance indicators that stakeholders consider should be adopted for Hunter Water and WIC Act licensees?

IPART may wish to consider the suitability of a trade waste indicator for industrial and/or commercial customer agreements in line with Sydney Water's indicator.

## 20 Are there any lead indicators available for environmental performance that should be included as an IPART performance indicator?

Sydney Water has no suggestion for lead indicators for environmental performance. We consider the existing Operating Licence performance indicator set, together with our suggested changes and our existing extensive regulatory and public environmental reports provide a good overview of our environmental performance.



## 2.6 Performance – Customers

### 21 Do stakeholders agree with our proposed compliance-based approach to customer service?

Sydney Water supports IPART's initial position that this outcome is adequately met through the existing requirements for utilities to maintain customer contracts, financial hardship and non-payment policies and procedures, complaints and dispute resolution procedures and provide information to the public. Therefore, these requirements will be best delivered through a compliance-based approach and no performance indicators are required in the future.

### 22 Are there any performance indicators, including lead indicators, that stakeholders consider should be adopted by IPART for customer service/satisfaction?

*[Note: Sydney Water has amended question 22 to refer to customer service/satisfaction rather than water quantity, as it appears this is a typographical error in IPART's Issues Paper.]*

We believe there is value in considering customer service or perceptual quality indicators.

Customer 'lead' indicators are by nature perceptual rather than experiential, with experiential indicators being by nature retrospective. Experiential indicators are however more responsive to, and therefore indicative of, the actual service performance of the business.

Sydney Water is not in a position to recommend a final set of indicators but among those we would consider would be:

- Perceptual – advocacy – likelihood to speak positively of the organisation. This is potentially a lead indicator of brand equity and would comprise a mix of perceptions including value for money, trust, reputation, and word of mouth.
- Experiential attitudes, including (for example) satisfaction with water quality and taste, customer service experience, and reliability of supply, speed to recover from faults, and satisfaction with communication and ease of contact.

### 23 Do stakeholders consider qualitative customer satisfaction surveys as an appropriate performance indicator for water utilities?

Sydney Water is supportive of consideration and use of qualitative customer satisfaction surveys as a performance indicator. Care is needed to ensure consistency across utilities should the indicator be used for comparison purposes. Additionally, the final design should ensure that the indicator is statistically representative and prevents duplication where possible.

Sydney Water is not in a position to recommend a final methodology to collect customer sentiment indicators, but we would recommend and will use a multi-mode approach and a clear

direction as to what constitutes a 'customer'.

For example, we will capture perceptual indicators collecting indicators from a representative sample of our customer segments, including not only residential bill payers but also other persons serviced by us, for example:

- Consumers (residential customers, including both bill payers and tenants)
- Business Customers
- Stakeholders and suppliers, including major contractors, peer agencies (such as Department of Planning and Environment, Greater Sydney Commission, councils and planners).

Not all of these may be relevant for a regulatory requirement indicator.

#### 24 Do stakeholders have views on the design of a qualitative performance indicator for customer satisfaction and how it could be implemented?

Sydney Water is not in a position to recommend a final methodology to capture these indicators, but as a business we will use a mix of:

- Outbound 'brand' survey capture of perceptual indicators (i.e. a brand level survey, targeting a representative sample of the target populations, most likely primarily online but potentially multi-channel to capture hard to reach populations.) This would most likely (but not necessarily) be outsourced to a specialist research agency.
- 'Touchpoint' post interaction experiential surveys, to capture customer sentiment and experiential indicators relevant to and triggered by an interaction with Sydney Water – for example, an inbound call request for a fault to be remediated, or after a customer pays their bill.

#### 25 Do stakeholders agree with our preliminary view that other indicators are not necessarily required if the qualitative measure of customer satisfaction is adopted?

Sydney Water supports IPART's preliminary view that if we adopt a customer satisfaction approach it may not be necessary to gather the entire range of current IPART customer performance indicators, particularly where it results in duplication.

