

Our Ref:

Felicity Hall
Independent Pricing and Regulatory Tribunal
Level 2
44 Market St
Sydney
2000

6/5/02

Dear Felicity

Re : Mid-term review for Sydney Water's Operating Licence

PIAC is pleased to provide the following brief comments to the Tribunal in relation to its mid-term review of the Operating Licence for the Sydney Water Corporation.

We remain satisfied that the work undertaken by the Tribunal and the Corporation to develop the current Licence has achieved the objectives set out in both the *Sydney Water Act* and the Licence itself. In particular, PIAC believes that the Sydney Water customer contract now makes a significant contribution towards the Corporation meeting the requirement to have regard to the social impact of its operations.

It is our view that the current Licence would have been improved substantially had the NSW Government opted to have incorporated the new service standards and indicators proposed by the Tribunal at the conclusion of its last review of the Licence. This decision was disappointing for all stakeholders who had made considered responses to the proposals as outlined in the report commissioned by the Tribunal. PIAC looks forward to the opportunity to re-visit these matters at the time of the next full-term review of the Operating Licence.

One important aspect of the Licence is the recent change clarifying the role of Memoranda of Understanding between Sydney Water and other key agencies such as NSW Health. As the Tribunal will recall, PIAC had called for the Licence to provide for still more detailed regulation of MoU's. Nevertheless, the current requirement is for the MoU to recognise the role of NSW Health in protecting public health. This is supported by the stipulation that the Corporation's drinking water quality plans be approved by the Department. These provisions of the Licence have been important in providing the community with assurance that the commercial imperatives imposed on the Corporation are balanced by the broader public interest.

The Tribunal has raised the possibility that there may no longer be a need for drinking water plans to be developed by Sydney Water. The view of PIAC is that these plans remain an appropriate regulatory mechanism for the quality of drinking water and the protection of public health. It is by no means clear that the community would support any relaxation of this mechanism. As the *McClellan Report* illustrated, Sydney Water itself can be assisted by the ongoing involvement of NSW Health in the approval of these plans which allows a balancing of commercial and engineering imperatives with a clearly stated commitment to the best quality drinking water.

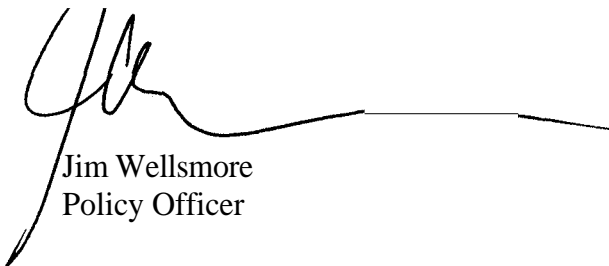
Another important component of the regulatory framework for Sydney Water is the demand management target imposed through the Operating Licence. PIAC agrees with the Corporation that the current target is a challenging one. Nevertheless, we support the retention of the target and the range of programs the Corporation has implemented in making progress towards compliance. In a submission to the Senate Standing Committee on the Environment, Communications, Information Technology and the Arts made last June, PIAC was pleased to note the effectiveness of the demand management target imposed through the Operating Licence. We also pointed out the considerable success achieved by Sydney Water with the targetting of system losses and reducing per capita consumption through its *Demand Management Strategy*.

PIAC has supported the use of a 'litres per capita per day' (lcpd) target for demand management. However, in judging whether Sydney Water is making progress towards this target the emphasis should be given to the effectiveness of the various measures employed. The suggestion that the target might be re-cast in terms of 'water saved' or consumption avoided is one PIAC considers worthy of further discussion. Such an approach might parallel that being developed by the NSW Ministry of Energy and Utilities for demand management in the electricity industry. This could provide for Sydney Water to be credited for a range of more innovative strategies. For example, domestic water re-use might become a more significant contributor to the achievement of the target.

A measure for avoided consumption also would provide an opportunity to disaggregate the target into different classes of water users, chiefly commercial and domestic, which would yield a better understanding of the challenges presented by the target and the success of various efforts to achieve it.

Yours sincerely

Public Interest Advocacy Centre



Jim Wellsmore
Policy Officer