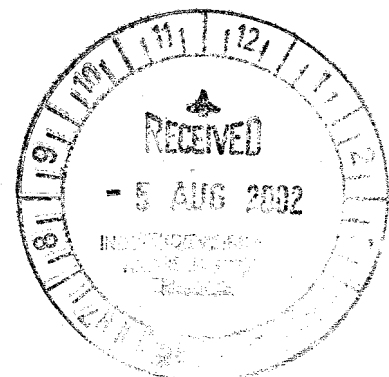


**MID-TERM REVIEW OF THE OPERATING LICENCES  
FOR SYDNEY WATER CORPORATION AND THE  
SYDNEY CATCHMENT AUTHORITY**

**SUPPLEMENTARY SUBMISSION BY  
TOTAL ENVIRONMENT CENTRE TO THE  
INDEPENDENT PRICING AND REGULATORY TRIBUNAL**

**August 2002**



## **INTRODUCTION**

Total Environment Centre (TEC) welcomes the opportunity to provide additional comment on the mid-term review of the Operating Licences for Sydney Water Corporation (SWC) and the Sydney Catchment Authority (SCA).

This submission discusses issues raised in the Tribunal's workshop held 23 July 2002. In particular, demand and supply balance in relation to reliability criteria, demand management, memoranda of understanding, and water quality guidelines.

## **DEMAND AND SUPPLY BALANCE**

TEC notes, from information presented at the public workshop (IPART, 2002a), that relaxing current reliability criteria from 97% to 95% could increase system yield by 60GL per annum and provide water to meet environmental flow requirements and reduce inter-basin transfers from the Shoalhaven. Provision of environmental flows to improve river health and water quality is an extremely high environmental priority. TEC supports relaxing the reliability criteria to provide for environmental flows. It is recognised that this would result in an increased frequency of water restrictions (particularly Level 1 restrictions), however, this must be viewed in terms of the environmental and social benefits of improved river system health. There is also good evidence that periods of water restrictions may assist in changing customers water use habits even after restrictions have been lifted, reducing long term demand for water.

It is important, however, that relaxing reliability criteria not be viewed as a means of providing extra water for consumption and relaxing demand management targets. Provision of environmental flows must be the basis for any decisions to amend the criteria.

We note that the Tribunal proposes not to recommend changes to the reliability criteria at this point in time, but to reconsider the issue at the end of term review. While TEC recognises that the work of the Hawkesbury-Nepean River Management Forum is not expected to be completed until 2003, this should not preclude the introduction of a trail flows regime. We are concerned that lack of complete information at the time of the end of term review, may once again, prevent a determination on reliability criteria and environmental flows. TEC recommends that criteria be relaxed now to allow for 20% translucent flows from SCA storages as a trail environmental flow. This would provide two years of data on the effect of a 20% translucent flow, on which to base subsequent environmental flows and decision on reliability criteria.

## **DEMAND MANAGEMENT**

As noted in our previous submission TEC is extremely disturbed by current trends in demand which have seen an increase in both the total volume of water supplied to SWC and per capita consumption since 1999 (SCA, 2002; SWC, 2002). We are particularly concerned and disappointed to note an increase in demand over the last two years which sees SWC well short of achieving its 2005 demand management target of 364lcd. It is also disappointing to note, from SWC's submission, that a large number of the individual programs which form the Demand Management Strategy have not achieved forecast water savings.

TEC welcomes the framework presented by the Tribunal's consultants Montgomery Watson Harza as a positive mechanism for improving the performance and accountability of Sydney Water's demand management program. We are concerned to note, however, that the Tribunal does not propose to set a 2014/15 demand management target in the current review. As detailed in our previous submission, TEC strongly supports the establishment of a 2014/15 demand management target in the mid-term review. A position, we believe supported by the terms of reference to the current inquiry. The establishment of such targets is a key driver of water conservation and the prevention of supply augmentation. There is no question that the present targets have locked Sydney Water in the direction of demand management. Establishment of a 2014/15 Demand Management Target would also provide increased incentive for Sydney Water to improve current demand management programs. The existence of such a long term target would make it clear that immediate improvements are required to set the foundations for achieving a challenging 2014/15 figure.

Further, the NSW Government Policy of permanently deferring the construction of a new dam provides an obvious and logical basis for establishing a 2014/15 demand management target. As is the case for current 2004/15 and 2010/11 targets the 2014/15 target should be set at the level of per capita consumption required to prevent augmentation, based on the best available population projections. We note that the Tribunal has identified a number of areas in which demand management targets could be improved and made more detailed. This should not preclude setting a 2014/15 target at this point in time. Rather a target should be set and revised and refined, if necessary, at the time of the end of term review.

While supporting the proposed framework as a mechanism for achieving compliance with current demand management targets, we are concerned that Sydney Water will seek to use the framework as a basis for setting the next target. In particular, we are concerned that the rationale for setting future demand management targets will shift from the need to avoid augmentation of supply to the volume of water that can be saved for a specified cost.

TEC reiterates its view that, in order to remove financial incentives for failing to meet demand management targets, the Tribunal should recommend the introduction of severe financial penalties for failure to meet targeted per capita demand reductions. Such financial penalties should include penalty pricing for any water supplied by the Sydney Catchment Authority in excess of demand management forecasts. In addition, the Operating Licence should include a requirement that any profits resulting from the sale of water in excess of Operating Licence targets are hypothecated into a dedicated fund and used to improve demand management programs. This would not only remove the financial benefits of failure to achieve demand management targets, but help address the causes of that failure.

## **MEMORANDA OF UNDERSTANDING**

TEC remains of the view that key requirements of MOUs should be incorporated into the Operating Licence. This approach would maintain of the licence as the primary regulatory instrument and ensure that there are no barriers to the operational audit.

In terms of specific MOUs, TEC notes that the last two Operational Audits have criticised the MOU with the EPA as being inadequate in identifying the full range of cooperative arrangements which could be developed between the parties (SCA, 2002; IPART, 2002b). Identifying and developing these arrangements is an essential part of protecting the

catchment and ensuring that water quality objectives are achieved. For this reason the mid-term review should recommend the inclusion in the Operating Licence of a requirement for SCA to finalise a new MOU with the EPA that addresses the concerns of the auditor within 12 months. We reject SCA's argument (repeated at the workshop) that the MOU as it stands is sufficient simply because both parties to the MOU are satisfied with its contents and no submission were received during its review in late 2000 (SCA, 2002). The purpose of maintaining an independent auditor is to identify deficiencies that may not be apparent to the agencies themselves. The independent auditor has now twice identified deficiencies with this MOU. These deficiencies should be rectified as a matter of urgency.

## **RISK MANAGEMENT PLAN**

TEC supports the Tribunal's view that the Risk Management Plan (RMP) should be retained. We concur with the view that the RMP remains necessary because the REP has not been finalised and, even when complete, will not cover all aspects of SCA's operations (such as catchment infrastructure).

## **AESTHETIC WATER QUALITY**

TEC supports the proposed 'Hunter Water model' which would require Sydney Water to comply with aesthetic guideline values but also make it clear that in the event of any inconsistency between the health related guideline values and aesthetic values, the health value is to prevail. As stated in our initial submission we recognise the importance of maintaining amenity for customers, however, we also note the fact that compliance with the guidelines for chlorine and monochloramine would be likely to involve significant net cost to the community at this point in time (IPART, 2002b). TEC would prefer not to see revenue diverted away from ensuring health and environmental protection in order to meet the aesthetic guidelines.

## **REFERENCES**

Independent Pricing and Regulatory Tribunal (2002a) "Materials for workshop - Tuesday 23 July 2002", IPART

Independent Pricing and Regulatory Tribunal (2002b) "Mid-term reviews of Sydney Water Corporation's and Sydney Catchment Authority's Operating Licences - Issues Paper", IPART

Sydney Catchment Authority (2002) "Submission to IPART's mid-term review of the Sydney Catchment Authority's Operating Licence", SCA.

Sydney Water Corporation (2002) "Sydney Water's submission for the mid-term review of its Operating Licence", SWC.