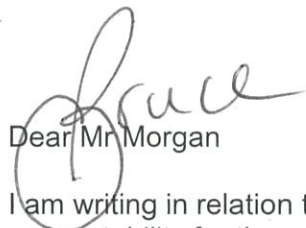


Mr Bruce Morgan
Chair
Sydney Water
PO Box 399
PARRAMATTA NSW 2124



Dear Mr Morgan

I am writing in relation to implementing the recent Cabinet decision on the transfer of accountability for the water supply augmentation planning function for Greater Sydney from WaterNSW to Sydney Water.

This change in accountability will result in more integrated asset planning and delivery outcomes and will ensure the costs and benefits of supply augmentation options are considered from a system wide context.

The Department of Planning, Industry and Environment - Water is to maintain existing responsibility for setting the Government's strategic directions, actions and priorities under the Metropolitan Water Plan and any subsequent Water Strategy including the Greater Sydney Water Strategy.

In accordance with clause 3.2.4(b) of the Sydney Water Operating Licence (2019-2023), I direct Sydney Water to implement the actions set out below.

1. Transfer of accountability

1.1 From 31 January 2021:

- (a) Sydney Water is accountable for the water supply augmentation planning function for Greater Sydney which consists of the following:
 - A. assessment of the need for water supply augmentation;
 - B. identification of water supply augmentation options, including capital and non- capital options;
 - C. whole of system assessment of the water supply augmentation options and prioritisation to support strategic business cases;
 - D. concept development and feasibility studies for preferred water supply augmentation options to support strategic business cases; and
 - E. costings of preferred water supply augmentation options to support a strategic business case.

(the **"Supply Augmentation Planning Function"**).

Please note that I have directed WaterNSW that it will not be accountable for the Supply Augmentation Planning Function however will continue to:

- A. be responsible for providing information, resources and support to Sydney Water to enable it to meet and satisfy the accountability it has been assigned for the Supply Augmentation Planning Function; and
- B. participate in the Greater Sydney Water Strategy in accordance with the governance arrangements set by the Department of Planning, Industry and Environment – Water (the **Department**).

2. Memorandum of understanding

Sydney Water is to enter into a memorandum of understanding with WaterNSW by 31 January 2021 that records how the parties will work together to effect the changes directed in this letter and my corresponding letter to WaterNSW including how the parties will agree and implement:

- (a) the arrangements to consult with Sydney Water on the system yield calculations as and when they are required to be calculated by WaterNSW under clauses 2.5 and 2.6 of the WaterNSW Operating Licence;
- (b) the arrangements for WaterNSW to consult with Sydney Water on projects that may impact system yield;
- (c) the process for the provision of data, information and knowledge by WaterNSW to assist Sydney Water with the Supply Augmentation Planning Function;
- (d) a resourcing approach so that WaterNSW supports Sydney Water to undertake the Supply Augmentation Planning Function, including making WaterNSW subject matter experts available to Sydney Water;
- (e) consultation between the parties where water supply augmentation options may have implications for WaterNSW and providing for a process that these water supply augmentation options are subject to necessary board approvals of both parties; and
- (f) the arrangements for the transfer of the data, analysis and materials relevant to the Greater Sydney Desalination Program from WaterNSW to Sydney Water by 28 February 2021, or later date agreed by the parties.

3. Long Term Capital and Operational Plan and Emergency Drought Response Plan

3.1 WaterNSW and Sydney Water are each required under their Operating Licences to develop a Long-term Capital and Operational Plan (LTCOP) and an Emergency Drought Response Plan (EDRP) by 1 December 2021. Sydney Water should continue to develop its Plans jointly with WaterNSW in accordance with any written guidance that the Minister provides to Sydney Water (including through the Department).

3.2 Sydney Water's LTCOP must demonstrate that it has explicitly:

- (a) identified and assessed water supply augmentation options on a whole of system basis; and
- (b) appropriately considered any implications of the preferred water supply augmentation options on WaterNSW.

- 3.3 A function of Sydney Water's LTCOP is to recommend to the Department the preferred water supply augmentation option(s) which should be taken forward for an investment decision.
- 3.4 WaterNSW must consult with Sydney Water regarding WaterNSW's LTCOP and the EDRP and identify any implications for water supply augmentation options.
- 3.5 WaterNSW's LTCOP and EDRP must be reviewed by Sydney Water (and WaterNSW must have regard to any comments received from Sydney Water) and approved by WaterNSW's board before being submitted to the Department so that the relevant plans are integrated and responsive to each other.
- 3.6 Sydney Water's LTCOP and EDRP must be reviewed by WaterNSW (and Sydney Water must have regard to any comments received from WaterNSW) and approved by Sydney Water's board before being submitted to the Department so that the relevant plans are integrated and responsive to each other.
- 3.7 The LTCOPs and EDRPs must be reviewed at least every five years, in line with adaptive planning principles and any updated guidance from the Minister (including through the Department). In reviewing these plans the above process applies.

For your information, I have directed WaterNSW when calculating system yield as required under clauses 2.5 and 2.6 of the WaterNSW Operating Licence, that it must consult with Sydney Water. WaterNSW must also provide Sydney Water with necessary system yield information and support to enable Sydney Water to carry out the Supply Augmentation Planning Function.

I have provided a copy of this letter to WaterNSW and have also provided a letter to WaterNSW outlining my direction for Sydney Water to be assigned the accountability for the Supply Augmentation Planning Function.

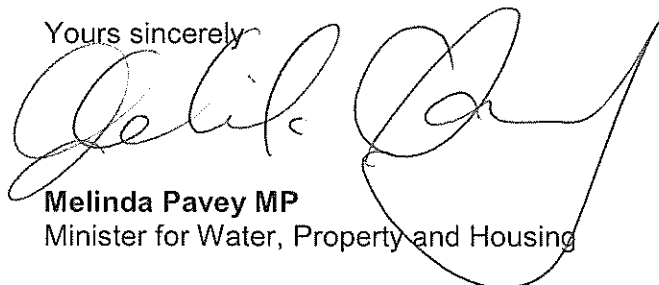
I note that the Greater Sydney Water Strategy will play a key role in identifying critical activities to be undertaken by Sydney Water in carrying out the Supply Augmentation Planning Function.

The Department has consulted with IPART on the terms of this direction. Based on the information available to it, IPART is not aware of any conflicting obligations under the current operating licence. A copy of this letter is being provided to IPART.

I request that you publish this letter on the section of the Sydney Water website relevant to the Sydney Water Operating Licence.

Should you have any questions in relation to these matters, please contact Mr Jim Bentley, CEO of the NSW Water Sector.

Yours sincerely



Melinda Pavey MP
Minister for Water, Property and Housing

22 JAN 2021

Cc: Andrew George, Acting Chief Executive Officer, WaterNSW
Liz Livingstone, CEO, Independent Pricing and Regulatory Tribunal