



AquaNet Sydney Pty Limited
Retail Supply Management Plan

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1 Introduction

AquaNet Sydney Pty Limited (AquaNet) holds Retail Supplier's Licence number 10_01R issued under the Water Industry Competition Act 2006 (WICA) under which it will supply high quality recycled water from the Rosehill Recycled Water Scheme (Rosehill Scheme). This document—AquaNet's Retail Supply Management Plan (Retail Plan)—has been developed to satisfy the requirements of section 8 of schedule 2 to the Water Industry Competition (General) Regulation 2008. .

The Retail Plan provides:

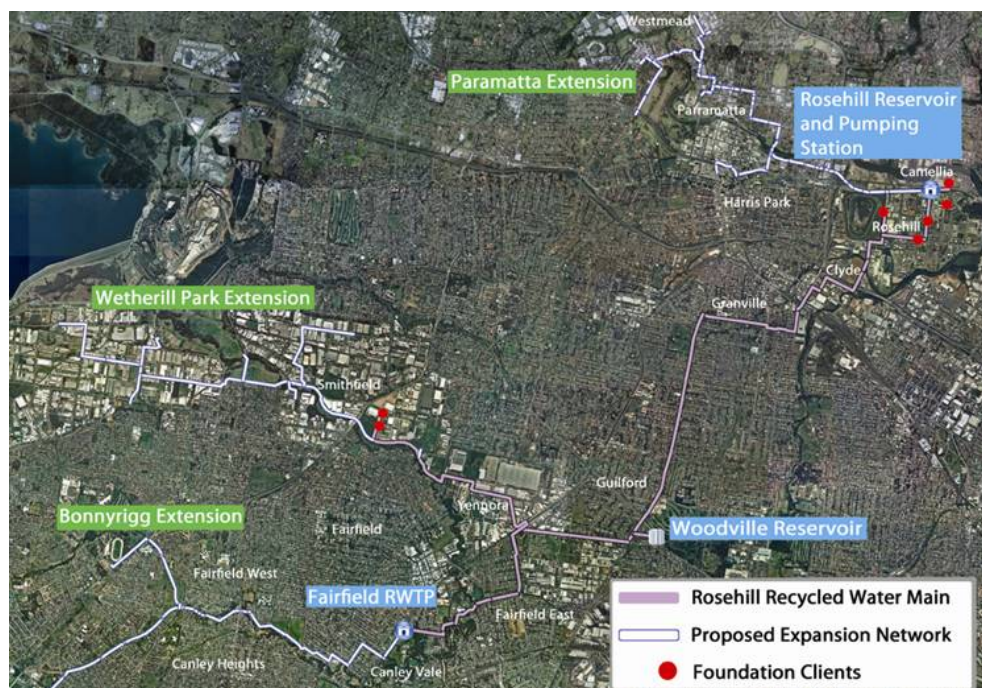
- an overview of the Rosehill Scheme including the contractual structure under which it will operate
- a summary of the contractual arrangements that AquaNet has entered into and will enter into with Sydney Water and Customers for the supply of recycled water, and in particular the supply priority and interruptibility provisions of those arrangements
- a summary of the events that could cause a supply interruption and their likelihood, and how AquaNet will manage such events
- a description of the arrangements that AquaNet has in place to manage compliance with specified codes

1.1 *Rosehill Scheme Overview*

AquaNet is the proponent of the Rosehill Scheme which involves:

- extracting secondary treated effluent from Sydney Water Corporation's (Sydney Water's) Liverpool to Ashfield Pipeline (LAP);
- treating the effluent to produce high quality recycled water in a recycled water plant at Fairfield (Plant);
- transporting recycled water from the Plant, through a distribution network (Network) to customers in the Auburn, Bankstown, Fairfield, Holroyd, Liverpool and Parramatta local government areas (Customers).

The proposed scope of the Rosehill Scheme is shown in the figure below.



The Rosehill Scheme is underpinned by a 20 year Project Agreement between AquaNet and Sydney Water and will deliver up to 25 million litres of recycled water per day to Customers.

Under the Project Agreement:

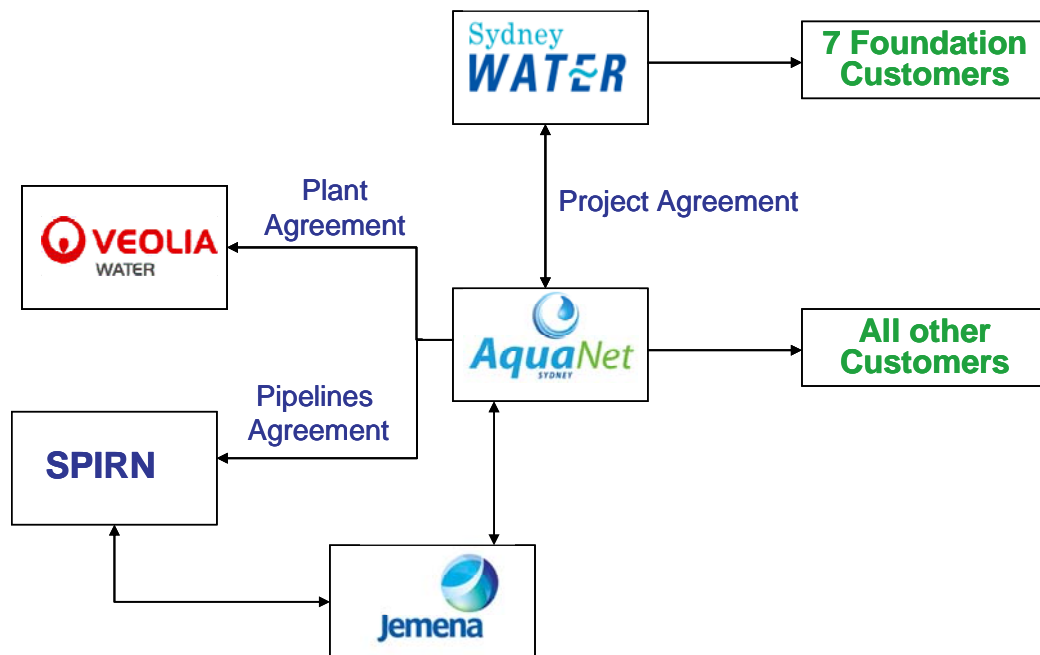
- AquaNet delivers recycled water to Sydney Water for sale to six Foundation Customers (Sydney Water has retail contracts with these six customers for the supply of recycled water)
- Sydney Water supplies up to 32ML per day of treated effluent (according to an effluent specification in the Project Agreement) to the Plant from its Liverpool to Ashfield Pipeline (LAP)
- AquaNet may sell any water in excess of that required to supply the Foundation Customers directly to its own customers.

AquaNet is delivering the Rosehill Scheme through two 20 year subcontracts as follows:

- Plant Agreement: Veolia Water Australia Pty Ltd (Veolia) is responsible for owning, designing, constructing, maintaining and operating the Plant.
- Pipelines Agreement: SPI Rosehill Network Pty Limited (SPIRN) is responsible for owning, designing, constructing, maintaining and operating the Network.

Both Veolia and SPIRN hold Network Operator Licences under WICA.

The contractual structure of the Rosehill Scheme is depicted in the figure below



AquaNet and SPIRN are both part of the Jemena Group and Jemena, through its various subsidiaries, provides the resources, skills and expertise required for AquaNet and SPIRN to deliver the Rosehill Scheme.

The Project Agreement includes a ‘Transition’ provision under which Sydney Water may transfer the six foundation customer Supply Agreements to AquaNet. Transition cannot occur within the first 3 years of Rosehill Scheme operation and will only occur on agreement by both parties subject to certain conditions being met. If Transition occurs, this Retail Plan will be amended accordingly.

2 Recycled Water Supply Arrangements

The sale of water to Sydney Water for supply to the 6 foundation customers (Foundation Customers) is governed by the Project Agreement between AquaNet and Sydney Water. AquaNet also supplies its own direct customers in accordance with recycled water supply agreements (Supply Agreements) between AquaNet and those customers.

2.1 *Project Agreement*

Under the terms of the Project Agreement, the Foundation Customers have priority with respect to recycled water supply and are entitled to peak day demand for up to 3 consecutive days. After 3 consecutive peak days of usage Foundation Customers are only entitled to average day demand for the next 3 days to allow the recycled water storages to be recharged.

Recycled water supply to Foundation Customers under the Project Agreement must be in accordance with the Recycled Water Quality Specification (Specification).

The Project Agreement provides for two alternative potable water supply options:

- Top-up potable water which is available for supply into the Rosehill Scheme Network at the Fairfield, Woodville and Rosehill reservoirs
- Back-up potable water supplied at the customer sites through a break tank or a three way valve at the customer meter

In all cases potable water is supplied by Sydney Water. AquaNet or its subcontractors will purchase Top-up potable water and Foundation Customers will purchase back-up potable water.

Foundation Customer meter reading, billing and communication is the responsibility of Sydney Water under the Project Agreement.

The Project Agreement also includes Operational Protocols which set out the requirements and obligations of AquaNet in providing routine and event based communications regarding:

- Notifications of interruption of recycled water supply
- Notifications of interruption of demand for recycled water
- Notifications of shortfall in demand for recycled water
- Notifications of shortfalls in recycled water supply
- Monitoring the operation of Foundation Customer valves and supervisory equipment
- Access to Foundation Customer Sites

2.2 Supply Agreements

Under present plans, AquaNet will only supply commercial and industrial businesses on line of main of the Rosehill Scheme network that agree to use recycled water under the terms of the AquaNet Supply Agreement including interruptible supply of recycled water meeting the Specification (Small Line of Main Customers). These Customers enter into Supply Agreements with AquaNet on an optional basis with agreements subject to commercial negotiation.

Under the terms of all Supply Agreements, recycled water supply is on an interruptible basis. This is a core requirement due to:

- Foundation Customers having supply priority under the Project Agreement
- The delivery of recycled water being subject to factors outside the control of AquaNet.

All recycled water supply under the Supply Agreements will be in accordance with the Specification.

AquaNet customers make their own arrangements with Sydney Water for a potable water supply for circumstances where recycled water supply is unavailable or curtailed.

AquaNet will interrupt recycled water supply if any of the following circumstances occur:

- Interruption of supply is necessary to meet Foundation Customer supply obligations
- Recycled water does not meet the Specification
- The customer has breached a condition of the Supply Agreement such that further supply of recycled water presents a risk to human health, the environment or Rosehill Scheme facilities
- An emergency or force majeure event
- Recycled water is unable to be delivered – this can result from problems in effluent supply, operation of the plant or operation of the network
- Any material change in circumstance such that supply of recycled water presents a risk to human health, the environment, operation of Rosehill Scheme facilities or would result in a breach by AquaNet of any law or approval.

If supply is interrupted, customer obligations to pay for recycled water are suspended.

In the event of operational issues, AquaNet will maintain supply provided that storages in the Rosehill Scheme are sufficient to supply Foundation Customer demand while maintaining supply.

AquaNet is responsible for Customer meter reading and billing in respect of its own Customers.

Operational Protocols form part of the Supply Agreements and set out the requirements and obligations of AquaNet and the Customer to provide routine and event based communications relating to:

- Data exchange
- Monitoring and recording of Recycled Water in accordance with the Specification
- Notifications of interruption of supply
- Notifications of interruption of demand
- Notifications of shortfall of supply
- Notifications of shortfall of demand
- Out of Specification events and the operational response to an out of Specification event
- Operation of the customer valves and supervisory equipment
- Access to the Site by AquaNet

3 Probability of Supply Interruptions

3.1 *Interruption Due to Demand Exceeding Availability*

The Rosehill Scheme has been designed with sufficient capacity to meet Foundation Customer peak demand with capacity for sale to other customers in the event that it is not required by the Foundation Customers. It is therefore reasonable to expect that there will be some level of supply interruption to AquaNet customers.

The extent to which the Foundation Customers will utilise the full capacity of the Rosehill Scheme during peak demand will become clearer as normal patterns of operation are established.

The design of the Scheme provides for potential expansion of the Plant from 20ML/day to 25ML/day. AquaNet will make a commercial decision as to the viability of initiating this expansion by monitoring the level of interruption that occurs as demand grows.

Top-up Water (see section 2.1) will not be used to maintain supply to non-foundation customers as the Top-up water costs more than the revenue that would be lost by AquaNet interrupting supply. Recycled Water is sold to Foundation Customers and AquaNet customers at 90% of the potable water price.

3.2 *Risk Assessment*

AquaNet convened a series of Risk Assessment and Critical Control Point workshops in September / October 2010 to identify and establish processes to mitigate any outstanding health and environmental risks and ensure that interruptions are minimised. Workshop participants included representatives from Jemena, Veolia, Sydney Water, IPART and NSW Department of Health.

The methodology used for Hazard Assessment and Risk Management was in accordance with PR-VW-ANZ-204 – Risk Management Procedure, which is based on AS4360, the Australian Standard for risk management.

Output from the workshops included a detailed risk assessment and confirmation of the Rosehill Scheme critical control points. AquaNet will review the risk assessment annually in order to identify and incorporate any necessary changes.

3.3 *Interruption Due to Incidents or Operational Problems*

Design of the Rosehill Scheme includes a level of redundancy to ensure that the Network and Plant can operate reliably and loss of supply due to operating problems will be rare:

- Pumping stations have been designed with 30% redundancy at full flow and 50 to 100% at lower flows
- Reservoir locations have been selected such that supply can be maintained for a period of hours during pumping station failure via gravity feed

- Allowance has been made to connect a temporary generator at both Fairfield and Rosehill in the event of a long term power outage
- The Plant has full redundancy in the major process trains ie pumps, ion exchange, Micro Filtration Units and Reverse Osmosis Units
- The Plant includes a 3ML of storage for secondary treated effluent to smooth out supply fluctuations

The Scheme is monitored on a 24 hour basis 7 days per week with early warning alarms and equipment condition tested through monitoring of key parameters.

Early warning alarms allow the operators to identify and follow any short term trend and take appropriate corrective action to rectify any recycled water quality or supply issues and avoid interruption to supply.

Maintenance regimes have been put in place by SPIRN and Veolia to ensure that the Rosehill Scheme operates continually and reliably. Planned maintenance that necessitates a partial or full shutdown of equipment will be scheduled in periods of low demand so that supply can be maintained wherever possible.

To the extent that there are interruptions due to operating problems, these issues will be temporary and corrected by Veolia and SPIRN as specified in the Infrastructure Operating Plans of those organisations as submitted through their respective WICA Network Operator's Licences.

In the event that the Network or Plant is damaged by any party or a Force Majeure event, then supply may need to be interrupted while the damage is repaired. Reasonable precautions have been taken to prevent such occurrences such as condition monitoring, network surveillance and site security.

3.4 *Interruption Due to Effluent Supply*

In the event that Sydney Water is unable to provide sufficient effluent to maintain full plant operation or the quality of the effluent falls outside agreed parameters, an Effluent Event will be triggered under the Project Agreement and Sydney Water will provide Back-up or Top-up potable water as an alternative. The probability of an Effluent Event occurring is outside the control of AquaNet.

3.5 *Interruption Due to Recycled Water Quality*

The Plant has been designed such that it can operate reliably and consistently supply recycled water to the required Specification so that interruption due to quality issues will be rare.

In the event that there is an off-specification event, production and/or deliveries will be shut down rather than supply off-specification recycled water to Foundation Customers or AquaNet customers.

To the extent that there are interruptions due to quality problems, these issues will be temporary and corrected by Veolia and SPIRN as specified in the Water Quality

Management Plans of those organisations as submitted through their respective WICA Network Operator's Licences.

Recycled water quality is monitored continuously at various points throughout the Rosehill Scheme including at the extremities of the network.

Recycled water from the Plant that does not meet the Specification will not be permitted to enter the Network, and in the event that water in the Network is out of Specification then the water will be disposed of through the various scour points. It will not be supplied to customers.

3.6 AquaNet Financial Viability

The Rosehill Scheme is supported by a 20 year Project Agreement with Sydney Water under which AquaNet will receive an ongoing revenue stream from sale of recycled water to foundation customers.

The revenue stream provides for:

- Purchase of treated water from Veolia under the Plant Agreement;
- Operating costs of AquaNet and the recycled water distribution network; and
- A return on invested capital.

Project expansion will occur when sufficient market is secured to justify the incremental capital and operating costs of the expansion.

The financial structure of the Rosehill Scheme is such that the risk of financial failure for AquaNet is low.

If financial failure were to occur, customers could revert to their potable water back-up supplies or the Minister could appoint a Retailer of Last Resort as provided for in the WICA.

4 Alternative Supplies of Water

In the event that recycled water supply is interrupted, customers will not be left without sufficient water. If the Rosehill Scheme is producing insufficient recycled water to meet demand:

- Supplies of potable water (in the form of Top-up water and Back-up water purchased from Sydney Water) are available to maintain water supply to Foundation Customers.
- AquaNet customers are supplied on an interruptible basis and make their own arrangements to manage interruptions to supply of recycled water by arranging back-up potable water supply from Sydney Water.

AquaNet can purchase Top-up potable water subject to limits specified in the Project Agreement, to meet Foundation Customer supply obligations. Those limits are:

- 3% of total Rosehill Scheme recycled water volume from April to September
- 7% of total Rosehill Scheme recycled water volume from October to March

There is no limit on the use of Back-up potable water by Foundation Customers under the Project Agreement.

AquaNet's sole source of income is from the delivery and sale of recycled water. AquaNet therefore has a strong incentive maintain supply of recycled water and minimise the use of potable water.

5 Compliance

Jemena has an overarching policy on Compliance with the Law which opens with the following statement:

SPI (Australia) Assets Pty Ltd (**Jemena**) operates in an environment of demanding and often complex, legal and regulatory obligations. Jemena is committed to:

- conducting all its business operations and dealings in full compliance with the law; and
- ensuring that everyone in Jemena understands what they must do so that Jemena achieves full compliance.

To deliver on our commitment to full compliance with the law, we will:

- establish and maintain governance structures and management systems for compliance that have regard to the relevant Australian Standard—AS3806—2006 Compliance programs—and reflect the nature of the obligations and associated compliance risks
- foster and maintain a culture that values and supports compliance through strong leadership, participation, training and development.

As part of Jemena, AquaNet is bound by and supports this policy.

Apart from the Rosehill Scheme, Jemena owns manages and operates or provides asset management and operational services to electricity distribution networks in Victoria; gas transmission pipelines in Victoria, NSW and Queensland; and gas distribution networks in NSW the ACT and Victoria. All of these operations are conducted under licence or authorisation and all are subject to extensive industry-specific legislation and regulation.

Jemena has well established systems for managing compliance with the industry-specific obligations that apply to its operations. Those systems now cover the obligations that attach to AquaNet's Retail Supplier's licence, including the obligations in the Marketing Code of Conduct and the Transfer Code of Conduct, and the practices and processes that AquaNet describes in its Code of Practice for Customer Complaints and Code of Practice for Debt Recovery. The systems have been developed with reference to AS3806 and, in general terms, involve:

- monitoring the regulatory environment and recording applicable obligations in a register
- assigning responsibility for managing compliance with each obligation to the relevant manager(s) in the operating divisions of the business
- monitoring compliance performance including requiring periodic assurances as to compliance from responsible managers
- managing periodic audits and reviews of compliance and compliance systems which, in some cases, may be initiated externally by a regulator, or required by regulation
- coordinating the preparation of internal and external reports

- receiving, investigating and responding to complaints and reports of compliance incidents (including suspected breaches).

The compliance management systems are administered by dedicated risk and compliance management staff within the business and, at its highest level, the systems' operation is overseen by Jemena's Executive Compliance Committee.

5.1 Code of Practice for Customer Complaints

A Code of Conduct for Customer Complaints has been developed by AquaNet and is consistent with the Australian Standard for complaints handling AS ISO 10002—2006.

The Code of Conduct for Customer Complaints specifies the process by which AquaNet will respond customer or community complaints, contact details and how the complaint can be escalated if necessary.

The Code of Practice for Customer Complaints is available on the AquaNet website and customers will be made aware of the Code prior to commencement of supply of recycled water.

AquaNet will abide by the Code of Conduct for Customer Complaints.

5.2 Code of Conduct for Debt Recovery

A Code of Conduct for Debt Recovery has been developed by AquaNet and is consistent with the terms of the recycled water supply agreements between AquaNet and its customers.

The Code of Conduct for Debt Recovery specifies steps that AquaNet will take in relation to overdue bills, unpaid bills and disputes. A short term payment plan will be available for customers suffering financial hardship.

The Code of Practice for Debt Recovery is available on the AquaNet website and customers will be made aware of the Code prior to commencement of supply of recycled water.

AquaNet will abide by the Code of Conduct for Debt Recovery with all customers.

5.3 Marketing Code of Conduct

The Marketing Code of Conduct specifies how marketers must conduct themselves when they deal with small retail customers. A person is a small retail customer in relation to water supply if the maximum rate at which water is supplied, pursuant to one or more water supply contracts, to all premises that the person owns, leases or occupies is less than 15 megalitres per year.¹

¹ Water Industry Competition (General) Regulation 2008, s5.

Rosehill Scheme water is highly treated and can cause accelerated corrosion in materials normally used for water reticulation such as cast iron, copper and concrete. Special materials must be used to handle the water or it must be treated further if standard materials are used. In either case, the cost and inconvenience of these options is likely to make Rosehill Scheme water unattractive for individual small customers.

Of the industrial, commercial and local government customers and potential customers that AquaNet presently deals with, only some local government irrigation sites and two to three line of main industrial users are small retail customers. AquaNet has no plans to market directly to residential customers.

If the Rosehill Scheme is extended to supply new developments, for example through dual pipe systems, then AquaNet's present plan is to supply other retailers on a wholesale basis for onward supply to customers in those developments.

AquaNet will develop the recycled water market through one to one business to business communication such as meetings, phone calls and emails.

AquaNet will also maintain an internet site with information on the Rosehill Scheme and the benefits of recycled water use.

Customer events will occasionally be held and will be by invitation.

AquaNet will abide by the Marketing Code of Conduct in communication with small customers.

5.4 *Transfer Code of Conduct*

The Transfer Code of Conduct describes the arrangements that apply when a customer of any size is transferred from one licensed retailer supplier to another or to a public water utility, or from a public water utility to a licensed retail supplier. The Code imposes obligations on both the incoming and outgoing retailer, and the network operator.

At present Sydney Water and AquaNet are the only retailers that will be supplying water from the Rosehill network and that situation is unlikely to change in the foreseeable future. The only transfers that are likely to occur are those contemplated by the transitional provisions described in section 1.1.

6 Implementation and Review

AquaNet will:

- ensure that this Plan is fully implemented and regularly reviewed according to the guidelines below
- supply recycled water in accordance with the terms of the Project Agreement and Supply Agreements
- provide routine and event based communications in accordance with the agreed operational protocols

This Plan will be reviewed on direction of the Minister or if any of the following circumstances occur:

- Sydney Water and AquaNet agree to Transition (see section 1.1)
- AquaNet enters into arrangements to supply Small Retail Customers other than Small Line of Main Customers (see section 2.2)
- There is a change to the terms of the Supply Agreements that represents a material change to this Plan
- A change is required as the result of a change in Law

The Codes of Practice for customer complaints or debt recovery will be reviewed if:

- There is a change to the WICA regulations or other Law that has a material effect on the codes
- There is a material change to the terms of the Supply Agreements
- There is a change to Jemena processes or contact details

If the Plan or Codes of Practice are updated as a result of the above processes, an updated copy will be provided to IPART and when agreed, posted on the AquaNet website with copies provided to the ombudsman and the Minister.