



Hunter Water Operating Licence
Review

Final Report

May 2022

Water >>

Tribunal Members

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The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from [IPART's website](#).

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

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Chapter 1 »

Recommendations

IPART has made recommendations for our review of the
Hunter Water Operating Licence

01

The Independent Pricing and Regulatory Tribunal (IPART) has completed an end of term review (Review) of the current Hunter Water 2017-2022 operating licence, which will expire on 30 June 2022.

This report sets out our recommendations to the Minister for Lands and Water (Minister) for a new operating licence (Licence) which we anticipate will commence on 1 July 2022, as well as a new Customer Contract. The terms and conditions of the Customer Contract are set out in the Licence.

We conducted this Review to assess whether the current operating licence is meeting its objectives, which are to:

- a. provide transparent and auditable terms and conditions for Hunter Water to lawfully undertake its activities at industry good practice
- b. recognise the interests of stakeholders within its Area of Operations, and
- c. impose the minimum regulatory burden on Hunter Water by avoiding duplication or conflict with other regulatory instruments.

In this report, we discuss our assessment of how well the current operating licence meets these objectives and our recommendations for improvements. Our recommendations seek to ensure that the operating licence remains current and reflects changes in public expectations, best practice and Hunter Water's circumstances. They seek to resolve the issues we discovered during this Review in a way that imposes the lowest possible cost on Hunter Water (and therefore its customers).^a

Our recommended changes to the Customer Contract are explained in Appendix A. The terms and conditions for the Customer Contract are set out in the Licence.

We also discuss our review of the Reporting Manual in this report but the Reporting Manual is not subject to Ministerial approval. The Reporting Manual is an IPART document that sets out Hunter Water's reporting requirements on its compliance with the Licence conditions.

Contextual information on Hunter Water, its operating licence, and our process and considerations for this Review is available in Appendix B. We have included a cost-benefit analysis (CBA) to support our recommendations for the Licence in Appendix C. In Appendix D, we have included a summary of submissions we received from stakeholders that we received when we consulted on our draft recommendations for the Licence, Customer Contract and Reporting Manual in March 2022. These stakeholder submissions have informed our final recommendations.

We have provided the recommended Licence and Customer Contract with this report to the Minister. We have also included the Reporting Manual for completeness.

^a In section 6.1, we discuss our recommendation to update the objectives to more closely align with Hunter Water's principal functions.

1.1 Recommended changes to the current operating licence

We have made 58 recommendations in response to issues identified by us, Hunter Water and stakeholders during this Review. Many of these recommend no change or only minor changes to the current operating licence. In a few cases, we have recommended substantial improvements.

We have recommended clarifying that where NSW Health may specify health-based requirements, these would be additional to the Australian Drinking Water Guidelines or the Australian Guidelines for Water Recycling and they must be reasonable. We have also recommended removing a redundant performance standard for short-term water interruptions and changing the way the measure of performance standards is expressed so that the standards allow for the effect of growth and development in Lower Hunter.

Our recommended changes to the way Hunter Water identifies and implements water conservation activities and undertakes long-term water security planning to align with recent policy developments include:

- Requiring implementation of the water conservation work program, for water storage and transmission from storage to treatment, that Hunter Water developed during the 2017-2022 operating licence period.
- Requiring implementation of the water conservation work program and water conservation measures for water treatment and transmission from treatment plants to customers, that are assessed as economical.
- Requiring a 5-year Water Conservation Plan, once the NSW Government Water Efficiency Framework is published.
- Requiring arrangements for transitioning the current water conservation work programs and measures to the 5-year Water Conservation Plan once published.
- Requiring information on an annual review and update of the Water Conservation Plan.
- Extending the application of economic assessment to water conservation measures across the total water cycle, from catchment to tap, once the NSW Government Water Efficiency Framework is published.
- Allowing flexibility for Hunter Water to modify its economic approach with the Minister's approval.
- Requiring a drought response plan consistent with the objectives of the Lower Hunter Water Security Plan.
- Requiring Hunter Water to calculate the system yield, review and implement the Lower Hunter Water Security Plan and apply integrated water cycle management to its long-term planning for the Lower Hunter, working cooperatively with the Department of Planning and Environment (DPE).

We have recommended changes to customer protections and the customer contract to improve outcomes for customers or remove unnecessary administrative burden, including:

- Requiring communication with customers and the general public about account relief and rebate claims, including a requirement to provide information to residential customers about payment assistance options within one business day of identifying payment difficulty.

- Revising the Customer Contract to clarify customer protection clauses that apply to consumers (e.g. tenants) and increasing rebates to reflect the extent of inconvenience to customers.
- Removing the requirement for Hunter Water to provide IPART with notice of changes to the Customer Contract
- Requiring the development and implementation of a family violence policy to support vulnerable customers.
- Allowing Hunter Water to communicate important information to customers without limiting to 'pamphlets' or electronic communication only.
- Allowing Hunter Water the option of membership of the Energy and Water Ombudsman NSW or another external dispute resolution scheme approved by IPART, subject to any alternative scheme meeting certain minimum criteria.
- Allowing flexibility for Hunter Water to undertake customer consultation in any manner that it considers effective, instead of a prescriptive requirement for a Customer Advisory Group. Extending consultation to the wider community, as well as customers and consumers.

We have also recommended that Hunter Water should be required to provide water and wastewater services to *Water Industry Competition Act 2006* (WIC Act) licensees on request, provide specific information to the market and negotiate in good faith with WIC Act licensees and other potential competitors to reduce non-price barriers of entry to the market.

Finally, we have recommended extending the requirements of Hunter Water's Memoranda of Understanding with DPE and Fire and Rescue NSW (FRNSW). The MoU with DPE should address Hunter Water's long-term planning. Hunter Water should consider including the Rural Fire Service in the working group between Hunter Water and FRNSW. This working group is a requirement of the current MoU with FRNSW.

All 58 recommendations are discussed in full in the body of this report and are listed in Chapter 7.

1.2 How we developed our recommendations

We have generally applied the Best Practice Licensing Framework¹ when recommending terms and conditions in the Licence, as well as reporting requirements to support these Licence conditions. The Licensing Framework, in conjunction with the Licensing Guide, is an assessment tool for regulators to apply to their existing and proposed licences. It consists of four stages, requiring the regulator to establish the rationale for licensing, assess its design, assess its administration, and confirm that licensing is the best response.

As this is a mature operating licence, our Review has considered changes that may be necessary to the current operating licence, rather than developing a new licence.

We undertook a CBA to inform our recommendations. Where feasible, we considered the costs and benefits of the current licensing approach compared to the costs and benefits of removing a licence requirement. It was not always possible to accurately calculate costs and benefits. In particular, the broader societal benefits of some licence conditions were difficult to quantify. Where we thought it was necessary, we also considered unquantified matters of broader public interest and protection of customers when applying the Best Practice Licensing Framework.

We also considered the broader regulatory context. This context was informed by stakeholder views, Hunter Water's compliance and audit history, lessons learnt from other public water utility's compliance history and relevant examples of current good or best practice in the regulation and operation of utilities in Australia and other countries.

We received preliminary stakeholder views in response to our Issues Paper that we published in September 2021. The Issues Paper included our analysis of the issues that may be relevant for the Licence and this Review and it also sought feedback from stakeholders about issues unknown to us. We received submissions from Hunter Water, DPE^b, the Energy and Water Ombudsman NSW (EWON), the Public Interest Advocacy Centre (PIAC), Sydney Water and some anonymous individuals.^c

These submissions, and subsequent discussions with key stakeholders to clarify their feedback to the Issues Paper, informed our draft recommendations for the Licence, Reporting Manual and Customer Contract. We published our draft recommendations in February 2022 and we received stakeholder feedback by April 2022. We also held an online public hearing in March where stakeholders were able to provide verbal feedback.^d

Hunter Water, EWON, PIAC, Sydney Water and an anonymous individual provided feedback on our draft recommendations. These submissions informed our final recommendations on the Licence, Customer Contract and Reporting Manual.

We have explained our rationale for making our recommendations in this report, and we have provided an analysis of how stakeholders' feedback informed them. We have summarised the stakeholder submissions to the draft Licence in Appendix D.^e This summary also contains our responses to the submissions.

We have made changes to our draft recommendations for the Licence requirements for water conservation and water planning, informed by subsequent discussions with DPE. We consider that the final recommendations are not materially different to the intent expressed in the draft Licence. Rather, the changes seek to ensure that the Licence conditions are auditable and achieve the desired outcomes under the NSW Government Water Efficiency Framework, once published.

^b In December 2021, the previous Department of Planning, Industry and Environment became the Department of Planning and Environment.

^c The stakeholder submissions to our Issues Paper are available on our [website](#).

^d The agenda, transcript and recording for the public hearing are available on our [website](#).

^e The written submissions from stakeholders to our draft Licence are available in full on our [website](#).

Chapter 2 »

Water quality and system performance standards

Performance standards directly impact on the level and quality of service that customers receive

02



The *Hunter Water Act 1991* (the Act) requires the Licence to include quality and performance standards in relation to water quality and service interruptions.^a Quality and performance standards define the levels of quality and/or performance that a utility must meet to satisfy a regulatory or other requirement. The standards generally focus on one or more aspects of the level of service customers can expect from the utility. By specifying them in the operating licence, they protect customers by ensuring that the service provided to customers does not fall below the required standard.

The current operating licence includes water quality standards and system performance standards for service interruptions.^b

2.1 Water quality standards

We recommend retaining standards for water quality in the Licence. Not only because they are required by the Act, but it is appropriate for the Licence to regulate how Hunter Water manages the quality of water that it supplies to its customers. Water quality is a key matter of interest to Hunter Water's customers and safe water is a reasonable expectation from a water utility. Particularly in the case of monopoly suppliers such as Hunter Water where customers have few, if any, alternative choices of supplier.

Recommendations

1. Retain requirements in the Licence for water quality management systems consistent with the Australian Drinking Water Guidelines (ADWG) and the Australian Guidelines for Water Recycling (AGWR).
2. We recommend a broader definition of AGWR in the Licence, compared to the current operating licence, to include Phase 2 of the AGWR.

^a *Hunter Water Act 1991*, section 13(1)(c).

^b Part 3 of the current operating licence.

- 3. Clarify NSW Health's role in specifying health-based requirements that NSW Health reasonably specifies in writing. These are intended to be additional to the requirements set by the ADWG/AGWR (and are not intended to depart from the guidelines).
- 4. Retain requirements in the Licence to implement the water quality management systems.
- 5. Clarify that Hunter Water must implement the water quality management systems and carry out activities in accordance with those systems and to the reasonable satisfaction of NSW Health

Under the current operating licence, Hunter Water is required to maintain a drinking water quality management system consistent with the ADWG and a recycled water quality management system consistent with the AGWR.^c Since the first operating licence, the water quality standards have been based on National Health and Medical Research Council (NHMRC) guidelines.^d The ADWG and AGWR are the current NHMRC water quality standards.

Our recommendations seek to retain the current operating licence conditions with minimal change.

Box 1 Risk management approach in the ADWG/AGWR frameworks

The ADWG and AGWR follow a risk-based approach, where the level of water quality required for an intended use is determined with regard to the extent of exposure to harmful pathogens and nutrients, the frequency of that exposure and the corresponding negative health implications.

The ADWG^e and AGWR set out a process for developing a preventative risk management framework to achieve health-based targets. These targets are consistent with those adopted by the World Health Organisation (WHO)² and by more than 93 other countries.³

^c Clauses 3.11 and 3.2.1 of the current operating licence.

^d The second reading speech for the *Hunter Water Board (Corporatisation) Act 1991* (as the Act was previously known) in the Legislative Assembly, stated that the water quality standards in the first operating licence would be based on the National Health and Medical Research Council (NHMRC) guidelines.

^e The next ADWG version (expected later in 2022) is expected to finalise the full adoption of Health Based Targets for pathogens.

In the Issues Paper, we sought feedback whether alternative water quality standards should be recommended in the new Licence. Alternative standards may present a more cost-effective option for ensuring health and environmental outcomes and allow for innovation. In effect, a more cost-effective option would likely mean a standard that prescribes a health-based target lower than the current level of tolerable risk for Hunter Water's customers and lower than the standard accepted by the WHO. We did not identify any alternative water quality standards through this Review.

In their submissions to the Issues Paper, neither Hunter Water nor NSW Health supported using alternative water quality standards. NSW Health stated that the ADWG/AGWR are the NSW Government endorsed water quality guidance in NSW.⁴

NSW Health also stated that it did not consider it appropriate to consider customers' willingness to pay in setting water quality standards that might better reflect customers' willingness to pay (though we note we did not specifically raise this in the Issues Paper) because there is a risk that different standards will be applied in different areas across NSW.⁵ PIAC agreed with NSW Health that water quality standards should not be affected by customers' willingness to pay. PIAC stated that minimum customer and community needs must be of a guaranteed standard and should not be subject to trade-offs. PIAC supported our recommendation that the Licence should set the minimum water quality standard (to be consistent with the ADWG and AGWR).⁶

2.1.1 Drinking Water

Hunter Water is a 'supplier of drinking water' under the *Public Health Act 2010 (NSW)* (the Public Health Act).^f The Public Health Act requires all drinking water suppliers to implement a quality assurance program (QAP) for the safe supply of drinking water that addresses the Framework for Management of Drinking Water Quality^g (as set out in the ADWG).^h Hunter Water is currently exempt from the QAP requirement because it is subject to the operating licence requirement to maintain water quality management systems consistent with the ADWG. The exemption under the Public Health Act ensures there is no regulatory duplication. We anticipate that if the operating licence conditions for the water quality management systems were removed, Hunter Water's exemption under the Public Health Act would likely be revoked by the Chief Health Officer, triggering the requirements of the Public Health Act.

In its submission to the Issues Paper, NSW Health strongly supported retaining the requirements for the water quality management systems in the Licence.⁷ Specifying a different drinking water standard in the Licence to the ADWG carries risks and would result in Hunter Water being subject to a different standard to other utilities.

^f *Public Health Act 2010*, s 5(1), definition of 'supplier of drinking water'.

^g The Framework for Management of Drinking Water Quality consists of 12 elements considered good practice for system management of drinking water supplies.

^h *Public Health Act 2010*, ss 25(1) and (1A); *Public Health Regulation 2012*, clause 34A.

Our CBA found that there was a net benefit in providing drinking water treated to a standard consistent with the ADWG. We derived the estimated costs from dataⁱ previously collected from Sydney Water and related them to the cost of constructing and operating water treatment plants equivalent in size to that required to service Hunter Water's customers. The estimated benefits relate to avoided economic losses from improved health outcomes for Hunter Water's customers.

Our recommended Licence conditions in relation to drinking water are shown in Box 2 below.

We have not recommended significant changes from the current operating licence. However, we do recommend clarifying that requirements that NSW Health can specify will be 'additional' to what is in the ADWG (rather than a departure from it, as shown in clause 15(1) below). NSW Health supported this clarification and has confirmed that it is consistent with NSW Health's intent.⁸

We have retained the clarification in the current operating licence that where there are inconsistencies between NSW Health's requirements and the ADWG, NSW Health's requirements, as specified in writing, would prevail (as shown in clause 15(2) below). When we consulted on this in the draft Licence, PIAC commented that it would be more appropriate for the highest standard to apply wherever there is inconsistency, to ensure that NSW communities are not subject to lower standards than those elsewhere in the country.⁹ While we recognise the intent behind PIAC's comments, we consider that making this clarification in the Licence is unnecessary. As NSW Health's requirements would be *additional* to the ADWG, we do not expect there to be regular inconsistencies. Further, it may be difficult to determine which is 'the highest standard' in all circumstances.

We have recommended retaining the clarification about NSW Health's requirements prevailing to allow NSW Health to assist with interpretation. We have recommended that any requirements specified by NSW Health are to be 'reasonable' to allow Hunter Water the opportunity to demonstrate where a specified requirement may not be beneficial to its customers.

We have retained and made minor modifications to the current requirement for Hunter Water to fully implement, and carry out its activities in accordance with, the Drinking Water Quality Management System and to the satisfaction of NSW Health. We consider that NSW Health's satisfaction should be reasonable in this case also (as shown in clause 15(3) below), consistent with the changes to the additional health requirements discussed above.

ⁱ Our CBA used data from the 2019 Review of the Sydney Water operating licence for drinking water treatment plant construction and operation.

Box 2 Recommended Licence requirements in relation to drinking water

15 Drinking Water

(1) Hunter Water must maintain a Management System that is consistent with the Australian Drinking Water Guidelines and any additional health-based requirements relating to drinking water that NSW Health reasonably specifies in writing (the **Drinking Water Quality Management System**).

(2) In the event of inconsistency between the requirements specified by NSW Health referred to in clause 16(1) and the Australian Drinking Water Guidelines, the requirements specified by NSW Health prevail.

(3) Hunter Water must fully implement the Drinking Water Quality Management System and carry out all relevant activities in accordance with the Drinking Water Quality Management System, and to the reasonable satisfaction of NSW Health.

[Note: Hunter Water is to apply the Drinking Water Quality Management System to the Drinking Water system under its control, having regard to the entire Drinking Water supply system – from water catchment to the Consumer.]

2.1.2 Recycled Water

The AGWR presents an overarching risk management framework that is based on principles of food safety where biological, chemical and physical hazards are analysed and controlled. NSW Health recommends the use of the AGWR because it advocates a preventive public health risk management approach.

Recycled water is addressed in the Public Health Act as 'any other water', for which the Minister has the power to take action and give directions if the Minister suspects there is a risk to public health. However, the Public Health Act does not require recycled water to be produced to a defined standard.

Box 3 A Management System that is consistent with the Australian Guidelines for Water Recycling

The AGWR risk management framework:

- provides a mechanism for identifying the major hazards, risks and appropriate preventive measures (treatment and on-site controls)
- sets targets for pathogenic bacteria, protozoa and viruses for a range of specific uses of recycled water based on tolerable risk
- describes how these targets can be achieved using combinations of treatment (to reduce pathogen concentrations) and on-site controls (to reduce exposure)
- provides an operational monitoring approach designed to detect faults before use of recycled water
- provides for the use of verification (compliance) monitoring to ensure that management systems function effectively
- provides for establishment of incident protocols
- provides for implementation of supporting requirements including training, community involvement, documentation and reporting.

Adapted from the *Australian Guidelines for Water Recycling: Managing Health and Environmental Risks (Phase 1)*, November 2006

Hunter Water reports that it has [15 recycled water schemes](#) linked to its system in the lower Hunter.¹⁰ The main uses of the recycled water are watering open space, industrial and residential uses. The NSW Government's Lower Hunter Water Security Plan¹¹ signals its intent to increase recycled water production for industrial schemes and public space irrigation schemes in the Lower Hunter.

The Lower Hunter Water Security Plan also intends for Hunter Water to continue to explore viable opportunities for recycling in new residential developments. Producing and distributing recycled water for non-drinking purposes in residential developments is costly. This is because recycled water delivered to homes must be treated to a high standard to protect public health in the event of improper use and must be delivered through a second plumbing network to protect drinking water from cross contamination.

The AGWR Phase 2¹² has been drafted to guide the safe production of recycled water for drinking and could be called on should Hunter Water begin producing purified recycled water for drinking. We recommend a broader definition of AGWR in the Licence, compared to the current operating licence, to include Phase 2¹³. Given the potential for Hunter Water to implement further recycling projects in line with the Lower Hunter Water Security Plan, we consider it is appropriate to allow for future uses of recycled water.

The application of the AGWR in the Licence ensures that public confidence in the production and supply of safe recycled water can be maintained. The AGWR is flexible and risk-based. It provides for Hunter Water to expand its recycled water programs targeting economic recycled water projects and using treatment technologies and on-site controls that are appropriate for the recycled water's intended use.

Our CBA notes that while recycled water is produced only for non-drinking purposes, the cost of treating to the standard required by the AGWR for residential uses is likely to result in a disbenefit. We were unable to compare the costs of producing recycled water to the standard required under the AGWR to the cost of producing recycled water to an alternative, less stringent standard. This is because we were unable to identify any applicable standards that would specify a lower level of treatment and realise a cost reduction. The economics of producing and supplying highly treated recycled water improve where recycled water can be supplied for drinking water and delivered to residential premises through a single plumbing network. The Lower Hunter Water Security Plan notes that Hunter Water will engage with the community about purified recycled water for drinking.

There are several direct and indirect benefits of producing recycled water that could not reasonably be quantified in our CBA and for which we were unable to calculate a cost. However, the analysis provides indicative information about the relative costs of producing safe recycled water and may assist Hunter Water to make future decisions about whether potential new recycled water systems are likely to be cost effective.

Our recommended Licence conditions in relation to recycled water are shown in Box 4 below. As with the drinking water Licence conditions, we have not recommended significant changes from the current operating licence. Our recommended changes only seek to clarify that any requirements specified by NSW Health would be additional to what is in the AGWR and allows Hunter Water to demonstrate if they are not 'reasonable' (as shown in clause 16(1) below). Hunter Water's implementation of, and activities carried out under, the Recycled Water Quality Management System must also be to NSW Health's 'reasonable' satisfaction (as shown in clause 16(3) below).

Box 4 Proposed Licence requirements in relation to recycled water

16 Recycled Water

(1) Hunter Water must maintain a Management System that is consistent with the Australian Guidelines for Water Recycling and any additional health-based requirements relating to water recycling that NSW Health reasonably specifies in writing (the **Recycled Water Quality Management System**).

(2) In the event of inconsistency between the requirements specified by NSW Health referred to in clause 17(1) and the Australian Guidelines for Water Recycling, the requirements specified by NSW Health prevail.

(3) Hunter Water must fully implement the Recycled Water Quality Management System and carry out all relevant activities in accordance with the Recycled Water Quality Management System and to the reasonable satisfaction of NSW Health.

2.1.3 Fluoridation

Recommendation



6. Do not include a new Licence requirement for fluoridation. We (IPART) can assess fluoridation performance under the water quality management system requirements in the Licence for drinking water.

The current operating licence does not include requirements for fluoridation. We recommend retaining this approach in the new Licence too.

We raised a question in the Issues Paper about whether a new licence condition prescribing compliance with the NSW Code of Practice for Fluoridation of Public Water Supplies (Fluoridation Code) was necessary. This was because the Sydney Water Operating Licence has a similar licence condition, and the 2 utilities perform similar water supply functions.

Hunter Water's fluoridation of drinking water is currently regulated under the Fluoridation Code and the *Fluoridation of Public Water Supplies Act 1957* (Fluoridation Act). Hunter Water has discretion to fluoridate drinking water with the approval of NSW Health. Where Hunter Water chooses to fluoridate, it must comply with the Fluoridation Code¹⁴ and it must provide a monthly report on its fluoridation monitoring to NSW Health, under the current reporting manual.^j NSW Health has previously specified, as it is able to do under clause 3.1.1 of the current operating licence, that Hunter Water's fluoridation monitoring and reporting in its drinking water quality management system must be consistent with the Fluoridation Code. (NSW Health will continue to be able to do this under the recommended Licence.) In the 2019 end-of-term review of the Sydney Water Operating Licence, NSW Health and Sydney Water supported including a fluoridation requirement¹⁵ in that operating licence because they had observed benefits for auditing purposes with previous versions of the operating licence.

In its response to the Issues Paper, NSW Health was in favour of having a requirement for fluoridation in the Hunter Water Licence stating that the Licence would be the most appropriate mechanism to set out key government requirements of public interest.¹⁶ However, Hunter Water did not support a new fluoridation requirement as it considers that the requirement would duplicate existing legislation without benefit.¹⁷ Sydney Water agreed with Hunter Water's position. Sydney Water explained that the main benefit of having the requirement in the Sydney Water Operating Licence is that it reiterates Sydney Water's commitment to fluoridating the water supply and provides assurance to the public that Sydney Water is meeting its obligations under the Fluoridation Act. However, it has resulted in fluoridation being audited under both the drinking water quality management and the Fluoridation Code conditions in the Sydney Water Operating Licence, resulting in additional auditing costs. Further, one non-compliance can result in breaches of 2 operating licence conditions.¹⁸

On balance, we agree with Hunter Water that a Licence condition for fluoridation is unnecessary and duplicative. Hunter Water's fluoridation performance, and implementation of the Fluoridation Code, can be audited when we audit implementation of the drinking water quality management system. We consider that including fluoridation in the Licence solely to set out government requirements of public interest, as identified by NSW Health, may not be adequate justification for duplicating the fluoridation requirements in the Licence.

We did not include a condition in the draft Licence that we consulted on and received no submissions from stakeholders seeking its inclusion.

^j Section 3.1.2 of the current reporting manual.

2.2 Reporting requirement for water quality management and fluoridation

Decisions



1. *[Reporting Manual]* Retain the current reporting requirements for water quality management and fluoridation with minimal change.

Under the current reporting manual, Hunter Water must publish a monthly water quality monitoring report, provide a monthly fluoridation report and a quarterly exception report to NSW Health and submit an annual compliance and performance report to IPART. In the annual compliance and performance report, Hunter Water must report on its drinking water and recycled water quality management activities and programs to meet water quality objectives. Hunter Water must include in the report any significant changes made to the water quality management systems, and any non-conformances and action(s) taken to resolve those non-conformances.^k We have retained all of these requirements in the new Reporting Manual with minimal changes or clarifications.

In the draft Reporting Manual, we proposed reducing the annual compliance and performance reporting to IPART. We considered that as we get most of the compliance information we need through the audit process and can request other information as necessary, we can reduce the current reporting requirements and rely on Hunter Water's annual reporting of non-compliances through its statement of compliance (discussed further in section 6.3.2 of this report). However, NSW Health did not support this proposal.^l

NSW Health advised that the current annual reporting requirements are essential for Hunter Water to demonstrate it is meeting an equivalent standard to the QAP requirements in section 25 of the Public Health Act. This is the basis for maintaining an exemption from the Public Health Act requirements.¹⁹ As the exemption provides benefits (as previously discussed under drinking water quality management) and reduces costs more than reducing the reporting requirements, we decided to retain the current annual compliance and performance report.

Hunter Water's reporting requirements can be viewed in full in the 2022-2027 Reporting Manual.

^k Chapter 3 of the current reporting manual includes Hunter Water's reporting requirements for water quality.

^l NSW Health did not make a formal submission to the draft Licence but provided its advice to IPART directly.

2.3 System performance standards for service interruptions

Recommendations:

- 7. Retain 4 of the current 5 system performance standards for water continuity, water pressure and dry weather wastewater overflows in the Licence.
- 8. Do not include one of the current water continuity standards for multiple short unplanned service interruptions.
- 9. Retain the service levels specified by the system performance standards in the current operating licence (i.e. do not increase or lower service levels).
- 10. Express the standards as a proportion of properties supplied to account for customer growth.
- 11. Retain the current approach to set minimum standards in the Licence and do not optimise the standards.
- 12. Increase customer rebates (in the Customer Contract) for service interruptions.

The current operating licence contains 5 system performance standards for service interruptions. These include 2 water continuity standards, one water pressure standard and 2 dry weather wastewater overflow standards (onto private properties).^m These standards protect customers from inferior quality products and services and the wastewater overflow standard protects public health by minimising overflow events. Further, they satisfy the requirement of the Act for the Licence to include performance standards for service interruptions.ⁿ

^m Clause 3.3 of the current operating licence contains 5 system performance standards for service interruptions.

ⁿ *Hunter Water Act 1991*, section 13(1)(c).

We recommend retaining 4 out of 5 of these system performance standards in the new Licence. Not only because they meet the requirement of the Act but because they protect customers. The standards set hard limits on the maximum number of properties that can be affected by the service interruption in any one financial year. A property count above the target level for any of the standards represents a breach of the operating licence. In this way, the standards incentivise Hunter Water to maintain services to customers at or above the standard set in the operating licence. In the absence of mandatory requirements, there is a risk that over time Hunter Water's standards would not be maintained and customers may receive services that do not meet quality expectations. We consider this to be an unacceptable risk particularly for customers of monopoly suppliers (such as Hunter Water) that do not have many options for their water and wastewater services.

Our recommendation is consistent with Hunter Water's customer preferences. Hunter Water consulted its customers to understand their preferences about the service standards that the customers value as well as the service failures for which customers would expect a rebate. This consultation showed that retaining the current system performance standards for water continuity, water pressure and dry weather wastewater overflows reflects customer preferences.²⁰ Seeking customer preferences to inform the Licence standards is consistent with our draft recommendations for our review of *How we regulate the water businesses* (Water Regulation Review). As part of the Water Regulation Review, we seek to encourage businesses to deliver and promote customer value.

We also recommend retaining the service levels set by the performance standards in the current operating licence. We did consider whether to change the current service levels, but this would either drive expenditure above what customers are willing to spend^o or involve several risks. For example, reducing service levels could result in increased service interruptions for customers who are already disproportionately affected by service interruptions due to rapidly deteriorating infrastructure. Hunter Water supports our recommendation.

Hunter Water undertook a CBA²¹ to investigate the relative costs and benefits of either increasing or lowering the current service levels and whether they reflect customers' willingness to pay. Hunter Water's CBA indicated that the current service levels remain appropriate because they act as an adequate safety net, preventing unacceptable deteriorations in service standards, but do not drive overinvestment. Overinvestment would exceed the cost that customers are willing to pay - a risk with high standards. Conversely, the cost savings associated with reducing performance are valued by customers far less than the disbenefits that customers would suffer.

Hunter Water's CBA assumes that Hunter Water could undertake additional activities to reduce the number and/or impact of these events, but the cost of these activities will ultimately be recovered from customers via water and wastewater bills. Similarly, Hunter Water could reduce costs, and ultimately customer bills, by spending less on managing its networks, but this would result in customers experiencing more of these inconvenient events.

^o Customers' willingness to spend was tested during Hunter Water's customer consultation work,

The service levels we have recommended for Hunter Water are slightly lower than those in the Sydney Water operating licence. We do not recommend increasing them to match those in the Sydney Water operating licence as it would result in costs above that which Hunter Water's customers are willing to pay.

Box 5 Hunter Water's CBA is robust and was applied in a professional manner

We reviewed Hunter Water's CBA for system performance standards in the current operating licence. Hunter Water applied a robust CBA methodology and implemented it in a disciplined, professional manner. We consider that Hunter Water's CBA results were reasonable, and the results provided weight to Hunter Water's proposal.

We note that some aspects of Hunter Water's initial conclusions did not support the status quo. At our request, Hunter Water provided further sensitivity analysis to test those conclusions. Ultimately, we decided to maintain the existing system performance standards because this sensitivity analysis showed the case for change was not sufficiently strong. We acknowledge the diligence and transparency of Hunter Water's CBA work.

Finally, we recommend expressing the standards as a proportion of properties supplied to account for customer growth. This is consistent with the approach taken in the Sydney Water Operating Licence. In the current Hunter Water operating licence, the standards are expressed as absolute thresholds (i.e. total number of properties supplied in a financial year) which is not a flexible mechanism that considers growth.

We also recommend increasing customer rebates for service interruptions (including interruptions to drinking water supply continuity, supplied water pressure and occurrence of dry weather wastewater overflows onto private properties) which we discuss further in this section of the report.

In making our recommendations, we considered submissions to the Issues Paper from DPE, PIAC, Sydney Water and EWON as well as Hunter Water's CBA, and submissions to our draft recommendations from Hunter Water, Sydney Water and PIAC.^p

^p These submissions are available on our [website](#).

2.3.1 Water Continuity Standard

There are 2 standards in the current operating licence for unplanned water interruptions to drinking water supply:

- One for long unplanned interruptions - Hunter Water is required to ensure that in a financial year, no more than 10,000 Properties experience an unplanned water interruption that lasts more than 5 continuous hours.
- The other for multiple short unplanned water interruptions - Hunter Water is required to ensure that in a financial year, no more than 5,000 Properties experience 3 or more unplanned water interruptions that each last more than one hour.^q

We recommend retaining the first system performance standard, but as explained above, express it as a proportion of properties supplied. We also recommend expressing the standard as the minimum number of properties (per 10,000 properties) that should be 'unaffected' by an unplanned interruption (rather than the maximum limit of properties that are affected, as in the current operating licence). This is a minor change to the current operating licence to bring greater consistency with the Sydney Water Operating Licence, for greater administrative and regulatory efficiency. It will not materially impact the standard that Hunter Water must meet.

We recommend removing the second standard for multiple short unplanned drinking water supply interruptions as we consider that a licence standard is not necessary to achieve the intended outcome. Hunter Water explained that it would achieve the same outcome through its asset management decisions. Given asset replacement is more expensive, Hunter Water will undertake more regular repairs, which in turn will result in fewer short interruptions.

Removing this standard would be consistent with changes made to the Sydney Water Operating Licence in the 2019 end-of-term review. At that time, we did not recommend a standard for short unplanned interruptions because the available data did not permit us to perform a meaningful optimisation. Hunter Water's customer consultation suggests that customers are more inconvenienced by long interruptions, justifying that the Licence should focus on long service interruptions.

We will continue to monitor Hunter Water's performance in managing repeat service interruptions to the supply of drinking water to customers. Hunter Water must report annually on the number of properties that experience 3 or more unplanned water interruptions that each last for more than one hour. This is an IPART performance indicator for repeat service interruptions in the Reporting Manual.^r

^q Clause 3.3.2 of the current operating licence.

^r IPART indicator A2 in the 2017-2022 Hunter Water Reporting Manual.

Recommended Licence conditions for the water continuity standard

The recommended Licence conditions for the water continuity standard are shown in Box 6 below.

The recommended requirement under clause 17(5)(b) is a new condition that is not in the current operating licence. We have proposed this condition to clarify that a property that experiences multiple service interruptions must be counted as separate properties, for the purpose of this performance standard. Similarly, separately billed parts of a multiple occupancy property must be counted as separate properties. These changes reflect the intent of the standard and do not seek to raise the standard. We have not experienced issues with Hunter Water under reporting against this performance standard and the proposed licence condition does not reflect a current compliance problem. Rather, it seeks to provide clarity and avoid misinterpretation.

The recommended clause 17(2) is not a new clause but represents a minor restructure of the current operating licence. The current operating licence includes the definition for an 'Unplanned Water Interruption' in the final list of definitions to the Licence. We recommend including the definition within the clause for ease of use. This is consistent with the approach in the Sydney Water operating licence.

In its submission to the draft Licence, Hunter Water did not oppose including these conditions the Licence and confirmed that they will not materially raise the current standard.²² Since consulting on the draft Licence, we have modified the thresholds in our recommended standard to accurately reflect customer numbers, reflecting Hunter Water's feedback, to ensure that the current standard is maintained (and not increased).⁵

Box 6 Recommended water continuity standard

17 Water Continuity Standard

(1) Hunter Water must ensure that, in each financial year, at least 9,619 per 10,000 Properties (in respect of which Hunter Water provides a Drinking Water supply Service) receive a Drinking Water supply Service unaffected by an Unplanned Water Interruption (the **Water Continuity Standard**).

(2) A Property is taken to have experienced an unplanned water interruption where, in relation to a Property:

(a) the supply of Drinking Water at the first cold water tap of the Property is interrupted without the Customer or Consumer having received prior notice of that interruption from Hunter Water; and

⁵ In its submission to the draft Licence, Hunter Water did not comment on IPART's calculations for the thresholds specified in the standards. Instead, Hunter Water provided this feedback to IPART directly.

Box 6 Recommended water continuity standard

(b) it takes more than 5 continuous hours for normal supply of Drinking Water to be restored to the Property,

(Unplanned Water Interruption).

(3) Hunter Water must use the best available data (taking account of water pressure data, where available) to determine whether a Property has experienced an Unplanned Water Interruption.

(4) A Property that experiences an Unplanned Water Interruption caused by a Third Party or a power failure is taken not to have experienced an Unplanned Water Interruption for the purposes of this clause 17.

(5) For the purpose of the Water Continuity Standard:

(a) each separately billed part of a Multiple Occupancy Property is to be counted as a separate Property; and

[Note: For example, a complex of 5 townhouses where each townhouse receives a separate Bill from Hunter Water is to be counted as 5 separate Properties. However, a block of 5 flats that only receives one Bill from Hunter Water is to be counted as a single Property.]

(b) each separate instance, in a financial year, of a single Property experiencing an Unplanned Water Interruption is to be counted as a separate Property that has experienced an Unplanned Water Interruption.

20 Interpretation of standards

In the case of any ambiguity in the interpretation or application of the Water Continuity Standard, the Water Pressure Standard or the Dry Weather Wastewater Overflow Standard, IPART's interpretation or assessment of the standard or clause will prevail.

Rebates for unplanned service interruptions

Hunter Water has proposed to increase the rebates it provides for service interruptions. Hunter Water provided details on the rebates provided when it proposed changes to the Customer Contract in October 2021.^t We support Hunter Water's proposals as they reflect customers' expectations and have reflected these increased rebates in our recommendations for the Customer Contract.

^t Hunter Water's proposal for the Customer Contract is available on our [website](#). We have provided our recommendations for the Customer Contract together with this report. Our recommendations consider Hunter Water's

For unplanned service interruptions, Hunter Water proposed to:

- Increase rebates from 15kL to 20kL for the first and second events in a financial year.
- Increase rebates from 30kL to 32kL for third event in a financial year.
- No longer limit rebates to only apply to peak hour interruptions due to interpretation complexities.

Currently, Hunter Water provides the same rebate for the first unplanned water interruption as it does for low drinking water service pressure. Hunter Water proposed to keep this connection between unplanned water interruptions and low drinking water service pressure but increase the rebate to 20kL^u in the Customer Contract. The proposed rebate will apply equally to customers experiencing frequent or occasional low water pressure, despite a lower expectation from customers for a rebate for the latter.^v Further, Hunter Water proposed to provide greater rebates when the customer has repeatedly faced an unplanned service interruption (lasting more than 5 hours), which aligns with customer expectations.

Hunter Water also proposed to provide greater rebates for planned interruptions. While this is not linked to the water continuity standard, it does reflect customers' expectations.

2.3.2 Water Pressure Standard

Under the current operating licence, Hunter Water must ensure that no more than 4,800 properties experience a water pressure failure in a financial year. A water pressure failure occurs when a property experiences water pressure of less than 20m head for a continuous period of 30 minutes or more. However, it is not a water pressure failure if this low-pressure event occurs on a day when the peak day demand exceeds 370 ML/day.^w

We recommend retaining the water pressure standard because we consider that it provides benefit by incentivising preventive maintenance. Increased scale or slime inside water distribution piping can greatly reduce hydraulic performance of the system and Hunter Water's ability to supply water at the required pressure. Asset management and conservation strategies share a common goal to supply water at a pressure that meets service needs while minimising excess pressure and pressure fluctuations in the system that cause leakage and infrastructure damage.

As with the water continuity standard, we recommend expressing the water pressure standard as a proportion of properties supplied and as the minimum number of properties (per 10,000 properties) that should be 'unaffected' by a water pressure failure.

proposals and we have summarised our recommended changes to the current Customer Contract in Appendix A of this report.

^u Hunter Water provides rebates to customers for service interruptions by reducing the volume specified in the Customer Contract from the customer's usage in their next bill. This is a different approach to the Sydney Water customer contract which specifies the dollar value for the rebate provided for service interruptions.

^v Hunter Water proposes a program of tackling zones of persistent low water pressure or hot spots, rather than changing the rebate structure.

^w Clause 3.3.1 of the current operating licence.

Recommended Licence conditions for the water pressure standard

The recommended licence conditions for the water pressure standard are shown in Box 7 below.

We recommend retaining the allowance that a property will not be counted towards the water pressure standard where a water pressure failure was only observed due to a planned or unplanned water interruption (as shown in clause 18(3)(a) below). This will avoid Hunter Water being penalised against both its water continuity and water pressure standards for events with the same root cause.

The Sydney Water Operating Licence does not include a similar allowance. However, we do not recommend removing this provision from the Hunter Water Licence as that would raise this standard without good reason. Counting against both standards would be necessary if Hunter Water needed to be incentivised to resolve low pressure incidents caused by water continuity interruptions. However, we have generally been satisfied with how Hunter Water manages this and investigates its service interruptions and their root causes. At the 2021 operational audit, we observed that Hunter Water included low pressure incidents caused by water continuity interruptions in its asset maintenance system to provide a resolution for customers. We consider that further intervention through the Licence is not necessary at this stage.

We also recommend retaining the condition that clarifies that water pressure failures experienced at separately billed parts of a multiple occupancy properties must be counted as separate water pressure failures (shown in clause 18(4) below). We have not observed issues with how Hunter Water reports against this performance standard to date.

Hunter Water did not oppose these inclusions when we presented them in the draft Licence. Since consulting on the draft Licence, we have modified the thresholds in our recommended standard to accurately reflect current customer numbers, reflecting Hunter Water's feedback, to ensure that the current standard is maintained (and not increased).^x

In the draft Licence, we had proposed other conditions for counting multiple water pressure failures in one day and over multiple days. By doing this, we were not seeking to raise the current standard. However, Hunter Water advised that the conditions would in fact raise the standard because of differences in how Hunter Water currently counts for reporting against the standard. Hunter Water currently counts the total number of properties affected by water pressure failures per year. If Hunter Water were to commence counting per day, it could result in a greater reported count and an exceedance of the performance standard. If the Licence were to force Hunter Water into counting per day, it would result in increased costs, above what customers are willing to pay.²³ Therefore, while counting per day may be useful for transparency, we consider that it is not appropriate to adopt these requirements at this time.

^x Hunter Water did not comment on IPART's calculations for the thresholds specified in the standards in its submission to the draft Licence but provided this feedback to IPART directly.

If the daily property counting were to be adopted in future, the specified service level should be reviewed to avoid raising the current standard without good reason. Raising the standard is currently not supported by customers. Hunter Water's customer consultation showed that customers are not as concerned with occasional low water pressure events as they would be with raising the standard above what customers are willing to pay. For this reason, we have not included these additional conditions in our recommendation.

Box 7 Recommended water pressure standard

18 Water Pressure Standard

(1) Hunter Water must ensure that, in each financial year, at least 9,817 Properties per 10,000 Properties (in respect of which Hunter Water provides a Drinking Water supply Service) receive a Drinking Water supply Service that is not affected by a Water Pressure Failure,

(the **Water Pressure Standard**).

(2) A Property is taken to have experienced a Water Pressure Failure when:

- (a) a person notifies Hunter Water that the Property has experienced a Water Pressure Failure and Hunter Water confirms that the Property has experienced a Water Pressure Failure; or
- (b) Hunter Water identifies that the Property has experienced a Water Pressure Failure (including through its data collection systems and hydraulic analysis).

(3) A Property is not taken to have experienced a Water Pressure Failure if that Water Pressure Failure occurred only because of:

- (a) a Planned Water Interruption or Unplanned Water Interruption;
- (b) water usage by authorised fire authorities in the case of a fire; or
- (c) a short term or temporary operational problem (such as a main break), including where caused by a Third Party, which is remedied within 4 days of its commencement.

(4) For the purpose of the Water Pressure Standard, each separately billed part of a Multiple Occupancy Property is to be counted as a separate Property;

[Note: For example, a complex of 5 townhouses where each townhouse receives a separate Bill from Hunter Water is to be counted as 5 separate Properties. However, a block of 5 flats that only receives one Bill from Hunter Water is to be counted as a single Property.]

20 Interpretation of standards

Box 7 Recommended water pressure standard

In the case of any ambiguity in the interpretation or application of the Water Continuity Standard, the Water Pressure Standard or the Dry Weather Wastewater Overflow Standard, IPART's interpretation or assessment of the standard or clause will prevail.

Rebate for low water pressure

We support Hunter Water's proposal to increase the rebates it provides for water pressure failures, consistent with customers' expectations. We have reflected these increased rebates in our recommendations for the Customer Contract.

The rebate for low drinking water pressure under the recommended Customer Contract is the same as for the first unplanned water interruption. Hunter Water proposed to keep these rebates consistent and increase the rebate to 20kL. The rebate applies equally to customers experiencing frequent or occasional low water pressure, despite lower expectation from customers of a rebate for the latter.

2.3.3 Dry weather wastewater overflow standards

There are 2 standards in the current operating licence for dry weather wastewater overflows in a financial year:

- No more than 5000 properties experience an uncontrolled wastewater overflow.
- No more than 45 properties experience 3 or more uncontrolled wastewater overflows.^y

Maintaining wastewater collection networks to minimise overflows is an important component of asset management. The cause of the overflow must be addressed as soon as practicable. Reasonable and practicable containment of the overflow must be undertaken to prevent the continued risk of pollution on private property and to the environment.

As with the water continuity and water pressure standards, we recommend expressing the dry weather wastewater overflow standard as a proportion of properties receiving a wastewater service and as the minimum number of properties (per 10,000 properties) that should be 'unaffected' by a dry weather wastewater overflow.

^y Clause 3.3.3 of the current operating licence.

Recommended Licence conditions for the dry weather wastewater overflow standard

The recommended Licence conditions for the dry weather wastewater overflows standard are shown in Box 8 below.

As with the water continuity and water pressure standards, we have not sought to increase the standard with the new Licence clause 19(3). Rather, the condition clarifies the intent of the standard. Also, the clarifications in clause 19(2) should not create a material change for Hunter Water as they were previously included in the definition of uncontrolled wastewater overflow.

In its submission to the draft Licence, Hunter Water did not oppose including these new conditions the Licence and confirmed that the conditions will not materially raise the current standard.²⁴ Since consulting on the draft Licence, we have modified the thresholds in our recommended standard to accurately reflect customer numbers, reflecting Hunter Water's feedback, to ensure that the current standard is maintained (and not increased).^z

Box 8 Recommended dry weather wastewater overflow standard

19 Dry Weather Wastewater Overflow Standard

(1) Hunter Water must ensure that, in each financial year, at least:

- (a) 9,800 Properties per 10,000 Properties (in respect of which Hunter Water provides a sewerage service but excluding Public Properties) receive a sewerage service unaffected by an Uncontrolled Wastewater Overflow; and
- (b) 9,998 Properties per 10,000 Properties (in respect of which Hunter Water provides a sewerage service but excluding Public Properties) receive a sewerage service affected by fewer than 3 Uncontrolled Wastewater Overflows in dry weather,

(the **Dry Weather Wastewater Overflow Standard**).

(2) A Property is taken to have experienced an Uncontrolled Wastewater Overflow when:

- (a) a person notifies Hunter Water that a Property has experienced a Wastewater Overflow, where Hunter Water later confirms that the Wastewater Overflow is an Uncontrolled Wastewater Overflow; or
- (b) Hunter Water's systems identify that a Property has experienced an Uncontrolled Wastewater Overflow.

^z Hunter Water did not comment on IPART's calculations for the thresholds specified in the standards in its submission to the draft Licence but provided this feedback to IPART directly.

Box 8 Recommended dry weather wastewater overflow standard

(3) For the purpose of the Dry Weather Wastewater Overflow Standard:

(a) each Multiple Occupancy Property is considered to be one Property;

[Note: For example, a complex of 5 townhouses where each townhouse receives a separate Bill from Hunter Water is to be counted as a single Property.]

(b) for the purpose of clause 19(1)(a), each separate instance, in a financial year, of a single Property experiencing an Uncontrolled Wastewater Overflow is to be counted as a separate Property that has experienced, in that financial year, an Uncontrolled Wastewater Overflow; and

(c) for the purpose of clause 19(1)(b) each Property that experiences 3 or more Uncontrolled Wastewater Overflows in a financial year is to be counted once only as a Property that has experienced 3 or more Uncontrolled Wastewater Overflows in that financial year.

20 Interpretation of standards

In the case of any ambiguity in the interpretation or application of the Water Continuity Standard, the Water Pressure Standard or the Dry Weather Wastewater Overflow Standard, IPART's interpretation or assessment of the standard or clause will prevail.

Rebate for wastewater overflow onto private property

We support Hunter Water's proposals for increasing the rebates, in line with customers' expectations. We have reflected these increased rebates in our recommendations for the Customer Contract.

Hunter Water proposed to:

- Increase the rebate for the first event in a financial year from 30kL to 40kL.
- Maintain the rebate for the second event in a financial year at double the amount of first event, or 80kL, which aligns with customer expectations.
- Marginally increase the rebate for the third event in a financial year from 270kL to 280kL. The rebate level is set equivalent to the entire wastewater service charge for a property.

The current rebates for uncontrolled dry weather wastewater overflows onto private property increase with frequency which aligns with customer expectations. Customer consultation showed that Hunter Water's customers consider wastewater overflows onto private property as the most rebate worthy events.

2.3.4 Maintaining minimum standards in the Licence only

Our recommendations for the system performance standards are based on specifying minimum standards in the Licence only. That is, the minimum standards that customers can and should expect from their service. This is consistent with the approach in the current operating licence. We consider that other service levels and customer outcomes are best addressed through pricing mechanisms as we have discussed in our [Water Regulation Review](#).

We sought feedback from stakeholders in the Issues Paper about whether the performance standards in the Licence should be optimised. In their submissions, Hunter Water and Sydney Water did not support optimisation. They considered that minimum standards are adequate. Hunter Water was concerned that if optimisation modelling were imposed, assumptions may not accurately reflect real-world conditions outside of Hunter Water's control and yet could expose Hunter Water to potentially severe enforcement actions. The 2 water utilities are of the view that other service levels and customer outcomes are best addressed through pricing mechanisms.²⁵

We consider that the current operating licence already allows Hunter Water the flexibility it seeks, and optimisation of the system performance standards in the Licence is not necessary to achieve performance improvement. Minimum standards do not prevent Hunter Water from improving its performance above the specified standard. Indeed, Hunter Water already performs above the service standards set in the current operating licence. Based on its customer engagement work, Hunter Water's performance has been in line with customer preferences and willingness to pay.

DPE and PIAC first suggested, in their responses to the Issues Paper, that the Licence should include minimum levels as well as allow Hunter Water flexibility to improve its performance in line with customer views and their willingness to pay.²⁶ However, after reviewing our draft Licence, DPE and PIAC have expressed their support for maintaining minimum levels of service in the Licence only.^{27,aa}

As part of the IPART [Water Regulation Review](#), we have been investigating driving performance through pricing mechanisms instead of the Licence. Price determinations are more flexible than the Licence and would allow Hunter Water to trade-off higher levels of performance with community needs and willingness to pay, as DPE and PIAC have suggested. The next Hunter Water price determination will apply from 1 July 2025.

^{aa} DPE did not make a formal submission to the draft Licence but provided its advice to IPART directly.

2.4 Reporting requirements for system performance standards

Decisions



2. *[Reporting Manual]* Do not include current annual compliance and performance reporting requirements for system performance standards

The current reporting manual requires Hunter Water to prepare an annual compliance and performance report on Hunter Water's management of the performance standards for each financial year. Specifically, Hunter Water must report on how it has complied, or not complied, with the 3 system performance standards for service interruptions. Hunter Water must include in the report the major factors that have influenced Hunter Water's performance and reasons for any variation between Hunter Water's performance in the financial year compared to previous years. This report is provided to IPART only.^{bb}

We have removed these reporting requirements. We consider that the most critical compliance information that Hunter Water must provide is information on non-compliances. We can review Hunter Water's compliance with the system performance standards comprehensively when we undertake the operational audits. We can request any additional compliance information on an as needed basis.

Hunter Water will provide information on non-compliances with the system performance standards (and its Licence generally) with its annual statement of compliance (discussed further in section 6.3.2 of this report). Stakeholders did not raise concern with this recommendation when presented in the draft Reporting Manual.

Hunter Water's reporting requirements can be viewed in full in the 2022-2027 Reporting Manual.

^{bb} Section 3.1.5 of the current reporting manual.

Chapter 3 »

Water conservation and long-term planning

Water conservation and long-term planning ensure the sustainable supply of water

03

Water conservation and planning are not specific requirements of the Act, but they are integral to efficient investment in the long-term interest of customers. The challenges that face all water utilities in addressing climate change and catering for an overall hotter drier climate mean that thoughtful and efficient investment in water conservation and planning is critical.

Hunter Water is a vertically integrated utility responsible for bulk supply to itself, with ultimate responsibility for management of regional supply shared with DPE.

3.1 Water conservation

Recommendations:

- ✓ 13. Retain requirements in the Licence to maintain the water conservation work programs for water storage and transmission from storage to treatment as well as for water treatment and transmission from treatment plants to customers, developed during the 2012-2017 operating licence period.
- ✓ 14. Require implementation of the water conservation work programs and water conservation measures developed during the 2012-2017 operating licence period.
- ✓ 15. Require a 5-year Water Conservation Plan, once the NSW Government Water Efficiency Framework is published and arrangements for transitioning the current water conservation work programs and measures to the 5-year Water Conservation Plan, when ready. Also require information on the annual review and update of the Water Conservation Plan.
- ✓ 16. Retain requirements in the Licence for Hunter Water to use an economic approach to water conservation where practicable initially, and then extend the scope to consider the total water cycle from catchment to tap, once the NSW Government Water Efficiency Framework is published.
- ✓ 17. Allow flexibility for Hunter Water to modify its economic approach with Ministerial approval.

The [NSW Water Strategy](#) and the [Lower Hunter Water Security Plan](#) identify water efficiency and water conservation as NSW Government priorities.

The current operating licence imposes different water conservation requirements from catchment to treatment, and then from treatment to customer. During the current (2017-2022) operating licence term, Hunter Water had to develop a Water Conservation Strategy and a water conservation work program based on that strategy for upstream of its water treatment plants.^a But downstream, while a water conservation work program is required again, the operating licence requires an economic approach for assessing water conservation projects.^b The current operating licence does not require an economic approach upstream of the water treatment plants because in the previous licence review, stakeholders raised concern that applying an economic approach may create unintended consequences given the lack of available cost and benefit data on natural assets and the complex nature of the natural transmission system.²⁸

DPE has been developing a [NSW Government Water Efficiency Framework \(Framework\)](#), seeking to drive greater water efficiency and water conservation in NSW which considers the total water cycle. DPE has also been reviewing the current economic methodology.

Transitioning the current water conservation work programs and measures to a 5-year water conservation plan

In its submission to the Issues Paper²⁹ and in subsequent discussions, DPE proposed that the Licence should require Hunter Water to undertake water conservation consistent with the new Framework, once published. As the Water Efficiency Framework is not yet available, we recommend that the Licence should require Hunter Water to implement the water conservation work programs and measures that it developed during the 2017-2022 operating licence period. Once the Framework is published, Hunter Water can transition to an expanded scope as set out in the Framework.

In order to facilitate the transition, we recommend that the Licence provides for Hunter Water to develop a 5-year water conservation plan that considers the total water cycle once the Framework is published. The 5-year water conservation plan is intended to replace Hunter Water's current water conservation work programs and measures.

The 5-year water conservation plan should be submitted to DPE and IPART and it should be reviewed and updated annually. Hunter Water should also submit information about the review and the updated plans to DPE and IPART. However, we do not recommend an approval role for either DPE or IPART. The submissions will be for information only. The Minister will provide guidance on the plan, as required.

Applying an economic approach

It is our preference that investment in programs such as water conservation should continue to be economic, where possible. That is, the benefits derived through the investment (including those that cannot be quantified) should outweigh the costs of the investment. DPE has advised us

^a Clause 2.1 of the current operating licence.

^b Clause 2.2 of the current operating licence.

that the Framework would inform and complement economic assessments rather than replace them.³⁰

We recommend retaining the approach in the current operating licence for an economic approach to water conservation for transmission from treatment plants to customers and consumers only. An economic approach should not initially be required for Hunter Water's catchments. Once Hunter Water transitions to the 5-year water conservation plan, the economic approach can be applied to the total water cycle. We recommend that Hunter Water should be allowed flexibility in applying an economic approach when transitioning to the 5-year water conservation plan. Where it is not practical to apply an economic method or to address written guidance provided by the Minister, Hunter Water should be able to include projects or programs aimed at behaviour change and public education initiatives about water conservation. The benefits of such programs are difficult to quantify because some behaviour changes are transient and measuring persistent change is problematic.

DPE had intended to develop a new economic approach under the Framework (as advised in its submission to the Issues Paper). However, DPE has since concluded that Hunter Water's current economic method is sound and only requires minor updating to expand the scope to include the total water cycle.³¹ The current economic approach considers all costs and benefits including those that cannot be quantified. Hunter Water should have the flexibility to update the current economic method from time to time, with the Minister's approval, and be required to make changes as directed by the Minister. This will allow the method to be updated to apply to the total water cycle once the Framework is published.

Box 9 Historical context for the current economic approach conservation

Hunter Water's current operating licence replaced prescriptive water conservation targets with an obligation to develop an economic assessment methodology. Hunter Water developed the economic assessment methodology and determined an 'Economic Level of Water Conservation Methodology' or the optimal level of water conservation for elements such as water leakage and water efficiency.

The methodology considers the costs and benefits of candidate water conservation projects, applied consistently to ensure objective assessment. A methodological approach ensures water conservation projects are subjected to robust scrutiny based on sound economic principles.

Our recommended Licence conditions for water conservation

The recommended Licence conditions in relation to water conservation and efficiency are shown in Box 10 below. Stakeholders expressed their support for the conditions we recommended in the draft Licence.

Our CBA concludes that although difficult to estimate, there are likely to be net benefits with implementing the current water conservation work programs, developed during the current (2017-2022) operating licence term, as important water planning measures for water conservation. Inadequate planning could lead to costly mistakes. Among these mistakes is the possibility of having to bring forward large investments in future supply augmentation to compensate for inefficient water usage.

Since publishing the draft Licence, we have made some changes following further discussions with DPE and Hunter Water. The changes seek to ensure that the Licence conditions are auditable and achieve the desired outcomes under the Water Efficiency Framework. We consider that the recommended Licence conditions are not materially different from the intent expressed in the draft Licence. We note that DPE did state in its submission to the Issues Paper that the Framework was still being developed and consulted on in parallel to this Review. As such, DPE advised that it would need to continue to work with us to align the Licence requirements to the Framework.^c This is what we have done through our subsequent discussions.

Box 10 Recommended Licence requirements in relation to water conservation and reporting

12 Water conservation

- (1) Hunter Water must maintain and implement a water conservation work program in relation to Water Storage and Transmission in accordance with the Water Conservation Strategy.
- (2) Hunter Water must also:
 - (a) maintain a water conservation work program for Water Treatment and Transmission consistent with the Current Economic Method; and
 - (b) implement water conservation measures for Water Treatment and Transmission that have been assessed as economic under the Current Economic Method.
- (3) Clauses 12(1) and 12(2) apply until a 5-year Water Conservation Plan is developed and submitted to DPE and IPART under clause 12(4).

^c Page 5 of the submission to the Issues Paper states the DPE seeks to work with IPART and Hunter Water to ensure outcomes of the review of the Economic Level of Water Conservation and the development of the Water Efficiency Framework are achieved through licence conditions. Available on our [website](#).

Box 10 Recommended Licence requirements in relation to water conservation and reporting

[Note: Hunter Water's water conservation work program for Water Storage and Transmission, Water Treatment and Transmission and water conservation measures will be replaced with a new 5-year Water Conservation Plan once the NSW Government Water Efficiency Framework is introduced (see clause 12(4)).]

(4) Within 12 months of publication of the Water Efficiency Framework (or such later date approved by IPART in writing), Hunter Water must develop, and submit to DPE and IPART, a water conservation plan for the following 5 years (the **5-year Water Conservation Plan**).

(5) The 5-year Water Conservation Plan must:

- (a) include any water conservation work programs for Water Storage and Transmission and for Water Treatment and Transmission;
- (b) cover water efficiency, leakage and recycled water;
- (c) be consistent with the Water Efficiency Framework;
- (d) consider the strategic context provided by the Lower Hunter Water Security Plan;
- (e) include details of proposed programs and projects over the life of the plan;
- (d) where practical, assess programs and projects against the Current Economic Method; and

(e) be consistent with any written guidance that the Minister provides to Hunter Water.

(6) Each year, by the anniversary of the date referred to in clause 12(4) (or such later date approved by IPART in writing), Hunter Water must:

- (a) review and updated the 5-year Water Conservation Plan. In reviewing the 5-year Water Conservation Plan, Hunter Water must:
 - (i) review the activities carried out under the plan over the past year;
 - (ii) assess its progress towards meeting the overall objectives of the plan; and
 - (iii) update the plan to ensure its objectives and the requirements of clause 12(5) are still being met; and
- (b) submit to DPE and IPART:
 - (i) a copy of the updated 5-year Water Conservation Plan;

Box 10 Recommended Licence requirements in relation to water conservation and reporting

- (ii) the outcomes of the annual review and update of the 5-year Water Conservation Plan, including an explanation of any changes made to the plan.

[Note: Hunter Water may submit the updated 5-year Water Conservation Plan required under clause 12(6)(b)(i) and the information required under clause 12(6)(b)(ii) together as one document or as separate documents.]

- (7) Hunter Water must implement the 5-year Water Conservation Plan in accordance with the timeframes specified in the 5-year Water Conservation Plan.

[Note: This clause 12(7) requires Hunter Water to implement the most recent 5-year Water Conservation Plan at all times].

13 Current Economic Method

- (1) Hunter Water must make:
 - (a) a copy of the Current Economic Method; and
 - (b) a plain English summary of the Current Economic Method, available free of charge;
 - (c) to any person upon request made through the General Enquiry Process; and
 - (d) on Hunter Water's website.
- (2) Hunter Water must update the economic level of water conservation using the Current Economic Method for the purposes of clause 12(2) annually by 30 September of each year.
- (3) Hunter Water may, with the Minister's written approval, update the Current Economic Method from time to time.
- (4) The Minister may, at any time during the term of this Licence, in writing, direct Hunter Water to revise the Current Economic Method in any way the Minister requires.

[Note: The Minister may request IPART to undertake a review of the Current Economic Method during the term of this Licence. Such review may precede a direction given under clause 13(4).]

- (5) Hunter Water must submit to the Minister the Current Economic Method revised in accordance with the written direction within:

Box 10 Recommended Licence requirements in relation to water conservation and reporting

- (a) the timeframe specified in the direction or, if no timeframe is specified, 30 days of receipt of that direction; or
 - (b) any other timeframe agreed by the Minister.
- (6) If the Minister approves the revised Current Economic Method, he or she will give written notice of the approval to Hunter Water.
- (7) Hunter Water must update the information referred to in clause 13(1) to reflect any variations made to the Current Economic Method or to the plain English summary within 60 days of the variations taking effect.

3.2 Water planning

3.2.1 Drought Response

Recommendation:



- 18. Include a new requirement in the Licence to prepare a drought response plan.

Adoption of a drought response plan is consistent with the objectives of the Lower Hunter Water Security Plan. While the Lower Hunter's existing water supply system performs well in typical climate conditions, it is vulnerable to drought due to the reliance on rainfall, the relatively small size of its storages and high levels of evaporation in the catchment. If a severe drought was to continue beyond 3 years, the water supply system could fail. Although the likelihood of the region running out of water is very low, the consequences would be catastrophic.³² For these reasons, we consider that it is appropriate that Hunter Water be required to prepare a drought response plan.

While the net benefits are difficult to quantify, our CBA concludes that it is likely that the recommended Licence requirement will create net benefits.

Our recommended Licence condition for drought planning is similar to those in the Sydney Water Operating Licence. The drought response plan would reflect NSW Government policy. Making the plan available to Government would be useful to inform DPE's water planning for NSW. It would not be burdensome as the plan would use related information to prepare other operational and investment plans, as well as water demand forecasts for pricing purposes.

The recommended Licence condition for drought planning is shown in Box 11 below.

Stakeholders did not raise concerns with our recommendation when presented in the draft Licence. PIAC did seek clarification in the Licence that the drought response plan covers not only conditions of declared drought, but also long-term action taken to avoid or mitigate the impacts of drought. We agree with PIAC's position but have not recommended a Licence condition explicitly requiring the drought response plan to cover both short and long-term actions as this is already incorporated into the Lower Hunter Water Security Plan. Such a Licence condition would duplicate the condition that we have recommended for Hunter Water to consider the strategic context of the Lower Hunter Water Security Plan in developing its drought response plan.

Box 11 Recommended Licence requirements in relation to drought planning

14 Water Planning

...

(3) By 1 December 2023 (or another date approved by the Minister in writing) Hunter Water must develop, and submit to the Minister, a drought response plan.

(4) The drought response plan referred to in clause 14(3) must:

- (a) address any written guidance that the Minister provides to Hunter Water;
- (b) consider the strategic context provided by the Lower Hunter Water Security Plan; and
- (c) be consistent with Hunter Water's memorandum of understanding with DPE referred to in clause 33.

(5) Hunter Water must deliver its actions as specified in the drought response plan referred to in clause 14(3).

3.2.2 System Yield consistent with the MoU with DPE

Recommendations:



19. Retain requirements in the Licence to calculate system yield in accordance with the memorandum of understanding (MoU) with DPE.

The calculation of system yield is a critical input into the long-term management of water supply as detailed in the Lower Hunter Water Security Plan. It involves the calculation of the maximum reliable quantity of water that Hunter Water can derive from one year to the next from its water storages.

Hunter Water is a vertically integrated utility responsible for bulk supply to itself, with ultimate responsibility for management of regional supply shared with DPE. DPE is the appropriate agency to interpret and use information from the system yield calculations. Therefore, the MoU with DPE is the appropriate mechanism for detailing roles and responsibilities for calculation methodology and reporting.

The recommended Licence conditions in relation to system yield are shown in Box 12 below. We have separately discussed Licence requirements for maintaining and complying with the MoU with DPE in section 5.3.2.

Box 12 Recommended Licence requirements in relation to system yield

14 Water planning

- (1) Hunter Water must calculate the System Yield either:
- (a) in accordance with the memorandum of understanding with DPE referred to in clause 33; or
 - (b) if no such memorandum of understanding is in effect, in accordance with a reasonable methodology that Hunter Water considers suitable.

3.2.3 Other long-term planning consistent with the MoU with DPE

Recommendation:



20. Include a new requirement in the Licence to undertake long-term planning consistent with the MoU with DPE.

We recommend that Hunter Water should undertake long-term planning, including implementation of the Lower Hunter Water Security Plan and applying integrated water cycle management to Hunter Water's long-term strategic planning, consistent with its MoU with DPE.

Reviewing and implementing the Lower Hunter Water Security Plan

The current operating licence includes a requirement for Hunter Water to use its best endeavours to maintain an MoU with DPE. It details the roles and responsibilities for DPE and Hunter Water in respect of the review and implementation of the then Lower Hunter Water Plan.

We recommend retaining a similar approach in the Licence for the MoU to make provision for reviewing and implementing the Lower Hunter Water Security Plan. Hunter Water and DPE need to work cooperatively and the MoU is the appropriate mechanism to achieve this.

The Lower Hunter Water Security Plan is a whole-of-government approach to ensuring the region has a resilient and sustainable water future that contributes to regional health and prosperity and is supported by the community. The plan outlines a diverse program of actions that will ensure a sustainable and resilient water supply to support the health and prosperity of the Lower Hunter region. The Lower Hunter Water Security Plan recognises that Hunter Water, as the provider of water and wastewater services to the region, will largely be responsible for delivering the plan. However, this will be done with support from DPE.³³

In previous discussions, DPE sought Licence conditions requiring Hunter Water to complete plans and implement activities for which Hunter Water is responsible in the Lower Hunter Water Security Plan. We have not recommended such Licence conditions as we consider this is more appropriately achieved through Hunter Water's MoU with DPE. The MoU is a flexible instrument and it recognises the cooperative relationship with DPE necessary for achieving the outcomes of the Lower Hunter Water Security Plan. Specific Licence conditions may potentially have long term implications for costs and prices to customers. DPE has since advised that it agrees with our recommended approach.^d Stakeholders (including DPE) did not raise concerns with our recommendation when presented in the draft Licence.

The draft Lower Hunter Water Security Plan was on public exhibition for 6 weeks between August and September 2021 and was published on 24 April 2022 after NSW Government endorsement.³⁴ We have made amendments to the Licence since we published the draft Licence to reflect the publication of the Lower Hunter Water Security Plan, and its replacement of the Lower Hunter Water Plan. Hunter Water and DPE have confirmed their comfort with this change and have confirmed that the Licence does not need to allow for transition from the previous Lower Hunter Water Plan.^e

The recommended Licence conditions for reviewing and implementing the Lower Hunter Water Security Plan are shown in Box 13 below. We have separately discussed Licence requirements for maintaining and complying with the MoU with DPE in section 5.3.2.

Integrated water cycle management

In its submission to the Issues Paper, DPE sought to introduce an integrated water planning requirement in Hunter Water's Licence to outline the need for long-term, whole-of-water-cycle planning to occur. DPE explained that as a principle across all water utilities, the NSW Government expects long-term strategic planning to be undertaken on a whole-of-water-cycle basis.³⁵ Recognising this, we have recommended the water conservation requirements be changed to consider the total water cycle in line with the Water Efficiency Framework, once published.

^d DPE did not make a formal submission to the draft Licence stating this but provided its advice to IPART directly.

^e Hunter Water and DPE did not make formal submissions to the draft Licence stating this but provided their advice to IPART directly.

While we recognise the value of Hunter Water applying integrated water cycle management (IWCM) in its long-term strategic planning, we do not recommend including Licence conditions requiring Hunter Water to do so. Instead, we recommend that the Licence should direct Hunter Water's MoU with DPE to specify how Hunter Water must include IWCM in its long-term planning.

As we noted in our submission to the Productivity Commission's Issues Paper on National Water Reform, in our view, IWCM is not a benefit or 'end'. Rather, it can be a means of achieving a range of objectives, which are largely related to environmental protection and enhanced liveability.³⁶ Our preferred approach to licensing is to specify the outcome that should be achieved and not prescribe the means of achieving them. Further, Licence conditions impose obligations solely on Hunter Water. We consider this to be unreasonable and potentially inefficient as IWCM refers to the *joint* management of water resources in the urban environment and spans the provision of water, wastewater and stormwater services.³⁷ Hunter Water will need to work cooperatively with DPE to apply IWCM to its planning. Stakeholders did not raise concern with our recommendation when presented in the draft Licence.

The recommended Licence conditions for applying IWCM to Hunter Water's long-term planning are shown in Box 13 below. We have separately discussed Licence requirements for maintaining and complying with the MoU with DPE in section 5.3.2.

Licence conditions for long-term planning

Box 13 Recommended Licence requirements in relation to long-term water planning consistent with the MoU with DPE

14 Water Planning

...

(2) Hunter Water must undertake long term water planning consistent with its memorandum of understanding with DPE referred to in clause 33.

33 Memorandum of Understanding with DPE

(1) Hunter Water must:

(a) use its best endeavours to maintain; and

(b) comply with,

a memorandum of understanding (which may be referred to as a roles and responsibilities protocol) with DPE in relation to:

Box 13 Recommended Licence requirements in relation to long-term water planning consistent with the MoU with DPE

- (c) the roles and responsibilities for DPE and Hunter Water in respect of the review and implementation of the Lower Hunter Water Security Plan; and
- (d) the calculation and reporting of System Yield.

[Note: Clause 33 does not limit the persons with whom Hunter Water may enter into a memorandum of understanding or a roles and responsibilities protocol.]

(2) The purpose of the memorandum of understanding with DPE is to form the basis for a co-operative relationship between the parties. In particular, the purpose is to recognise the role of DPE in assessing options to address water supply security in the lower Hunter region.

(3) By 1 December 2022 (or another date approved by the Minister in writing) Hunter Water must use its best endeavours to agree with DPE amendments to the memorandum of understanding to specify:

- (a) how Hunter Water should address integrated water cycle management in Hunter Water's long-term planning; and
- (b) any other matters agreed by the parties.

3.3 Reporting requirements for water conservation and water planning

Decisions



3. *[Reporting Manual]* Include reporting requirements to support the proposed water conservation and water planning Licence conditions.

We have updated the reporting requirements so that Hunter Water's annual report outlines how Hunter Water's water conservation activities relate to the Lower Hunter Water Security Plan.^f

The reporting requirements in the new Reporting Manual are intended to support DPE and IPART in monitoring Hunter Water's compliance with its Licence requirements for water conservation and planning.

^f Chapter 2 of the Reporting Manual includes the reporting requirements for water conservation and planning.

Once the Water Efficiency Framework is published, we will review the water conservation reporting requirements set out in the Reporting Manual to make sure that they will effectively support the Licence conditions for the 5-year Water Conservation Plan. A review of the Reporting Manual can be undertaken separately and could happen within the Licence period (i.e. it does not need to wait until the next end-of-term review of the Licence.)

Hunter Water's reporting requirements can be viewed in full in the 2022-2027 Reporting Manual.

Chapter 4 »

Hunter Water's obligations to its customers

Protection for customers' rights and requirements for consultation with customers

04



4.1 Protecting customers' rights

Hunter Water is a monopoly supplier that provides services to almost 600,000 customers.³⁸ Having adequate measures to protect customers' rights is important to prevent suppliers from potentially abusing their monopoly power and adversely affecting the quality and delivery of essential water and sewerage services.

The current operating licence includes terms and conditions that aim to ensure that a minimum level of customer service is provided to Hunter Water's customers and consumers (where relevant) and that they experience minimal financial loss. The current operating licence includes a Customer Contract (in Schedule B of the current operating licence) as well as the following requirements for protecting customers' rights:

- make services available to properties in its area of operations (clause 1.5.1)
- have policies in place for payment difficulties, including payment assistance and non-payment options (clause 5.3)
- have internal complaints handling procedures (clause 5.5)
- facilitate external dispute resolution (clause 5.6)
- provide information to customers and the general public (clause 5.7).

In this section, we discuss the relative costs and benefits of retaining the customer protections of the current operating licence and including some new ones. We sought stakeholder comment for updating the Customer Contract and other terms and conditions for protecting customers' rights in the new Licence.

Our recommendations seek to ensure that Hunter Water's customers continue to be provided a minimum level of customer service and protections. Further, they seek to minimise the risk that Hunter Water may avoid offering consumer protections where it is not in its commercial interest to do so.

4.1.1 Customer Contract

The Customer Contract is the contract between Hunter Water and its customers that are connected to, and use, Hunter Water's services. The Act requires the terms and conditions of the customer contract to be set out in the Licence.^a We consider that it is important for the Licence to include such terms and conditions, not only because it is required by the Act, but because the Customer Contract protects customers' rights and aims to ensure that customer service is provided at a quality that meets customers' expectations.

The Customer Contract does this by setting out the terms under which Hunter Water provides, where available, water supply, wastewater and stormwater drainage services to customers. It also sets out the rights and obligations of both Hunter Water and the customer, including what customers pay, billing arrangements, complaints handling and the customer's rights in any dispute with Hunter Water.

Hunter Water's customers are owners of land connected to a water main or sewer main that is owned by Hunter Water.^b This does not include those the current operating licence defines as 'consumers'. Consumers include 'any person who consumes or uses the services and includes, but is not limited to, a tenant or an occupier'.

Licence requirements for the Customer Contract

Recommendation:



21. Retain requirements for publishing the Customer Contract, promptly updating it to reflect any variations and communicating those variations to customers.

We recommend retaining the requirements of the current operating licence for maintaining an up-to-date Customer Contract and making it easily accessible to customers and the general public. Our CBA concludes that there is a net benefit to society from including the recommended Licence requirement.

The current operating licence requires Hunter Water to publish a copy of the Customer Contract on its website for easy accessibility to any person, free of charge,^c and provide an explanation to customers about their rights under the Customer Contract annually with their bills.^d The publishing and communication requirements are important, from a customer protection perspective, because they ensure that Hunter Water's customers are aware of their rights and protections under the Customer Contract and empowered to access Hunter Water's processes to address their needs.

^a *Hunter Water Act 1991*, section 35(1).

^b *Hunter Water Act 1991*, section 36(1).

^c Clause 5.7.2(a) of the current operating licence.

^d Clause 5.7.1(a) of the current operating licence.

The Act permits Hunter Water to vary the Customer Contract, with the Governor's approval, by publishing in the Gazette or on the NSW legislation website an order setting out or summarising the changes to the Customer Contract.^e The current operating licence requires Hunter Water to update the Customer Contract and information about it on its website and in communications material to reflect the changes within 60 days to ensure currency of the Customer Contract.^f

The recommended Licence conditions in relation to the Customer Contract are shown in Box 14 below.

We recommend that Hunter Water must continue to make a copy of the varied Customer Contract available to any person, free of charge. However, we recommend that Hunter Water should make the varied Customer Contract available from the date that the variation takes effect, and not continue the 60-day allowance in the current operating licence. Under the Act, Hunter Water must publish the order setting out or summarising the changes to the Customer Contract at least 6 months before the variation comes into effect (to notify relevant stakeholders).^g We consider that it is reasonable to expect Hunter Water to update the Customer Contract within this notification period. Hunter Water did not oppose this when we presented it in the draft Licence.

Stakeholders expressed their support for these Licence conditions when presented in the draft Licence.

Box 14 Recommended Licence requirements in relation to the Customer Contract

24 Customer Contract

(1) The Customer Contract sets out the rights and obligations of Customers and Hunter Water in relation to the Services provided in accordance with this Licence, except to the extent that the terms and conditions of a contract for the provision of water supply or sewerage services, or both of them have been specifically agreed to by Hunter Water and a Customer. The Customer Contract is set out in Schedule B of this Licence.

(2) Hunter Water must make a copy of the Customer Contract available to any person, free of charge:

- (a) on its website; and
- (b) upon request made through the General Enquiry Process.

^e *Hunter Water Act 1991*, section 38(1).

^f Clause 5.7.3 of the current operating licence.

^g *Hunter Water Act 1991*, section 38(1A).

Box 14 Recommended Licence requirements in relation to the Customer Contract

(3) If the Customer Contract is varied, Hunter Water must make a copy of the varied Customer Contract available in accordance with clause 24(2) from the date the variation takes effect.

[Note: Section 38 of the Act makes provision for the amendment of the Customer Contract and the manner in which Hunter Water must notify members of the public of variations to the Customer Contract.]

Recommended changes to the Customer Contract

Recommendations:



22. Update the Customer Contract with the changes explained in Appendix A.

We have provided the recommended Customer Contract to the Minister, together with this report. We have explained our recommendations for the Customer Contract, included our recommended changes to the current customer contract, in Appendix A.

Our recommendations for the Customer Contract have been informed by Hunter Water's proposed changes to the current customer contract provided in November 2021.^h When we presented our recommendations for the draft Customer Contract, we received feedback from Hunter Water but not from other stakeholders. We have responded to Hunter Water's feedback in Appendix A.

^h Hunter Water's proposed changes to the Customer Contract are available on our [website](#).

Communicating customers' rights under the Customer Contract

Recommendations:

- 23. Include requirements in the Licence to communicate information to customers and the general public about customers' rights under the Customer Contract, available account relief and customer rights to claim rebates.
- 24. Allow flexibility in the Licence for Hunter Water to use any method of communication with its customers and remove the current restriction of communicating through 'pamphlets'. Equally, Hunter Water's customers should not be restricted to electronic communication only.

We recommend requiring Hunter Water to make information on the following matters available to customers and the general public:

- the Customer Contract and its provisions (including an explanation and a brief summary of customers' rights and obligations)
- the types of account relief available for customers experiencing payment difficulties
- the rights of customers to claim a rebate and the conditions that apply to those rights.

The recommended communication requirements seek to ensure that customers are informed about their rights and obligations under the Customer Contract and the types of account relief or rebates that may be available to them.ⁱ Hunter Water would need to update its communications following any changes to the Customer Contract or other information specified in this licence condition. This aims to ensure that customers are aware when the Customer Contract is varied and understand what these variations entail. This is generally consistent with the requirements of the current operating licence,^j though we recommend allowing more flexibility than in the current operating licence which restricts communication to 'pamphlets'.

ⁱ We also recommend that the Licence should retain requirements for communicating Hunter Water's assistance options for payment difficulties and actions for non-payment, internal complaints handling process and the external dispute resolution service. We have discussed this in sections 4.1.3, 4.1.5 and 4.1.6 of this report, where we discuss other Licence requirements for those matters.

^j Clause 5.7 of the current operating licence.

The Act requires Hunter Water to provide a copy of the order setting out or summarising changes to the Customer Contract to customers with their next bill.^k While we acknowledge that the recommended Licence conditions for communicating changes about the Customer Contract may seem duplicative of the Act's requirements, we consider that they will help support enforcement as the Licence is auditable. The Act contemplates this; it provides for copies of the varied Customer Contract and explanatory material to be made available in the manner provided for in the operating licence.^l

Our CBA concludes that the costs related to including these requirements is low, and there is a net benefit in making information on customers' rights available. Customers will be better able to raise any issues about the quality of the service they receive either with Hunter Water, an ombudsman, or other regulatory authorities.

The recommended Licence conditions for communicating to Hunter Water's customers and the general public about its customer protections are in Box 15 below.

Stakeholders expressed their support for these Licence conditions in response to both the Issues Paper and draft Licence. In response to feedback from EWON on the draft Licence,³⁹ we have clarified in our recommendation that Hunter Water must make information available to customers with their bills via the method chosen by customers to receive their bills (under recommended Licence clause 25(3)(b) below). Customers can choose the method they wish to receive their bill, whether this is electronic or a paper copy. Customers who have chosen to receive electronic bills will therefore receive their information in the same format. Similarly, customers that have chosen to receive paper copies of bills will receive information with those bills. We consider that this is a clarification only that does not materially change the intent of the Licence condition.

EWON also sought a requirement for Hunter Water to send the required information directly to all residential addresses/properties to ensure that consumers such as tenants are made aware of the information relevant to them.⁴⁰ PIAC sought a similar requirement.^m However, we have not recommended requirements to provide information to consumers directly. Hunter Water advised that it has a working partnership with the Hunter Tenants Advice and Advocacy Service to provide information as required and it undertakes community outreach events where customers and tenants can ask for specific information.ⁿ These measures may be more effective in providing consumers with the information that specifically relates to them than Licence requirements to send them general information..

^k *Hunter Water Act 1991*, section 38(2).

^l *Hunter Water Act 1991*, section 38(5).

^m PIAC sought this requirement specifically for making information on payment assistance options and the family violence policy available to customers.

ⁿ Hunter Water did not make these comments in its submissions to the Issues Paper or draft Licence. Instead, Hunter Water provided this information to IPART directly.

In addition, PIAC sought clarity that while Hunter Water need not be restricted to communicating through 'pamphlets', customers should equally not be restricted to 'digital only' formats for receiving relevant information.⁴¹ For this reason, we have clarified that information published, under the recommended clause 25(4) below, should be accessible to all members of the public without being limited to digital only (i.e. electronic) formats. Again, we consider that this is a clarification only.

Hunter Water has confirmed that it does not oppose these changes.^o

Box 15 Recommended Licence requirements providing information to customers and the general public

25 Provision of information to Customers and the general public

- (1) Hunter Water must prepare one or more communications that:
 - (a) provide a brief explanation of the Customer Contract;
 - (b) summarise the key rights and obligations of Customers under the Customer Contract;
 - (c) refer to the types of account relief available for Customers experiencing payment difficulties;
 - (d) outline the rights of Customers to claim a rebate and the conditions that apply to those rights;
 - (e) contain information about how to contact Hunter Water by telephone, email or post, including the General Enquiry Process (or any replacement of it); and
 - (f) contain information regarding the ability of a Customer to enter into agreements with Hunter Water separate to the Customer Contract for the provision of Services by Hunter Water to the Customer.
- (2) Hunter Water must update the communication or communications to reflect any variations made to the Customer Contract or the information within 60 days of the variations taking effect.
- (3) Hunter Water must provide the communication or communications and any updates, free of charge:
 - (a) on its website;
 - (b) to all residential Customers, at least annually with their Bills via the method chosen by the Customer to receive their Bill; and

^o Hunter Water provided this feedback to IPART directly.

Box 15 Recommended Licence requirements providing information to customers and the general public

(c) to any person upon request made through the General Enquiry Process.

(4) Hunter Water must publish on its website and advertise at least annually in a manner that Hunter Water is satisfied is likely to come to the attention of, and be accessible to, members of the public without being limited to digital platforms, information as to

(a) the types of account relief available for Customers experiencing payment difficulties; and

(b) rights of Customers to claim rebates and the conditions that apply to those rights.

Providing IPART with prior notice of changes to Customer Contract

Recommendation:



25. Do not include the current requirement to provide IPART with a copy of any notice of changes to the Customer Contract, before publishing that notice (current operating licence clause 5.1.2).

The current operating licence requires Hunter water to provide IPART with a copy of a notice of changes to the Customer Contract, before publishing.^p In the Issues Paper, we discussed removing this requirement, as we do not require advance notice. It imposes unnecessary administrative burden without adequate benefit. Hunter Water supported this change, but one individual submission raised concern that removing this licence condition could lead to unchecked changes to the Customer Contract leaving customers at a disadvantage.^q

Removing the current operating licence condition will not remove the Act's requirement for Hunter Water to publish a notice about proposed changes to the Customer Contract.^r The current operating licence only requires Hunter Water to provide us with a copy of the notice before publishing it, but it does not require our approval of these changes.^s The decision to approve varying the Customer Contract sits with the Governor.

^p Clause 5.1.2 of the current operating licence.

^q The submission is available on our [website](#).

^r *Hunter Water Act 1991*, section 38.

^s Clause 5.1.2 of the current operating licence.

Therefore, there is minimal difference in whether we (IPART) become aware of the proposed changes at the time of publication or prior to that. We consider that customers are adequately protected by the Act's requirements and removing the current operating licence condition to notify us before publishing notice of variations to the Customer Contract will not negatively impact customers. The benefit is that it will reduce administrative burden on both Hunter Water and us by simplifying the notification process.

Hunter Water expressed its support for our recommendation when presented in the draft Licence. We did not receive any submissions raising concerns.

Consumers

Recommendations



26. Expand Licence conditions extending customer protections under the Customer Contract to 'consumers' as though the consumers were parties to the Customer Contract.

Hunter Water's Customer Contract is with its customers and not with 'consumers'. This means that Hunter Water has a contractual relationship with the landholder but any tenants occupying a property are not party to, or protected by, the Customer Contract.

The current operating licence recognises that there are circumstances in which Hunter Water should have an obligation to extend protections to consumers that use Hunter Water's services. It therefore extends the following provisions of the current customer contract to consumers who are not parties to the contract:^t

- Complaint handling and complaint resolution procedures (clause 17 of the current customer contract)
- Redress and claims for damages (clauses 16.3 and 16.4 of the current customer contract).

Extending provisions of the current customer contract to consumers does not create a contractual relationship between Hunter Water and the consumers. Where Hunter Water does not comply with the provisions of the customer contract extended to consumers, this would be a breach of clause 5.2.1 of the current operating licence.

We recommend retaining equivalent provisions in the Licence to protect consumers. While the Australian Consumer Law provides some protections for consumers,⁴² seeking redress under the Customer Contract is simpler and cheaper than seeking redress under the consumer law. We recommend extending more of the provisions of the Customer Contract to apply to consumers so that all provisions of the Customer Contract that are relevant to tenants or occupiers are captured (as shown in Box 16 below).

^t Clause 5.2.1 of the current operating licence.

Hunter Water stated in its response to the Issues Paper that consumers are already adequately covered by the provisions of the Customer Contract that are of most direct impact to them. Therefore, further extensions are not necessary.⁴³ PIAC on the other hand supported further extensions to protect tenants and occupants that are not property owners.⁴⁴ EWON supported retaining the current operating licence condition but did not comment on allowing additional extensions.⁴⁵

Our recommendation to extend more provisions of the Customer Contract to consumers is not intended to create additional burden. The recommended Licence condition seeks to clarify all the clauses of the Customer Contract that impact consumers, in particular tenants. For example, tenants may pay a bill that is unpaid by the landowner of the property and seek to recover the amount of the bill from the landowner.^u This scenario is unlikely to arise often but if it does we consider it appropriate for Hunter Water to extend some limited protections, such as those relating to payment difficulties and restriction or disconnection, to tenants. Our CBA concludes that there is a net benefit with the recommended change as the costs are expected to be low and the benefits are potentially significant.

The recommended Licence conditions are shown in Box 16 below.

In response to Hunter Water's feedback to these conditions when presented in the draft Licence,⁴⁶ we have made minor modifications to the clauses of the Customer Contract that are extended to consumers. These changes seek to limit the clauses to be extended to consumers to the minimum necessary without imposing unintended obligations on either the consumer or Hunter Water.

For example, in the draft Licence, we had proposed to extend all of clause 2 of the Customer Contract to consumers. We have narrowed this down to specifically clauses 2.2, 2.4, 2.5 and 2.6 only. Similarly, instead of extending all of clause 12, we have narrowed this down to clauses 12.3 and 12.4 only.

Box 16 Recommended Licence requirements extending Customer Contract provisions to consumers

26 Consumers

(1) Hunter Water's obligations under the following clauses of the Customer Contract are extended to Consumers as though the Consumers were parties to the Customer Contract:

- (a) Clause 2.2 – Who is covered by this contract?
- (b) Clause 2.4 – When does this Customer Contract commence?
- (c) Clause 2.5 – When does this Customer Contract end?

^u *Hunter Water 1991*, section 41.

Box 16 Recommended Licence requirements extending Customer Contract provisions to consumers

- (d) Clause 2.6 – Variation of this Customer Contract
- (e) Clause 6 – What can I do if I am unable to pay my bill?
- (f) Clause 7.2(8) and (9) – Notice of restriction or disconnection for non-payment – when Hunter Water will not restrict or disconnect services
- (g) Clause 12.3 – Forms of redress
- (h) Clause 12.4 – Claim for damages
- (i) Clause 13 – What can I do if I'm unhappy with the services provided by Hunter Water?
- (j) Clause 15 – Consultation, Information and Privacy.

4.1.2 Obligation to make services available to properties

Recommendation:



- 27. Retain requirements to make services available to properties in its area of operations, on request

The current operating licence requires Hunter Water to make services available to properties in its area of operations, on request.^v We consider that retaining this condition in the Licence is a necessary customer protection measure. Without the licence condition, there is a risk that Hunter Water can refuse to connect to properties even where there is a connection available. Our CBA confirms that removing the current operating licence condition would not be beneficial as it would strengthen Hunter Water's already substantial market power in a manner that would not be in the public interest (by allowing it to refuse connections).

We note that we are not aware of issues with how Hunter Water makes its services available or with Hunter Water's compliance with this current operating licence requirement to date. However, this does not justify removing the condition from the licence as that could leave customers vulnerable. Customers, or potential customers, should be protected from Hunter Water refusing their requested connection. Particularly given that Hunter Water is a monopoly supplier and property owners in Hunter Water's area of operations generally do not have options for alternative suppliers.

^v Clause 1.5.1 of the current operating licence.

To ensure that the obligations placed on Hunter Water are fair and reasonable, we also recommend retaining the provision in the current operating licence for Hunter Water to impose any reasonable conditions to ensure the safe, reliable and financially viable supply of the services. Hunter Water, PIAC and DPE supported this recommendation when we first discussed it in the Issues Paper. Hunter Water and PIAC have since also expressed their support for our draft recommendations.^w

The recommended Licence conditions to make services available to properties is shown in Box 17 below.

Box 17 Recommended Licence requirement to make services available to properties

11 Obligation to make Services available



(1) Hunter Water must ensure that Services (other than drainage Services) are available on request for connection to any Property situated in the Area of Operations for which a connection to the Water Supply System or Sewerage System is available.

...

(3) Connection to Hunter Water's systems (other than drainage Services) is subject to any lawful and reasonable conditions that Hunter Water may determine to ensure the safe, reliable and financially viable supply of Drinking Water to, and disposal of Wastewater from, Properties.

4.1.3 Payment assistance options

Recommendations:

-  28. Retain requirements to maintain, implement and communicate to customers and the general public about assistance options for customers experiencing payment difficulties and actions for non-payment and any variations to this information.
-  29. Include a requirement to provide information to residential customers about assistance options for customers experiencing payment difficulties within one business day from when Hunter Water first documents or records that a customer has been identified as experiencing payment difficulty.

^w These submissions are available on our [website](#).

We recommend retaining requirements in the Licence about payment assistance options and actions for non-payment, similar to those in the current operating licence. We also recommend some new conditions, reflecting stakeholder feedback, to further protect customers.

The current operating licence requires Hunter Water to:

- Maintain and implement a procedure for payment difficulties and actions for non-payment, including to:
 - identify customers and consumers experiencing financial hardship
 - put in place payment plans for customers and consumers experiencing financial hardship
 - identify circumstances in which services may be restricted or disconnected for non-payment.
- Make information about the procedure for payment difficulties and actions for non-payment available to its customers with their bills (at least annually).
- Publish the procedure on Hunter Water's website for downloading or upon request through Hunter Water's General Enquiry Process free of charge^x.

We consider that the requirement to maintain a payment difficulties and actions for non-payment procedure is necessary to protect vulnerable customers and consumers facing payment difficulties. The procedure helps customers and consumers facing payment difficulties to pay their bills and retain their water service. Without this licence condition, there is currently no other requirement on Hunter Water to maintain a policy for payment difficulties or implement procedures. Customers or consumers could be at risk of having minimal or no water service availability for basic hygiene and drinking water. Retaining this condition in the Licence provides protection to all of Hunter Water's customers and consumers, regardless of their circumstances.

Our CBA confirms that there is a net benefit in retaining this condition in the Licence.

Hunter Water, PIAC and an anonymous submission expressed their support for retaining these requirements in response to the Issues Paper. PIAC also suggested including guidance about the principles that should shape these policies and procedures.⁴⁷ However, we have not included this in our recommendation. When we presented our recommendation in the draft Licence, PIAC did not raise any further concerns.

Hunter Water previously explained that it would continue to provide this service in the absence of a mandate. We acknowledge Hunter Water's efforts in this area and have not found issues with Hunter Water's compliance with this requirement to date. However retaining the current high-level requirement would support Hunter Water to continue its focus on assisting its vulnerable customers even if there is a change in organisational management and culture.

The recommended Licence conditions for payment assistance is shown in Box 18 below.

^x Clauses 5.3 and 5.7 of the current operating licence.

In general, stakeholders expressed support for our recommendations when presented in the draft Licence. EWON sought an additional requirement to make information about payment assistance options available to customers on the date that Hunter Water first identifies that the customer is facing payment difficulty.⁴⁸ EWON previously sought the same condition in response to our Issues Paper. However, in our draft recommendations, we had not included a requirement to make information about payment assistance on the date that payment difficulty is first identified as we had not identified any issues in the current (2017-2022) operating licence term. This suggested that there was no problem for the Licence to resolve. However, EWON noted in its submission to the draft Licence that it is a necessary customer protection because assisting customers experiencing financial vulnerability at the earliest opportunity leads to less accrued debt over time. Further, it increases a customer's ability to pay their water bills in accordance with an established payment plan.⁴⁹

Given the potential rise in financially vulnerable customers since the Covid-19 pandemic began, we have reconsidered our earlier position. In Licence clause 27(2)(c), we have recommended that Hunter Water must provide information within one business day from when Hunter Water first documents or records that a customer has been identified as experiencing payment difficulty. Our recommended drafting is slightly different to what EWON suggested, reflecting feedback from Hunter Water^y to allow the Licence condition to be both practical and auditable.

While we continue to recognise that we have not identified problems with Hunter Water's timely provision of information to date, the Licence condition will safeguard against future problems. This change does not materially impact our CBA conclusion. Hunter Water will face ongoing costs to meet this requirement but given that Hunter Water is already making efforts to provide this information quickly irrespective of a Licence requirement, it will face this anyway. Hunter Water has confirmed its comfort with our recommendations.

Finally, we recommend retaining requirements to make information about the payment assistance options and actions for non-payment available to customers and the general public. Stakeholders support this proposal to ensure that customers are aware of these provisions. We have recommended changes to clause 27(2)(b) and included clause 27(4) since we published the draft Licence to ensure customers receive the information in the format that they have chosen to receive their bills (whether this is electronically or through a paper copy) and to allow Hunter Water to provide the information with their next billing cycle.

Box 18 Recommended Licence requirements for payment assistance

27 Assistance Options for Payment Difficulties and Actions for Non-Payment

- (1) Hunter Water must maintain and fully implement:
 - (a) a payment difficulty policy that assists residential Customers experiencing payment difficulties to better manage their current and future Bills;

^y Hunter Water provided this feedback to IPART directly.

Box 18 Recommended Licence requirements for payment assistance

(b) procedures relating to a payment plan for residential Customers who are responsible for paying their Bills and who are, in Hunter Water's reasonable opinion, experiencing payment difficulties;

(c) procedures for identifying the circumstances under which Hunter Water may disconnect or restrict a supply of water to a Customer's Property; and

(d) provisions for self-identification, identification by community welfare organisations and identification by Hunter Water of residential Customers experiencing payment difficulties,

(the **Assistance Options for Payment Difficulties and Actions for Non-Payment**).

(2) Hunter Water must provide information about the Assistance Options for Payment Difficulties and Actions for Non-Payment free of charge:

(a) on its website;

(b) to all residential Customers, at least annually with their Bills via the same method chosen by the Customer to receive their Bill;

(c) to residential Customers experiencing payment difficulties by the next business day from when Hunter Water first documents or records that the Customer has self-identified, or has been identified by Hunter Water or a community welfare organisation, as experiencing payment difficulties, consistent with the provisions referred to in clause 27(1)(d); and

(d) to any other person upon request made through the General Enquiry Process

(3) Hunter Water must update the information referred to in clause 27(2) to reflect any variations made to the Assistance Options for Payment Difficulties and Actions for Non-Payment or the information within 60 days of the variations taking effect.

(4) Updated information about Assistance Options for Payment Difficulties and Actions for Non-Payment provided with Customer Bills can be provided in the next billing cycle after the 60 day period.

4.1.4 Family violence policy

Recommendation:



30. Include a new Licence requirement to develop, implement and communicate to customers and the general public about a family violence policy and any variations to this policy.

We consider that having a family violence policy is good practice in customer protection as it helps provide security and privacy for vulnerable customers and consumers. It would help prevent deliberate or inadvertent disclosure of personal information to anyone associated with the perpetrator of abuse. Our CBA agrees that this Licence condition is likely to provide net social benefits.

Hunter Water, EWON, PIAC and an individual anonymous submission expressed their support for including a new Licence requirement for a family violence policy, in response to the Issues Paper.^z PIAC suggested that the Licence should also require Hunter Water to communicate to its customers about the family violence policy.⁵⁰ We have recommended Licence conditions that support this as we agree that it is important that customers are aware of the policy, so that they are able to use it. We have also recommended requirements to communicate any updates to the policy, consistent with the other customer protection requirements (e.g. assistance options for payment difficulties).

PIAC also suggested that the Licence could require Hunter Water to consult with stakeholders and experts that provide support and services to people experiencing family violence to verify their policy and processes.⁵¹ At this stage, we have not included such a requirement in our recommendation. We consider that it would be more appropriate for the Licence to specify minimum provisions that the family violence policy must include to protect customers and to ensure auditability. Hunter Water can undertake appropriate stakeholder consultation as it sees fit without a Licence direction. We will review how Hunter Water consults on the policy during the current (2017-2022) operating licence term and if we observe any deficiencies, we can consider further prescription in the Licence in the next end-of-term review.

The recommended Licence conditions for developing and implementing a family violence policy are shown in Box 19 below. Under the recommended clause 28(2), we have recommended the minimum requirements for the family violence policy discussed above.

Stakeholders expressed their support for these Licence conditions when presented in the draft Licence.

We have recommended changes to clause 28(3)(b) and included clause 28(5) since we published the draft Licence to ensure customers receive the information in the format that they have chosen to receive their bills (whether this is electronically or through a paper copy) and to allow Hunter Water to provide the information with their next billing cycle.

^z These submissions are available on our [website](#).

Box 19 Recommended Licence requirement for a family violence policy

28 Family Violence Policy

(1) Hunter Water must develop and implement a family violence policy by 1 July 2025 (or another date approved by IPART in writing).

(2) The family violence policy must, at a minimum, provide for:

- (a) the protection of private and confidential information;
- (b) access to payment difficulty programs;
- (c) processes that minimise the reliance on individuals to disclose their family violence; and
- (d) processes for referrals to specialist services.

(3) Hunter Water must provide information about the family violence policy free of charge:

- (a) on its website;
- (b) to all residential Customers, at least annually with their Bills via the same method chosen by the Customer to receive their Bill; and
- (c) to any other person upon request made through the General Enquiry Process.

(4) Hunter Water must update the information referred to in clause 28(3) to reflect any variations made to the family violence policy or the information within 60 days of the variations taking effect.

(5) Updated information about the family violence policy provided with Customer Bills can be provided in the next billing cycle after the 60 day period.

4.1.5 Internal complaints handling

Recommendation:



31. Retain requirements to develop, implement and communicate to customers and the general public about Hunter Water's internal complaints handling procedure and any variations to this procedure.

We recommend retaining requirements in the Licence about internal complaints handling, similar to those in the current operating licence.

The current operating licence requires Hunter Water to:

- Maintain an internal complaints handling procedure for receiving, responding to and resolving complaints consistent with *Australian Standard AS/NZS 10002:2014 – Guidelines for complaint management in organisations* (this standard has recently been updated).
- Implement the internal complaints handling procedure.
- Make information about how to make a complaint under the internal complaints handling procedure available to its customers with their bills (at least annually).
- Publish the internal complaints handling procedure on Hunter Water's website for downloading or upon request through Hunter Water's General Enquiry Process free of charge.^{aa}

We consider that the requirement for an internal complaints handling procedure protects customers' and consumers' rights and helps to ensure that customer service is provided at a quality that meets customers' expectations. In the circumstance where customers do not have the choice of changing providers, we consider that requirements for effective complaints handling is the next best option.

In submissions to the Issues Paper, stakeholders agreed that retaining requirements to publish information about Hunter Water's internal complaints handling procedure is valuable to ensure that customers are aware of these provisions. Hunter Water noted that it would continue to provide this service in the absence of a mandate.⁵² We acknowledge Hunter Water's efforts in this area and have not found issues with Hunter Water's compliance with these requirements to date. Retaining this requirement would ensure that Hunter Water continues its focus on complaint handling even if there is a change in organisational management and culture. Without this Licence condition, there is currently no other requirement on Hunter Water for internal complaints handling.

Our CBA acknowledges that this requirement comes at a cost for Hunter Water, but it has found that it provides a net benefit for customers. Complaint-handling systems help to ensure that the existing quality standards are enforced.

The recommended Licence conditions for internal complaints handling are shown in Box 20 below.

In clause 30(1), we have recommended a requirement to maintain the policy/procedure consistent with AS/NZS 10002:2022. We consider this to be the most appropriate standard for complaints handling. EWON also references using this standard for managing customer complaints.⁵³ We note that the 2014 version, required in the current operating licence, is now superseded. We understand that the differences between the 2022 and 2014 versions of the standard are not significant and Hunter Water has confirmed its comfort with moving to the 2022 version without a transition period in the Licence.^{bb}

^{aa} Clauses 5.5 and 5.7 of the current operating licence

^{bb} Hunter Water did not make these comments in its submission to the draft Licence. Instead, Hunter Water provided this feedback to IPART directly.

The recommended requirement to update the information that Hunter Water provides about its internal complaints handling procedure under clause 30(4) of the Licence is not a new requirement. The current operating licence imposes the same requirement (clause 5.7.3). We recommend retaining this requirement to support Hunter Water's requirement to maintain the procedure by keeping its information current and ensuring that customers are aware of the procedure and how to use it.

Stakeholders expressed their support for these Licence conditions when presented in the draft Licence.

We have recommended changes to clause 30(3)(b) and included clause 30(5) since we published the draft Licence to ensure customers receive the information in the format that they have chosen to receive their bills (whether this is electronically or through a paper copy) and to allow Hunter Water to provide the information with their next billing cycle.

Box 20 Recommended Licence requirements for internal complaints handling

30 Internal Complaints Handling Procedure

(1) Hunter Water must maintain a procedure for receiving, responding to and resolving Complaints. The procedure must be consistent with the *Australian/New Zealand Standard AS/NZS 10002:2022– Guidelines for complaint management in organizations* (the **Internal Complaints Handling Procedure**).

(2) Hunter Water must fully implement the Internal Complaints Handling Procedure and carry out all relevant activities in accordance with the Internal Complaints Handling Procedure.

(3) Hunter Water provide information about internal Complaints handling free of charge:

- (a) on its website;
- (b) to all residential Customers, at least annually with their Bills via the same method chosen by the Customer to receive their Bill; and
- (c) to any other person upon request made through the General Enquiry Process.

The information must explain how to make a Complaint and how Hunter Water will receive, respond to and resolve Complaints.

(4) Hunter Water must update the information referred to in clause 30(3) to reflect any variations made to the Internal Complaints Handling Procedure or the information within 60 days of the variations taking effect.

Box 20 Recommended Licence requirements for internal complaints handling

(5) Updated information about internal Complaints handling provided with Customer Bills can be provided in the next billing cycle after the 60 day period.

4.1.6 External dispute resolution

Recommendations:

- 32. Retain requirement for membership of an external dispute resolution scheme but allow Hunter Water the option of membership of the Energy and Water Ombudsman NSW or another external dispute resolution scheme approved by IPART
- 33. Include criteria in the Licence that an alternative dispute resolution scheme must meet IPART's approval.
- 34. Retain requirements to communicate to customers and the general public about the external dispute resolution scheme and any variations to this information.

We recommend retaining requirements in the Licence about external dispute resolution, similar to those in the current operating licence.

The current operating licence requires Hunter Water to:

- Be a member of the Energy and Water Ombudsman NSW (EWON) to facilitate the resolution of disputes between Hunter Water and its customers or consumers. The current operating licence does not give Hunter Water the option to be a member of another dispute resolution scheme.
- Make information about the external dispute resolution service, how to access that service, and customers' rights to have a complaint or dispute referred to EWON available to its customers with their bills (at least annually).
- Publish information about the dispute resolution scheme provided by EWON on Hunter Water's website for downloading or upon request through Hunter Water's General Enquiry Process free of charge.^{cc}

^{cc} Clauses 5.6 and 5.7 of the current operating licence.

We consider that requiring Hunter Water to be a member of an external dispute resolution scheme such as EWON is a good customer protection measure that allows customers and consumers to escalate complaints to an independent body. If there is no external dispute resolution service available, customers would not have an avenue to escalate unresolved complaints. Publishing information about the external dispute resolution scheme empowers customers to access the service where they have been dissatisfied with Hunter Water's response to or handling of a complaint.

Hunter Water, EWON, PIAC, Sydney Water and an anonymous submission expressed their support for Licence conditions about external dispute resolution in response to the Issues Paper.^{dd}

Our CBA acknowledges that a requirement to be a member of a dispute resolution scheme comes at a cost for Hunter Water, but it provides a net benefit for customers. The ability to refer outstanding complaints and disputes to an external body helps to ensure that the current quality standards are enforced.

The recommended Licence conditions for external dispute resolution are shown in Box 21 below.

While we have recommended that Hunter Water should be required to be a member of EWON, our recommendation also allows Hunter Water to be a member of another external dispute resolution scheme with IPART's approval (see clause 31(2) below). This was informed by Hunter Water's submission to the Issues Paper that sought a more flexible approach to external dispute resolution that would allow it to seek more cost-effective options, if available.⁵⁴

In response to the draft Licence, PIAC expressed its support for specifying EWON as the default external dispute resolution scheme in the Licence and did not appear to support allowing alternative schemes.⁵⁵ On the other hand, Sydney Water expressed its support for a less prescriptive approach.⁵⁶ EWON did not oppose allowing alternative schemes. However, EWON sought some guidelines or criteria that an alternative scheme must meet to ensure that customers continue to receive a similar level of service as they currently do and as they would with other water utilities.⁵⁷

We have recommended criteria that an alternative dispute resolution scheme must meet in clause 31(2) (as shown in Box 21 below) to protect customers. We also recommend requiring Hunter Water to publish a notice to vary its Customer Contract if an alternative scheme is approved, to ensure currency. These changes do not materially impact our CBA conclusion. Hunter Water has confirmed its comfort with these inclusions.

We have recommended changes to clause 31(4)(b)(ii) and expanded clause 31(6) since we published the draft Licence to ensure customers receive the communication in the format that they have chosen to receive their bills (whether this is electronically or through a paper copy) and to allow Hunter Water to provide the information with their next billing cycle.

^{dd} These submissions are available on our [website](#).

The recommended requirements to update the communication about the external dispute resolution scheme within 60 days of any variations coming into effect under clause 31(5) is not a new requirement. The current operating licence imposes the same requirement (clause 5.7.3). We recommend retaining this requirement to support Hunter Water in ensuring that the information it provides to its customers is current.

Box 21 Recommended Licence requirements for an external dispute resolution scheme

31 External dispute resolution scheme

(1) Hunter Water must be a member of the Energy and Water Ombudsman NSW to facilitate the resolution of disputes between Hunter Water and its Customers or Consumers.

(2) Hunter Water may be a member of an alternative external dispute resolution scheme if approved by IPART in writing. The alternative external dispute resolution scheme must:

- (a) be approved by the Minister and published in the NSW Government Gazette;
- (b) provide an independent dispute resolution service;
- (c) be free for Customers and Consumers; and
- (d) be consistent with the Commonwealth *Benchmarks for Industry-based Customer Dispute Resolution*.

(3) If IPART approves an alternative external dispute resolution scheme under clause 31(2), Hunter Water must publish the notice required under section 38(1) of the Act to vary the Customer Contract within 30 days (noting that any variation of the Customer Contract is subject to approval by the Governor).

[Note: Section 38 of the Act makes provision for the amendment of the Customer Contract and the manner in which Hunter Water must notify members of the public of variations to the Customer Contract.]

(4) Hunter Water must:

- (a) prepare a communication that:
 - (i) lists the dispute resolution services provided by the external dispute resolution scheme, including any right to have a Complaint or dispute referred to the external dispute resolution scheme; and
 - (ii) explains how a Consumer can contact the external dispute resolution scheme; and

Box 21 Recommended Licence requirements for an external dispute resolution scheme

(b) provide a copy of that communication free of charge:

(i) on its website;

(ii) to all residential Customers at least annually with their Bills via the same method chosen by the Customer to receive their Bill; and

(iii) to any other person upon request made through the General Enquiry Process.

(5) Hunter Water must update the communication referred to in clause 31(2) to reflect any variations made to the information within 60 days of the variations taking effect.

6) Updated information provided with Customer Bills can be provided in the next billing cycle after the 60 day period.

4.2 Consulting with customers

Recommendation:



35. Do not include the current prescriptive requirements for Hunter Water to maintain a Customer Advisory Group. Instead, allow flexibility in the Licence to undertake customer, consumer and community consultation in any manner that Hunter Water considers effective.

The Act requires the Licence to include terms or conditions to maintain procedures under which Hunter Water is to consult with its customers at regular intervals in relation to the systems and services it provides.^{ee} We consider that it is important for the Licence to include such terms and conditions. Not only because it is required by the Act, but because as a monopoly supplier, the best way for Hunter Water to determine its customers' preferences is through customer consultation. Hunter Water should consult with its customers to understand their views, priorities and needs, and this understanding should inform its decision-making. Seeking customer preferences is consistent with our draft recommendations for our [Water Regulation Review](#). As part of this Water Regulation Review, we seek to encourage businesses to deliver and promote customer value.

^{ee} *Hunter Water Act 1991*, section 13(2)

The current operating licence requires Hunter Water to maintain and regularly consult with a broad cross-section of its customers through a Customer Advisory Group (CAG).^{ff} We recognise that a CAG may not be the best model for Hunter Water to consult with its customers. We therefore sought feedback from stakeholders in the Issues Paper on whether the Licence should allow Hunter Water to use other customer engagement models that may be less prescriptive.

Hunter Water, Sydney Water and DPE responded to the issues Paper supporting a less prescriptive requirement for customer consultation.⁹⁹ While PIAC was not opposed to more flexibility, it did not support entirely moving away from the CAG requirements. PIAC suggested that the Licence should still require the CAG but could also acknowledge that other customer consultation methods may be required to support it. PIAC stated that the CAG provides critical insights into community perspectives and allows Hunter Water to access useful skills and experience of the CAG members, which may not be achievable through other consultation methods.⁵⁸

We received similar feedback when we consulted on the draft Licence, where we recommended less prescriptive Licence conditions to allow Hunter Water greater flexibility in how it undertakes customer consultation. We appreciate the benefits that the CAG provides but do not recommend retaining the current prescriptive requirements for the CAG. This will allow us to review all of the consultation activities that Hunter Water undertakes as we monitor compliance. The CAG requirements restrict us to reviewing Hunter Water's CAG activities only. The Licence requirements do not preclude Hunter Water from using the CAG if it considers the CAG to be beneficial.

The recommended Licence conditions for customer consultation are shown in Box 22 below.

To meet the requirements of section 13(2) of the Act, we have recommended that Hunter Water must develop and implement a procedure to support its customer consultation, with transitional provisions to allow Hunter Water time to do this. We have also recommended that Hunter Water must publish a summary of the Community Consultation Procedure so that customers and consumers are aware of their rights under the procedure, and how to use it. Further, Hunter Water must review its Community Consultation Procedure, to ensure it is kept current, and report to IPART on the completed review. The requirements to publish and review the procedure are not driven by the Act but are good practice and consistent with the other requirements for protecting customers' rights, as discussed above in this chapter of this report.

When we consulted on our recommendations in the draft Licence, PIAC suggested that the consultation requirements should not be limited to Hunter Water's customers but should also be applied to 'consumers' and the general community.⁵⁹ We have included these suggestions in our recommended Licence conditions as we consider that this is a useful inclusion that will benefit customers, consumers and the general community. These changes do not materially impact our CBA conclusion. Hunter Water has confirmed its comfort with these inclusions.

^{ff} Clause 5.4 of the current operating licence.

⁹⁹ These submissions are available on our [website](#).

PIAC had also sought to limit Hunter Water's consultation on willingness to pay for service levels beyond the required minimum standards set in the Licence in clause 29(1)(a).⁶⁰ However, we have not included this limitation in our recommendation as we consider that it is appropriate for Hunter Water to consult widely to understand customer preferences. It will remain the Governor's decision to vary the service standards when granting or amending an operating licence, irrespective of the results of the consultation.

We have recommended clause 29(1)(b) in response to PIAC's submission to our Issues Paper. PIAC had suggested at the time that Hunter Water should be required to investigate (through appropriate consumer engagement) how its systems and processes can better support more effective, direct relationships with consumers such as residential tenants.⁶¹ We agree with PIAC that this is important consumer protection. Stakeholders did not raise any concerns when presented in the draft Licence.

Finally, in the draft Licence, we had recommended that Hunter Water must complete a review of the Community Consultation Procedure by 30 June 2027. In our final recommendation, we have amended that date to 30 June 2026 to inform the next end-of-term licence review.

Box 22 Recommended Licence requirements for consulting with customers

29 Customer, Consumer and community consultation

(1) Hunter Water must undertake Customer, Consumer and community consultation at regular intervals that is relevant, representative, proportionate, objective, clearly communicated and accurate to:

- (a) understand Customer, Consumer and community needs, interests and preferences and willingness to pay for service levels;
- (b) understand how its systems and processes can better support more effective, direct relationships with Consumers including residential tenants;
- (c) obtain advice and perspectives on the Customer Contract; and
- (d) obtain advice on such other key issues related to Hunter Water's planning and operations under this Licence which impact on Customers, Consumers and the community in Hunter Water's Area of Operations.

(2) Hunter Water must:

- (a) By 1 July 2023 (or another date approved by IPART in writing), develop and fully implement a procedure for consulting with its Customers, Consumers and the community at regular intervals in relation to the provision of its Services that meets the objectives of clause 29(1) (the **Community Consultation Procedure**); and

Box 22 Recommended Licence requirements for consulting with customers

(b) On and from the date referred to in clause 29(2)(a), carry out all ongoing Customer consultation activities in accordance with the Community Consultation Procedure.

(3) Until the Community Consultation Procedure has been implemented in accordance with clause 29(2)(a), Hunter Water must maintain and regularly consult with its Customers through its customer advisory group in accordance with clause 5.4 of the 2017-2022 operating licence.

(4) Hunter Water must by the date referred to in clause 29(2)(a) make a clear summary of its Community Consultation Procedure available, free of charge:

(a) on its website; and

(b) upon request made through the General Enquiry Process.

(5) Hunter Water must undertake a review of the Community Consultation Procedure to assess its effectiveness, including obtaining feedback from Customers, Consumers and the community. Hunter Water must report to IPART on the completed review of the Community Consultation Procedure and its outcomes by 30 June 2026 (or by another date approved by IPART in writing).

4.3 Reporting requirements for Hunter Water's obligations to customers

4.3.1 Exception reporting

Decisions



4. *[Reporting Manual]* Do not include current annual compliance and performance reporting requirements for customer and stakeholder relations.

The current reporting manual requires Hunter Water to prepare an annual compliance and performance report about its Customer and stakeholder relations. Specifically, Hunter Water must report on the activities and achievements of the CAG, any systemic problems arising from customers' complaints and actions taken to resolve them, and any changes made to the various documents required in the Licence to protect customers' rights, during the financial year. This report is provided to IPART only.^{hh}

We have removed most of these reporting requirements. We have retained the requirement to report on customer complaints (this is discussed further below, in section 4.3.2 of this report). We consider that the most critical compliance information that Hunter Water must provide is information on non-compliances. We can review Hunter Water's compliance with the Licence conditions comprehensively when we undertake the operational audits. We can request any additional compliance information on an as needed basis. Hunter Water will provide information on its non-compliances with the customer-related Licence conditions (and its Licence generally) with its annual statement of compliance (discussed further in section 6.3.2 of this report).

Stakeholders did not raise concerns with removing these reporting requirements when presented in the draft Reporting Manual.

Hunter Water's reporting requirements can be viewed in full in the 2022-2027 Reporting Manual.

4.3.2 Reporting on customer complaints

Decisions



5. *[Reporting Manual]* Retain requirements to report on customers' complaints and any actions taken to resolve them.

^{hh} Section 5.1 of the current reporting manual.

The current reporting manual requires Hunter Water to report on customer complaints and any actions taken to resolve them.ⁱⁱ We have retained this reporting requirement in the Reporting Manual as we consider that these requirements continue to provide value.^{jj}

In the Issues Paper, we sought feedback about whether it would be appropriate for the Licence to include a new requirement related to customer billing. This was because most customer complaints recorded and referred to EWON were related to customer billing.^{kk} Hunter Water and Sydney Water did not support including a new customer billing requirement.⁶² Hunter Water reported that complaints related to customer billing reduced in the 2020-21 financial year. Hunter Water attributed the reduced complaints to improved billing accuracy because of new systems and processes for validating billing. Hunter Water planned further initiatives in 2021-22 for further customer billing improvements.

Considering Hunter Water's improved systems, we consider that a prescriptive customer billing requirement is not necessary at this stage. We can investigate this matter further in the next review of the operating licence if Hunter Water's performance in this area deteriorates and we consider that a licence requirement may be beneficial. The reporting requirement for customer complaints will assist us in these considerations as well as generally monitoring customer satisfaction with Hunter Water's performance.

Hunter Water expressed its support for retaining this reporting requirement when presented in the draft Reporting Manual.⁶³ Hunter Water's reporting requirements can be viewed in full in the 2022-2027 Reporting Manual.

4.3.3 Notifying changes to Licenced documents

Decisions



6. *[Reporting Manual]* Do not include current requirements to notify IPART of changes made to Licensed documents such as the Customer Contract, assistance options and actions for non-payment, and the external dispute resolution scheme because these are contained within the draft Licence.

We consider that the requirement of the current reporting manual to notify us of changes made to the documents in the operating licence for protecting customers' rights is no longer necessary. The documents include the Customer Contract, the procedure for payment difficulties and actions for non-payment, the customer advisory group charter, the internal complaints handling procedure and the external dispute resolution scheme.^{ll}

ⁱⁱ Section 5.1 of the current reporting manual.

^{jj} Section 4.1.1 of the 2022-2027 Hunter Water Reporting Manual.

^{kk} Of the 64 complaints that were escalated to EWON in 2020-21, 42% were about customer billing.

^{ll} Section 5.1.1 of the current reporting manual.

We have therefore not included this requirement in the 2022-2027 Reporting Manual. We have recommended in the Licence that Hunter Water should be required to update the same (or similar) documents of any changes within 60 days. Hunter Water must also notify its customers within 60 days of making changes. Further reporting on this matter would be duplicative and does not provide additional benefits.

Hunter Water expressed its support for removing this reporting requirement when presented in the draft Reporting Manual.⁶⁴ Hunter Water's reporting requirements can be viewed in full in the 2022-27 Reporting Manual.

Chapter 5 »

Commitment to quality processes and systems

Organisational systems management and engagement with government stakeholders and competitors facilitates better outcomes for customers

05

5.1 Organisational management systems

The current operating licence requires Hunter Water to maintain and implement 3 organisational management systems: an Asset Management System (AMS), an Environmental Management System (EMS) and a Quality Management System (QMS).^a These organisational management systems provide benefits to Hunter Water and its customers. In this section, we discuss the relative costs and benefits and our recommendations for retaining requirements in the Licence for these 3 organisational management systems.

The Act does not require any one management system. However, it does specify that the Licence must require Hunter Water to:

- provide, construct, operate, manage and maintain efficient, co-ordinated and commercially viable systems and services for supplying water, providing sewerage services and disposing of wastewater,^b and
- ensure that systems and services meet the quality and performance standards in the Licence.^c

We consider that requiring Hunter Water to maintain and implement these management systems, and in particular the AMS, meets this requirement of the Act.

A common benefit that we observed with all 3 organisational management systems is that they help Hunter Water to ensure a cohesive business working towards common objectives and minimising barriers between business units/operations.

We note that Hunter Water stated in its submission to the Issues Paper that it is likely to maintain its organisational management systems (i.e. AMS, EMS and QMS) even without a Licence mandate because of the benefits that these systems provide.⁶⁵ This does raise the question whether a Licence requirement is necessary. We commend Hunter Water's commitment to asset, environmental and quality management, and acknowledge that we have not found major issues with Hunter Water's compliance with these clauses in the current (2017-2022) operating licence term. However, we consider that there is still benefit in retaining a requirement in the Licence for these systems.

The Licence requirement will ensure that Hunter Water continues to maintain the systems even if Hunter Water's organisational culture and commitments change over time, safeguarding against future problems. Further, it reflects the criticality of the systems in supporting Hunter Water's functions.

Our CBA supports our recommendation. A large proportion of Hunter Water's costs would have been already incurred capital expenditure given that Hunter Water has already developed these systems. It will face ongoing implementation costs, but Hunter Water will face this anyway as it has committed to retaining the AMS irrespective of a Licence requirement.

^a Part 4 of the current operating licence.

^b *Hunter Water Act 1991*, section 13(1)(a).

^c *Hunter Water Act 1991*, section 13(1)(c).

5.1.1 Asset management systems

Recommendations:

- 36. Retain requirements in the Licence to maintain an AMS consistent with *Australian Standard AS ISO 55001:2014 - Asset management - Management systems - Requirements*, or an alternative standard approved by IPART.
- 37. Retain requirements in the Licence to implement the AMS.

We recommend retaining requirements in the Licence to maintain and implement Hunter Water's AMS, like those in the current operating licence. We consider that ensuring Hunter Water has an AMS is essential for long-term safe operations, noting that Hunter Water operates critical assets that provide essential services to customers. Hunter Water and PIAC support retaining Licence requirements for the AMS.⁶⁶

The AMS helps Hunter Water to:

- monitor asset performance, which determines its overall system performance
- meet objectives (such as the water quality and system performance standards for service interruptions) by effectively managing asset risks and asset performance
- identify and pre-empt issues that may pose a significant risk to asset integrity and/or public health
- identify the root cause of poorly performing assets and maximum asset value
- keep records of maintenance activities, which is essential to track performance, optimise maintenance, and identify areas requiring frequent attention.

Poor asset management can lead to:

- water losses that exceed industry good practice
- less than 24/7 water supply service and frequent concerns over water quality
- incomplete, inaccurate, and unreliable asset records
- maintenance that mostly addresses breakdowns
- minimal asset planning that is not based on sound analysis and records
- costs, and ultimately prices, that are higher than they should be.

We rely on the AMS requirement in the Licence to monitor Hunter Water's performance against its system performance standards, and to monitor compliance. If there was a high-risk incident or a non-compliance, we would be able to readily audit Hunter Water's AMS to identify the cause of the issue, make recommendations to rectify the non-compliance or take enforcement action. Without a licence requirement for the AMS, IPART would not have oversight over that process.

We discuss the historical context for including the AMS requirement in the public water utility operating licences in Box 23 below.

Box 23 Historical context for AMS requirements in the Licence

The condition was first introduced in the operating licences for Sydney Water and the then Sydney Catchment Authority in around 2004-2005, and then Hunter Water in 2007-2008.

At the time, the reason for including asset management requirements in the operating licences was "such requirements were deemed necessary to provide assurance that the agencies are exercising appropriate stewardship of the assets to ensure the maintenance of service delivery capacity over the long term."⁶⁷

Further, at that time, Hunter Water had a poor history with meeting system performance standards. The asset management operating licence condition was included as a means of managing Hunter Water's performance in meeting its system performance standards.

The NSW Treasury asset management policy TPP 19-07 outlines a consistent approach to asset management in line with ISO 55001 for core asset management practices. State owned corporations, like Hunter Water, are encouraged to adopt elements of the policy.⁶⁸

The recommended Licence conditions for asset management are shown in Box 24 below.

Box 24 Recommended Licence requirements for asset management

21 Asset Management System

(1) Hunter Water must maintain a Management System in relation to Hunter Water's Assets that is consistent with the *Australian Standard AS ISO 55001:2014 Asset management - Management systems – Requirements*, or other standard approved by IPART in writing,

(the **Asset Management System**).

(2) Hunter Water must fully implement, and carry out all relevant activities in accordance with, the Asset Management System.

5.1.2 Environmental management systems

Recommendations:

- 38. Retain requirements in the Licence to maintain an EMS consistent with *Australian/New Zealand Standard AS/NZS 14001:2016 Environmental management systems – Requirements with guidance for use*, or an alternative standard approved by IPART.
- 39. Retain requirements in the Licence to implement the EMS.

Currently, the operating licence is the only legal instrument requiring Hunter Water to maintain an EMS. In the Issues Paper, we queried the benefits of retaining a requirement in the Licence for the EMS given that Hunter Water's environmental performance is already extensively regulated by the Environment Protection Authority (EPA) and DPE.^d We queried whether there could be more efficient ways of minimising harm to the environment from Hunter Water's operations, assuming this is the main benefit of retaining the EMS requirement of the Licence.

After considering stakeholder support, we have recommended including requirements in the Licence to maintain and implement Hunter Water's EMS. The EMS provides a framework to address climate change and its impacts and assists Hunter Water to meet its environmental obligations. Hunter Water relies on its EMS controls to manage and minimise wastewater overflows. This drives Hunter Water's asset management decisions by managing assets to prevent breaches of environmental legislation and to meet the wastewater overflow system performance standard in the Licence. Further, the EMS is consistent with industry good practice for minimising the risk of harm to the environment and it is a useful tool to help Hunter Water to adapt to climate change.

The recommended Licence conditions for environmental management are shown in Box 25 below.

^d Hunter Water holds 17 environment protection licences (EPLs) issued by the EPA. The licences set out conditions that relate to pollution prevention and monitoring. Hunter Water publishes pollution monitoring data to comply with its EPLs annually. Hunter Water also undertakes environmental impact assessment and approval processes to comply with the *Environmental Planning and Assessment Act 1979* (managed by DPE) and is subject to Office of Environment and Heritage's (OEHS) NSW Climate Change Policy Framework.

Box 25 Recommended Licence requirements for environmental management

22 Environmental Management System

(1) Hunter Water must maintain a Management System for managing its environmental responsibilities and the environmental impacts of its services and activities that is consistent with the *Australian/New Zealand Standard AS/NZS ISO 14001:2016 Environmental management systems – Requirements with guidance for use*, or other standard approved by IPART in writing,

(the **Environmental Management System**).

(2) Hunter Water must fully implement, and carry out all relevant activities in accordance with, the Environmental Management System.

5.1.3 Quality management systems

Recommendations:

- 40. Retain requirements in the Licence to maintain a QMS consistent with *Australian/New Zealand Standard AS/NZS 9001:2016 Quality management systems – Requirements with guidance for use*, or an alternative standard approved by IPART
- 41. Retain requirements in the Licence to implement the QMS.

Currently, the requirement in the operating licence is the only legal obligation for Hunter Water to maintain a QMS. In the Issues Paper, we queried the benefits of retaining a requirement in the Licence for the QMS as we considered that other parts of the Licence could achieve the same objective of driving quality products and services.

However, Hunter Water did not support removing the requirement for the QMS from the Licence. It stated that the QMS provides system elements that complement other management systems, licence clauses and legislative and regulatory instruments.⁶⁹ That is, it helps integrates Hunter Water's functions and operations. For example, the QMS supports Hunter Water's Water Quality Management System for managing the quality of water it supplies to customers. At the 2021 IPART audit, we observed that Hunter Water's QMS had the ability to achieve requirements for products and services within the scope of the organisation's policy, objectives and legal compliance.

After considering stakeholder support, we have recommended retaining requirements in the Licence to maintain and implement Hunter Water's QMS.

The recommended Licence conditions for quality management are shown in Box 26 below.

Box 26 Recommended Licence requirements for quality management

23 Quality Management System

(1) Hunter Water must at all times maintain a Management System for delivering quality services and outcomes to meet customers' expectations and regulatory requirements that is consistent with the *Australian/New Zealand Standard AS/NZS ISO 9001:2016 Quality management systems – Requirements*, or other standard as approved by IPART in writing,

(the **Quality Management System**).

(2) Hunter Water must fully implement, and carry out all relevant activities in accordance with, the Quality Management System.

5.1.4 Standards recommended in the Licence for Hunter Water's organisational management systems

The current operating licence requires Hunter Water to maintain each of the 3 management systems to Australian Standards. That is, the AMS must be maintained to AS ISO 55001:2014, the EMS to AS/NZS 14001:2016 and the QMS to AS/NZS ISO 9001:2016. We have recommended retaining these specifications in the Licence because we consider that these standards remain appropriate.

In their submissions to the Issues Paper, Hunter Water and Sydney Water sought to refer to the International Standard in the Licence instead of the Australian Standard.⁷⁰ However, our recommendation is to retain the Australian Standard in case of future departures from the International Standard (they are currently identical). We have recommended including in the Licence the ability for IPART to approve alternative standards in writing, to allow flexibility if required in future.

Our compliance monitoring and enforcement costs could be reduced by relying on any certification audits of Hunter Water's organisational management systems. Where a utility has chosen to certify its management system by a third party, we would generally accept certification reports from specialist auditors rather than including a comprehensive audit of the management system in our audit scope. While the certification audit may not eliminate the need for IPART's audits, it may help to reduce the scope. This allows us to minimise duplication and the burden on Hunter Water.⁷¹

We have not recommended requiring certification of the systems in the Licence as we consider that it is appropriate that certification continues to be a business decision. We note that Hunter Water's systems are already certified.

Stakeholders did not raise any concern with these Licence conditions, or the standards specified, when presented in the draft Licence.

5.2 Reporting requirements for organisational management

Decisions



7. *[Reporting Manual]* Do not include current annual compliance and performance reporting requirements for organisational management systems (AMS, EMS and QMS).

The current reporting manual requires Hunter Water to prepare an annual compliance and performance report addressing Hunter Water's compliance with its Licence requirements for the AMS, EMS and QMS. The report must include the management activities and programs completed by or proposed to be undertaken by Hunter Water in the reporting year, as well as any significant changes made to the organisational management systems and any major non-conformances and actions Hunter Water has taken to resolve them.^e

We have removed these reporting requirements. We consider that the most critical compliance information that Hunter Water must provide is information on non-compliances. We can review Hunter Water's compliance with the Licence conditions comprehensively when we undertake the operational audits. We can request any additional compliance information on an as needed basis.

Hunter Water will provide information on non-compliances with its Licence with its annual statement of compliance (discussed further in section 6.3.2 of this report). Stakeholders did not raise concern with this recommendation when presented in the draft Reporting Manual. Our recommended approach is consistent with Sydney Water's reporting requirements. Sydney Water is not required to produce a compliance and performance report for its organisational management systems.

For the same reason, we have not retained a requirement similar to the current one to submit a Strategic Asset Management Plan (SAMP) to IPART during the operating licence term. Removing the reporting requirement for the SAMP will not affect Hunter Water's Licence requirement to maintain the AMS itself which is what is critical for dependable delivery of services. Hunter Water supported removing this requirement and confirmed that it can provide any required information on an as needed basis.⁷²

Hunter Water's reporting requirements can be viewed in full in the 2022-2027 Reporting Manual.

5.3 Stakeholder cooperation

The current operating licence recognises Hunter Water has close working relationships with NSW Health, DPE and Fire and Rescue NSW (FRNSW). Ensuring close and clear relationships

^e Section 4.1 of the current reporting manual.

between Hunter Water and these government organisations is important to support them to achieve mutual objectives or address issues of mutual concern. Hunter Water's support is critical for the government organisations to be able to undertake their roles effectively.

Memoranda of Understanding (MoUs) are a cost-effective and flexible way of ensuring cooperative relationships. For this reason, the Licence requires Hunter Water to maintain MoUs with NSW Health, DPE and FRNSW. Unlike for other public water utilities, the Act does not require these MoUs. They are included in the Licence in recognition of the benefits they provide. Further, these arrangements promote alignment of Hunter Water's operations with the expectations of customers, regulators and the Government.

In this section, we discuss our recommendations for retaining the Licence conditions for the MoUs with NSW Health, DPE and FRNSW. Removing these Licence requirements would risk a reduction in Hunter Water's efforts to maintain the MoUs. We consider that this would be detrimental. Our CBA confirms that retaining these Licence conditions is likely to generate economic benefits.

The current operating licence only requires Hunter Water to use its 'best endeavours' to develop and/or maintain these MoUs. This recognises that both parties must cooperate to effectively maintain the MoUs and it is not solely within Hunter Water's control. We recommend retaining this qualification in the new Licence, particularly given that the MoUs are not statutory requirements under the Act (as they are with other public water utilities). Sydney Water expressed its support for this approach when presented in the draft Licence.⁷³

However, we have recommended Licence conditions requiring Hunter Water to *comply* with the MoUs. We have not recommended a 'best endeavours' qualification for the compliance requirements. We will consider the extent of Hunter Water's control when auditing compliance.

5.3.1 Memorandum of understanding with NSW Health

Recommendations:

- 42. Retain requirements in the Licence to use best endeavours to maintain an MoU with NSW Health.
- 43. Include requirements in the Licence to comply with the MoU with NSW Health.
- 44. Remove reporting requirements to NSW Health in the current operating licence and retain these in the Reporting Manual.

NSW Health is the lead agency on water-related public health incident response. The MoU between Hunter Water and NSW Health recognises the role of NSW Health in providing advice to the Government about drinking water quality standards and the supply of water which is safe to drink. The current operating licence requires Hunter Water to use its best endeavours to maintain and comply with this MoU.^f

We recommend retaining requirements for the MoU in the new Licence to recognise the criticality of the MoU and Hunter Water's and NSW Health's cooperative relationship. Both Hunter Water and NSW Health expressed their support for this recommendation in response to the Issues Paper.⁷⁴

The current operating licence requires that the MoU include arrangements for Hunter Water to report to NSW Health on any events related to Hunter Water's systems or services that might pose a risk to public health.^g The current operating licence also requires Hunter Water to provide information relating to water quality in a manner specified by NSW Health.^h

We do not recommend including these requirements in the new Licence as similar reporting requirements are set out in Hunter Water's reporting manual (under the Water Quality Management System reporting requirements). We consider that reporting requirements are best supported through the Reporting Manual. The Reporting Manual is a flexible instrument that can be easily updated as required. NSW Health advised, in response to the Issues Paper, that it does not oppose removing the reporting requirements from the Licence if they will be retained in the Reporting Manual.⁷⁵ We confirm that we are not recommending reducing any of the current reporting requirements.

The recommended Licence conditions for the MoU with NSW Health are shown in Box 27 below. Stakeholders did not raise any issues of concern when we presented our recommendations in the draft Licence.

^f Clause 5.9 of the current operating licence.

^g Clause 5.9.3 of the current operating licence.

^h Clause 5.9.4 of the current operating licence.

Box 27 Recommended Licence requirements for the MoU with NSW Health

32 Memorandum of understanding with NSW Health

(1) Hunter Water must:

(a) use its best endeavours to maintain; and

(b) comply with

a memorandum of understanding with NSW Health.

[Note: Clause 32 does not limit the persons with whom Hunter Water may enter into a memorandum of understanding.]

(2) The purpose of the memorandum of understanding with NSW Health is to form the basis for co-operative relationships between the parties. In particular, the purpose is to recognise the role of NSW Health in providing advice to the NSW Government in relation to Drinking Water quality standards and the supply of water that is safe to drink.

5.3.2 Memorandum of understanding with Department of Planning and Environment

Recommendations:



45. Retain requirements in the Licence to use best endeavours to maintain an MoU with DPE.



46. Retain requirements in the Licence to comply with the MoU with DPE.

The current operating licence requires Hunter Water to use its best endeavours to maintain and comply with the MoU with DPE.ⁱ Both Hunter Water and DPE support retaining a requirement in the new Licence for the MoU.

ⁱ Clause 5.10 of the current operating licence.

In section 3.2.2 of this report, we recommended that Hunter Water should be required to calculate the system yield and undertake long-term planning consistent with its MoU with DPE. To enable this, it is important to retain the Licence requirements for the MoU. Section 3.2.2 focused on our recommended requirements for long-term planning. This section focuses on our recommended requirements for Hunter Water to maintain the MoU itself and to comply with it to support the long-term planning discussed in those sections. Hunter Water and DPE recognise that the MoU is a flexible way to promote collaboration between the 2 organisations for delivering common objectives.⁷⁶

The recommended Licence conditions for the MoU with DPE are shown in Box 28 below. (They are also included in section 3.2.2.)

Box 28 Recommended Licence requirements for the MoU with DPE

33 Memorandum of Understanding with DPE

(1) Hunter Water must:

- (a) use its best endeavours to maintain; and
- (b) comply with,

a memorandum of understanding (which may be referred to as a roles and responsibilities protocol) with DPE in relation to:

- (c) the roles and responsibilities for DPE and Hunter Water in respect of the review and implementation of the Lower Hunter Water Security Plan; and
- (d) the calculation and reporting of System Yield.

[Note: Clause 33 does not limit the persons with whom Hunter Water may enter into a memorandum of understanding or a roles and responsibilities protocol.]

(2) The purpose of the memorandum of understanding with DPE is to form the basis for a co-operative relationship between the parties. In particular, the purpose is to recognise the role of DPE in assessing options to address water supply security in the lower Hunter region.

(3) By 1 December 2022 (or another date approved by the Minister in writing) Hunter Water must use its best endeavours to agree with DPE amendments to the memorandum of understanding to specify:

- (a) how Hunter Water should address integrated water cycle management in Hunter Water's long-term planning; and
- (b) any other matters agreed by the parties.

5.3.3 Memorandum of understanding with Fire and Rescue NSW

Recommendations:

- 47. Retain requirements in the Licence to use best endeavours to maintain an MoU with FRNSW.
- 48. Retain requirements in the Licence to comply with the MoU with FRNSW.
- 49. Retain requirements for a working group between Hunter Water and FRNSW. Expand the requirements for the working group membership to include other members such as the Rural Fire Service.

The current operating licence requires Hunter Water to use its best endeavours to maintain and comply with the MoU with Fire and Rescue NSW (FRNSW).^j We recommend retaining a requirement in the new Licence for the MoU to recognise the criticality of Hunter Water's and FRNSW's cooperative relationship. Both Hunter Water and FRNSW expressed their support for our recommendation in response to the issues Paper.⁷⁷

The MoU between Hunter Water and FRNSW recognises Hunter Water's role in supplying water for firefighting purposes. Hunter Water can contribute to improving fire safety by collaborating with FRNSW for better understanding by both parties of water availability needs for firefighting and water supply network limitations.

FRNSW advised that the current MoU has been successful in managing a cooperative relationship with Hunter Water. During the current (2017-2022) operating licence term, Hunter Water provided FRNSW with network performance data and consulted on upgrade programs. This led to improvements in FRNSW's ability to perform its legislated functions under the *Fire and Rescue NSW Act 1989*. The MoU facilitated discussions on ways that FRNSW may help Hunter Water, such as reporting hydrant tests to aid in water leak modelling, noting network performance is not static. FRNSW considers that the MoU is an effective way of ensuring that FRNSW has an effective ongoing mechanism for consultation with HWC as new issues arise.⁷⁸

^j Clause 5.11 of the current operating licence.

The current operating licence also requires the MoU to establish a working group to consider the matters specified in the Licence (e.g. providing a report to FRNSW about the network performance so FRNSW can understand availability of water for firefighting purposes).^k Both Hunter Water and FRNSW have recognised the value of this working group in achieving their mutual objectives.⁷⁹ We therefore recommend including similar requirements in the new Licence. We also recommend expanding the Licence requirement so that Hunter Water considers including other relevant organisations such as the Rural Fire Service (RFS). Hunter Water and FRNSW have expressed their support this recommendation in response to the Issues Paper.⁸⁰

Hunter Water considers that including the RFS in the working group would be valuable to share information on identification of high-risk bushfire areas, protection of Hunter Water's assets and understanding of water network capacity and system design. FRNSW shared similar sentiments and noted that the MoU working group had been productive over the 2017-2022 operating licence period.⁸¹

FRNSW queried whether a separate MoU between Hunter Water and RFS could be beneficial. After discussions with Hunter Water, we consider that there may not be benefit from another MoU if the RFS were to be included in the working group, given the nature of Hunter Water's and RFS' relationship. RFS has not sought a separate MoU through this Review either.

Hunter Water advised that its relationship with RFS has generally been focussed on:

- broader planning for bushfire protection, particularly near Hunter Water's assets or where Hunter Water and RFS have overlapping tenures on land
- the protection of community assets under the *Rural Fires Act 1997* (NSW) (Rural Fires Act).

Hunter Water is already a member of 3 regional bushfire management committees chaired by the RFS. Under the Rural Fires Act, RFS has prepared bushfire management plans that cover Hunter Water's area of operations.^l

The recommended Licence conditions for the MoU with FRNSW are shown in Box 29 below.

Box 29 Recommended Licence requirements for the MoU with FRNSW

34 Memorandum of Understanding with Fire and Rescue NSW

- (1) Hunter Water must:
 - (a) use its best endeavours to maintain; and
 - (b) comply with,

^k Clause 5.11.3 of the current operating licence.

^l Hunter Water did not make these comments in its submissions to the Issues Paper or draft Licence. Instead, Hunter Water provided this information to IPART directly.

Box 29 Recommended Licence requirements for the MoU with FRNSW a memorandum of understanding with FRNSW.

[Note: Clause 34 does not limit the persons with whom Hunter Water may enter into a memorandum of understanding.]

(2) The purpose of the memorandum of understanding with FRNSW is to form the basis for co-operative relationships between the parties. In particular, the purpose is to:

- (a) develop the roles and responsibilities of the parties as they relate to each other;
- (b) identify the needs and constraints of the parties as they relate to each other; and
- (c) identify and develop strategies for efficient and effective provision of firefighting water consistent with the goals of each party.

(3) The memorandum of understanding with FRNSW must require the maintenance of a working group and must provide that:

- (a) the working group must include representatives from Hunter Water and FRNSW and may include representatives from other organisations such as the NSW Rural Fire Service; and
- (b) the working group must consider the following matters (at a minimum):
 - (i) information sharing arrangements between Hunter Water and FRNSW;
 - (ii) agreed timelines and a format for Hunter Water to provide a report to FRNSW detailing the network performance with regard to availability of water for firefighting (taking into account the minimum available flow and pressure in localised areas of the network);
 - (iii) arrangements for Hunter Water to consult with FRNSW in the design of new assets and planning of system maintenance, where planning indicates that minimum available flow and pressure may unduly affect firefighting in the network section under consideration; and
 - (iv) other matters as agreed by both Hunter Water and FRNSW.

5.4 Reporting requirements for stakeholder cooperation

The current reporting manual imposes no requirements for Hunter Water to report on its compliance with its memoranda of understanding with NSW Health, DPE or FRNSW. We consider that this remains appropriate and that the benefits of new reporting requirements would be outweighed by the additional burden on Hunter Water. We have therefore not recommended any new reporting requirements.

We will continue to review Hunter Water's compliance through the annual operational audits and monitor any non-compliances that Hunter Water reports through its annual statement of compliance (discussed further in section 6.3.2 of this report).

5.5 Engaging with competitors

The current operating licence includes requirements that seek to protect Hunter Water's competitors, including private water utilities licensed under *Water Industry Competition Act 2006* (WIC Act) and potential new water utility competitors, when dealing with Hunter Water. This includes:

- requiring Hunter Water to provide a connection to its services, at the water utility's request and where the service is available,^m and
- requiring Hunter Water to cooperate with the water utility.ⁿ

The WIC Act and *Water Industry Competition (General) Regulation 2021* were introduced to encourage private sector participation and competition in the supply of water and provision of sewerage services in NSW. This regulatory framework enabled a new type of water customer to emerge - WIC Act licensees. WIC Act licensees are private water utilities that can provide drinking water, recycled water and/or wastewater services to end-use (or 'retail') customers within their defined areas of operations.

In this section, we discuss terms and conditions for the Licence for engaging with competitors. Even when acting as competitors, the private water utilities are Hunter Water's (wholesale) customers when they seek connection to Hunter Water's services. It is therefore necessary to include terms and conditions in the Licence that adequately protects private water utilities in their dealings with Hunter Water. Given that Hunter Water is a monopoly supplier, these private water utilities cannot seek access to another water or wastewater service. If Hunter Water were to refuse to deal with competitors (current or potential), there is a risk that they could be discouraged from entering the market to supply water or sewerage services. This in turn can reduce the ability of the competitors to effectively compete with Hunter Water.

^m Clauses 15.2 and 15.3 of the current operating licence.

ⁿ Clause 5.8 of the current operating licence.

In March 2021, the NSW Government accepted the recommendation from the Productivity Commissioner to rescind the 2008 Treasurer approval to set specified water, wastewater and stormwater developer charges for Sydney Water and Hunter Water to zero. In effect, developer service charges will be re-introduced. Re-introducing developer charges signals the different costs of providing services to different locations and can enhance the potential for providing services to new developments.

We consider that our recommended Licence conditions will complement the re-introduction of developer charges in levelling the playing field between Hunter Water, as the incumbent public water utility with higher market power, and WIC Act licensees and emerging private water utilities. We seek to establish a more favourable environment for competition for servicing new growth areas in Hunter Water's area of operation through the recommended Licence conditions and reporting requirements.

5.5.1 Obligation to make services available to competitors

Recommendation:



50. Retain requirements in the Licence to make services available to WIC Act licensees, on request, subject to any reasonable conditions from Hunter Water

The current operating licence requires Hunter Water to make services available on request to WIC Act licensees (currently the only competitors to Hunter Water in its area of operations).^o Hunter Water is only able to refuse to connect requested services if it can demonstrate that a connection is not available. We recommend including similar conditions in the new Licence to protect the WIC Act licensees.

The current operating licence specifies that Hunter Water must provide access to its services where the WIC Act licensee intends to use the obtained services for ultimate end-use within Hunter Water's area of operations. We do not recommend retaining this restriction in the new Licence. Instead, we recommend that Hunter Water must provide services on request where there is a connection available to the WIC Act licensees. However, to ensure that the obligations placed on Hunter Water are fair and reasonable, we recommend retaining the allowance available in the current operating licence for Hunter Water to impose any reasonable conditions for the safe, reliable and financially viable supply of its services. Hunter Water, PIAC and DPE expressed their support for this recommendation in response to the Issues Paper.^p

^o Clause 1.5.2 of the current operating licence.

^p These submissions are available on our [website](#).

The recommended Licence conditions for making services available to WIC Act licensees are shown in Box 30 below. We have not recommended including 'potential' new competitors in this Licence clause because Hunter Water can only provide another water utility with a connection to its services after they have become licensed to provide services to their customers (given that that is the objective for the utility seeking Hunter Water's services). However, this does not restrict potential competitors from commencing negotiations with Hunter Water about service connections before they are licensed. We discuss this again in the next section about negotiating services with Hunter Water.

Stakeholders did not raise concern with these recommendations when presented in the draft Licence.

Box 30 Recommended Licence requirements for making services available to competitors

11 Obligation to make Services available

...

(2) Hunter Water must provide Services (other than drainage Services) on request to any licensee under the WIC Act, where that licensee is connected to (or where a connection is available in respect of that licensee to) Hunter Water's Water Supply System or Sewerage System.

(3) Connection to Hunter Water's systems (other than drainage Services) is subject to any lawful and reasonable conditions that Hunter Water may determine to ensure the safe, reliable and financially viable supply of Drinking Water to, and disposal of Wastewater from, Properties.

5.5.2 Negotiating in good faith

Recommendation



51. Include a new requirement in the Licence to negotiate the provision of its services to competitors (including current WIC Act licensees and potential new competitors) in 'good faith'

We recommend including a new requirement in the Licence for Hunter Water to act in 'good faith' when negotiating with competitors. These negotiations are for Hunter Water's services and can be with existing WIC Act licensees or potential new competitors who are seeking licences to provide services to their own customers in Hunter Water's area of operations.

This requirement to negotiate in good faith is specifically for the provision of Hunter Water's services to the utilities, which include water, wastewater and stormwater drainage services. The requirement would therefore apply to negotiations where Hunter Water may provide services as a wholesale retailer and the competitors are acting as wholesale customers.

Box 31 What does 'acting in good faith' mean?

By 'acting in good faith', we mean Hunter Water:

- acting honestly (including not providing false information or concealing material facts)
- acting fairly and reasonably, having regard to the interests of the other party (but not to the extent of subordinating its own interest), including (but not limited to):
 - attending, and participating in, meetings at reasonable times
 - disclosing relevant information (other than confidential or commercially sensitive information) in a timely manner;
 - responding to proposals made by the other party in a timely manner;
 - giving genuine consideration to the proposals of the other party, and
- acting consistently with the objectives of the Licence, including the objective of providing services in a way that does not prevent or hinder competition.

The above aspects of the obligation to negotiate in good faith are interrelated and should not be applied independently of each other. They should be considered holistically having regard to Hunter Water's overall conduct.

There is no equivalent clause in the current operating licence, and we acknowledge that we have not observed any issues with Hunter Water's dealings with potential competitors. The recommendation is not in response to an existing problem but seeks to minimise the risk of any future problems from occurring. There is minimal cost burden on Hunter Water as it is a behavioural requirement. Our CBA concludes that there is likely to be a net economic benefit from including this condition in the Licence.

In its submission to the Issues Paper, Hunter Water queried the need to add an 'in good faith' requirement to the Licence. Hunter Water considers this to be one-sided given there is no equivalent obligation on utilities licenced under the WIC Act.⁸² On the other hand, DPE and PIAC considered that it would be beneficial.⁸³ Hunter Water also raised a practical concern with the way an auditor would check compliance with a good faith clause and questioned the technical knowledge or experience required by an auditor to assess compliance.⁸⁴

We note Hunter Water's concerns and we can consider whether a similar clause would be appropriate in the WIC Act licences. However, we consider that in these commercial dealings, Hunter Water's competitors are more vulnerable. Hunter Water, as the incumbent utility, is at an advantage. The recommended clause seeks to address this imbalance. However, to be clear, acting in good faith should not be interpreted as requiring Hunter Water to make concessions during negotiations or to reach agreement on the terms that are to be included in an agreement with a competitor. Hunter Water may act in good faith but still fail to reach agreement.

We propose to prepare guidance for auditors to test compliance with this Licence requirement. We will consult with stakeholders as per our usual process when reviewing the audit guideline. At this stage, we propose that the guidance may consider evidence:

- that Hunter Water has mechanisms in place for potential competitors to request provision of services (via the website or directly through email or similar)
- of processes in place to receive requests and to negotiate provision of services
- that Hunter Water has processes in place to review applications for its services from potential competitors
- of any communications between Hunter Water and the WIC Act licensee or potential competitor
- of complaints or allegations made to IPART by potential competitors or WIC Act licensees. Where this has occurred, the auditor (or IPART) could seek additional information about the events surrounding those allegations.

We would consider Hunter Water's conduct as a whole and the circumstances of the negotiation. Any one of the above listed evidence on its own would not necessarily be taken as conclusive that Hunter Water has acted in bad faith.

The recommended Licence conditions for negotiating with WIC Act licensees and potential competitors are shown in Box 32 below. Stakeholders did not raise concern with this recommendation when presented in the draft Licence.

Box 32 Recommended Licence requirements for negotiating with potential competitors (including WIC Act licensees)

35 Negotiations with WIC Act licensees and Potential Competitors

Hunter Water must negotiate the provision of Services to WIC Act licensees and Potential Competitors in Good Faith.

In response to the Issues Paper, Hunter Water sought clarification in the Licence that this condition will apply only to negotiations where Hunter Water acts as a wholesale retailer and the competitor as a wholesale customer.⁸⁵ We confirm that this is the intent. However, we consider that further description is not necessary in the Licence. The Licence already defines WIC Act licensees and 'potential competitors'. A 'potential competitor' is a person who informs Hunter Water that they intend to carry out activities that would require a licence under the WIC Act and connection to Hunter Water's Water Supply System or Sewerage System. This inherently limits the application of the condition to circumstances where Hunter Water is acting as a wholesale retailer.

5.5.3 Establishing a code of conduct

Recommendation:



52. Retain requirements in the Licence to use best endeavours to cooperate with WIC Act licensees seeking to establish a code of conduct, on written request from the WIC Act licensee.

The current operating licence requires Hunter Water to use reasonable endeavours to cooperate with WIC Act licensees seeking to establish a code of conduct required under the relevant WIC Act licence.^q The code of conduct could set out the respective responsibilities of Hunter Water and the WIC Act licensee for various matters, such as repair and maintenance, water quality, and liability in the event of unavailability of water or in the event of infrastructure failure.^r

We recommend retaining a similar requirement in the new Licence as it provides WIC Act licensees and Hunter Water with certainty where their operations overlap. It ensures that the safety of customers and the environment are protected by setting out each party's responsibilities for ongoing safe operations and in the event of an incident.

In the absence of a water industry code of conduct that applies on an industry-wide basis, WIC Act licensees who have infrastructure that interconnects to Hunter Water's infrastructure are required, under the conditions of their licences, to establish a code of conduct with Hunter Water. This Licence condition supports the requirements on the WIC Act licensees. Our CBA notes that both the costs and benefits of the recommended Licence condition are expected to be modest. However, it concludes that the Licence condition provides benefit because it will help to promote a more competitive industry structure in the future.

^q Clause 5.8.1 of the current operating licence.

^r Clause 46 of the *Water Industry Competition (General) Regulation 2021*, where the portfolio Minister may, by order published in the Gazette, establish a code of conduct in relation to the respective responsibilities of licensed network operators, licensed retail supplier and public water utilities. To date the Minister has not established a water industry code of conduct.

In their response to the Issues Paper Hunter Water, DPE, PIAC and EWON supported including the recommended Licence condition.⁵ Hunter Water noted that there is an equivalent requirement in WIC Act licences.⁸⁶

We also recommend that any requests from WIC Act licensees to establish such a code must be in writing. Again, the stakeholders supported this recommendation. EWON stated that having written requests would help ensure that a consistent approach is applied to all WIC Act licensees seeking a code of conduct, and it provides an accurate record of communication between the parties.⁸⁷

The recommended Licence conditions for establishing a code of conduct with WIC Act licensees are shown in Box 33 below. Stakeholders did not raise concern with this recommendation when presented in the draft Licence.

Box 33 Recommended Licence requirements for establishing a code of conduct with WIC Act licensees

37 Code of Conduct

(1) Hunter Water must use its best endeavours to cooperate with each WIC Act licensee to establish a code of conduct required by a WIC Act licence where Hunter Water has received a written request from the WIC Act licensee to establish such a code.

(2) Where the Minister administering the WIC Act has established a code of conduct under clause 46 of the WIC Regulation, Hunter Water will be taken to have satisfied its obligation under clause 37(1) by applying the code of conduct to the relevant licensee under the WIC Act.

5.5.4 Publishing servicing information to competitors

Recommendation:



53. Include new requirements to publish servicing information on Hunter Water's website for competitors (both current and potential new competitors).

We recommend including requirements in the new Licence for Hunter Water to publish servicing information on its website for its competitors. For each of Hunter Water's major water and sewerage systems, Hunter Water must publish servicing information including:

⁵ These submissions are available on our [website](#).

- current and projected demand,
- current and projected capacity constraints,
- indicative costs of alleviating or deferring capacity constraints,
- locations where further investigation is needed, and
- key sources of information used to develop the servicing information where those sources are publicly available.

These requirements would be new and would result in a cost to Hunter Water. However, we consider that there is benefit in including these requirements. They would address an asymmetry in available servicing information which would support competition in the market by enabling WIC Act licensees and potential new competitors to make decisions about investments before committing to the investment. This in turn could reduce the need for Hunter Water to invest in expensive large network assets. Our CBA confirms that the net economic benefits to the recommended new requirements is likely to be positive.

DPE, PIAC and EWON supported the recommended Licence requirements when we first raised the matter in our Issues Paper.⁸⁸ EWON suggested that the Licence should reflect the same requirements as in the 2019-2023 Sydney Water Operating Licence to ensure that a consistent approach is applied to all major water suppliers in NSW.⁸⁹

Box 34 Why servicing information requirements were included in the 2019-2023 Sydney Water Operating Licence

In its submission to the Issues Paper, DPE provided context for why this requirement was introduced into the 2019-2023 Sydney Water Operating Licence and why it should also be applied to the Hunter Water Licence.⁹⁰

DPE advised that the 2018 *Independent review of economic regulatory barriers to cost-effective water recycling* identified a lack of information available to market participants on public water utilities' long-term growth servicing plans, system constraints and the costs (or savings) of alleviating (or deferring) constraints in water and wastewater systems.

As a result, this 2018 review recommended that the operating licences for WaterNSW, Sydney Water and Hunter Water should require the utilities to develop and publish an annual 'system limitation report' that makes key information publicly available on long-term growth servicing plans and system constraints in a consistent, timely and accessible way.

The recommendation was supported by the NSW Government and the reporting requirement was included in Sydney Water's Operating Licence at its last review.

On this basis, we recommend also including the requirements for servicing information in the Hunter Water Licence.

Hunter Water was not opposed to our recommendation when we sought feedback on the draft Licence. However, Sydney Water and Hunter Water queried whether the intended transparency could be better achieved through Developer Service Plans (DSPs),⁹¹ now that the NSW Government has accepted the recommendation from the Productivity Commissioner to rescind the 2008 Treasurer approval to set specified water, wastewater and stormwater developer charges for Sydney Water and Hunter Water to zero. In effect, developer service charges will be re-introduced.

Box 35 Re-introduction of developer service charges for water, wastewater and stormwater

In the 2018 *Independent review of economic regulatory barriers to cost-effective water recycling* report, another recommendation was made to DPE. This recommendation was to review and report on the costs and benefits of a continuation of the 2008 Treasurer approval to set specified water, wastewater and stormwater developer charges for Sydney Water and Hunter Water to zero.⁹²

In March 2021, the NSW Government accepted the recommendation from the Productivity Commissioner *Review of Infrastructure Contributions in NSW* to rescind the 2008 approval for Sydney Water and Hunter Water.⁹³

With the re-introduction of developer charges, both Sydney Water and Hunter Water will publish information on DSPs and review them every 5 years. Hunter Water will publish information on system constraints and cost of growth infrastructure as part of implementing IPART's developer charges determination. Hunter Water intends to exhibit its DSPs in 2022-23. Currently, the DSPs are intended to be on public exhibition for 30 days and the content requirements are set out in Schedule 4 of IPART's [Determination](#) on the maximum charges levied by metropolitan water utilities^t

In addition, Hunter Water also publishes an annual Growth Plan^u containing a capital works programme, processes for prioritising expenditure, details of recent, current and planned capital works projects and growth maps showing the location and timing of likely development.

In its submission to the draft Licence, Sydney Water raised concerns that the servicing information required by our recommended Licence conditions would duplicate the DSPs, once published.⁹⁴ While Hunter Water was not opposed to our recommended Licence conditions, it did query whether its Growth Plans and DSPs could fulfill some of the requirements for publication of information.⁹⁵ Previously DPE queried the same in response to the Issues Paper.⁹⁶

^t The latest Determination was [gazetted](#) in 2018.

^u Hunter Water's catalogue of Growth Plans does not include a 2020 edition due to the COVID-19 global pandemic.

We acknowledge Hunter Water, DPE and Sydney Water's concerns and the potential for duplication. However, at this stage it is difficult to accurately assess the duplication risk as the DSPs are not yet available and we cannot yet review their content. Therefore, on balance, we consider that it is beneficial to include the recommended Licence conditions. To reduce the risk for duplication, we have not recommended a prescribed format in which Hunter Water must publish the servicing information. Hunter Water is able to demonstrate compliance through its Growth Plans and DSPs if these plans contain the information required in the Licence.

We will review any duplication with the requirements of IPART's developer charges determination at the next licence review. By that time, the content of the DSPs can be tested more accurately, together with growth plans. We will assess at that time if these plans can be relied upon to provide information on long-term growth servicing, system constraints and the costs (or savings) of alleviating (or deferring) constraints in water and wastewater systems.

The recommended Licence conditions for publishing servicing information are shown in Box 36 below.

In the draft Licence, we recommended transitional arrangements to allow Hunter Water to initially publish the servicing information that it has available, and then, over time, provide more information as it becomes available. This is consistent with the approach in the Sydney Water Operating Licence. However, Hunter Water did not support including this in the Licence. Hunter Water explained that such Licence conditions would not align well with IPART's 5-year cycle of IPART's developer charge determinations.⁹⁷ We have therefore not included these transitional arrangements in the recommended Licence conditions below. We agree with Hunter Water's suggestion that publishing updates of any changes to servicing information by 30 June 2027 adequately meets the intent of the Licence condition.

Box 36 Recommended Licence requirements for publishing servicing information

36 Publications of Servicing Information

(1) Hunter Water must, by the dates specified in this clause 36 publish on its website at least 10 years of servicing information for each major Water Supply System and Sewerage System. The servicing information for each major Water Supply System and Sewerage System must, at a minimum, include information on:

- (a) current and projected demand;
- (b) current and projected capacity constraints;
- (c) indicative costs of alleviating or deferring capacity constraints;
- (d) locations where further investigation is needed; and
- (e) key sources of information used to develop the servicing information where those sources are publicly available,

Box 36 Recommended Licence requirements for publishing servicing information

(the **Servicing Information**).

(2) Hunter Water must, by 30 September 2024 (or another date approved by IPART in writing), publish on its website the Servicing Information for each major Water Supply System and Sewerage System that it has available by that date that is in a form suitable for publication.

(3) Hunter Water must publish all Servicing Information for each major Water Supply System and Sewerage System by 30 June 2025 (or another date approved by IPART in writing).

(4) Hunter Water must review, update and publish the Servicing Information for each major Water Supply System and Sewerage System at least once between:

(a) the date that is 12 months after the initial publication of the Servicing Information for that major Water Supply System or Sewerage System under clause 36(2); and

(b) 30 June 2027 (or another date approved by IPART in writing).

(5) Hunter Water is not required to comply with clauses 36(1) to 36(4) in relation to a particular major Water Supply System or Sewerage System to the extent approved by IPART in writing. Hunter Water may apply to IPART for approval under this clause only where there are critical infrastructure security concerns in relation to a particular major Water Supply System or Sewerage System.

5.6 Reporting requirements for engaging with competitors

Decisions



8. *[Reporting Manual]* Include new requirements to report on Hunter Water's performance with providing information and services to competitors (both current and potential new competitors).

We have included the following requirements in the Reporting Manual^v for Hunter Water to support the recommended Licence conditions for engaging with competitors:

- the number of agreements for the provision of Services established with WIC Act licensees and potential competitors,
- the number of negotiations for the provision of Services commenced with WIC Act licensees potential competitors that did not eventuate in an agreement and, where known to Hunter Water, the reasons for this outcome,
- a timeline of each negotiation Hunter Water undertook with WIC Act licensees and potential competitors (both successful and those that did not eventuate in an agreement) and reasons for any significant delays to those negotiations,
- the type of information WIC Act licensees and potential competitors requested in addition to information that is publicly available, and
- the time taken for Hunter Water to respond to requests for provision of information or services.

While the reporting requirements come at a cost, they will support the Licence conditions in protecting WIC Act licensees and potential competitors trying to break into the market and when dealing with Hunter Water. The reporting requirements will assist us in our compliance monitoring and enforcement function, particularly given that these are new Licence conditions. We can reassess their value in the next review.

Hunter Water's reporting requirements can be viewed in full in the 2022-2027 Reporting Manual.

^v Chapter 5 of the 2022-2027 Reporting Manual

Chapter 6 »

Administration

The administrative aspects of the Licence are necessary but likely to be of least relevance to customers

06

6.1 Licence objectives

Recommendations



54. Include objectives in the Licence that are:

- Linked to Hunter Water's principal functions under the Act.
- Clear about Hunter Water's objective to supply or provide services in a way that does not prevent or hinder competition.
- Reflect the social, economic and environmental objectives outlined in section 8 of the *State Owned Corporations Act 1989* (NSW).
- Promote the sustainable supply of services with the long-term interests of the community in mind.

Any licence (or other regulatory instrument) should clearly set out its objectives. Ideally, the objectives should describe the outcomes the licence is intended to achieve. This helps people understand why specific conditions have been included in the Licence.

The recommended objectives for the Licence are shown in Box 37 below. These objectives seek to link more closely to Hunter Water's principal functions, described in the Act, than the objective in the current operating licence.^a

We have reflected feedback received from Hunter Water, DPE and PIAC (which we received in response to the Issues Paper).^b Hunter Water requested an objective that specifically focused on competition. That is, there should be an objective for Hunter Water to supply or provide services in a way that does not prevent or hinder competition.⁹⁸ DPE encouraged reflecting the social, economic and environmental objectives outlined in the *State Owned Corporations Act 1989* (NSW)^c in the objectives, where possible, to be more closely aligned with the core objectives of the NSW Water Strategy.⁹⁹ PIAC recommended that the objectives should promote sustainable supply of services with the long-term interests of the community in mind.¹⁰⁰

Box 37 Recommended Licence objective

1 Objective of this Licence

(1) The objectives of this Licence are to:

^a Clause 1.1.1 of the current operating licence.

^b These submissions are available on our [website](#).

^c Section 8 of the *State Owned Corporations Act 1989* (NSW).

Box 37 Recommended Licence objective

(a) authorise and require Hunter Water, within its Area of Operations, to provide, construct, operate, manage and maintain efficient, coordinated and commercially viable systems and services for:

(i) supplying in a manner that is resilient, reliable, equitable and sustainable, water that is healthy and high quality;

(ii) providing sewerage and drainage services that support community health and a sustainable environment;

(iii) disposing of Wastewater and supporting the sustainable treatment and utilisation of Wastewater; and

(iv) planning, investing and operating its system in the long-term interests of its Customers, Consumers and community; and

(b) set efficient and effective terms and conditions, including quality and performance standards, that Hunter Water must meet when supplying or providing services in a way that:

(i) supports its principal objectives under the *State Owned Corporations Act 1989* (NSW) to:

(A) be a successful business;

(B) have regard to the interests of the community in which it operates;

(C) comply with principles of ecologically sustainable development; and

(D) in its operations, exhibit a sense of responsibility towards regional development and decentralisation; and

(ii) does not prevent or hinder competition.

6.2 Pricing

Recommendation:



55. Retain the Pricing condition from the current operating licence with no significant change.

The Act requires the Licence to include terms and conditions about pricing.^d The current operating licence includes one clause which sets out Hunter Water's obligation to set prices subject to the terms of the Licence, the Act and IPART's price determinations.^e The clause aims to protect customers by ensuring that prices are not excessive. We recommend no change to this clause because we consider that it is clear and well-aligned to the Act and IPART's price determinations. Hunter Water and PIAC expressed their support in their submissions to the Issues Paper.¹⁰¹

Our CBA concludes that as long as IPART's price determinations maximise the overall economic welfare of Hunter Water's customers, then net benefits are maximised by enforcing the price determination.

The recommended Licence condition for pricing are shown in Box 38 below.

Box 38 Recommended Pricing condition in the Licence

7 Pricing

(1) Hunter Water must set the level of fees, charges and other amounts payable for its Services in accordance with:

- (a) the terms of this Licence;
- (b) the Act; and
- (c) any applicable maximum prices or methodologies for fixing maximum prices determined under the IPART Act.

^d *Hunter Water Act 1991*, sections 13(1)(c) and 39.

^e Clause 1.8 of the current operating licence.

6.3 Performance monitoring and reporting

6.3.1 Operational audits

Recommendation:



56. Retain requirements in the Licence for operational audits that accommodate remote auditing.

We regularly undertake operational audits of the 3 public water utilities that we regulate (i.e. Hunter Water, Sydney Water and WaterNSW) as part of our function to monitor the utilities' compliance with their operating licences. Together with reviewing any information that the utilities report and any non-compliances utilities notify us to, operational audits are an important part of our compliance monitoring function.

The Act states that IPART must ensure that Hunter Water's operational audits are prepared in accordance with the operating licence.^f This means that the Licence must include terms and conditions for the operational audits. Reflecting this, the current operating licence includes such conditions.^g We recommend retaining these conditions in the Licence not only because they are required by the Act, but because monitoring utilities' compliance helps protect customers, public health and the environment.

The recommended Licence conditions for operational audits are shown in Box 38 below. We have recommended minor changes to the current operating licence to reflect that since the COVID-19 pandemic commenced, we have been undertaking the operational audits remotely, including the field verification visits in some instances.

Box 39 Recommended Licence conditions for performance monitoring (operational audits)

38 Operational Audits

(1) Hunter Water must cooperate with any audit undertaken by IPART or an Auditor of Hunter Water's compliance with any of the following:

- (a) this Licence (including the Customer Contract);
- (b) the Reporting Manual; and
- (c) any matters required by the Minister in writing,

^f *Hunter Water Act 1991*, section 18C.

^g Clause 6.1 of the current operating licence.

Box 39 Recommended Licence conditions for performance monitoring (operational audits)

(Operational Audit).

(2) For the purpose of any Operational Audit or verifying a report on an Operational Audit, Hunter Water must, within a reasonable period of receiving a request from IPART or an Auditor, provide IPART or the Auditor with all the information in Hunter Water's possession, custody or control that is necessary to conduct the Operational Audit, including any information that is reasonably requested by IPART or the Auditor.

(3) Subject to clause 38(4), for the purposes of any Operational Audit or verifying a report on an Operational Audit, Hunter Water must permit IPART or the Auditor to:

- (a) access any works, premises or offices occupied by Hunter Water;
- (b) carry out inspections, measurements and tests on, or in relation to, any such works, premises or offices;
- (c) take onto any such premises or offices, any person or equipment necessary for the purposes of performing the Operational Audit or verifying any report on the Operational Audit;
- (d) inspect and make copies of, and take extracts from, any documents and records of Hunter Water that are maintained in relation to the performance of Hunter Water's obligations under this Licence (including obligations under the Reporting Manual); and
- (e) discuss matters relevant to the Operational Audit or any report on the Operational Audit with Hunter Water, including Hunter Water's Personnel.

(4) The activities in clause 38(3) may be carried out remotely:

- (a) with IPART's approval; or
- (b) where state or federal government restrictions prohibit access to any works, premises or offices occupied by Hunter Water or limit the movement of IPART, the Auditor or Hunter Water's Personnel.

6.3.2 Reporting and providing information

Licence conditions for reporting

Recommendation:



57. Retain requirements in the Licence to report in accordance with the Reporting Manual and provide information to IPART, NSW Health and auditors acting on IPART's behalf.

The current operating licence requires Hunter Water to report in accordance with the Reporting Manual.^h The Reporting Manual includes Hunter Water's reporting requirements which support IPART's function in monitoring Hunter Water's compliance with its Licence, as do the operational audits. However, the requirements in the Reporting Manual are not legally enforceable in the absence of an express requirement on Hunter Water to comply with them in the operating licence. For this reason, we recommend retaining the current operating licence condition to comply with the Reporting Manual to ensure that Hunter Water meets its reporting requirements.

The current operating licence also requires Hunter Water to provide information to IPART, NSW Health, or auditors acting on IPART's behalf. This could be reporting information, compliance and performance information to support the operational audit process, water quality information to NSW Health, or other information that IPART may request to support IPART's reviews under the Licence. We recommend retaining these requirements in the Licence, with minimal changes, to support the audit and review processes.

The recommended Licence conditions for reporting are shown in Box 40 below.

Box 40 Recommended Licence conditions for performance monitoring (reporting)

39 Reporting

- (1) IPART has the function of determining Hunter Water's reporting and auditing obligations and publishing these obligations in a reporting manual (the **Reporting Manual**).
- (2) Hunter Water must comply with all of its reporting obligations set out in the Reporting Manual, including in relation to:
 - (a) water conservation and planning;

^h Clause 6.2 of the current operating licence.

Box 40 Recommended Licence conditions for performance monitoring (reporting)

- (b) performance standards for water quality;
- (c) performance standards for service interruptions;
- (d) organisational systems management;
- (e) customer and stakeholder relations;
- (f) information and services for competitors; and
- (g) performance monitoring and reporting, including:
 - (i) IPART performance indicators; and
 - (ii) the National Water Initiative Performance Indicators.

(3) Hunter Water must maintain sufficient record systems to enable Hunter Water to report accurately in accordance with clause 39(2).

(4) In the case of any disagreement between IPART and Hunter Water regarding the interpretation or application of any requirements of the Reporting Manual, IPART's interpretation or assessment of the application of the requirements will prevail.

40 Provision of information for performance monitoring

(1) Hunter Water must provide IPART or an Auditor with information relating to the performance of any of Hunter Water's obligations under clause 39 (including providing IPART with physical or electronic access to the records required to be kept under clause 39) within a reasonable period of time from Hunter Water receiving a request from IPART or an Auditor for that information.

(2) Hunter Water must provide IPART such information as is reasonably required to enable IPART to conduct any review or investigation of Hunter Water's obligations under this Licence within a reasonable time of Hunter Water receiving a request from IPART for that information.

(3) If Hunter Water engages any person (including a subsidiary) to undertake any activities on its behalf, it must take all reasonable steps to ensure that, if required by IPART or an Auditor, any such persons provide information and do the things specified in clause 38 and clause 39 as if that person were Hunter Water.

(4) If IPART or an Auditor requests information from Hunter Water that is confidential, the information must be provided to IPART, subject to IPART or the Auditor entering into reasonable arrangements with Hunter Water to ensure that the information remains confidential.

Box 40 Recommended Licence conditions for performance monitoring (reporting)

(5) Hunter Water must provide NSW Health with information relating to water quality in the manner and form specified by NSW Health within a reasonable time of receiving NSW Health's request.

[Note: Under section 19 of the Public Health Act 2010 (NSW), the Secretary of NSW Health may require Hunter Water to produce certain information.]

Reporting Manual – annual report on audit recommendations

Decisions



9. *[Reporting Manual]* Retain requirements in the Reporting Manual to provide a report on Hunter Water's progress with completing recommendations from the previous year's operational audit (but with a submission date of 30 June instead of 31 March).

Under the current reporting manual, Hunter Water must report on its progress with completing recommendations from the annual IPART operational audits.ⁱ

We have retained this requirement in the Reporting Manual^j as it is important compliance monitoring information to IPART, and it informs the following year's operational audits. However, we have changed the deadline for providing the annual report to 30 June, or another date approved by IPART, instead of 31 March as in the current reporting manual. This change is to reflect that in the last few years, we have been undertaking Hunter Water's audits in around November of each year. Hunter Water therefore needs more time to consider and implement the audit recommendations.

Hunter Water's reporting requirements can be viewed in full in the 2022-2027 Reporting Manual.

ⁱ Section 6.1.2 of the current reporting manual.

^j Section 6.1.2 of the 2017-2022 Reporting Manual.

Reporting Manual – annual report on performance indicators

Decisions



10. *[Reporting Manual]* Retain requirements in the Reporting Manual to report annually on Hunter Water's performance against performance indicators.

Under the current reporting manual, Hunter Water must report on its performance against the IPART and National Water Initiative (NWI) performance indicators.^k

We have retained these requirements in the Reporting Manual^l as these reports provide us with important performance information. This is particularly important because we seek to reduce the annual performance reporting generally (discussed in the next section of this report). The performance indicators will provide information that will allow us to continue to monitor Hunter Water's performance. Further, we can request additional information or explanation if we observe concerning trends in performance. This will allow us to seek information on a need- basis and reduce some of the burden on Hunter Water.

Hunter Water's reporting requirements can be viewed in full in the 2022-2027 Reporting Manual.

Reporting Manual – annual statement of compliance and exception reporting

Decisions



11. *[Reporting Manual]* Retain requirements in the Reporting Manual to provide an annual statement of compliance (of Hunter Water's compliance during the previous financial year).

Hunter Water, like the other public water utilities that we regulate, is required to provide an annual statement of compliance.^m The statement of compliance is an exception-based report of the non-compliances Hunter Water has incurred in the reporting year.

We have retained this requirement in the Reporting Manualⁿ because we consider that the most critical compliance information that Hunter Water must provide is information on non-compliances. We can rely on the non-compliances reported through the statement of compliance.

^k Section 6.11 of the current reporting manual.

^l Section 6.13 of the 2017-2022 Reporting Manual

^m Section 6.14 of the current reporting manual.

ⁿ Section 6.11 of the 2017-2022 Reporting Manual

The non-compliance information is particularly important given we have reduced other performance reporting, including for system performance standards, organisational management systems and customer-related Licence requirements (as previously discussed). These annual compliance reporting requirements impose a cost burden on Hunter Water to develop the reports without providing adequate benefit. These reports are only submitted to us. They are not required to be made public. We do not use this information for many purposes at IPART. At this stage, we have not recommended new requirements for Hunter Water to publish the reports though we acknowledge that public reporting is a useful tool in driving performance. We consider that public reporting requirements would not justify the associated cost as Hunter Water is already performing above the standards set in the Licence.

We can review Hunter Water's compliance with the Licence more comprehensively when we undertake the operational audits. We can also request any additional compliance information on an as needed basis. If Hunter Water's performance reduces significantly in future, we can consider including public compliance and performance reporting requirements to drive performance improvement.

Hunter Water's reporting requirements can be viewed in full in the 2022-2027 Reporting Manual.

Reporting Manual – significant changes report

Decisions



12. *[Reporting Manual]* Do not include requirements to report on significant changes to water quality management and organisational management systems.

Under the current reporting manual, Hunter Water must report on any significant changes to its water quality management systems and organisational management systems.^o

We have removed this requirement. We consider that these reports are not providing information that justifies the burden of producing them. Hunter Water supports removing these reporting requirements. Instead, we intend to rely on Hunter Water's exception reporting through its annual statements of compliance, as discussed above.

^o Section 6.1.3 of the current reporting manual.

6.4 Other parts of the Licence

Recommendation:



58. Retain requirements in the Licence for Licence authorisation, term of the Licence, non-exclusivity, making copies of the Licence available, the end-of-term review of the Licence, notification about the Licence and Hunter Water's area of operations, similar to those in the current operating licence with no significant changes.

We recommend retaining the following parts of the Licence, with no significant changes, as we consider they are working effectively. We did not receive any submissions from stakeholders seeking changes to these parts of the Licence:

- Licence authorisation^p – this condition specifies what the Licence authorises, and in some cases requires, Hunter Water to do. Including the Licence authorisation clause in the Licence meets the requirements of the Act.^q
- Term of this Licence^r – this condition specifies the term of the Licence. We recommend that the new Licence be issued for a term of 5 years from 1 July 2022.
- Licence amendment^s – this condition specifies how the Licence may be amended by the Governor. The Act allows the Licence to include terms and conditions about how the Licence may be amended.^t
- Non-exclusive Licence^u – this condition states that the Licence does not prohibit another person from providing services in Hunter Water's area of operations that are the same as, or similar to, Hunter Water's services, if the person is lawfully entitled to do so.
- Availability of Licence^v – this condition requires Hunter Water to make a copy of the Licence available to any person free of charge, on its website and upon request. The Act allows the Licence to specify how, following variation of a customer contract, Hunter Water is to make copies of the contract and associated explanatory material publicly available.^w
- End of Term Review^x – this clause states when the next review of the Licence is expected to occur. We have recommended a minor change to specify that IPART will undertake the end-of-term review, as is our role and standard process.

^p Clause 10 of the recommended Licence.

^q *Hunter Water Act 1991*, section 13(1).

^r Clause 3 of the recommended Licence.

^s Clause 4 of the recommended Licence.

^t *Hunter Water Act 1991*, section 14.

^u Clause 5 of the recommended Licence.

^v Clause 6 of the recommended Licence.

^w *Hunter Water Act 1991*, section 38(5).

^x Clause 8 of the recommended Licence.

- Notices^y – this clause provides for notices to be given in writing and delivered to the contact details specified in the Reporting Manual (where available). We note that including the contact details in the Reporting Manual is a minor change from the current operating licence. IPART can update the Reporting Manual more easily if contact details change. The Reporting Manual includes contact details for IPART, Hunter Water, NSW Health and DPE.
- Area of Operations^z – We recommend retaining the approach of the current operating licence which describes Hunter Water's area of operations in Schedule A of the Licence. We also recommend retaining the current operating licence requirement to publish a map of the area of operations on Hunter Water's website^{aa} but include an additional requirement to update the map within 30 days of any changes to the area of operations. While we acknowledge this new requirement will impose some cost, we consider that this is a minor change, consistent with the requirements on other public water utilities. It will help people easily identify what localities are included in Hunter Water's area of operations.

Specifying the area of operations in the Licence is necessary to understand the part of Hunter Water's area of operations that the Licence applies to.^{bb}

The recommended Licence conditions are shown in Box 41 below.

Box 41 Other recommended Licence conditions

2 Area of Operations

- (1) This Licence applies to the Area of Operations specified in Schedule A.
- (2) Hunter Water must publish on its website a map of its Area of Operations. Hunter Water must update the map within 30 days of any change to its Area of Operations.

3 Term of this Licence

The term of this Licence is 5 years from the Commencement Date.

[Note: On and from the Commencement Date, this Licence replaces any previous version of the operating licence granted to Hunter Water under section 12 of the Act.]

^y Clause 9 of the recommended Licence.

^z Clause 2 of the recommended Licence.

^{aa} Clause 5.7.2 of the current operating licence requires Hunter Water to make a map of its area of operations available to any person, free of charge on its website for downloading and upon request through the General Enquiry Process.

^{bb} *Hunter Water Act 1991*, section 16 states that the Licence applies to the area of operations specified in the Licence

4 Licence amendment

(1) Subject to the Act and clause 4(2) the Governor may amend this Licence by notice in the New South Wales Government Gazette. The amendment takes effect on the date the notice is published in the New South Wales Government Gazette, or on such other date specified in the notice.

(2) Before notice of a proposed amendment to this Licence is published in the New South Wales Government Gazette, the Minister must provide Hunter Water reasonable notice of the proposed amendment to enable it to comply with the amended Licence (if relevant) upon its commencement.

[Note: The Customer Contract may be varied in accordance with section 38 of the Act and clause 2.6 of the Customer Contract. Such a variation is not an amendment to this Licence for the purpose of section 14 of the Act.]

5 Non-exclusive Licence

This Licence does not prohibit another person from providing services in the Area of Operations that are the same as, or similar to, the Services, if the person is lawfully entitled to do so.

6 Availability of Licence

(1) Hunter Water must make a copy of this Licence available to any person, free of charge:

- (a) on its website; and
- (b) upon request made through the General Enquiry Process.

...

8 End of Term Review

(1) IPART intends to review this Licence in its final year to investigate:

- (a) whether this Licence is fulfilling its objectives; and
- (b) any issues which have arisen during the term of this Licence, that may affect its effectiveness,

(End of Term Review).

(2) To assist IPART with the End of Term Review, Hunter Water must provide IPART with such information as IPART reasonably requires within a reasonable time of any IPART request.

9 Notices

(1) Any notice or other communication given under this Licence must be:

- (a) in writing addressed to the intended recipient; and

Box 41 Other recommended Licence conditions

(b) where an address for a recipient is specified in the Reporting Manual (electronic and/or postal), delivered or sent to that address.

(2) Any requests for approval under the following clauses must be made by Hunter Water's Managing Director: 13(3), 13(5), 14(3), 21(1), 22(1), 23(1), 28(1), 29(5), 31(2), 36(2), 36(3), 36(4), or 36(5).

10 Licence authorisation

(1) This Licence authorises and requires Hunter Water to provide, construct, operate, manage and maintain efficient, co-ordinated and commercially viable systems and services for providing the following Services within its Area of Operations:

- (a) supplying water;
- (b) providing sewerage services; and
- (c) disposing of Wastewater.

(2) This Licence authorises Hunter Water to do all things necessary or convenient to achieve, and to promote the capability to achieve, the transfer of water between its Area of Operations and the local government area of the Central Coast Council in accordance with the Hunter/Central Coast Pipeline Agreement.

(3) This Licence authorises and requires Hunter Water to provide, operate, manage and maintain a drainage service as described in section 13(1)(b) of the Act.

(4) This Licence authorises (but does not require) Hunter Water to provide, construct, operate, manage and maintain a drainage service within the Area of Operations in excess of the drainage service it is required to provide, operate, manage and maintain under clause 10.3. For the avoidance of any doubt, this clause authorises (but does not require) Hunter Water to enhance, expand and add capacity to the drainage service described in section 13(1)(b) of the Act.

Chapter 7 »

Our recommendations

This chapter contains a full list of our recommendations

07

We have included a full list of our 58 recommendations for the Licence below.

Recommendations

1.	Retain requirements in the Licence for water quality management systems consistent with the Australian Drinking Water Guidelines (ADWG) and the Australian Guidelines for Water Recycling (AGWR).	11
2.	We recommend a broader definition of AGWR in the Licence, compared to the current operating licence, to include Phase 2 of the AGWR.	11
3.	Clarify NSW Health's role in specifying health-based requirements that NSW Health reasonably specifies in writing. These are intended to be additional to the requirements set by the ADWG/AGWR (and are not intended to depart from the guidelines).	12
4.	Retain requirements in the Licence to implement the water quality management systems.	12
5.	Clarify that Hunter Water must implement the water quality management systems and carry out activities in accordance with those systems and to the reasonable satisfaction of NSW Health	12
6.	Do not include a new Licence requirement for fluoridation. We (IPART) can assess fluoridation performance under the water quality management system requirements in the Licence for drinking water.	18
7.	Retain 4 of the current 5 system performance standards for water continuity, water pressure and dry weather wastewater overflows in the Licence.	21
8.	Do not include one of the current water continuity standards for multiple short unplanned service interruptions.	21
9.	Retain the service levels specified by the system performance standards in the current operating licence (i.e. do not increase or lower service levels).	21
10.	Express the standards as a proportion of properties supplied to account for customer growth.	21
11.	Retain the current approach to set minimum standards in the Licence and do not optimise the standards.	21
12.	Increase customer rebates (in the Customer Contract) for service interruptions.	21
13.	Retain requirements in the Licence to maintain the water conservation work programs for water storage and transmission from storage to treatment as well as for water treatment and transmission from treatment plants to customers, developed during the 2012-2017 operating licence period.	36
14.	Require implementation of the water conservation work programs and water conservation measures developed during the 2012-2017 operating licence period.	36
15.	Require a 5-year Water Conservation Plan, once the NSW Government Water Efficiency Framework is published and arrangements for transitioning the current water conservation work programs and measures to the 5-year Water Conservation Plan, when ready. Also require information on the annual review and update of the Water Conservation Plan.	36

16.	Retain requirements in the Licence for Hunter Water to use an economic approach to water conservation where practicable initially, and then extend the scope to consider the total water cycle from catchment to tap, once the NSW Government Water Efficiency Framework is published.	36
17.	Allow flexibility for Hunter Water to modify its economic approach with Ministerial approval.	36
18.	Include a new requirement in the Licence to prepare a drought response plan.	42
19.	Retain requirements in the Licence to calculate system yield in accordance with the memorandum of understanding (MoU) with DPE.	43
20.	Include a new requirement in the Licence to undertake long-term planning consistent with the MoU with DPE.	44
21.	Retain requirements for publishing the Customer Contract, promptly updating it to reflect any variations and communicating those variations to customers.	51
22.	Update the Customer Contract with the changes explained in Appendix A.	53
23.	Include requirements in the Licence to communicate information to customers and the general public about customers' rights under the Customer Contract, available account relief and customer rights to claim rebates.	54
24.	Allow flexibility in the Licence for Hunter Water to use any method of communication with its customers and remove the current restriction of communicating through 'pamphlets'. Equally, Hunter Water's customers should not be restricted to electronic communication only.	54
25.	Do not include the current requirement to provide IPART with a copy of any notice of changes to the Customer Contract, before publishing that notice (current operating licence clause 5.1.2).	57
26.	Expand Licence conditions extending customer protections under the Customer Contract to 'consumers' as though the consumers were parties to the Customer Contract.	58
27.	Retain requirements to make services available to properties in its area of operations, on request	60
28.	Retain requirements to maintain, implement and communicate to customers and the general public about assistance options for customers experiencing payment difficulties and actions for non-payment and any variations to this information.	61
29.	Include a requirement to provide information to residential customers about assistance options for customers experiencing payment difficulties within one business day from when Hunter Water first documents or records that a customer has been identified as experiencing payment difficulty.	61
30.	Include a new Licence requirement to develop, implement and communicate to customers and the general public about a family violence policy and any variations to this policy.	65
31.	Retain requirements to develop, implement and communicate to customers and the general public about Hunter Water's internal complaints handling procedure and any variations to this procedure.	66

32.	Retain requirement for membership of an external dispute resolution scheme but allow Hunter Water the option of membership of the Energy and Water Ombudsman NSW or another external dispute resolution scheme approved by IPART	69
33.	Include criteria in the Licence that an alternative dispute resolution scheme must meet IPART's approval.	69
34.	Retain requirements to communicate to customers and the general public about the external dispute resolution scheme and any variations to this information.	69
35.	Do not include the current prescriptive requirements for Hunter Water to maintain a Customer Advisory Group. Instead, allow flexibility in the Licence to undertake customer, consumer and community consultation in any manner that Hunter Water considers effective.	72
36.	Retain requirements in the Licence to maintain an AMS consistent with <i>Australian Standard AS ISO 55001:2014 - Asset management - Management systems - Requirements</i> , or an alternative standard approved by IPART.	81
37.	Retain requirements in the Licence to implement the AMS.	81
38.	Retain requirements in the Licence to maintain an EMS consistent with <i>Australian/New Zealand Standard AS/NZS 14001:2016 Environmental management systems - Requirements with guidance for use</i> , or an alternative standard approved by IPART.	83
39.	Retain requirements in the Licence to implement the EMS.	83
40.	Retain requirements in the Licence to maintain a QMS consistent with <i>Australian/New Zealand Standard AS/NZS 9001:2016 Quality management systems - Requirements with guidance for use</i> , or an alternative standard approved by IPART	84
41.	Retain requirements in the Licence to implement the QMS.	84
42.	Retain requirements in the Licence to use best endeavours to maintain an MoU with NSW Health.	88
43.	Include requirements in the Licence to comply with the MoU with NSW Health.	88
44.	Remove reporting requirements to NSW Health in the current operating licence and retain these in the Reporting Manual.	88
45.	Retain requirements in the Licence to use best endeavours to maintain an MoU with DPE.	89
46.	Retain requirements in the Licence to comply with the MoU with DPE.	89
47.	Retain requirements in the Licence to use best endeavours to maintain an MoU with FRNSW.	91
48.	Retain requirements in the Licence to comply with the MoU with FRNSW.	91
49.	Retain requirements for a working group between Hunter Water and FRNSW. Expand the requirements for the working group membership to include other members such as the Rural Fire Service.	91

50.	Retain requirements in the Licence to make services available to WIC Act licensees, on request, subject to any reasonable conditions from Hunter Water	95
51.	Include a new requirement in the Licence to negotiate the provision of its services to competitors (including current WIC Act licensees and potential new competitors) in 'good faith'	96
52.	Retain requirements in the Licence to use best endeavours to cooperate with WIC Act licensees seeking to establish a code of conduct, on written request from the WIC Act licensee.	99
53.	Include new requirements to publish servicing information on Hunter Water's website for competitors (both current and potential new competitors).	100
54.	Include objectives in the Licence that are: <ul style="list-style-type: none"> - Linked to Hunter Water's principal functions under the Act. - Clear about Hunter Water's objective to supply or provide services in a way that does not prevent or hinder competition. - Reflect the social, economic and environmental objectives outlined in section 8 of the State Owned Corporations Act 1989 (NSW). - Promote the sustainable supply of services with the long-term interests of the community in mind. 	107
55.	Retain the Pricing condition from the current operating licence with no significant change.	109
56.	Retain requirements in the Licence for operational audits that accommodate remote auditing.	110
57.	Retain requirements in the Licence to report in accordance with the Reporting Manual and provide information to IPART, NSW Health and auditors acting on IPART's behalf.	112
58.	Retain requirements in the Licence for Licence authorisation, term of the Licence, non-exclusivity, making copies of the Licence available, the end-of-term review of the Licence, notification about the Licence and Hunter Water's area of operations, similar to those in the current operating licence with no significant changes.	117

Appendices

Appendix A >>

Summary of Customer Contract changes

The Customer Contract protects customers' rights and aims to ensure that customer service is provided at a quality that meets customers' expectations.



This Appendix provides a summary of our recommended changes to Hunter Water's current customer contract. We have provided our recommendations for the Customer Contract to the Minister together with this report. Contract.

Our recommended changes to the current customer contract reflect our analysis of:

- the current customer contract and Hunter Water's legal obligations,
- Hunter Water's proposed changes to the current customer contract included in its [response](#) to our Issues Paper, provided on 8 October 2021,
- submissions made by stakeholders on Hunter Water's proposed Customer Contract (noting there were not many),
- Hunter Water's comments on our draft Customer Contract when published in March 2022,
- information provided by Hunter Water at our request, and
- other relevant information.

In Table A1, we list all the clauses of the customer contract where we have made changes. We have not included clauses where we have only recommended minor changes such as:

- editorial changes made to clarify clauses and/or improve readability (unless specifically stated),
- bold and italicised defined terms in the clauses, except when the defined terms are part of a heading, and
- use of defined terms where appropriate.

Table A1 Summary of key proposed changes to Hunter Water's Customer Contract

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
Foreword	Foreword	No major changes. Inclusion of additional wording to align with Sydney Water	Nil	Our recommended changes are to clarify the services that Hunter Water provides. The current customer contract states that Hunter Water's services do not include 'unfiltered water'. We recommended removing this exemption to acknowledge customers with non-standard connections that are not subject to a separate agreement. These customers are deemed to have entered into the Customer Contract under the <i>Hunter Water Act 1991</i> (the Act) and may receive unfiltered water. This is addressed further in clause 2.2 below.
2	What is a Customer Contract and who is covered by it?	2		

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
2.2 Who is covered by this contract?	2.2	Minor refinements with no impact on the customer	<p>Hunter Water stated in its submission that it did not agree with IPART's proposed changes to clause 2.2 in the draft Licence but, on balance, Hunter Water is willing to support the position that specific clauses of the Customer Contract will apply to unauthorised connections, non-standard connections, and consumers.</p> <p>Hunter Water stated that it must focus on protecting the safety, operations and efficiency of its infrastructure and services, and unauthorised connections may affect its ability to do so. The criteria for authorisation mainly relate to safety and operational effectiveness, so it is appropriate to give the rights and protections of a customer contract only to those who have obtained authorisation for their connection.</p>	<p>Customers with non-standard connections</p> <p>The current customer contract assumes that all customers with non-standard connections have a separate agreement with Hunter Water. This is not always the case. For example, Hunter Water has separate agreements with some customers for the supply of water from the Chichester Trunk Gravity Main, but not all. These customers are not effectively covered by the current customer contract as they receive unfiltered water and the current customer contract does not cover the provision of unfiltered water.</p> <p>Our recommended changes aim to ensure customers with a non-standard connection who do not have a separate agreement with Hunter Water are adequately protected by the Customer Contract. The recommended changes clarify which clauses of the Customer Contract apply to these customers and confirms that references to 'services' in those clauses includes the supply of 'unfiltered water' for these customers.</p>

Customer's with unauthorised connections

We recommend changes to provide clarity on the application of the Customer Contract to customers with unauthorised connections. Anyone who is connected to a water main or sewer main owned by Hunter Water is taken to enter the Customer Contract, not just those with authorised connections. We agree that unauthorised connections pose risks to the safety, operations and efficiency of Hunter Water infrastructure and services. Given this, customers with unauthorised connections should not receive the full benefit of the Customer Contract and we have recommended limiting the clauses of the Customer Contract that apply to these customers.

Extension of some protections under the Customer Contract to consumers

In the Licence, we have recommended extending provisions of the Customer Contract to consumers as if they were party to the Customer Contract (such as tenants of a property where the landowner is a customer). Clause 2.2(4) replicates the list of clauses that are extended to consumers under the Licence. This does not create a contractual relationship between Hunter Water and consumers. Enforcement of any non-compliance by Hunter Water would be through the Licence.

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
					We have considered Hunter Water's comments on our draft recommendations for the Customer Contract. We have recommended narrowing the scope of the clauses extended to consumers to only those clauses that are beneficial to consumers or where Hunter Water has an obligation that can be extended to consumers without interfering with the primary billing relationship between Hunter Water and landowners or the contractual relationship between landowners and tenants.
2.3	Other agreements with us	2.3	Minor changes for clarity with no impact on the customer	Nil	We recommend a minor change to clarify in the Customer Contract that the terms of any separate agreements will take precedence over the Customer Contract, in the event of inconsistencies. This change is consistent with the position under the Act and the current customer contract, but is simpler and clearer for customers to understand.
2.4	When does this Customer Contract commence?	2.4	Refined to align with Sydney Water	Nil	We recommend minor changes to reflect that the Customer Contract is recommended to apply from 1 July 2022 and to clarify the customers that the Customer Contract applies to from that date.

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
3	What services do we provide?	3	Amalgamated all service types referred to in clauses 3-7 (of the current customer contract) under one heading	Nil	We recommend minor structural changes to include all of the services provided.
3.1	Water services	3.1			
3.1(1)	Supply of drinking water	3.2	Distinguished between drinking and recycled water	Nil	<p>Clause 3.2 of the current customer contract deals with the supply of 'water services'. We recommend changes to clarify that this clause is for the supply of drinking water.</p> <p>Our recommendation for clause 3.1(1) seeks to clarify when Hunter Water will supply drinking water and also when it will not (e.g. during planned and unplanned interruptions). That is, to set out those matters in clause 8 of the current customer contract.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
3.1(2) to 3.1(4)	Supply of recycled water	4.1	Distinguished between drinking and recycled water	Nil	<p>As above, we recommend clarifying when Hunter Water will supply recycled water customers (this is similar to clause 4.1 of the current customer contract). Our recommended structural change lists this clause together with the supply of drinking water clause.</p> <p>Our recommended changes also clarify when Hunter Water will not supply recycled water. This is similar to the clarifications for supply of drinking water.</p>
3.1(5)	Drinking water quality	3.1	Distinguished between drinking and recycled water	Nil	<p>We recommend changes to clarify that any requirements specified by NSW Health would be additional to the requirements set by the Australian Drinking Water Guidelines (and not departures as suggested in the current customer contract).</p> <p>This recommendation is consistent with our recommendation for the Licence and is supported by NSW Health.</p>

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
3.1(6) Recycled water quality	4.1	Distinguished between drinking and recycled water	Nil	<p>We recommend changes to clarify that any requirements specified by NSW Health would be additional to the requirements set by the Australian Guidelines for Water Recycling, not departures.</p> <p>This recommendation is consistent with our recommendation for the Licence and is supported by NSW Health.</p>
3.1(7) Health or special needs to 3.1(8)	3.3	Minor changes with no impact on the customer	Nil	<p>We recommend minor changes to clarify:</p> <ul style="list-style-type: none"> • who 'critical' customers are and how Hunter Water will support these customers, • that these customers may be eligible for the free water allowance, and • that information about the free water allowance is available on Hunter Water's website.
3.1(9) Drinking water pressure	3.4	Included additional wording in line with Sydney Water for clarity	Nil	<p>We recommend minor changes to clarify that the drinking water pressure that Hunter Water will supply is suitable for residential and non-residential customers.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
3.1(10) to 3.1(13)	Water conservation measures	3.5	Changed from 'water restrictions' to 'water conservation measures' to reflect the broader focus	Nil	<p>We recommend a minor change to the title of this clause. The current customer contract calls it 'water restrictions'. We support Hunter Water's request to call it 'water conservation measures' to reflect a broader focus and intended outcomes.</p> <p>We recommend including a note to clarify that water restrictions may be placed on drinking water supply, but not on the recycled water supply.</p> <p>We have recommended other minor changes to improve readability of the section and improve consistency with the Act and <i>Hunter Water Regulation 2015</i>.</p>
3.2	Wastewater services	5	Changed 'sewerage' to 'wastewater' here and throughout in line with current accepted terminology and aligning with Sydney Water	Nil	<p>We recommend referring to 'wastewater services' instead of 'sewerage services' in the Customer Contract, as requested by Hunter Water. We have not recommended the same change for the Licence to be consistent with the terminology in the Act. However, we consider it is appropriate to use more commonly used and understood terminology in the Customer Contract.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
3.2(1)	Supply of wastewater services	5.1	Amended 'our sewerage system' to 'our wastewater infrastructure' here and throughout the document for consistency and to more clearly distinguish from 'your wastewater system'	<p>Hunter Water would prefer the references to 'infrastructure' remains throughout the Customer Contract as it is more representative. For example, some wastewater customers discharge directly to a wastewater pump station rather than wastewater main.</p> <p>The wastewater services covered by the Customer Contract relate to domestic (residential) levels of discharge to our infrastructure. Other types of wastewater would require a separate trade waste agreement. Hunter Water proposed that for clarity, when referring to wastewater services, the Customer Contract points towards Trade Waste customers being considered in clause 3.2(6) which refers to them having separate agreements.</p>	<p>We recommend changes to clarify that this clause applies to supply of wastewater services to residential properties. Clause 3.2(6) of the Customer Contract separately discusses discharge of trade waste from non-residential properties into Hunter Water's wastewater infrastructure. As suggested by Hunter Water, we have included a note explaining this to the reader.</p> <p>Our recommended changes also clarify when Hunter Water will supply wastewater services and also when it will not (e.g. during planned and unplanned interruptions). This is similar to the changes recommended for the supply of drinking water in clause 3.1(1) and the supply of recycled water in clauses 3.1(2) to (4).</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
3.2(2) to 3.2(3)	Wastewater overflow	5.2	Minor changes with no impact on the customer	Nil	<p>We recommend changes to clarify that in addition to any statutory rights the customer may have under any legislation, including the Australian Consumer Law, Hunter Water will pay or provide any rebate or redress that may be due to the customer under clauses 12.2 and 12.3 (if there is a wastewater overflow onto the customer's properties).</p> <p>We recommend that clean up by Hunter Water should also minimise the risk to the environment, as well as human health (as required under the current customer contract).</p>
4	Factors affecting service	8	Renumbered due to amalgamation of clauses 3-7	Nil	We have recommended minor changes to clause numbering and cross-references to reflect structural changes to clauses 3 to 7.
4.1	Unplanned interruptions	8.1	No change	In our draft recommendations, we proposed that customers can call the Emergency (faults and leaks) Assistance Line during interruptions.	<p>We recommend no changes to the current clause 8.1 (clause 4.1 of the recommended Customer Contract).</p> <p>For clarity, we have not sought the change we recommended in the draft Customer Contract that Hunter Water objected to in its submission.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
4.3	Major operational incident	8.3	Minor change with no impact to customer	<p>Hunter Water did not support this change. It advised that its preference is for the public to be directed to its website for information about interruptions to services to ensure the Emergency (faults and leaks) Assistance Line is not unnecessarily congested.</p>	<p>We recommend a minor change to clarify that, where practicable, Hunter Water will publish the anticipated time of outage, in the notice of a major operational incident it publishes on its website. We consider that this is valuable information that customers would seek to know when being notified of a major operational incident.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
4.5	Force majeure	8.5	Additional wording to reference pandemics, epidemics, public health emergencies or quarantines and government regulation or control in light of the COVID-19 pandemic. Given these additional matters are outside Hunter Water's control, Hunter Water considers that these should not be considered a significant impact on customers.	Nil	<p>We recommend no changes to the current clause 8.5 (clause 4.5 of the recommended Customer Contract).</p> <p>We have not recommended referencing pandemics, epidemics, public health emergencies or quarantines or government regulation and control as Hunter Water requested. We consider that a 'Force Majeure' clause should be for unforeseen circumstances that cannot be planned for, and not ongoing events such as the COVID-19 pandemic. Where Hunter Water is subject to government regulation and control in connection with COVID-19 we consider that Hunter Water should be able to adapt its service delivery accordingly.</p>
5	What you pay	9			

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
5.4	Concessions	9.4	No change	Nil	We recommend a minor change to clarify that information about the customer's eligibility for a concession is available on Hunter Water's website. The current customer contract directs the customer to obtain this information through the General Enquiry Process. We consider that it is more easily accessible through Hunter Water's website.
5.5	Your bill	9.5	No change other than including a right to refuse to accept payment by unauthorised or suspected fraudulent or illegal means.	Nil	<p>We recommend clarifying the circumstances in which non-residential customers may be sent a monthly bill – that is, where they have high water usage and wastewater disposal.</p> <p>We recommend clarifying that Hunter Water has the right to refuse to accept payment by unauthorised or suspected fraudulent or illegal means. We consider that expectations about lawful payment is a reasonable inclusion in a Customer Contract.</p>

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
				<p>We also recommend clarifying that where the Customer Contract allows customers to receive their bill through other methods (such as electronically), Hunter Water will provide this choice to customers. Customers can in turn request to receive their bill and other communications about payment through one of these other methods. Hunter Water will only send the bill and communications through these other methods if requested by the customers. That is, a decision will not be made for customers by Hunter Water.</p> <p>Other minor changes seek to clarify that customers can advise Hunter Water of a change of postal address using one of the methods on its website. The current customer contract directs customers to advise Hunter Water of a change of postal address but does not explain how this is to be done.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
5.9	Wastewater usage charge	9.9	No change	Nil	We recommend a minor change to clarify that the wastewater usage charge will be as determined by IPART (instead of saying that the wastewater usage charge applies to non-residential customers only as in the current customer contract). The wastewater usage charge can then be applied in accordance with IPART's pricing determination.
5.10	Other costs and charges	9.10	Changed 'account' to 'bill' and included an ability to refuse to accept payments via personal cheque or card payments where there is a history of 2 or more dishonoured payments to bring in line with Sydney Water	Nil	We recommend changes to clarify that Hunter Water may refuse to accept payments via personal cheque or card payments for a specific bill if there have been 2 or more dishonoured payments. Further, Hunter Water may refuse future payments by these means if there is a history of dishonoured payments. We consider it is reasonable for Hunter Water to be able to refuse to accept cheque or card payments in these circumstances.

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
				<p>We have recommended a minor change to clarify that the customer is responsible for all costs associated with an authorised connection to Hunter Water's infrastructure (and not just for installation and construction costs as in the current customer contract). We consider that this is an appropriate expectation for a customer connection to Hunter Water's infrastructure.</p> <p>The current customer contract states that Hunter Water may charge the customer for any service the customer requests. We have recommended a minor change to clarify that Hunter Water may also charge the customer for any service where Hunter Water has agreed to provide the customer with a different level of service as set out in clause 3.</p>

6 **What can I do if I am unable to pay my bill?** 10

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
6.1	Payment difficulties and assistance options	10.1	No change	Hunter Water supported the proposed change in language from 'financial hardship' to 'payment difficulty' on the basis that the change is not intended to expand the criteria about who receives account assistance.	<p>The current customer contract explains the payment assistance options available to residential customers that may assist them if they are facing payment difficulty (e.g. such as agreeing a payment plan).</p> <p>We recommend extending the information that Hunter Water must provide to these customers to include:</p> <ul style="list-style-type: none"> tailored advice on other broader assistance options (including any appropriate government concession programs), and referral to financial counselling services. <p>Hunter Water has not raised concern with this recommendation. We confirm that the clause is not intended to expand the criteria about who is eligible for account assistance, only the information that vulnerable customers will receive.</p>

7 **Restriction or** **11**
disconnection
of services

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
7.2	Notice of restriction or disconnection for non-payment	11.2	Nil	In our draft recommendations, we had considered removing the caveat in the current customer contract that Hunter Water will send a reminder notice for payment only if a customer with good payment history fails to pay their bill. We considered that all customers should receive a reminder notice. We had also proposed changes to the notice periods that Hunter Water provides.	<p>The current customer contract states that Hunter Water will send a notice to a property that it knows is tenanted if it intends to restrict or disconnect services. We recommend minor changes to clarify that this obligation applies to both a reminder notice (under clause 7.2.1) or final notice (under clause 7.2(3)).</p> <p>We have also recommended that notification that a property is tenanted be provided in writing. Notification could be provided by the customer (landowner), tenant or a third party (such as a community welfare organisation). For clarity, we have not sought the changes we recommended in the draft Customer Contract that Hunter Water objected to in its submission. We accept that there would be unintended consequences of these changes.</p>

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
			Hunter Water explained in its submission on the draft Customer Contract that all customers get a final notice at the same time, but only customers with good payment history get reminder notices. It also explained the unintended consequences of our proposed changes, which reduce the period of grace provided to customers with good payment history. Hunter Water also explained that reminder and final notices are automatically generated by its billing system.	
7.3 Restriction or disconnection for other reasons	11.3	Called out 'drinking water' and 'recycled water' separately and other small changes for clarity	Nil	<p>The current operating licence states that Hunter Water may restrict or disconnect services if Hunter Water becomes aware that the customers systems are defective and the customer has failed to rectify the defect.</p> <p>We recommend minor changes to clarify that reference to 'systems' includes the water system, recycled water system, wastewater system or stormwater pipes.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
					<p>We recommend minor changes to clarify that in addition to defects, customers must rectify unauthorised work on their water system, wastewater system or stormwater pipes (consistent with clause 9).</p> <p>We also recommend minor changes to clarify that where the current customer contract states that Hunter Water may restrict or disconnect services to the customer's property for breaching the Customer Contract, the Act or another separate agreement concerning the use or taking of water, water includes both drinking and recycled water.</p>
7.6	Restoration of services	11.6	Minor changes with no impact on customer	Nil	<p>We recommend minor changes for simplified and clearer language. We also recommend clarifying that arrangements for urgently restoring services will apply for drinking water and wastewater services. However, recycled water service will be restored as agreed between Hunter Water and the customer.</p> <p>We consider that these changes balance the practical challenges of restoring services with customer expectations and public health.</p>

		Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)			
Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)		Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
8	Responsibilities for maintenance and repair	12			
8.3	Your responsibilities regarding your water system	12.3	<p>Included:</p> <p>(a) additional wording for clarity around backflow prevention device testing being the responsibility of the customer,</p> <p>(b) clarification around Hunter Water's obligations in relation to investigating a failure in the customer's water system, and</p> <p>(c) clarification around restoration if repairs are done to the customer water system in line with Sydney Water.</p>	Nil	<p>The current customer contract states that the owner of the property owns and is responsible for maintaining and repairing their own water system. We recommend clarifying that this includes annual testing of any backflow prevention devices required to be installed in addition to the device integrated into the meter.</p> <p>The current customer contract states that Hunter Water may repair the customer's water system if it complies with Hunter Water's Water Services Connection Standard. We recommend clarifying that the water system must also comply with the Plumbing Code of Australia and any other applicable codes, regulations and standards.</p>

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
				<p>The current customer contract states that if the customer' meter lies more than one metre along the pipe within the customer's property boundary, Hunter Water will only provide services to repair the customer's water system up to one metre along the pipe within the property boundary. We recommend referring to lineal metres as the distance measure and clarifying that the same constraint applies if there is no meter. There is a similar allowance in the customer contract but our recommended changes allow for simplified and clearer language.</p> <p>Finally, we recommend that the Customer Contract should clarify that Hunter Water will backfill and make any safe excavations where it makes repairs to a customer's water system (on their property) but it will not restore landscaping, structures or hard surfaces.</p> <p>These amendments will help clarify both the customer and Hunter Water's responsibilities.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
8.4	Your responsibilities regarding your recycled water system	N/A	New clause to cover customer's recycled water systems	Nil	We recommend including the customer's responsibilities regarding their recycled water system in clause 8.4, following clause 8.3 which details the customer's responsibilities for their drinking water system.
8.5	Your responsibilities regarding your wastewater system	12.4	Minor changes calling out customer obligation to ensure rainwater not connected to wastewater system in line with Sydney Water with no impact to the customer	Nil	<p>We recommend clarifying that the customer's responsibilities for maintaining and repairing their wastewater system includes their privately owned pressure sewerage equipment. This is provided under clause 12.5.3(b) of the current contract (clause 8.6 of the recommended Customer Contract). This change is for clarity only.</p> <p>We also recommend that the customer must ensure that rainwater does not enter their wastewater system, as proposed by Hunter Water. We consider that this is an appropriate expectation of customers.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
8.7	Non-standard connections	12.6	Minor changes with no impact on customer	Hunter Water's comments to clause 2.2 of the recommended Customer Contract also apply to this clause 8.7.	<p>The current customer contract states that if a standard connection is not available, the customer may seek a non-standard connection. If Hunter water approves a non-standard connection, the customer will have access to Hunter Water's services, but these services will be provided at a different standard to those outlined in the customer contract.</p> <p>We recommend a minor inclusion to state that in most cases, Hunter Water will enter a separate agreement with the customer for the non-standard connection. This change acknowledges that not all customers with non-standard connections have a separate agreement with Hunter Water.</p> <p>We have recommended which clauses of the Customer Contract should apply to these customers under clause 2.2. Our recommended changes aim to ensure customers with a non-standard connection who do not have a separate agreement with Hunter Water are adequately protected by the Customer Contract.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
8.10	Water efficiency	12.9	Changed 'conserving water' to 'water efficiency' and included additional wording to highlight the preciousness of water to better reflect subject matter.	Nil	<p>We recommend making reference to 'water efficiency' rather than 'conserving water' as requested by Hunter Water.</p> <p>We also recommend a minor inclusion to communicate to customers the preciousness of water and the need conserve it. We also recommend modifying clause 12.9.2 of the current customer contract to clarify that customers may (rather than must) install water efficient plumbing fixtures, appliances and equipment as recommend under the Water Efficiency and Labelling and Standards Scheme.</p>

9 **Defective or
Unauthorised
Work** 13

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
9.2	Defective or unauthorised connections	13.2	Changed 'employees' to 'people' in line with Hunter Water's values	<p>Hunter Water requested that we use the words 'our people' as this change was deliberately made to align with Hunter Water's recently refreshed values and direction from Hunter Water's Board. Hunter Water therefore does not support the change to 'Personnel', which is considered out of touch with modern language.</p> <p>Hunter Water did not support our draft recommendation to change 'unauthorised connection' to 'unauthorised work'. It stated that 'unauthorised work' is dealt with in clause 9.3 and has a different meaning to 'unauthorised connection'. Hunter Water suggested amending the heading of clause 9.2 to 'Defective or unauthorised connections'</p>	<p>For clarity, we have not sought the two changes we recommended in the draft Customer Contract that Hunter Water objected to in its submission.</p> <p>We recommend referring to Hunter Water's employees as 'people', as requested by Hunter Water. We have recommended defining this term in the Customer Contract. We recommend that this clause should refer to unauthorised 'connections' and not unauthorised 'work', as in the current customer contract.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
9.3	Building, landscaping and other construction work	13.3	Minor changes for clarity with no impact on the customer	Nil	<p>The current customer contract states that in order to protect Hunter Water's infrastructure, the customer must not undertake any excavation, building, landscaping or other construction work that is over, or adjacent to, Hunter Water's infrastructure without first requesting Hunter Water's consent.</p> <p>We recommend minor changes to clarify why Hunter Water's consent is important. We also recommend that the Customer Contract states that information about Hunter Water's consent, under this clause, is available on its website.</p> <p>Finally, the current customer contract states that if a customer does not remove an unauthorised work on Hunter Water's request, Hunter Water may remove it and charge the customer reasonable costs for undertaking this work. We recommend clarifying that Hunter Water may also disconnect the customer's property from Hunter Water's services until the work is carried out if the work presents a health or physical hazard to Hunter Water's people, infrastructure or community in general.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
9.4	Altering and unauthorised connection or use	13.4	Additional wording for clarity and including reference to recycled water with no impact on the customer	<p>Hunter Water stated in its submission that it understands that reference to recycled water has been removed as the word 'water' adequately covers both as it does in the Act.</p> <p>To be consistent with clause 9.3, Hunter Water proposed to insert the words "without first requesting our consent" at the end of clause 9.4(1). Hunter Water also suggested adding "such consent to be at Hunter Water's reasonable discretion" to clause 9.4(3).</p>	<p>We recommend clarifying the list of activities that, if undertaken by a customer, may contravene legislation and the consequences for customers for not complying with the requirements of this clause.</p> <p>We also recommend clarifying when customers can obtain Hunter Water's consent before carrying out any activity that may alter, cause destruction of, damage or interfere with Hunter Water's infrastructure as proposed by Hunter Water. We consider that this will protect Hunter Water's infrastructure but still allow customers to undertake this work if necessary and if they have Hunter Water's consent. Such consent will be at Hunter Water's reasonable discretion.</p>
10	Entry onto your property	14	Changed 'a customer's property' to 'your property'	Nil	We recommend renaming this clause to refer to 'your property' instead of 'a customer's property', as sought by Hunter Water and consistent with the language used throughout the Customer Contract.

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
10.1	Access to Hunter Water's infrastructure	14.1	Included new wording for collecting, testing and maintaining drinking water and sampling points for drinking water and recycled water with no impact to the customer	Nil	<p>The current customer contract requires the customer to provide Hunter Water with safe access to their property to allow Hunter Water to maintain or inspect Hunter Water's infrastructure, ensure compliance with the operating licence, customer contract or the Act, read, test, inspect, maintain or replace meters or other purposes set out in legislation.</p> <p>We recommend also allowing Hunter Water access for collecting and testing drinking water and recycled water quality and for testing and maintaining drinking water and recycled water quality sampling points, as requested by Hunter Water. We consider that this is essential for Hunter Water to deliver water consistent with the requirements of the Australian Drinking Water Guidelines or Australian Guidelines for Water Recycling, as required by the Licence.</p>
10.2	Identification	14.2	Changed 'employees or contractors' to 'our people' in line with Hunter Water values	See Hunter Water's comments about 'our people' in response to clause 9.2.	We recommend referring to Hunter Water's employees as 'people', as requested by Hunter Water.

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
				<p>Hunter Water's identification cards fulfil the requirements of both sections 20 and 21 of the Act. Hunter Water thanked IPART for clarifying that both requirements can be provided in the same document – e.g. an identification card.</p>	<p>We also recommend clarifying that in addition to the identification that Hunter Water's people must carry under the current customer contract, they must also carry a certificate of authority authorising the person to enter the property (as required under the Act). We have proposed a note to clarify that the identification and certificate of authority can be contained within one single document.</p>
10.4	Impact on customer's property	14.4	Removed 14.4.3 as it was repetitive of the contents of 14.4.2	Nil	<p>The current customer contract states that if Hunter Water's entrance onto a customer's property causes the customer inconvenience, damage or loss to the customer's property, Hunter Water may provide redress and that the customer may be entitled to compensation under the Act.</p> <p>We recommend simplifying the clause to remove the reference to compensation. We are satisfied that redress under clause 12 includes the payment of damages and referring to compensation as well is duplicative.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
11	Meter reading, installation, testing and maintenance	15	Removed 'water' as there may also be recycled and wastewater meters	Nil	While we consider that 'water meters' include recycled water and wastewater meters, for greater clarity and ease of use for customers, we recommend simplifying the title of this clause to refer to 'meters' only.
11.1	Installing and maintaining the meter	15.1	Removed 'wilfully or negligently' from clause 11.1.4	Nil	The current customer contract states that Hunter Water may charge the customer for the cost of repair or replacement of the meter and its assembly if it is wilfully or negligently damaged by the customer. We recommend removing the reference to 'wilful or negligent damage' and clarifying that customers will be required to pay for all damage they cause other than normal wear and tear.

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
11.2	Access to the meter	15.2	Changed 'Hunter Water or its representatives' to 'our people' in line with Hunter Water values	Hunter Water advised that currently, its third-party contractor attends the property and knocks on the front door to notify the occupant that the meter is about to be exchanged either as part of the meter exchange programme or on an as needs basis to replace a faulty meter. In the majority of cases, there is no one at home, the works are undertaken and a card is left in the mailbox advising of the meter exchange. Hunter Water considers that there is no inconvenience or impact to the customer or occupier. If there is someone at home, the contractor provides an opportunity for them to undertake or finish any water-use activities before the actual exchange or work takes place.	<p>We recommend referring to Hunter Water or its representatives as 'people', as requested by Hunter Water.</p> <p>To be consistent with the Act, we recommend changes that require Hunter Water to provide 'reasonable' written notice prior entering a property to test, inspect, maintain or replace the meter, except where the Act permits entry without notice. There are a range of circumstances in which this could happen, such as with the customer's consent or where the Hunter Water board has approved urgent entry. Hunter Water will be able to continue to enter properties without notice to read the meter.</p> <p>In our draft recommendations we had proposed a notice period of 2 days. In light of Hunter Water's feedback that 2 days' notice is not always practicable and can increase costs without adequate justification, we have reduced this to 'reasonable' notice. We consider that there is minimal risk that customers will consider that notice of less than 2 days for testing, inspecting, maintaining or replacing meters is unreasonable as these activities typically do not inconvenience customers.</p>

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
			<p>In the draft Customer Contract, we proposed that Hunter Water provide 2 days' written notice consistent with clause 10.3 of the draft Customer Contract. Hunter Water advised that the 2 day notice requirement will not always be practicable, particularly when there are delays. It could result in greater delays and costs.</p> <p>Hunter Water requested that if IPART is unable to consider this request to maintain the status quo, Hunter Water requests that the drafting of clause 11.2(1) provides flexibility in Hunter Water's practices while ensuring compliance with the obligation to provide advance notice when required under the Act.</p>	

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
11.4	Meter testing	15.4	Removed superfluous words	Nil	The current customer contract states that the customer will be required to pay the costs of the meter test prior to the test proceeding. This cost will be refunded if the meter is shown to be inaccurate. We recommend clarifying that the customer will not be refunded if they have contributed to the reason why the meter is taking inaccurate readings.

12 Redress 16

12.2	Rebates	16.2	No change except for substituting 'wastewater infrastructure' for 'sewerage system'	Hunter Water proposes that for clarity and ease of administration the clause refers to "non-drought response days".	We recommend increasing rebates for planned and unplanned interruptions, low water pressure, dry weather wastewater overflows and boil water alerts as suggested by Hunter Water. The rebates reflect Hunter Water's customer engagement work to understand customer preferences and expectations for rebates.
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Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
					We recommend clarifying in the rebate for planned interruptions, that customers will not receive rebates for a fourth or subsequent event in a financial year. We also recommend clarifying that for the avoidance of doubt, all rebates will be applied using the water usage charge for non-drought response days as determined by IPART (as requested by Hunter Water).
12.4	Claim for damages	16.4	Amend 'we may compensate you for loss suffered' to 'you may be entitled to reimbursement' for better flow with no impact to the customer	Nil	We have not recommended changing language to 'reimbursements' as we consider that the current language of 'compensation for losses suffered' is clearer.

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
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Hunter Water had sought removal of clauses 16.4.3 to 16.4.6 of the current customer contract about how Hunter Water will treat claims for damages. Hunter Water proposed that these claims be treated in the same way as complaints. However, we do not consider that the complaints process is appropriate for claims for damages, which may require more extensive investigation. We also consider that claimants should be entitled to a written assessment of their claim and that the Customer Contract should include rights to have decision about a claim reviewed. We have therefore recommended retaining clauses 16.4.3 to 16.4.6 of the current customer contract (clauses 12.4(3) to (5) of the recommended Customer Contract).

13 **What can I do if** **17**
I am unhappy
with the
service
provided by
Hunter Water?

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
13.1	Customer complaints	17.1	<p>Included:</p> <p>(a) additional wording to encourage customer to seek resolution directly with Hunter Water in the first instance, and</p> <p>(b) amalgamated and streamlined subclauses all with no impact on the customer.</p>	Nil	<p>We also recommend clarifying that customers should first contact Hunter Water through the General Enquiry Process if they have a complaint. We agree that this is an appropriate first step for complainants to take. Other recommended changes to this clause are editorial to improve clarity and readability.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
13.4	External dispute resolution	17.4	Retained current day methods of contact	Hunter Water stated in its submission that it would prefer the drafting of this clause be flexible in case there is a future change in external dispute resolution body, consistent with the Licence. IPART indicated a preference to retain specificity to make the terms clearer for customers, and that any change should result in a variation to the Customer Contract. Hunter Water accepts this position, while noting the potential added administrative burden.	<p>We recommend a minor change to clarify that information about EWON can be found on EWON's website.</p> <p>We acknowledge Hunter Water's comments in response to our recommended changes. However, our preference is that the Customer Contract be amended if an alternative dispute resolution provider is approved in future. This is clearer for customers and consumers. We have included a note in the recommended the Customer Contract stating that the Customer Contract will be updated to reflect an alternative external dispute resolution scheme (to EWON) if one is approved under the Licence (as per our recommendations for the Licence).</p>

14 **Who should I contact?** **18**

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
14.2	General enquiries	1.4 and 18.2	Clause 1.4 relocated to clause 18. Clause 18.2 amended to incorporate up to date information and to reflect closure of regional satellite offices	Nil	We recommend a minor change to combine clause 1.4 of the current customer contract which includes some information for making general enquiries, with clause 18 which includes other information about making general enquiries (as discussed below). In the recommended Customer Contract, the combined clause on 'General Enquiries' is clause 14.2. Updated contact information has been included in the clause.
15	Consultation, Information and privacy	19			
15.1	Community involvement	19.1	Amended to reflect change of name of customer advisory group	Nil	We recommend changes to this clause to reflect that as at 1 July 2022, the customer advisory group is named the Customer & Community Advisory Group. Our recommended changes clarify that in addition to the customer advisory group, Hunter Water undertakes other customer engagement work including online customer forums, engaging with customer and community groups, conducting forums for specific issues and conducting regular customer surveys

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
15.3	Privacy	19.3	Included reference to specific legislation and Hunter Water's Privacy Policy	Nil	<p>We have clarified that if our Licence recommendations are accepted, from 1 July 2023, there will be changes to the procedures described in this clause for consulting with Hunter Water's customers and consumers. We recommend that information about the new customer consultation procedures will be made available on Hunter Water's website and further information is available through the General Enquiry Process.</p> <p>We recommend changes to this clause to refer to specific pieces of privacy legislation and Hunter Water's privacy policy, as requested by Hunter Water.</p> <p>We also recommend changes to clarify where enquiries or complaints about privacy should be directed.</p> <p>We have also recommended clarifying how Hunter Water will communicate with customers or consumers who have consented to be contacted electronically.</p>

Clause in the recommended Customer Contract		Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
16	Definitions, interpretation and policies	20			
16.1	Definitions	20.1	Minor changes such as 'sewerage system' to 'wastewater infrastructure' and further refinement for clarity	<p>Defective works – Hunter Water questions the need for inclusion of 'sewerage system, stormwater infrastructure' as the definition of 'infrastructure' already covers these assets.</p> <p>Dry Weather – Hunter Water comments provided in Chapter 3.1 of this submission about the definition of a dry weather overflow.</p> <p>Payment difficulty – see Hunter Water's comments in response to clause 6.1.</p> <p>Personnel – Hunter Water does not support the inclusion of this term and would prefer to refer to Hunter Water's 'people'.</p>	<p>We have recommended changes to some of the definitions to improve clarity and to remove unnecessary definitions.</p> <p>We have considered Hunter Water's comments on our draft recommendations for the Customer Contract in our final recommendations. In particular, we have incorporated into our recommendations Hunter Water's suggestions in relation to the use of 'our people' (rather than 'Personnel'), the removal of the 'Dry weather' definition and amendment of 'Wastewater infrastructure' and 'Wastewater overflow'.</p>

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
			<p>Wastewater Infrastructure – Hunter Water notes the definition is missing the words: "and includes operational and information technology environments, hardware and systems used in the provision of services".</p> <p>Wastewater overflow – Hunter Water prefers the use of the word 'infrastructure' for consistency and the word 'failure' to 'problem' consistent with clause 3.2(2).</p> <p>Water service – Hunter Water has considered the proposed changes in light of clauses 2.2(4) and 8.3(7)(f).</p>	
16.3	Policies	1.3 Relocated to Interpretation section	Nil	The current customer contract includes a section called 'policies' in clause 1.3. This clause explains that reference to any of Hunter Water's Policies or Standards means the policies and standards as published on Hunter Water's website at any one time and any amendment or replacement applying to the same or similar subject matter.

Clause in the recommended Customer Contract	Related clause in the current customer contract	Key changes to the current customer contract first proposed by Hunter Water and reasons for change (in October 2021)	Hunter Water's comments to IPART's draft Customer Contract published (in March 2022)	IPART's recommended changes to the current customer contract
				We recommend making a minor change to relocate the 'policies' clause to the end of the customer contract together with definitions and interpretations.
Appendix A		Updated diagrams to provide clarity (with permission from Hunter Water)	Nil	We recommend including the updated diagrams provided by Hunter Water in the Customer Contract as they accurately represent Hunter Water's systems.

Appendix B »

Approach to the review and other contextual information

We conducted the review to assess whether the Hunter Water Operating Licence met its objectives and sought stakeholder input

B

This appendix provides contextual information for the Review, specifically on the following matters:

- Hunter Water's role
- Hunter Water's Licence
- Considerations for reviewing the Licence
- Our application of the Best Licensing Framework

B.1 Hunter Water's role

Hunter Water is a State Owned Corporation (SOC), wholly owned by the NSW Government and governed by an independent Board of Directors. It operates under the *Hunter Water Act 1991* (the Act) and the *State Owned Corporations Act 1989*.

Hunter Water provides drinking water, wastewater, recycled water and some stormwater services to a population approaching 600,000 people in homes and businesses across the lower Hunter. As a vertically integrated water utility - Hunter Water manages the water and wastewater systems from catchment to tap to provide safe, reliable and efficient services.

Hunter Water provides services to the geographic area defined by the boundaries of 6 local government areas:

- Cessnock City Council
- Dungog Shire Council
- Maitland City Council
- Lake Macquarie City Council
- Newcastle City Council
- Port Stephens Council.

Hunter Water also provides services to part of Singleton Shire Council's local government area, supplies bulk water to small parts of the Great Lakes area, and can sell up to 35ML per day to the Central Coast.¹⁰²

B.2 Hunter Water's Licence

Supply of water is an essential service that is regulated in most developed countries. Water supply businesses are commonly government-owned, public utilities and are usually monopoly suppliers within geographic regions. Several large utilities in NSW, including Hunter Water, were corporatised during the early 1990s as part of wider microeconomic reform of the NSW public sector.

The Licence was originally established in 1992 to ensure Hunter Water, as a new corporation, would not exploit its natural monopoly position. The existing Licence is the 6th licence held by Hunter Water since it was established as a SOC in 1991.

The Licence enables and requires Hunter Water to provide, construct, operate, manage and maintain systems and services for:

- supplying water
- providing sewerage and drainage services
- disposing of wastewater

in a defined area of operations in the Hunter region.

The Licence is an enforceable instrument and is subject to a compliance monitoring regime with penalties for contravention. The Licence has already been subject to a number of public reviews, conducted by IPART. We are responsible for administering the operating licence including the functions of monitoring, auditing and reporting to the Minister on compliance.

Hunter Water's Licence is supported by a Customer Contract, the terms and conditions for which are set out in the Licence, and a Reporting Manual. The Reporting Manual was established so that reporting requirements associated with the Licence could be more easily updated

B.3 Considerations for reviewing the Licence

In conducting this Review, we have considered Hunter Water's regulatory framework, including the Act and other applicable regulatory instruments. We have also had regard to Hunter Water's objectives, issues that have arisen during the current (2017-2022) operating licence term, and other public water utility operating licences.

The findings of our review of *How we regulate the water businesses* has informed our recommendations for the Licence. As part of this review, we seek to encourage businesses to deliver and promote customer value. This review has helped us to identify the most efficient way the Licence can achieve its outcomes, maximising the benefit for customers and minimising the costs.

We have considered DPE's plans to develop the NSW Government Water Efficiency Framework in making recommendations for water conservation Licence requirements. DPE has been reviewing the current economic methodology as part of the efforts to drive greater water efficiency and water conservation in NSW, and to broaden the scope to consider the total water cycle. We have also had regard to the review of the Lower Hunter Water Security Plan. The Lower Hunter Water Security Plan, which replaces the Lower Hunter Water Plan, was published in April 2022.

In addition, we have had regard to the NSW Treasurer rescinding the 2008 approval to set specified water, wastewater and stormwater developer charges for Sydney Water and Hunter Water to zero. In March 2021 NSW Government accepted the recommendation from the Productivity Commissioner *Review of Infrastructure Contributions in NSW* to rescind the 2008 approval for Sydney Water and Hunter Water.¹⁰³ The approval was officially rescinded more recently in 2022. With the re-introduction of developer charges, both Sydney Water and Hunter Water will publish information on DSPs and review them every 5 years. Hunter Water will publish information on system constraints and cost of growth infrastructure as part of implementing IPART's developer charges determination.

Licence requirements from the Act

The Act specifies terms and conditions that the Licence must include, and others that the Licence may include. As the current operating licence is a mature licence, it already includes terms and conditions addressing the requirements of the Act.

Requirements under other legislation

The Licence is not the only regulatory instrument that applies to Hunter Water. We have considered other regulatory requirements imposed on Hunter Water to avoid duplicating requirements and imposing an unnecessary regulatory burden on Hunter Water.

Because of the essential nature of the services that Hunter Water provides, and their potential health and environmental impacts, Hunter Water is subject to regulatory oversight by other departments and agencies, including NSW Health, EPA, DPE and OEH.

We work closely with the other government departments and agencies and have liaised with them during the Review.

Hunter Water's objectives

As part of the Review, we have considered if Hunter Water is meeting its objectives and how the Licence can help Hunter Water achieve them.

The Act^a and the *State Owned Corporations Act 1989*^b prescribe Hunter Water's principal functions and objectives. Hunter Water has its own corporate objectives as well.¹⁰⁴

B.4 Our application of the Best Practice Licensing Framework

We have generally applied the Best Practice Licensing Framework¹⁰⁵ to consider changes to the terms and conditions in the current operating licence. The framework provides guidance in determining whether introducing an obligation in Hunter Water's Licence is the best response to address a problem or risk. We considered stakeholder's views when developing our draft and final recommendations.

In some instances, we deviated from the framework because we consider stakeholders' views are reasonable to adopt in the context of the regulatory environment. In such cases we have provided explanation in the relevant sections of this report.

In general, we found that the current operating licence is well designed and working effectively and have largely recommended changes for further clarity and ease of administration. We have proposed changes to the current operating licence conditions for water conservation and water planning to reflect NSW Government policy and the Lower Hunter Water Security Plan. We have also recommended some changes to the Licence conditions protecting customers' rights (such as recommending a new requirement for a family violence policy) to ensure that customers are being effectively protected and to ensure that customers are aware of their rights and protections

^a *Hunter Water Act 1991*, sections 4A and 12.

^b *State Owned Corporations Act 1989*, section 20E.

when dealing with Hunter Water. Finally, we have recommended minor changes to the current quality and system performance standards for clarity.

Box 42 The Best Practice Licensing Framework consists of the following 4 stages:

1. Consider whether licensing is appropriate.
2. Consider whether the Licence is well designed.
3. Assess whether the Licence can be administered effectively and efficiently.
4. Confirm that licensing is the best response when comparing its costs and benefits against other options.

Stage 1 — Consider whether licensing is appropriate

Licensing Hunter Water's operations is appropriate because:

- The policy rationale and objectives justify ongoing intervention in Hunter Water's operations.
- Current legislation does not adequately address the policy objectives in the absence of a licence, there would be gaps in the scope and enforcement of existing legislation.
- Licensing provides policy and administrative functions that are required to meet the objectives of the Hunter Water Act

We applied Stage 1 to both the current and potential terms and conditions using a pragmatic approach. When assessing whether to recommend retaining a current operating licence condition, or include a new Licence condition, we considered whether it was necessary and appropriate to address the specific problem or risk. One of the key questions we considered is whether the same outcome would be achieved in the absence of a licence condition.

Stage 2 — Consider whether the Licence is well-designed

In applying Stage 2, we considered whether the existing or potential licence conditions meet the principles of a well-designed Licence, including whether it:

- is outcomes-focused rather than prescriptive
- is proportionate to the problem or risk being addressed
- does not duplicate other existing regulatory requirements
- requires only the minimum necessary reporting.

In doing this, we considered information from:

- your feedback to the Issues Paper and our draft recommendations for the Licence, Reporting Manual and Customer Contract

-
- discussions with Hunter Water and other government agencies including DPE.
 - previous operational audits of Hunter Water, including its compliance with its existing Licence conditions
 - other recent Public Water Utility operating licence reviews, including our 2019 review of the Sydney Water Operating Licence
 - relevant examples of current good or best practice in the regulation and operation of utilities in Australia and other countries.

Stage 3 — Assess whether the Licence can be administered effectively and efficiently

We applied Stage 3 and considered whether we could effectively monitor compliance against an existing or proposed new Licence condition using a risk-based approach.¹⁰⁶

In general, when we apply a risk-based approach, we audit those licence clauses that are high risk and have a low level of compliance more frequently than licence clauses that are low risk but have a high level of compliance. We also rely on Hunter Water's annual statement of compliance to determine whether we undertake an audit of some of the clauses.

Where a management system has been certified by a third party, we generally accept certification reports from specialist auditors rather than including a comprehensive audit of the management system in our audit scope. This allows us to minimise duplication and the burden on Hunter Water.¹⁰⁷

Where the Licence requires Hunter Water to cooperate with certain government agencies, we monitor compliance through direct annual contact with these agencies and seek feedback on Hunter Water's performance.

We implement continuous improvement based on our internal reviews and by seeking feedback from Hunter Water and our independent auditors at the end of each audit. We also have our [Audit Guideline – Public Water Utilities](#) which sets out our expectations regarding the conduct of operational audits, and we update it periodically.

Stage 4 — Confirm that licensing is the best response when comparing its costs and benefits against other options

While some objectives could potentially be delivered through amendments to a range of legislation, our assessment supports continued licensing of Hunter Water as the most efficient option to administer and ensure compliance and enforcement.

Stage 4 involved conducting cost-benefit analysis to confirm that licensing is the best response. Where we found, in the previous stages, that a licence obligation was necessary and appropriate to address a problem or risk, we analysed different options to address that problem or risk.

Where a condition must be included in the Licence due to a legislative requirement, we consider that licensing is the best approach (but considered the best design). We considered different options to address a problem or risk once we established that licensing was appropriate. In generating options, we considered a range of realistic and feasible options and analysed each option to determine a short-list.

We used the cost-benefit analysis to support our final recommendations for each Licence condition. We considered the most appropriate approach to conducting the cost-benefit analysis in the context of each Licence condition. Where sufficient benefit data has not been available, we have made the evaluation using a qualitative discussion of benefit criteria

Appendix C

Cost-benefit analysis

The CBA considers the benefits and costs of requirements we considered/recommended in the draft licence



This appendix presents results from economic cost-benefit analysis on the recommended terms for Hunter Water's operating licence 2022-2027. The analysis follows the sequence of clauses in the Hunter Water recommended operating licence. For each clause, the analysis considers the following questions:

- Where it is possible to vary or remove the licence condition, what is the counterfactual (ie, what would happen if this licence condition did not exist)?
- What are the economic benefits of having the licence condition (versus the counterfactual)?
- What are the economic costs of the licence condition (versus the counterfactual)?
- How do the benefits and costs compare? If it is possible to say, what is the quantum of any net benefit (or net cost)? If it is not possible to say, can we be confident that benefits exceed costs (or vice versa)?

Factual and counterfactual defined

A cost-benefit analysis compares the factual situation, in which a particular recommended licence condition is in force to a different, hypothetical situation in which it is not. We refer to this alternative situation as the "counterfactual." It is important that the counterfactual is defined well enough to be able to quantify the costs and benefits it entails. It is essential that the counterfactual represents a state of the world that could actually exist and that would be likely to exist if the licence condition was not in force.

Benefits of licence condition

Benefits of licence conditions are usually experienced by the customers of the licensee or the general public (for example with environmental conditions). Quantifying these benefits is sometimes difficult, particularly if they relate to non-monetary values.

Costs of licence condition

Licence conditions usually impose costs on the licensee because the licence requires it to undertake certain activities or to refrain from undertaking certain others that it might prefer to do on commercial grounds. Activity costs or costs of foregone opportunities are usually able to be quantified with accounting data.

Comparison of benefits and costs

Provided that both benefits and costs of the factual, compared to the counterfactual can be quantified, the comparison can be expressed simply by subtraction (to obtain a net benefit, which would ideally be positive, but could be negative) or division (to obtain a benefit to cost ratio, which would ideally be greater than 1, but could be less than 1).

If benefits or costs cannot be quantified, then other techniques may be available.

C.1 Licence context

C.1.1 Objective

The benefit of an object clause is to clarify the objectives of the licence, consistent with Hunter Water's governing legislation. We do not consider that there are likely to be costs associated with the inclusion of this clause in the licence.

C.1.2 Area of operations

The area of operations must be set out in the licence. As IPART is not recommending varying the area of operations, we have not undertaken a cost-benefit analysis of this clause.

C.1.3 Licence term

Factual and counterfactual defined

The recommended licence term is 5 years. Section 15(2) of the Act limits the term of an operating licence to 5 years. We have considered counterfactuals of shorter terms than this, but not longer.

Benefits of licence condition

The main benefit of a shorter licence term is that it allows the licence to adapt to changing circumstances and take account of new information. It is very difficult to quantify this type of benefit.

In general, we expect that this benefit would be greater in volatile times where circumstances change rapidly. For a public water utility in a region with relatively predictable population growth and environmental and water quality standards that do not change frequently, this benefit may not be increased by shortening the licensing regulatory period past 5 years.

Costs of licence condition

Each licence review leads to certain fixed costs. The longer the licence term, the lower the average cost per year of licence reviews. These costs are borne both by Hunter Water and IPART.

In response to our information request, Hunter Water said that it would incur \$750,000 in-house expenses plus \$250,000 consultancy expenses to complete a single licence review cycle.

Comparison of benefits and costs

A strict quantitative comparison of costs and benefits is not feasible since it is so hard to quantify the benefits of more frequent licence reviews to take account of changes to the climate, environmental and water quality standards, and population pressures.

Heuristic arguments about the rate of change in those activity drivers suggest that a term of at least 5 years is likely to maximise the benefit.

The cost analysis shows that each review carries with it a non-trivial fixed expense, so one would not want to undertake reviews too frequently. That said, the million dollar cost of a licence review is not so large in the scheme of Hunter Water's overall revenue requirement that it should drive a preference for longer licence terms exceeding 5 years. In any case, section 15(2) of the Act does not allow a term longer than 5 years.

A qualitative analysis suggests that a 5 year term represents a plausible balance of benefits and costs. There is no strong evidence that it should be decreased.

C.1.4 Amendment

The Act requires the licence to provide for the manner of varying the licence. This provision provides that procedure. No cost-benefit analysis is required.

C.1.5 Non-exclusivity

An exclusive licence would be contrary to the *Water Industry Competition Act 2006* (WIC Act), which authorises licensed private water utilities to supply water and sewerage services in competition with public water utilities, such as Hunter Water. Additionally, an exclusive licence would strengthen Hunter Water's already substantial market power within its service area, which would not be in the public interest.

C.1.6 Availability

This provision imposes minimal cost on Hunter Water, yet it potentially provides substantial economic benefits by making customers better informed of their rights. We consider it creates net economic benefits.

C.1.7 Pricing

Factual and counterfactual defined

The licence must specify quality and performance standards in relation price levels. The recommended licence requires Hunter Water to comply with the terms of the licence, the Act and IPART's price determination. Counterfactual scenarios could involve Hunter Water charging prices that are either higher or lower than the IPART-determined prices.

Comparison of benefits and costs

Section 15(1) of the IPART Act identifies the matters to be considered by the Tribunal in making price determinations. The first of these matters (a) is the cost of providing the services concerned. In keeping with that requirement, IPART uses a building block method to determine prices for Hunter Water. The objective is to set cost-reflective prices.

Prices that are higher than the cost-reflective level will benefit the firm at the expense of customers and vice versa for prices lower than cost-reflective. However, when prices depart from the cost-reflective level in either direction, there is a deadweight loss. The deadweight loss is minimised, and net benefits maximised when the prices charged by Hunter Water are cost-reflective.

This concern about deadweight loss is also consistent with matters (b) and (c) (protection of consumers from abuse of monopoly power, and appropriate rate of return on public sector assets).

Some other matters that IPART must consider include the effect on general price inflation (d), the need for efficiency (e), ecologically sustainable development (f), the impact on borrowing, capital and dividend requirements of the government agency concerned (g), the need to promote competition (i), demand management and least cost planning (j), social impact of determinations (k) and quality of service (l).

We consider that where some of these matters may lead to a conflict with the principle of minimising deadweight loss, such a conflict is required to be resolved by IPART with a view to maximising overall economic welfare in all of its various aspects.

As long as IPART's price determinations reflect these principles, then net benefits are maximised by enforcing the price determination.

C.2 Licence authorisation

C.2.1 Licence authorisation

This provision authorises the activities Hunter Water may carry out under the recommended licence, consistent with the requirements of the Act. No cost-benefit analysis is required.

C.2.2 Obligation to make services available

This provision requires that Hunter Water provides the relevant services within its service area. The counterfactual, in which Hunter Water would have discretion to refuse to provide certain relevant services to some customers within its area, would strengthen Hunter Water's already substantial market power in a manner that would not be in the public interest.

C.3 Water conservation and planning

C.3.1 Catchment to water treatment plants

Factual and counterfactual defined

The recommended licence requires that Hunter Water must calculate the system yield according to a methodology that is either in accordance with the memorandum of understanding (MOU) with the Department of Planning and Environment (DPE) or, absent such an MOU, that Hunter Water considers suitable. Hunter Water is also required to implement its water conservation work program in relation to Water Storage and Transmission developed under the 2017-2022 Licence.

In the counterfactual, these licence requirements would not exist. Without these requirements, Hunter Water's commercial incentive may be to undertake water supply augmentations that are not least cost, for example, if the regulatory pricing scheme guaranteed recovery of actual investment costs.

Benefits of licence condition

This licence condition would make it more likely that Hunter Water would thoroughly investigate future supply augmentation options and adopt the most efficient options.

Costs of licence condition

The costs of this licence condition are the additional costs of planning and analysis required to determine the most efficient options.

Comparison of benefits and costs

It would be necessary to examine specific instances to quantify the net benefits of planning augmentation investments. However, it is generally true that businesses that invest in thorough investigation of alternatives before establishing a capital works program obtain a high, positive return on that planning investment.

We consider that this requirement is likely to generate strong net benefits.

C.3.2 Water treatment plants to tap

Factual and counterfactual defined

The recommended licence requires that Hunter Water must maintain a water conservation work program for water treatment and transmission consistent with the Current Economic Method. It must implement water conservation measures that have been assessed as economic under that method.

In the counterfactual, these licence requirements would not exist. Without these requirements, Hunter Water's commercial incentive may be to encourage excessive water consumption by customers because the revenue it earns from the water usage charge exceeds the short-run variable cost of water.

Benefits of licence condition

The recommended licence condition would require Hunter Water to thoroughly investigate all measures available to conserve water, including by reducing leakage and influencing its customers to conserve water. Having determined which of these measures are consistent with the Current Economic Method, this licence condition requires that Hunter Water implement them.

The benefits are twofold. First, the requirement for thorough investigation makes it more likely that prudent investments will be identified and less likely that good conservation opportunities will be overlooked.

Second, the requirement to implement the selected measures means that the calculated benefits will be realised.

Costs of licence condition

The costs of this licence condition are that it obliges Hunter Water to undertake thorough investigation of a range of possible measures and then invest in implementing the ones found to be economic. Concerning demand management actions specifically, there is an additional opportunity cost to Hunter Water in the form of the foregone opportunity to maximise net revenue by encouraging excess water consumption (because the water usage price exceeds the short-run variable cost of water).

Comparison of benefits and costs

The net benefit of a water conservation requirement depends on the target level of conservation. Ideally, the target level should be the economic level of water conservation (ELWC). This is the largest amount of water conservation that can be achieved for a cost that is less than the value of the water that is saved. Conservation activities beyond that point are not useful for customers or taxpayers because the cost of achieving that extra conservation is higher than the benefit of the water saved. Here, the estimation of benefits should include environmental uses of water as well as consumptive uses.

However, if a target level of conservation is chosen arbitrarily and that level departs from the ELWC, then there will be a net disbenefit from this licence requirement.

If a target higher than the ELWC is mandated in the licence, then Hunter Water's customers and taxpayers will be worse off. They will be paying more to achieve that extra conservation than it is worth to all members of society.

Similarly, if a target lower than the ELWC is mandated in the licence, then Hunter Water's customers and taxpayers will also be worse off. Insufficient conservation will be undertaken. Some water will be consumed for low-value end-uses that generate less social value than the long-run cost of producing it and consuming it now.

C.3.3 5-year Water Conservation Plan

Hunter Water is required to develop a 5 year water conservation plan, to submit it to IPART and DPE, and then revise it annually. The 5-year water conservation plan must include water conservation work programs for water storage and transmission and for water treatment and transmission, and cover water efficiency, leakage and recycled water. It will replace the work programs described in sections A.3.1 and A.3.2. Where practical, Hunter Water must assess programs and projects under the plan against the Current Economic Method.

The net benefit of this requirement is difficult to quantify because it depends on the quality of the 5-year water conservation plan that is developed.

Qualitatively, it seems likely that net benefits would be positive from a requirement to do water efficiency planning since the absence of planning could lead to costly mistakes. Among these mistakes is the possibility of having to bring forward large investments in future supply augmentation to compensate for inefficient water usage.

C.3.4 Water Planning

Hunter Water is required to develop an emergency drought response plan and implement it. Again, the net benefits of this requirement are difficult to quantify without considering specific circumstances.

Nevertheless, planning investments usually create net economic benefits when the consequences of poor planning can be extremely serious. Overall, we consider that this requirement would create net benefits.

C.4 Performance standards for water quality

C.4.1 Drinking water

The Act requires the licence to include quality and performance standards in relation to water quality. Under the recommended operating licence Hunter Water is required to maintain a Drinking Water Quality Management System that is consistent with the Australian Drinking Water Guidelines (ADWG) and any additional health-based requirements that NSW Health reasonably specifies. It is also required to ensure that the Drinking Water Quality Management System is fully implemented to the reasonable satisfaction of NSW Health.

Factual and counterfactual defined

The ADWG is intended to provide a framework for good management of drinking water supplies, that if implemented, will provide consumers with water that is safe to use. The recommended operating licence requires Hunter Water to implement a Drinking Water Quality Management System consistent with the ADWG—the factual.

In order to test whether the benefits of this requirement exceed the cost, it is necessary to consider what would happen if the requirement did not exist—the counterfactual. It is not realistic to contemplate a counterfactual in which there is no regulation of drinking water quality.

Instead we examine a counterfactual in which the level of water treatment would be the same as the then Sydney Water Board provided in the early 1990s. That time pre-dated four events:

- the corporatisation of Sydney Water
- the introduction of an operating licence for Sydney Water
- the inclusion in that licence of requirements to meet the ADWG, and
- the construction of four new water filtration plants (WFPs).

These four events were interrelated and driven by the Government's intent to modernise Sydney Water. Most of these events happened in 1995 or soon thereafter, providing a natural experiment that can help us to quantify costs and benefits attributable to the ADWG requirement.^a

Benefits of licence condition

The benefit of requiring an ADWG-consistent framework is improved health outcomes for Hunter Water's customers. Its implementation would reduce the incidence and severity of water-borne illnesses within the population.

It is possible to estimate a lower bound to these health benefits by calculating the avoided costs of medical care for sufferers of water-borne illnesses and the avoided economic losses from absenteeism due to illness. This reckoning of health benefits is incomplete because it is not practical to capture all of these benefits in the calculation. Nevertheless, this calculation yields a useful lower bound to the benefits.

Our estimate of the health-related benefits is based on analysis conducted on IPART's behalf by the Sapere Research Group in October 2018. That study considered health benefits for Sydney. Sapere's work was based on a similar counterfactual that was used in a New Zealand cost-benefit study of a proposal to raise drinking water standards in 2010.^b Sapere found that the health benefits of ADWG-consistent water treatment for harmful chemicals and pathogens were \$135/person/year in the base case.

^a Construction of the Prospect WFP began in 1993 and it was commissioned in 1996. Construction of the MacArthur WFP began in 1994 and it was commissioned in 1995. Sydney Water was corporatized with effect from January 1995 following the passage of the *Water Board (Corporatisation) Act 1994*. Contracts to build the Illawarra and Woronora WFPs were signed in 1994. Sydney Water's first operating licence took effect in January 1995. Among the requirements of the operating licence were that Sydney Water Corporation must meet the 1980 version of the ADWG immediately, must work to an agreed timetable to meet the 1987 version of the ADWG, and endeavour to meet the 1996 ADWG. There is clearly a causal link between the decision to commence these WFPs, the formation of Sydney Water as a SOC, and the requirement that Sydney Water meet the ADWG. While the WFPs were initiated before Sydney Water was corporatized this development had been widely anticipated in the years prior.

^b Cost benefit analysis of raising the quality of New Zealand networked drinking water", LECG (June 2010). See <http://srgexpert.com/wp-content/uploads/2018/02/cba-raising-quality-of-networked-drinking-water-jun20101.pdf>

A key uncertainty was the incidence of water borne disease in raw water supplies. To address that uncertainty, Sapere conducted sensitivity analysis. They examined a low incidence scenario based on replies to IPART's questions from NSW Health in 2018. The health benefits in that scenario were \$122/person/year.

Sapere also examined a high incidence scenario based on the upper bound estimate used in a 2010 Sapere study conducted in New Zealand. The health benefits in that scenario were \$369/person/year.

We assume per capita benefits per annum would be the same for the Hunter Water service area, even though its population is approximately 12% of Sydney Water's population.

Costs of licence condition

To estimate the cost of the ADWG requirement, we rely on the natural experiment in which we compare pre-1995 to post-1995 scenarios in Sydney. We assume that the additional cost to Sydney Water of the four new WFPs (Prospect, MacArthur, Woronora and Illawarra) represents the additional cost imposed by the ADWG requirement. The construction of these new WFPs coincided with and was causally connected to the introduction of the ADWG requirement.

In response to our information requests, Hunter Water did not provide estimates of the incremental cost of units at its water treatment plants.

However, we can proceed with our cost estimate by adjusting Sydney Water's WFP costs to reflect Hunter Water's smaller scale. In September 2018, Sydney Water estimated a ballpark figure of \$138m/yr for operating and capital costs for its suite of WFPs.

Table C.1 Cost and capacity information for WFPs of various sizes

WFP name	Total cost of finance lease in \$m/yr	Maximum throughput (ML/day)	Population served
All four WFPs	138 ^a	3,635	4,850,000
Prospect (from 1996)	71.4 ^b	3,000	4,000,000
Remaining three WFPs	66.6 ^c	635	850,000

a 7 September 2018 information return from Sydney Water to IPART (Response 3).

b <https://www.govnews.com.au/suez-gets-1-bil-sydney-water-14-year-contract-extension/> (\$1b / 14 years)

c IPART calculations, and public data on throughput and population served.

Hunter Water's population of 600,000 could be served by three plants with equivalent capacity to the combination of MacArthur, Woronora and Illawarra WFPs in Sydney. Based on this information, we estimate that the annuity to Hunter Water for capital and operating costs of equivalent water filtration would be in the ballpark of \$67m. This estimate takes account of scale economies, recognising Hunter Water's smaller scale compared to Sydney Water. On a per capita basis, this cost is \$112/person/year.

Comparison of benefits and costs

The table below compares costs and benefits. It shows that in the base case, the ADWG requirement for Hunter Water's scale of operation leads to modest net benefits in the base case. Net benefits are approximately zero in the low case, and strongly positive in the high case.

Note that the benefit column shows the quantum of benefit in the factual compared to the counterfactual. The cost column shows the quantum of cost in the factual compared to the counterfactual.

Table C.2 Summary of benefits and costs for licence condition to meet the ADWG

Scenario	Benefit per person per year	Cost per person per year	Net benefit per person per year	BCR
base	135	112	23	1.2
low	122	112	10	1.1
high	369	112	257	3.3

C.4.2 Recycled water

The Act requires the licence to include quality and performance standards in relation to water quality. Under the recommended licence, Hunter Water is required to maintain a management system for recycled water that is consistent with the Australian Guidelines for Water Recycling (AGWR) and any additional health-based requirements that NSW Health reasonably specifies. It is also required to ensure that the Recycled Water Quality Management System is fully implemented to the reasonable satisfaction of NSW Health.

Factual and counterfactual defined

Like the ADWG, the AGWR is intended to provide a framework for good management of recycled water, that if implemented, will provide consumers with recycled water that is safe to use for various purposes. The recommended operating licence requires Hunter Water to implement a management system consistent with the AGWR—the factual.

In order to test whether the benefits of this requirement exceed the cost, it is necessary to consider what would happen if the requirement did not exist—the counterfactual. If there are questions about the safety of recycled water, as there may be in the counterfactual, then it seems likely that less recycled water would be used for many of these purposes.

Benefits of licence condition

We consider two scenarios:

5. Indirect potable reuse (IPR) of recycled water remains not widely accepted in NSW
6. IPR becomes widely accepted in NSW.

In the absence of IPR, recycled water has only limited uses and generates only modest benefits. In a residential setting, recycled water can only be used for flushing toilets and a few other household applications. In outdoor settings recycled water can be used for irrigation of sporting fields and parks, but irrigation of crops would require more costly treatment. Environmental release of recycled water may produce some public benefits but during drought conditions, when these benefits would be maximised, environmental release is often prohibited.

If IPR was widely accepted, however, recycled water could directly augment drinking water supplies. This would allow Hunter Water to defer costly water supply augmentations and improve the resilience of water supply in Hunter Water's area.

Costs of licence condition

The AGWR requirement adds to the cost of water recycling by imposing significant requirements on recycled water producers to meet pathogen reduction targets.^c

In the absence of IPR, household users of recycled water are required to incur significant expense to install and maintain dual reticulation systems (ie, purple pipes). Recycled water plants may also incur significant expense to construct holding tanks or dams for excess recycled water that cannot be released to the environment until it rains.

If IPR was widely accepted and recycled water was widely considered 'as good as' potable water, many of these costs would be avoidable, although the cost of treating wastewater to a near-potable standard would still be significant.

We also note that recycled wastewater is diverted away from wastewater treatment plants. This will reduce the costs incurred by those plants. However, it would simply substitute the volumetric cost of producing purified recycled water for the cost of treating the same volume of wastewater for disposal. As the former costs are likely to be significantly higher, this would not generate any net cost savings.

Comparison of benefits and costs

In the absence of IPR, the net benefit of the AGWR is likely to be negative. That was the result of our cost-benefit analysis of recycled water for the 2018 Sydney Water operating licence. That conclusion focused on the risk of cross-connection for residential uses. Some other uses of recycled water in the Hunter Water area, including industrial uses, irrigation of sporting fields and parks may show net benefits from the quality assurance that the AGWR provides in those applications. However, we did not receive the quantitative information we would need from Hunter Water to explore that point more fully.

If IPR was widely accepted, that would significantly improve the economics of recycled water. Whether IPR of AGWR-consistent recycled water would generate net benefits depends on the relative costs of:

- purified recycled water
- other water supply augmentation options, including
 - conservation
 - leak reduction
 - new sources.

At present, we have insufficient information to perform this comparison of costs.

^c The AGWR have defined safety using disability life years or DALYs and specify log reductions to be achieved based on intended end use exposure assessment.

C.5 Performance standards for service interruptions

The Act requires the licence to include quality and performance standards for service interruptions. The system performance standards in both the current and recommended Hunter Water Operating Licences refer to water pressure, water continuity and wastewater overflows. These standards impose levels of minimum acceptable performance, expressed as the maximum number of properties that may experience each of water pressure failure, water service interruptions of five hours or more, or uncontrolled wastewater overflows in dry weather in any year.

The cost-benefit analysis is used to determine the level for each of these standards that generates the highest net benefit. Hunter Water conducted this cost-benefit analysis in late 2021. The findings were as follows:

7. For water pressure, the standard level in the 2017-2022 licence generated the highest net benefit.
8. For water continuity, the standard level in the 2017-2022 licence did not generate the highest net benefit.
 - a. An option involving a reduced level of preventative maintenance activity generated a higher net benefit than the pre-existing standard level.
 - b. However, sensitivity testing revealed that this result was sensitive to input assumptions, including the assumed Value of Customer Reliability (VCR) and the discount rate.
 - c. The cost-benefit analysis using a plausibly higher VCR value showed the pre-existing standard level to generate the highest net benefits.
 - d. For these reasons, we conclude that the cost-benefit results are not sufficiently robust to justify a departure from the pre-existing standard level.
9. For wastewater overflows, the standard level in the 2017-2022 licence generated the highest net benefit of the options originally investigated.
 - a. At our request, Hunter Water conducted further sensitivity tests.
 - b. Sensitivity testing revealed that an option involving a somewhat increased level of preventative maintenance activity generated a somewhat higher net benefit than the pre-existing standard level.
 - c. However, the improvement in net benefit from this option was slight, and sensitive to input assumptions, including the VCR.
 - d. For these reasons, we conclude that the cost-benefit sensitivity results are not sufficiently robust to justify a departure from the pre-existing standard level.

Factual and counterfactual defined

For each of the standards, Hunter Water identified a preventative maintenance activity that could be undertaken to improve system reliability. They calculated the present value of the cost of undertaking that activity at different levels of intensity. The factual corresponds to the level of intensity that corresponds to current practice. Two counterfactual scenarios were examined: more intensity than current, and less intensity than current.

Benefits of licence condition

The benefit of better reliability is that customer inconvenience and disamenity is reduced. Hunter Water surveyed its customers to quantify the VCR—the customers' average willingness to pay to improve performance or willingness to accept a compensation payment for under-performance. In each scenario, the expected number of adverse events (ie, water pressure failure, long water service interruption, or dry weather wastewater overflow) was multiplied by this VCR value to determine a present value of this benefit over the study period.

Costs of licence condition

The cost of better reliability is the additional cost of more intense preventative maintenance. Hunter Water was able to quantify these costs based on its operational experience and management information.

Comparison of benefits and costs

As noted above, the net benefit, meaning the benefit minus the cost of a scenario compared to the factual, was generally maximised by the level of maintenance intensity that corresponds to the standard. There were two exceptions to this finding, but the conclusion from these exceptions was insufficiently robust to changes in input assumptions to justify a departure from the status quo.

C.6 Organisational systems management

Factual and counterfactual defined

The recommended licence requires Hunter Water to maintain and fully implement three organisational management systems: the asset management system (AMS), the environmental management system (EMS) and the quality management system (QMS).

In our 2018 review of Sydney Water's operating licence, we removed the EMS and QMS requirements because we considered at that time that these conditions would not alter Sydney Water's behaviour—it would likely maintain these systems even if the licence did not require them to do it.

Hunter Water stated, in response to our questions on this topic:

Hunter Water's management systems are mature, well-embedded, and enable us to efficiently meet business objectives and stakeholder expectations. If existing licence requirements to maintain the AMS, EMS and QMS were removed, we would choose to retain these systems. That is, we would not do anything differently.

There was significant cost, effort, and organisational change involved in establishing the management systems. These costs are sunk, and pivoting now to a different method of ensuring performance, efficiency and meeting objectives is unlikely to be cost effective. We believe it would also introduce risks to service quality.

Because we would not do anything differently, there are no material costs or benefits that would arise if the existing licence requirements were removed.

These considerations suggest that the AMS, EMS and QMS licence requirements are superfluous. In the counterfactual, Hunter Water states that it would continue to maintain and implement these systems.

Comparison of benefits and costs

The benefits of retaining the licence conditions are very modest. They would only arise in a situation where some future management of Hunter Water might form a different view to the one expressed in the paragraphs above and cease to implement one or all of these systems.

The costs of retaining the licence conditions are also very modest. They consist only of the compliance-related costs for Hunter Water and IPART, which we expect would be small.

Overall, we consider that the net benefits of retaining these licence requirements will be small or could be negative. However, in the event that a future management team decides to change its view, some of the benefits to IPART, the EPA and customers from these systems could be lost.

We consider that this logic provides some support for retaining these licence requirements.

C.7 Customer and stakeholder relations

C.7.1 Customer Contract

Factual and counterfactual defined

Broadly speaking, the customer contract sets out the respective obligations of Hunter Water and its customers. Insofar as these obligations apply to Hunter Water, they are consistent with the recommended clauses in the licence. The licence must set out the terms and conditions of the customer contract. Under the Act, an owner of land that is connected to a water main or sewer main owned by Hunter Water is taken to have entered the customer contract.

Benefits of licence condition

The recommended customer contract confers rights and obligations on customers and Hunter Water. The recommended customer contract contains important protections for customers, including the minimum standards of service that Hunter Water will provide. Hence it makes it somewhat more likely that any licence breaches observed by customers will result in corrective action.

Costs of licence condition

Establishing the customer contract for the first time involves a certain amount of effort in legal drafting. Modifying the customer contract at subsequent licence renewals would involve considerably less legal effort.

There would be some level of cost for Hunter Water and IPART in ensuring ongoing compliance with the customer contract, but these costs should not be overstated. Since the customer contract is largely consistent with the licence, it imposes few additional obligations on Hunter Water. For these reasons, the costs of the customer contract are likely to be relatively low.

Comparison of benefits and costs

The benefits of the customer contract are hard to quantify, but they could be significant for some customers who might otherwise be unaware of their rights. As the costs of the customer contract are relatively low, there is likely to be a net benefit in this licence condition.

C.7.2 Provision of information to Customers and the general public

Factual and counterfactual defined

The counterfactual involves no requirement to provide this information to customers and the general public. Absent a licence requirement, it is possible that Hunter Water may volunteer to provide it. However, in circumstances where the information may tend to portray Hunter Water's service in an adverse light there may be commercial incentives not to provide it. In this counterfactual, we assume that Hunter Water's information provision to customers and the general public would be less helpful in ensuring compliance with other licence conditions, since any non-compliances could be made less visible to customers.

Benefits of licence condition

We consider that the purpose of requiring Hunter Water to inform its customers of their rights is to better enable customers to raise any issues about the quality of the service they receive either with Hunter Water, an ombudsman, or other regulatory authorities.

We have assumed that the practical effect of this requirement would be more comprehensive compliance by Hunter Water with its licence conditions and customer contract. By requiring Hunter Water to disclose the information, customers would have a more detailed picture of Hunter Water's operating performance.

Costs of licence condition

The costs to Hunter Water of providing this information are quantified below. Hunter Water's response to our information request:

The cost involved in making documents listed in the reporting manual publicly available is minor. We estimate less than \$3,000 per annum, including:

- Adding new documents to the website
- Training and information given to customer-facing employees periodically

We are unable to disaggregate the time our customer-facing employees spend providing to customers the documents required under our Reporting Manual.

Overall, we consider that these costs are low.

Comparison of benefits and costs

These obligations would pass a cost-benefit analysis because:

- the other licence obligations that they relate to pass the cost-benefit test and
- the compliance costs are not high in comparison to the net benefits.

We consider that the costs of providing this customer information are low, so the obligation provides a net benefit.

C.7.3 Consumers

Factual and counterfactual defined

The recommended licence condition extends to consumers of water services, who are not customers of Hunter Water, some of the protections of the customer contract as though they were party to the customer contract.

The counterfactual scenario would involve a lack of protections to water consumers who are not direct customers of Hunter Water. The largest group of such consumers would include residents who rent their homes. Their landlords, as property owners, would be customers of Hunter Water. Even though not customers, renters may choose to pay their landlord's outstanding bill directly to Hunter Water to prevent disconnection or service restriction.

Benefits of licence condition

The net benefits of consumer protection generally would be increased if a larger group of consumers is included in the scheme for protection.

Costs of licence condition

There may be some incremental costs to Hunter Water in providing some of the protections available to customers to consumers. However, the protections that are extended to consumers are fairly limited (e.g. notifying tenants of the intention to restrict or disconnect services, and protections for consumers payment difficulty).

Comparison of benefits and costs

Only a qualitative comparison of benefits and costs is possible with the available information. However, the costs are expected to be small and the benefits potentially significant.

C.7.4 Payment difficulties and actions for non-payment

Factual and counterfactual defined

The recommended licence requires Hunter Water to maintain and fully implement the following:

10. a payment difficulty policy to help residential customers and consumers experiencing payment difficulties
11. procedures relating to a payment plan for residential customers experiencing payment difficulties
12. procedures for identifying when Hunter Water may disconnect or restrict water supply
13. provision for self-identification, identification by community welfare organisations and Hunter Water of customers experiencing payment difficulties.

The essence of this requirement is leniency toward customers who may struggle to pay bills on time.

The counterfactual scenario would involve an absence of leniency. This could involve harsh measures for customers facing payment difficulties, including disconnection or restriction of water supply.

Benefits of licence condition

The leniency provided to customers experiencing payment difficulties is of benefit to them. By forming part of the general social safety net, this type of leniency policy provides wider benefits to the community. That is to say that there is a public benefit to the payment difficulty policy.

Costs of licence condition

A leniency policy might encourage some customers to refuse to pay their bills, even in situations that do not involve financial difficulty.

To explore this possibility, we asked Hunter Water to quantify any cost savings if a residential customer was disconnected for non-payment. We also asked them to quantify any costs they would incur as a result of the administrative and regulatory requirements imposed by government relating to disconnection.

Hunter Water replied:

Hunter Water has only once disconnected a residential customer for non-payment. In that instance, after negotiations and costs, the water supply was reconnected. A decision was subsequently made to not disconnect residential customers for non-payment except in extreme circumstances, due to health and hygiene considerations.

Hunter Water does restrict the water flow of residential customers due to non-payment - after all notices have been issued, as set out in our Customer Contract. Restriction of the water supply involves the reduction of flow at the meter device to reduce the flow to a minimal level yet still enable drinking and other basic uses. ...

Hunter Water rarely takes the action to disconnect a property (even a non-residential property). It may be conducted if a property poses a threat to the integrity of our water supply system, such as a backflow prevention device issue or having no backflow prevention device fitted. Non-residential customers are required to install and annually test backflow prevention device as a measure.

Hunter Water does not see a cost saving for disconnection/restriction of properties for non-payment. These actions do present additional costs such as debt recovery fees, meter maintenance fees, legal costs, resource costs and loss of revenue in some instances.

We conclude from this response that a non-lenient counterfactual scenario does not generate cost savings for Hunter Water.

Comparison of benefits and costs

Hunter Water's comments indicate that the present management sees commercial benefit in having a financial difficulty policy. We have also noted that there are public benefits to the financial difficulty policy. The benefit to customers and the wider community is not fully accounted for in Hunter Water's commercial considerations.

Given these points, we consider that a licence requirement for a financial difficulty policy would take Hunter Water further in the direction of leniency than they might choose to go based on commercial considerations alone. Therefore, we consider that this licence requirement generates net economic benefits.

C.7.5 Family violence policy

This recommended provision imposes modest costs on Hunter Water, but it potentially provides vital protection to customers who may be vulnerable to or because of family violence. We have not performed a quantitative cost-benefit analysis on this provision, but we consider that this provision would be likely to provide net social benefits.

C.7.6 Customer engagement

The recommended licence requires Hunter Water to undertake customer, consumer and community engagement to understand customer, consumer and community preferences and willingness to pay for services, and to understand how its systems and processes can better support better relationships with consumers. The recommended licence requires Hunter Water to develop a procedure for conducting this consultation at regular intervals.

The Act requires the operating licence to include terms and conditions requiring Hunter Water to consult with its customers at regular intervals (s13(2)). The Act gives IPART no discretion to recommend removing this requirement from the licence.

C.7.7 Internal Complaints Handling

Factual and counterfactual defined

The recommended licence requires Hunter Water to maintain and implement a procedure for receiving, responding to and resolving complaints which is consistent with the relevant ANZ standard.

The counterfactual scenario would have no such requirement. It is quite likely that if this requirement were not in the licence, Hunter Water may be less prompt in resolving customer complaints where there might be a commercial advantage in ignoring them or delaying a response.

A firm in a competitive market would have strong incentives to address customer complaints promptly or lose market share to those competitors who do. However, that competitive discipline is absent for a monopoly supplier.

Benefits of licence condition

An effective complaints handling mechanism means that customers will enjoy a higher quality of service than they otherwise would, everything else being the same.

Costs of licence condition

Hunter Water would incur some direct costs in providing the complaints-handling mechanism, and also some costs of having to rectify problems when convenient for customers, rather than when most convenient from a work scheduling point of view.

Comparison of benefits and costs

The net benefit of an effective complaint-handling process is that the firm is prevented from earning monopoly rents by providing a lower quality of service. Complaint-handling systems help to ensure that quality standards are enforced.

While a monopoly firm foregoes an opportunity to increase profits by reducing quality (something that even a price-regulated firm can sometimes do), there is a net gain to society. Deadweight loss through lower quality service is minimised by good complaint-handling.

This analysis presumes that the complaint-handling system is relatively efficient itself, and that Hunter Water's reputation would be an insufficient incentive to provide the ideal level of quality.

C.7.8 External dispute resolution scheme

Factual and counterfactual defined

Hunter Water is required to maintain membership in an external dispute resolution scheme such as EWON, or an alternative scheme subject to IPART's approval. The counterfactual would be the absence of such a requirement, which could lead to Hunter Water preferring to resolve disputes through internal mechanisms instead.

Comparison of benefits and costs

The analysis of this licence requirement is the same as the analysis of the requirement for an internal complaints handling system. External dispute resolution scheme membership is another safeguard against monopoly rents and the associated deadweight loss caused by providing substandard quality of service.

Therefore, as long as the external dispute resolution scheme is relatively efficient itself, it should yield net economic benefits by reducing the deadweight loss that might otherwise occur from the use of monopoly power to deliver a lower quality of service than a competitive firm would.

C.8 Stakeholder cooperation

This part of the recommended licence deals with three memoranda of understanding (MOU): one with NSW Health, one with DPE, and one with Fire and Rescue NSW (FRNSW). A MOU is a flexible administrative tool that facilitates future agreements between the parties on matters that may not be foreseen at the time the licence is established.

In the absence of a MOU, additional rules would need to be inserted in the licence at a time when the costs and consequences of those rules might not be well understood.

The benefit of a MOU is flexibility to deal with uncertain future events. The main cost of a MOU is the cost of providing a regular forum for staff of Hunter Water and the respective agencies to discuss emerging issues and attempt to negotiate solutions.

It is intrinsically difficult to quantify the value of flexibility, but not hard to anticipate that this value could be high in particular situations. In contrast, the costs of an MOU, being principally staff time, are relatively modest.

In general, we would consider that MOUs are an appropriate and efficient administrative tool and that they are likely to generate net economic benefits.

C.9 Information and services for competitors

Hunter Water has substantial market power in its area of operations. The WIC Act authorises licensed private water utilities to supply water and sewerage services in competition with public water utilities, such as Hunter Water.

The WIC Act is necessary, but not always sufficient to ensure that potential competitors have the opportunity to compete on the merits. This part of the recommended licence provides protections to WIC Act licensees and to potential competitors who inform Hunter Water that they intend to carry out activities that would require a licence under the WIC Act (the competitors).

In the absence of these protections, it would be open to an incumbent such as Hunter Water to pursue strategies that would have the same practical effect as a refusal to deal. In this counterfactual case, it would likely be in the commercial interest of an incumbent to refuse to deal with potential competitors who are trying to win business from them.

The benefit of these licence requirements is an increase in competitive tension faced by Hunter Water, with the potential gains to consumers that effective competition would create. The costs are specific to each requirement, and these are discussed below.

C.9.1 Negotiations with potential competitors

The recommended licence requires that Hunter Water must negotiate in good faith with WIC Act licensees and potential competitors.

The counterfactual is the absence of this obligation, in which case Hunter Water could not be relied upon to negotiate with its competitors who seek to win business from it. This may lead to less vigorous competition from WIC Act licensees and those intending to commence activities that would require a WIC Act licence for parts of Hunter Water's customer base.

The cost of a good faith requirement would be modest. While Hunter Water might lose some business, that would be offset in a whole of society sense by the gains to competitors. The principal benefit of the good faith requirement is that, over time, the water supply industry in the Hunter area of operations would become more competitive. One way this would happen is that good faith would give competitors more confidence to invest in rival supply facilities because their business uncertainties would be reduced. With a more competitive industry, the deadweight loss would be reduced. Hence the net economic benefits would likely be positive.

C.9.2 Publication of servicing information

The recommended licence requires that Hunter Water must publish certain servicing information which will assist WIC Act licensees to bid for new projects in a timely way.

The counterfactual is the absence of this obligation, in which case Hunter Water could not be relied upon to publish commercially sensitive servicing information that could help its competitors win business from it. This may lead to less vigorous competition from WIC Act licensees and potential competitors for parts of Hunter Water's customer base.

The cost of a requirement to publish servicing information would be modest, given that the required information should already be available to Hunter Water. While Hunter Water might lose some business, that would be offset in a whole of society sense by the gains to competitors. With a more competitive industry, the deadweight loss would be reduced. Hence the net economic benefits would likely be positive.

C.9.3 Code of Conduct with WIC Act Licensees

Factual and counterfactual defined

The recommended licence requires that Hunter Water uses best endeavours to cooperate with any WIC Act licensee that seeks to establish a code of conduct required under a WIC Act licence.

The counterfactual is the absence of this obligation, in which case Hunter Water could not be relied upon to take positive steps beyond good faith negotiations and publication of servicing information that could help its competitors win business from it. This may lead to less vigorous competition from WICA licensees for parts of Hunter Water's customer base.

Benefits of licence condition

The benefit of this condition is tied to the benefit more broadly of the WIC Act, which aims to promote competition in the water industry. Evaluating that broader benefit is difficult. While the WIC Act has promoted small-scale competitive entry, those new players are not challenging Hunter Water for its core business so far. Thus, they are not likely to impose significant competitive pressure on Hunter Water for the foreseeable future.

That broader benefit would be advanced to some extent by this particular licence condition.

Costs of licence condition

The immediate costs of the recommended licence condition would be administrative in nature. An efficient organisation should be able to meet the licence requirement at modest cost.

Comparison of benefits and costs

The benefits and costs of this licence condition are each very modest. The condition could be retained on the basis that it causes little or no harm, while helping to promote a more competitive industry structure in the future.

C.10 Performance monitoring and reporting

Factual and counterfactual defined

The recommended licence requires Hunter Water to provide to IPART or its auditor all information in Hunter Water's possession, or under its custody or control, which is:

- necessary to conduct an operational audit, including any information that is reasonably requested by IPART or the auditor, or
- otherwise reasonably required by IPART to enable any review or investigation of Hunter Water's obligations under the licence.

The recommended licence also requires Hunter Water to comply with its reporting obligations under the Reporting Manual.

In the absence of these requirements (the counterfactual), IPART and its auditor would find it more difficult or even impractical to verify compliance with the Licence, Reporting Manual and any other matters required by the Minister for an operational audit.

Benefits of licence condition

The benefit of regular, formal reports to IPART on Hunter Water's compliance with its licence requirements is a much greater likelihood that Hunter Water will comply with these requirements.

The overall cost-benefit analysis of Hunter Water's operating licence has established that most or all of its conditions generate net economic benefits compared to counterfactual scenarios in which those licence conditions were not met. If licence compliance is necessary to obtain those net benefits, then the lack of compliance would imply that those net benefits were not obtained.

Costs of licence condition

In response to our information request, Hunter Water provided the information in the table below on its costs of reporting to IPART for operational audits, the current reporting manual or as otherwise required by the current licence.

Table C.3 Estimated cost of Hunter Water's reporting requirements

Clauses of the 2017-22 licence	Reporting requirement	Administration (\$2021-22)	Questionnaire (\$2021-22)	Verification (\$2021-22)	Reports (\$2021-22)	Total cost (\$2021-22)	Total hours (#)
1.5	Obligation to make services available	499	748	499	166	1,912	12
1.8	Pricing	819	1,062	493	246	2,620	16
2	Water conservation	1,248	1,386	1,074	617	4,325	28
3.1	Drinking Water	3,812	19,081	15,747	9,298	47,938	330
3.2	Recycled Water	4,342	19,440	12,500	4,342	40,624	253
3.3	System Performance Standards	868	1,353	2,540	380	5,141	35
4.1	Asset Management System	3,043	7,103	6,704	1,943	18,793	126
4.2	Environmental Management System	956	3,991	3,159	2,494	10,601	68
4.3	Quality Management System	758	3,505	1,801	617	6,681	45
5	Customer and Stakeholder	1,065	2,840	1,988	1,988	7,880	60
6.2	Reporting Manual	653	2,611	1,305	326	4,895	30
All	Overall coordination / general	38,640	9,335	19,005	13,410	80,391	443
6.2.1	NWI indicators – coordination / general	1,200	450	600	450	2,700	18
	TOTAL	57,903	72,905	67,414	36,278	234,500	1,463
6.2.1	NWI indicators – cost <u>per indicator</u>	140	210	105	35	490	4

Comparison of benefits and costs

Hunter Water's response indicates that its total costs of meeting the operational audit licence condition are on the order of \$250,000 per annum. The net benefits of licence compliance are likely to far exceed that figure. To take only a few licence conditions, for example compliance with the ADWG generates net benefits of \$7.8m per annum

We conclude that these net benefits from other licence requirements would not be fully achieved if the reporting requirements were not imposed by the licence. As the net benefits far exceed the cost of reporting, we conclude that the reporting requirement itself generates net benefits.

Appendix D

Summary of submissions to draft package

Stakeholder feedback to our draft recommendations have informed our final recommendations on the Licence, Reporting Manual and Customer Contract



In this Appendix, we have summarised the submissions we received from Hunter Water, EWON, PIAC, Sydney Water and one individual anonymous submission in response to our draft recommendations for the Licence, Reporting Manual and Customer Contract (licence package). The submissions are listed in order of their responses to our draft recommendations. These submissions have informed our final recommendations for the licence package, discussed in this report. We note that our draft recommendations are not identical to our final recommendations.

These submissions, and submissions to our Issues Paper, have informed our recommendations to the Minister for the Hunter Water licence package. The submissions to our Issues Paper and our summary of the submissions are available on our [website](#).

The following symbols indicate the stakeholders' positions:















-  Support our draft recommendations or has minor amendments
-  Disagree with our draft recommendations
-  Support our draft recommendations but proposes alternative approach OR has a view on an issue where IPART did not take make a draft recommendation
-  Have not provided a view.




Table D4 Submission summary to Hunter Water Operating Licence Review draft recommendations


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
1	Retain requirements in the Licence for water quality management systems consistent with the Australian Drinking Water Guidelines (ADWG) and the Australian Guidelines for Water Recycling (AGWR).	 Hunter Water supports the proposed clauses as they ensure ongoing focus on water quality consistent with the high importance of protecting public health and the environment.	<p>PIAC</p>  PIAC supports retaining the requirements for water quality management systems consistent with the ADWG and AGWR.	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the current operating licence conditions for a Drinking Water Quality Management System (DWQMS) consistent with the AADWG, and a Recycled Water Quality Management System (RWQMS) consistent with the AGWR.</p> <p>These are the minimum standards that customers can expect Hunter Water will meet when supplying water.</p>
			<p>Sydney Water</p>  Sydney Water supports retaining requirements for water quality management systems consistent with the ADWG and AGWR.	



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
2	Retain requirements in the Licence to implement the water quality management systems.	 Hunter Water supports the proposed clauses as they ensure ongoing focus on water quality consistent with the high importance of protecting public health and the environment.	Sydney Water  Sydney Water supports retaining requirements for implementing water quality management systems.	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the current operating licence conditions to implement the DWQMS and RWQMS.</p>
3	Expand the definition of the AGWR in the proposed Licence to include all volumes of the guidelines.	 Hunter Water supports the proposed clauses as they ensure ongoing focus on water quality consistent with the high importance of protecting public health and the environment.	Nil	<p><i>[Changes to the current operating licence - no material changes to our draft recommendation]</i></p> <p>We recommend defining the AGWR as follows:</p> <p><i>Australian Guidelines for Water Recycling means the document titled Australian Guidelines for Water Recycling (Phases 1 and 2) published by the Environment Protection and Heritage Council, the Natural Resource Management Ministerial Council and the Australian Health Ministers' Conference (as amended or updated from time to time).</i></p>




#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
4	Clarify NSW health's role in specifying reasonable health-based requirements made in writing. These are intended to be additional to the requirements set by the ADWG/AGWR (and are not intended to depart from the guidelines).	 Hunter Water supports the proposed clauses as they ensure ongoing focus on water quality consistent with the high importance of protecting public health and the environment.	<p>PIAC</p>  PIAC agrees that minimums defined by NSW health should be met. However, PIAC considers it "more appropriate for the highest standard to apply wherever there is inconsistency, to ensure that NSW communities are not subject to lower standards than those elsewhere in the country." <p>Sydney Water</p>  Sydney Water supports clarifying the role of NSW Health in providing requirements that are additional to AGWG/AGWR requirements.	<p><i>[Changes to the current operating licence to clarify NSW Health intent accurately - no material changes to our draft recommendation]</i></p> <p>We recommend clarifying in the Licence that NSW Health can specify additional health-based requirements to the ADWG/AGWR, when requested in writing.</p> <p>While we recognise the intent behind PIAC's comments, we consider that making the requested clarification in the Licence is unnecessary. As NSW Health's requirements would be <i>additional</i> to the ADWG/AGWR, we do not expect there to be regular inconsistencies. Further, it may be difficult to determine which is 'the highest standard' in all circumstances.</p> <p>We recommend that the Licence should specify that these additional requirements must be 'reasonable' to allow Hunter Water an opportunity to demonstrate if it is not cost-effective or practical implement the additional requirements.</p> <p>Similarly, we also recommend clarifying that where Hunter Water must carry out activities in accordance with those water quality management systems and to the satisfaction of NSW Health, this is to NSW Health's 'reasonable' satisfaction.</p>





#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
5	<i>[Reporting Manual]</i> Retain most of the current water quality reporting requirements but replace annual compliance and performance reporting on the water quality management systems with exception reporting only.	 Hunter Water requested minor modifications in wording. Hunter Water requested a transition period to develop and implement new content requirements, to be able to provide a comprehensive quarterly report similar to Sydney Water's Quarterly Drinking Water Quality Report.	Sydney Water  Sydney Water supports the move to exception-based reporting for water quality reporting requirements.	<p><i>[No material changes to the current reporting manual – changes to our draft position]</i></p> <p>We have retained the current reporting requirements for water quality management with minimal change.</p> <p>We previously considered reducing the current annual compliance and performance reporting on the water quality management systems. However, NSW Health advised that the annual reporting requirements are essential for Hunter Water to demonstrate equivalent requirement to the QAP requirements in section 25 of the <i>Public Health Act 2010</i>. Consequently, it is the basis for the exemption due to duplicative requirements. To avoid an unintended consequence of having the exemption revoked, we have made no change to the reporting requirement.</p> <p>We have retained the wording from the current reporting manual for a monthly water quality report to be clear that we are not increasing the current reporting requirements. Hunter Water is able to continue reporting on its water quality monthly, or do this quarterly, as is appropriate. We have not observed or been notified of any issues with Hunter Water's current water quality monitoring reporting and therefore consider there is no need to increase the requirements for this reporting.</p>


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
6	Do not include a new Licence requirement for fluoridation. We can assess fluoridation performance under the water quality management system requirements in the Licence for drinking water.	 Hunter Water supports the recommendation.	Sydney Water  Sydney Water supports not including a new requirement for fluoridation.	<i>[No material changes to the current operating licence or to our draft recommendation]</i> We do not recommend a new Licence condition for compliance with the Fluoridation Code. Such a requirement would duplicate the Fluoridation Regulation without providing additional benefit. We can monitor Hunter Water's fluoridation monitoring through its periodic reporting. Therefore, we recommend retaining reporting requirements for fluoridation monitoring. We can also audit Hunter Water's fluoridation performance when we audit Hunter Water's DWQMS if necessary.
7	Retain 4 of the current 5 system performance standards for water continuity, water pressure and dry weather wastewater overflows in the Licence.	 Hunter Water supports the recommendation.	Nil	<i>[Changes to the current operating licence to remove one system performance standard for water continuity- no material changes to our draft recommendation]</i>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				We recommend retaining 4 of 5 of the current system performance standards (and the service levels that they impose) for water continuity, water pressure and dry weather wastewater overflows.
8	Do not include one of the current water continuity standards for multiple short unplanned service interruptions	 Hunter Water supports the recommendation.	Nil	<p><i>[Changes to the current operating licence to remove one system performance standard for water continuity- no material changes to our draft recommendation]</i></p> <p>We recommend removing one of the current water continuity standards for multiple short unplanned service interruptions. We consider that a licence standard is not necessary to achieve the intended outcome. Hunter Water explained that it would achieve the same outcome through its asset management decisions. Given asset replacement is more expensive, Hunter Water will undertake more regular repairs, which will result in fewer short interruptions. However, we plan to continue to maintain the repeat event measure as an IPART performance indicator that Hunter Water must report against so that we are still able to monitor the trend.</p>


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
9	Retain the service levels specified by the system performance standards in the current operating licence (i.e. do not increase or lower service levels).	 Hunter Water supports the recommendation. Hunter Water stated that it will work with IPART's secretariat on counting of properties that experience multiple service interruptions to ensure the standards is not increased or lowered.	<p>PIAC</p>  PIAC supports retention of existing service performance standards levels. PIAC agrees that it would not be appropriate to reduce service levels and further impact customers who may already disproportionately affected. <p>PIAC suggested that we (IPART) could direct Hunter Water to consider additional service measures which better identify problem areas and are able to inform programs to address issues for customers and communities who may be impacted by service performance that is below expected minimums.</p>	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the service levels specified by the system performance standards in the current operating licence. We consider that these levels are appropriate and reflect customer willingness to pay. We do not recommend increasing or lowering these service levels.</p> <p>We note PIAC's concerns for customers who may be disproportionately impacted by service below the expected standard. However, at this stage, we do not recommend including Licence conditions for addressing these issues.</p> <p>Hunter Water is currently undertaking investigations for identifying and estimating the impact, and potentially developing solutions. We can continue to engage with Hunter Water on its progress with this work and consider if a Licence condition is necessary at the next licence review. At this stage, given that Hunter Water is proactively undertaking this work, we consider that a Licence condition is not necessary. Further, without understanding the full extent of the practicalities of addressing these problems, including a Licence condition may have unintended consequences.</p>





#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
10	Express the standards as a proportion of properties supplied to account for customer growth.	 Hunter Water supports the recommendation. Hunter Water will work with the IPART secretariat to ensure the derivation of the new thresholds do not effectively raise the standard.	<p>PIAC</p>  PIAC considers expressing system performance standards as a proportion of supplied properties helps ensure a consistent longitudinal measure that can account for growth and other changes in the system. <p>PIAC supports this improvement, in addition to identifying areas of concentrated performance issues. Together these should provide a more accurate picture of the system performance over time and how Hunter water is meeting the needs of all the community.</p> <p>Sydney Water</p>  Sydney Water supports the use of proportional thresholds over absolute as it accounts better for customer growth.	<p><i>[Changes to the current operating licence which specifies absolute thresholds – no material changes to our draft recommendation]</i></p> <p>We recommend that the retained standards should be expressed as proportional limits rather than absolute thresholds as in the current licence to account for population growth.</p> <p>We have amended the thresholds in the standards since we published the draft Licence to match NPR audited data on customer numbers.</p> <p>As above, we note PIAC's concerns for customers who may be disproportionately impacted by service below the expected standard. However, at this stage, we do not recommend including Licence conditions for addressing these issues.</p>




#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
11	Retain the current approach to set minimum standards in the Licence and do not optimise the standards.	 Hunter Water supports the recommendation.	Sydney Water  Sydney Water supports performance standards reflecting a minimum level of performance, rather than an optimal level.	<p><i>[No material changes to the current operating licence or our draft recommendation]</i></p> <p>We do not recommend optimising the standards. The Licence does not inhibit Hunter Water from performing better than the prescribed standard, if Hunter Water chooses to invest accordingly, in line with customers' preferences.</p>
12	<i>[Reporting Manual]</i> Do not include current annual compliance and performance reporting requirements for system performance standards and replace with exception reporting only.	 Hunter Water supports the recommendation.	Sydney Water  Sydney Water supports the move to exception-based reporting for system performance standards reporting requirements.	<p><i>[Changes to the current reporting manual which includes compliance and performance monitoring requirements – no material changes to our draft position]</i></p> <p>We have not included annual compliance and performance reporting for system performance standards. We consider that these reports are not providing information that justifies the burden of producing them.</p> <p>We consider that the most critical compliance information that Hunter Water must provide is information on non-compliances. We can review Hunter Water's compliance with the system performance standards comprehensively when we undertake the operational audits. We can request any additional compliance information on a need basis.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				Hunter Water will provide information on non-compliances with the system performance standards (and its Licence generally) with its annual statement of compliance.
13	Retain requirements in the Licence to calculate system yield in a manner agreed with DPE.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or our draft recommendation]</i></p> <p>We recommend retaining the current operating licence condition that requires Hunter Water to calculate the System Yield in accordance with the MoU with DPE. We consider that this continues to be a flexible and appropriate way of requiring the system yield calculation.</p> <p>We do not recommend including additional prescription in the Licence clause. We understand that Hunter Water is already considering the impacts of climate change in its system yield calculations and DPE's updates to the calculation methodology is the appropriate way to address this issue.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
14	Retain requirements in the Licence to maintain and implement a water conservation work program in relation to Water Storage and Transmission. This water conservation work program must be in accordance with Hunter Water's Water Conservation Strategy.	 Hunter Water supports the recommendation.	Nil	<p><i>[Changes to the current operating licence – no material changes to our draft recommendation]</i></p> <p>We recommend conditions in the draft Licence that require Hunter Water to implement the water conservation work program(s) it developed under the current operating licence during the 2017-2022 operating licence period.</p>
15	Include transition arrangements in the Licence so that the water conservation work program in relation to Water Storage and Transmission will be superseded by requirements to develop a 5-year Water Efficiency Plan. The Water Efficiency Plan will consider the total water cycle from catchment to tap.	 Hunter Water supports the recommendation.	Nil	<p><i>[New condition not in the current operating licence – No material changes to our draft recommendation]</i></p> <p>We recommend Licence conditions allowing Hunter Water time to develop and implement a 5-year Water Conservation Plan after the NSW Government Water Efficiency Framework has been published.</p> <p>Until such time, Hunter Water will implement its current water conservation work program(s). These will be replaced by a 5-year Water Conservation Plan, consistent with the Water Efficiency Framework, once ready.</p>


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				As the Water Efficiency Framework is not yet available, we consider it prudent for the Licence to include water conservation requirements that can be implemented until the Framework is published.
16	Retain requirements in the Licence for Hunter Water to use an economic approach to water conservation (for water supplied from treatment plants to consumers).	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the approach in the current operating licence for an economic approach to water conservation for transmission from treatment plants to customers and consumers only. That is, an economic approach should not initially be required for Hunter Water's catchments.</p> <p>Once Hunter Water transitions to the 5-year water conservation plan, an economic approach can be applied to the total water cycle, as practicable.</p> <p>DPE had intended to develop a new economic approach under the Framework (as advised in its submission to the Issues Paper). However, DPE has since concluded that Hunter Water's current economic method is sound and only requires minor updating to expand the scope to include the total water cycle.</p>




#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
17	Allow flexibility in the Licence for Hunter Water to use any economic approach once it has been approved by the Minister, and not be limited to the Economic Level of Water Conservation methodology only.	 Hunter Water supports the recommendation.	Sydney Water  Sydney Water reiterated its response to the Issues paper that Sydney Water considers it important that a wide range of factors, including financials, market demand, legality and drought response plans should be included in addition to an economic assessment.	<i>[Changes to the current operating licence – no material changes to our draft recommendation]</i> We recommend allowing flexibility in the Licence for Hunter Water to use any economic approach once it has been approved by the Minister, and not be limited to the Economic Level of Water Conservation methodology. This is consistent with the Sydney Water operating licence. We expect that Hunter Water will continue to use the Economic level of Water Conservation methodology at least in the short term.
18	Include transition arrangements in the Licence so that the water conservation work program based on the economic approach (for water supplied from treatment plants to consumers) will be superseded by requirements to develop a 5-year Water Efficiency Plan. The Water Efficiency Plan will consider the total water cycle from catchment to tap.	 Hunter Water supports the recommendation.	PIAC  PIAC supports improvements to ensure the total water cycle is subject to an assessment methodology for conservation.	<i>[New condition not in the current operating licence – No material changes to our draft recommendation]</i> As above, we recommend that the Licence should require Hunter Water to implement its current water conservation work program(s) until such time as a 5-year Water Conservation Plan, consistent with the Water Efficiency Framework, has been developed. As the Water Efficiency Framework is not yet available, we consider it prudent for the Licence to include water conservation requirements that can be implemented until the Framework is published.





#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
19	Include a new requirement in the Licence to prepare a drought response plan.	 Hunter Water supports the recommendation.	<p>PIAC</p>  PIAC supports including a requirement to prepare a drought response plan consistent with that of Sydney Water. However, it should be clarified that drought response is about actions taken to avoid or mitigate the impacts of droughts, not only response to declared drought. <p>Sydney Water</p>  Sydney Water supports including a new requirement to prepare a drought response plan in line with the current Sydney Water operating licence 2019-2023 to prepare an emergency drought response plan.	<p><i>[New condition not in the current operating licence - No material changes to our draft recommendation]</i></p> <p>We recommended new Licence conditions for Hunter Water to prepare a drought response plan.</p> <p>Adoption of a drought response plan is consistent with the objectives of the Lower Hunter Water Security Plan. While the Lower Hunter's existing water supply system performs well in typical climate conditions, it is vulnerable to drought due to the reliance on rainfall, the relatively small size of its storages and high levels of evaporation in the catchment. If a severe drought was to continue beyond 3 years, the water supply system could fail. Although the likelihood of the region running out of water is very low, the consequences would be catastrophic. For these reasons, we consider that it is appropriate that Hunter Water be required to prepare a drought response plan.</p>


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				<p>We agree with PIAC's position that the drought response plan should consider both long-term and immediate drought, but we have not recommended a Licence condition explicitly requiring this. It is already incorporated into the Lower Hunter Water Security Plan. Such a Licence condition would duplicate the condition that we have recommended for Hunter Water to consider the strategic context of the Lower Hunter Water Security Plan in developing its drought response plan.</p>
20	<p><i>[Reporting Manual]</i> Retain reporting requirements to support the proposed water conservation and water planning Licence conditions.</p>	<p> Hunter Water supports the recommendation.</p>	<p>PIAC</p> <p> PIAC supports the draft recommendation to retain reporting requirements in support of proposed Licence conditions relating to water conservation. PIAC agrees that these requirements should be updated to require Hunter Water to report annually on how conservation activities relate to Lower Hunter Water planning.</p>	<p><i>[Changes to the current reporting manual – no material changes to our draft position]</i></p> <p>We have updated the reporting requirements so that Hunter Water's annual report must outline how Hunter Water's water conservation activities relate to the Lower Hunter Water Security Plan.</p> <p>The requirements in the Reporting Manual are intended to support DPE and IPART in monitoring Hunter Water's compliance with its Licence requirements for water conservation and planning.</p>


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
21	Retain requirements for publishing the Customer Contract, making timely variations and communicating those variations.	 Hunter Water supports the recommendation.	PIAC  PIAC supports retaining requirements to maintain and update the customer contract and make it accessible to consumers and the community in formats and circumstances that inform and assist people.	<p><i>[Changes to the current operating licence – no material changes to our draft recommendation]</i></p> <p>Clause 5.7.3 of the current operating licence requires Hunter Water to reflect changes to the Customer Contract within 60 days to ensure currency.</p> <p>We recommend retaining the current licence requirement to make timely variation to the Customer Contract and to also update the copy of the Customer Contract on its website to reflect these changes. These licence conditions support the requirements of section 38 of the Act by ensuring the changes made under section 38 are effectively communicated to customers, so that they are aware of the most current version of the Customer Contract.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				<p>However, we recommend that Hunter Water should make the varied Customer Contract available from the date that the variation takes effect, and not continue the 60-day allowance in the current operating licence. Under section 38(1A) of the Act, Hunter Water must publish the order setting out or summarising the changes to the Customer Contract at least 6 months before the variation comes into effect (to notify relevant stakeholders). We consider that it is reasonable to expect Hunter Water to update the Customer Contract within this notification period.</p>
22	<p>Support Hunter Water's proposed changes to the Customer Contract, except in some cases as explained in the Summary of changes to the Customer Contract published in Information Paper 3 on our website.</p>	<p> Hunter Water requests reconsideration of four substantial elements in the draft Customer Contract.</p>	<p>Nil</p>	<p>We have explained our recommended changes in the final report and in our recommendations to the Customer Contract in Appendix A.</p>




#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
23	Make explicit in the Customer Contract which clauses apply to those customers that have a non-standard connection to Hunter Water's services and are not party to a separate agreement (i.e. are deemed to be included in the Customer Contract).	 Hunter Water supports the recommendation.	Nil	<p><i>[Changes to the current customer contract – no material changes to our draft recommendation] /</i></p> <p>We have recommended changes to the current customer contract to acknowledge customers with non-standard connections that do not have separate agreements with Hunter Water. This is explained in Appendix A – the summary of our recommended changes to the Customer Contract.</p>
24	Include requirements in the Licence to communicate information to customers and the general public about customers' rights under the Customer Contract, available account relief and rebate claims available.	 Hunter Water supports the recommendation.	<p>PIAC</p> <p> PIAC supports recommendation 24 in relation to communication of customers' rights.</p>	<p><i>[Changes to the current operating licence – no material changes to our draft recommendation] /</i></p> <p>We recommend requiring Hunter Water to make information on the following matters available to customers and the general public:</p> <ul style="list-style-type: none"> • the Customer Contract and its provisions (including an explanation and a brief summary of customers' rights and obligations) • the types of account relief available for customers experiencing payment difficulties • the rights of customers to claim a rebate and the conditions that apply to those rights.




#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
25	Include requirements in the Licence to update communications following any changes to the information in the Customer Contract, available account relief and rebate claims available.	 Hunter Water supports the recommendation.	<p>PIAC</p> <p> PIAC supports recommendation 25 in relation to communication of customers' rights.</p>	<p><i>[Changes to the current operating licence – no material changes to our draft recommendation] [</i></p> <p>The recommended communication requirements seek to ensure that customers are informed about their rights and obligations under the Customer Contract and the types of account relief or rebates that may be available to them</p> <p>Hunter Water would need to update its communications following any changes to the Customer Contract or other information specified in the Licence condition. This is generally consistent with the requirements of the current operating licence (clause 5.7).</p>
26	Allow flexibility in the Licence for Hunter Water to use any method of communication with its customers and remove the current restriction of communicating through 'pamphlets'.	 Hunter Water supports the recommendation.	<p>PIAC</p> <p> PIAC recommends amending the drafted clause so that information about the Customer Contract that Hunter Water provides is accessible to all members of the public and is not restricted to digital platforms.</p> <p>EWON</p>	<p><i>[Changes to the current operating licence and to our draft recommendation] [</i></p> <p>We recommend flexibility in the Licence for Hunter Water to use any method of communication with its customers and remove the current restriction of communicating through 'pamphlets'.</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
			 EWON recommends updating the wording of the requirement to clarify that customers will receive information about the Customer Contract with their bills, 'by the same method that the Customer chooses to receive their bills'. EWON also sought a requirement for Hunter Water to send the required information directly to all residential addresses/properties to ensure that consumers such as tenants are made aware of the information relevant to them.	<p>To address PIAC's concerns, we recommend clarifying in the Licence that information published about the Customer Contract, under recommended clause 25(4) of the Licence, should be accessible to all members of the public without being limited to digital only platforms.</p> <p>To address EWON's concerns, we also recommend clarifying in the Licence that Hunter Water must make information available to customers with their bills <i>via the method chosen by customers to receive their bills</i>. Customers who have chosen to receive electronic bills will therefore receive their information in the same format. Whereas customers that have chosen to receive paper copies of bills will receive information with those bills.</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				At this time, we have not recommended requirements to provide information to consumers (tenants) directly. Hunter Water advised that it has a working partnership with the Hunter Tenants Advice and Advocacy Service to provide information as required and it undertakes community outreach events where customers and tenants can ask for specific information. We consider that these measures may be more effective than a Licence requirement to send general information to residential addresses, which will impose a cost burden that we consider is not justifiable given the small number of consumers they would relate to.
27	Do not include the current requirement to provide IPART with a copy of any notice of changes to the Customer Contract, before publishing that notice (current operating licence clause 5.1.2).	 Hunter Water supports the recommendation.	Nil	<p><i>[Remove condition from the current operating licence – no material changes to our draft recommendation]</i></p> <p>We recommend removing the current operating licence requirement for Hunter Water to provide us with prior notice of changes to the Customer Contract before publishing the notice should be removed.</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				Removing this Licence condition will not remove the requirement for Hunter Water to publish a notice about changes it proposes to make as this remains a requirement of section 38 of the Act. We consider that customers are adequately protected by the Act's requirement and removing the Licence condition will reduce some administrative burden on both Hunter Water and us.
28	Retain Licence conditions extending customer protections under the Customer Contract to 'consumers' that are not usually party to the Customer Contract.	 Hunter Water supports the recommendation.	<p>PIAC</p>  PIAC strongly supports retention of licence conditions extending protections to 'consumers' not usually regarded as party to the customer contract. Clauses relating to the customer contract, payment difficulty and assistance, restriction and disconnection, customer consultation, and payment information should be added to existing provisions which apply to customers. <p>EWON</p>	<p><i>[Changes to the current operating licence further extending provisions applicable to consumers – minor changes to our draft recommendation to avoid unintended consequences when making these extensions]</i></p> <p>We recommend retaining the current condition in the operating licence that extends protections to 'consumers' (who are not parties to the contract) and further extending them. All of the clauses that are applicable to consumers are listed in clause 27 of the recommended Licence.</p> <p>We have made minor changes since we published the draft Licence to avoid unintended consequences. These changes seek to limit the clauses to be extended to consumers without imposing unintended obligations on either the consumer or Hunter Water.</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
			 EWON strongly supports the further extension of protections to consumers within the Customer Contract.	<p>The recommended Licence condition seeks to clarify all the clauses of the Customer Contract that impact consumers. Extending provisions of the current customer contract to consumers does not create a contractual relationship between Hunter Water and the consumers. Where Hunter Water does not comply with the provisions of the customer contract extended to consumers, this would be a breach of clause 5.2.1 of the current operating licence.</p>
29	Retain requirements to make services available to properties in its area of operations, on request	 Hunter Water supports the recommendation.	<p>PIAC</p>  PIAC supports retaining requirements for Hunter Water to make services available to properties in its area of operations, on request	<p><i>[No material changes to the current operating licence or to our draft recommendations]</i></p> <p>We recommend retaining the current operating licence requirement for Hunter Water to make services available to properties in its area of operations (on request).</p> <p>To ensure that the obligations placed on Hunter Water are fair and reasonable, we also recommend retaining the provision in the current operating licence for Hunter Water to impose any reasonable conditions to ensure the safe, reliable and financially viable supply of the services.</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
30	Retain requirements to maintain, implement and communicate to customers and the general public about assistance options and actions for non-payment and any variations to this information.	 Hunter Water supports the recommendation. Hunter Water has requested allowing updated information to be provided to customers with their next bill, rather than within '60 days' of variations taking effect. Hunter Water advised that providing updated information within 60 days of making changes is not practicable because of the nature of the billing frequency and rolling billing cycles.	PIAC  PIAC supports retaining the requirement and suggests adding a provision for providing information directly to residential tenants. The information might be provided to tenant agents or the rental board at the time of bond lodgement. EWON  EWON supports retaining the requirement. EWON has sought an additional requirement to make information about payment assistance options available to customers on the date that Hunter Water first identifies that the customer is facing payment difficulty. EWON notes that assisting customers experiencing financial vulnerability at the earliest opportunity leads to less accrued debt over time. Further, it increases a customer's ability to pay their water bills in accordance with an established payment plan.	<i>[Changes to the current operating licence and to our draft recommendation.]</i> We recommend retaining requirements in the Licence about payment assistance options for customers experiencing payment difficulties and actions for non-payment, similar to those in the current operating licence. These conditions help customers and consumers facing payment difficulties to pay their bills and retain their water service. We also recommend some new conditions, reflecting stakeholder feedback, to ensure further customer protections. As per our response to draft recommendation 26, we consider that Licence requirements for providing information directly to residential consumers, as sought by PIAC, is not a cost-effective measure. Therefore, we have not made a recommendation to address this at this time (as suggested by PIAC).

Sydney Water








Sydney Water supports retaining requirements around publishing and timely communication of information to customers. However, Sydney Water questions the drafting that requires Hunter Water to provide information within '60 days' of variations taking effect. Sydney Water suggests IPART consider replacing '60 days' with 'next account' to align with billing cycle and hence reduce administrative burden.

We previously discussed including a Licence condition requiring Hunter Water to provide information on payment assistance options on the date that it first identifies a vulnerable customer, as requested by EWON, in the Issues Paper. While EWON expressed its support at the time, we considered that it was not necessary and did not include it in our draft recommendation. Hunter Water advised that it already makes efforts to provide information in a timely manner and we had not identified any issues in the current (2017-2022) operating licence term.

However, given that EWON has sought this condition again and there has been a potential rise in financially vulnerable customers since the Covid-19 pandemic began, we have included this in our final recommendation on the Licence. That is, we recommend that Hunter Water must provide information within one business day from when it first documents or records that a customer has been identified as experiencing payment difficulty. While we have not identified problems with Hunter Water's management of this to date, the Licence condition will continue to safeguard against future problems.

We have recommended changes to the Licence since we published the draft to ensure customers receive the information in the format that they have chosen to receive their bills (whether this is electronically or through a paper copy) and to allow

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				Hunter Water to provide the information with their next billing cycle.
31	Include a new Licence requirement to develop, implement and communicate to customers and the general public about a family violence policy and any variations to this policy.	 Hunter Water supports the recommendation. Hunter Water has requested allowing updated information to be provided to customers with their next bill, rather than within '60 days' of variations taking effect. Hunter Water advised that providing updated information within 60 days of making changes is not practicable because of the nature of the billing frequency and rolling billing cycles.	PIAC  PIAC supports the inclusion of a new licence requirement to develop, implement and communicate a family violence policy. PIAC suggest adding a provision for providing information directly to residential tenants. The information might be provided to tenant agents or the rental board at the time of bond lodgement. Sydney Water  Sydney Water supports retaining requirements around publishing and timely communication of information to customers. However, Sydney Water questions the drafting that requires Hunter Water to provide information within '60 days' of variations taking effect. Sydney Water suggests IPART consider replacing '60 days' with 'next account' to align with billing cycle and hence reduce administrative burden.	<i>[New condition not in the current operating licence –no material changes to our draft recommendation.]</i> We recommend a new Licence condition requiring Hunter Water to develop and implement a family violence policy. We also recommend requirements for Hunter Water to communicate the policy to its customers and periodically review it. As per our response to draft recommendation 26, we consider that Licence requirements for providing information directly to residential consumers is not a cost-effective measure. Therefore, we have not made a recommendation to address this at this time, as suggested by PIAC. We have recommended changes to the Licence since we published the draft to ensure customers receive the information in the format that they have chosen to receive their bills (whether this is electronically or through a paper copy) and to allow Hunter Water to provide the information with their next billing cycle.

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
32	Retain requirements to develop, implement and communicate to customers and the general public about Hunter Water's internal complaints handling procedure and any variations to this procedure.	 Hunter Water supports the recommendation. Hunter Water has requested allowing updated information to be provided to customers with their next bill, rather than within '60 days' of variations taking effect. Hunter Water advised that providing updated information within 60 days of making changes is not practicable because of the nature of the billing frequency and rolling billing cycles.	Sydney Water  Sydney Water supports retaining requirements around publishing and timely communication of information to customers. However, Sydney Water questions the drafting that requires Hunter Water to provide information within '60 days' of variations taking effect. Sydney Water suggests IPART consider replacing '60 days' with 'next account' to align with billing cycle and hence reduce administrative burden.	<p><i>[No material changes to the current operating licence or to our draft recommendations]</i></p> <p>We recommend retaining the Licence requirement to develop and implement an internal complaints handling procedure and to communicate this procedure to customers. We consider that retaining the requirement in the Licence provides transparency and allows the complaint handling processes to be audited.</p> <p>We have recommended changes to the Licence since we published the draft to ensure customers receive the information in the format that they have chosen to receive their bills (whether this is electronically or through a paper copy) and to allow Hunter Water to provide the information with their next billing cycle.</p>

33

Retain requirement for membership of an external dispute resolution scheme but allow Hunter Water the option of membership of the Energy and Water Ombudsman NSW or another external dispute resolution scheme approved by IPART.



Hunter Water supports the recommendation.

PIAC



PIAC supports retention of requirements for Hunter Water to be a member of an approved external dispute resolution scheme, and to communicate information regarding this membership to consumers and the community.

PIAC strongly recommends Hunter Water remain a member of the Energy and Water Ombudsman, which has a demonstrated record of high-quality performance in external dispute resolution in essential services.

EWON






EWON supports the move away from a prescriptive approach. EWON recommends the licence requirement should mirror the additional information noted in the draft Customer Contract regarding approval by the Governor of variations to the Customer Contract. EWON also made recommendations on approval criteria for IPART's consideration and warns against risks to independence and free services where multiple schemes operate in the same space. EWON is also concerned that

[Changes to the current operating licence and to our draft recommendation]

We recommend retaining the Licence requirement for Hunter Water to be a member of EWON. However, we have also recommended flexibility in the Licence to allow Hunter Water to be a member of another external dispute resolution scheme with IPART's approval.

We have included in our recommendation, minimum criteria that an alternative dispute resolution scheme must meet. These criteria are informed by EWON's submission.

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
			<p>issues could arise if public water utilities, like Hunter Water, are members of a different scheme to the private utilities licenced under that WIC Act.</p> <p>Sydney Water</p> <p> Sydney Water supports retaining the requirement for Hunter Water to remain a member of an external dispute resolution scheme such as EWON or another scheme approved by IPART.</p>	
34	Retain requirements to communicate to customers and the general public about the external dispute resolution scheme and any variations to this information.	<p> Hunter Water supports the recommendation.</p>	<p>Sydney Water</p> <p> Sydney Water supports retaining requirements around publishing and timely communication of information to customers. However, Sydney Water questions the drafting that requires Hunter Water to provide information within '60 days' of variations taking effect. Sydney Water suggests IPART consider replacing '60 days' with 'next account' to align with billing cycle and hence reduce administrative burden.</p>	<p><i>[Changes to the current operating licence and to our draft recommendation]</i></p> <p>We recommend retaining requirements in the Licence to communicate to customers and the general public about the external dispute resolution scheme and any variations to this information.</p> <p>We have recommended changes to the Licence since we published the draft to ensure customers receive information in the format that they have chosen to receive their bills (whether this is electronically or through a paper copy) and to allow Hunter Water to provide the information with their next billing cycle.</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
		Hunter Water has requested allowing updated information to be provided to customers with their next bill, rather than within '60 days' of variations taking effect. Hunter Water advised that providing updated information within 60 days of making changes is not practicable because of the nature of the billing frequency and rolling billing cycles.		

35 Do not include the current prescriptive requirements for Hunter Water to maintain a Customer Advisory Group. Instead, allow flexibility in the Licence to undertake customer consultation in any manner that Hunter Water considers effective.



Hunter Water supports the recommendation.

PIAC






PIAC supports licence conditions embedding the centrality of consumer and community engagement in the decision-making processes of Hunter Water. PIAC agrees that prescribing engagement methods may not achieve the desired outcomes. PIAC recommends that a Customer Advisory Group or equivalent continue to be specified as a required aspect of engagement.



[Changes to the current operating licence and to our draft recommendation]



We recommend a less prescriptive requirement in the Licence to undertake customer, consumer and community consultation (as required by the Act). We consider that Hunter Water should undertake any type of consultation that it considers will be beneficial.



However, we appreciate the benefits that the CAG provides, and Hunter Water is still able to use the CAG and not be in breach of the Licence condition, if it considers it to be beneficial.


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
			<p>PIAC recommends Hunter Water's licence requirements refer to consultation with consumers and the community, rather than customers.</p> <p>PIAC strongly supports the proposed addition of a clause requiring Hunter Water to improve its direct relationships with consumers such as residential tenants.</p> <p>EWON</p> <p> EWON strongly supports inclusion of an outcomes-based requirement which will require Hunter Water to undertake customer and consumer consultation.</p>	<p>We have included PIAC's suggestions in our recommendation to also apply to 'consumers' and the general community.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
			<p>Anonymous</p> <p> The submission does not support replacing the prescriptive requirement to maintain a Customer Advisory Group as it does not preclude Hunter Water from otherwise consulting with customers, provides benefit even if not all customer groups are represented, and when empowered a Customer Advisory Group can bring about better outcomes for Hunter Water and its customers than otherwise.</p> <p>Sydney Water</p> <p> Sydney Water considers the draft requirement to allow Hunter Water to undertake customer consultation in any manner that Hunter Water considers effective to be reasonable.</p>	



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
36	<i>[Reporting Manual]</i> Do not include current annual compliance and performance reporting requirements for customer and stakeholder relations and replace with exception reporting only.	 Hunter Water supports the recommendation.	Nil	<p><i>[Changes to the current reporting manual - no material changes to our draft position]</i></p> <p>We have removed the current annual compliance and performance reporting requirements for customer and stakeholder relations. We consider that these reports are not providing information that justifies the burden of producing them.</p> <p>We consider that the most critical compliance information that Hunter Water must provide is information on non-compliances. We can review Hunter Water's compliance with the Licence conditions comprehensively when we undertake the operational audits. We can request any additional compliance information on a need basis. Hunter Water will provide information on its non-compliances with the customer-related Licence conditions (and its Licence generally) with its annual statement of compliance.</p>
37	<i>[Reporting Manual]</i> Retain requirements to report on customers' complaints and any actions taken to resolve them.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current reporting manual or to our draft position]</i></p> <p>We have retained the current requirement to report on customers' complaints and any actions taken to resolve them. The requirements will help us monitor customer satisfaction with Hunter Water's performance.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
38	<i>[Reporting Manual]</i> Do not include current requirements to notify IPART of changes made to Licensed documents such as the Customer Contract, assistance options and actions for non-payment, and the external dispute resolution scheme because these are contained within the draft Licence.	 Hunter Water supports the recommendation.	Nil	<p><i>[Changes to the current reporting manual - no material changes to our draft position]</i></p> <p>We have removed the current requirements to notify IPART of changes made to Licensed documents because these requirements are contained within the Licence.</p>
39	Retain requirements in the Licence to maintain an AMS consistent with <i>Australian Standard AS ISO 55001:2014 - Asset management - Management systems - Requirements</i> , or an alternative standard approved by IPART	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the current requirement in the Licence to maintain an AMS consistent with <i>Australian Standard AS ISO 55001:2014 - Asset management - Management systems - Requirements</i>, or an alternative standard approved by IPART.</p> <p>We consider that this standard remains appropriate.</p>


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				<p>We consider that ensuring Hunter Water has an AMS is essential for long-term safe operations, noting that Hunter Water operates critical assets that provide essential services to customers. Hunter Water and PIAC support retaining Licence requirements for the AMS. We rely on the AMS requirement in the Licence to monitor Hunter Water's performance against its system performance standards, and to monitor compliance.</p>
40	Retain requirements in the Licence to implement the AMS	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the current requirement in the Licence to implement the AMS.</p>
41	Retain requirements in the Licence to maintain an EMS consistent with <i>Australian/New Zealand Standard AS/NZS 14001:2016 Environmental management systems – Requirements with guidance for use</i> , or an alternative standard approved by IPART.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the current requirement in the Licence to maintain an EMS consistent with <i>Australian/New Zealand Standard AS/NZS 14001:2016 Environmental management systems – Requirements with guidance for use</i>, or an alternative standard approved by IPART.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				<p>We consider that this standard remains appropriate. Further, the operating licence is currently the only legal instrument requiring Hunter Water to maintain an EMS.</p> <p>The EMS provides a framework to address climate change and its impact and assists Hunter Water to meet its environmental obligations. Hunter Water relies on its EMS controls to manage and minimise wastewater overflows. This drives Hunter Water's asset management decisions by managing assets to prevent breaches of environmental legislation and to meet the wastewater overflow system performance standard in the Licence. Further, the EMS is consistent with industry best practice for minimising the risk of harm to the environment and it is a useful tool to help Hunter Water to adapt to climate change.</p>
42	Retain requirements in the Licence to implement the EMS.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the current requirement in the Licence to implement the EMS.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
43	Retain requirements in the Licence to maintain a QMS consistent with <i>Australian/New Zealand Standard AS/NZS 9001:2016 Quality management systems – Requirements with guidance for use</i> , or an alternative standard approved by IPART	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the current requirement in the Licence to maintain a QMS consistent with <i>Australian/New Zealand Standard AS/NZS 9001:2016 Quality management systems – Requirements with guidance for use</i>, or an alternative standard approved by IPART.</p> <p>We consider that this standard remains appropriate. Further, the requirement in the operating licence is currently the only legal obligation for Hunter Water to maintain a QMS. The QMS provides system elements that complement other management systems, licence clauses and legislative and regulatory instruments. That is, it helps integrates Hunter Water's functions and operations.</p>
44	Retain requirements in the Licence to implement its QMS.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the current requirement in the Licence to implement the QMS.</p>


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
45	<i>[Reporting Manual]</i> Do not include current annual compliance and performance reporting requirements for organisational management systems (AMS, EMS and QMS) and replace with exception reporting only.	 Hunter Water supports the recommendation.	Nil	<p><i>[Changes to the current reporting manual - no material changes to our draft position]</i></p> <p>We have removed the current annual compliance and performance reporting requirements for organisational management systems. We consider that these reports are not providing information that justifies the burden of producing them.</p> <p>We consider that the most critical compliance information that Hunter Water must provide is information on non-compliances. We can review Hunter Water's compliance with the system performance standards comprehensively when we undertake the operational audits. We can request any additional compliance information on a need basis.</p>
46	Retain requirements in the Licence to use best endeavours to maintain an MoU with NSW Health.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining a requirement in the Licence for a MoU with NSW Health. The MoU outlines the basis for the cooperative relationship between the organisations. The MoU ensures Hunter Water supports NSW Health in its role in providing advice to the NSW Government about drinking water quality standards and the supply of water which is safe to drink.</p>





#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				While the Act does not require the MoU, as the relevant Acts for other public water utilities do, the Licence requirement reflects the importance of the MoU as well as the stakeholders' preferences. Further, the Licence condition allows us to audit Hunter Water's compliance.
47	Retain requirements in the Licence to comply with the MoU with NSW Health.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining a requirement in the Licence for Hunter Water to comply with the MoU with NSW Health.</p> <p>We note that our recommendation is for Hunter Water to 'use its best endeavours' to maintain the MoU, recognising that maintenance of the MoU is not entirely within Hunter Water's control. However, we have not recommended a similar allowance for Hunter Water's compliance with the MoU clause as that is within Hunter Water's control.</p>
48	Retain requirements in the Licence to use best endeavours to maintain an MoU with DPE.	 Hunter Water supports the recommendation.	Nil	<p><i>[Some changes from the current operating licence to recognise Hunter Water's and DPE's cooperative relationship to complete long term plans – no material changes to our draft recommendation]</i></p>


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				<p>We recommend retaining a requirement in the Licence for Hunter Water to comply with the MoU with DPE.</p> <p>A Licence condition will recognise the criticality of the MoU and Hunter Water's and DPE's cooperative relationship, such as for:</p> <ul style="list-style-type: none"> • delivering the objectives of the Lower Hunter Water Security Plan • calculating the system yield, and • specifying how Hunter Water must address integrated water cycle management in its long-term planning.
49	Retain requirements in the Licence to comply with the MoU with DPE.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining a requirement in the Licence for Hunter Water to comply with the MoU with DPE.</p>




#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				We note that our recommendation is for Hunter Water to 'use its best endeavours' to maintain the MoU, recognising that maintenance of the MoU is not entirely within Hunter Water's control. However, we have not recommended a similar allowance for Hunter Water's compliance with the MoU clause as that is within Hunter Water's control.
50	Include new requirement for the MoU to specify how Hunter Water and DPE should work together to complete long-term plans.	 Hunter Water supports the recommendation.	Nil	<i>See response to draft recommendation 48 above</i>
51	The proposed Licence conditions reflect the transition from the Lower Hunter Water Plan to the Lower Hunter Water Security Plan	 Hunter Water supports the recommendation.	Nil	<p><i>[Changes to the current operating licence and to our draft recommendations]</i></p> <p>The Lower Hunter Water Security Plan was published in April 2022. Our recommendation from the Licence recognises that the Lower Hunter Water Security Plan is now in effect. Hunter Water and DPE have confirmed their comfort with this change and have confirmed that the Licence does not need to allow for transition from the previous Lower Hunter Water Plan.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
52	Retain requirements in the Licence to use best endeavours to maintain an MoU with FRNSW	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining a requirement in the Licence for Hunter Water to comply with the MoU with FRNSW to recognise the criticality of their cooperative relationship.</p> <p>The MoU between Hunter Water and FRNSW recognises Hunter Water's role in supplying water for firefighting purposes. Hunter Water can contribute to improving fire safety by collaborating with FRNSW for better understanding by both parties of water availability needs for firefighting and water supply network limitations.</p>
53	Retain requirements in the Licence to comply with the MoU with FRNSW.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining a requirement in the Licence for Hunter Water to comply with the MoU with FRNSW.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				<p>We note that our recommendation is for Hunter Water to 'use its best endeavours' to maintain the MoU, recognising that maintenance of the MoU is not entirely within Hunter Water's control. However, we have not recommended a similar allowance for Hunter Water's compliance with the MoU clause as that is within Hunter Water's control.</p>
54	<p>Retain requirements for a working group between Hunter Water and FRNSW. Expand the requirements for the working group membership to include other members such as the Rural Fire Service.</p>	 Hunter Water supports the recommendation.	Nil	<p><i>[Changes to the current operating licence – no material changes to our draft recommendation]</i></p> <p>We recommend retaining the current requirements for a working group between Hunter Water and FRNSW in the new Licence. We also recommend expanding the Licence requirement so that Hunter Water considers including other relevant organisations such as the Rural Fire Service (RFS).</p> <p>Including the RFS in the working group would be valuable to share information on identification of high-risk bushfire areas, protection of Hunter Water's assets and understanding of water network capacity and system design. FRNSW advised that the MoU working group had been productive over the 2017-2022 operating licence period.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
55	Retain requirements in the Licence to make services available to competitors (currently only WIC Act licensees), on request, subject to any reasonable conditions from Hunter Water.	 Hunter Water supports the recommendation.	Sydney Water  Sydney Water is in general supportive of including requirements to making services available, using 'best endeavours' when establishing a code of conduct, and negotiating in 'good faith'.	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining requirements in the Licence to make services available to competitors (currently only WIC Act licensees), on request, subject to any reasonable conditions from Hunter Water.</p> <p>We consider that this requirement is necessary to protect the WIC Act licensees. Hunter Water is only able to refuse to connect requested services if it can demonstrate that a connection is not available.</p> <p>To ensure that the obligations placed on Hunter Water are fair and reasonable, we recommend retaining the allowance available in the current operating licence for Hunter Water to impose any reasonable conditions for the safe, reliable and financially viable supply of its services.</p>
56	Include a new requirement in the Licence to negotiate in 'good faith' with competitors (including current WIC Act licensees and potential new competitors).	 Hunter Water supports the recommendation.	EWON  EWON supports the revised wording which relate to WIC Act licensees. Sydney Water	<p><i>[New condition not available in the current operating licence – no material changes to our draft recommendation]</i></p>


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
		Hunter Water also supports defining 'good faith' and including guidance for auditors in IPART's Public Water Utility Audit Guideline.	 Sydney Water is in general supportive of including requirements to making services available, using 'best endeavours' when establishing a code of conduct, and negotiating in 'good faith'.	<p>We recommend including a new requirement in the Licence for Hunter Water to act in 'good faith' when negotiating with competitors (including WIC Act licensees and potential new competitors). The recommended Licence requirement seeks to level the playing field as Hunter Water has the market advantage as the incumbent utility.</p> <p>The requirement is specifically for the provision of Hunter Water's services to the utilities. Hunter Water's services include water, wastewater and stormwater drainage services. The requirement would therefore apply to negotiations where Hunter Water may provide services as a wholesale retailer and the competitors are acting as wholesale customers.</p> <p>We (IPART) intend to update our Public Water Utility Audit Guideline with guidance for auditors when auditing the public water utilities' compliance with licence clauses requiring them to undertake negotiations in 'good faith'.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
57	Retain requirements in the Licence to use best endeavours to cooperate with WIC Act licensees seeking to establish a code of conduct, on written request from the WIC Act licensee.	 Hunter Water supports the recommendation.	<p>EWON</p>  EWON reiterated that with the amended WIC Act and Regulation, any changes to the requirement for the code of conduct needs to be flexible enough to accommodate new drafting. <p>Sydney Water</p>  Sydney Water is in general supportive of including requirements to making services available, using 'best endeavours' when establishing a code of conduct, and negotiating in 'good faith'.	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining requirements in the Licence to use best endeavours to cooperate with WIC Act licensees seeking to establish a code of conduct, on written request from the WIC Act licensee.</p> <p>The code of conduct could set out the respective responsibilities of Hunter Water and the WIC Act licensee for various matters, such as repair and maintenance, water quality, and liability in the event of unavailability of water or in the event of infrastructure failure.</p> <p>The recommended Licence condition provides WIC Act licensees and Hunter Water with certainty where their operations overlap. It ensures that the safety of customers and the environment are protected by setting out each party's responsibilities for ongoing safe operations and in the event of an incident.</p>


#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
58	Include new requirements to publish servicing information on Hunter Water's website for competitors.	 Hunter Water does not object to publishing servicing information but asks IPART to consider the potential duplication with the re-introduction of developer service charges as announced by NSW Treasury commencing 1 July 2023. IPART's pricing determinations specify what must be included in published servicing plans that may already satisfy the drafted licence requirement.	<p>EWON</p>  EWON supports including a new condition for publishing of servicing information and/or annual reporting requirements.	<p><i>[New condition not included in the current operating licence – no material changes to our draft recommendation]</i></p> <p>We recommend including new requirements to publish servicing information on Hunter Water's website for competitors.</p> <p>We have not recommended a prescribed format in which Hunter Water must publish the required servicing information. Hunter Water can demonstrate compliance through its Growth Plans and Developer Service Plans if these plans contain the information required in the Licence.</p> <p>At this stage it is difficult to accurately assess the duplication risk as the DSPs are not yet available and we cannot yet review their content. Therefore, on balance, we consider that it is beneficial to include the recommended Licence conditions. We will review any duplication with the requirements of IPART's developer charges determination at the next licence review.</p>



#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
59	<i>[Reporting Manual]</i> Include new requirements to report on Hunter Water's performance with providing information and services to competitors.	 Hunter Water supports the recommendation.	<p>EWON</p>  EWON supports including a new condition for publishing of servicing information and/or annual reporting requirements.	<p><i>[New condition not included in the current reporting manual – no material changes to our draft position]</i></p> <p>We have included new requirements to report on Hunter Water's performance with providing information and services to competitors.</p> <p>While the reporting requirements come at a cost, they will support the Licence conditions in protecting WIC Act licensees and potential water utilities trying to break into the market and when dealing with Hunter Water. The reporting requirements will assist us in our compliance monitoring and enforcement function, particularly given that these are new Licence conditions. We can reassess their value in the next review.</p> <p>PIAC raised a concern in response to the Issues Paper that Hunter Water should not be required to enter into any agreements with WIC Act licensees. We consider that PIAC misunderstood our proposal. Hunter Water must act in good faith, but this does not require Hunter Water to enter into agreements. The Reporting Manual only requires Hunter Water to report on the number of agreements that it has entered.</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
60	Retain the Pricing condition from the current operating licence with no significant change.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the pricing condition in the current operating licence with no significant change.</p> <p>This licence condition sets out Hunter Water's obligation to set prices subject to the terms of the licence, the Act and IPART's price determinations. The condition aims to protect customers by ensuring that prices are not excessive, and therefore, provides a net benefit to society.</p>
61	Retain requirements in the Licence for operational audits that accommodate remote auditing.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the requirements in the Licence for operational audits.</p> <p>Section 18C of the Act states that IPART must ensure that Hunter Water's operational audits are prepared in accordance with the operating licence. This means that the Licence must include terms and conditions for the operational audits. These terms and conditions help us monitor Hunter Water's compliance with its Licence, which in turn helps protect customers, public health and the environment.</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				We have recommended requirements to reflect that since the COVID-19 pandemic commenced, we have been undertaking the operational audits remotely, including the field verification visits in some instances.
62	Retain requirements in the Licence to report in accordance with the Reporting Manual and provide information to IPART, NSW Health and auditors acting on IPART's behalf.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining the requirements in the Licence for reporting in accordance with the Reporting Manual.</p> <p>The Reporting Manual includes Hunter Water's reporting requirements which support IPART's function in monitoring Hunter Water's compliance with its Licence, as do the operational audits. However, the requirements in the Reporting Manual are not legally enforceable. For this reason, we recommend retaining the current operating licence condition to comply with the Reporting Manual to ensure that Hunter Water meets its reporting requirements.</p> <p>We also recommend retaining the requirements for providing information to IPART, NSW Health and auditors acting on IPART's behalf, as these support our compliance monitoring and review process.</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
63	<i>[Reporting Manual]</i> Retain requirements in the Reporting Manual to provide a report on Hunter Water's progress with completing recommendations from the previous year's operational audit (but with a submission date of 30 June instead of 31 March).	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current reporting manual or to our draft position]</i></p> <p>We have retained requirements in the Reporting Manual to provide a report on Hunter Water's progress with completing recommendations from the previous year's operational audit (but with a submission date of 30 June instead of 31 March).</p> <p>This report contains important compliance monitoring information to IPART, and it informs the following year's operational audits. We have changed the submission date to reflect that in the last few years, we have been undertaking Hunter Water's audits in around November of each year. Hunter Water therefore needs more time to consider and implement the audit recommendations.</p>
64	<i>[Reporting Manual]</i> Retain requirements in the Reporting Manual to report annually on Hunter Water's performance against performance indicators.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current reporting manual or to our draft position]</i></p> <p>We have retained requirements in the Reporting Manual to report annually on Hunter Water's performance against performance indicators.</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
				These reports provide us with important performance information which will allow us to monitor Hunter Water's performance. Further, we can request information or explanation if we observe concerning trends in performance.
65	<i>[Reporting Manual]</i> Retain requirements in the Reporting Manual to provide an annual statement of compliance (of Hunter Water's compliance during the previous financial year).	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current reporting manual or to our draft position]</i></p> <p>We have retained requirements in the Reporting Manual to provide an annual statement of compliance (of Hunter Water's compliance during the previous financial year). Particularly because we have reduced annual compliance reporting requirements in numerous other areas, including for system performance standards, organisational management systems and customer-related Licence requirements.</p> <p>We consider that the most critical compliance information that Hunter Water must provide is information on non-compliances. Therefore, we can rely on the non-compliances reported through the statement of compliance. We can review Hunter Water's compliance with the Licence more comprehensively when we undertake the operational audits. We can also request any additional compliance information on a need basis</p>

#	Draft recommendation	Response from Hunter Water	Response from other stakeholders	Our final recommendation
66	<i>[Reporting Manual]</i> Do not include requirements to report on significant changes to water quality management and organisational management systems.	 Hunter Water supports the recommendation.	Nil	<p><i>[Changes from the current reporting manual - no material changes to our draft position]</i></p> <p>We have removed the current to report on significant changes to water quality management and organisational management systems. We consider that these reports are not providing information that justifies the burden of producing them. Hunter Water supports removing these reporting requirements. Instead, we intend to rely on Hunter Water's exception reporting through its annual statements of compliance, as discussed above.</p>
67	Retain requirements in the Licence for Licence authorisation, term of the Licence, non-exclusivity, making copies of the Licence available, the end-of-term review of the Licence, notification about the Licence and Hunter Water's area of operations, similar to those in the current operating licence with no significant changes.	 Hunter Water supports the recommendation.	Nil	<p><i>[No material changes to the current operating licence or to our draft recommendation]</i></p> <p>We recommend retaining requirements in the Licence for Licence authorisation, term of the Licence, non-exclusivity, making copies of the Licence available, the end-of-term review of the Licence, notification about the Licence and Hunter Water's area of operations, similar to those in the current operating licence with no significant changes.</p> <p>We consider they are working effectively. We did not receive any submissions from stakeholders (to the Issues Paper or the draft Licence) seeking changes to these parts of the Licence.</p>

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- ¹ IPART, *A best practice approach to designing and reviewing licensing schemes*, prepared by PricewaterhouseCoopers, March 2013.
- ² WHO, *Health-Based Targets*, Geneva, Switzerland (2010). Available at: [Health-Based Targets](https://www.who.int/Health-Based Targets) <https://www.who.int/Health-Based Targets>
- ³ WHO *Global Status Report on Water Safety Plans: A Review of Proactive Risk Assessment and Risk Management Practices to Ensure the Safety of Drinking-Water* World Health Organization, Geneva, Switzerland (2017). <https://apps.who.int/iris/handle/10665/255649>
- ⁴ DPE on behalf of the NSW Government, *NSW Government Submission: Hunter Water Operating Licence Review Issues Paper*, November 2021, page 4, available on the [IPART website](#).
- ⁵ DPE on behalf of the NSW Government, *NSW Government Submission: Hunter Water Operating Licence Review Issues Paper*, November 2021, page 3, available on the [IPART website](#).
- ⁶ PIAC, *Submission to IPART Hunter Water Operating Licence Review, Draft Report*, April 2022, page 5.
- ⁷ Hunter Water, *Hunter Water Operating Licence Review 2021-22, Response to IPART's Issues Paper*, October 2021, page 7, available on the [IPART website](#).
- ⁸ Email from NSW Health, A/Manager, Water Unit on 28 April 2022.
- ⁹ PIAC, *Submission to IPART Hunter Water Operating Licence Review, Draft Report*, April 2022, page 5.
- ¹⁰ <https://www.hunterwater.com.au/our-water/sustainability/recycling-and-reuse/recycled-water-services>
- ¹¹ Department of Planning and Environment, *Lower Hunter Water Security Plan*, April 2022. Available at: https://www.industry.nsw.gov.au/_data/assets/pdf_file/0019/401626/lower-hunter-water-security-plan.pdf
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- ¹³ The current operating licence definition of AGWR only refers to phase 1 of the AGWR.
- ¹⁴ *Fluoridation of Public Water Supplies Regulation 2017*, cl. 7.
- ¹⁵ The Sydney Water Operating Licence already included the condition to comply with the Fluoridation Code. We made a recommendation not to remove this condition. In contrast, the Hunter Water does not include this licence condition. In the Issues Paper we considered whether we should recommend that it should be included.
- ¹⁶ DPE on behalf of the NSW Government, *NSW Government Submission: Hunter Water Operating Licence Review Issues Paper*, November 2021, page 4, available on the [IPART website](#).
- ¹⁷ Hunter Water, *Hunter Water Operating Licence Review 2021-22, Response to IPART's Issues Paper*, October 2021, page 8, available on the [IPART website](#).
- ¹⁸ Sydney Water, *Hunter Water Operating Licence Review 2021-22, Response to Issues Paper*, 15 November 2021, page 4, available on the [IPART website](#).
- ¹⁹ Email from NSW Health, A/Manager, Water Unit on 14 April 2022.
- ²⁰ Further details about Hunter Water's customer engagement work and its results are available in Hunter Water's submission to IPART's Issues Paper for this Review. See: Hunter Water, *Hunter Water Operating Licence Review, Response to IPART's Issues Paper, Additional Information System performance standards*, November 2021, available on the [IPART website](#).
- ²¹ Hunter Water's CBA submission, received on 1 November 2021, is available on the [IPART website](#).
- ²² Hunter Water, *Hunter Water Operating Licence Review, Response to IPART's Draft Report*, April 2022, page 6.
- ²³ Hunter Water, *Hunter Water Operating Licence Review, Response to IPART's Draft Report*, April 2022, page 6.
- ²⁴ Hunter Water, *Hunter Water Operating Licence Review, Response to IPART's Draft Report*, April 2022, pages 6-7.
- ²⁵ Hunter Water, *Hunter Water Operating Licence Review 2021-22, Response to IPART's Issues Paper*, October 2021, page 73, available on the [IPART website](#). Sydney Water, *Hunter Water Operating Licence Review 2021-22, Response to Issues Paper*, 15 November 2021, page 2, available on the [IPART website](#).
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- ²⁸ IPART, *Review of the Hunter Water Corporation Operating Licence, Final Report*, May 2017, page 33
- ²⁹ DPE on behalf of the NSW Government, *NSW Government Submission: Hunter Water Operating Licence Review Issues Paper*, November 2021, pages 4-6, available on the [IPART website](#).
- ³⁰ DPE on behalf of the NSW Government, *NSW Government Submission: Hunter Water Operating Licence Review Issues Paper*, November 2021, pages 4-6, available on the [IPART website](#).
- ³¹ Meetings and electronic communication with DPE and Hunter Water on 15 March, 13, 28, and 29 April 2022.
- ³² DPE, *Lower Hunter Water Security Plan*, April 2022, available at https://www.industry.nsw.gov.au/_data/assets/pdf_file/0019/401626/lower-hunter-water-security-plan.pdf
- ³³ DPE, *Lower Hunter Water Security Plan*, April 2022, pages 39-40, available at https://www.industry.nsw.gov.au/_data/assets/pdf_file/0019/401626/lower-hunter-water-security-plan.pdf
- ³⁴ Hunter Water's your voice website has details of the consultation and development of the draft Lower Hunter Water Security Plan consultation, available here: <https://yourvoice.hunterwater.com.au/water-future>.
- ³⁵ DPE on behalf of the NSW Government, *NSW Government Submission: Hunter Water Operating Licence Review Issues Paper*, November 2021, page 7, available on the [IPART website](#).
- ³⁶ IPART, *Submission to National Water Reform Inquiry*, April 2017, available at: [IPART Submission Water Reform on https://www.pc.gov.au/](https://www.pc.gov.au/).

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- ³⁷ Productivity Commission, *Integrated Urban Water Management – Why a good idea seems hard to implement*, Commission Research Paper, March 2020, Canberra, available at [Integrated Urban Water Management - Productivity Commission](#).
- ³⁸ Hunter Water, Our Business, available at <https://www.hunterwater.com.au/about-us/our-business>.
- ³⁹ EWON submission to IPART's Review of the Hunter Water Operating Licence page 2, available on the [IPART website](#).
- ⁴⁰ EWON submission to IPART's Review of the Hunter Water Operating Licence page 2, available on the [IPART website](#).
- ⁴¹ PIAC, *Submission to IPART Hunter Water Operating Licence Review Draft Report*, April 2022, page 2 available on the [IPART website](#).
- ⁴² Schedule 2 of the *Competition and Consumer Act 2010* (Cth) provides protections for consumers which apply across most sectors of the economy, including to the services supplied by Hunter Water.
- ⁴³ Hunter Water, *Hunter Water Operating Licence Review 2021-22, Response to IPART's Issues Paper*, October 2021, page 76, available on the [IPART website](#).
- ⁴⁴ PIAC, *Submission to IPART Issues Paper, Hunter Water Operating Licence Review*, November 2022, page 4, available on the [IPART website](#).
- ⁴⁵ EWON submission to IPART's Review of the Hunter Water Operating Licence – Issues Paper, pages 2-3, available on the [IPART website](#).
- ⁴⁶ Hunter Water, *Hunter Water Operating Licence Review, Response to IPART's Draft Report*, April 2022, available on the [IPART website](#).
- ⁴⁷ PIAC, *Submission to IPART Issues Paper, Hunter Water Operating Licence Review*, November 2022, page 5, available on the [IPART website](#).
- ⁴⁸ EWON submission to IPART's Review of the Hunter Water Operating Licence page 4, available on the [IPART website](#).
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- ⁵⁰ PIAC, *Submission to IPART Issues Paper, Hunter Water Operating Licence Review*, November 2022, page 5, available on the [IPART website](#).
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- ⁵⁹ PIAC, *Submission to IPART Hunter Water Operating Licence Review, Draft Report*, April 2022, page 8, available on the [IPART website](#).
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- ⁶¹ PIAC, *Submission to IPART Issues Paper, Hunter Water Operating Licence Review*, November 2022, page 6, available on the [IPART website](#).
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- ⁷³ Sydney Water, *Hunter Water Operating Licence Review 2021-22, Response to Draft Report*, April 2022, page 10, available on the [IPART website](#).
- ⁷⁴ Hunter Water, *Hunter Water Operating Licence Review, Response to IPART's Issues Paper*, October 2021, page 62, available on the [IPART website](#).
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- ⁹² This was achieved through a 2008 approval from the NSW Treasurer under section 18(2) of the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW).
- ⁹³ NSW Government Response to NSW Productivity Commission's *Review of Infrastructure Contributions in NSW*, Item 5.5i on page 5 states "Rescind the 2008 Section 18 Direction that approved zero developer charges for water, wastewater, and stormwater services for Sydney Water and Hunter Water", Response: Accepted. See: <https://www.productivity.nsw.gov.au/sites/default/files/2022-04/NSW-Government-response-productivity-commission-review-2021-03.pdf>
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