Simon Fane,
59 Brown St, Newcastle,
NSW 2300.

18th of December 2001

IPART
PO Box Q290 QVB Post Office
NSW 1230

Dear sir,

I am writing in response to the Halcrow report (2001) reviewing Hunter Water Corporation (HWC) operating licence. In the earlier consultation process I represented the views of The Wilderness Society Newcastle branch with the support and endorsement of The Wilderness Society New South Wales. This submission is made on my behalf alone due to time constants. My response is therefore from my perspective as a PhD researcher in sustainable futures, a consultant in the field of least cost planning for urban water services and as a customer of Hunter Water Corporation.

In general I support Halcrows suggested framework for regulating HWC in relation to demand and supply balance and service provision. The brake down into core standard, service commitment and indicators is also reasonable, assuming that service commitments are made by HWC in good faith. I also support and encourage the adoption of least cost planning by HWC as a framework in which to manage water supply and demand management investment decisions. This approach will also facilitate reasoned discussion on the acceptable level of supply security.

Understanding that Halcrow's operating licience proposal is only part of the regulatory framework for HWC, I am still concerned that the ecological sustainability of HWC operations is not addressed in the operating licience. I refer in particular to non-renewable energy usage, greenhouse impact, waste to landfill, non-renewable nutrient losses to ocean and catchment protection. Environmental and resource regulation concentrates on impact of emissions from sewage treatment and bulk water take only. As a monopoly utility HWC does not have the market pressures to become a 'green producer' that many firms are now experiencing. This concern is however secondary to my general support for the Halcrow recommendations. Further, by adopting least cost planning and aiming for the economic level of demand management I believe that HWC can become a significant force for reducing community costs and resource usage and thereby promoting sustainable development in the Hunter region.

I would like to highlight to the tribunal that the principles of least cost planning have potential to be applied to all water utility investments in increased system capacity. Conserving capacity through demand management and leakage repair might be cost effective not just for water supply but also for water distribution, sewers and wastewater treatment. Demand management or leakage repair programs can be aimed a reducing peak volumes or particular pollutant loads. It is therefore suggested that all proposals by HWC to increase system capacities (either water and wastewater) ought be assessed within a least cost planning framework and that IPART should enforce this least cost planning approach via the price determination process.

I confine my following comments specifically to the issues of least cost planning for balancing supply, security and demand management as raised in the Halcrow report :

Addressing section 5.7 of the Halcrow report I strongly endorse the need for an independent audit of HWC least cost plan when it is presented to the Tribunal and urge that the process be open to public comment. In calculating the cost of supply and demand management alternatives I highlight that it is critical that an economic perspective is taken. Revenue foregone by HWC due to demand management must not be included in the options evaluation of a least cost plan.

Addressing section 5.8 of the Halcrow report I support the linking of target setting for water conservation and supply security to price determination. The pricing process will however need to be amended to treat capital spent on capacity expansion (assets) and demand management programs as equal. There is also a case for HWC to be compensated for revenue forgone due to demand management programs undertaken. This would place HWC within a financial framework were supply capacity expansion and water conservation were equality beneficial to the corporation. Such an approach to pricing would need to be matched with a program to address equity considerations that would arrise.

Addressing section 15.2.2 and 15.2.3 of the report. In order to find the economic level of leakage or demand reduction, the long run marginal cost of water supply will need to be determined. This being equal to the value of water saved. The levelised cost formula (also known as Average Incremental Cost) should be use used in the calculation of long run marginal cost of supply. This will then allow comparison of supply to conservation measures (which are evaluated in terms of their levelised cost) on equal terms.

Thank you for the opportunity to make comment on the Halcrow 2001 report. Please don't hesitate to contact me on 4929 5393 or by email at simon.fane@uts.edu.au should you wish to discuss this submission further, or if any of points require clarification.

Yours faithfully,

Simon Fane.