INDEPENDENT PRICING AND REGULATORY TRIBUNAL

WORKSHOP
INTO
HUNTER WATER OPERATING LICENCE

Held at the Capri Plaza Hotel
Cnr Steel and King Streets
Newcastle, NSW, 2300

On Tuesday, 20 November, 2001, at 10.10am

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MR COX: Ladies and gentlemen, I think we might kick off proceedings. I must apologise for the late arrival of the tribunal, which joined a long list of people who underestimated the time it takes to drive from Sydney to Newcastle, but we are here today and very pleased to be here.

I would like to welcome all of you to this workshop on Hunter Water's operating licence. It is being held as part of our public consultation process to help us progress a number of issues that are of concern to us and to also give you the opportunity to make any input into the tribunal's work. As this is a public workshop, we would be grateful if you could sign the registration book at the back of the hall.

The way we will run it is that there will be six topics discussed during the day. There is a review process and background, some customer service issues, systems performance standards and indicators, then after lunch, demand management and drought security, environmental issues, and then for those who have the stamina, any other issues arising from the review.

I am aware that obviously quite a number of people have come here today, and we are grateful for your interest and we will try to give everybody the chance to speak. Some of you will want to talk about issues that are not the issues at the front of the tribunal's mind but we will try to give you the opportunity to say those things.

We will work through the agenda which is in front of you. The way it will be run is that members of the tribunal secretariat or our consultants will introduce each topic and then participants will have an opportunity to present their positions, so we will get someone from the secretariat or a consultant to introduce the topic and then work our way around the table. We ask each speaker to limit themselves to five minutes. During this time the speakers should not be interrupted and only one representative of each participating organisation should speak on each topic. Following contributions from the people sitting at the table, we will then take questions and comments from the floor.

We are going to have a rotating head table, so there will be people coming up and leaving during the day and we will ask for your cooperation and assistance in facilitating that process.

To assist us to understand what is being said today we have transcribers. The record of the day's proceedings will be made available on the tribunal's

website. When you do come up to speak, we would appreciate if you could introduce yourselves and speak slowly.

I will start off by asking people sitting at the table to introduce themselves.

MR SPEERS: Andrew Speers, I am the Director of CSIRO's urban water program.

MS CIFUENTES: Cristina Cifuentes, one of the tribunal members.

MR EVANS: David Evans, Managing Director of Hunter Water.

MS CROSDALE: Diane Crosdale, Manager Environmental Planning, Lake Macquarie Council.

MR COX: Jim Cox, a member of the tribunal.

MR WELLSMORE: Jim Wellsmore, from the Public Interest Advocacy Council.

MR MORRISON: Gavin Morrison, I manage operating licence reviews at Sydney Water.

MR REID: Colin Reid, a member of the tribunal secretariat.

MR COX: Thank you very much for doing that. The next section is Colin Reid's, who will just briefly introduce the review.

MR REID: Thank you very much, Jim. As Jim said, welcome to everybody for making the effort to come along today. My task today is to give a brief introduction to the day and today's proceedings and first of all just to give a bit of background to the review itself.

The original Hunter Water licence came into place in 1991, which was the date of corporatisation of Hunter Water. The term of the current licence has expired and has been rolled over at this stage on an annual basis and because of that, because of that expiration, if you like, out of one of the audit reports that we do each year for the operating licence the question was raised whether we should in fact review the current operating licence, the items that are in it and its operations.

As a consequence of that, we have the current review that has been referred to us by the State Government under which we are required to put a report with a proposed new licence into government by 1 March of next year.

Since the Hunter Water operating licence came into place there have been a number of developments in operating licence for various organisations. There have been recent reviews for Sydney Water and the Sydney Catchment Authority and also a review of the system performance standards in the Sydney operating licence itself. In addition to that there have been operating licences come into place for various water agencies around Australia, particularly in Melbourne and Western Australia, and also they now exist for various industries such as electricity and gas.

So since the original Hunter operating licence came into place in 1991 there have been significant developments in operating licences and that enhancement, if you like, in those other operating licensing is what we are looking at in this review of Hunter Water.

The review process itself - the tribunal issued an issues paper on 19 July this year. We received Hunter Water's submission on 20 August; we received stakeholder submissions in response to that submission from Hunter Water on 20 September; and we have obviously got the workshop today.

Our major consultant for this review is Keith Hall from Halcrow International. Keith will be presenting the outcome of his consultancy to the tribunal this Friday and Keith is obviously a participant in this workshop today and is due to present his final report to the tribunal early next week and we will make that report publicly available subsequent to Keith giving it to us early next week.

As I say, we are due to report to the Minister on 1 March and the new licence is due to commence on 1 July next year.

The scope of this licence review - the review is to look at all aspects of the existing licence, the licence terms and conditions, the system performance standards that are captured within the licence, and also the customer contract, which is a schedule attached to the licence. There is some issue whether we will be able to complete a revised customer contract by 1 March but we are looking at that issue at the moment in conjunction with Hunter Water Corporation. They are three basic aspects, all the licence terms and conditions, with particular emphasis on the system performance standards and the customer contract itself.

For those not familiar with operating licences and what they aim to do, they serve three main purposes: One, they provide customer protection and adequate service delivery; two, they ensure a robust

system for water, waste water and stormwater to the extent that is under the responsibility of Hunter Water; and they provide a basis for monitoring, reporting and assessing compliance. They are the three key functions of the operating licence and a lot of our discussion will be centred around those three purposes.

The format for today's session is, once I have completed, Lisa will give an introductory session on customer service issues and then, as Jim said, we will have the more formal discussion on that with the participants. At 11.20 we will move on to system standard performance standards, then demand and supply balance, environmental issues and the other issues, with a completion time scheduled for 5pm.

At this point, I hand over to Jim to introduce customer service issues, followed by Lisa.

MR COX: David would like to say a few remarks first.

MR EVANS: Having been a victim of those machines myself, I am pleased to see that the sturdy old-fashioned standby overhead is now being introduced.

I don't want to say too much but I did want just on behalf of Hunter Water to welcome everyone and thank them for coming.

The original operating licence was actually first conceived in this room in 1990 and this was the first operating licence that ever existed for any authority of this type in Australia. So the model we are working off here has subsequently been picked up and been developed by a lot of other people and I think we should be proud of that fact and work today, as we have done in the past, to make it better because what it does is provide a framework for us to do what we have to do.

We really welcome the licence process and we particularly welcome IPART now having the capacity not only to set licence conditions but also to set price paths and to conduct audits, because what you have under the one roof is the whole system of interface we have with the community being specified within the one institution. Around Australia that is a pretty unique model and it provides a lot of opportunity for us.

Having said that, I think it is also important to realise that it is not the only thing that goes on with the licence. There are a range of other regulatory matters that we deal with, a range of other interfaces. Local councils do a range of things. They approve developments, they inspect

septic tanks, we have water extraction, water regulation, the Ombudsman, et cetera, so this is part of a general context where our rules of engagement are specified.

I suppose the question always arises, how far do you go, how do you pick which improvements to follow and how far to take them? Again it is great that everybody who has an interest in this is in the room because different people have different perspectives on what an improvement is. A developer may not have the same perspective on what an improvement is as an environmentalist has, but Hunter Water has to deal with both so it is a great opportunity for us to clear the air on some of those things.

There is also a need just to think of some of the historical context as we go through today. A number of things have happened over the last 20 years which have not always been popular when they were first introduced. Pay for use, for example, was introduced 20 years ago and there were 1400 people up at the town hall saying it was the worst thing ever to happen to Newcastle. It is now accepted as a good way of rationing water, it is a good way of contributing to managing the environment and developer charges. All sorts of things have been introduced, including this licence, which people at the time said they didn't like but over time you learn to refine to get the right answer.

I suppose the other thing we have to think about is that we sit in a social context when we make these decisions about licence content. Fortunately in a way it has to be made by the Government and IPART but we all have an input into that and we have to think through I think the social context of it, the capacity of the region to afford things, the geographical environment we find ourselves living in and the fact that this organisation has certain inherent advantages and disadvantages in providing services.

It has inherent advantages in terms of fairly clean catchments and good water quality supply system. It has certain inherent disadvantages in the sense that our system basically has about a quarter of the population density of Sydney and Melbourne, so to provide a given service we have to have four times as many pipes as elsewhere. There are certain advantages and disadvantages that we have to fit into our social context.

I just wanted to make some of those points and to welcome the opportunity for us to improve this package and on behalf of Hunter Water's, once we have the package we will do our level best to

implement it, but it was very important for us and the community that we get the right balance of all these interests. Thank you.

MR COX: We now might move onto the customer service issues, which Lisa will be introduce, using I am pleased to say the old technology.

MS SPENCE: I am going to start with the customer service areas, where essentially the aim of the operating licence we think is to protect customers and give them rights, such as water and sewerage under monopoly services. It is primarily done for the operating licence itself and via the customer contract which forms a schedule to the licence. Of course there are other voluntary instruments and means which assist in customer service provision.

What we will see as a common sort of theme throughout this presentation are the customer service areas, the sorts of things that when we talk about customer service is customers should know what services they can expect or what minimum services should be provided. They should also know what rights and obligations they have but they should also be equally aware of the rights and obligations of the agency as well. It is not a one-sided provision.

Water is an important life resource and we do feel that customers should be aware when their water is going to be cut off, aware of disconnection and restriction, and in between that is what sort of debt recovery actions might be possible. So they need to be made aware of those types of situations. Again, they also should have the right to know what process will be followed when they have a complaint or what other rights they have in terms of dispute resolution, whether it is an internal process or perhaps an external process where there is an external body for dispute resolution.

In terms of consultation, we feel that customers should be provided with the right to be able to express their concerns and have them heard in some sort of forum, such as the consultative forum or community councils that exist.

We thought we would start by providing an overview of Sydney Water's framework. Basically you may or may not be aware but Sydney Water's operating licence was reviewed in 1999. It was a three-step process where it had the operating licence review, then it was followed by a review of the system performance standards and a review of the customer contract, which has just about been finished and you should be able to see when the Minister announces it soon.

Basically in the operating licence there are clear aggregate standards for debt disconnection policies, internal dispute resolution, which includes a complaints handling process and an external dispute resolution process which is operated by EWON, the Energy and Water Ombudsman, where there is an external dispute resolution body that customers know they can go to in the event of a dispute.

In terms of community consultation, there are quite a few procedures or provisions for the customer council in terms of having a charter, the type of membership and term of membership to ensure that there is an appropriate level of representation in the community and that there is, as different issues change, representation of different organisations across the time period.

The rights extend to consumers. The customer contract is essentially a contract between the customers who have a financial obligation, a financial relationship with say Hunter Water, with an agency, and a contract can only be between the customers that have the financial relationship. People such as tenants are left out there, so within Sydney Water's operating licence they have specified that complaints handling procedures, that they are equally entitled to the same complaints handling and dispute resolution procedures. And that is specified in the licence.

The way this translates into the customer contract: the system performance standards at an aggregate level, and the rights and obligations within those separate areas are transferred so you can understand what it means at an individual level, what you are entitled to. There is also the redress and rebates in there.

You'll see the pamphlet. The pamphlet is actually mentioned in the operating licence. It is a summary of the customer contract - the key rights and responsibilities - in leaflet form, suitable for a customer to pick up or to be seen in their bill. The customer contract and the operating licence can only be changed during a review period. If there is change in contact details, things that might be likely to change in the next year or so, that's represented in the pamphlet.

Also recently introduced as a ministerial requirement is for Sydney Water to collect indicators. It's just a collection of data on things such as responsiveness, time to answer calls, calls which receive a busy tone and affordability issues, just to see what the status is of the

situation in terms of debt recovery actions, number of disconnections, number of restrictions. That has been collected by Sydney as of this year.

I'll just briefly show the current situation with Hunter Water. It was developed in 1991, so there's a considerable time difference in the two arrangements. They do have aggregate performance systems standards, which we will hear a bit later about today, and they also have the basic requirement that they need to consult with customers via an annual survey and develop a consultative process, which has been done through the consultative forum. There is a customer contract, which is a schedule to the licence. I think it's more weighted towards the obligations of each party and the conditions on which Hunter Water will provide services to its customers. In 1995 Hunter Water established a customer charter, and they talk about dealing with their service interruptions and the provision of rebates. In terms of other documents that are available, they also have a complaints handling policy, a customer care booklet, and I'd say there's probably some others out there. But they're the main ones that relate back to those customer service minimum levels of provision.

Just in terms of comparison of the operating licence, we do see that, in terms of regulation, debt and disconnection and dispute resolution might be dealt with in a voluntary method, but it's not built into the overall regulatory framework. The customers' and consumers' rights within the customer contract, when you read through it, is quite lengthy and does need to be addressed a little more - both from Hunter Water's perspective as well as the customer's rights. The customer charter and the rebates, it's great to have it there. However, it is a voluntary condition. And the consultative process, even though it is a regulatory requirement, was to develop a consultative process. I think they have gone down that path and it needs to be a little more specific in terms of, say, a charter and membership details.

There are quite a few other issues that have been raised by stakeholders in their submissions. With the deferral of the customer contract, these can be addressed at a later stage. You are quite welcome to raise your concerns in the discussion after the round table. These are things such as the level of rebates, where there was quite some discussion at Sydney Water's workshop; the rights and payment options, what sort of payment options should be specified; the rights of industrial customers versus residential; and provision of sewerage services in, I suppose, unsewered areas.

Just bringing that together, the proposal that we see which would be, I suppose, the ideal framework - it is very similar, you see, to Sydney Water's - is to keep the system performance standards. It needs to have aggregate systems performance standards in there - such as continuity, pressure and sewerage services - actually a debt and disconnection policy spelled out, as well as dispute resolution, so that customers know what they are entitled to in terms of rights in that perspective, and then translating this into the customer contract for the individual.

In relation to community consultation, which they have at a minimum level, it would be good to have that a bit more developed. And in relation to the rights for consumers, Hunter Water do extend rights to consumers, but it would be good if it was a bit more clear and in the actual framework. And the requirement for a pamphlet is very similar to the customer charter which they already have as a voluntary arrangement. It would be good in terms of a customer contract to summarise those key rights that customers have. Again, it's a mechanism for any changes that might happen in the short term, to have it in the pamphlet rather than the contract.

It is important for customers to be aware of redress and rebates. Also, the customer service indicators, especially on the affordability issue, is an area to look at and see if there's any trends happening in that particular section. What we have is basically the proposal for discussion for the round table, such as what would happen to include a code of practice and a debt and disconnection policy; internal dispute resolution, such as what the complaints handling process is; and join EWON, which Hunter Water have mentioned in their submission they are very willing to do. That would satisfy external dispute resolution policy. A specific community consultation process needs to be a little bit more developed so that people actually know where they can turn and where they can get their concerns heard. And in relation to consumers rights, again, the customer contract needs to be translated this to rights for the individual and to include the rebate conditions. The customer service indicators are again just a requirement to connect data and monitor the trends. So I think I'll hand back to Jim. He can open the discussion for the round table.

MR COX: We will now take contributions from people sitting at the table. Someone has to start first and Jim has very kindly volunteered. Over to Jim.

MR WELLSMORE: Thanks, Jim. A lot of people in the room probably know, but the mandate of PIAC is

essentially to advocate for the interests of residential users, and I suppose particularly within that the subset of people who are low income households have some form of disadvantage - economic, social, physical, et cetera. Because of our sort of position in working across water, electricity and gas in New South Wales, we have, I suppose, had the advantage of being involved in this process in the case of Sydney Water. I will just start off by saying that we quite like, broadly speaking, the framework that is in place with Sydney Water now and we'd quite like to see that framework more or less replicated in the case of Hunter Water. What we don't want to do is simply cut and paste or, if you like, photocopy the Sydney Water documents and say, "That's it for Hunter Water", and away we go. It's really, from our perspective, more a question of trying to ensure some kind of consistency or uniformity from the perspective of the consumers and the customers, rather than trying to ensure that exactly the same set of words operates in both of the agencies. At the same time, I think - I'm sure the point has been made already by David - the licence and the contract now have become quite out of date, I suppose. What's done in other places now has seen other organisations in a sense sort of leapfrog the initial steps that were taken with respect to Hunter Water. But I think we also do recognise that Hunter Water's practice is in lots of instances sitting well above and beyond the sort of bare bones that is in the licence and the contract. So to some extent this is more a process, from our point of view at least, to updating the licence and the contract to take account of current practice within Hunter Water. So from our point of view this is a very good opportunity.

Quite a few of the things that Lisa has outlined in her presentation have caught our interest as well. There are a number of things which we believe ought to be included in the licence or in the contract. There needs to be some sort of commitment in the licence to ensuring that customers and consumers equally have resort to some dispute resolution procedure, whether that be internal or ultimately an organisation such as EWON, which certainly is a step that we would very much applaud from outside of Hunter Water. We would like the licence to contain a stipulation more or less along the same lines as applied to Sydney Water such that customers and consumers are essentially going to be treated equally, or as one in many instances; for example, obviously disputes and complaints.

We do think that the licence ought to have a requirement that a debt and disconnection procedure or policy of Hunter Water's be communicated publicly. Again, it does not have to be exactly the

same set of words as Sydney Water has developed. Theirs is going to be different from, for example, that which is in place for the electricity industry in this state. So it's not about the exact form of words, but it's about making that sort of process of escalation of customer accounts and customer debts, or consumer debts given the situation of tenant, transparent so that in a sense everybody has got some understanding about what the rights and obligations are going to be. Whether you do that necessarily through the licence or you do it as a part of an addendum or a schedule to the customer contract we don't necessarily have a firm view, but we think that policy needs to be written down and made public.

This probably is an issue more to come back to for further discussions in relation to the contract. We were very aware of the work that Sydney Water has done with its payments assistance scheme and the sort of rebates that it provides to low income customers through that scheme. Although it is easy to go on about the demographics about Newcastle and the Hunter and so on and so forth, we would like to see at least there being some discussions between Hunter Water and the tribunal about the feasibility of introducing some similar type of arrangements for the people in Hunter Water's area of operations.

the licence probably should stipulate that there be a customer charter. Again, it may be that it's appropriate to leave that for future discussion to sort out the exact content of it, but I don't have a form of words in my pocket today to sort of whack down on the table. PIAC doesn't have a view necessarily about what the customer charter ought to say, but there is a customer charter that Hunter Water does have and we think it's probably appropriate to formalise that in some way.

We quite like the idea of the dual sort of structure of a contract and a pamphlet. That's really just for accessibility for the customers and the consumers more than anything. It's going to be a lot easier to edit a small pamphlet than to decipher the bulk of a contract. The other thing to do with the licence and customers and consumers is the consultative forum. Hunter Water has established such a body and it's been in operation for some time - years at least. The licence is silent about the consultative forum. We think it's time to probably have a good look at the consultative forum - not necessarily because we think it needs to be done differently or because there are particular criticisms of the way it is done, but again to establish some sort of consistency and transparency - and I suppose also partly to allow Hunter Water to perhaps really

demonstrate to the community the advantages that it does have through having a consultative forum. Again, without wanting to photocopy or cut and paste words, it could be a structure not unlike Sydney Water has within their operating licence, spelling out certain requirements of the organisation in establishing a customer council - or customer councils in their case - the kinds of roles and responsibilities that such a body or bodies is to have.

We would very much want to see that kind of framework incorporated with the licence. Again, I don't have a particular form of words to just whack on the table. We don't have a clear-cut proposal from PIAC. Given the opportunity that the tribunal has provided for some deferral of some issues to a later date, the guts of a requirement for a structure and roles and so on for a customer council or a consultative forum is again an issue that probably can be revisited at a later date. That's certainly what was done in the case of Sydney Water.

We have also suggested to the tribunal - I think both in our written submission and informal discussions with the secretariat - that PIAC would be willing to play a role similar to that which we played with Sydney Water, which is essentially to act as a sounding board for Sydney Water and the proposals they wanted to take back to the tribunal, in their case in relation to their customer groups. It is not because we've got the gospel; it's more that we've got some familiarity with the structures and the way that they work in other places and we're willing to sort of, if you like, provide that input to Hunter Water in terms of their ongoing negotiations with the tribunal.

Finally, the last thing for the licence would be the sort of the standards we are going to come to. But in terms of customer performance indicators, there is a list in our submission. Probably all of those we are keen on having included in the licence in some way, shape or form. Of particular interest to us - again it relates to debt and disconnection and the payment assistance type structures - is measurements of disconnections and restrictions and debt recovery action. We are sure there are not very many, but we still think it is an important performance aspect - customer complaints response, issuing of bills to metred accounts - but the list is there in our written submission. I commend those to you. Thank you, Jim, for your indulgence.

MR MORRISON: We welcome the opportunity to participate in this. Obviously Sydney Water does come to this process with the review of its operating licence

standards and customer contract nearly under its belt. The discussions that we've held through the public workshops with IPART will reflect aspects of today, so in terms of Sydney Water, noting its different context, a lot of the issues raised today have been previously discussed with stakeholders and IPART. I just want to make three comments about the issues raised. The first would be to commend Lisa's presentation, to say that that basically does reflect the way that Hunter sits against what has been developed for Sydney Water and that, certainly in terms of system performance issues and customer service issues, Sydney Water welcomes the form of regulation that IPART has proposed.

In terms of the customer contract, we think it's important to note two things broadly about it. The first is that it is a legal document. But it is also an auditable document for Sydney Water, which means that the terms of the customer contract are subject to annual operational audit. There is an issue about detail and the amount that the regulator and the community want to get into the business interface with customers. In terms of the legal aspect of it, we think that the customer contract for Sydney Water is most useful in providing a clear statement of how the service provider can deal with customers when there is dispute, and from that perspective it should be very clear. We think that the customer contract should address the normal customer - the average customer - while also specifying minimum service for a broad range of customers. Obviously it's very important from IPART's perspective, we know, and also PIAC's, that it addresses the property owner whilst also picking up other users of Sydney Water's services.

Sydney Water believes that the customer contract should include minimum requirements for rights - the rights and obligations of Sydney Water and customers - and that it should be very clear about redress. In terms of that, our discussions with IPART have come to focus on trying to ensure that the service provider can provide variable forms of redress and tailor redress to the customer - the individual - and that not overregulating that is an important consideration. So a balance has to be struck there.

We certainly support the inclusion of complaints handling procedures, and the Australian standard has provided a very useful basis for us to do that. We agree that procedures for debt and disconnection are also very important. The basis on which we have been holding our discussions with IPART have been the electricity supply code, which sets out a useful way of viewing how to draft such rights and procedures. I think that, in terms of

that, keeping those things as simple and as clear as possible is in the interests of the regulatory relationship but also in the interests of the customer. So trying to keep those documents as short as possible seems to us to be a very useful thing to seek.

In terms of customer councils, Sydney Water has eight customer councils with a corporate customer council. They have been in operation for some time. There are two comments that I'd make about that. One would be that our operating licence includes detailed terms for the appointment and terms of council members. Obviously when you are dealing with the corporate customer council, where you have representatives from agencies, you have an issue of keeping representation fresh and making sure that the right people are in there so that you have forceful and vigorous debates and those kinds of forums remain meaningful. I think the important aspect of considering councils for Hunter Water is that they have to be appropriate for the Hunter. It has to ensure that the right people from the Hunter region are represented and there is meaningful dialogue.

The second point I would want to make is that Sydney Water is more interested now with IPART to pursue discussions about broader consultation with the customer base through surveys and other forms of testing customer preferences for customer service from the service provider to ensure that right decisions are made by government about how much money to spend on these services, compared to the other things that could be spent in government. So I think the comment I would make is that consideration should be given to the form of councils that are used in the United Kingdom. There are some different models for customer councils. For example, the water regulator in the UK has a useful model where there is a very vigorous and public debate. There should be consideration of how consultative forums interact with IPART in these kinds of reviews and very much consideration of how IPART and service providers go out and test the general opinion of the customer base rather than just rely on representative forums.

Finally, in terms of customer indicator previous dialogue with IPART through these workshops for Sydney Water has suggested that care needs to be taken in setting customer service indicators as part of the compliance framework. The question is: is it appropriate in the Australian context, given the nature and history of performance of the New South Wales water industries? I note that the government and IPART have both approved for Sydney Water that customer service indicators be introduced and that

data be collected and provided to IPART so further consideration is given to how that information should be used. Thanks, Jim.

MR SPEERS: I'd like to begin by thanking the tribunal for the opportunity to speak this morning. I think the majority of my comments will be in the next session concerning system performance, but I'd like to make a few opening comments. I might be able to give you back some of the time. I thought I'd begin by describing briefly the work we have done over the past few years. The urban water program began three years ago with the goal of improving the performance of water, waste water and stormwater services; that is, to consider them as an integrated whole and to improve their sustainability as a target. Within that context we have put great emphasis on the social circumstances in which these systems exist, and to that end we have put some considerable effort into understanding what customer preferences were for the sorts of services that are provided. Examples of that work include the so-called domestic water use study that was carried out in Perth, where we looked at the patterns of water consumption in the residential sector but also quite substantially looked at the attitudes that people had towards service provision. That showed us that there were some very strongly held attitudes about certain aspects of services, some aspects of services that people were fairly disinterested about and some that they were uninterested about. But even those that they were uninterested in or disinterested in affect the way services might be designed.

We took the point of view also that if we were going to promote more sustainable services we had to look pretty closely at costs and the drivers of costs within systems, because, put crudely, if a more sustainable system imposes twice as much cost on the community as an existing system it's not going to become the way of doing business in the future. So we looked at how services could be delivered in a more cost-effective measure by looking at total life cycle costs of systems. Within that context we looked at the externalities associated with the delivery of services - those unaccounted for costs, frequently environmental, which are not reflected in the cost of running a service or the price paid by consumers.

The managing director of Hunter, David Evans, mentioned in his opening remarks that it was important that we consider which improvements to make as an operating licence is improved over time and how far those improvements are taken. The work that we've done points clearly to the same sort of message. Because consumers do have strongly held beliefs or are uninterested in certain aspects of

system operation, we need to factor in that understanding in setting new standards. When those new standards are set, or at least when they are discussed with the community, we also need to put to the community what the costs of those changed standards may be. It might be possible to improve a standard at a relatively small or no cost which would produce greater customer satisfaction but a similar sort of water bill. Conversely, however, the movement from one service standard to even a slightly higher service standard might mean make or break between one price point and a considerably higher one because changes in standards can fundamentally affect total life cycle costs of systems, driven by the types of maintenance and replacement strategies and so on that would be chosen under various regulatory requirements.

That's just a very brief introduction which I will flesh out in the next section. I'd like to endorse the comments, though, made by several of the speakers so far. Gavin mentioned a moment ago that Sydney Water has looked closely at customer preferences. I think that's valuable work. I don't think it's my role to say to the tribunal this morning anything about the way customer interfaces might be set up, except to say that I think a valuable adjunct to the processes being considered is an enhanced, more rigorous approach to determining customer preferences within the total cost framework.

MS CIFUENTES: In the interest of time I will be very, very brief and really just put one thing to everyone. The general proposition that has been put to the tribunal is that the Sydney Water model or template is the appropriate model for us to consider for Hunter Water. When you look at it there are some very good ideas there. My interest is in hearing what are the factors or circumstances that might be unique to Hunter Water that would suggest that this is not the appropriate template.

I am not necessarily asking for the detail of that but even the fundamental issues. I am sure David will enlighten us in that respect but it maybe that we should be strengthening obligations rather than reducing them, and that is what we need to hear from the broader community.

MR EVANS: First of all, I find myself in the position of supporting a good deal of what IPART and others have put forward. I don't think we should be too surprised about that because we have been following a model over the last five or six years of developing improvements in customer interface and other aspects of the regulatory structure, Nutting out how they work, trying to put them in place

essentially on a voluntary basis within the organisation so you can road test them and then putting them into regulatory structures. So we have participated in the Sydney Water workshops in Sydney which have considered these matters and put forward suggestions that have reflected a lot of things that have come to pass in Sydney.

We need to see this as a way of continuously improving what we do in a way that is doable, at reasonable cost and reflects the community needs.

The other thing that is really fundamentally important is to have a system as far as you can so that people get treated not based on how loud they yell or who they might know but how the regulatory system and the recourse mechanisms work regardless of who or what they are.

There has been a history in utility services going back a long time that basically people who can lobby the best might have got a better deal than someone who couldn't. That might have been how things were acceptable in the 70s and 80s but the whole idea of these sorts of licences, customer charters, contracts, et cetera, is to basically remove that moral hazard and make sure that people get treated the same regardless of who they are. That is a really important motivation we have got, not only because we think it is right but also if you put yourself in the shoes of actually working in one of these organisations you want your staff to have systems and due processes in place that put them as much as you possibly can in a position of being able to treat everyone the same and not having to make too many subjective judgments about who is a winner or a loser.

Having said that, I don't think we can specify everything because there are an infinite number of people and circumstances out there, but it is a good idea to specify such of it as you comfortably can.

We support a number of the additions which have been talked about. I will go through them in a moment just to make the point. First of all, external dispute resolution processes. It is an obvious thing to join EWON. It didn't exist five years ago, it does now, and we see advantages of it being in there because it creates some of that framework I just talked about. We have committed and have already made arrangements with EWON to join them on 1 July 2002. That provides a context for dispute resolution.

The important distinction I would make there, though, is that EWON is largely about disputes with customers and 99.99 per cent of people are

customers. One thing we have to remember in an organisation like ours and in any big commercial organisation is you also deal a lot with contractors of one form or another. They might be people who are providing you with services, buying something in, or the development community, which has certain contractual dealings with us, that is, the developers, people who create new subdivisions.

There are a series of rules of engagement, for example, with that contractor community which EWON is not designed to address but there are other commercial dispute resolution processes, the involvement of IPART, et cetera, that can be brought to bear on what are essentially not customer issues but commercial issues. We have to bear in mind that distinction.

In terms of the specifics, we have been running a customer rebate structure now for some years in the spirit of getting it running and proofing it up and we have had an objective for sometime to put that into the licence/contract framework so that it ceases to be voluntary and becomes mandatory. That is what we want to do.

That is accompanied by some tightening actually of some of the criteria so that people get their dollar rebates in response to service failure. Again, it puts us in a position of having a defined hurdle to jump and it allows us to put to customers that if we are unable to jump that particular hurdle, they get compensation. So it lets everybody know where they stand.

The associated issue of rights and obligations of customers versus landowners also can be addressed through the question of customer complaints and other processes which we also support being specified, identifying that they apply to customers and landholders in the way I think Jim and Gavin were referring.

The dispute resolution processes, again, a formal complaints handling procedure created a good context for our workforce to do business. We have been developing that and we believe that is a positive to require that. Debt disconnection and restriction processes, again specifying them, let's everyone know where they stand. We have been doing those things for over 100 years, so there are codes. But, as Jim said, the fact they are there is one thing, the fact that you can specify them and make them transparent is an improvement. We are happy to do that.

I should say just in passing that disconnection in the ultimate hasn't historically been a big

issue. We try our absolute level best never to disconnect people. There is less than, I am told, 10 a year and the obvious desire is to find ways of dealing with customer difficulties before it gets to that. We run a whole series of arrangements with deferred payment schemes, time payment schemes, et cetera, which basically resolve most of those sort of things to everyone's satisfaction.

The customer forum and the method of community consultation has received some consideration. I find myself a bit torn on this one because clearly again in the spirit of specifying things so you know where you stand, in some ways it would be better from the organisation's point of view to have a specified contract that says, "here is how you must run your customer forum", but I think if you overplay those things you can falsify them in a way that makes them less effective.

There is a certain dynamic in all sorts of community and customer consultation that has to be allowed to flow and so while we are happy to have discussion about the rules of engagement, I think we have to be careful not oh over-ossifying those things.

In passing it might be instructive to read out who is on the present consultative forum, not the individuals but the organisations, and I will quickly do that because it puts in perspective some of these things and the need to continually freshen membership as new organisations are created because some of these organisations I will read out would not have existed five years ago and they may not exist in five years time, there will be other organisations that come along.

We have people from the Combined Pensioners Association; the Migrant Resource Centre; Throsby Land Care; Streamwatch, which is an environment and education and monitoring program; Hunter Catchment Management Trust, which basically looks after water resource management in the whole of the Hunter catchment; Williams River TCM Committee, which is the river from which Hunter Water extracts a lot of its water; lake Macquarie Task Force, which deals with environmental issues in the Hunter and Lake Macquarie and has overlapping membership with the catchment management committee down there; Hunter Regional Community Forum, which is a social group; Association for Environmental Education, two members; Urban Land Development Association, into the developer side of things, out of the community/immigrant environmental stuff into the developer community; Housing Industry Association, Newcastle/Hunter Business Chamber, Newcastle City Council, Cessnock City Council, Lake

Macquarie City Council, Maitland City Council; and Small Business and Consumer Affairs.

I don't want to dwell on that or say that is a perfect set of representation but it is a fairly broad set of representation and we are happy to have discussions with anybody, including PIAC, about how that might be varied. Our experience is that as new organisations or community groups come and go, you are better off to have them in there if they are prepared to be there. There is an issue in a reasonably small community like this of finding - you are imposing yourself on the same group of people to be consulted about a hell of a lot, so there is an issue there of keeping those processes fresh.

The collection of data on a range of customer indicators like methods of solving complaints and times taken, et cetera, telephone responses, we are very pleased to do that. Again, that is part of a good business process but as was suggested before, we have to be mindful about setting targets for all those things until we have understood what setting those targets may be mean.

I am always reminded of a story put to me, actually in this room in the early 1990s, by a consultant we had from the UK who said that in their case Thatcher was very keen to privatise water, but they hadn't thought through anything like as sophisticated a program as we have here for regulation, she simply wanted to be seen to be doing something.

So, instead of regulating a number of things Andrew and others will tell you might be important for customers, quality, et cetera, they made quite a big noise about fining water companies if they didn't answer correspondence - 5 pounds if they didn't answer correspondence in two weeks. That was nice for a bit of a headline but when you look at the total regulation of what the community really needs it probably wasn't the sort of thing we would put at the top of the pile. We have to be careful, if you like, not to be sidetracked into some things that may not necessarily yield much consumer gain because you can create a situation with something like that where you might send a letter in how many days to avoid a five pounds fine but it may not be a good letter. Has that helped anybody?

Thinking laterally about what to do with that sort of thing is something we need to put on the table for the next five years as to how we deal with the customer question.

In the spirit of trying to think through things

and test them and then maybe implement them down the track I have been thinking that we ought to be considering how we survey customers across different organisations within Australia so I would like IPART to think about whether the regulators in different States would see it as attractive to specify a common procedure for surveying customers so that you could get - and it could be done statistically, I think - build up a picture of the outcome of how customer complaints are dealt with, that is, were people satisfied by the result, are people twice as satisfied in Melbourne as they are in Sydney or vice versa.

At the moment we are running the risk if we don't do that, which is measure outputs. You start specifying inputs, you have to answer a letter within two weeks, but that does not of itself achieve anything if the customer is not happy with the letter they get. We need to be thinking forward in terms of what is the next step in these processes. In the meantime there are a number of things that have been put forward we are happy with them and agree with, and look forward to implementing them.

MS CROSDALE: I will be short because my other colleagues around the table have already raised many of the issues that Council would raise. To state simply, our approach to the management of the City of Lake Macquarie is based on the principles of ecological sustainability. To that end we concur with the additional requirements that have been proposed today but we would like to add that one of the major issues for us is that of social justice. We would like to see different groups identified clearly for their needs so when we are talking about customer contracts, et cetera, the variety of people that make up individual communities are recognised, because they cannot all pay at the same rate. So from our perspective the issues are social justice, how the community can meet the criteria of having an appropriate water and sewer facility provided to it, reasonable cost and methods of payment. I leave it at that.

MR COX: Thank you very much. I wonder if there are any comments from members of the panel at this stage.

MS CIFUENTES: Just one question. It is something that the tribunal has considered, differentiating customer contracts within the - differentiating customer classes within the contract. It does raise a lot of issues if it is a legal document. That is why at least in Sydney Water the approach there taken was looking at in a sense the average customer while allowing for separate agreements to be drawn up by different classes of customers. I just raise

that because it is an issue that needs to be addressed in differentiating customer classes.

MS CROSDALE: Council recognises that, because some of our community groups are government funded, they don't have the ability to automatically receive increased funding from that source, whether it be Federal, State or a combination, and they really need to be looked at closely because their ability to pay higher costs for operation are very, very limited.

MR COX: I would like to take any comments or questions from the back of the room, if there are any.

MR SHARP: Alex Sharp, from Swansea Environmental Committee. We act for citizens like a progress association for various organisations. I don't agree with the gentleman speaker from IPART about lobby groups. We are a lobby group. We are negotiating with the council on sewerage, which I will speak about later. The only way we can get any success and only way we got something done was from a lobby group or going to the TV.

Education - one of the persons spoke about the responsibility of people. The advert on TV about watering your car on the lawn, nowhere in my district do you ever see that get done. That education thing has gone by the board. There should be responsibility in the contract to say that no watering should be done on the footpaths, that it is wasteful. I have seen them water their gardens - I live in Villa - water their car on the concrete and then go and water their lawns. It is ridiculous. There should be a responsibility given, education is not good, it should be in the contract to say "no watering of your car unless it is on the lawn", if you have got a lawn, of course.

Customer forums: I believe in these. The council sometimes has these. Our local business people have done the same. You could have little forums. I don't believe that that forum you have got there represents anything we have got in Swansea. We live in a unique area where we have flooding. Actually, one of the councils said it is our own fault because we built on a swamp 150 years ago.

None of those organisations, even the council, represent us and we have problems that we would like to discuss with the Water Board and the only way we can do it is to go through a lobby group through our local member. We shouldn't have to do that. It is all right everybody ringing up saying, "our sewerage has overflowed", 50 customers saying, "what are you going to do about it", but the only we to get

something done was go through our local member.

MR COX: Any other questions from the floor.

MR BROWN: Fred Brown, here by invitation. I was a small developer but thank Christ I sold out.

I kept telling David that we had a dispute and David kept telling me that we didn't have a dispute. IPART put out a document in 1996, something number 5 of 1996 which had Hunter Water's address on it and in that it was to do with restriction of monopoly power, regulation of developer charges and the methodology for dispute resolution.

As a result of David and I not agreeing, I went to IPART and asked them for their version of the determination number 5 of 1996. They wrote back to me and what they wrote back wasn't satisfactory. And then after a following letter they wrote back and said, "Well, Hunter Water did not adopt the methodology".

This is the methodology in the paper with Hunter Water's name on it, they did not adopt the methodology, so then I asked for a face-to-face meeting with somebody in IPART, they invited me down to Sydney. I went down and spoke to two personnel there. All they would say was, "We cannot improve on what we have told you in the letter" and they finally said that "we make the rules but we can't enforce them". Now my question is, is this going to change?

MR COX: A couple more comments.

MR DOUGLAS: Paul Douglas, Dudley Ridge residents. Basically we are unsewered where we are. There are 11 residents. Historically Dudley was connected to the sewer in 1966. For some reason - at the time there would have been eight houses - they are on transportation septic. My questions are, you were talking about the social justice and the ability to pay to be connected. Quite clearly we have been through quite a lot of negotiation with Hunter Water. Basically we have had costs, roughly around $18,000 to $60,000 per resident to be connected to sewer. Not many normal people have that money.

What we have been trying to commit to is to have some form of subsidy agreement that we would pay with our rates or bills, et cetera, but we are constantly being told, you would be expected to subsidise. We are taxpayers. Hunter Water is a government body and as an example, in south-west Sydney there are 1,000 unsewered properties that are being subsidised at the moment. Their sewer is about $26,000 to be connected. They are only being

asked to pay $1,000 towards that connection. Lake Macquarie approximately has I believe 1600 properties unsewered.

What it appears with the way the licence agreement is at the moment is basically that 3.3 is the requirement to supply is if they are requested to have to supply water sewerage or drainage or otherwise water services to the customer unless it is not viable on commercial grounds. Obviously the normal customer will not have that sort of money, $18,000 or $60,000, so we have to question the commercial viability.

If I had the money, obviously we would not be asking for the subsidy. The example I have always given is, you would not be expected to have to buy the bus to hop on the bus, in other words, buy a ticket, that if you own the bus you don't need to buy the ticket. What I am basically raising is it will never be affordable, sewer connection, to our area, because it will continually increase with the CPI, as Hunter Water tells us if we continually put the connection date off.

Also as far as the equal standards or the life cycle cost, et cetera, we were given some indications as the cheapest quote for the $18,000 per property was for a passive rate pump system, pumping uphill. We live on a slope of about 1 in 3:4 so we have questioned, why put the pump system in. There is no guarantee by Hunter Water, they have no obligation to guarantee the pump system.

MR COX: What is your point?

MR DOUGLAS: Basically I am just questioning Hunter Water as far as, and councils and government, to talk together because especially the septic safety legislation, councils are now having a lot of pressure applied, but there is a government body that seems to take no interest in these unsewered areas and it appears nothing will ever change.

MR FANE: Simon Fane, representing the Wilderness Society. I would just like to see, particularly in the customer indicators, some pro-active indicators on as well as these reactive to people asking Hunter Water to do things, that there are some indicators of things that Hunter Water has gone out to pro-actively do either audits or to try to find new ways to sewer very difficult areas or to supply effluent for reuse to new industries, so just to include not reactive but pro-active indicators of customer services.

My other point is to do with the consultative forum, that it is a really good thing that Hunter

Water has this forum and asks a lot of diverse people about its actions but if we are going to include it as part of the licence then we need a way of choosing who is on that forum that isn't completely controlled by Hunter Water, so that if we are going to use it as part of the licence process then a process of who, which groups, are part of that forum needs to be thought through.

MR GRUGEON: Hilton Grugeon, Hunter Land Pty Ltd. Unlike my friend Ken, I have not been able to get out of the development industry. I have concerns that the proposal doesn't address the commercial interests that David has referred to and the need for accountability and transparency in working through issues between the parties that the board is constantly in business with.

The development industry in this area, because of the board's failure to implement the 1996 IPART requirements, is now facing anomalies of decreases of up to 60 per cent in some charges in some areas and increases of 100 per cent in other areas. I am personally faced with one particular place where up until 31 December the fee is $1m, on 1 January it is $2m, which is a very interesting increase when not one cent of that is going to better environmental outcomes, where not one cent of the extra money that the property purchaser will be paying - because our commercial arrangements with the board impacts on the consumers, they end up paying for it - not one extra cent of that money is going to better outcomes, it is going to rectifying of their performance in the implementation in a quick period of what should have been done over a long period.

Also I note that there are reductions in the charges in areas that have got serious environmental issues with their treatment of their waste. I cite the Bulwarra area around Maitland, there are a few others of these, and charges are being reduced when the needs there are even greater than they have been in the past. I am sure the environmental lobby would be interested in the explanation that might be available for that.

When I talk about transparency, we have as an industry had to engage a consultant recently from the Water Board to try to, the Water Corporation, to try to get an outcome that is more consistent with the principles that have been followed and the principles that are seeking to be adopted, and the money that has been spent on that surely would have been better spent on achieving better environmental and social outcomes than having to waste money and give money back or pay extra money for bureaucratic bungling, which makes you wonder if it was right then it must be wrong now or if it was wrong then is

it right now.

What is the criteria of a body to whom a licence should be given? If it can't manage its commercial affairs, how can it manage everything else that comes before it for the benefit of the consumer?

MR COX: I will give the panel a chance to respond if they so wish.

MR EVANS: Each one of those issues, as you might imagine, has their own history behind it, and each one of them is capable of all sorts of explanation. I don't know how you want to go about addressing that. The last one in particular, there is a whole series of quite clear explanations for the changes. There are also a whole series of recourse mechanisms people have, developers have, to comment on how the machinery is applied, and I suspect it might be better to deal with those outside of today.

I am more than happy, if you want to take the time, to go through them. I am in your hands as to how to handle them.

The Swansea one, obviously there is the issue about that, that the location there is a challenge. There was a series of specific expenditures planned long ago to address that and that were in train and will continue, but we do try to talk to individual customers as best we can. I think again there are some technical issues we could go through.

The developer issue about the commercial dispute settlement, there is in fact a formal Australian Commercial Dispute Centre Resolution approach to deal with that matter and I am not sure we want to go into the detail of that. But that is happening.

I suppose, getting back to the last comments of Hilton, there is a whole series of recourse provisions and provisions for developers to comment on what are called developer service plans which in turn drive developer charges and Hilton and others have every right to do that and we will consider them.

MR COX: I think in the interests of time we probably should move on and conclude the session now. I guess I'm left with the message that, broadly, the proposals that are up on the transparency seem to be acceptable to most people sitting around the table but there are some issues that probably would benefit from further discussion, including some of the customer council type issues. I think if that's the correct impression we should probably conclude

the session now and move on to the next one, which is on operational standards.

System Performance Standards and Indicators

MR COX: I think we might resume. Since we have a new panel, I wonder if the people who have joined us could briefly introduce themselves for the record.

MR PRINEAS: Peter Prineas from the Nature Conservation Council.

MR MARTIN: Leigh Martin from the Total Environment Centre.

MR HALL: Keith Hall from Halcrow Management Services.

MR KERR: Michael Kerr from the Environmental Protection Authority.

MR COX: Keith, I believe, is going to make a brief presentation. I will ask him to do that.

MR HALL: Thank you, Jim. Good morning, ladies and gentlemen. It's very good to be up here in Newcastle. This, I think, now is probably the third time that I've met a lot of you, because I've had involvement with the tribunal on a couple of other occasions. I'd certainly like to just say thanks to everybody for the assistance that they've given me with the review, which has been much appreciated.

The first job that we did out here was to look at the efficiency as part of the 1999 price review. At that time I made a few comments about the framework where I thought there were some weaknesses in it. So when we came to look at the operational standards for Hunter Water this time, we didn't immediately adopt the approach that had been the one that was looked at for Sydney Water earlier this year, but we looked at a couple of alternatives. The alternatives that we looked at for Hunter were possible because at Hunter we were looking at a total review of the licence whereas at Sydney Water it was purely the system performance standards that the tribunal was reviewing. So we looked first of all at the existing framework.

The existing framework suggests that there should be system performance standards and the intention is that those should be supported by indicators. This has been put forward. The minister has made decisions on the Sydney Water framework, and there will be a range of system performance standards. Information is being gathered through indicators that will support in the future perhaps further system performance standards and there are a range of indicators that will

produce further data for the tribunal.

We looked at Hunter Water, and the report that we have in draft now suggests that there would be eight system performance standards for Hunter Water. The alternative that we have looked at we evolved after discussions with David Evans and the other people at Hunter Water and with the tribunal. The alternative that we have looked at really takes forward something that Colin said in his opening presentation about the purpose of the licence. He said that the purpose of a licence was firstly customer protection. Therefore we have looked at the preferred alternative.

Our first point there is that there should be some core standards which essentially focus on customer protection aspects. Then we have the second point that Colin made, which was that it was to do with ensuring robust systems. So we have put in a second level which we've called service commitments, which have an asset management planning focus, that are more geared towards ensuring the robust systems at Sydney Water, although indeed, of course, they do have customer service aspects. That is what Hunter Water and all water businesses are about. It's about providing customer service. Everything they do is customer service, if you want to look at it in that respect.

So in the alternative framework we would be looking at three core standards which would be sort of omnibus standards - they tend to bring together different aspects of customer service - and six service commitments. So we have these two alternatives, both of them supported by indicators. The question then comes: what are the differences between the service commitments and the existing system performance standards? There are two principal differences that we are looking at. The first one is the question of the enforcement mechanism. Whereas the existing system performance standards are enforced as licence conditions - that means that failure to meet one of those standards is a breach of the licence and therefore, in the terms of the licence and the act, it could mean revocation of the licence - we are seeing service commitments as being enforced slightly differently. That is not a soft option, please. Do not get that idea. The enforcement would be there, but it would be through financial mechanisms possibly, linked with the price setting, through directions possibly by the tribunal, or others maybe. A failure to comply with directions perhaps would also be a breach of the licence. So that would come through. Indeed, a service commitment, if it was not being met, might become a core standard itself.

The second difference is that the target setting that is part of this process would not be completed as part of this licence review but would become part of the price determination process. This links back to things that Andrew Speers was saying earlier about the need to look at cost benefits, because one of the problems that exists at the moment is that the licence and the price setting are not synchronised. So you have the difficult position where at this point you are setting standards. And if you set a reporting threshold and a compliance target at this stage then you have to ensure that it is cost neutral. That is part of our terms of reference, that it has to be cost neutral. But when you come to the price determination in a couple of years of so, you already have a target set. At that point what do you do? Do you actually try and set prices based on it being a higher target or the existing target? You cannot make the cost-benefit trade-off. There are significant problems for all parties involved at that time. So service commitments would have the target set in conjunction with the price setting process. That is our proposal for this alternative. So that is the one advantage.

The second advantage is that in fact you can actually set a tougher target on a service commitment because there is an issue of head room, of how much head room do you allow for major events beyond the normal scope of things. Within a core standard, which is going to be a licence failure if the organisation doesn't meet it, then there is an argument for greater head room than under service commitments. So those are the two alternative frameworks we are talking about.

Briefly to talk about some principles, within the report we are looking at comparability. We are wanting to get a framework that is similar to Sydney Water to allow some comparisons but not one which is necessarily identical to Sydney Water, because there is a need to reflect the local circumstances of this region in the targets - and in the standards themselves, for that matter. So we will use the same definitions where we can. We will use, generally, the same reporting thresholds, but the compliance targets will be set very much to reflect the local circumstances of the organisation.

We are talking about on targets - setting, again, targets, as was done at Sydney Water, in terms of the numbers of customers who do not receive satisfactory service rather than a percentage of customers that receive a satisfactory service. The idea of that is essentially that we are not trying to, in this case, demonstrate how good Hunter Water are but to focus Hunter Water on understanding where

there are problems in its system. It will not always be cost effective or proper to try and ensure everybody gets exactly the same and a perfect service, but at least to draw attention to the people that do not always receive satisfactory service by highlighting them as numbers, as customers. Head room I've already mentioned. We will be looking to have a degree of head room that is appropriate to the regulatory risk.

Finally, I mention accuracy. This was an issue that we raised first in the context of Sydney Water, that accuracy needed to be understood and stated. We have made some slight changes in the way that we are recommending that the accuracy be implemented. In the case of Hunter we are suggesting that they should be producing reporting protocols that produce a required accuracy level but that the audits would then be to audit against those reporting protocols and not to try and replicate and determine accuracy every time you do an audit. So there is just a slight difference of focus on the accuracy there.

Moving on to the more detailed stuff, what I'm putting up is our preferred alternative. Water shut-offs is the first area in which we are suggesting standards. At present Hunter have a standard which is based on cumulative interruptions exceeding five hours. We are suggesting as a core standard that that can remain, although I have some reservations about it as a stand-alone method of measuring the performance of an organisation. So the core standard will remain in that form. We are then suggesting that there should be two service commitments to support that, one of which is the unplanned interruptions greater than five hours. We differentiate between planned and unplanned because unplanned are the ones that impact more on customers. If you know the water is going to be turned off, then people are much more tolerant of the interruption. Five hours is a figure that has been used commonly throughout Australia. It's been adopted now at Sydney, and therefore we believe the five hours is appropriate in these circumstances for Hunter as well.

The second dimension of shut-offs is repeats. You do need to understand the implications of repeats for your customers and endeavour to manage that through your asset management planning process. People are not happy if the water is turned off too often, even if they know it is going to be turned off. So that's an area that needs regulation. Those would be supported by a range of indicators.

Then we move on to pressure. We have looked at the existing situation. At Hunter there is a pressure reporting threshold at the moment of 20

metres, whereas at Sydney Water and in many other places 15 metres is applied. The argument for retaining 20 metres is essentially one of familiarity. The argument for moving to 15 is that, apart from the fact that it is more commonly in use, it provides an ability to make savings, particularly on the leakage side of things, if you can control pressures more. So we have in the end, having looked at various possibilities and combinations of these two, come to the conclusion that a 15-metre standard is one that can be applied and perhaps should be at Hunter Water. We will exclude abnormal circumstances from that. We do not see that they should be measured against a standard which says, "You've got to meet it all the time, regardless of whether there are bushfires going on" - so very, very high demands for firefighting - "or if there have been serious mechanical failures", or something like that. You don't want to actually measure that sort of thing within your standard. Again, there are a couple of indicators to support that.

The adequacy of the sewerage system is to do with overflows. We try and distinguish between the overflows that are related to dry weather and the overflows that are related to wet weather. As far as our core standard is concerned, we are looking at the overflows on customers' own private property. Here we will have an indicator. As I said, it's customer service related, so it will combine the effects of wet and dry because customers really do not, when they have an overflow of sewage on their own property, make any distinction between whether it's a wet or a dry type overflow. We will also include repeats within that initial core standard.

Moving on to the service commitments, we are looking at suggesting two service commitments which parallel the two for the water shut-off side of things. One is uncontrolled dry weather overflows. That means essentially that there have been blockages or failures of the system and therefore it's backed up and overflowed. That is a service commitment linked very much into the maintenance and asset management planning for the sewerage system. And then again repeats are important as regards sewerage as they are for water, perhaps more so for sewerage. So that's the sewerage side of things.

Then finally we have the environmental side. This links to the environmental impact, largely. Wet weather overflows cause environmental impacts. So here we are trying to pick up the wet weather overflows from the system but as indicators only. This information is gathered by the EPA. They have the primary responsibility for regulating it. However, as far as the tribunal is concerned they need to know what is happening - whether money that

is being allowed at a price determination is achieving the outputs that were expected, both by the EPA and by Hunter Water, as time progresses. So it is geared towards a monitoring of the situation using information that is gathered by others and not as a driver of Hunter Water in itself.

So that concludes the presentation. I will just put up that summary slide, which shows you the two options which I have explained earlier and outlines the water service commitments and core standards for shut-offs and pressure and the sewerage service - and similarly these standards for overflows and environment.

MR COX: Thank you very much. I would like to now ask for comments from members sitting at the table. I thought I would start out with Gavin Morrison of Sydney Water, who has recently been through a similar process.

MR MORRISON: Thanks, Jim. In terms of Keith's presentation and his work on Sydney Water, Keith has identified obviously similar areas that are the minimum requirements for customer service that standards should be applied to for the Sydney operating licence and for continuity of pressure and sewerage overflow. In terms of the work that Keith has done, I think what we are seeing is an extension of his work on Sydney Water. He has obviously been given a chance to think further and work more with the water industry on how to deal with certain issues. From the sound of it, we would very much support the proposal he is putting up as proposal B, which is the development of service commitments.

I think from our experience in Sydney, one of the main interests of IPART and obviously of the community is to ensure that the water industry spends the right amount of money on asset replacement and renewal. As Andrew has mentioned from CSIRO this morning, you've got to be careful how you determine the levels for that through standards. I think the proposal to develop service commitments as opposed to standards that are developed through the price process is a very positive one that hopefully will help us bring together IPART's interest in this area and also the interests of the water industry, and I think also stakeholders, in ensuring that the right amount of money is spent on these areas.

For Sydney Water, one of the main interests that we have had is in the area of regulating repeat events. I think that, certainly for Sydney Water, one of the things we do is have an asset management framework - a plan that we submit to the minister. A very important aspect of that plan is looking at

arrangements for dealing with really major outages in terms of customer service. I just want to note that the government has already moved into the area of using plans, as opposed to standards or anything else, to try and increase accountability and control of this area, particularly when it comes to major outages, which obviously have a big impact on the community.

In terms of the head room issue, I welcome Keith's suggestions about setting it on local conditions. Sydney Water thinks that is appropriate, and it's a necessary thing to get it right in terms of a compliance standard versus a service commitment.

The issue of an accuracy protocol is an important one for Sydney Water because we have statistical requirements now set in our standards regarding reporting requirements. We are very interested to hear what Keith has said about his proposal for Hunter and how they slightly differ. It's for us something that has to be managed carefully because of the size of the systems that you are talking about and the kind of auditing that is required. What you want is the community and IPART to be genuinely reassured that the service provider is meeting the standard requirements. But you don't want to establish a situation where there's a kind of crazy technical requirement to prove within a very small band what those requirements are. So it's a reasonable outcome, and Sydney Water is going to work with IPART to ensure that that is achievable. It certainly supports what Keith has said for Hunter, because it shows a development in the thinking and IPART's thinking that we really need for ourselves as well.

The last comment I would make is that, in regard to the environmental indicators, Sydney Water very much sees the importance to IPART of proper transparent information about our environmental performance and our commercial performance in meeting environmental standards - operational performance - and see that as obviously reflected in the community's concerns. But we very much want to push and identify the appropriateness of the EPA's role in communicating with IPART and the community about Sydney Water's performance in this area. And rather than duplicating indicators or requirements in licences and instruments administered by IPART, we want to think more about how the EPA and IPART can communicate so there is not a crossover in regulatory responsibility. I think there is a bit more work that needs to be done in that area. I think Sydney Water's concerns there continue. Thanks, Jim.

MR KERR: Clearly the EPA has a particular focus on environmental issues. We deal with Hunter Water Corporation extensively. They have had a licence with the EPA for a number of years. In recent times we have been working with Hunter Water very closely to help develop a major upgrade for their system, including their sewage treatment plants and reticulation system. The EPA as a whole has also over the last I guess probably year or so, been working pretty hard at trying to develop a system for developing licences for sewage reticulation systems throughout the state for all operations. We are working towards a timetable of trying to have those in place by around the middle of next year.

Obviously that includes Hunter Water Corporation. We have also picked up on a couple of points that have been made, quite interested in ensuring there isn't replication between the operating licence and other regulatory requirements, obviously specifically our own in particular, but also picking up something that Keith mentioned, that we clearly would have an interest in developing a reticulation system licence for Hunter Water Corporation and are interested in developing good reporting requirements, and that is something we still have to talk to Hunter Water Corporation about in detail so that Hunter Water can provide the sort of information that is being talked about today.

MR PRINEAS: The main things that are of concern from an environmental perspective in standards would arise from pressure. There is a question about the pressure standard. Sydney Water applies I think 15 metres and Hunter Water 20 and of course that has implications for the amount of water loss through leakage, and perhaps later we will hear from Hunter Water as to how they justify that significantly higher pressure.

I tend to agree with Halcrow's recommendation, or perhaps now it is the tribunal's concept, of having a 15 meter head in the interests of water conservation but, of course, I am prepared to hear from Hunter Water about that.

In relation to the general approach of core standards and core service commitments, I don't see a problem with that. In relation to not setting targets as part of the licence review but of price setting in the interests of synchronisation, I certainly can see the logic in that. However, I would argue that the integrity of the regulatory system and the operating licence requires standards and targets and I am not sure what kind of delay or hiatus we are facing in setting the targets as part of a pricing operation rather than part of this operating licence review. That worries me.

This is a fairly simple regulatory system and we have an operating licence which I think should be comprehensive and which will set performance standards amongst other things and if you leave gaps in that process I don't think you do it any good, I don't think you do the credibility of the whole process any good, so I just indicate that is a concern.

The suggestion that there should be comparability as far as possible with Sydney Water Corporation's standards is welcomed, of course allowing for local conditions. Comparability is not the same as having identical standards, we understand that, but if we are going to get value out of this operating licence we need comparability in order to establish benchmarks and see what is reasonable in how the water utilities perform, and the sooner we have comparable processes and standards around Australia the sooner we will get better efficiencies and savings, so I would support that.

In relation to headroom, I think this concept refers to how much comfort level. NCC has noticed that Hunter Water Corporation easily, routinely, inevitably, meets its current targets. There is very little incentive for improvement so perhaps the current targets have got a lot of headroom. I am not sure. But that is certainly the indication. Again, I would be pleased to hear from Hunter Water further on that matter.

With regard to interruptions, it is appropriate that repeats are now brought into view. Within six months seems to be a reasonable time frame. Again, the same can be said for sewerage overflows where repeats are proposed to be brought within focus but then again it is a different time frame, 12 months. I didn't understand the rationale for the difference. Perhaps it is something to do with the statistics or the likelihood but I just wondered about the difference in the time frame there for repeats which might be canvassed.

With regard to sewerage overflows, of course sewerage overflows don't just affect customers' properties, in fact to a greater extent they affect common property of the public, waterways and public lands and parks, and that is because the system that has been traditionally developed is one which is designed really to overflow in those areas to avoid damaging private property and the health consequences of overflows on private property, so the environmental impact of overflows is quite large.

The EPA, as has been pointed out, is the regulator there and it is not appropriate for the operating licence to duplicate that. However, I don't believe that duplication really is an argument in this general debate. You have the EPA or Health or whoever the specialist regulator is setting the standard and all the operating licence does or has to do is pick up on that as a comprehensive and overarching instrument which is available for the public and the parliament, the government, to judge the overall performance of the organisation and to impose a penalty or not depending on how that performance is viewed.

It is not a question of duplication at all, it is a question of simply picking up the standards that are required to be met comprehensively. I don't see that duplication arises here or anywhere else as long as the operating licence doesn't require different things to be done or different report standards from what the EPA or other specialist regulators might require. As long as there is no attempt to duplicate in the sense of creating new requirements then duplication is not an issue. That is about all I need to say on that at the moment.

MR SPEERS: Just as a brief reminder of what I was speaking about before, that our task based on our work in the last few years we saw as determining the extent to which customers' demands have changed levels of service in the face of full costs and those full costs means the externalities cost which includes environmental costs and customer impact costs and the total life cycle costs of the systems under consideration.

Just to clarify that latter term, total life cycle costs in this framework, I am not referring to say embedded energy costs in pipe materials and so on but referring to the process of planning, creation, installation, maintenance, decommissioning, disposal and externalities costs associated with providing a water service.

The reason we focused so much on consumer preferences is because the standards that are set fundamentally affect the total life cycle costs of providing the service and so we thought as a first principle it was important to understand what the community was wanting. In a perfect world it might be said that customers would want a higher level of service, say a water system without interruptions, but given the range of choices that are available in terms of other aspects of water services which might be standardised or even non standardised items, is that a high priority for them or not is the sort of question that might need to be answered.

We didn't set out in this work to produce a number at the end of the day. In fact, I have flippantly said on a number of occasions to people involved in the project we need to take a line of Bill Clinton and say, "it is the methodology, stupid, it is not the number at the end of the day that we are seeking; what we are seeking is a workable methodology through which the standards can be determined in the light of full costs".

We began the project really in January of this year and will have completed this methodology in early 2002. Obviously this is a research project and there may be further requirement beyond that point but that is our target date for producing an integrated report.

I use the term 'integrated' because there are three components to this project. The first has been, as I say, to determine customer preferences. What is it that people want out of a service, and within that context to design a methodology which removes certain what are often referred to as "embedded" or "contextual" effects. When I presented at a similar forum for Sydney Water, one of the comments made by the PIAC representative quite rightly is, "if you use willingness to pay studies, the chance is you will get a result that says that those who are well off will be willing to pay and those who are less affluent will not", so we thought it was important to choose a methodological approach that minimised or avoided those embedded effects.

It is probably within five minutes impossible to go through all of the issues that were related to removing that effect but I think I can say that we have confidence that the methodology used produces a result that is not tied to income.

The results of this first stage in which we have a great deal of confidence in presenting us with information tells us what people are demanding from the service and the latitude of their opinion. I hesitate to use any number at all because I have had the experience where I have used a number as an example and suddenly it has become, well, "Speers said this is the target", so I will choose a ridiculous example so that nobody is tempted to do that and say if 100 interruptions was a standard that was set, the latidunal work that we have done might say, taking that as a base point, what number of people of the total surveyed would be willing to have 120 or 80 or 60 or 50 breaks to see where the community opinion or customer opinion is zeroing in on, and we presented a series of findings in terms of total number of interruptions, length of

discontinuity, interruption, et cetera, to give us a picture of where people see their level of satisfaction diminishing when confronted with this range of choices, so that and the removal of the embedded effects is quite critical in the first stage of the process.

The second stage was to look at customer willingness to pay or willingness to be compensated and very briefly put it may be that people feel if they are not receiving sufficient service and were willing to pay more, which is obviously a willingness to pay standard, or there is a standard set and if they had their choice, they would rather pay less and have a lower standard or have some compensation for not achieving standard.

Studies such as continued evaluation studies are ways of determining those sorts of findings but they are very often criticised. We believe that the state-of-the-art in this regard is a choice modelling framework that confronts people not just with single choices along one axis but with a range of choices presented as a matrix so they might choose to have say $20 more or less frequent interruptions and be compensated when failure occurs.

For another group there would be another choice set that had different attributes. The objective of this sort of approach is that rather than getting a response that says, "I would be willing to pay $20 for X", it begins to sort out what people value from the service, which brings me to the next critical point: From our findings in component one there are a range of things - and I should have specified from the outset that we use water services as our test case, we haven't looked at sewer services, just water services as a test case to test the methodology - and there are a range of things that people would like to see from that service.

So it is not just a matter of how often there are breaks or the duration of that, their satisfaction can be enhanced if there is some form of notification when a break occurs, if there is some form of substitution when a break occurs. If people are notified that an unplanned interruption is going to occur, their willingness to accept that circumstance is greater. Similarly, if unplanned interruptions occur, if at least they are notified and told in some way that action is being taken and when to expect a return of service, they are less concerned about the interruption. Similarly, if an alternative supply was provided, like bottled water for the period of the interruption, that might change their views as well.

The outcomes of this work are not complete yet and in any case I don't want to concentrate on findings but on the methodology, but we have reasonable confidence that this method is producing an interesting picture and a valuable picture with regard to what people expect from the service. It is a complex project.

The third component is to look at the way in which we calculate the total costs and we have looked at an enhanced asset management model which doesn't just rely on historical information say with regard to the number of breaks that occur in a particular type of pipe, but has a so-called deterministic characteristic which looks at the circumstances in which these assets are established and what wed might expect from the future.

The problem with the statistical approach is that it is not particularly good for modern plastic materials, so we need to look at developing a model for the future. Out of that process comes a lot of information about the way you would minimise costs to consumers so at the end of the day we understand customer preferences, we have a method for choosing amongst the preferences that people express of calculating externalities, which I have not really covered and I won't, and of confronting people with cost implications of that work.

Obviously a methodology is not usable if it is impossible to describe in five minutes, so I don't want to give the impression it will be impossible to implement in three years. The focus has been on making this a methodology which is usable and which allows a link with the price path process that was referred to by Keith. I very much support that process that he mentioned this morning because at the end of the day what we get is an understanding of what the customers want, how to achieve that efficiently, and thereby what sort of price might ultimately be charged for the services that are provided.

I know there is a lot there in five minutes but I think that is as succinctly as I can explain it. I hope that is somewhat enlightening.

MR EVANS: I have been trying to put myself in the shoes of someone in the audience to try to distil down where we are on what is obviously a complicated journey. This whole business of regulation of service standards is technically very complex and I think we have got to see it as a journey where when these licences were first created we wanted to set certain standards to protect customers and encourage, sure, there will be no revision how the organisation behaves.

What we are working our way through is how we improve that model, if you were fishing you would be pulling the biggest fish out, pulling the net out and improving the model as you go through. What Keith is enunciating is the next generation of improvement which has the basic system performance measures but also has some indicators you might link to the past process so you are generating more information in making the process more sophisticated, and Andrew is enunciating the next forward looking step, how to produce a methodology that would enable to you link the social costs and benefits of setting these standards. We have to see it like a three-stage process and we are probably nearly ready to implement the second. We need to implement the third and then implement that as we go along.

The other thing I think we need to try to distil is people might say, "why do you guys worry so much about this so-called cost benefit, why not just say, look, the water should never be off for more than three hours a year, that is what we expect in a modern society". The problem with making just like a valued judgment like that is that you run the risk as a society of tripping yourselves up pretty badly because the three hours or what it is may not reflect what customers actually want. They may have other interests. As Andrew said, they might be interested more in getting an alternative service or notification or have a shorter waiting time at the train next time they were there or less of a queue in the casualty section at the hospital or whatever, so you need to work out what customers want. That is not easy.

And, secondly, you need to work out what the cost implications are. We go on about this a lot and I think sometimes we don't explain it very well. Look at Hunter Water, we are talking about water continuity here. If we laid all the pipes out that serve the people of Hunter it would go from here to Perth. Along the way you would have about 200 pumping stations, so quite a lot of those, and that system functions in a particular way as a result of all sorts of historical and other decisions.

It might for the sake of argument generate enough for 5 per cent of people without water for more than 5 hours a year. If you said, let's make it three hours, you are probably making an amazingly profound decision about that system. You are probably saying that you have to replace a lot of those pipes that run from here to Perth or you have to think of a different way of maintaining them so they don't break.

That is tough, because you can imagine if you have a car that is more than five years old, it is always hard to anticipate how it will break down, so you have to do a lot more preventative maintenance and build a lot more pumping stations and duplicate mains to avoid failure. You might have to build from here to Dubbo a duplicate line. I don't want to go on and on, but you see that you might find society as a whole locked into spending an enormous amount, financial and environmental, for something which we may not want to do.

This third-stage methodology that Andrew is talking about is absolutely profound to avoid that happening. It links back to another concept that Peter raised in particular, this question of headroom, because the same issues apply there. If you say, "well, look, the organisation might have achieved certain continuity measures in the last five years, let's tighten it up a bit", you want to make sure you have not just commissioned the duplicate pipeline to Dubbo.

In terms of that, in response to a specific question Peter raised, whilst this organisation has historically managed to achieve the pressure indicator quite easily, and we are the first ones to admit that, and it would be even easier to achieve it if it was reduced, we have not achieved continuity and sewer surcharge measures. Both of those have been achieved. The water one has been achieved every year but only just in some years, and only as a result of quite a lot of expenditure to achieve that, but the waste water transport one has not been achieved every year, I think four of the nine years we in fact didn't achieve it, and in order to achieve it we have had to spent spend a lot of money.

That is fine. We think that the cost benefit of that has worked out reasonably well because every surcharge prevented has probably cost us maybe $400 and a reasonable person might think that is okay, but if you begin from the assumption these things are easily achieved and therefore we will tighten up the so-called headroom, you run a substantial risk of driving society into higher expenditure.

From the Water Corporation's perspective, if we were privately owned we would say, "bloody beauty, we will go to IPART and seek a cost pass-through", but what we are trying to do in our decision-making is work out what will drive the best social outcome and we think that really needs to be thought through very carefully.

In doing that I think we should also put on the record that the operating licence and these output

measures are just one way of doing that. It is important we don't create a mindset that the only way you achieve good social outcomes is specifying operating licence conditions. It helps, but it is not the only way. Just to give an example of that, when we make a decision about replacing water and sewer pipes and the like and what sort of maintenance schedules to put on them, we do like a little asset maintenance versus replacement model and we put in the cost of maintaining versus the cost of replacing, like we all do implicitly with our cars when you decide whether to buy a new car or keep it on the road.

We put those numbers in and we put in not only the cost of repair and replacement that we have to pay to people but we also put in an estimate of the cost to the customer of the dislocations they face when the asset fails. So we are building into our decision-making processes the sorts of things Andrew was talking about, that is, trying to value how it matters to people. I think we need to be mindful that a lot more goes on in this social decision-making process than just the licence. We should not burden the licence with trying to achieve absolutely everything.

A couple more specific points: The point about primacy of the regulator in making sure we only check through the licence the things that are necessary for whatever overview IPART wants to keep is important. It does confuse the community, it is costly to maintain dual systems, and it is a lot better if you have one set of accountability for one set of activities.

The issue of the architecture that Keith referred to, gradually improving that, we are broadly in support of that, although as always there is the devil in the detail and the whole question of this headroom has to be very carefully watched.

There are specific things which I will not go into at great length, it might sound pedantic but it is important, to measure system performance but absolute numbers versus percentages may not sound like a huge issue, we can live with either, but if you go with absolute numbers of failure and then your system expands over a 20-year period so at year 20 you have a lot more customers than in year one and you are still limiting an organisation to the same absolute numbers of failures they might have had in year one, what you have done without realising it is substantially tighten the performance measure without even thinking about it and thus probably commission the extra pipeline to Dubbo I talked about before.

Again, if we are going to have absolute numbers, that is okay, but let's make sure we understand how you set those absolute numbers and what the passage of time is going to do by way of imposing costs on the community to meet them, because once you set a standard you will appreciate from our point of view you have to do your level best to achieve it. Once the spear is put in the ground and on behalf of society a standard is set in the licence, we do our best to meet it. It could mean we have to take a lot of community resources that could be put to other environmental or social benefits and throw them at meeting that standard.

Peter raised that question of pressure. As I said before, we do easily meet the criteria that is there now. We don't believe a movement into a minimum pressure would change leakage performance much but we will talk about that later today. There are a number of other things we have done which really have improved that performance and will continue to do so. It is a matter we are happy to have further discussion about.

I think there are some important issues there about messages to the community, that we have to remember that 15 metres of pressure might sound quite nice if you are in a flat urban environment in Melbourne with a flat house on a flat block, but in our area there are lots of ridges and hills and gullies and there are a lot of houses built above the line of where the boundary of the house is and us saying to people, "that's terrific, you have 15 metres of pressure at the boundary", but it may not impress them if their bathroom is 15 metres above their boundary.

Again, you have to be careful about playing around with long established arrangements because you might get some unintended consequences in terms of amenities that ultimately accrue to people.

MR MARTIN: I am in the onerous position of delaying everyone's lunch. I will endeavour therefore to be brief. I was very interested in Andrew's comments particularly in relation the work that CSIRO is doing on customer expectations because the tribunal certainly noted in its issues paper that there was a lot of work that was needed to be done and it was unclear what people expected. It is probably reasonable to assume that people expect that the standards which they currently enjoy will be maintained and I think Hunter Water itself recognises that.

We would be very supportive of the idea that the standards in the operating licence as they stand now should be elevated to essentially draw a line

under current performance levels. Certainly the performance level at the moment is well in excess of the standards set back in 1991. There is a danger if they are maintained at those levels of 1991, not only does it not give Hunter Water an incentive to continue investing and maintaining their assets but there is a disincentive to invest. There could be an incentive to allow standards to deteriorate because of the large amount of headroom that is present there with the current standards.

We very much support the idea that those standards should be elevated to current levels of performance. Very much, I think, it is important that they are expressed in terms of numbers rather than percentages in terms of transparency. It is recognised that that will over time lead to a gradual tightening of standards as the population grows, but I think that in itself is also a very good thing in that it really does provide a strong incentive for Hunter Water to maintain their investment. I noted with interest the auditor's comments in response to a decline in water pressure performance in 1996-97 - in continuity of supply. They noted that it indicated some significant system failures and limitations in Hunter Water's management systems and responses relating to critical assets. Again, you see that there is that absolutely essential thing that we need to get into the licence to ensure adequate investment in the maintenance of assets.

One of the key things in that, I think from a customer and environmental point of view, is that issue of repeat incidents. We are very pleased to see the work that Halcrow has done on that. I think the real problem with the current system, which does not deal with repeat events, is it actually can hide localised problems within the system in the overall figures. So while Hunter Water may actually achieve good compliance results against the overall standard, it does not reflect the fact that there may be some areas where performance is quite poor. I guess the most notable example of that is the repeated sewerage overflows at Swansea. I also think, in terms of promoting customer confidence and public confidence in the regulatory regime, we do need to get those standards in there on repeat events. I can imagine a degree of cynicism from anyone in Swansea who is subjected to repeat sewage overflows when they read that Hunter Water easily meets their current operating licence standards on sewerage overflow standards. It is just not reflected in their experience. I think, in terms of actually promoting public confidence and getting a clearer picture of the corporation's performance, those repeat events are an absolutely critical thing to deal with in the licence.

I think they are probably the main issues I will deal with. I will not go too much into the individual standards on water pressure, continuity of supply and so forth. We would like to see some standards in the licence on stormwater quality and quantity. I understand that it is an area that is subject to the responsibility of a number of agencies, including local government. I think that Hunter Water has a very strong role to play there as well. Under the act I think their responsibility is only to maintain the hydroelectric capacity of the channels. We would certainly like to see some standards there in terms of quantity and quality of water that is in those stormwater systems, simply because of the advantages that that offers to receiving environments.

MR WELLSMORE: In terms of targets, we think that what's been put up in the case of Sydney Water is the way to go - targets based around actual numbers as opposed to proportions of your customer base. That sort of allows for continuous improvement in a sense and maybe actually reverses the way the head room works so that a community that gets the head room knows that over a period of time performance would be improving. We're certainly happy - anxious, keen - to have repeat incidents captured, particularly for sewerage problems but also for interruptions to supply. How you localise your standards is obviously a matter for some discussion.

The other issue about localising that has been raised is the extent to which in fact over time the tribunal as a regulator might want to look at disaggregation in a way that has been discussed in the electricity industry. So rather than getting a whole number for an entire distribution area or area of operation we in fact get down to more sub-areas, if you like, and look at what is happening in each of those. Again, whether you need to set targets for each area is another matter all together.

I think there is a lot to be said for option A - core standards and service commitments. From our perspective it's a good way into that debate about trade-offs and price versus service in the way that David has been outlining - the larger, broader, community kind of choices we have to make about what we really want. On the other hand, I'm also mindful about the sort of complexity that approach might build in, particularly for an organisation like PIAC - we are relatively well resourced by comparison to other community organisations - and whether we would have the capacity to pursue those sorts of debates in any great detail.

I am also conscious of the point Peter Prineas has raised about the integrity or the rigour of the

regulatory regime. At the end of the day you do come back to having to make judgments, or having to have a tussle at least, about which things you want to have as core standards and which you are happy to have in the realm of service commitments. On the one hand, at one level, PIAC would be quite supportive of the idea of standards and commitments being rolled up but, again, the devil is in the detail perhaps for us, too.

MR COX: I will give you a chance to respond.

MR HALL: Thank you very much. It has been a very good debate of all the issues here. My job is not to sum up but to try and just answer, I think, one or two points that have been made. I will take Leigh's point on stormwater first of all. I didn't say anything about it because my time was limited and I was rushing enormously to get through what I had to. Stormwater has to be dealt with. You referred to the constraint on Hunter Water, that its duty is only to maintain capacity of the channels. I approached this study and thought that was a bad thing. I ended up realising it was actually quite a good thing, because the effect of that constraint on Hunter Water's powers is that there is pressure on the councils to ensure that the flood water that comes from new development does not increase. That might impact on the developers. The developers have to contain it on the site. I think what we have to try to do is reinforce the current situation by understanding the hydraulic performance of those stormwater channels.

At the moment, the Newcastle stormwater plan says that you should be looking at quantity and quality as equal issues, and then it goes on to look at quality. That I think comes because it has originated from the EPA. We've got to get into the quantity debate. What we have put in as a suggestion is that data starts to be gathered on the stormwater quantity side of things that can inform the setting of a standard, possibly, or maybe just an indicator at some future point of the licence evolution. So get into the debate, but don't try to set a standard because we don't know what standard to set and we don't know even what indicator is really viable at this stage of the game.

Moving back to some points Peter made, I think I should just make clear that when I say "target setting at the price setting", that is for service commitments. We will be recommending targets for the core standards now that IPART will be taking that forward when they make their proposals for licence changes. I will come back to the targets and head rooms in just a second.

You've raised the question of why sewerage repeats is 12 months and water repeats is six months. The reason is that there are an awful lot more water repeats than there are sewerage repeats - order of magnitude more. We are talking about 1,000 or 2,000 sewerage repeats in the Hunter in 12 months and 30,000 plus water repeats within six months. So if we put both of them at 12 months, then it wouldn't be 30,000. Goodness knows where it would be. It would be up there. I didn't want it to be as strong a driver as that would imply. So we put it at the six months. But the numbers are substantial, and this comes back to this question of head room and what can we actually set in terms of a target now.

I think that it would be inappropriate really to try and set a target for repeats at this moment in time until Hunter have had a better opportunity to consider the data, to work it through and to work through the implications for their asset management planning. Hence it links back to the previous debate of this being appropriate as a service commitment. The appropriate time to set the standard, to set the compliance target for it, would be at the next price setting. Even that is going to present Hunter with a considerable challenge, I suggest. But they have got a good database and I'm sure they're up to that.

On the question of head room, I think you've heard the debate. Clearly there are people who think that the current targets are too easy and those that think they are okay, if not too strict. I think that at the end of the day the best outcome that I can possibly hope for is if everybody thinks that I've got it wrong. Thank you, Jim.

MS McILVENNY: I would like to echo Sydney Water's and Hunter Water's concern about duplication of regulation and how inefficient it is and note that the issues paper that IPART released did talk about an operating licence's role and primacy of regulation. On the issue of statistics, I think if in the licence we did keep statistics of breakdowns of sewerage and water then at least the licensing board could know what's happening. They do not have to go into it, but they would know what's happening.

ALEX SHARP: It is like what's happened to us at Swansea. This has been going on for 20 years. Every time we get heavy rain - not necessarily from the lake flooding - the people in this area get flooded out and the turds come up through the bath and that's it. They've put up with this for 20 years. Also, I think it should be the obligation of the water board to say to people when they buy homes in this area, "This possibly can happen." I have to congratulate

them - they are at last doing something about it - but it took a lot of pressure from a lobby group to make them do something about it. It also took a TV program in May for them to start all of a sudden. They've done a good job for what they've done now, but the pumping station will not be here until 2003. What we are trying to do is negotiate with the board and get the council with them. I hoped the environment lady with us would have stayed, but she didn't stay. We've had interviews with the council about the flooding and so on. They say, "It's the water board's responsibility for the sewerage." When we go to the water board, they say, "It's the council's responsibility." But they don't tie together. In this item here on stormwater it says, "Hunter Water has no stormwater objective in its environmental plan to cooperate with that organisation or the community to improve urban catchment management in its area of responsibility. The EPA has also introduced requirements for stormwater management plans which focus attention" --

MR COX: There is no need to read it out.

MR SHARP: It's an excerpt from page 8, on the bottom paragraph. We haven't got this cooperation. The council does not even clean their drains out. I think they are just starting a few now. The whole area needs to be looked at in a drainage system and the water board will not have these problems. You are still going to get water in. The council has put out the Lake Macquarie floodplain management plan. I think some of you have probably seen that. All it does is say how high the water rises. All it says is what effect it has on the base of the houses at certain levels. It shows all the area where it floods and the sewerage comes up as being green as the lowest incidence of it getting that high. Now what is going to happen is, yes, you have sealed your pipes. I have been told they don't think it's successful. You are going to pump it away. That will be successful, I suppose. But what happens to the outlet vents on every house on the ground that it's around? When it rises six inches, how are you going to stop that water from getting into the sewerage system and not being able to pump it away again? Also, you were saying that they have released into the lake. If the EPA knew that and realised that, I think they'd do something about it. In the past in Swansea they'd go to a big valve or a sewerage outlet on the edge of the lake, open it up and let it all go. The other day we had a pipe burst at Vallentine. Just imagine the amount of stuff going into the lake. That shouldn't happen.

MR COX: We understand your concern. Is there another comment?

MR BROWN: I wouldn't mind having two, but I will leave it to one. On water pressure it says 95 percent satisfaction. The water pressure at Eddin Street, Bellbird, is not part of the system that David was talking about putting more pumps in, because it is pumped to the water reservoir at Pelton, then gravity fed back to Bellbird. Consequently, on hot summer afternoons, where we are in an elevated position, there is no water. We might only come into half a percent, or not even half a percent, of what the 95 percent recommendation is, but day after day in that area in the summer time we get no water at all. Because of this subdivision that I did we were required to put in a pumping station. David says, "The lowest pressure recorded for existing residents was about 14 and a half metres. This occurred on 10 February and lasted for two or three hours. A similar event - not as low pressure - occurred a day or so prior to this. For the remainder of January-February, the lowest pressure recorded was 50 metres." This is taken off his telemetry reader that he's got down in his pumping station.

We had an example here this morning of how technology can go wrong. I have a letter here from a neighbour, Bill Williams:

> "My name is William Williams and I live at 84 Eddin Street, Bellbird, and I would like to draw your attention to the water supply or lack of water supply in our street. Over the years I have rendered plenty of complaints over the phone, but I have since found out that none have been recorded concerning this very problem. I have endured times when there has been no supply at all to my home and others when the pressure is that low that my hot water system will not work. Nearly every day in the summer months there is no supply of water at all, from early afternoon to around 8.30 at night."

Once again, whilst we don't come into the 95 percent - we might only be half a percent or a quarter of a percent - but when you are talking about percentages or numbers, there are areas where the water pressure is certainly not good enough and it has been ignored by the Hunter Water Corporation for 30 years or more.

MR EVANS: There are a series of facts I could go into with respect to that. I think for our purposes today there are some conceptual things we need to address. The first one is that, in situations of the sort you describe, under the machinery we have

talked about today there would be recourse through EWON which would have a capacity to test all the facts and decide whether remedial action was appropriate. So as a consumer there would be recourse through that process. With your developer role, as I have said earlier there would be other recourses.

The second thing is in terms of our structure today. The proposal is to put the charter payments - the payments for when pressure is not maintained or continuity is not maintained - out of the customer charter into the licence, where it would be compulsory. So if a situation of the sort you'd identified there - as I said, our records would wish to contest that - developed, then automatically there would be a rebate paid in those situations. So in terms of the structure, if you like, they are the responses I would make. In terms of the detail, I would be more than happy to go into all of those in another forum.

On stormwater, I think there is an issue here that needs some clarification, because it might help this afternoon. In the Lake Macquarie area, the water corporation owns - quite frankly, I think largely as a bit of an historical accident - about 1.6 kilometres of stormwater drain that runs from just about Cardiff through the centre of Cardiff. We also own two retention basins which try to limit the flow into that stormwater drain. Lake Macquarie Council runs the whole of the rest of the system throughout Lake Macquarie, and I suspect there must be thousands of kilometres. It must be enormous. When we talk about using this licence to address the issue of stormwater, we just have to be a bit realistic about what we are trying to achieve and what the social purpose is. In the case of Port Stephens, we had no stormwater accidents. In the case of Cessnock Council we have, again, a very small channel that runs through the centre of the town. Without wishing to open the debate on about all of that, I think we have to be mindful of the institutional arrangements when we are suggesting we use the licence to address that issue.

MR COX: I think in view of the time I would like to close the session. I took a number of things from the discussion which I would just like to briefly summarise to see if someone thinks I got it wrong.

There is a lot of interest in setting targets on numbers of customers affected rather than percentages of the population. That seemed to come through from most people here. I think there was support for the idea the community wants to see existing standards maintained. I think there was support for the idea that repeat events should

somehow be captured by the regulatory system. I think there was strong support, particularly from the agencies, that the tribunal should meet its need for information on environmental performance through the EPA systems, which may themselves need some development.

On the big issue presented by Keith, I think there is some attraction to the idea of moving towards service commitments plus standards but also I think some concern the gap should not be allowed to emerge in the regulatory system or that the result should not be too complex for people to understand. I think we take those concerns on board and need to look further at how to advance this subject. Those are the things I took from the session. I wonder if there is agreement on that.

MR PRINEAS: Is it anticipated that the service commitments, when they are set as part of the pricing, will be reflected in the operating licence? Is that what is envisaged?

MR HALL: The way I approached it, in fact, was that it would probably be some sort of enabling clause within the licence that would give the tribunal the power to set the targets at the price path determined, in conjunction with the price path determination. Therefore, by virtue of that route, they would essentially become part of the licence.

MR PRINEAS: That's a good idea. I think that's reasonable. It's auditable anyway.

MR SPEERS: I think it's worth while noting that there was discussion about the importance of knowing customer preferences and the impacts of those preferences on cost. David talked about the threshold point you might get to in raising the standard, at which time you are building the second pipeline to Dubbo. I think the message of understanding the consequences of changing standards and understanding what customers expect from a system is also an important take-home message.

MR COX: Thank you very much.

MR KERR: Just to comment about the ability for the regulatory systems to provide information to support IPART's monitoring of the situation, obviously that's to the extent to which the EPA's regulatory system will enable that to happen. Obviously there will be quite a lot of work to do to look at what reporting requirements will be put in place through the licence. Clearly, as far as we can help IPART deal with its work then we will. But clearly there may also be a gap in the knowledge that will have to be dealt with as well.

(Luncheon adjournment)

UPON RESUMPTION:

DEMAND MANAGEMENT

MR COX: Ladies and gentlemen, the first topic this afternoon is going to be on demand management. David Evans will say a few words on the current situation, then Keith, to be followed by Stuart White.

MR EVANS: I have got two overheads using old technology, so I should not be too long. What I want to do is not steal Keith's thunder by talking through all the concepts but try to present in a stylised way how the water supply system works up here so people can be aware of what the underlying architecture is when we are going through the policy issues.

The green parts on this map are land and the blue parts are water. The yellow bit is the Tomago sand beds. That is the main Hunter River going up to Willow Tree. This is the Williams River, which enters the Hunter in the tidal zone down here. We are talking for our water supply system essentially a small subset of the total Hunter River catchment.

How does it work? It has three components. There is a small on-river storage, that is, a dam wall, built across the river up at Chichester which is fed by the Chichester River that goes up ultimately to the Barrington Tops. It is a small pond on a big river, the engineers tell me, so it fills very quickly and empties very quickly. There is about 20 per cent of the supply there.

The third component is the sand beds system where water is extracted from effectively an underground water reservoir trapped between the sea and the inlets, and that is a series of bore fields. That is another 20 per cent of the storage there.

The 60 per cent that is left over is Grahamstown Dam. That is an off-river storage, so it virtually has very limited local catchment and it is filled when a big flow comes down the Williams River and we have a series of pumps that grab water above the tidal zone, you grab the water out of there and put it in here and that becomes the drought reserve.

There are all sorts of subtleties but I suppose for our purposes now the thing that matters is that the future water supply for this area for the next 40 or 50 years resolves around keeping running that system like it is but optimising how you pump the

water just above the tidal zone. When you hear about Grahamstown Dam being augmented, the objective of that is not to build another dam across a river or to basically change any of that configuration, what it really is about is changing the way you manage that dam so you can select the water that flows down to it and pump it across more effectively.

Just to give an example of that, if this wet weather keeps going we will probably get repetitions of what we had in May when there was huge flow down the Williams, it filled Chichester Dam so that it was spilling its own volume I think every day and as much water went past here in a day as the whole of the Hunter region uses in a year. In those peak flood conditions you just have an enormous flushing going on out to the ocean.

The objective for the next 40 years of managing our systems is to develop the capacity to pump more of those big flows across when they occur so you don't need to grab as much in the dry periods. In order to do that, there are the immediate augmentation options which are essentially not to change the profile of this dam at all but to build a bigger spillway. The bigger spillway means that if you do fill it up when there is very heavy rainfall, then you get a massive flood, a one in a thousand year flood, you can quickly open that spillway and let the water out without breaching your dam safety requirements.

What it does is enable you to utilise an existing asset more flexibly. I just wanted to make that point because people typically when they hear something called "dam augmentation" immediately have flashes of damming of the pristine river in Tasmania or whatever. The long-term issue here is to basically utilise this off-river storage more effectively.

Just a few facts before Keith talks about demand issues. Average residential consumption in the Hunter is about 70 per cent of the level it was at in 1981 when pay for use was introduced. A whole series of things have happened to drive that. Obviously educational and cultural factors have gone on for over 20 years. That level of consumption is about 20 per cent lower than in Sydney and it is the lowest of major Australian agencies, about 23 per cent lower than the average.

I guess probably the biggest driver of that has been the long history of user pays but that has driven all secondary effects in term, adoption of water efficient technologies, high penetration rates of recycling in industry and all that sort of thing,

which in turn has driven a lot of reuse. We reuse about 10 per cent of our average dry weather flow of sewerage. There are different sets of circumstances but by way of comparison, Sydney reuses about 3. That is the platform where we are launching from. The map I put up before described the environment, if you like, that we are having to manage to in order to provide for whatever growth occurs.

In terms of management issues, the catchment back behind Chichester is pristine, the Barrington Tops, the Tomago is National Parks protected, but the Williams River through the middle patch is a classic multiple use catchment, lots of farming and other uses. We deal with that by trying to keep that catchment as clean as is reasonably possible but being selective about pumping dirty water. Lots of phosphorous, we let it go out to sea and pump the clean bit at the end. They are the basic facts.

MS HALL: Good afternoon. I think that management of the supply and demand balance is and always has been one of the most challenging areas of a water business to manage and get right. With the introduction of regulation to the water industry some 10 years ago, regulation of the supply and demand balance has also become I think one of the biggest challenges that faces IPART. It is a difficult area to deal with, everybody has problems in getting the right methodology for regulating supply and demand.

David has talked about the supply side of the equation, which is illustrated on this overhead. The supply side is the resources, that system bringing water down from the hills and up from the Tomago sand beds to keep Newcastle and other areas supplied by Hunter satisfied with water.

The other side becomes the demand side. Demand side is something that is partly outside the water supplier's control and partly inside. Existing demand is a starting point. You have then got the potential for growth. Growth in domestic demand, the number of houses that are built, is nothing to do with Hunter, it is to do with planning policy and demographics, so growth is to that extent outside Hunter's control. The number of factories that relocate here, Hunter will certainly be trying, looking at the need to not preclude development in the area, but to actually positively encourage it is other people's job if that is what is wanted. Growth is an element you have to add on and deal with within this demand area.

It is not just growth that you are dealing with on demand side, you have got the potential for savings because existing customers, both residential

customers' and non-residential customers' use of water can be constrained. David has pointed out that the pricing policy has resulted in significant reductions in the use of water by residential customers. This is reuse and that can be encouraged in various ways. So the savings side is an important part of that demand part of that water supply and demand balance.

If you take these two, the supply and the demand, and you look at them together then what you end up with at the bottom here is the drought security of that system. That is how robust you are going to be able to supply the customer base with water when the resources are being stretched because the rainfall is just not there.

What we are looking at here is how do we actually regulate that whole system. There are quite a number of different approaches to regulation of this system. At Hunter Water at the moment there is a standard for drought security. There are some problems because it is only actually half a standard for drought security. It regulates the occasions when you enter into drought, not the duration of drought.

Putting that to one side for the moment, the approach means that you are driving regulation of this whole area by this one particular part, by the desire to ensure that the customer base has a reasonably secure supply which you determine in advance by some mechanism or other. How it got into the licence as it did in 1990 I haven't investigated. One guess is it is probably what was being used previously.

So that is one way of dealing with the supply demand balance. It is not the only way. If you look at the situation at Sydney Water you will find that there the controlling factor is in fact the demand side of the balance, so Hunter is on the supply drought security side, Sydney is on the demand side. There is a standard for demand management, a standard which says that you must constrain the total amount of water extracted from the environment and put into supply to a certain level by certain dates in the future and that drives what you need to do on water resources.

There is no standard in Sydney Water's licence itself for drought security although the Sydney Catchment Authority does have a standard for drought security within its licence and those are repeated in the agreement between the two. There what you have got at Sydney Water is that the demand is leading to drought security and at the end of the day if anything is needed to be done it is in the

area of the supply side of the equation.

When we came to start reviewing this area, we didn't have any preconceived idea of exactly what was right in Hunter's circumstance but we did have the benefit of a number of submissions that had been made to the tribunal which I reviewed earlier on and I talked to a lot of people.

The conclusion that I came to was that neither the existing situation at Hunter nor the existing situation at Sydney was ideal or appropriate for the future and what I concluded was that we needed to find a system where the three legs of that diagram, the three legs of the model of demand management, supply augmentation and drought security were treated as equal and independent components of the final solution, no one of them dominating the equation and the others following from it.

The question then became, how did you actually achieve what seemed at that point to be quite a difficult task of finding what the appropriate balance between those three elements was because we wanted to find an answer that was going to be economic, was going to be the most appropriate solution for the Hunter area. For me to try to pluck out numbers from the hat at this stage was clearly not the right way of doing it.

So what we did was to pick up on the concept of least economic cost planning that had come in some of the submissions and which I had the opportunity to read a number of papers on what had been done here before. I do not propose to say anything more about least cost planning, not because I don't know some of the answers now but because Stuart White is following and he knows more of the answers than I do, if not all of the answers. Stuart will follow and will give you some more information on the principles of least cost planning.

One of the key elements that is in this is the question of how you actually manage your supply and demand balance to reflect social environmental costs and this principle of least cost planning does have the potential for including the sort of costs at some point in the future when robust costs are available. So that was an added attraction for it.

Moving onto the way that we see this being implemented, I do see the need to include a requirement that Hunter pursue least cost planning within the revised licence, so that would be set out in advance and some principles established.

It needs to get going as quickly as practicable and answers are needed to inform the next price

review which is due in 2003 and the Tribunal will be working on that this time next year, so it does need to move forward quite rapidly.

Thirdly, I want to emphasise that whilst I know Hunter will give it their best efforts, it would be wrong to anticipate in this area that they are going to end up with an absolutely perfect answer in less than a year. This is a notoriously difficult area, it is going to be a learning process for Hunter and for the tribunal and is therefore going to be an iterative process. They will get a plan together next year and then they would need to think about the answers that were coming from the work they did in response to that plan and using those to refine the plan in future years.

Moving on to outputs and targets, at Sydney there is a target for the overall level of demand. I think it is important that out of this least cost planning process some targets do emerge for two of the three elements, the two elements being the demand management side of it and the drought security, so we are looking for two service commitments - using my terminology from before lunch - to come from this. I don't think it's appropriate to go to core standards, although that might be necessary if the methodology that we put forward proves to be impossible to implement for some reason or other.

So we are proposing service commitments emerge from the plan and they be set for the ensuing price path period at the 2003 review.

The two targets that we propose are based on, firstly, a single water saved target, so we are looking here at a target written in megalitres that says how much water Hunter Water has saved through its demand management initiatives. The report that I have to present in less than a week now will have considerable further detail on this and clearly it is something on which people will want to comment. And whilst I am more than happy to spend the next half hour talking about service targets and how I have constructed them, I think there are probably more important things that we should talk about at this moment in time. But a single target for water saved is proposed.

Secondly, drought security targets. The existing drought security measure is half a measure, as I said earlier. It only measures the probability of entering drought. I am proposing that for the next stage of this development of this system that that existing target is augmented by another probability of the duration of a drought so the two elements of drought are properly controlled.

In due course I believe that there could be advantage in applying to Hunter anything that emerges from the work currently being done by Sydney Water and the Sydney Catchment Authority which are looking at alternatives to this type of probability based drought security. So that is a potential for future development that I think could be worthwhile.

As I said, I have put in the report an option B, which is based on system performance standards. If the tribunal were to go this way then the problem comes in setting targets because at the moment it is not realistic to say what the target for water saved should be and all that one can do on the drought security is to say, well, keep it where it is at the moment. So that would be our less preferred option and I think another very strong reason why I believe the service commitment framework that was outlined this morning is a very good way forward for Hunter and the tribunal.

That is as much as I want to say so I will just put up my summary slide and pass over to Stuart to tell you some more about least cost planning. .

MR WHITE: I am not sure about that comment about knowing all the answers. In fact, I would be deeply suspicious of somebody who thinks they know all the answers. But today I will run through a bit of a Cook's tour or summary of least cost planning in the water industry and just talk briefly about the principles and background and talk about water efficiency and supply options.

Keith mentioned the level playing field between demand and supply and essentially this is a description of the same thing, the avoided costs, why we would bother to invest in water efficiency at all and what are the additional benefits that might arise from that and, if there is time, just look at a few examples.

Just quickly, the history of least cost planning actually comes from the electricity industry where there was an understanding particularly in the United States about the fact that it was often cheaper to invest in energy efficiency measures, to insulate homes and install energy efficient equipment and so on, than it was to build new power stations if you looked at the overall cost to society as a whole.

It was picked up in the water industry in California during the severe droughts of the 1980s and they started to realise that the same principles applied. In many ways it was simpler in the water industry because you have a slightly less complex

industry.

So there were a number of programs that were run and the basic principle is that people actually don't need water, they need the services that water provides, and there are a whole range of different ways that a water service provider - a modern term for water utilities - can actually provide those services: just continue to augment water supply and sewerage treatment plants; augment water treatment plants; or actually provide that in the form of efficiency through going out and helping customers to reduce their water use through different fixtures, different appliances, different practices, different industrial processes, through reuse and so on. There may be a whole lot of other advantages to do that, not least of which is that it actually costs less, which is part of the principle and hence the term "least cost planning".

In terms of the process, that could take another half hour, but in summary the first thing you need to know is what people are actually doing with water and in the water industry generally in the world we have not been terribly good at that. We tend to see water going out from the headworks and coming into the sewer and treatment plant but we don't tend to be that concerned about what goes on in between, whereas in fact in the private sector a soft drink manufacturer or somebody who makes VCRs really wants to know what customers do with their products because that is absolutely important to the planning for their business.

It is absolutely true for the water industry as well. There can be multi-million dollar mistakes made if you don't take into account the fact that the efficiency, the average flush volume of toilets, has reduced by two thirds between the early 1980s and 1993, and in that 10 year period the average flush volume decreased by two thirds and that that has made in the case of most urban water utilities a 10 per cent reduction in the volume of indoor water use during that period, which is actually a lot of water if you multiply it out through the number of households in your average water utility.

The first part of that process is to do what is called end use analysis to understand what customers are actually doing with their water and to see that it is not just the volume of water that people use relative to California - obviously in Australia we are much more efficient than in California - but when you actually look at end users we find in some sectors we are much less efficient, our showerheads are less efficient, whereas our toilets and backyards are generally much more efficient, so it does depend on the end use.

The other principle which again Keith mentioned is the importance of comparing water efficiency and supply options on an equal basis. If we were to look at whether we should install 100,000 rainwater tanks or install a major industrial reuse system or go and close down and repair leaks or give away 150,000 showerheads, you need to actually know all these could supply a certain amount of water at a certain reliability at a certain cost, and these are the major parameters we need to know. There is a lot of detail in how you actually do that but the principle is the same, they should be compared on an equal basis.

I don't know if you can quite see this overhead but it says "picking the low hanging fruit first". You actually need to work out what is the least cost way of satisfying your water needs, whether it is saving it, providing reclaimed effluent, augmenting supply and to actually do the least cost options first, otherwise you will not have enough money to do a whole bunch of other useful things you need to do, the social goals that David referred to this morning.

The other important point, this is an absolutely critical point, is that the cost and benefits must be evaluated from the perspective of the utility and the customer. That is the whole basis of economic assessment. It is not appropriate for the utility to be doing that assessment on the basis of the costs to them alone. Again, I pick up on David's point this morning where he said about the importance of taking into account the impact on customers of the disruption associated with sewer overflows. That is precisely the principle of saying, we need to look at the costs and benefits to customers as well as to the utility and evaluate all of the options on the basis of the economic cost, not the financial cost.

Just to summarise that process, this is a rather gross summary, it is the importance of evaluating all of the options, so we might come up with a program similar to some of those that have been implemented in many other places of retrofitting household water efficient fixtures, installing reuse systems. People have been doing modelling of the impact of rainwater tanks in new premises and so on, so a whole range of different options we could choose to reduce the consumption of water or to increase reuse or reduce leakage.

They must all be evaluated and then invest in the least cost options first, but this one I have not mentioned yet, it is also important, to measure the results. There have been a lot of programs

implemented, a lot of demand management programs historically where there ha been no attempt to actually measure the outcome. When we invest in a pumping station, when we invest in a new water supply scheme, we generally are pretty keen to know whether or not it has worked, whether or not the investment has paid off. It should be no different when we invest significant amounts of public money in water efficiency programs and so on.

The importance of actually doing that evaluation, sometimes it is extremely difficult, particularly when trying to evaluate programs which involve behaviour change, trying to understand how people reduce their water use outdoors and so on, but there are ways that can be done statistically.

Then of course, having measured the results, we need to feed those back into an ongoing process of evaluating them. The savings are never what you think they are going to be. Reality always bites when you implement programs. So you need to go around that loop again, and all within the context of objectives or targets, whether they are actual megalitre targets or just broader targets.

Just to give you a bit of a sense of the ranking of some of these - again, it is incredibly location specific - broadly speaking, marginal cost pricing or pricing reform is an extremely low-cost option. Of course, in many ways as a demand management option you could argue that metering and pricing are step zero of a process of implementing least cost planning because essentially it is an information provision. You need to let people know that you are going to change the price and then change it and then reap the benefits. Similarly with restrictions, it is largely an educational program. Of course, what is very uncertain about the impact of restrictions is exactly what the savings are, because the response of the community to restrictions changes over time as people get further away from the last period of restrictions and also as some of the cream is taken out of the system. There is a so-called demand hardening effect and that needs to be taken into account as well.

Again, these are based on some actual examples of programs. Shower head programs are some of the lowest hanging fruit, to use that metaphor I put up earlier, in terms of water efficiency programs in Australia because they are notoriously inefficient, unlike in the United States and Europe, and are an extremely low-cost way to achieve savings. Similarly, when it is bundled into a residential indoor assessment and retrofit, when you actually send - as Sydney has done on the north coast of New

South Wales and in Kalgoorlie and Boulder in Western Australia - a plumber to houses with a range of water efficient equipment to install, including tap flow regulators, shower heads and toilet flush displacement devices, you can actually achieve savings at quite low cost. Again, this is very context dependent.

In terms of active leakage control, it is very difficult to assess the cost in advance because you actually have to go and locate the leaks before you can fix them before you know how much it costs to go and find them. It's a circular problem. Similarly just working through this list - it is an extremely difficult to generalise - typical augmentation programs in this range cost up to $1 a kilolitre. Again, this is very dependent on the scale. Large industrial reuse schemes are often much cheaper than that in unit cost terms. Some of the programs that have been implemented with large industrial reuse have been more in the order of 30 cents.

Just looking at some of the benefits - why we would do some of this - the most obvious one, which is perhaps the best known, is the deferral of dams. In the case of the program on the north coast of New South Wales, the motivation for implementing the water efficiency was the deferral of a major water supply scheme. So for a $30 million scheme in present value terms, if you defer it by one year there is a benefit of about $1.5 million. So you can afford to spend $1.5 million to defer the need for this scheme by just one year. But that's in fact only one of the potential benefits of reducing the demand for water. What's often not taken into account but is in fact maybe more significant in many cases are the benefits in terms of reducing, downsizing or deferring waste water augmentation. It's very dependent on the particular process issues that are involved. If there's a wet weather flow issue then that makes it more difficult. If the waste water system is being augmented for quality reasons rather than quantity reasons, then it obviously makes it more difficult and you don't get as many benefits from just reducing the hydraulic load. But there have been a number of case studies we have looked at where the benefits associated with reducing the use of water inside the house and inside factories and offices and shops, and therefore reducing the influent volume to waste water treatment plants in average dry weather flow terms has actually had significant financial benefits. Each one of those needs to be looked at on its merits, because it depends on the process stream and the system that's in use.

Perhaps less well known is the energy costs and greenhouse gas emissions. The installation of water

efficient shower heads is one of the lowest cost means of reducing greenhouse gas emissions as well, not to mention the pumping costs associated with water and waste water. That applies to not just shower heads but also taps and washing machines. So a number of those programs have been supported by energy agencies who are quite interested in the greenhouse gas reductions and the energy savings. These are just costs to the economy generally. The benefits to individual customers in terms of reduced energy bills usually far outweigh the reduction in the water bills because, as we know, water is extremely cheap in Australia.

Slightly more esoteric but interesting are some of the programs we have operated whereby we offer a point of sale cash rebate for people purchasing front loading washing machines which have a huge advantage in terms of water efficiency and energy cost savings to some extent, but the detergent costs are one of the biggest benefits to the customers in terms of that and therefore to the economy. So the further we look, the further we find there are a whole range of different synergistic benefits. I guess I have mentioned that particularly in the context of a place like the Hunter, where there is such a major industrial component to the demand and benefits associated with reducing the demand for water in those industries, because generally when you send the auditors in to look at water use - auditors is an unfortunate term; they are in fact people who are knocking on the door saying, "Hi, we are here to help you" - they generally find that the water savings are strongly associated with energy savings, with reduction in waste and so on - the principle of cleaner production no less.

There are therefore some significant advantages in terms of reducing the water use in industrial categories of a place like the Hunter in terms of competitiveness, because you will be reducing the other inputs which are actually worth a lot more than the water, let's face it. In a number of instances we have actually found savings in terms of load based licensing costs and where there are backlog sewer areas in pump-out costs.

Just very quickly, I have mentioned some of these in passing. Of course in Kalgoorlie-Boulder, the program that we designed there was a $3.5 million program for Kalgoorlie Gold as a city, but it's about 10,000 customers. That was a full retrofit. I mean, the water was extremely expensive by the time it got pumped from Perth to Kalgoorlie up a very old and long pipeline. So it was cost effective to replace all of the toilets with dual flush toilets in that town, as well as a whole range of other programs, including for business customers.

In the Rous, I mentioned the north coast. This is the area centred around Lismore in New South Wales. In that case the constraint was the need to defer an augmentation in that area. It's a very beautiful place. People like to go and live there. They don't like to have dams being built near where they live. What that means is that it's extremely difficult and expensive to augment water supplies in places like this and therefore there is a strong incentive to defer or avoid in that particular case. Probably upward of half a million dollars has been spent thus far on a variety of programs - looking at leakage, the shower head program, the washing machine program and so on.

There has been quite a lot of discussion today about the Sydney Water demand management program and operating licence requirement. In that case over $50 million is being spent on programs, including 150,000 houses being retrofitted with shower heads, tap flow regulators and toilet flush arrestors. Those savings have been evaluated and monitored.

There is also quite a business program. It is extremely difficult with business programs to get customers to take up the results of audits. So one of the challenges and one of the ways to do that is to use performance contracting or forms of loans, in which case you can provide an additional incentive for businesses to come to the party and actually implement the savings.

There's a leakage program in Sydney Water which has actually been one of the most successful components of that program, and a range of other issues which we don't have time to go into now. So there are a number of examples. These are just Australian examples. Of course internationally, and particularly in the United States, there have been similar cases, the key theme being investment in the demand side of the industry, which is the novel part of this approach. Thank you.

MR COX: I will now like to proceed to questions and comments from members of the panel. There are a couple of new members, so when you speak you can introduce yourself for the record, please. I am also aware of time, so if you can confine your remarks to about five minutes in each case. That will make sure everyone has a chance to speak.

MR FANE: I am here today representing the Wilderness Society. First, I would like to strongly support the use of least cost planning as a means of finding the economic level of water conservation and to avoid any unnecessary and uneconomic supply augmentation in the Hunter. I'd also like to

highlight the fact that if we are going to do least cost planning analysis it does have to be conducted from an economic perspective - from the whole community - in which case there will be reduced sales of rebatable water by Hunter Water and these will have to be compensated through pricing. That's probably a challenge to the regulator. Hunter Water needs to be in a position where they can actually compare water conservation and augmentation on an equal basis and, from their financial perspective, they are not going to be punished for doing one or other of these things. That's a challenge.

I guess I'd also like to urge that environment and social costs are thought about within this framework. Obviously probably it's a bit much to think of them at the start of the process, but we should at least have in the back of our minds that we can include within any least cost planning framework environmental and social costs, including a value for water take from the environment and effluent release. I guess I'd also just like to see that particularly large-scale industrial reuse was included within this least cost planning - I guess we are talking about a least cost plan - and that it is also treated economically and evaluated from the point of view of the community.

I guess the only other thing is if, as has been suggested, Hunter Water does produce a least cost plan which goes into the pricing process there should be some way that people can review or comment on that process so it is an open process.

MR PRINEAS: I think a package of firm targets under the heading "Water saved, drought security, leakage and consumption" is fine, and a drought security target is a good idea. I'd like to see these targets and the least economic cost planning approach embedded in a wider perspective. I would have thought this was about having some purpose rather than just doing something on the least economic cost path. The purpose is presumably something to do with demand management, which has something to do with water conservation, which is driven by a desire to protect the environment and get people to use less water for their overall purpose, not just to find the cheapest way of doing things as the main driving force. So I'd like to see it embedded in a water conservation strategy or a demand management strategy, which is a bit broader than just least economic cost planning, although of course the least economic cost planning is an important, perhaps the major, element of it. I support that approach.

In relation to the pricing and non-pricing approach to water conservation and demand management, it is clear that Hunter Water has relied

to a large extent on pricing and on reuse and some augmentation. There is a large number of things in between which Stuart White described that have not been implemented to a great degree. I'd like to see Hunter Water look at those non-price approaches - the retrofit, the shower head, the assessments and so on. I think they should follow Sydney Water's example in trialling some of those.

In terms of their capacity to do so, there are some interesting figures from one of the IPART reports. If you look at Hunter Water and compare it with Sydney Water and Sydney Catchment Authority, you can see there's quite a lot of scope financially for Hunter Water to do things in the non-price area. Hunter Water's dividend paid to the government as a percentage of its total revenue is 25 percent. The comparable percentage for Sydney Water is 8.3 percent and for Sydney Catchment Authority is 9.2 percent. Dividend paid as a percentage of earnings for Hunter Water is 87 percent, for Sydney Water is 39 percent and for Sydney Catchment Authority is 16 percent. In the case of dividend paid per metred property, the figure is Hunter Water $149 and Sydney Water $66. So there is a lot of money available. That opens up a debate as to whether the purpose of a water corporation is to pay dividends to government and if so how much, and I don't want to get into that. Clearly, there is some pretty substantial difference in the standards being operated in Hunter Water and in Sydney Water. There is some capacity in Hunter Water to address non-price approaches to water conservation.

MR EVANS: I support the whole approach. In terms of our discussion before lunch, you were talking about iterating better solutions here, and this whole-of-life economic cost minimisation is the way we are trying to go in other things. I would like to make the distinction between economic cost minimisation and financial cost minimisation. In the language we use, economic cost minimisation includes the environmental and other costs. Financial is just the dollars. So we see it as an economic, broadly defined cost approach, not a financial approach. So I wanted to make that clear.

I think it's an extension of the logic of the approach where we've been talking about refining how we are doing this better over time - pulling the net in, getting things done better - and it allows you to do things in a logical way, based on analysis of the real social benefits, not based on some religion of some description, one way or the other - the religion of engineers liking to construct dams or the religion of people liking to subsidise appliances. What you are trying to do is get all of that spirituality out of it and you come down to the

objective science of what the social costs and benefits are. That suits us fine.

Just on that discussion about the financial situation, I feel I should react to that. First I think you will find that those numbers are a fair bit out of date and the numbers are far, far more equitable now. There was a period where Hunter Water had almost no debt and there was a sequential capital restructure to get a level of debt a little bit more similar to that which Sydney carried. Sydney was always complaining - and rightly so - that they carried a heap of debt and we didn't. The situation has now been addressed through essentially a sequential capital restructure. We still hold much less debt than they do, so they pay effectively a large interest bill to T-Corp and we pay a much smaller interest bill but some higher dividend payments. I think that needs to be put in context. Otherwise it looks as if you are getting a financial flow that is significantly different between the two. If you look at total cost to capital and the state, who is the banker as well as the dividend receiver, the answers are pretty well on the line. I just thought I'd correct that, because it's a public issue and it needs to be appreciated.

MR MARTIN: How out of date are they, given they are for the 1999-2000 financial year?

MR EVANS: 2000-01 is the most recently completed financial year and the numbers are different for that year. Also, you will find that the numbers quoted relate to dividends and the like. They don't relate to a total interest payment. If you add up interest payments and dividends, you get a much closer number because cost to capital is made up of your dividend payment as well as your payment to the bank. In our case and in Sydney Water's case, the bank is the Treasury through T-Corp. We borrow all our money through them. So you are dealing with the same entity both ways. So you could have a higher level of debt, pay more interest, generate no profit and pay no dividends, but the total return on capital would be the same.

MR MARTIN: I guess I would be very interested in seeing the figures for the last financial year to see how different they are. I think Peter's point is valid, that it does reflect the fact that Hunter Water may have the capacity to do some of these other things we have talked about through least cost planning that haven't happened so far. I think probably from an environmental point of view, demand management is really one of the critical issues. I guess we will have to wait and see what Keith's report indicates in terms of how they will go with that.

I certainly welcome the idea of having a process which sets some targets for reducing water usage. As to whether that is best done by way of the service commitments or the standards, I guess the only thinking I would have on that is that, whilst we wait to see the report, I suppose in the case of Sydney Water having the targets embedded in their licence may be what's driven their embracing of least cost planning. In the absence of actually a target that is firmly set, how do you get Hunter Water to embrace least cost planning? I guess that's the question I have, and I would be interested to see what Keith's report has to say on that. I think it is very important that we do look at reducing the overall usage.

One of the things that I think has not been given the attention that perhaps it needs is that Hunter Water currently has a very high rate of unaccounted losses from its distribution system - in the vicinity of 15 percent. The tribunal's discussion paper indicated it was higher than any other water agencies throughout the country. I think there is probably a great opportunity there for us to achieve significant demand management savings, simply by requiring Hunter Water to invest adequately in their system to ensure that that leakage rate is reduced. I think that is a major mechanism for reducing water waste.

The other thing that I think is very important is that we do need to encourage more use of effluent at an industrial level. One of the key things that can affect future demand for Hunter Water is that it has a situation whereby major industries can come in and significantly increase demand for water supply. Whilst it's true Hunter Water have achieved a fairly high figure in terms of water reuse, that is probably spread around a relatively small number of high volume users. I understand that Hunter Water has an internal target of about 13 percent of reuse. I think it would probably be appropriate for that to be reflected in the licence as well and for something that the operational audit could report against in terms of performance in reaching that target.

MS COLE: I just wanted to look at a broader perspective on the regulation of water extraction, given that the Department of Land and Water Conservation has the regulatory role for water conservation throughout the whole state for major utilities such as Hunter Water, Sydney Catchment Authority, Sydney Water, power utilities such as Macquarie Generation and the myriad of other uses for irrigation and other purposes. While the operating licence is a major regulatory instrument for Hunter Water Corporation, there are other regulatory instruments.

The one that the Department of Land and Water Conservation is the primary regulator for is the water extraction. Hunter Water does have a water management licence with us. It's a part 9 licence under the Water Act. With the introduction of the Water Management Act at the end of last year, Hunter Water is listed there as one of the major water utilities, and what was called a part 9 licence will be converted into the new form probably some time next year.

That water management licence has a number of sections to it. It covers the authorised work, which is things like the dams, the pumping stations, the groundwater bores; various operating conditions, about how those are operated, including things like environmental flow releases; the monitoring and reporting requirements, which includes the requirement to have a demand management strategy and that that be published each year; and some various management plans and investigations that are undertaken.

I mentioned that the Water Management Act was passed at the end of last year. It has a range of objectives for that act. That list is taken straight from the act. I will not go through all of it. You will notice a few of them include "encourage best practice in the management of use of water". That is applying equally throughout the state for all water users because we all recognise that water is a finite resource.

The licence framework for Hunter Water under the new licence will be similar for all water utilities. Basically the approach that is set up under the new legislation is that there be a water access licence. That talks about who holds the licence, what the scheme is, the length of the term of the licence and volumetric entitlement. So that means management within an entitlement, the various sources. In Hunter Water's case, obviously there are two main surface water sources and monitoring and reporting requirements. There are some works approvals hanging off that which relate to the physical works that are out there - including dams, bores, pumps and those sorts of physical facilities. That includes things like operating requirements for the dams, the environment flow releases from Chichester, et cetera. There is also a use approval. We talk about location of towns that are supplied within the area of operations, basic things like metering, two-part tariff and management provisions. So the licence with the department has some of these parameters firmly embedded as part of the role of the Department of Land and Water Conservation to manage the water resources of the state.

Within that I guess there are a couple of points to think about in summary, that certainly the Department of Land & Water Conservation licence is a primary regulatory instrument regarding water extraction, so if you head back, before you actually started Hunter Water's licence, there is also another licence, how much water can be extracted in the first place, and that demand management we see as a core licence requirement not just for Hunter Water but for all local and major water utilities.

An example is the licence for Macquarie Generation, another major utility in the Hunter. They also have a requirement to have a water use efficiency plan. All local councils who operate water supplies for their local areas also will have requirements for demand management. It is a bit broader than just Hunter Water, a broad requirement across the State from our perspective.

Some of the issues that obviously have been discussed today and worth noting are that the water extraction regulatory side of things, the customer impact, frequency, duration of restrictions, drought management, environmental and ESD indicators are very relevant in that broader framework.

MR MORRISON: As has been mentioned, Sydney Water has water conservation targets set in its operating licence. These were set in 1991, as I recall, and they aim for a 35 per cent reduction in Sydney's per capital water consumption by 2010, 2011. The interesting aspect of Sydney's operating context is of course the regulatory separation with the SCA where the SCA has system performance criteria for drought security issues, as Keith said, and their licence includes certain drivers for water demand restriction or a requirement that Sydney Water provide it with forecasts and that it can advise when restructurings are required.

We view this as a complex model that was put in place to deal with the institutional separation and very much to deal with community's concerns that Sydney Water, Sydney, meet future population growth within existing water supply. And what we have learnt going through the process, as Stuart has said, of implementing a demand management program to meet those water conservation targets is that demand management as one component is something that we are learning about over time, that we are finding that some things are more effective than others and that it isn't so much a question for Sydney Water whether we will meet the targets but how much it will cost.

The issue for us I think is that, is it most appropriate to regulate this issue through targets

because it drives a particular kind of outcome or is it more appropriate to take the approach that Keith suggests in his option A, backed by the kind of thinking that Stuart has put forward? We think it is, we think it is a very worthwhile approach to deal with this issue because the question for the community is what do you actually want to achieve, and so in terms of Sydney's case, no new dam, how do you best achieve this? Are arbitrary in some cases regulatory requirements the best way to do it or is a holistic plan that allows you to balance and choose the most effective means based on a proper assessment that includes environmental and social considerations more appropriate?

We think it is certainly something that we would like to see further tested and hopefully developed to a point of finality by IPART for Hunter and also considered for New South Wales water utilities in general. Just to say in terms of what Stuart was saying, Sydney Water at present is evaluating the effectiveness of the demand management strategies that we are undertaking and that is leading us to question whether targets in the operating licence are most appropriate.

We are also working with the SCA on the criteria and these are things that we will be looking at in our mid-term preview, which is an opportunity for everyone to think about this some more, and we are also looking at the cost on the community, so a really important issue in this area is that of demand hardening where if you set demand management requirements given the relationship between demand, supply and drought security, you take out the savings that you can possibly need to require the community when in drought because your demand management initiatives have dried up, what is available for customers to save, so you need a balance between the three elements. And Keith's proposal I think will take that forward.

I don't think we do support the setting of these things in licences. I don't think it is the requirement in the licence that has made the difference. I think it is because stakeholders in Sydney said you have to meet the future population growth within existing water needs and I would also say that in terms of the dividend question, dividends are set by governments, it is a line item in the accounts for the utility and the dividend is meant to reflect the rate of return on capital.

There is a lot of confusion in the community or amongst stakeholders as to the ability of a utility to draw on dividends to fund environmental improvements. I think that debate needs to have a bit more clarity in it. We would certainly support

this work going forward and we look to IPART to see how it can be used for the mid-term review of Sydney Water and the SCA's operating licence.

MR COX: Keith or Stuart, do you wish to add anything?

MR HALL: It may be useful at some point if I can just say something about how - a bit more about how I envisage the process working because I think the questions that are coming from around the table might be answered if I did spend just another minute or two on process. If you want me to do that now, I am happy to do so.

MR COX: Yes. Hearing the views, I think it would be good if you did that now.

MR HALL: Certainly in proposing this way forward the intention is that we try to ensure that the outcome is one that is the best solution for not just the people of Hunter but also the environment in the area. We are trying to ensure that the whole thing is treated as an overall system and a proper and right solution emerges. That is why we are not trying to put in any targets in that stage of the process.

The way that I envisage, there are a lot of elements that are already partly in place at Hunter. There are already in place water drought management plans. Those need to be considered. There is already in place the water management plan, how they use the water resources. Those need to be considered and put in, as do the demand management plans which are responsible, they have to go to the DLWC, so there is a wide range of issues like that that would all form part of the bedrock of this particular process of least cost planning.

Certainly you can look at each individual element and say, "for leakage we will allocate the leakage situation, Hunter will work out what the economic level of leakage is in isolation, come forward with a target for it which would be put into a plan". That may well be necessary as part of the overall process but it needs to be balanced against what is the economic level of demand management and what at the end of the day is the drought security that emerges, so what I see is that you probably would start off by saying, "right, we will fix the drought security where it is at the moment, we will work through these various options and we will come up with a balance of what we think we need to drive leakage down to, demand down to, and what level of water reuse we actually should be expecting within that framework". Then you look at what your customers want and see how that fits against that.

Your existing drought security may or may not be exactly what customers want, so then you vary it, go to a higher or lower or both, then go through the process again and have a look and see what answers you get on the leakage targets and the demand management targets against a different level of drought security. And within that you would also be adding possibly in some of them the need to do the augmentation of resources. That may well come at some point sooner or later, I don't know when it will come, but that will be given equal weight within the process.

It needs to be an open process I believe, so Hunter will need to consult with its customer base and they will have to have an opportunity to say what their views on it are, somehow at the end of it to determine which of the options is the one that best meets all the demands on Hunter, both from environmental and customer perspectives.

You are looking at a process which is pursuing a range of different options with the intention at the end that you come up with this overall plan which gives you a level of drought security that is to be provided over a period, it will have demand management targets that are to be met and possibly it will also have water resource investment that has to be put in. So it will be a plan that can then be implemented at the stage of the price determination because at that point you can say, "right, we have now made the money available to you to invest in either water resources or demand management or whatever and as a consequence of making that money available we want you, Hunter, to commit yourself to providing a certain level of drought security for your customers and that you will manage your demand in the way that you have said you will do".

That is roughly the process that I envisage. It is spelt out in somewhat more detail in the report. Thank you.

MR WHITE: The only thing I add is that this question about targets is extremely interesting when looking at the Sydney Water target and the analysis to say, what did we expect business to be without intervening with the demand management program. It turns out that what that does, if you convert it to a megalitres per day equivalent over the whole year, is that it provides about 100 to 200 megalitres per day worth of water which something could be done with.

As you probably know, there has been quite a lot of discussion about environmental flows in the Hawksbury Nepean and the scientists, who practice a black art as far as I know, I don't understand it,

but they say that it is about the order of magnitude of the amount of water that would need to be released during that system, so it is quite interesting that a capricious set target turns out to be quite useful from that point of view.

The other thing is that whenever we have done individual case studies in particular catchments within Sydney, subcatchments, we actually find that the economic benefits, I should say the financial benefits, using David's terminology, are actually to the community, actually make the target warranted. When we looked at the original, we were answering the question, "what would need to happen in order to meet the licence targets, what sort of a program would be required". We weren't concerned about whether there were any benefits, it was "we have to meet the target". But when you look at the benefit of doing so in individual catchments where there might be a water treatment plant constraint, say North Richmond or a waste water treatment constraint such as in the upper Blue Mountains or Illawarra, you find it is actually warranted in economic turns to do that.

But I do stress that it is looking at the direct financial cost, it is not looking at the environmental and social costs which are manifest in something like environmental flows down the Hawksbury Nepean, that is an environmental constraint which is not included in all of that costing and needs to be considered separately.

The Hunter is completely different to Sydney in that context. There are different environmental and social constraints and indeed in each subcatchment in the Hunter the closer you look the more you see the detail of the costs and environmental and social costs.

Targets should be more complicated, I guess, is the take home message, to echo what Keith was saying.

MR EVANS: Those comments are right, that you need to look at each of the component parts and get them right in the environment in which you sit. To illustrate that, you could look at say leakage, chasing leakage. The number that was referred to here was the aggregate amount of leakage from the system but different systems are configured differently.

As I said earlier, in the Hunter we have about four times as many pipes to deliver a given quantity of water as they do in Sydney and so the conventional way to look at leakage is on leakage per kilometre of pipe because that gives you a

better idea of what is worth chasing. If you look at it on that basis, our historical performance has been in the middle of the field and on the latest information that is coming out in a month or so for all the water authorities Hunter Water is actually 20 per cent better than the national average. But the point is you have to look at it in the context of the real data and system and configuration and then that tells you what is worth chasing because it may well be we should be 30 per cent better or 40 per cent better. What is important is that we don't look at the wrong data and jump to the wrong conclusions.

Another point I have to return to, as there is a transcript being kept, is that there was quite a lot of play made of this financial flows question. I think it is necessary to put the broader picture on the record. If you look at interest and dividend payments as the sum total of what you return to your owner, that is, the Government, because the government owns us, Sydney Water pays $126m worth of net interest a year and Hunter Water pays $2m.

Sydney Water paid in 1999/2000 a dividend of $99m and we paid $28m. If you add the two lots of numbers up, the total return to the Treasury in the Hunter case is $30m and in the Sydney case it is $225m. When you scale it up for assets, total assets, by a eight times factor, the two amounts are the same. So I think it is very important we don't give a message to the community that there is a different return being extracted from here to Sydney.

Having said that, I think the more basic question still is that when you are looking at all this drought management, the least cost planning stuff, you take your finance and you throw it in the bin because it is not relevant. What you are doing is looking to do the best thing for the community based on the full social and economic analysis. You don't say, "well, look, we have either got a lot of debt or not much, therefore we can or can't do this". If you do your sums correctly it should have nothing to do with your capital structure, nothing to do with your dividend stream, even your prices that are set, because least cost planning is just that, it is least cost planning.

If you do all these numbers correctly, you will do what is the right thing to do automatically. I think it is very important we don't mix up partial accounting concepts with what is effectively a social and economic planning tool. I just wanted to make that point because I think otherwise you run the risk of getting either too much or too little in some of these things. You can say, "well, we have a

heap of money therefore we do a lot". Equally you could say, "we haven't got very much money, we won't do anything". That should not be how the matter is resolved. It should be resolved on what produces the best outcome and I think if we don't get that straight then we can't actually implement what people have been talking about because it is a less cost planning technique.

MR COX: Listening to the discussion I get the idea that there is a fair degree of support for least cost planning. There is a fair degree of support for having targets in some sense on demand management and drought security. I am less clear whether people are looking for an overall target or lots of individual targets and less clear on whether people are looking for it to be in the licence as opposed to a service commitment.

Any help on those points?

MR PRINEAS: The environmental organisations are very much in favour of setting targets in these areas because they are seen as an effect driving it. They have proved to be I think in the experience we have had with Sydney Water operating licence. There are still firm targets in Sydney Water's operating licence. I think it would be an anomaly for Hunter Water not to have them in its operating licence. It would be unexplainable.

There is no doubt in my mind that if you have a target in an operating licence then it is auditable and the authority is expected to try to meet it. One does not expect perfect performance, the target may not be perfectly set, but at least it gives you something to pitch at and of course this is a process that is reviewed every two and a half and then five years so you can refine the target as you go along. But it is important to have it there.

I said earlier that I prefer a demand management strategy as the framework within which all this occurs because that gives you some understanding of what you are trying to drive at. David mentioned the difference between economics and finances and I appreciate that. Economics is a much broader approach than finances, but of course environmental and social costs are even broader than economics and they are not going to be reflected in that.

MR EVANS: In this calculation, that is in there. That is the point that was being made.

MR PRINEAS: Are they, because the economic system unfortunately is not yet at the point where all environmental and social costs are met. Let's not

assume we have got to that stage yet.

Those are my points.

MR MORRISON: Based on our experience in implementing a demand management program and in particular constraints that operate in Sydney, we strongly do not support inclusion of targets in the operating licence, particularly on demand management, because it drives one aspect of what we have been discussing today.

What we want to move to is two things: Firstly, where all aspects are dealt with together, and that is what is being discussed; and, secondly, non established arbitrary compliance mandatory type requirements that sort of have a prosecutable reality to them when in this area what is happening is that the utility and stakeholders are learning about what works in this area.

Having said that, it is very important for this proposal that, firstly, there is transparency and that there is public involvement and that stakeholders believe that that is the case. For it to work it requires that underpinning. The social environmental aspects of what we have been talking about are clearly included for it to work. It will require that and it is agreed those things are challenges. But regulating these things because in some way that gives surety of an outcome can lead to consequential effects that have a far worse outcome down the track. I cannot say that I know that but the evidence from what Sydney Water has been doing is that there might be a better way. I think it needs to be given a chance to be proven based on what I have said.

MR MARTIN: I agree with Peter's point on the importance of having the standard set in the licence and the targets on demand management. I understand what Gavin is saying but from the environment movement point of view we probably have seen a shifting in the mindset of Sydney Water in relation to demand management that seems to correspond with those targets being set in the licence. From our point of view I think we see it as a very important means of driving that behavioural change.

MR COX: Any furthers comments on this?

MR PRINEAS: Just that interest is the price of borrowings and dividends are a return on capital, so they are apples and oranges.

MR EVANS: They are both returns to the shareholder because the shareholder is the same person who sets the debt level.

MR PRINEAS: Not in the real world.

MR EVANS: It is in the world we are in. I challenge you to find where the money goes in each case.

MR COX: I think we have probably taken this as far as we can this afternoon. I would like to draw the session to a close and thank those who have participated.

ENVIRONMENTAL ISSUES

MR COX: The next session is on environmental requirements. I will ask Michael Sedwell to make a brief presentation and then open it up for discussion.

MR SEDWELL: I am Michael Sedwell and I work at IPART. I will run through a quick presentation on the environmental issues. As you can see from this first overhead, it pretty closely follows what was in the issues paper with the exception of demand management because we have dealt with that in the last session.

Although the presentation is obviously focused on those four topics, I would like to encourage people, if they have any other comments, to raise them at the end of the session.

The first item I would like to talk about is the Hunter Water environmental management plan. As part of the operation audits each year it is required to report on its performance and progress in relation to the plan. The important words there are "performance and progress" because that is a different measure to the strict compliance standard or pass/fail that is applied to the majority of the other aspects of the licence.

For example, the plan might have a requirement such as to assess Hunter Water's impact on the environment and develop strategies to minimise that impact. How that is measured is if Hunter Water can show programs or actions which conform to that objective or contribute to the objective then the requirement in the plan will be deemed to be satisfied. I guess there is a measurement issue firstly.

Hunter Water supports the continued assessment of the plan on this basis because it believes that it allows them to set ambitious goals, they call them stretch targets beyond the minimum set by regulators. They argue that to change this arrangement and to apply a compliance based approach, the pass/fail test, would require them to

introduce less ambitious targets and make those goals achievable due to the risk of failure in the licence.

Another issue relating to the plan is the level of community input. At present the plan is largely an internal document. Some of the requirements are reported in Hunter Water's annual environment report but, as I said, it's largely their plan and they determine the targets that are in it. The community input into the formation of the plan's objectives is mainly limited to the consultative forum. This is in contrast to both Sydney Water and the Sydney Catchment Authority which have their own environmental plans and as part of forming the objectives in these plans they have got to go out to the community and consult with a range of groups on what should go in the plan.

Obviously Hunter cites their circumstances, a smaller population base, they argue it is harder to get this level of consultation and so the consultative forum is probably the most appropriate vehicle for that. Other people have expressed other views and have argued for Hunter Water to adopt a bit broader consultation in arriving at the plan.

Just in summing up, these are the issues that we will come back to later, just the method of assessment and also the level of public consultation.

The next item is obviously environmental and ESD indicators. One of the points we tried to make in our issues paper was that we saw environmental performance as an important accountability for Hunter given the nature of its business and one aspect of this is public reporting and giving people information about the state of their beaches and rivers where Hunter Water may have some impact. The indicators are designed to do this by giving the community information and trend data on Hunter's progress in this area and generally on environmental performance.

Hunter agrees with this idea and it has already got a suite of 60 indicators on this issue. Again, the main issue is the level of consultation that goes into this. Hunter Water again would prefer to base the level of consultation on what the indicators should be, mainly using the consultative forum, whereas other bodies would prefer, other stakeholders, have called for more of a wider consultation on this.

The next area is energy management requirements. In the case of both Sydney Water and the Sydney Catchment Authority they are required to

comply with the Government energy management policy and that is a policy which involves really two targets, a target to reduce the energy consumption of government buildings and there is also a target to increase purchases of green power.

It is important to note here that there is no legal requirement on Hunter Water to participate in this policy. However, they do already participate to the extent of reporting their energy consumption each year as part of it.

Hunter Water has argued that their preferred approach is to report on an energy management performance via the environmental and ESD indicators and they have already proposed a range of indicators on this as part of their submission to IPART.

Again, the central issue here is whether energy management should be dealt with by indicators or fixed targets or standards.

Lastly, we have the issue of water resource and catchments. There was a lot of interest on this in the submissions we received. We got quite a few from farming groups, LandCare groups and obviously environmental groups as well. Unfortunately it is not quite as clear cut and we have not been able to narrow down submissions to comments centred on one or two questions.

To try to resolve this issue we asked Hunter Water to provide some comments in the form of a supplementary submission as to whether they should have a general objective in their licence requiring them to manage and protect the catchment areas. This is similar to what is in the Sydney Catchment Authority's licence or, alternatively, to perhaps have a requirement in the licence for Hunter Water to carry out some catchment improvement actions or a strategy on the basis of a catchment risk assessment. So it is about identifying perhaps the priority areas in the catchment that need some attention and then directing energy towards meeting those sorts of objectives.

Hunter Water have said in their submission that they do play quite an active role in catchments and do things like employ rangers and so forth. But really, legally, the responsibility for catchment management rests predominantly with the Department of Land and Water Conservation. As such, because of the legal obligations, it is not appropriate to place formal licence obligations on Hunter. They believe it would be better to look at catchment and bulk water health as part of the environmental and ESD indicators. What we would like people to think about is whether Hunter Water should be required to

measure performance and report performance against specific indicators or whether there should be some perhaps fixed standards or other arrangement placed in the licence. I will just close off there. I have put the main points for discussion up there. I will now leave it over to Jim.

MR COX: I might start off this time with Peter Prineas.

MR PRINEAS: I think we would take the view that the environmental management plan should be assessed along with the rest of the licence, so it should be auditable and it should have measureable targets or standards. One would expect Hunter Water to be assessed on whether it has complied or not. That is what applies in the case of Sydney Catchment Authority and Sydney Water to a large extent. Again, I don't see how Hunter Water should be treated differently. I would suspect that, in order for the EMP to have integrity, it would need to be put together by Hunter Water as a draft and put out for public consultation, perhaps under the auspices of IPART to provide some independent checking of the process. After that public consultation process, which should be broad, it can be adopted and form an auditable part of the operating licence and be reviewable at two and a half and five years. That would be the preference I think of the Nature Conservation Council.

Again, in relation to environmental ESD indicators, Sydney Water and SCA have no trouble with those as part of their operating and regulatory landscape. I agree that we should ask Hunter Water to prepare such, and I believe they are already well on the way to doing that. I would like to see that process again given a bit more integrity and arms-length oversight by IPART shepherding the process and ensuring that the public consultation is broad - broader than just the consultative forum that Hunter Water manages. That is quite a good group, but I don't believe it covers all the bases.

Energy management: yes, targets and indicators. Catchments: yes. We would prefer to see targets and actions there rather than just indicators. That would be in line with some of the things that you are already doing, although I think the catchment requirements in your plan are pretty skeletal. They are not very broad. One doesn't get a sense of Hunter Water having a big stake in the catchment areas. I'm not quite sure how that can be addressed.

Sydney Water now is in a quite different position because the Sydney Catchment Authority has taken on that role. Sydney Water's catchments are now being intensively looked at through the Sydney

Catchment Authority in a way that they weren't before. Hunter Water is left in the position where I think catchment supervision might be a bit light on, from our point of view, and we'd like to see some improvements in the framework. It's not possible, for instance, to run a proper least cost planning framework if you haven't got the catchments in the picture. So I think if you're going to really take that approach seriously Hunter Water has to somehow fit them into the planning picture. Those are my comments.

MR EVANS: I'm a bit torn here, because every one of these issues is very complex and we have already said a certain amount about them. I might just try to cover each one as quickly as I can and then people might want to return to raise questions.

First of all, in relation to the ESD indicators we put in a supplementary submission on that to try to get the right balance between complexity and understandability. I personally think that set of indicators is pretty good. With respect to the issue Peter has raised about having all these things subject to broader promulgation, that can always be done. It can be done through IPART, in some senses similar to the process we are in now. The present set of indicators has been out there on the IPART web site, so that can happen. I think that's reasonably straightforward, actually, the resolution of that one. I don't know there's a big issue with the ESD indicators, but there might be one I can't see. We have a supplementary list of them out there which we think basically gives the right data and accountability for the things the community would have reasonable interest in. I will put that one to one side, but I am happy to return to it.

The energy one is complicated. Again, it is this horses for courses thing. It so happens that we have two hydro-electric facilities that produce green energy. That is presumably a good thing. We provide data on energy conservation. We are members of the SEDA business partner program. It's a fact that higher standards of waste water treatment mean we are consuming more energy that that area then we used to. There is a classic trade-off there. We have tried to get that taken into account when standards are set. So it's a very dynamic thing, the whole energy question. My personal view is that we ought to not try and set precise targets there because it is a very sort of dynamic process, but I think we should present, through the EMP, what we are doing in the energy area and have it available for scrutiny.

The catchment issue is probably the most complex of them all. The first thing I think we

have to remember is that we have several different catchments. There is a sandbed catchment, there is a world heritage area above Chicester Dam, which is a separate catchment, and there's a multiple use catchment between Chicester and the offtake point to Grahamstown Dam. So you are talking about three catchments and not one. I think we have to go to them on a horses for courses basis and look at how they are managed and whether that management is appropriate.

The most complex one is the Williams River itself. It has had a lot of effort put into it over the last 10 years, including being the subject of the first healthy rivers inquiry. Arising from that there is a regional environmental plan. There's a range of instruments that already exist in terms of management of that catchment, which the planning authorities - DLWC, EPA and ourselves and the Hunter Catchment Management Trust - run. I think that is working quite well and fits quite nicely the way business is done in the Hunter. I think that is producing quite a good social and environmental outcome.

The issue goes to the question of the breadth of this licence, which IPART needs to think about. We already participate through DLWC with a range of other people in the implementation of all that. Whether the licence would like to request us to, in a sense, report on that annually so people can see how that hangs together, yes, we could do that. That is a transparency device that would enable people to examine over time how that was going. We are open minded about that.

There is a trade-off there in a sense because it costs resources to create that report. This organisation is not as big as some others and we carry already quite a substantial cost, feeding the regulatory process in total. There are some people in this room who are employed virtually full time on it. These are things that can be done. The question is whether the gain is there from a community perspective. In the end, we are the regulated; we are not the regulators. In my opinion, having heard all the opinions and sought whatever extra information they wanted to seek, if IPART says that'd like to do X or Y, we'll do X or Y. It's one of those things where you've just got to be mindful that there are real resource costs. If we spend more time writing reports, we spend less time planting trees. So that can be done. I'm a bit open minded on that one, too.

The last one I think was the environment plan. There was an issue raised about broader circulation of that. Again, I am open minded about that,

perhaps circulating it under IPART's auspices. That's fine. I think there needs to be recognition that there are a fair few targets in there already, a fair few things we are striving to do. We are regulated increasingly by EPA, DLWC others. We do have to ask ourselves how many tiers we want to have in a formal regulatory structure. Again, we are the regulated, not the regulators. If someone says they want to have another tier, we get another tier. I think that is a judgment ultimately IPART has to make. I think, though, that you do have to pay some recognition, in a sense, to what has worked in the local circumstances. We have had an EMP that is subject to audit. We have put stretch targets in there on a range of those things we believe we have done pretty well. So we just have to be careful we do not change it for change's sake, unless there is a reason it is going to generate a better environmental outcome. I can take questions subsequently, but I think that's about enough.

MR MARTIN: I probably agree with Peter's comments on broadening out the process for the environmental management plan, so I will not spend too much time on that. I think there are significant benefits in broadening that out and making it a bit more consultative.

I did want to comment, though, on the environmental and ESD indicators. I think it is very important that they be set in a broader process than simply reference to the consultative forum. I think there should be a similar process that Sydney Water and the catchment authority are required to follow in setting theirs with reference to the community and environment groups, just in terms of making sure that all the issues that need to be dealt with are and that there is more public confidence in the process that was used for establishing those indicators. I think it would be far too narrow to have Hunter Water essentially controlling the process for setting their own indicators to the extent that would occur if it was simply left with reference to the forum.

On energy management, I think it is very important that we get into the licence that Hunter Water does adhere to those things in the government energy management plan, which is reducing the consumption of its own buildings by 25 percent and also the six percent green power purchasing requirement that applies to budgets in government agencies. Hunter Water, I guess, has the opportunity to set a major example as a major energy consumer. There is quite a positive message they can send there.

I think there is one refinement that is needed,

though, to the six percent green power purchasing requirement; that is, the recognition that Hunter Water, like Sydney Water, has the capacity to generate its own sources of green electricity. Perhaps we would suggest that the requirement should be to purchase or generate at least six percent of their energy requirements. That recognises the fact that they have the capacity to generate electricity through hydro and co-generation of the STPs and so forth.

The other issue with catchment management is that it's true there are a number of other agencies that have responsibility and that Hunter Water is required, I guess, to adhere to those requirements. What we would really like to see in the operating licence is some means of auditing Hunter Water's performance against those externally imposed things so that the licence regulator can get a clearer view of how the corporation has been performing. By that I mean things such as the agreement with DLWC, arrangements with the EPA and also, I think, the Williams River regional environment plan. I think it would be very important in terms of the accountability of the organisation that performance against those is assessed in the operational audit and that the licence specifically binds Hunter Water to adhering to the requirements of those instruments also.

MS COLE: There is a link between the previous session and this one. I think we talked about a few of the sustainability type indicators related to the water management licence that DLWC has issued to Hunter Water. It is true that there are a number of monitoring requirements we set that are about the sustainability of the water resource, whether that be the water table level, the salt water interface with the ground water, et cetera.

I think it probably hasn't been recognised to the same degree that by setting a licence limit on the amount of water that can be extracted you set a finite amount of water which in fact will be a significant driver as well for things like the least cost planning, demand management, et cetera. If you actually cap something, it drives all those other things. So our licence is very much a regulatory instrument as well, for the purpose of the sustainability of the water resource and the sharing between other water users.

Certainly in this area in the lower Hunter, Hunter Water is a major water user in both the Tomago Sandbeds and Williams River area. The department is currently working with various stakeholders through water management committees to develop some water sharing plans for some of those

priority sources. The new legislation that was passed at the end of last year included the requirement for some of those plans to be completed. They are due in December this year. The Tomago groundwater-North Stockton groundwater sharing plan is one of those plans. That is working not just with Hunter Water but with all the other water user representation who use that. Part of that planning process is also about developing some performance indicators, which are probably relevant here in that they are not just about the process of what you do and how much water you extract. It is also about what outcome you achieve by trying to aim for that sustainability, including looking at things we are grappling with such as how you manage things like groundwater dependent ecosystems. So it is taking it to that next level of what you are trying to achieve. We see that as something that is new and happening but happening on a broader framework which Hunter Water is participating in but which other stakeholders are also involved in.

Similarly, we are doing some preliminary planning at the moment about when the Williams River might have a water sharing plan done. That is probably in the next couple of years as well. Again, there will be performance indicators that relate to that. While Hunter Water is the biggest user in the Williams, they are at the bottom end and there are other users all along. It is a more catchment-wide perspective we are taking on through those water management committees.

There are probably a couple of key interfaces here that the department has with Hunter Water. One is the special area regulations which help manage the planning controls and what development can occur within those catchments. That is the regulatory side of it. On the incentive side, the catchment management plans that have been undertaken and the Hunter Water Management Trust is just about virtually completed - the catchment management plan for the whole of the Hunter area. It looks at investment, planning and development controls, and both David and I have been participants as trustees through that process. So there is that broader, more catchment oriented process that is happening and taking a broader perspective of the relative priorities across the whole Hunter Valley, where Hunter Water operates in just the lower end basically.

They are probably the key points I wanted to put in just that broader perspective of how we are working with Hunter Water and other stakeholders, because the sustainability of our water resources here is not just about Hunter Water having a sole right. It is about the sharing between the range of

stakeholders and how we can manage that sustainably.

MR MORRISON: Just two quick points. We'd support what Leigh and Peter have said about ESD indicators and the environment plan with I suppose one caveat. In relation to stretch targets, Sydney Water has invested a lot of effort into developing environmental management planning to reflect the relevant standard, and we see that as a requirement of our due diligence responsibilities under the protection of the Environment Operations Act. The requirements there look for people to set stretch targets and also for mechanisms for continual improvement in your plan, and obviously setting these things in an operating licence sets it against a two and a half year and five-year review and sets compliance requirements. We think the ESD indicators and the environment plan have been positive steps for Sydney Water and we embrace them. I draw to your attention that the international and Australian standard points towards a different approach. That's called up in a different regulatory setting for us and properly implemented I think leads to better environmental outcomes.

In relation to catchment management, as my second point, I'd say that obviously the requirements that have been set in the Sydney catchment result from the McClelland inquiry into the contamination incidents in Sydney in 1998. They should be viewed as specific to those circumstances, I think, though I'd defer to my colleagues in the SCA and DLWC on good examples of catchment management that could be included in Hunter's operating licence. But I think you need to be careful not to say that just because it happened in Sydney it should happen in the Hunter, because it happened in Sydney because of contamination incidents and that does not apply in the Hunter.

MR ELLIS: I'm bringing a catchment perspective and I am giving a lot of comment to things like ESD and energy management issues. In our submission we asked IPART to I guess consider somehow using the licence to strengthen linkages between the consumers and the catchment but without necessarily complicating the framework or including a catchment authority or necessarily increasing the burden of bureaucracy, et cetera. We believe there are significant issues. The weir pool, which is the pool of water created in the Williams above the Seaham Weir, is not in our opinion in a very healthy state. There needs to be significant contributions towards planning what state we want it to be in and then funding that, arriving at that. A question I ask - it's not clear to me - is: does Hunter Water actually pay for the water that it gets from the Williams River?

MS COLE: Yes.

MR ELLIS: So there's a dollar figure attached to that and a fee?

MS COLE: They pay a water management licence fee as a major user and then an IPART-determined fee for water extraction.

MR ELLIS: So there's a fixed fee and then a dollar per megalitre kind of thing?

MS COLE: Yes.

MR ELLIS: Where does that money go? It just goes into water conservation fund?

MS COLE: It's paid to State Water, like all water users.

MR ELLIS: I'd like to see some of that funding directly accountable to catchment improvements - maybe the licence can help define how that is done - and that those funds are then available. There is a process or a mechanism of making those funds available through the department's own works or through other property owners' improvements in the catchment.

My final comment, I think, is in regards to Dungog, Clarencetown and probably Seaham sewage treatment. I think Hunter Water should be given responsibility for sewage treatment in those areas. They do have a pipe water supply but they don't have adequate sewage treatment processes. I think Hunter Water should be given that double incentive, because the effluent ultimately remains in the catchment. Also, they've got a demand linkage. If they've got to treat the effluent then they've got an incentive to control demand. That concludes my comments.

MS CROSDALE: I reinforce the comments of Peter and Leigh, that the public should be engaged on the EMP and ESD and that energy and catchment targets should be set. I agree with David, it is a resource issue and local government faces it constantly about requirements to advertise and engage the community. However, there are strong benefits in doing so and that is what we should face here. The benefits are the community can issue its voice and be part of one issue it sees as important, which is the environment in which it lives.

So finally I would like to reinforce those and basically say the community will benefit by it and so will the organisation.

MR KERR: I would like to make one point about the demand

management plan in the sense of reiterating the advice in our submission to IPART and that is that we see some benefit in including the EMP in the operating licence in that it provides an opportunity to include what we said is a systematic effort to identify the main environmental consequences resulting from Hunter Water's activities and within that then proposing a program to which to some extent they have already developed, which is good, a range of actions that can reduce the negative impacts of the work they undertake and the activities they undertake as well, so I would see that the EPA would strongly support that and I would like to reiterate that view.

MR FANE: In relation to whether the consultative forum is going to be the sort of formal point of reference to the community, that if it is then it needs a more formalised process where Hunter Water is not the sole people that are in control of who is on or who is part of the forum. If it is not to be the only point of contact then that is not so important.

In relation to ESD indicators, I would like to put forward that 60 indicators seems to be a lot of indicators and whether through a process potentially guided through experts as well as looking at getting community input this could not be aggregated into a number of more specific targets, say for energy use, water use within Hunter Water's own operations, solid waste produced and potentially the proportion of the catchment that be protected, and there are probably other ESD indicators including I guess the proportion of Hunter Water's expenditure spent on employing people rather than on concrete.

These are only some that I thought out. There are a few indicators which may indicate how Hunter Water is tracking against broad aims that don't just come from these 60 indicators that are currently being checked anyway, so I guess this discussion needs to be had whether there is other important things that relate to how Hunter Water is tracking in relation to sustainable development and how that can then be put into the licensee as they are, I guess, more meaningful sort of either indices of their performance.

In relation to the catchments, I would just like to say that even though it is not in Hunter Water's objectives, it definitely leaves Hunter Water open to act within the catchment particularly if it is required to by the licence and that there is significant potential to improve both water quality and water quantity through acting in the catchment and if Hunter Water was given agency to do so it could spend money in catchment management, particularly in relation to certain areas and in

relation to resource extraction activities which currently occur in the catchment which would be affecting water quality and quantity, and potentially under water, could buy out those resource extracts, by that I mean both for mining and forest industry.

MR COX: Thank you. Listening to the discussion I think there is a fair degree of agreement on the ESD indicators and the environment management plan. Essentially people are looking for broader public involvement, so I think we have got the message on those two. On energy, there is I think disagreement about whether there should be a target or not and there is a lot of disagreement on whether it should be in the licence because it is an auditing rather than duplication of requirement.

I am a bit unsure on where we are on the catchment side, unless someone can help me understand it, how it relates to what DLWC and EPA have said.

MR EVANS: Some issues that need to be thought through are what are we looking to check on and does whatever we are looking to check on already get checked by someone else? To take an example, say there is an action we have to do, EPA checks us and if we don't do it we are put in gaol, do we want to check whether EPA are doing that and, if so, why? Or is there something else we are trying to check?

I am not trying to be definitive but sometimes you can only involve these things by lining up what it is you might be trying to achieve and then going through them one by one and seeing whether each one of them needs to be achieved or can be achieved by that means or something else. Otherwise I think the debate tends to occur in a bit of a vacuum.

From our point of view we would like, if possible, to not have dual regulation if we can avoid it because we think that is expensive for everyone concerned and I suppose we also would prefer not to get penalised twice for the same offence if there was an offence. If I am already in gaol, I would prefer not to be also paying fines to IPART. But there are some good governance issues in that.

You do need to ration, if you like, the effort of government as a regulator to where it produces social gain. I think it is very difficult to do that unless you really go through quite an explicit analysis of whatever it is you are trying to achieve, otherwise you are reduced to on the one hand, because it is easy to say, yes, it would be a good to have a bit more information or checking. It

is also easy to say, if you say it as quick, no, it is all duplication. I don't think you can solve that by saying it quick.

MR COX: Any further comments?

MR MARTIN: There is probably an interesting model for tackling this in terms of the memorandum of understanding with NSW Health. I will want to talk more about that in the next session but you can have a reference in the operating licence to those other instruments and a requirement that Hunter Water will conduct its operations in accordance with them and in performance of those instruments subject to the operational audit.

In that way you are not having the dual regulation that David is expressing concern about but you are ensuring that all parts of the corporation's activities are open to the licence regulator when they do the operational audit.

MS McELVENNY: In effect what you are saying is that the EPA and DLWC don't regulate effectively, if you are asking for that. That is the impression it gives us, that you are saying the operating licence auditor has to look at these because the EPA isn't looking at them closely enough. That is the impression it gives.

MR MARTIN: No, it gives the licence regulator the opportunity to look at all aspects of performance in its operational audit. Peter might be able to provide some comments on that as well from his experience but it is certainly an issue we raised in relation to Sydney Water as well, that in the past the auditor had some difficulty actually getting across all aspects of the operations.

MR EVANS: There is a question: Do you want an auditor under this particular instrument to get across every aspect? Without wanting to trivialise it, you do have to address this question as to whether someone else is doing it well now. For example, the organisation has to comply with EOE, a range of accounting standards, so there is a whole series of things that go on in the organisation that other arms of the law require us to do and we don't ask the auditor to look at those. As I continue saying, we are regulated, we are not the regulator. If someone says it has to happen, it happens. But I do think we need just to think it through because when the auditor comes to do the job and you put yourself in a position of someone out there, a customer out there, you want some really basic things to be done by that auditor. You want him or her first of all to work out whether the drinking water they are getting is safe.

We have not even talked about that yet, but that is pretty profound stuff. For a given amount of resources an auditor might have, you have to ask yourself whether you want - how thinly you want to spread their endeavours, and if you do end up starting to spread them a bit thinner, what are the consequences that they may not look at some of the things that are really important? I think that sort of thing needs to be thought through. It is very attractive to say, let's get the auditor to look at it, but why, to what gain, compared to what other mechanism?

MR PRINEAS: I think the environmental side of things got into the audit when Sydney Water was corporatised and it had three essential objectives, one of which was environmental. You could hardly have an operating licence which ignored that one third of its essential objectives.

MR EVANS: It is a question of degree.

MR PRINEAS: That might explain to some extent why environmental parameters are in the Sydney Water operating licence but even then they are in yours and you are in there ahead of them.

In regard to catchments, we can't decide that here because it is a bit too complicated. You have previously been audited on catchment parameters in your current licence and the problem with them is that they are not very useful. If you are talking about an auditor wasting his time, that is an excellent example because I have got the last report here and he goes through and notes the fact that you are represented on some committee and that you attended meetings, tick. That is mentioned three times, that you are represented on some catchment committee and you attended meetings. Well, big deal! That is not a very useful audit process, so we do need a much more targeted approach to your catchment responsibilities, whatever they may be, and I do not think we can decide that, we don't have the power to decide it, and we don't have the time.

MR COX: There is a comment from the back of the room.

MR BYLEVELD: Paul Byleveld, NSW Health. First of all, David, I appreciate your concerns regarding reporting on any regulatory requirements and also the aspects of duplication of regulation. We really do appreciate that because on the other side of the fence that impacts on us. We are a regulator with a small number of personnel allocated to these issues, so it creates works for us as well.

It is important that the operating licence

reflects catchment protection. Our submission to the tribunal was to the effect that the aspects of the Australian Drinking Water Guidelines that examine catchment protection and system management perhaps as specified by NSW Health and DLWC be picked up in the operating licence. When the time comes to be audited against that requirement, Hunter Water may simply point to DLWC and NSW Health's other agencies and say, "if they are satisfied we have met the requirements". For example, reports that NSW Health receives from Hunter Water specify in detail to us catchment protection activities. That should also satisfy any requirements under the operating licence without need for duplication.

MR LOWE: Steve Lowe, Dungog Shire Council. We are a body that uses 40 per cent green energy. I am a resident of the Williams Valley and also a water user. I would like to make a few comments about social costs as well as the environmental costs on both issues because they are certainly of concern to the council and our residents.

One particular issue that was mentioned by Mr John Ellis was regarding the weir pool. One of the issues we have with that is that obviously there are problems with that body of water which is notionally managed by Land and Water, yet the weir is owned by Hunter Water, the point being that where one government agency takes over from another if Hunter Water tried to build that weir today I think they would have a lot of trouble getting an EIS through the community, yet we have all taken them for granted except the Rivercare people, who rightly point out that there are significant on-going problems with that and they are not being addressed in any of this, but they are environmental impacts. One owns the weir and one owns the body of water, so that is not very good.

A few other points: I have sat here all day and would like to raise these issues. The first one is the Dungog Shire is a municipality about the same size as the local government areas of Maitland, Port Stephens, Newcastle and Lake Macquarie. The population of those is 427,000 to our 8,000. Our shire provides, as we said earlier, 40 per cent of the water supplied for all those people, plus of course other parts of the lower Hunter.

Hunter Water Corporation is a $122m business and we receive basically very little money out of that. A lot of activity takes place in our shire and there is no benefit basically to our infrastructure, very little through rates or anything else towards the cost of generating that income. I have mentioned the weir pool and its environmental impact, which is an issue of concern

for our residents, but there is a social issue there as well in that that very weir pool denies Clarence Town its river port status that it once had. It started as a river port, traditionally it is, and it is no more because of the weir, because it does not have a lock.

We have talked already about Hunter Water's profits and a dividend to the State Government of $28m and of course it is a lot of money to a small area. We look at this with dismay in that again there are social injustices applied to people living in a drinking water catchment, and there aren't many of those, despite the DLWC management of the facility. You can't have a piggery in a drinking water catchment, use of effluent in agriculture is limited, and it goes on.

We have water sharing through this but that is part of the DLWC process anyway, but there are social costs there and none of that is assessed in the licence and, of course, as was pointed out by the Rivercare representatives, there is very little looked at addressing environmental and social costs.

So, in other words, I don't believe they are paying the true price they should be paying for the water and I would share Rivercare's concern that there should be some nexus between that money and ongoing improvement in the catchment and it is an issue that is very important if the water supply is to be sustainable, while the Healthy Rivers Commission identified the fact that the river is basically healthy, we certainly implemented a lot of things from there such as water sharing whereby we effectively lost our irrigation industry.

For an irrigator on a day like today, there is a flow in the river, but that is of concern, and while I don't intend to digress into that environmental situation an effort I think needs to be made to look at the licensing conditions because we want to see positive and proper environmental goals and we want to see improvement. Hunter Water will say it goes to meetings. Yes, it does, it has certainly worked with us and had a genuine attempt at looking at the Clarence Town sewerage scheme. It does contribute to small improvements in water quality projects throughout the catchment.

This is basically a small amount of money. The weir pool fencing contribution can be said to be an environmental improvement. However, I think it is an owner's responsibility for the fact that the weir pool is theirs.

I think I have said enough, thank you.

MR COX: One more comment, if there is one:

MR McDONALD: Kevin McDonald, a member of the Hunter Water Corporation's Community Consultative Forum. I would like to make a comment. Some speakers have implied there is not enough exposure of Hunter Water Corporation's operations to the community or perhaps not enough community input. I would like to rise to the defence of the forum.

I have been a member of the forum for years and we meet four times a year and we have a very adequate agenda to cover. I would like to make the point that each of us on the forum - and there are over 20 people on the forum - represent a constituency in the community and we bring forward not just our own views but the views of that constituency and in turn we report back to our constituency. Over the years we have raised many matters to the management of Hunter Water and I would like to claim that we have been very satisfied with the reaction of Hunter Water, its management, its senior officers, who respond to any matters that we raise.

The members of our forum include some councillors of local government areas and they are quick to have a whinge about anything that is going wrong that might affect their local government area. We have representatives of environmental groups, employer bodies and other groups in the community. It is a very, very effective forum and there have been a few speakers who have made sort of a side-long comment that perhaps the forum is not as effective as some people might think it is.

I presume that Sydney Water also has a similar body, a community consultative forum, and I wonder if anybody from Sydney water could comment on how they view their forum? But I would like to stick up for the fact that the Hunter Water Corporation Consultative Forum is an excellent sounding board which gives a blinking light, a warning light, to Hunter Water if anything is going wrong; and I am sure that the management of Hunter Water appreciate the fact that we raise any issue, we always feel free to raise these issues, and we have had input into such things as Hunter Water's environmental management plan, input into the raising of Hunter Water's environmental indicators for ecologically sustainable development objectives and so on.

So I hope I have made the point that I think the consultative forum is a very strong and very effective body.

MR FANE: I would just like to say that if you are coming from trying to find out about it from the

community, there is no way to even find out that this body actually exists. It is not actually mentioned on the website. Except in submissions, I would not have known it existed. I wouldn't know who is represented on it. It may very well be a very, very effective body, I am not saying that it isn't. I don't know, I guess that is part of the problem.

MR COX: I think we should close the session off at this point. I want to thank you, you have done a great deal to clarify the issues. We will have a break now for afternoon tea and in view of the timing, which is getting away from us, I would like to resume at 20 minutes to five.

OTHER ISSUES

MR COX: We will now resume for the final session in this marathon event on Other Issues, including drinking water quality issues. I invite Michael Sedwell to introduce it.

MR SEDWELL: Hello again. For those of you who weren't at my last presentation, I work at IPART and I am Michael Sedwell. I know it has been a pretty long day so I will try to get through this pretty quickly and then you can discuss it and we can go home.

Just very quickly, the issues that I want to talk about today are on the overhead. David Evans mentioned that drinking water was probably the most important requirement for inclusion in the licence. The reason why it is one of the last issues in discussion is because there is a fair bit of consensus on what should go in the licence in this area - at least I hope there is! It is fair to say over the 10 years that the licence has been in place that Hunter Water has performed very well against the water quality requirement and typically delivers water of a high quality.

Hunter Water currently meets the latest Australian Drinking Water Guidelines and has agreed to meet any updates to the guidelines where specified by NSW Health. I should add here that the guidelines are subject to rolling revision so as new research and understanding becomes known, the guidelines can be updated to reflect that.

I should also point out that NSW Health is the drinking water quality regulator in New South Wales, the standard setter, if you like, and IPART sees its role more as reporting Hunter Water's progress and Hunter Water's progress against the standards set by NSW Health.

The main issue for discussion today is to what

degree should requirements of Hunter Water's MOU with NSW Health be codified in the licence. I should point out that the MOA is kind of like a contract or agreement between NSW Health and Hunter Water and it clarifies their relationship. It places a lot of obligations on both parties. It attempts to define the roles and responsibilities of both parties and it deals with issues such as the preparation of water quality monitoring plans, which are required to be delivered each year to NSW Health, and it also plans for improving the water system and other upgrades to the system.

IPART feels that in the interests of informing the community about drinking water regulations, letting people know the basic sort of structure of the arrangements and also perhaps reporting against what is happening as part of the audits, that there is interest in doing this. MOU arrangements should at least to some degree be codified in the licence and this is consistent with the arrangements for Sydney Water.

Basically in this session we seek your comments on to what degree this is applicable and to what degree should the requirements of the MOU be placed in the licence. I would also encourage you at the end of the session, if you have any other comments on drinking water quality, to please raise them. There might be some issues that we are not aware of here.

While on the subject of the MOU, Hunter Water also has a memorandum of understanding with the EPA and DLWC. Again, these are kind of agreements between both parties and they serve to clarify the relationship, the responsibilities of the various parties, how often they are going to meet, things like that. They kind of underpin some of the other regulatory documents like the licences issued by the EPA, for example.

Leigh raised the point that by formalising these arrangements in the licence it allows the public more access to find out what is going on and perhaps allows the auditor to report on progress and the actions which are taken pursuant to the MOUs. So again the question for discussion here is to what degree should these requirements, if at all, be included in the licence?

A different issue here now is, from the submissions we have received concerning the topic of a review of the licence, there does not seem to be any objection to making Hunter Water's new licence run for a five year term. This would make it consistent with the licence for Sydney Water and the Sydney Catchment Authority.

The real issue here is how often should the licence be reviewed. In the case of both Sydney Water and the Sydney Catchment Authority the licences are subject to a review, both quite similar to these processes, halfway through the licence, so at the end of the second year, and also at the start of the final year of the licence terms, so the fourth year in the licence term.

Hunter Water's preference is just to have an end-of-term review at the start of the fourth year and they cite the smaller size of the organisation and obviously the resources required to conduct these sort of reviews as the justification for that.

Other stakeholders have argued that both mid and end-of-term reviews are required to ensure that the licence remains up-to-date with the latest developments, I guess things like the CSIRO study we have heard so much about today.

That is it for me and thank you for your attention. The points for discussion are on the overhead now.

MR COX: Thank you Michael, and perhaps I will ask Paul Byleveld from NSW Health to sum up.

MR BYLEVELD: Paul Byleveld, NSW Health. I work within the central office and the audit unit is part of the environmental health branch. Around the State we have 17 public health units that are involved in health issues such as drinking water. The Hunter unit works very closely with Hunter Water and is responsible for the day-to-day running of the MOU with NSW Health.

Perhaps a word of caution to start with. We are guided by the recommendations of the National Health and Medical Research Council, which publishes the Australian Drinking Water Guidelines. When this document was developed it went to some lengths to make a distinction between the word "standards" and "guidelines". The intent of the NHMRC was to identify a framework for identifying acceptable water quality, not a mandatory standard, and by providing this framework and allowing consultation with the community, water utilities could provide safe drinking water.

NSW Health would prefer to see the operating licence reflect the word "guidelines" rather than mandatory standards but there are issues for consistency there that perhaps others might like to raise.

In our submission to the tribunal we

recommended that certain aspects of Hunter Water's operating licence be made consistent with that for Sydney Water, particularly the compliance with the health related aspects of the Australian Drinking Water Guidelines, those parameters that may affect human health.

I don't think the operating licence needs to go into great detail on this because it is already picked up in the MOU, but perhaps to pick the key points, being the need for liaison, appropriate monitoring and reporting of the results of monitoring. Perhaps that is all that is needed in an operating licence because the rest is covered in detail in a memorandum of understanding.

It may be appropriate - and this would be in consultation with other agencies - that the operating licence pick up on compliance with aesthetic guidelines those parameters that don't necessarily impact on health but affect other qualities of the water. If this was the case, it should occur in agreement with the Minister for Health and the Minister responsible for the water corporation. This is a similar model that is applied to Sydney Water. I am only raising that as a point for further consideration. Our prime concern is that the health related aspects of the guidelines and compliance with them is picked up in the operating licence.

I think that is all I have, thank you.

MR EVANS: On health, I think this is the most important part of the licence. When this licence was first talked about many years ago, what we did was seek to go back and see what, where the gaps were, where were things that weren't covered by other regulation of government that needed to be dealt with to make sure nothing dropped through the cracks, and the first and most obvious is the health one. So we support 100 per cent the sort of things Paul mentioned to make sure that is all dealt with.

There is an issue I think implicit in all this as to, having referred to the MOUs, what did you want the auditor to actually do when they come into check licence compliance? That needs to be thought about and I think there's two broad approaches there. The auditor can have specified clearly in advance what they are required to do. In the case of the health one, they would be required to confirm the different interactions that are required have occurred and the relevant documentation would be exchanged. That would be a way to go about it which would be reasonably streamlined.

Alternatively, you could leave it more

ambiguous and then the auditor would have to make a call as to how much further it went. That is something IPART itself needs to think about as the entity responsible for the auditing. I think there would be gains from everyone's point of view in attempting to specify it in advance so everybody knew where they stood.

With respect to the term of licences, which I think was one of the questions that was raised, this is one of those things where there are a number of arguments that can run either way and again it has to be thought about in the context of each case. One of the reasons why the Sydney Water and Catchment Authority licences are subject to such frequent review was that we must remember the genesis of the Catchment Authority was that Sydney Water incident, there was lots of uncertainty following the McClelland inquiry about how the arrangements would turn out and there was a desire to make sure there were formal bus stops to make sure everything was being dealt with.

I think we have to be careful in working through the number of bus stops we and others may have in the future to make sure we don't just automatically transfer over that arrangement that was created at that time for the sake of mechanistic consistency. We have to be able to objectively consider what produces the greatest gain in terms of a review process.

The reviews at one level are virtually never ending because as I understand it the Government, through requesting IPART, can have a review done of any dimension of the licence whenever it wants to, so you are subject to perpetual reviews in all worlds. So there is potentially that. There is an umbrella capacity for those reviews to occur whenever they need.

When you put a utility's hat on like ours it is easier to say, yes, review us as often as you like, because you think that will make everyone happy. But you have to ask what the gain from that is from everyone's point of view and what the flexibility is to review more frequently if you need.

An alternative to mid-term review and end-term review, that is, mid-term review at year three and end year, two and a half years and an end-year term review at year four, would be to split the difference and hold a review at year three and a half or whatever with a view to setting the conditions for the next licence. So you split the time difference between the two reviews and just hold it once and then say it is effectively a mid-year and end-year review to set the conditions

for next time.

That would allow a good long lead time too for any changes that are imposed to be adapted to and implemented. If you leave the reviews too late in the day, too late in the licence period, you sometimes end up in a catch 22 that if you change the licence then the organisation will not have time to prepare for it and therefore you can't change the licence. I think we ought to give thought to what the appropriate cycle of reviews are, not in order for us to avoid scrutiny but just for us to do it as effectively as we can.

I think that is about it. I am happy to take questions.

MR MARTIN: The drinking water quality standards, I think we have got fairly strong consensus on the nature they should take in the operating licence. TEC is strongly of the view that in terms of the memorandum of understanding between Hunter Water and NSW Health, also DLWC and EPA, that it is important that the key requirements of those is codified into the licence.

One of the interesting things that arose in the review of Sydney Water's licence is that the licence regulator did comment that it had been unable to get a clear picture of performance against the MOU apart from checking it had been entered into and completed and that it was actually quite difficult for them to examine the performance against those MOUs. You can get around that problem by codifying the key requirements in the licence. Without necessarily having the whole kit and caboodle in there, you can actually I think get the key requirements in.

I think there is another very important thing, Hunter Water have argued in their submission they should not be responsible for the activities of third parties, essentially entities outside their control. We very much reject that argument in terms of contractors or other people that Hunter Water may engage to carry out work for them. I don't think that they can be allowed to have a situation where people can be doing things in their name that they would not be able to do themselves and I think it is very important that there is a requirement on any organisation such as Hunter Water to ensure that anybody that it contracts work to is required to adhere to the same standards as they themselves would adhere to and that any contracts they form would include similar requirements to those that Hunter Water itself has set upon them. That is a very important thing in terms of making sure that there is consistency between the things Hunter Water does and the things that people would do in their

name.

I am sure that Hunter Water strives to achieve that at present but I think it would be certainly helped in terms of the transparency of Hunter Water's operations and in terms of again allowing the auditor to comment on the full range of activities if they can see that where Hunter Water enters into arrangements with other entities that those things are actually going to be consistent with the requirements of Hunter Water itself.

The only other thing I want to comment on is review of the licence. I think it is very important that there is an end-of-term review and a mid-term review. I would anticipate that we are going to get a number of new things into this licence. It is a fairly extensive review of the original licence that was set back in 1991 and has been renewed a number of times without really significant changes, so given that we are going to get I think a number of new things in this licence and perhaps new things for Hunter Water to grapple with, it is appropriate that we have that mid-term review halfway through the licence, rather than I guess splitting the difference, which is what David is arguing for.

I think it is appropriate that we have the review at the end of the licence to see how those things have gone and how any finetuning you might have made at mid-term has worked. It would also ensure that there is a consistency of approach with Sydney Water and the Catchment Authority. There is great benefit I think in an end-of-term review and mid-term review rather than simply having the one.

MR WELLSMORE: Our view about MOUs and the Corporation's licence and other regulated requirements, requirements on Hunter Water from other regulatory bodies, is largely formed I think by the relatively recent role that IPART has taken on as the licence regulator and the sort of structure that has been put in place underpinning that which we think is much better placed than the system it has taken over from in giving the community and community organisations and environmental organisations and others much more direct input into how licences are audited.

Based on that we actually think that gives us a greater input and a greater say in certain aspects about the implementation of the regulator requirements imposed on bodies like Hunter Water and Sydney Water from other agencies such as EPA, DLWC and NSW Health.

To date we don't think the community organisations, at least certainly PIAC, feel we have

had much input into the way that responsibilities for drinking water quality have been actually implemented. We don't have a view about whether the 1996 or 1995 or whatever guidelines ought to be the right ones. We are quite comfortable about the expertise that is outside our organisation, but implementation of it it seems to us is something of an issue. It is something that came up in relation to Sydney Water through the McClelland inquiry and, if my memory serves, in fact PIAC had argued that the Sydney Water licence as it is currently formulated ought to have imposed more on Sydney Water, and I suppose by virtue of that on NSW Health, in terms of the particular time lines, target dates for achieving certain things in relation to the MOU.

The Sydney Water licence does not do that, it puts in place some very minimal steps. We think at least from the point of view of consistency the same requirements ought to be incorporated into Hunter Water's new licence. Certainly we don't have a problem at all or a concern at all about the issues of duplication if the operating licence is actually going to make some reference to those other regulatory obligations and give the community some opportunity to actually have a bit of a say about how those obligations should be met or might be met. Consistency essentially is the issue in terms of MOUs particularly with health between Hunter and Sydney Water.

Finally, about the reviews of the licence, I don't think we have necessarily got a real opinion about to have a mid-term review although I actually am somewhat interested in the points made about it being a new licence. I also think that certainly in my case, from personal experience - here is an anecdote, Michael - there is nothing unusual about mid-term reviews. We do them all the time in water and electricity and so on, so it is nothing to be too frightened about.

In terms of an end-of-term review, we would certainly think that something like a five-year period is fairly standard, that would be appropriate, but what we would like to see from the point of view of our own capacities and our own resources is some kind of staggering so we aren't really trying to run our input into a full-on review of the Sydney Water licence in the same year as running that into Hunter Water's licence.

I have other things I could do with my life. I am sure most of you do too. If it is a five-year period, or even four years, that allows us to offset them against each other and from a resources point of view that has to be a lot easier. And I am sure

the tribunal would agree with me.

MR MORRISON: In relation to drinking water quality, Paul's comments pick up the appropriate way forward and his earlier comments about the need to streamline the amount of reporting that goes to NSW Health on water quality monitoring, improvement, management, and NSW Health's views on that should be sought in seeking those arrangements and implementing them.

In relation to the review process, given the recommendations that have been made today by Halcrow I think alignment between the price path and the licence review process is very important and that for the sake of comparative reporting and understanding of the community that alignment be sought between the water utilities in New South Wales.

In relation to mid-term review, David mentioned there is opportunity and power for IPART to commission a review at any time for any reason within their powers. That would provide IPART with the opportunity to review whether the new requirements of Hunter Water's licence are being met and are appropriate. I believe that what you want is significant lead time for an end-term review, given that you are only talking about five years, so that there is adequate opportunity for stakeholders to have an input and that we avoid a trend of having consultants coming in and being given incredibly compressed time frames to tackle with very complex issues.

The issues that we have discussed today and stakeholder views have reflected that people, if they want to look at demand, supply, drought security, that it takes more than five weeks to do and to do it properly, you could do it if you really set out a firm commitment to look at those things in the lead up.

Having said that, obviously Sydney Water operates in a different context to Hunter and we have a mid-term review, we are actually looking forward to it because we want to take forward some of these issues and engage stakeholders about it.

Having that longer term, it will provide an opportunity for the third tier, as David said, where we would like to see IPART and the community look at direct access to customers and customer preferences to input into these review processes, and you need lead time to do it so you can do it properly. Again, I think that underpins consideration of more lead time in a more effective end-term review.

The final comment is about the MOUs. To respond to Leigh's comments, one of the reasons that Sydney Water's MOUs have been ossified - I think that in relation to two of them you could say that was the case - are that the legislation requires that the regulator initiate the review and that there is a certain consultation period required to do that. So the statutory limitations to it don't necessarily help. I believe that the SCA has the right model for MOUs. What they have is a clear statement of commitments that both agencies make, and getting those commitments right is hard because it is about agreement, noting that there is public consultation, too. Secondly, appropriate forums are put in place so that the regulator and the operator can have discussions about the area of regulation. Sydney Water has certainly found that it is that, rather than tracts of requirements written into MOUs, that are then audited, that are the most meaningful aspects of ensuring that that dialogue covers the regulatory issues but also the other interests of those regulators. The EPA is a classic example where, for Sydney Water, implementing sewage treatment system licences, the new licences, is one thing, but we have a whole raft of other issues that relate to their environmental regulatory responsibilities that are effectively taken through the forums under the MOU. So I would say that you want to include the basic requirements of the drinking water stuff, as Paul has suggested, and that you want to make the MOUs as transparent as possible - subject to public consultation, with the commitments aspect of it being something that you really look at thrashing out so that you get it right, so it is clear - so that you have really effective forums underneath it and that that is transparent, so that there is an understanding that those things are working effectively by the community.

MR PRINEAS: I don't have a lot to add. I do favour mid-term and end of term reviews on a five-year licence. That model emanated with Sydney Water, which was before the problem with the giardia and crypto. So it didn't come out of the Sydney catchment experiment.

I think MOUs are important in pioneering arrangements between the utility and various other parties - important to what it is doing, long before statutory changes can be made. They map a path which is to be followed and they are therefore very important. My experience is that, in relation to DLWC and Health and to some extent the EPA, they were important for Sydney Water in pushing the organisation forward towards arrangements that were needed. I see an MOU, for instance, or a series of MOUs perhaps, between Hunter Water and various

statutory authorities and other parties in the catchments as being the way to deal with that issue of what Hunter Water is going to do about its catchment responsibilities. I can't see any other quick way of dealing with that issue. It would be wrong if, having entered into such memoranda of understanding, there was not some attention given to them in an operating audit. So those are my comments.

MR COX: Any further comments from members of the panel?

MR BYLEVELD: Leigh raised earlier the concerns of the auditor of Sydney Water's operating licence and reflected on the difficulty of measuring performance against the MOU. The relationship of the Department of Health with Sydney Water, the catchment authority and certainly Hunter Water is maturing. I think we have good measures of performance now by ways of the reports that we receive. We would be very happy to make them available to the auditors of the operating licence. It probably goes beyond the scope of today, but the process that the auditors adopt warrant some attention, because it may be that regulators can help the auditors find the information that they are in fact searching for. We would agree about the importance of the catchment management issues, and perhaps there is a way to develop an MOU to establish a collaborative relationship.

MR COX: Any comments from people in the back of the room?

MS McILVENNY: With respect to MOUs, the catchment authority is happy for them to sit in an operating licence, but merely a reference to them, we have found, is enough. We have undergone two operational audits since we have begun and both of those audits have looked into, clause by clause, requirements of each of our MOUs, which is quite onerous but it happens. So whether you put all those requirements or some of those in the licence, versus whether they sit in the MOU alone, I don't feel there is a difference as to how they are scrutinised. That is based on fact.

With respect to reviews, a mid-term review versus an annual audit, we need to make sure that what happens in both of those is clearly defined, because if you have a mid-term review, which Sydney Water and the SCA are about to undergo, it is followed closely by an audit, and an audit preceded it. There is the possibility for stakeholders to be confused over what the role of a mid-term review is, versus the role of an audit. I'd just like to note that an audit is actually open for public consultation as well. So any member of the public can make a comment on the performance of these

agencies at an audit time.

MR KERR: Just some words of caution about MOUs from our experience, not to say they are not good. They have been terrific for our relationship with Hunter Water. Two things, probably. They do change. The current MOU we have with Hunter Water is substantially different from the previous one. The previous one - I guess through maturing of our relationship - had a lot of information and was quite directive in what we were hoping Hunter Water could achieve in a lot of their programs, which now are actually coming to fruition, which is terrific. The MOU now actually is, I guess, a lot simpler. It actually deals with a lot of relationship issues. They will change.

I guess the second issue is that they don't necessarily change in the same sequence of timing of a review of the operating licence as well. So there's an issue there that would need to be considered. Around the table and elsewhere there is probably a view that they could and should quite easily be built into the operating licence. I guess our feeling probably is that to support that view we would have to look at it much more closely. But if the fundamental commitments were built in then we probably wouldn't have as much of an issue. As was raised before, it depends to what extent an audit of the MOU elements of an operating licence was actually gone into, because that also would add a lot of resources for us to actually deal with as well. So there are a few issues there.

MR ELLIS: Water quality starts in the catchment, and we've all acknowledged how the licence involves Hunter Water's responsibility to the catchment is a difficult issue. I'd just like to comment that I wouldn't like to see that put away as a too-hard issue. I would like to see some work done on that so that it's not just put away as too hard this time. I am happy to continue being involved in helping to achieve that.

MR EVANS: This is just a slightly technical thing, but it might help to clear some of the fog away. It relates to this issue of who's audited. I think no-one has any difficulty at all, as you were saying, Leigh, with a contractor being audited. You can't contract your responsibilities to someone else, in safety or anything else. It's being done in your name, so there's no suggestion that that would not be appropriate, because otherwise you could contract out anything and say, "Bad luck. We're not being audited." So that's not the issue.

I think there's a slightly more subtle issue which the regulators have raised in the past quite

strongly, which is whether their performance under an MOU is being audited and whether their legal obligations in terms of prosecutions, et cetera, are being duplicated in an audit process. So it's a different issue and I think it's one that essentially needs discussion between IPART and the primary regulator. In some sense to us it doesn't matter if the auditor goes and roams around EPA for six weeks and causes them a lot of grief. That's not really our problem. But from a whole of government point of view there's just an issue of who's being asked to do what.

MR COX: I think, actually, there's a fair degree of agreement on MOUs in this room. We obviously have to think about the right detail. On timing, yes, there clearly are different opinions on the timing and desirability of mid-term reviews. With that, I think I should bring the day's proceedings to an end. I'm wondering what the next steps are. The report will be available next week?

MR REID: Yes.

MR COX: And presumably will be open to comments and submissions following the release of that ?

MR REID: Yes.

MR COX: If you do wish to give us the benefit of further views, having listened to the debate today, I think we would appreciate that very much. Finally, I'd like to make some thanks, I think perhaps firstly and most importantly to the members of the tribunal secretariat who organised today - to Lisa Spence in particular. I think on her much of the burden fell. Thanks also to Colin, Michael Sedwell and to Kathy Williams. We are very grateful to them for their efforts today. We are particularly grateful to members of the various panels, who I think have worked very hard to advance our thinking on these issues. And thanks also to you members of the audience who gave up your time and sat so patiently through these very difficult issues. So once again thank you very much.

(At 5.20 p.m. the workshop concluded)