

# Independent Pricing and Regulatory Tribunal (IPART)



Operational Audit of State Water  
Corporation

## Final Audit Report

May 2007

**Halcrow**  
Halcrow Pacific Pty Ltd

**Halcrow**



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Corporation**

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**May 2007**

***Halcrow***  
**Halcrow Pacific Pty Ltd**

**Melbourne**

Level 1, 542 Station Street, Box Hill, Melbourne, VIC 3128

Tel +61 3 9899 9777 Fax +61 3 9899 1214

[www.halcrow.com](http://www.halcrow.com)

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# Independent Pricing and Regulatory Tribunal (IPART)


## Operational Audit of State Water Corporation

### Final Audit Report

May 2007

#### Contents Amendment Record

This report has been issued and amended as follows:

Issue	Revision	Description	Date	Prepared by	Checked by	Authorised by
1	A	1 <sup>st</sup> Draft Audit Report	8 December 2006	DJF	JOS	JOS
1	A	2 <sup>nd</sup> Draft Audit Report	29 January 2007	DJF	JOS	JOS
	B	Section 9 Discussion added	5 February 2007	DJF		
1	0	Final Audit Report	21 March 2007	DJF	CR	JOS
1	1	Final with IPART comments	12 April 2007	DJF	JOS	JOS
1	2	Final with Tribunal comments	7 May 2007	DJF	DJF	

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## Compliance Assessment Guide

The compliance ratings used for this Operational Audit are the same as those used in the 2004-05 Operational Audit of the Sydney Catchment Authority. These ratings were chosen so as to standardise the ratings. The ratings used were:

- **Full compliance** All requirements of the clause have been met.
- **High compliance** Most requirements have been met with some minor technical failures.
- **Medium compliance** The major requirements of the clause have been met.
- **Low compliance** The key requirements have not been met, however some minor achievements towards compliance have been made.
- **Insufficient Information** The relevant information was not available to make an informed assessment of compliance. Additional information would be required to award a compliance rating.
- **Non compliance (NC)** The requirements of the clause have not been met.
- **Not Auditable (NA)** The requirements of the clause are not auditable at this stage as the date for implementing the requirements lies outside the audit period or the requirements are related to a clause that is not auditable.



## Executive Summary

### *Background*

Halcrow Pacific Pty Ltd (Halcrow) was engaged by the Independent Pricing and Regulatory Tribunal (IPART) to undertake the 2005/2006 Operational Audit of the State Water Corporation (State Water).

The requirement to undertake an operational audit is specifically contained within Part 12.2 of the current *State Water Operating Licence* which commenced on 24 June 2005 and is scheduled to cease on 30 June 2008.

This 2005/2006 Operational Audit covers the operational period from 1 July 2005 to 30 June 2006 (audit period) and is the first audit of the State Water since it commenced operation on 1 July 2004.

Overall, State Water achieved a reasonable level of compliance with the *Operating Licence*. There are a number of non-compliance issues identified during the review and there were some circumstances of requirements in the Licence where the scheduled date for completion of the requirement was outside the current audit period of 2005-2006.

### *Compliance Assessment*

A summary of the areas of compliance is provided in the following sections. This does not include all the requirements of the *Operating Licence*, but highlights State Water's compliance with key requirements in the Licence.

#### *Part 2.3 – Memoranda of understanding*

Requirement:	Develop MoUs with DEC, DPI and DIPNR [DNR] by 1 October 2005.	
Compliance:	<b>Develop MoU with DEC</b>	<b>High</b>
	<b>Develop MoU with DPI</b>	<b>High</b>
	<b>Develop MoU with DIPNR [DNR]</b>	<b>Low</b>
Comments:	MoU with DEC was signed by DEC on 26 October 2005 and State Water on 3 November 2005. State Water provided some evidence of their endeavours to obtain agreement prior to the 1 October deadline including copies of emails between State Water and DEC from August, September and October 2005.	

MoU with DPI was signed by DPI on 23 June 2006 and by State Water on 30 June 2006. State Water provided some evidence of their endeavours to obtain agreement prior to the 1 October deadline including copies of emails between State Water and DPI from May and August 2005 and from June 2006.

MoU with DNR was signed by DNR on 26 July 2006 and by State Water on 28 July 2006. State Water provided little evidence of their endeavours to obtain agreement with DNR prior to the 1 October deadline including a draft MoU dated July 2004 and a copy of email correspondence from late September 2005.

Requirement:	MoUs to form basis of co-operative relationships between parties to further the objectives of the <i>Operating Licence</i> , with particular objectives required for each MoU.	
Compliance:	<b>MoU with DIPNR [DNR]</b>	<b>High</b>
	<b>MoU with DPI</b>	<b>Full</b>
	<b>MoU with DEC</b>	<b>Full</b>
Comments:	<p>MoU with DNR generally fulfils the purpose for the MoU as set out in clause 2.3.2(a), however, details of arrangements with regards to notification of available water determinations and controlled flows are not included in the MoU. State Water has indicated that the details of the arrangements for available water determination were removed from the MoU to facilitate the resolution of MoU. State Water has provided details of meetings with DNR pursuant to the purposes of the MoU and has provided examples of information sharing arrangements.</p> <p>MoU with DPI fulfils the purpose for the MoU as set out in clause 2.3.2(b) recognising roles, the relevant impacts of State Water's operations, and information sharing arrangements. State Water has provided details of meetings with DPI and examples of information sharing arrangements.</p> <p>MoU with DEC fulfils the purpose for the MoU as set out in clause 2.3.2(c) recognising roles, addressing river health and water quality impacts of State Water's operations and detailing information sharing arrangements. State Water has provided details of meetings with DEC and examples of information sharing arrangements.</p>	

Requirement:	State Water must, by 1 September each year, report to IPART on its performance against the requirements of the MoUs.		
Compliance:	<b>Report on MoU with DEC</b>	<b>High</b>	
	<b>Report on MoU with DPI</b>	<b>Full</b>	
	<b>Report on MoU with DIPNR [DNR]</b>	<b>Medium</b>	
Comments:	State Water has reported on its performance against each of the MoUs in its 1 September report to IPART with the report providing brief details on various projects under which State Water has worked in conjunction with the agencies. There is little information in the report on the interaction between State Water and DNR apart from references to multi-agency groups on which State Water and DNR are represented, along with other agencies.		

Some key issues have been raised by the DNR in relation to the MoU with State Water. These issues relate to the need to update the MoU to ensure that responsibility for areas such as crop statistics, water account keeping, supplementary water access, temporary water trades, and compliance protocols are updated.

#### *Part 4 – Customers and Community engagement*

Requirement:	State Water must establish and regularly consult with a state-wide community consultative committee.		
Compliance:	<b>Establish a Community Consultative Committee</b>	<b>Full</b>	
Comments:	State Water invited nominations for the Community Consultative Committee on 2 December 2005, finalised nominations on 5 May 2006 and held the first meeting of the Committee on 27 July 2006.		

Requirement:	State Water must provide the Community Consultative Committee with information within its possession to allow the Committee to discharge the tasks assigned to it.		
Compliance:	<b>Provision of information to Committee</b>	<b>Full</b>	
Comments:	State Water states that they have fully complied with this requirement and have included the requirement in the Terms of Reference for the Committee.		

Requirement:	State Water must establish and regularly consult with valley based customer service committees to enable customer involvement in issues relevant to State Water's obligations under the <i>Operating Licence</i> .	
Compliance:	<b>Establish Customer Service Committees</b>	<b>Full</b>
Comments:	State Water has established eight Customer Service Committees representing the valleys with the coastal valleys incorporated into one Committee.	
Requirement:	State Water must provide the Customer Service Committees with information within its possession to allow the Committee to discharge the tasks assigned to it.	
Compliance:	<b>Provision of information to Committee</b>	<b>High</b>
Comments:	State Water states that they have fully complied with this requirement. State Water stated that all information requests at each Committee meeting are recorded on action sheets which are attached to the minutes of the meeting. State Water has stated, however, that there have been some problems with the provision of the information requested. Consultation with some of the CSC's also identified this as an issue.	
Requirement:	State Water must, in consultation with the Customer Service Committees, establish and continue to have in place a customer service charter.	
Compliance:	<b>Establish and maintain Customer Service Charter</b>	<b>Full</b>
Comments:	State Water developed a Customer Service Charter on 28 January 2005 prior to the commencement of the current <i>Operating Licence</i> . The Charter remained in place over the audit period.	
Requirement:	State Water must, in consultation with the members of the Customer Service Committees regularly review the Charter and must do so before 1 July 2007.	
Compliance:	<b>Review Customer Service Charter</b>	<b>NA</b>
Comments:	This requirement is not yet due, however, State Water have stated that they are planning a review of the Charter in the 2006/07 financial year in order to implement a revised Charter by 1 July 2007.	

Requirement:	State Water must, by no later than 1 September each year, report to IPART on its overall performance against the Customer Service Charter.
Compliance:	<b>Report compliance against the Charter</b> <b>Full</b>
Comments:	State Water included a report on its performance against the obligations under the Customer Service Charter in its 1 September report to IPART. The report covered all the obligations outlined in the Charter.
Requirement:	State Water must establish and regularly consult with a Fish River Customer Council to enable Fish River customer involvement in issues relevant to the performance of State Water's obligations in relation to the Fish River Scheme.
Compliance:	<b>Establish Fish River Customer Council</b> <b>Full</b>
Comments:	State Water stated that the Fish River Customer Council has been in operation, in one form or another, for fifteen (15) years. The Terms of Reference for the Council state that meetings shall occur not less than twice a year, however, State Water indicated that meetings are held every two months.
Requirement:	State Water must provide the Fish River Customer Council with information within its possession to allow the Council to discharge the tasks assigned to it.
Compliance:	<b>Provision of information to Council</b> <b>Full</b>
Comments:	State Water states that they have fully complied with this requirement and have provided evidence of Customer Council meetings detailing information requests to support their compliance.
Requirement:	State Water must use its best endeavours to enter into agreements with all Fish River system customers during the term of this <i>Operating Licence</i> .
Compliance:	<b>Enter into agreements with customers</b> <b>NA</b>
Comments:	This requirement is not due until June 2008. State Water has indicated that draft agreements have been developed, however, no major customers have signed the agreement to date. State Water stated that minor customers are supplied with water by agreement.

Requirement:	State Water must have in place by no later than 1 July 2005, and continue to have in place, a code of practice and procedure for debt management.
Compliance:	<b>Establish and maintain debt management code</b> <b>High</b>
Comments:	State Water implemented a code of practice and procedure for debt management in February 2005 and the code continues to be in operation.

#### *Part 5 – Complaint and Dispute Handling*

Requirement:	State Water must establish, by no later than 31 October 2005, and continue to have in place, internal complaints handling procedures for receiving, responding to and resolving complaints.
Compliance:	<b>Establish internal complaints handling system</b> <b>Low</b>
Comments:	State Water did not have internal complaints handling procedures in place by 31 October 2005. State Water's Board gave in-principle approval to a proposed framework in March 2005, however, it was not until 28 July 2006 that the procedures were implemented.

Requirement:	State Water must, in consultation with IPART, determine appropriate complaint categories by no later than 31 October 2005.
Compliance:	<b>Establish complaint categories</b> <b>Low</b>
Comments:	State Water did not have a complaints system in place by 31 October 2005 and had not determined a set of appropriate complaint categories. State Water has now established complaint categories in consultation with IPART which include eight general categories and two categories specific to the Fish River Water Supply Scheme.

Requirement:	State Water must report to IPART by no later than 1 September each year on its internal complaints handling procedures including details such as the number and type/category of complaints, the complaint resolution process, and any problems of a systemic nature.
Compliance:	<b>Reporting on complaints</b> <b>High</b>
Comments:	State Water is currently developing a comprehensive system to collect and record complaints. State Water was, however, able

to provide some information on complaints received over the audit period.

Requirement:	State Water to have in place by no later than 1 September 2005 and continue to have in place, membership of an industry based dispute resolution scheme.
Compliance:	<b>External dispute resolution scheme</b> <b>High</b>
Comments:	State Water officially became a member of the Energy and Water Ombudsman NSW on 1 January 2006, however, there was an apparent delay in State Water processing the application which led to State Water missing the 1 September 2005 deadline.

Requirement:	State Water must report to IPART by no later than 1 September each year on the external dispute resolution scheme.
Compliance:	<b>Report on External Dispute Resolution Scheme</b> <b>Full</b>
Comments:	State Water reported on this requirement in their 1 September report to IPART. The report identified only two matters that were raised with the Energy and Water Ombudsman NSW and both matters were resolved within 30 days.

Requirement:	State Water to report to IPART by no later than 1 September each year on any complaints made against State Water to other bodies and any civil actions brought against State Water.
Compliance:	<b>Report on other complaints and civil actions</b> <b>Full</b>
Comments:	State Water reported on these two issues in their 1 September report to IPART. The report identified one minor complaint/action that was withdrawn prior to formal court action.

#### *Part 7 – Water Delivery Operations*

Requirement:	State Water must take steps to conserve water and minimise losses from its operations.
Compliance:	<b>Water conservation measures</b> <b>Full</b>
Comments:	State Water provided an extensive list of water conservation works undertaken over the 2005-2006 audit period including general measures, works undertaken in specific valleys and opportunities for improvement of measures taken.

Requirement:	State Water must endeavour to manage water release functions and operations to ensure the timely availability of water taking into account physical supply constraints.	
Compliance:	<b>Supply constraint issues</b>	<b>High</b>
Comments:	State Water indicated that delivery constraints are governed by the Water Sharing Plan while physical constraints are governed by the size of the assets involved. State Water had some issues related to the delivery of water which reduced the compliance rating.	

Requirement:	State Water must, in periods of extreme water resource shortage beyond drought of record as and when gazetted by DIPNR [now DNR], develop a Drought Management Plan for river operations in accordance with DIPNR [now DNR] requirements.	
Compliance:	<b>Drought Management Plan</b>	<b>Full</b>
Comments:	State Water has already developed a Drought Management Plan for the Lachlan Valley and is investigating the need for a Plan for the Namoi Valley.	

Requirement:	State Water must report to IPART by no later than 1 September each year on what action it has undertaken over the preceding financial year to address the issue of metering accuracy and its findings in carrying out this action.	
Compliance:	<b>Water metering accuracy</b>	<b>Full</b>
Comments:	State Water have provided details of their compliance with this clause in the 1 September report to IPART.	

Requirement:	State Water must report to IPART and the Minister, by no later than 1 September each year on its performance against the performance measures approved under clause 7.4.2 for the preceding financial year, including analysis of any systemic problems.	
Compliance:	<b>Performance measure reporting</b>	<b>Full</b>
Comments:	State Water has provided details of their progress in developing the performance measures in the 1 September report to IPART, which was also copied to the Minister. The performance measures have not, however, been approved by IPART and State Water is consequently not able to report performance against approved performance measures.	



Requirement:	State Water must prepare by no later than 1 September each year, annual water balances in the form of the template at Table 5-1 of the final report by Sinclair Knight Merz “State Water Operating Licence – Water Balance Template” dated 30 March 2005 and in accordance with that report.	
Compliance:	<b>Water balance reporting</b>	<b>Medium</b>
Comments:	State Water stated in their 1 September report to IPART that the water balances were not available but would be completed in October 2006. However, this target was not achieved and State Water is completing water balances for individual valleys as resources allow.	

Requirement:	State Water must prepare by no later than 1 September each year an annual water balance for the Fish River Water Supply Scheme and must report to IPART no later than 29 June 2008 on system yields at specified levels of reliability.	
Compliance:	<b>Fish River Water Balance</b>	<b>Full</b>
Comments:	State Water provided the Fish River Water Balance in their 1 September report to IPART. The system yield details are not required until 29 June 2008, however, State Water indicated that the results should be available in March 2007.	

#### *Part 8 – The Environment*

Requirement:	State Water must produce a five-year environment management plan by 1 November 2005.	
Compliance:	<b>Environment Management Plan</b>	<b>High</b>
Comments:	State Water implemented the final Environment Management Plan on 2 May 2006. The delay in submitting the Plan was a result of the State Water Board requesting changes to the Plan and the decision to place the draft Plan for public consultation.	

Requirement:	State Water must, by no later than 1 September each year, or an alternative later date specified by IPART, for the preceding financial year, report to IPART on its environmental performance including its performance against or compliance with the targets under this clause.	
Compliance:	<b>Environmental performance reporting</b>	<b>Full</b>
Comments:	State Water have provided a detailed report on its performance against the Environment Management Plan in their 1 September report to IPART.	

*Part 9 – Performance Indicators*

Requirement:	State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance indicators set out in Schedule 1 of the <i>Operating Licence</i> .	
Compliance:	<b>Performance indicator record systems</b>	<b>Medium</b>
Comments:	State Water does not have a single system to measure performance against the indicators, however, State Water have indicated that systems are in place to collect information in respect to eight out of the ten indicators.	

Requirement:	Schedule 1, Part A – Water Delivery indicators	
Compliance:	<b>% of customers contacted for non-complying order</b>	<b>NC</b>
	<b>% of complying orders <math>\pm 1</math> day off delivery</b>	<b>Low</b>
	<b>% of orders rescheduled within one day</b>	<b>NC</b>
	<b>% of time daily minimum flow is met</b>	<b>Full</b>
	<b>% of complying intra-valley transfers made within 4 days of application</b>	<b>Full</b>
Comments:	In general, State Water did not have the recording systems to measure performance against these indicators.	

Requirement:	Schedule 1, Part A – Policing Functions	
Compliance:	<b>Vol of water &gt; access licence conditions</b>	<b>Full</b>
	<b>Value of penalties imposed</b>	<b>Full</b>
	<b>Vol of penalties imposed</b>	<b>Full</b>
	<b>No of licences suspended</b>	<b>Full</b>
	<b>No of approvals suspended</b>	<b>Full</b>
Comments:	State Water achieved full compliance with the requirements of this clause.	

Requirement:	Schedule 1, Part B – Fish River Asset Management	
Compliance:	<b>Ave response unplanned supply</b>	<b>Low</b>
	<b>No of planned supply interruptions</b>	<b>Full</b>
	<b>No of unplanned supply interruptions</b>	<b>Full</b>
	<b>Ave duration of planned interruptions</b>	<b>Full</b>
	<b>Ave duration of unplanned interruptions</b>	<b>Full</b>
Comments:	State Water generally achieved full compliance apart from the average response time to an unplanned interruption which is not generally measured.	

Requirement:	Schedule 1, Part B – Fish River Water Delivery	
Compliance:	% of time daily minimum flow is met	Full
Comments:	State Water achieved full compliance with this requirement for environmental flow release monitoring.	
Requirement:	Schedule 1, Part B – Fish River Water Quality	
Compliance:	% compliance with ADWG 2004	Full
Comments:	State Water generally achieved full compliance with the guidelines from ADWG 2004 apart from one parameter, colour, which achieved 92% instead of 100%.	
Requirement:	State Water must report to IPART, by no later than 1 September each year on its performance against the performance indicators in Schedule 1 for the preceding financial year, including analysis of any systemic problems.	
Compliance:	Performance reporting	Full
Comments:	State Water reported under this clause in their 1 September report to IPART.	

#### *Part 10 – Pricing*

Requirement:	State Water to apply fees and charges for all services in accordance with the terms of the <i>Operating Licence</i> , relevant legislation, COAG Strategic Framework for Water Reform initiatives, and any IPART determinations related to setting the maximum fees and charges payable.	
Compliance:	<b>Price setting</b>	<b>Full</b>
Comments:	State Water applies the fees and charges specified in the most recent IPART Bulk Water Pricing Determination.	

### ***Summary of Key Recommendations***

This section collates the key recommendations made after reviewing State Water's compliance with the requirements of the *Operating Licence*. These recommendations are made to assist State Water in improving its performance and increasing its level of compliance in future audits.

The recommendations are also reviewed by IPART in their report to the Minister and may form the basis of recommendations by IPART for a Ministerial direction to be issued for any systemic or significant compliance issues.

#### ***Part 2.3 – Memoranda of understanding***

R4.1 – State Water to consider revising the MoU with DNR in order to address the arrangements for the making and announcements of available water determinations and controlled flows and to address more broadly the specific roles of each agency.

R4.2 – State Water should consider preparing a more formal report of performance against and compliance with the MoUs including, as a base, a list of the requirements of the MoU and how State Water have complied with each one.

R4.3 – State Water need to provide additional detail on performance against and compliance with the MoU with DNR including all the various activities that State Water and DNR collaborate on.

#### ***Part 4 – Customers and Community engagement***

R5.1 – State Water should ensure that their financial systems are able to provide information as requested by the CSCs.

R5.2 – State Water should consider revising clause 4.6.2 of the *Operating Licence* at the upcoming *Operating Licence* review to reflect their stance on alternative payment plans.

#### ***Part 5 – Complaint and Dispute Handling***

R6.1 – State Water should consider providing the information on customer complaints prior to the 1 September deadline to avoid downgrading their compliance rating.

#### ***Part 7 – Water Delivery Operations***

R7.1 – State Water needs to improve performance in coordinating accurate water releases to improve compliance for management of water releases while taking into account physical supply constraints.

R7.2 – State Water to complete all remaining water balances as soon as possible and continue to investigate improvements for the timely delivery of the information by 1 September.

*Part 8 – The Environment*

No recommendations proposed in respect to this section.

*Part 9 – Performance Indicators*

R9.1 – State Water should accelerate the implementation of the Water Information Exchange program to ensure that the information required (as detailed in the discussion above) under this part of the *Operating Licence* is collected for the next Operational Audit.

R9.2 – State Water should investigate alternative methods of measuring performance in delivering orders within +/- one (1) day of the scheduled day of delivery. This may include, for example, additional flow gauging stations at strategic locations to assist in monitoring for the timing of scheduled releases.

R9.3 – State Water should investigate whether the current method of recording rescheduled orders can be expanded to note whether the rescheduling was requested by the customer or was a result of State Water operations.

R9.4 – State Water to accelerate implementation of the Incident Report form and ensure that staff are provided training in the use of the form. The information collected on the form should be stored in order to report the information at the next Operational Audit.

*Part 10 – Pricing*

No recommendations proposed in respect to this section.



# 1 Introduction

## 1.1 Background

Halcrow Pacific Pty Ltd (Halcrow) was engaged by the Independent Pricing and Regulatory Tribunal (IPART) to undertake the 2005/2006 Operational Audit of the State Water Corporation (State Water).

The requirement to undertake an operational audit is specifically contained within Part 12 of the current *State Water Operating Licence* which commenced on 24 June 2005 and is scheduled to expire after a term of three years from the commencement date, that is, an expiry date of 30 June 2008. The 2005-2008 *Operating Licence* is the second licence State Water has operated under with an interim licence being issued at State Water's inception on 1 July 2004.

This 2005/2006 Operational Audit covers the operational period from 1 July 2005 to 30 June 2006 (audit period) and is the first audit of State Water since it commenced operation on 1 July 2004.

This Operational Audit report is structured so that the clauses reviewed in this report are presented in the same order as they are listed in the *Operating Licence*.

## 1.2 State Water Corporation

The State Water Corporation is a State Owned Corporation which delivers bulk water to rural and regional New South Wales. State Water was established as a stand-alone Corporation on 1 July 2004 by the *State Water Corporation Act 2004*. State Water had previously operated as a commercial business within the former Department of Land and Water Conservation. In April 2003, State Water was moved to operate as a business unit within the Department of Energy, Utilities and Sustainability (DEUS).

The key objective for corporatising State Water was to separate the Government's commercial water delivery functions from its policy and regulatory functions, in line with National Competition Policy requirements.

State Water incorporates into a single business all of NSW's bulk water delivery functions outside of the areas of operation of the Sydney Catchment Authority, Sydney Water Corporation, Hunter Water Corporation and of a water supply authority (other than the area of operation of the Fish River Water Supply Scheme). State Water provides water to irrigation corporations, country town

water supply authorities, farms, mines and electricity generators, by releasing flows from its dams and using natural streams as the conduit. It also provides water for stock and domestic users and is responsible for delivering environmental flows on regulated rivers.

State Water's core business is providing services to about 6,200 customers who purchase water sourced from 'regulated rivers'. These services include providing water allocations from dams, billing and metering. The Department of Natural Resources (DNR) is responsible for managing unregulated rivers and groundwater systems. However, State Water provides billing and metering services to DNR for around 15,000 groundwater and unregulated river customers. For the 2002/03 financial year, State Water's total revenue was \$69 million.

State Water's roles and responsibilities derive from the *State Water Corporation Act 2004* (the Act) and the *Operating Licence* issued under Section 11(1) of the Act. The *Operating Licence* was granted pursuant to the Act by the Governor of New South Wales on 22 June 2005, and came into effect on 24 June 2005.

Under the Act, State Water's principal objectives are "*to capture, store, and release water in an efficient, effective, safe and financially responsible manner*".

State Water's principal functions include:

- Capturing, storing and releasing water:
  - to persons entitled to take water, including release to regional towns;
  - for the purposes of flood management; and
  - for any lawful purpose, including the release of environmental water.
- Constructing, maintaining and operating water management works.

The *Operating Licence* provides the framework under which State Water is required to operate in achieving its principal objectives and functions.



## 2 Audit Methodology

### 2.1

#### *Audit Scope*

The requirement for and the scope of the Operational Audit is clearly defined in Part 12 of State Water's 2005-2008 Operating Licence and particularly clause 12.2, which states that:

*"IPART or the person undertaking the Audit must investigate and prepare a report on any or all of the following:*

- *compliance by State Water with its obligations in each of clauses 2.3, 4, 5, 6, 7, 8, 9 and 10 (and any Schedules referred to in those clauses) of this Licence; and*
- *any other matter required by this Licence, the Act [State Water Corporation Act 2004] or administrative direction to be assessed and considered as part of the Audit."*

For the purposes of this Audit, all clauses of the *Operating Licence* nominated above are subject to Audit, with the exception of clause 6 – *Asset Management*. It is understood that this clause will be subject to a separate audit during 2007. There have been no administrative directions in respect to the inclusion of any other matters in the scope of the Audit.

This Operational Audit report has been structured so as to meet this scope and **Table 2-1** outlines where compliance against each part of the *Operating Licence* has been assessed in this report.

The detailed brief prepared by IPART for undertaking this Operational Audit, including the key issues listed above, has been included in **Appendix A** while a copy of the *Operating Licence* is provided in **Appendix B**.

### 2.2

#### *Audit Tasks*

The Operational Audit was undertaken in a number of distinct stages and the tasks undertaken in each of these stages are briefly outlined below.

#### 2.2.1

##### *Project initiation*

This task involved the set up of the project, the collection and initial review of information provided by IPART and State Water, and an inception meeting with IPART to review and confirm the requirements of the project.

**Table 2-1 Scope of Operational Audit**

Licence Part	Requirements	Report Section
Part 2.3 – Memoranda of Understanding (MoU)	MoU with DEC, DPI and DNR.	Section 4
Part 4 – Customer and Community Engagement	Development of Community Consultative Committee, Customer Service Committees, Customer Service Charter, Customer Council and Customer Contracts for Fish River, Code of Practice for Debt Management	Section 5
Part 5 – Complaint and Dispute Handling	Internal Complaints Handling Procedure, External Dispute Resolution Scheme, complaints to other bodies	Section 6
Part 6 – Asset Management	Not required for this Audit	N/A
Part 7 – Water Delivery Operations	Water conservation, supply constraints, Drought Management Plan, water metering, water balances, Fish River water balance and system yield	Section 7
Part 8 – The Environment	Environment Management Plan	Section 8
Part 9 – Performance Indicators	State Water performance against specific indicators	Section 9
Part 10 – Pricing	Fees and charges for services provided by State Water	Section 10

## 2.2.2

### *Operational Audit preparation*

The preparation for the audit involved reviewing the *Operating Licence* and identifying the specific scope of the audit; developing an audit checklist that covers all the requirements and that could be used as a guide for the audit interviews with State Water, and; meeting with IPART and State Water to present and explain the audit checklist.

The audit checklist was categorised into those items which would require a face-to-face interview with State Water and those items where a written response from the State Water would be sufficient to assess compliance. The audit checklist was provided to State Water prior to the face-to-face interviews to allow State Water to prepare responses and supporting documentation.

## 2.2.3

### *Utility interviews & 1<sup>st</sup> draft Audit Report*

Interviews were held with State Water and IPART, at State Water's Sydney office from Wednesday 1 November 2006 until Friday 3 November 2006, to assess, in detail, State Water's compliance against the requirements of the *Operating Licence*. The audit checklist was used as a guide, however, the interviews were generally scheduled around the availability and particular responsibilities of key staff within

State Water. The agenda for the interviews and edited copies of the Auditor's (and IPART's) notes from the interviews are presented for reference in **Appendix C**.

The notes from the interviews, and supporting documentation provided by State Water, were used to develop the 1<sup>st</sup> draft Audit Report on State Water's compliance against the 2005-2008 *Operating Licence*.

#### 2.2.4

##### *Utility compliance assessment & 2<sup>nd</sup> draft Audit Report*

A discussion session on the 1<sup>st</sup> draft Audit Report was held with State Water in their Parramatta offices on Thursday 21 December 2006. The discussion provided State Water an opportunity to ask questions on the initial findings presented in the 1<sup>st</sup> draft Audit Report and to provide additional supporting information for incorporation into the 2<sup>nd</sup> draft Audit Report.

The initial assessment of compliance of the 1<sup>st</sup> draft Audit Report was then reviewed in detail by further assessing the supporting documentation and assessing comments provided by State Water in response to the 1<sup>st</sup> draft Audit Report.

The assessment investigated the factors that affected State Water's performance in meeting their requirements, for example, external factors such as drought, and actions by other organisations, particularly recognising that this is the first operational audit for State Water.

This stage of the audit also took into account comments received from key stakeholders and invited community representatives. The three agencies with which State Water must maintain a Memorandum of Understanding (MoU) were contacted and requested to comment on State Water's performance in meeting their requirements under the MoUs and under any other areas that the agency deemed appropriate. In addition, representatives of the Community Consultative Committee and Customer Service Committees were chosen by the Auditors and IPART and were invited to provide feedback on State Water's performance in relation to the operation and maintenance of the Committees.

The findings of this more detailed assessment of compliance were incorporated into the 1<sup>st</sup> draft Audit Report and the 2<sup>nd</sup> draft Audit Report was produced. State Water was provided with a formal review period during which to comment on the findings presented in the 2<sup>nd</sup> draft Audit Report. Pursuant to recommendations arising out of previous operational audits conduct by/on behalf of IPART, the Chief Executive Officer must now sign off on all comments submitted in response to the 2<sup>nd</sup> Draft Audit Report.

During the formal review period, a meeting with State Water and IPART was organised to allow State Water to provide comments and further explanations to the Auditors in respect to the 2<sup>nd</sup> draft Audit Report.

### 2.2.5

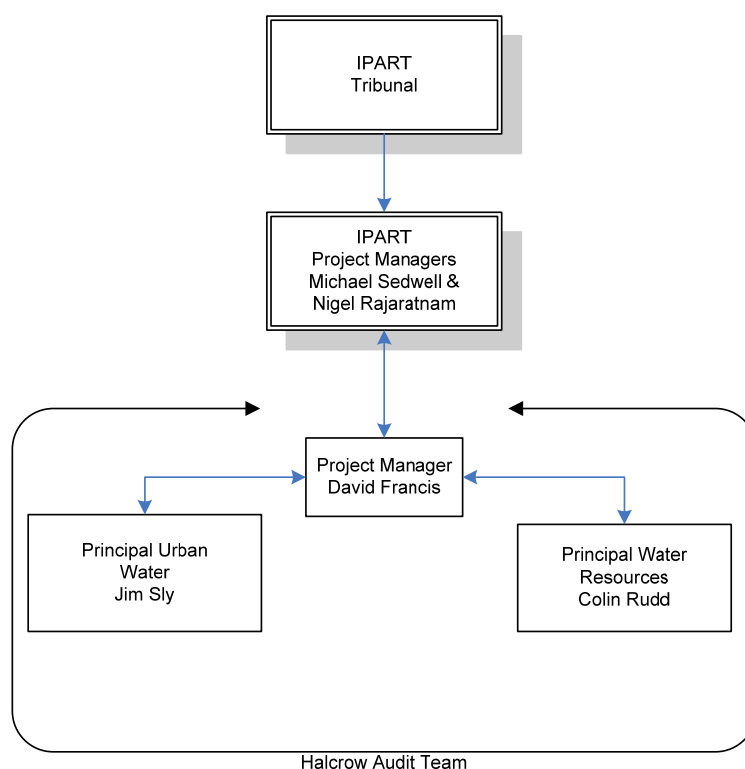
#### *Prepare final Audit Report*

The comments in response to the 2<sup>nd</sup> draft Audit Report were then incorporated into the assessment process and a presentation was made to the Tribunal on the findings of the Operational Audit. Comments made by the Tribunal were also incorporated into the assessment process and a final Audit Report was prepared for submission to IPART. The final Audit Report was then submitted to the Minister for review and subsequent tabling in Parliament.

### 2.3

#### *Audit Team*

The Audit Team for this project was made up of a team of experienced water consultants coordinated by the Project Manager. The Audit Team is shown in **Figure 2-1**.



**Figure 2-1 Audit Team Structure**

## 2.4

### ***Audit Report***

The Audit Report has been developed with a relatively simple structure and is written in Plain English (where possible) with the balance of including sufficiently detailed information on State Water's compliance with their requirements to gain a full understanding of compliance assessment process. As stated previously, the Audit Report has also been structured so as to mimic the order in which the various requirements are presented in the *Operating Licence*.

For each Part of the *Operating Licence*, the Report includes:

- Overview of requirements – summary of requirements listed in the *Operating Licence*.
- Summary of findings – a summary of the key requirements and compliance assessments.
- Details of compliance – detailed notes on each requirement in the *Operating Licence* and an assessment of compliance.
- Discussion – key areas of concern in the compliance assessment; factors affecting compliance; comments from key stakeholders.
- Recommendations – key and secondary recommendations.

## 3 Regulatory Framework

### 3.1

#### *Introduction*

State Water operates within a complex regulatory framework. Amongst other things, this framework imposes constraints on the prices it can charge for its services and how much water it can supply and to whom.

The regulatory framework comprises a number of components, including:

- the *State Water Corporation Act 2004*;
- its *Operating Licence 2005-2008*;
- the *Water Management Act 2000*;
- the *Water Act 1912*;
- the *Independent Pricing and Regulatory Tribunal Act 1992*;
- the *Protection of the Environment Operations Act 1997*;
- the *Environmental Planning and Assessment Act 1979*;
- the *State Owned Corporations Act 1989*;
- the *Dams Safety Act 1978*; and
- the *Fisheries Management Act 1994*.

IPART's Issues Paper for the review of State Water Corporation's initial Operating Licence (IPART, 2004) provides specific details of components of the regulatory framework listed above and other key components such as the Statement of Corporate Intent.

The following sections provide a summary of the key legislation and other components of the regulatory framework within which State Water Corporation operates.

### 3.2

#### *State Water Corporation Act 2004*

State Water's principal objectives under the Act are to capture, store and release water in an efficient, effective, safe and financially responsible manner. It also has to fulfil the following objectives:

- to be a successful business and to that end:
  - to operate at least as efficiently as any comparable business; and
  - to maximise the net worth of the State's investment in State Water;
- to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates;
- where its activities affect the environment, to conduct its operations in compliance with the principals of ecologically sustainable development

contained in Section 6(2) of the *Protection of the Environment Administration Act 1991*; and

- to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

### 3.3

#### ***Operating Licence***

State Water's *Operating Licence* is the one of the primary instruments that governs State Water's business. State Water was issued an interim licence on 1 July 2004 upon its corporatisation which was then replaced by State Water's Initial *Operating Licence* on 1 July 2005.

The purpose of the *Operating Licence* is to set out the terms and conditions under which State Water is to:

- meet the objectives and other requirements imposed on it in the Act;
- provide, construct, operate, manage and maintain efficient, co-ordinated and commercially viable systems and services for capturing, storing and releasing water;
- recognise the rights given to Customers and the community by this Licence;
- be subject to Audits of compliance with this Licence;
- undertake the Functions of the Minister administering the *Water Management Act 2000* under that Act or the *Water Act 1912* or the Ministerial Corporation under any Act or law conferred on State Water by this Licence; and
- comply with the quality and performance standards in this Licence.

### 3.4

#### ***Water Management Act 2000***

The *Water Management Act 2000* is one of two Acts that guide water management in New South Wales. The DNR is the lead agency responsible for administering the Act. Several of the key instruments established under this Act play an important role in regulating State Water, including the State Water Management Outcomes Plan (SWMOP) and the Water Sharing Plans.

In addition:

- DNR issues State Water with water supply works approvals, which are a type of water management work approval under the Water Management Act. These approvals provide the conditions under which State Water must use its infrastructure to access water for storage and delivery using river channels and other natural features.
- State Water is considered to be a 'major utility' for the purposes of the Water Management Act, which means it must be reviewed by DNR before the end of each 5-year period following the issue of a water supply work approval.

- State Water's customers are required to hold an access licence, which is issued by DNR under the *Water Management Act*.
- State Water is required to hold a local water utility access licence in relation to the operation of the Fish River water supply scheme, which is issued by DNR.

### 3.5

#### ***Water Act 1912***

The provisions of the *Water Act 1912* operate in areas where a Water Sharing Plan, under the *Water Management Act 2000* has not yet been developed. The Water Act allows the allocation of licences for water extraction and sets a maximum allocation to be taken by the licence holder subject to a volumetric water allocations scheme prepared by the Water Administration Ministerial Corporation.

Under the Water Act, State Water is licensed as a 'water management authority' and is subject to operating conditions as the Water Administration Ministerial Corporation or the Water Act imposes. A 'water management licence' issued under the Water Act allows the licence holder to take and use water from any water source and to construct or use a water management work. The water management licence is issued for a period of 20 years and is to be reviewed at five yearly periods.



## 4 Memoranda of Understanding

### 4.1 *Overview of Requirements*

Under the provisions of clause 2.3 of the *Operating Licence*, State Water is required to enter into Memorandum of Understanding with each of the Directors-General of:

- the Department of Environment and Conservation (DEC);
- the Department of Primary Industries (DPI); and
- the Department of Infrastructure, Planning and Natural Resources (DIPNR) [now Department of Natural Resources (DNR)].

The requirements in respect to each Memorandum of Understanding are set out in clause 2.3.2 of the *Operating Licence*.

### 4.2 *Summary of Findings*

Requirement: Develop MoUs with DEC, DPI and DIPNR [DNR] by 1 October 2005.

Compliance:	<b>Develop MoU with DEC</b>	<b>High</b>
	<b>Develop MoU with DPI</b>	<b>High</b>
	<b>Develop MoU with DIPNR [DNR]</b>	<b>Low</b>

Comments: MoU with DEC was signed by DEC on 26 October 2005 and State Water on 3 November 2005. State Water provided some evidence of their endeavours to obtain agreement prior to the 1 October deadline including emails between State Water and DEC from August, September and October 2005.

MoU with DPI was signed by DPI on 23 June 2006 and by State Water on 30 June 2006. State Water provided some evidence of their endeavours to obtain agreement prior to the 1 October deadline including copies of emails between State Water and DPI from May and August 2005 and from June 2006.

MoU with DNR was signed by DNR on 26 July 2006 and by State Water on 28 July 2006. State Water provided little evidence of their endeavours to obtain agreement with DNR prior to the 1 October deadline including a draft MoU dated July 2004 and a copy of email correspondence from late September 2005.

Requirement:	MoUs to form basis of co-operative relationships between parties to further the objectives of the <i>Operating Licence</i> , with particular objectives required for each MoU.		
Compliance:	<b>MoU with DIPNR [DNR]</b>	<b>High</b>	
	<b>MoU with DPI</b>	<b>Full</b>	
	<b>MoU with DEC</b>	<b>Full</b>	
Comments:	<p>MoU with DNR generally fulfils the purpose for the MoU as set out in clause 2.3.2(a) however details of arrangements with regards to notification of available water determinations and controlled flows are not included in the MoU. State Water has indicated that the details of the arrangements for available water determination were removed from the MoU to facilitate the resolution of MoU. State Water has provided details of meetings with DNR pursuant to the purposes of the MoU and has provided examples of information sharing arrangements.</p> <p>MoU with DPI fulfils the purpose for the MoU as set out in clause 2.3.2(b) recognising roles, the relevant impacts of State Water’s operations, and information sharing arrangements. State Water has provided details of meetings with DPI and examples of information sharing arrangements.</p> <p>MoU with DEC fulfils the purpose for the MoU as set out in clause 2.3.2(c) recognising roles, addressing river health and water quality impacts of State Water’s operations and detailing information sharing arrangements. State Water has provided details of meetings with DEC and examples of information sharing arrangements.</p>		
Requirement:	State Water must, by 1 September each year, report to IPART on its performance against the requirements of the MoUs.		
Compliance:	<b>Report on MoU with DEC</b>	<b>High</b>	
	<b>Report on MoU with DPI</b>	<b>Full</b>	
	<b>Report on MoU with DIPNR [DNR]</b>	<b>Medium</b>	
Comments:	<p>State Water has reported on its performance against each of the MoUs in its 1 September report to IPART with the report providing brief details on various projects under which State Water has worked in conjunction with the agencies. There is little information in the report on the interaction between State Water and DNR apart from references to multi-agency groups on which State Water and DNR are represented, along with other agencies.</p>		

### 4.3 *Details of Compliance*

**Table 4-1 Part 2: Section 2.3 Memorandum of Understanding - Compliance Level**

Clause	Requirement	Compliance	Comments
<b>2.3</b>	<b>Memorandum of Understanding</b>		
2.3.1	State Water must use its best endeavours to enter into, by 1 October 2005, Memoranda of Understanding (MoU) with each of the Directors-General of DEC, DPI and DIPNR [now DNR]. State Water must maintain these MoUs for the duration of this Licence:		
	(a) MoU with DEC;	<b>High</b>	<p>The MoU with DEC was signed by the Director-General of DEC on 26 October 2005 and by the CEO of State Water on 3 November 2005.</p> <p>While the MoU was not in place by the 1 September deadline, State Water provided some evidence of their endeavours to obtain agreement prior to the 1 October deadline including copies of emails between State Water and DEC from 15 August 2005, 12 September 2005 and 20 October 2005.</p> <p>The correspondence indicates that State Water submitted a draft copy of the MoU to DEC prior to 15 August 2005 and received comments on the MoU on 12 September 2005. It appears that the draft MoU remained with State Water and a further draft was presumably sent to DEC resulting in comments being received again from DEC on 20 October 2005.</p>

Clause	Requirement	Compliance	Comments
			State Water incorporated the comments received from DEC and emailed a revised version to DEC on 21 October 2005 requesting any final comments. State Water indicated that no comments were received from DEC and so the MoU was then finalised and sent to DEC for signature on 26 October 2005.
	(b) MoU with DPI;	<b>High</b>	<p>The MoU with DPI was signed by the Director-General of DPI on 23 June 2006 and by the CEO of State Water on 30 June 2006.</p> <p>The MoU was not in place by the 1 October deadline but State Water has provided some evidence intended to demonstrate their endeavours to obtain agreement prior to this deadline including copies of emails between State Water and DPI from 9 May 2005, 8 August 2005, 18 May 2006, 8 &amp; 9 June 2006 and 30 June 2006. State Water also provided additional correspondence covering the period between 8 August 2005 and 18 May 2006.</p> <p>State Water provided a draft copy of the MoU dated 9 August 2005 and other undated draft copies of the MoU and the Service Level Agreement (SLA) between State Water and DPI. State Water also provided additional information including other draft and final versions of the MoU and SLA covering the period between 9 August 2005 and 18 May 2006.</p> <p>The original correspondence provided indicates that the issue of developing the current MoU arose at a meeting between DPI and State Water prior to May 2005. A meeting was to be organised after 20 May 2005 to discuss.</p> <p>The next correspondence was on 8 August 2005 where DPI is providing a draft schedule of agricultural issues for inclusion in the MoU. The draft schedule was then included in the draft MoU dated 9 August 2005, a copy of which was provided.</p>

Clause	Requirement	Compliance	Comments
			<p>The next evidence of correspondence with DPI, as provided by State Water, is dated 18 May 2006 – over 9 months from when the draft MoU was developed and 7 months past the 1 October deadline date.</p> <p>DPI sent additional comments to State Water on 23 November 2005 and further correspondence on 20 January 2006, 16 February 2006, 19 April 2006 and 10 May 2006 explaining delays within DPI on agreement for the final MoU. DPI then sent final versions of the MoU to State Water on 12 May 2006 for review. State Water provided comments and sent the MoU to DPI on 18 May 2006.</p> <p>The review of the MoU and SLA was undertaken by DPI and was followed up on 8 June 2006 by State Water requesting an update on the review process. The reply from DPI on 9 June 2006 indicates that the final versions of the MoU and SLA were approved by DPI on 26 May 2006 but had not been sent to State Water.</p> <p>DPI subsequently indicated that the approved MoU and SLA were signed and sent to State Water on 23 June 2006.</p>
	(c) MoU with DIPNR [DNR].	<b>Low</b>	<p>The MoU with DNR was signed by the Director-General DNR on 26 July 2006 and by the CEO State Water on 28 July 2006. The MoU was not in place by the 1 October deadline but State Water has provided some evidence that demonstrates their endeavours to obtain agreement prior to this deadline.</p> <p>State Water indicated that meetings between State Water's CEO and the Director-General DNR had occurred, however, no details on meeting dates or agendas was provided so it can not be established that the MoU was discussed.</p>

Clause	Requirement	Compliance	Comments
			<p>State Water provided a copy of a draft MoU dated 25 July 2004, however, no correspondence was attached indicating that this version had been sent to DNR for review.</p> <p>The next evidence of correspondence provided by State Water is a set of email correspondence during the period from 19 September 2005 to 27 September 2005 from DNR to State Water.</p> <p>State Water provided DNR with a final version of the MoU in a letter to the Director-General on 6 October 2005, however, a further email from DNR on 18 October 2005 indicated that there were still substantial issues to be addressed regarding water quality. State Water then provided DNR with an electronic version of the MoU on 21 October 2005.</p> <p>The final evidence provided by State Water is the final MoU signed by DNR on 26 July 2006 and sent to DNR with a covering letter which was received by DNR on 21 August 2006.</p>
2.3.2	The purpose of the MoUs is to form the basis for co-operative relationships between the parties to the MoU, in particular:		
	(a) the MoU with DIPNR [now DNR] is to recognise the roles of DIPNR [DNR] in regulating water access, use and management and State Water in delivering water and managing assets, and is to address the co-ordination of Functions and associated responsibilities between DIPNR [DNR] and State Water in undertaking their respective roles, including arrangements in relation to information sharing and the making and announcements of available water determinations and controlled flows;	<b>High</b>	Section 1 of the memorandum recognises the roles of DNR and State Water while Section 2 of the MoU clearly states the functions and responsibilities of DNR and State Water. Information sharing arrangements are covered in Section 6. Section 1 indicates that the MoU addresses the issue of the arrangements in place for the making and announcements of available water determinations and controlled flows, however, the MoU does not include any details of such arrangements.

Clause	Requirement	Compliance	Comments
			<p>State Water provided additional information indicating that they had intended to include the issue of available water determinations in the MoU, however, it was later removed after discussions with DNR indicated that while DNR agreed on the roles in relation to available water determinations, DNR reserved the right to include or exclude the relevant clauses from the MoU. State Water decided to exclude any clauses related to available water determinations so as not to compromise the MoU development process.</p> <p>State Water does hold regular meetings with DNR across the functional areas outlined below. State Water has stated that the meetings are ‘a continuation of an evolving cultural relationship and the necessity of shared functional interests which the MoU captures’.</p> <p><b>Water Quality and Algal Reporting</b></p> <p>State Water provides water quality data from major water storages. State Water and DNR cooperate in settling the terms of DNR press releases with respect to Algal Management and the adjustment of water outflows from storages. State Water participates with DNR on the various Regional Algal Co-ordinating Committees. Interaction is largely informal, however, minutes have been provided for the formal meetings which were held during 2005/06. State Water additionally provides reservoir water quality data to DNR and, pursuant to a Cabinet Decision of 27 July 2006, participates with DNR and DEC on the cold water pollution inter-agency group.</p> <p><b>Hydrometrics</b></p> <p>State Water has a Service Level Agreement with DNR under which DNR reads gauging stations on regulated rivers and provides data to State Water.</p>

Clause	Requirement	Compliance	Comments
			<p><b>Groundwater Meter Reading</b> State Water has a Service Level Agreement with DNR under which State Water reads groundwater meters for DNR and provides data.</p> <p><b>Groundwater Sharing Plans</b> State Water and DNR are liaising with respect to the development of accounting rules to be applied in the administration of the State's new Groundwater Sharing Plans.</p> <p><b>Resource Assessment</b> State Water and DNR work together in cooperation to determine resource assessment information, forecasting of water usage and carry over considerations in the context of basic rights, environmental flow requirements and the determination of monthly water allocations.</p> <p><b>Shared Operating Systems</b> State Water and DNR have data sharing arrangements in respect of the Hydsys system: data patterns are shared, sourced from DNR's Licensing Administration System via State Water's Hydsys system and published on DNR's website.</p> <p><b>Compliance</b> State Water and DNR have cooperated to produce a draft Water Management Act compliance manual.</p> <p><b>Review of conferred powers in State Water's Operating Licence</b> A cooperative process has commenced to review the powers under the <i>Water Management Act</i> and related legislation conferred to State Water under its <i>Operating Licence</i>. No formal minuted meetings have taken place as yet.</p>



Clause	Requirement	Compliance	Comments
	(b) the MoU with DPI is to recognise the role of DPI as the agency responsible for fisheries management in the State and address aquatic habitat and fish passage impacts of State Water's operations and information sharing arrangements;	<b>Full</b>	<p>Section 1 of the MoU recognises the role of DPI while Section 5 details State Water's environmental obligations including their responsibilities to address aquatic habitat and fish passage impacts of State Water's operations. Section 6 outlines information sharing arrangements between State Water and DPI.</p> <p>State Water and DPI report annually on the activities conducted under the MoU and have provided the 2005/2006 Annual Report for review.</p> <p>This report provides details of activities undertaken over the year grouped by: the four State Water areas – North, South, Central and Coastal; research projects and proposals, and; strategic projects. The report also includes details of reportable environmental performance indicators and financial details of projects.</p> <p>State Water participates on the Cold Water Pollution Interagency Group (CWPIG) with DPI along with DEC, DNR, Snowy Hydro, SCA and DEUS. State Water have provided the CWPIG Terms of Reference and sample meeting minutes.</p> <p>State Water provides technical advice to the group to further their understanding of storage operations, for example, State Water organised for a consultant from the Burrendong and Keepit Dam projects to attend the next meeting and to present a paper on the movement of water through storages.</p> <p>State Water also specifically consulted DPI on the development of the EMP.</p>

Clause	Requirement	Compliance	Comments
	(c) the MoU with DEC is to recognise the role of DEC as the agency responsible for environmental protection and conservation of natural and cultural heritage and address river health and water quality impacts of State Water's operations and information sharing arrangements.	<b>Full</b>	<p>Section 1 of the MoU recognises the roles of DEC and State Water while Section 5 outlines the environmental obligations on State Water including addressing the river health and water quality impacts on State Water's operations. Section 6 outlines the information sharing arrangements in place between DEC and State Water.</p> <p>State Water regularly consult with DEC and have included the minutes of a meeting held between State Water and DEC on 30 May 2006 in their submission. This meeting was attended by both the CEO of State Water and the Director-General of DEC. Topics for discussion relevant to the MoU include the Water Sharing Plans and the Yanga Wetland Management Plan.</p> <p>State Water participates on the Cold Water Pollution Interagency Group, with DEC – refer response to clause 2.3.2(b).</p> <p>State Water also consulted DEC on the development of the EMP.</p> <p>State Water and DEC have shared information in developing the Riverbank Proposal to the National Water Commission. This project would meet the objectives of both organisations.</p> <p>State Water also provide minutes of a meeting between the CEO State Water and the Director-General DEC discussing issues such as Macquarie Marshes and Lowbidgee.</p> <p>State Water also meet with DEC in three separate forums – the Water CEOs Committee, the Natural Resource Management CEO Cluster, and the TCO Water Savings Group.</p>

Clause	Requirement	Compliance	Comments
2.3.4	State Water must make the MoUs referred to in clause 2.3.1 available to the public.	<b>Full</b>	<p>The MoU's are available on State Water's website by following the 'Customer Service' link from the Home Page. The MoU's are available as PDF documents that can be downloaded free of charge.</p> <p>All State Water offices have access to the MoU's on the external and internal networks and can quickly download and print copies of the MoUs upon request from a customer.</p>
2.3.5	State Water must, by no later than 1 September each year, for the preceding financial year, report to IPART on its performance against and compliance with the MoUs referred to in clause 2.3.1 including such relevant information as may be required by IPART to be included in the report.		IPART did not request any additional information be included in the report of performance against the MoUs.
	(a) Reporting on MoU with DEC;	<b>High</b>	<p>State Water provided the following response:</p> <ul style="list-style-type: none"> <li>- DEC provided input to review of State Water's Environment Management Plan.</li> <li>- DEC s involved in the Keepit Dam upgrade Community Reference Panel providing expert advice and assistance. DEC is also a key regulator of the project under Part 3A of the <i>Environmental Planning and Assessment Act 1979</i>.</li> <li>- DEC is involved in the Chaffey Dam Upgrade Community Reference Panel and has provided dam safety and augmentation options advice.</li> <li>- DEC was involved in the de-silting work on the North Marsh Bypass Channel. DEC also assisted in resolving environmental issues post construction. State Water and DEC are currently developing operational principles for the channel.</li> </ul>

Clause	Requirement	Compliance	Comments
			<ul style="list-style-type: none"> <li>- DEC participated in an inter-agency meeting with DPI and State Water and Carathool Shire Council to discuss DEC's requirements for the Environmental Impact Assessment of Lake Brewster Water Quality Improvement Project.</li> <li>- State Water consulted DEC on environmental flows in the Lachlan Valley and environmental contingency flows to support bird breeding in Lake Brewster and Merrowie Creek.</li> <li>- State Water consulted DEC regarding Yanga National Park and particularly the development of the Lowbidgee Water Sharing Plan and Yanga Wetland Management Plan.</li> </ul> <p>Whilst State Water has provided this information, the format of reporting does not give a clear indication that all the requirements of the MoU have been met. State Water might consider reporting this information in a table listing the MoU requirements and how State Water has met them.</p>

Clause	Requirement	Compliance	Comments
	(b) Reporting on MoU with DPI;	<b>Full</b>	<p>State Water and DPI produce an annual report detailing their activities under the MoU and have provided a copy of the report for review. The report is a comprehensive outline of activities undertaken by State Water and DPI and both agencies should be commended for preparing this report of an annual basis.</p> <p>The 1 September report prepared by State Water indicates that they had worked with DPI on a number of projects including the following:</p> <ul style="list-style-type: none"> <li>- DPI has been involved in the Community Reference Panels for the Keepit Dam and the Chaffey Dam upgrades assisting State Water in the options development process.</li> <li>- State Water and DPI have worked to investigate and develop a potential fish-way past Keepit Dam. The process involved investigation of technical feasibility and expected functionality and performance of a fish lift past the dam wall.</li> <li>- State Water and DPI are currently working to develop a process to prioritise fish-way sites and establish a trade-off policy to ensure best environmental return for money spent.</li> </ul>
	(c) Reporting on MoU with DNR.	<b>Medium</b>	<p>The 1 September report includes little information about the activities undertaken by DNR and State Water in relation to the MoU. The report indicates that the following activities were undertaken:</p> <ul style="list-style-type: none"> <li>- State Water is working with DNR to define roles and responsibilities for the parties including functions such as compliance, crediting of water accounts, supplementary water allocations, and water quality monitoring and management.</li> </ul>

Clause	Requirement	Compliance	Comments
			<ul style="list-style-type: none"> <li>- State Water and DNR are key participants on the Cold Water Pollution Inter-agency Group, along with other agencies.</li> <li>- State Water participates in several interagency committees on which DNR is also represented including the Water CEO's Committee and the Natural Resources and Environment Cluster Group.</li> </ul> <p>The relationship with DNR is a very important one for State Water and presumably there are many more activities that State Water and DNR collaborate on. A "Medium" compliance rating has been awarded reflecting the lack of reporting on performance against the MoU with DNR. State Water provided some additional information indicating that they also indirectly meet with DNR at Customer Service Committee meetings and at other informal meetings and have provided minutes of meetings to highlight this.</p> <p>State Water provided some additional information in their response to the Draft Audit Report including a list of business interactions between State Water and DNR. The full list is included in State Water's response to the Draft Audit Report in <b>Appendix E</b>.</p> <p>The areas of business interaction represented were:</p> <ul style="list-style-type: none"> <li>- operations planning;</li> <li>- resource assessments;</li> <li>- available water determination orders;</li> <li>- allocation media releases;</li> <li>- creating of water accounts with available water determinations;</li> <li>- water account management;</li> <li>- carryover evaporation reduction;</li> </ul>

Clause	Requirement	Compliance	Comments
			<ul style="list-style-type: none"> <li>- dealings under section 71 related to water accounts</li> <li>- supplementary events;</li> <li>- environmental water releases;</li> <li>- air space operations;</li> <li>- management of supply constraints; and</li> <li>- drought management.</li> </ul>
2.3.6	State Water must make the report referred to in clause 2.3.5 available to the public.	<b>Full</b>	<p>The 1 September report is available on State Water's website by following the 'About Us' link from the Home Page. The report is available as a PDF document that can be downloaded free of charge.</p> <p>All State Water offices have access to the report on the external and internal networks and can quickly download and print a copy of the report upon request from a customer.</p>

#### 4.4

#### *Discussion*

In general, State Water has achieved a relatively high level of compliance with the requirements of the *Operating Licence* in respect to Memoranda of Understanding. However, there is one low compliance rating and one medium compliance rating indicating some significant issues. A brief discussion of these compliance ratings is presented below.

##### 4.4.1

##### *Clause 2.3.1 MoU with DEC – High Compliance*

State Water is required to use their best endeavours to enter into a Memoranda of Understanding with the Department of Environment and Conservation by the 1 October 2005. While this deadline was not met, State Water did provide some evidence of their best endeavours to meet this date. State Water provided correspondence indicating discussions on the MoU commenced some time prior to 15 August 2005 with further correspondence between State Water and DEC on 12 September 2005, 20 October 2005, 21 October 2005 and on 26 October 2005 when the final MoU was signed by DEC.

It appears that State Water was using their best endeavours to obtain agreement on the MoU up until 12 September 2005, however, there was a delay in correspondence until 20 October 2005 when additional comments were received from DEC. This delay is unexplained and it cannot be determined if the delay resulted from State Water's or the DEC's actions.

The final MoU was signed on 26 October 2005 which was less than a month after the *Operating Licence* deadline. The compliance assessment rating acknowledges State Water's best endeavours to obtain agreement up to 12 September 2005, but also the preventable delays in the development process after this date. It may have been possible to have the MoU finalised by the 1 October 2005 deadline if not for this delay.

##### 4.4.2

##### *Clause 2.3.1 MoU with DPI – High Compliance*

State Water are required to use their best endeavours to enter into a Memorandum of Understanding with the Department of Primary Industries by the 1 October 2005. While this deadline was not met, State Water did provide some evidence of their best endeavours to meet this date.

State Water provided correspondence indicating discussions on the MoU occurred during the period from May 2005 to June 2006, a period of 13 months. There was a significant delay of over nine months between 9 August 2005 and 18 May 2006 which ultimately led to State Water missing the 1 October 2005 deadline specified in the *Operating Licence*. State Water provided correspondence and stated that the delay was a result of internal discussions at DPI over the requirements of the MoU.



While the delays were primarily a result of DPI's actions, State Water could have put into place actions to reduce the delay, for example, State Water might have suggested to DPI that a workshop discussion could potentially resolve some of DPI's issues, or perhaps a high level meeting between senior executives might have encouraged a quicker resolution. In fact, the resolution of the issue was assisted by the intervention of the Deputy Director-General DPI (refer correspondence from DPI dated 10 May 2006) highlighting that additional senior executive level intervention may have reduced the delay further.

While it is recognised that State Water had an existing agreement with NSW Fisheries (now part of DPI) this agreement was not suitable to represent the wider State Water-DPI relationship. In addition, the total delay of 13 months past the deadline specified in the *Operating Licence* suggests that a compliance level greater than high is not appropriate.

#### 4.4.3

##### *Clause 2.3.1 MoU with DIPNR [DNR] – Low compliance*

State Water are required to use their best endeavours to enter into a Memorandum of Understanding with the Department of Infrastructure, Planning and Natural Resources (now Department of Natural Resources) by the 1 October 2005. This deadline was not met, however, State Water did provide some evidence of their endeavours to meet this date.

State Water provided evidence of correspondence between itself and DNR over two periods, the first during mid-late September 2005, and the second during mid October 2005. State Water also provided a draft MoU with DNR dated 25 July 2004. The final MoU was signed by DNR on 26 July 2006.

There are significant delays in the process of developing and agreeing on the MoU between State Water and DNR. The evidence provided by State Water indicates that the process of developing the MoU has taken at least two years, from the initial draft MoU provided, which was dated 25 July 2004, to the final MoU as signed by DNR on 26 July 2006.

State Water provided information stating that the delay between July 2004 and October 2005 was primarily due to a restructure at DNR. While it might be expected that the restructure would affect the process for a period of a couple of months while DNR went through the restructure, it is not expected that the restructure would have affected the process for the entire period of 15 months. Further, State Water has provided no information on the additional delay in the process between October 2005 and July 2006.

The relationship between State Water and DNR is probably the most important of the three relationships the MoU's are intended to formalise. State Water and DNR must work together on many aspects of the provision of bulk raw water services to

customers and their services often overlap. In addition, the roles and responsibilities of State Water and DNR were not clear after State Water's corporatisation. The fact that no MoU existed between these two agencies is a significant factor.

The information State Water provided about the process of developing the MoU with DNR was not considered to be evidence of best endeavours and a "Non Compliance" rating was awarded. However, SWC, in their comments on the 2<sup>nd</sup> Draft Audit Report argued that some efforts were made to achieve the deadline. To account for this we have revised our rating to a "Low" compliance. It is noted that the MoU has been established and remains in place, however, this does not have any effect on the compliance rating under this clause for this audit period.

#### 4.4.4

##### *Clause 2.3.2 Purpose of MoU with DNR – High compliance*

The *Operating Licence* requires that the MoU with DNR recognise the roles of DNR and is to address the co-ordination of functions and associated responsibilities between DNR and State Water in undertaking their respective roles. In particular the Licence requires that the arrangements for the making and announcements of available water determinations and controlled flows be specified. The current MoU between State Water and DNR does not contain any specific discussion on available water determinations. State Water indicated that they had intended the MoU with DNR to contain clauses relevant to this issue, however, they were omitted in the interest of continuing development of the MoU.

State Water provided a copy of an email from State Water's CEO on 3 November 2006 recalling a meeting with DNR's Director-General, Deputy Director-General and Executive Director Water Management to discuss the roles and responsibilities for making available water determinations. State Water provided a copy of a letter dated 13 September 2004 to DNR outlining proposed roles and responsibilities related to the determinations, and indicating that the procedure developed would be documented in the MoU with DNR as required by the *Operating Licence*.

State Water also provided a copy of a document entitled 'Arrangements for Exercise of Powers and Functions' that proposes a framework for the functional separation of the Department of Infrastructure Planning and Natural Resources (now DNR) and State Water Corporation. The framework includes, under Section II Water Operations, Points 11 and 12, the accountability and respective responsibilities of DNR and State Water in making available water determinations.

While State Water's intention to include the issue of available water determinations in the MoU seems clear and the exclusion of this issue from the MoU is perhaps understandable, the requirements of the *Operating Licence* are quite specific in regards to available water determinations. State Water should not have excluded

the clause from the proposed MoU. State Water might consider raising the issue of available water determinations for consideration in the upcoming review of their *Operating Licence*.

#### 4.4.5

##### *Clause 2.3.5 Reporting against MoU with DEC – High compliance*

The *Operating Licence* requires State Water to report on its performance against, and compliance with, the MoUs. State Water has reported against its MoU with DEC, however, there are some minor issues with the reporting process.

State Water has provided details of a number of projects and consultations that DEC have been involved in over the audit period. While this information does demonstrate that State Water and DEC have been engaged in co-operative relationships, the format of the reporting does not give a clear indication of how State Water has performed against the specific requirements of the MoU.

The MoU outlines specific obligations/principles for both State Water and DEC including, but not limited to:

- Acknowledging the principles of Ecologically Sustainable Development;
- Conducting operations to minimise impacts on the environment;
- Environmental obligations such as fish passage objectives, meeting Natural Resources Commission standards and targets, sharing information on measuring State Water's environmental performance, etc;
- Resource and information sharing and data exchange;
- Nominated Contact Officers; and
- Chief Executive Officer's meetings.

State Water need to report on these issues and the other specific issues included in the MoU. State Water might perhaps consider reporting their obligations in a similar manner to that employed for the MoU between State Water and DPI where a formal report is produced, or may simply tabulate their obligations and provide a brief comment on how State Water have met these obligations.

#### 4.4.6

##### *Clause 2.3.5 Reporting against MoU with DNR – Medium compliance*

The *Operating Licence* requires State Water to report on its performance against, and compliance with, the MoUs. State Water has reported against its MoU with DNR, however, the report does not seem to reflect the complexity of the relationship with DNR.

State Water reported that they have been working with DNR to define roles and responsibilities for both agencies; that both DNR and State Water are key participants in the Cold Water Pollution Inter-agency Group, and; that State Water participates in several inter-agency committees on which DNR is also represented.

This brief report does not reflect the fact that the relationship between State Water and DNR is most probably the closest of any of the agencies with which State Water has a MoU.

State Water did provide some additional information, verbally stating that they also meet with DNR at Customer Service Committee meetings, through other regular but informal meetings, and in the course of the day-to-day operation of State Water's business, however, no written evidence has been provided.

State Water should consider collating the numerous circumstances where State Water and DNR consult and exchange information or resources and report on these activities for the next Operational Audit.

#### 4.4.7

##### *Consultation with Stakeholders*

As part of the assessment of State Water's performance against the requirements of the MoUs, key stakeholders were contacted and were asked to provide specific comments. The stakeholders contacted were the Department of Environment and Conservation, the Department of Natural Resources and the Department of Primary Industries. The letters sent to the stakeholders and the responses received are presented in **Appendix D**. No response was received from the Department of Primary Industries

In general, the comments received were reasonably positive, however, the response received from the Department of Natural Resources raised a number of issues, some related to the Operational Audit process and some related to broader issues. Discussions with IPART have highlighted the issues raised by DNR and these will be considered externally to this audit process.

#### 4.5

##### ***Recommendations***

##### 4.5.1

##### *Key recommendations*

R4.1 – State Water to consider revising the MoU with DNR in order to address the arrangements for the making and announcing of available water determinations and controlled flows and to address more broadly the specific roles of each agency.

R4.2 – State Water should consider preparing a more formal report of performance against and compliance with the MoUs including, as a base, a list of the requirements of the MoU and how State Water have complied with each one.

R4.3 – State Water need to provide additional detail on performance against and compliance with the MoU with DNR including all the various activities that State Water and DNR collaborate on.

4.5.2

*Secondary recommendations*

No recommendations proposed in respect to this section.

## 5 Customers and Community Engagement

### 5.1 *Overview of Requirements*

Under the provisions of clause 4 of the *Operating Licence*, State Water is required to:

- establish and regularly consult with a Community Consultative Committee (CCC);
- establish and regularly consult with valley based Customer Service Committees (CSCs), excluding Fish River Customers;
- in consultation with the CSCs, establish and continue to have in place a Customer Service Charter;
- establish and regularly consult with a Fish River Customer Council;
- enter into agreements with its Fish River customers; and
- establish and continue to have in place a code of practice and procedure on debt management.

Details in respect to each of these requirements are set out in clauses 4.1 to 4.6 of the *Operating Licence*.

### 5.2 *Summary of Findings*

Requirement: State Water must establish and regularly consult with a state-wide community consultative committee.

Compliance: **Establish a Community Consultative Committee** **Full**

Comments: State Water invited nominations for the Community Consultative Committee on 2 December 2005, finalised nominations on 5 May 2006 and held the first meeting of the Committee on 27 July 2006.

Requirement: State Water must provide the Community Consultative Committee with information within its possession to allow the Committee to discharge the tasks assigned to it.

Compliance: **Provision of information to Committee** **Full**

Comments: State Water states that they have fully complied with this requirement and have included the requirement in the Terms of Reference for the Committee.

Requirement: State Water must establish and regularly consult with valley based customer service committees to enable customer involvement in issues relevant to State Water's obligations under the *Operating Licence*.

Compliance: **Establish Customer Service Committees** **Full**

Comments: State Water has established eight Customer Service Committees representing the valleys with the coastal valleys incorporated into one Committee.

Requirement: State Water must provide the Customer Service Committees with information within its possession to allow the Committee to discharge the tasks assigned to it.

Compliance: **Provision of information to Committee** **High**

Comments: State Water states that they have fully complied with this requirement. State Water stated that all information requests at each Committee meeting are recorded on action sheets which are attached to the minutes of the meeting. State Water has stated, however, that there have been some problems with the provision of the information requested.

Requirement: State Water must, in consultation with the Customer Service Committees, establish and continue to have in place a customer service charter.

Compliance: **Establish and maintain Customer Service Charter** **Full**

Comments: State Water developed a Customer Service Charter on 28 January 2005 prior to the commencement of the current *Operating Licence*. The Charter remained in place over the audit period.

Requirement: State Water must, in consultation with the members of the Customer Service Committees regularly review the Charter and must do so before 1 July 2007.

Compliance: **Review Customer Service Charter** **N/R**

Comments: This requirement is not yet due, however, State Water have stated that they are planning a review of the Charter in the 2006/07 financial year in order to implement a revised Charter by 1 July 2007.

**Requirement:** State Water must, by no later than 1 September each year, report to IPART on its overall performance against the Customer Service Charter.

**Compliance:** **Report compliance against the Charter** **Full**

**Comments:** State Water included a report on its performance against the obligations under the Customer Service Charter in its 1 September report to IPART. The report covered all the obligations outlined in the Charter.

**Requirement:** State Water must establish and regularly consult with a Fish River Customer Council to enable Fish River customer involvement in issues relevant to the performance of State Water's obligations in relation to the Fish River Scheme.

**Compliance:** **Establish Fish River Customer Council** **Full**

**Comments:** State Water stated that the Fish River Customer Council has been in operation, in one form or another, for fifteen (15) years. The Terms of Reference for the Council state that meetings shall occur not less than twice a year, however, State Water indicated that meetings are held every two months.

**Requirement:** State Water must provide the Fish River Customer Council with information within its possession to allow the Council to discharge the tasks assigned to it.

**Compliance:** **Provision of information to Council** **Full**

**Comments:** State Water states that they have fully complied with this requirement and have provided evidence of Customer Council meetings detailing information requests to support their compliance.

**Requirement:** State Water must use its best endeavours to enter into agreements with all Fish River system customers during the term of this *Operating Licence*.

**Compliance:** **Enter into agreements with customers** **NA**

**Comments:** This requirement is not due until June 2008. State Water has indicated that draft agreements have been developed, however, no major customers have signed the agreement to date. State Water stated that minor customers are supplied with water by agreement.



Requirement:	State Water must have in place by no later than 1 July 2005, and continue to have in place, a code of practice and procedure for debt management.
Compliance:	<b>Establish and maintain debt management code</b> <b>High</b>
Comments:	State Water implemented a code of practice and procedure for debt management in February 2005 and the code continues to be in operation.

### 5.3

### Details of Compliance

Table 5-1 Part 4: Customer and Community Engagement - Compliance Level

Clause	Requirement	Compliance	Comments
4.1	<b>Community Consultative Committee</b>		
4.1.1	State Water must establish and regularly consult with a state wide community consultative committee ("CCC") to enable community involvement in issues relevant to the performance of State Water's obligations under this Licence, except in relation to the Fish River Scheme.	<b>Full</b>	<p>State Water has set up a state wide Community Consultative Committee. State Water invited nominations for representation on the CCC by letter on 2 December 2005. Nominations were invited from each of the groups listed in clause 4.1.2. The nomination process was completed by 5 May 2006 and the first meeting of the CCC was held on 27 July 2006.</p> <p>State Water has provided the Terms of Reference (TOR) for the CCC for review. The Terms of Reference indicate that the CCC has the objective to 'provide advice to State Water Corporation on issues that impact on service delivery' and to 'provide a platform for consultation on community issues'. This scope is worded differently and may have a slightly different meaning than that envisaged in the <i>Operating Licence</i> which states that the CCC must 'enable community involvement in issues relevant to the performance of State Water's obligations under this Licence'.</p> <p>State Water's obligations under the Licence are clearly stated in clause 2.2.1 and 2.2.2 and the specific functions of State Water are detailed in clause 3.1 of the <i>Operating Licence</i>.</p> <p>State Water might consider reviewing the TOR for the CCC to be more representative of the original requirements in the <i>Operating Licence</i>. State Water has indicated that the Terms of Reference and the membership of the CCC are due for review before 27 July 2008 and that they will consider this issue during the review process.</p>

Clause	Requirement	Compliance	Comments																								
			The TOR for the CCC indicates that the CCC is to meet once or twice per year depending on the availability of the members. The first meeting was held on 27 July 2006 and another has been planned for November or December 2006. State Water has provided minutes of the first meeting for review.																								
4.1.2	State Water must appoint the members of the CCC consistently with this Licence. The membership of the CCC must include a representative from at least each of the following: (a) Customers (excluding Fish River customers); (b) environment groups; (c) basic water right holders; (d) regional business and consumer groups; (e) Catchment Management Authorities; and (f) local government.	Full	State Water invited nominations and has appointed the following representatives: <table><tr><td>Customers</td><td>NSW Irrigators Council</td><td>Mr Col Thompson</td></tr><tr><td>Environment groups</td><td>Nature Conservation Council</td><td>Prof Don White</td></tr><tr><td>Basic water right holders</td><td>NSW Farmers Assoc.</td><td>Mr Malcolm Holm</td></tr><tr><td>Regional Business</td><td>State Chamber of Commerce</td><td>TBA</td></tr><tr><td>Consumer groups</td><td>Aust Consumers' Association</td><td>None</td></tr><tr><td>Catchment Mgt Auth</td><td>CMA Chairs Council Secretariat</td><td>Mr Bob Wilson</td></tr><tr><td>Indigenous groups</td><td>NSW Aboriginal Land Council</td><td>Mr Robert Burgess</td></tr><tr><td>Local Government</td><td>Local Govt &amp; Shires Association</td><td>Cr Bruce Miller</td></tr></table> <p>The representative from Regional Business is yet to be approved by the State Chamber of Commerce/Australian Business Limited Chamber of Commerce. State Water have indicated that they still provide the Regional Business representatives a copy of all agendas, business papers and minutes to enable comment on any relevant issues.</p> <p>No nominations were received from the Australian Consumers' Association whom State Water stated has indicated that the CCC was outside their frame of reference. State Water has indicated that they are investigating other consumer groups, however, as State Water is a bulk water supply business rather than retail, consumer advocacy groups do not believe they have a relevant role in the CCC. State Water has stated that customers are well represented in their own right with the NSW Irrigators Council and Local Councils already represented on the CCC.</p>	Customers	NSW Irrigators Council	Mr Col Thompson	Environment groups	Nature Conservation Council	Prof Don White	Basic water right holders	NSW Farmers Assoc.	Mr Malcolm Holm	Regional Business	State Chamber of Commerce	TBA	Consumer groups	Aust Consumers' Association	None	Catchment Mgt Auth	CMA Chairs Council Secretariat	Mr Bob Wilson	Indigenous groups	NSW Aboriginal Land Council	Mr Robert Burgess	Local Government	Local Govt & Shires Association	Cr Bruce Miller
Customers	NSW Irrigators Council	Mr Col Thompson																									
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Indigenous groups	NSW Aboriginal Land Council	Mr Robert Burgess																									
Local Government	Local Govt & Shires Association	Cr Bruce Miller																									

Clause	Requirement	Compliance	Comments
			<p>Tony Wright (Chairman of State Water) has been appointed the Chairman of the CCC Board which gives a clear indication of State Water's high level commitment to the CCC.</p> <p>State Water has provided the contact details for the current members of the CCC.</p>
4.1.3	The term of a member of the CCC will expire two years after his or her appointment. A member will be eligible for re-appointment for one further consecutive term.	<b>Full</b>	The TOR for the CCC includes this requirement. The CCC has only been in operation since July 2006 so the application of this requirement can not yet be tested.
4.1.4	State Water must provide the CCC with information within its possession or under its control necessary to enable the CCC to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege.	<b>Full</b>	State Water indicated that an information request was received during the first meeting of the CCC for copies of the Environment Management Plan to be sent to all members. State Water has stated that this was done immediately after the meeting. The TOR for the CCC includes a specific reference to reporting processes indicating that <i>'the committee will be supplied with comprehensive and relevant information to allow informed decisions to be made'</i> .
<b>4.2</b>	<b>Valley Based Customer Service Committees (excluding Fish River customers)</b>		
<b>4.2.1</b>	<p>State Water must establish and regularly consult with valley based customer service committees ("CSCs") to enable Customer involvement in issues relevant to the performance of State Water's obligations to Customers under this Licence or the customer service charter referred to in clause 4.3.</p> <p>The membership of the CSCs must also include representatives from unregulated water Customers, groundwater Customers and the relevant Catchment Management Authority.</p>	<b>Full</b>	State Water has established and supports eight valley based Customer Service Committees. There is one CSC for each inland valley: Border (in conjunction with Border Rivers Food and Fibre), Gwydir, Namoi-Peel, Macquarie, Lachlan, Murrumbidgee and Murray-Lower Darling; and one committee to cover the coastal valleys (comprising the North Coast, Hunter and South Coast areas). All CSCs include representatives from the CMAs, as well as groundwater and unregulated customers. State Water has provided a list of CSC members in each valley.

Clause	Requirement	Compliance	Comments
	For the purposes of this clause 4.2, Customer does not include a Fish River customer.		<p>The CSC in the Namoi-Peel valley does not, on paper, appear to have representation from unregulated water users, however, State Water has indicated that the Cockburn Valley Water Users Association represents an unregulated valley.</p> <p>The committees meet quarterly (subject to the availability of members) and regularly interact with State Water on matters of asset management, water delivery and valley operations as well as administrative aspects of State Water, including billing procedures and financial management. Meeting dates for the CSCs over the 2005/06 audit period are:</p> <ul style="list-style-type: none"> <li>- Border Rivers: 24 Aug 05, 16 Nov 05, 15 Feb 06;</li> <li>- Gwydir: 15 Sept 05, 17 Nov 05, 6 Mar 06, 25 May 06;</li> <li>- Namoi-Peel: 6 Sept 05, 8 Nov 05, 16 Feb 06, 26 May 06;</li> <li>- Macquarie: 7 Sept 05, 6-7 Dec 2005, 8 Mar 06, 7 Jun 06;</li> <li>- Lachlan Valley: 8 Aug 05, 31 Oct 05, 13 Feb 06, 8 May 06;</li> <li>- Murrumbidgee: 15 Jul 05, 20 Dec 05, 20 June 06;</li> <li>- Murray-Lower Darling: 2 Sept 05, 2 Dec 05, 3 Mar 06; and</li> <li>- Coastal: 11 Oct 06, 3 Nov 05, 9 Dec 05, 20 Jun 06.</li> </ul> <p>At the request of CSC members, the Murrumbidgee CSC has elected an Executive Sub-group. The full Murrumbidgee CSC now meets twice a year while the Sub-group meets four times a year. State Water has provided minutes for the Murrumbidgee CSC which contains more details on this arrangement.</p> <p>State Water has provided agendas and minutes for all meetings held over the 2005/06 audit period.</p> <p>CSC meetings are used to consult members on issues relevant to the performance of its obligations to customers under the Customer Service Charter.</p>

Clause	Requirement	Compliance	Comments
			<p>This is demonstrated in the CSC Terms of Reference and the minutes of CSC meetings, which State Water has provided for review.</p> <p>State Water has provided examples of CSC agenda items relevant to State Water's obligations under the Customer Service Charter including:</p> <ul style="list-style-type: none"> <li>- Business development, eg Valley Business Planning – all CSCs are consulted on the development of an annual business plan. This provides members with the opportunity to comment on priorities for the upcoming year, including capital works.</li> <li>- Water Delivery.</li> <li>- Asset Management.</li> <li>- Customer Service.</li> </ul> <p>In addition to quarterly meetings, CSCs can also meet out of session to discuss specific issues, which may also be through a Sub-Committee arrangement. In 2005/06, State Water met with representatives from all CSCs to discuss the IPART Bulk Water Pricing Determination. State Water has indicated that representatives from several CSCs were invited to on-site visits to better understand proposed capital works. For example, the minutes of the Murrumbidgee CSC meeting on 20 December 2005 indicated that members of the Murrumbidgee CSC were given a tour of some of the structures in the Murrumbidgee system.</p> <p>State Water also facilitates out of session decision-making by the CSC when requested. For example, State Water facilitated the process for CSC members to agree to sending a joint letter from the Namoi-Peel CSC to IPART regarding the draft Price Determination.</p> <p>State Water's North Area also consulted with the Border Rivers, Namoi-Peel and Gwydir CSCs on the development of the block release strategy to minimise delivery losses.</p>

Clause	Requirement	Compliance	Comments
			<p>The Namoi-Peel CSC was also involved with the bulk water transfer strategy from Split Rock to Keepit Dam. Members from the Split Rock section organised a local meeting where State Water staff presented the initial proposal. Feedback from the local users and landholders resulted in further fine-tuning of the release pattern to get the transfer completed with minimum disruption to their daily operations.</p> <p>Major water users, agencies and the Murray-Darling CSC were involved in developing an agreed rationale for sharing the water shortage in the Murray Valley this year. This has promoted and improved relationships with, and perceptions of, some of the larger customers.</p> <p>In 2005/06 the Coastal CSC formed an Unregulated and Groundwater Advisory Group to advise the CSC and provide a network to communicate issues that are relevant to these customers, who have been under-represented on the CSC.</p>
4.2.2	State Water must provide the CSCs with information within its possession or under its control to enable the CSC to discharge the tasks assigned to the CSC, other than information or documents over which State Water or another person claims confidentiality or privilege.	High	<p>Information requested by CSC's during meetings is noted on an action sheet which is distributed to members following each meeting. These action sheets are attached to the meeting minutes. They provide evidence of State Water endeavours to fulfil all CSC information requests. State Water was able to provide information to the CSCs covering a broad range of issues including water quality, Water Sharing Plans, water metering compliance and financial information. The implementation of State Water's new Financial Management System (IFMS) caused some delays in providing financial data to the CSC's.</p> <p>While State Water has provided unaudited special purpose financial statements for valleys to all CSCs, the detail and quality of data has not always been satisfactory to the Murrumbidgee CSC. A request was made by the Chairman of the Murrumbidgee CSC for revised Valley Financial Statement for 2005/06, which is yet to be finalised and sent. State Water stated that once the 2005/06 Audit is completed, State Water will forward the Valley Financial Statement.</p>

Clause	Requirement	Compliance	Comments
			<p>During preparation for the IPART Determination, State Water met with representatives of all CSCs to explain in detail the basis of the IPART pricing submission. State Water provided the representatives with access to Commercial in Confidence information which was not included in State Water's public submission.</p> <p>The only information not provided to the Coastal CSC was the unconstrained price of water for the Paterson and the Hunter valley if the cost of Paterson River (mainly Lostock Dam) was split from the rest of the Hunter. The information was requested for the CSC and Water Users submission to IPART. This information was not provided as split pricing could not be substantiated by either the CSC Chair or State Water, and State Water's costs in the Hunter and Paterson Valleys are integrated. A separate Regulatory Asset Base value could not easily be obtained for the Paterson Valley.</p> <p>State Water also publishes newsletters for customers in the Macquarie and Lachlan Valleys and has provided examples of the newsletters for review.</p> <p>In 2005/06, State Water continued the development of the centralised Water Information Exchange (WIX) project to further improve future communication to customers. When implemented, the project will deliver information services via the internet, SMS, faxback and interactive voice response. Implementation of WIX will begin with trials in 2006/07.</p> <p>The recent IPART pricing determination sets out the CSC reporting requirements, which will be adopted as the new minimum standard for CSC reporting.</p> <p>The Auditors consulted with representatives from two CSC's to identify any issues with information provision and any other issues. The results of the consultation are presented in <b>Appendix D</b>. The results represented two different points of view. One CSC raised a number of issues regarding the lack of information available to the CSC while the second CSC indicated that they had no problems obtaining information from State Water.</p>



Clause	Requirement	Compliance	Comments
<b>4.3</b>	<b>Customer Service Charter (excluding Fish River)</b>		
<b>4.3.1</b>	State Water must, in consultation with the CSCs, establish and continue to have in place a customer service charter ("Charter").	<b>Full</b>	<p>State Water established a Customer Service Charter on 28 January 2005, prior to the commencement of the current <i>Operating Licence</i> in June 2005. State Water stated that the Charter was developed in consultation with a sub-committee of members of the Murrumbidgee, Lachlan and Macquarie-Cudgegong Customer Service Committees. State Water has provided minutes from the 8 December 2004 meeting for the Macquarie-Cudgegong Customer Service Committee indicating that the Customer Service Charter was discussed.</p> <p>The current Customer Service Charter continues to operate.</p>
<b>4.3.2</b>	The Charter must set out the mutual responsibilities or obligations of State Water and its Customers (excluding Fish River customers) consistently with this Licence, the Act, the <i>Water Management Act 2000</i> and the <i>Water Act 1912</i> .	<b>Full</b>	The Charter sets out the obligations of State Water and the Customer in an easy-to-follow table with mutual obligations grouped by 'Customer Service', 'Water Delivery', 'Asset Management', 'Business Development' and 'Our People'. State Water also included their Vision and Mission Statements.
<b>4.3.3</b>	State Water must make the Charter available to the public.	<b>Full</b>	The Charter is available on State Water's website by following the 'Customer Service' link from the Home Page. The Charter is available on State Water's internal networks and can be printed from any office upon request and free of charge
<b>4.3.4</b>	State Water must, in consultation with the members of the CSCs, regularly review, and if necessary update, its Charter and in any event must do so by no later than 1 July 2007.	<b>NA</b>	<p>The requirement to review and update the Charter is not technically due until 1 July 2007.</p> <p>There is a requirement in the Terms of Reference for the CSCs '<i>to assess State Water Corporation's performance against the Customer Service Charter and recommended [sic] changes, if required.</i>'</p>

Clause	Requirement	Compliance	Comments
			State Water is planning to review the Customer Service Charter during 2006-2007 in order to implement a new Charter by 1 July 2007. State Water have provided a Project Plan for the 2007 Customer Service Charter which outlines the process for reviewing the existing charter and developing the revised charter. State Water also provided the agenda for a workshop to review the 2006 Customer Service Charter.
4.3.5	State Water must by no later than 1 September each year, for the preceding financial year, report to IPART on its overall performance against its obligations under the Charter and where appropriate State Water is also to report on its performance against its obligations under the Charter in relation to each valley.	Full	State Water has included a report on its performance against its obligations under the Charter in its 1 September report to IPART. The report covers all the obligations listed in the Charter.
4.3.6	State Water must make the report referred to in clause 4.3.5 available to the public.	Full	State Water's 1 September report is available on State Water's website by following the 'About Us' link from the Home Page. The report is available as a PDF document that can be downloaded free of charge.  All State Water offices have access to the report on the external and internal networks and can quickly download and print a copy of the report upon request from a customer.
4.4	<b>Fish River Customer Council</b>		
4.4.1	State Water must establish and regularly consult with a Fish River customer council ("Fish River Customer Council") to enable Fish River customer involvement in issues relevant to the performance of State Water of its obligations to Fish River customers under this Licence and any Customer Contract.	Full	State Water has stated that the Fish River Customer Council (FRCC) has been established in one form or another for the past fifteen years, however, the current FRCC was established in January 2006. State Water stated that the Terms of Reference for the FRCC indicate that the FRCC must meet not less than twice a year, however, the FRCC normally meets six times a year. The meetings held to date this year were on 9 March 2006, 18 April 2006, 21 June 2006 and 22 August 2006. State Water advised that the next scheduled meeting is on 31 October 2006. State Water has provided minutes of the meetings for six meetings in 2005 and four meetings in 2006.

Clause	Requirement	Compliance	Comments
4.4.2	State Water must appoint the members of the Fish River Customer Council consistently with this Licence. The membership of the Fish River Customer Council must include a representative from at least each of the following: (a) Lithgow City Council; (b) Oberon Council; (c) Delta Electricity; and (d) Sydney Catchment Authority	Full	The relevant customers are represented on the FRCC. The four major customers nominate a senior management representative and an alternate. The State Water's Customer Service Managers facilitate the appointments in consultation with the State Water CEO. The current representatives on the FRCC are: - Andrew Muir, Manager, Environment and Planning, Lithgow City Council - Bruce Fitzpatrick, General Manager, Oberon Council - Peter Gray, Manager Strategy and Development, Delta Electricity - Ramen Charan, Business Relations Manager, Sydney Catchment Authority
4.4.3	State Water must provide the Fish River Customer Council with information within its possession or under its control to enable the Fish River Customer Council to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege.	Full	State Water stated that it provides all requested information to the Fish River Customer Council. All information requests are recorded on action sheets which are attached to the minutes of the meetings.  State Water has provided minutes of meetings for the Fish River Customer Council for review and these confirm the use of the action sheets and recording of information requests and responses.
4.5	<b>Customer Contracts (Fish River customers only)</b>		
4.5.1	State Water must use its best endeavours to enter into agreements with its Fish River customers during the term of this Licence, in relation to the arrangements to apply to the supply of water by the operation of the Fish River Scheme.	NA	The <i>Operating Licence</i> term is three years from the commencement date of 24 June 2005 and as such, the requirements of this clause are not technically due until 30 June 2008.  State Water indicated that agreements with the major customers have not yet been signed. State Water have indicated that the action sheets which follow the meeting minutes show progress towards finalising the agreements and therefore provide evidence of State Water's best endeavours. State Water indicated that the latest draft customer agreements were forwarded to all the major customers on 21 August 2006. These draft customer agreements were

Clause	Requirement	Compliance	Comments
			<p>discussed at the FRCC meeting held on 22 August 2006 and the customers were requested to forward corrections (if any) prior to the next FRCC meeting.</p> <p>A review of the meeting minutes provided by State Water indicates that the issue of major customer agreements was discussed as early as January 2005. The meeting minutes for 10 February 2005 indicate that the new agreements would be issued by the end of February 2005, while the meeting minutes for 21 June 2005 indicate that the agreements were to be reviewed and amended in accordance with the draft <i>Operating Licence</i> for State Water. The meeting minutes for 16 August 2005 and subsequent meetings indicate that State Water planned a workshop to discuss the agreements in December 2005. The meeting minutes for 20 December 2005 indicate that the agreements were discussed at the workshop and revisions were suggested. A new finalisation date was set at June 2006. The meeting minutes for 22 August 2006 indicate that the first draft of the new agreements was complete and comments should be forwarded to State Water.</p> <p>State Water stated that minor customers are supplied water by agreement.</p>
4.5.2	<p>The terms of the arrangements must, as a minimum, include:</p> <ul style="list-style-type: none"> <li>(a) the standard of the quality of water supplied;</li> <li>(b) the continuity of water supplied (i.e. interruption, disconnection and reconnection to supply);</li> <li>(c) the metering arrangements;</li> <li>(d) the costs to be paid by Fish River customers for the supply of water and other services to them; and</li> <li>(e) any other terms agreed between State Water and its Fish River customers.</li> </ul>	NA	<p>The final agreements are not technically required until 30 June 2008 – refer clause 4.5.1 above. The current draft agreements, however, do include the requirements of this clause as detailed below:</p> <ul style="list-style-type: none"> <li>(a) quality of water – Section 6.2 of the agreements indicates the quality of water supplied to the customer;</li> <li>(b) continuity of water – Section 7 of the agreements specifies the annual and daily quantities of water to be supplied while Section 10 discusses flow management and Section 24 discusses the conditions related to failure to supply water;</li> <li>(c) metering – Section 10 outlines flow management issues including metering arrangements; and</li> </ul>

Clause	Requirement	Compliance	Comments
			(d) fees and charges – Section 13 indicates the fees and charges State Water will apply to the service, however, there is no mention of the IPART price determination process which ultimately sets the maximum fees and charges State Water can apply to its customers.
<b>4.6</b>	<b>Code of Practice and Procedure on Debt Management</b>		
<b>4.6.1</b>	State Water must have in place by no later than 1 July 2005, and continue to have in place, a code of practice and procedure on debt management.	<b>Full</b>	State Water has developed a code of practice and procedure on debt management, a copy of which was provided for review. The code was implemented in February 2005 and remains in place.
<b>4.6.2</b>	<p>The Code must:</p> <ul style="list-style-type: none"> <li>(a) provide for deferred payment or payment by instalment options; and</li> <li>(b) provide that the payment options referred to in (a) are to be advised in bills.</li> </ul>	<b>High</b>	<p>State Water advised that the Code of Practice covers the requirements of this clause, as follows:</p> <ul style="list-style-type: none"> <li>(a) The Code allows for two forms of alternative payment plans: a three month payment plan; and a deferral of payment beyond three months, however, proof of hardship must be provided by the customer. State Water have provided a copy of their Debt Management Procedure and Code of Practice for review to provide additional details on these options.</li> <li>(b) The payment options are not included on customer bills but are referred to, but not detailed, on the customer information sheet which is sent out with the bills. The payments options are also mentioned on the website.</li> </ul> <p>While there is a technical non-compliance with the requirements of (b), State Water indicated that the payment options are not included in the customers' bills as the options are not, and should not be, standard practice for paying bills. State Water argues that the options should only be implemented if a customer experiences hardship paying the bills.</p>

Clause	Requirement	Compliance	Comments
4.6.3	State Water must make the Code available to the public.	<b>Full</b>	<p>A customer friendly version of the Code is available, free of charge on the State Water website and can be accessed directly from the Home Page by following the 'Pay Your Water Bill' link.</p> <p>All State Water offices are able to access Code which can be provided to customers for viewing on request, free of charge. Copies will be provided on request from all State Water offices.</p> <p>State Water also have a 'Customer Concerns' form and information pamphlet which provides additional information in respect to the Code.</p>

## 5.4

### *Discussion*

In general, State Water has achieved a very high level of compliance with the requirements of the *Operating Licence* in respect to Customers and Community Engagement. There were only two areas where full compliance was not achieved. A brief discussion of these areas is presented below.

#### 5.4.1

##### *Clause 4.2.2 Provision of information to CSC – High compliance*

State Water is required to provide the Customer Service Committees with information within its possession or under its control to enable the CSCs to discharge the tasks assigned to the CSCs.

State Water has a process of recording all information requests made during meetings of the CSCs with all requests recorded on an action sheet that is later attached to the minutes of the meeting as sent to each member of the CSC.

State Water has indicated that the implementation of State Water's new financial management system had caused some delays in responding to information requests for financial data. This issue was confirmed in consultations with a number of CSC's.

These types of delays should no longer be expected once the financial system is fully implemented. Results for future Operational Audits should see the elimination of these delays in the provision of financial information.

#### 5.4.2

##### *Clause 4.6.2 Code of Practice for Debt Management – High compliance*

State Water are required to develop a code of practice and procedure for debt management that provides the specific requirements of this clause, that is, providing for deferred or instalment payment options and advising payment options in customer bills.

State Water have developed two forms of alternative payment plans, however, there is no advice in the customer bills as to what these payment options are. State Water have stated that they do not want to advertise the alternative payment options in customer bills as the alternative options are reserved for those customers who are truly experiencing hardship in paying their bills. State Water stated that they advise payment options once a customer has been established as experiencing hardship paying their bills.

This is a reasonable policy and the Auditors support State Water's stance, however, the requirements of the *Operating Licence* are specific and require that the payment options be advised in the customers' bills. Whilst State Water has a technical non-compliance with this requirement, a compliance rating of "High" has been awarded as the non-compliance is very minor.

As a safeguard, State Water should consider monitoring the number of customers requesting alternative payments options to ensure that the numbers are not significant and that the current system of paying bills is appropriate. It is understood that this issue has already been highlighted as part of a Ministerial review of State Water's *Operating Licence*, and that State Water will be pursuing this approach.

State Water might also consider seeking a revision to this part of the Licence at the upcoming review of the *Operating Licence*.

## **5.5 Recommendations**

### **5.5.1 Key recommendations**

R5.1 – State Water should ensure that their financial systems are able to provide information as requested by the CSCs.

R5.2 – State Water should consider seeking a revision to clause 4.6.2 of the *Operating Licence* at the upcoming *Operating Licence* review to reflect their stance on alternative payment plans.

### **5.5.2 Secondary recommendations**

R5.3 – State Water should consider monitoring the number of customers requesting hardship consideration and alternative payment plans to ensure the current payment system is appropriate.



## 6 Complaint and Dispute Handling

### 6.1 *Overview of Requirements*

Under the provisions of clause 5 of the *Operating Licence*, State Water must:

- establish and continue to have in place internal complaints handling procedures for receiving, responding to and resolving complaints it receives from Customers and the community relating to any of its functions;
- have in place and continue to have in place a Dispute Resolution Scheme or other arrangements for the external resolution of disputes between State Water and its Customers; and
- report on complaints made against it to other bodies.

Details in respect to each of these requirements are set out in clauses 5.1 to 5.3 of the *Operating Licence*.

### 6.2 *Summary of Findings*

Requirement: State Water must establish, by no later than 31 October 2005, and continue to have in place, internal complaints handling procedures for receiving, responding to and resolving complaints.

Compliance: **Establish internal complaints handling system** **Low**

Comments: State Water did not have internal complaints handling procedures in place by 31 October 2005. State Water's Board gave in-principle approval to a proposed framework in March 2005, however, it was not until 28 July 2006 that the procedures were implemented.

Requirement: State Water must, in consultation with IPART, determine appropriate complaint categories by no later than 31 October 2005.

Compliance: **Establish complaint categories** **Low**

Comments: State Water did not have a complaints system in place by 31 October 2005 and had not determined a set of appropriate complaint categories. State Water has now established complaint categories in consultation with IPART which include eight general categories and two categories specific to the Fish River Water Supply Scheme.

**Requirement:** State Water must report to IPART by no later than 1 September each year on its internal complaints handling procedures including details such as the number and type/category of complaints, the complaint resolution process, and any problems of a systemic nature.

**Compliance:** **Reporting on complaints** **High**

**Comments:** State Water is currently developing a comprehensive system to collect and records complaints. State Water was, however, able to provide some information on complaints received over the audit period.

**Requirement:** State Water to have in place by no later than 1 September 2005 and continue to have in place, membership of an industry based dispute resolution scheme.

**Compliance:** **External dispute resolution scheme** **High**

**Comments:** State Water officially became a member of the Energy and Water Ombudsman NSW on 1 January 2006, however, there was an apparent delay in State Water processing the application which led to State Water missing the 1 September 2005 deadline.

**Requirement:** State Water must report to IPART by no later than 1 September each year on the external dispute resolution scheme.

**Compliance:** **Report on External Dispute Resolution Scheme** **Full**

**Comments:** State Water reported on this requirement in their 1 September report to IPART. The report identified only two matters that were raised with the Energy and Water Ombudsman NSW and both matters were resolved within 30 days.

**Requirement:** State Water to report to IPART by no later than 1 September each year on any complaints made against State Water to other bodies and any civil actions brought against State Water.

**Compliance:** **Report on other complaints and civil actions** **Full**

**Comments:** State Water reported on these two issues in their 1 September report to IPART. The report identified one minor complaint/action that was withdrawn prior to formal court action.

### 6.3 *Details of Compliance*

**Table 6-1 Part 5: Complaint and Dispute Handling - Compliance Level**

Clause	Requirement	Compliance	Comments
<b>5.1</b>	<b>Internal Complaints Handling Procedure</b>		
<b>5.1.1</b>	State Water must establish by no later than 31 October 2005, and continue to have in place, internal Complaints handling procedures for receiving, responding to and resolving Complaints it receives from Customers and the community, relating to any of its Functions.	<b>Low</b>	<p>State Water stated, in its 1 September report to IPART, that ‘State Water’s Board gave in principle approval to a proposed framework for an internal complaints handling scheme in March 2005’.</p> <p>State Water stated that they advised IPART of their proposed procedures on 13 January 2006. State Water further stated that on 28 February 2006, IPART responded and indicated that as State Water would be the subject of an independent IPART audit in 2006, that it was not appropriate for it [IPART] to formally endorse the proposed procedures. State Water stated that they continued development of the complaints handling scheme and on 28 July 2006 the State Water Board endorsed the ‘Complaints Handling and Resolution Policy (SW2006-P0104) and associated ‘Complaints Handling and Resolution Procedures’ (SW2006-P0105).</p> <p>State Water provided additional information giving details of the development of the policy and procedures during the period between March 2005 and 28 July 2006. State Water indicated that the issue of an internal and external complaints handling system was first discussed by the Board on 1 December 2004 where it was recommended that the State Water CEO report to the Board on the development of the complaint handling systems. On 28 January 2005 the Board resolved that an internal complaint handling system and external dispute resolution process be developed by State Water management to comply with the requirements of the <i>Operating Licence</i>. The Board was presented with reports on the draft schemes on 27 May 2005 and resolved to approve the framework for the internal complaint handling</p>

Clause	Requirement	Compliance	Comments
			<p>scheme, but investigate the basis for joining a suitable dispute resolution service.</p> <p>The additional information provided by State Water does not give details of the action taken during the period between the Board approval of the internal complaint handling scheme on 27 May 2005 and the notification to IPART of the system on 13 January 2006.</p>
5.1.2	The internal Complaints handling procedures of State Water must be based on the Australian Standard <i>AS4269-1995 Complaint Handling</i> .	Full	<p>State Water has stated, in their 1 September report to IPART, that their Complaints Handling and Resolution Policy complies with <i>AS4269-1995 Complaint Handling</i>, however, there is no reference to the standard in the policy or the associated procedures.</p> <p>A brief review of <i>AS4269-1995</i> by the Auditors indicated that it specifies the following essential elements of effective complaints handling:</p> <ul style="list-style-type: none"> <li>(a) Commitment;</li> <li>(b) Fairness;</li> <li>(c) Resources;</li> <li>(d) Visibility;</li> <li>(e) Access;</li> <li>(f) Assistance;</li> <li>(g) Responsiveness;</li> <li>(h) Charges;</li> <li>(i) Remedies;</li> <li>(j) Data collection;</li> <li>(k) Systemic and recurring problems;</li> <li>(l) Accountability;</li> <li>(m) Reviews; and</li> <li>(n) Dispute resolution.</li> </ul>

Clause	Requirement	Compliance	Comments
			State Water has provided additional information on the compliance of its complaint handling scheme with AS4269-1995 in a document entitled 'Consistency of the Complaints Handling and Dispute Resolution Policy with AS4269-1995' and dated December 2006. This document outlines how the Policy complies with each of the elements of AS4269-1995 listed above.
5.1.3	State Water must make these procedures available to the public.	Full	State Water have developed a pamphlet to inform customers of the policy and procedures and have published the pamphlet to the State Water website.
5.1.4	State Water must, in consultation with IPART, determine appropriate Complaint categories by no later than 31 October 2005. The Complaint categories must include categories relevant to the Fish River Scheme.	Low	<p>State Water stated in their 1 September report that they notified IPART on 13 January 2006 of their proposed complaints handling system and complaints categories. State Water provided evidence of IPART's response letter to State Water on 28 February 2006 indicating that any decision on the complaints handling procedures would be postponed due to the Operational Audit process. The Complaints Handling and Resolution Policy and Procedures endorsed by State Water's Board on 28 July 2006, and was last updated on 11 October 2006, details eight general complaints categories and two complaints categories specific to the Fish River Water Supply Scheme.</p> <p>The audit interviews with State Water indicated that they have in fact consulted with IPART on the development of the complaints categories, however, it appears that none of this consultation occurred prior to the 31 October 2005 deadline.</p>
5.1.5	State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on its internal Complaints handling procedures including the following: (a) the total number of Complaints;	High	<p>State Water has stated in its 1 September report to IPART that it is currently developing internal systems to collect and record complaints received from members of the public. State Water have further stated that their timeframe for developing the systems is:</p> <ul style="list-style-type: none"> <li>- September 2006 – Internet site live and customer information pamphlet printed and uploaded;</li> </ul>

Clause	Requirement	Compliance	Comments
	<p>(b) once the category of Complaints are determined under clause 5.1.4, the number of Complaints received by the category of Complaint determined in accordance with that clause;</p> <p>(c) the number and type of Complaints resolved or not resolved in sufficient detail for IPART to gain an understanding of the timeframe with which the Complaint was resolved, how the Complaint was resolved, or why the Complaint was not resolved (as the case may be); and</p> <p>(d) any problems of a systemic nature arising from Complaints.</p>		<ul style="list-style-type: none"> <li>- October 2006 – Complaints Handling and Resolution Policy to form part of State wide road show to all staff, including distribution of forms for staff for logging complaints;</li> <li>- October to December 2006 – Pamphlet to be distributed to key stakeholders, including Customer Service Committees; and</li> <li>- January to March 2007 – Pamphlet to be distributed to all customers with second quarter statements.</li> </ul> <p>State Water have indicated that they may be in a position to report to IPART under this clause by 1 September 2007.</p> <p>During the audit interviews, State Water provided additional information on their reporting of complaints. State Water do in fact currently collect information about customer complaints and report to the Management team and the State Water Board on a quarterly, half yearly and annual basis.</p> <p>State Water have provided additional information detailing the number of complaints received, the category of the complaint, general discussion about key issues raised by the complaints, a list of complaints by category and by valley including the resolution status, and a detailed list of complaints providing the valley, complaint category, details of complaint, resolution process and system improvement actions.</p>
5.1.6	State Water must make the report referred to in clause 5.1.5 available to the public.	NA	State Water has provided additional information detailing the complaints received during 2005-2006. State Water will endeavour to make a summary report available on their website by January 2007.

Clause	Requirement	Compliance	Comments
<b>5.2</b>	<b>External Dispute Resolution Scheme</b>		
<b>5.2.1</b>	State Water must have in place by no later than 1 September 2005, and continue to have in place, a Dispute Resolution Scheme (the Scheme) for a Dispute Resolution Body or be a member of an industry based dispute resolution scheme to resolve disputes between State Water and its Customers.	<b>High</b>	<p>State Water has stated in its 1 September report to IPART that it became a member of the Energy and Water Ombudsmen NSW (EWON) from 1 January 2006. This date is later than the date required in the <i>Operating Licence</i>, ie 1 September 2005.</p> <p>State Water provided additional information detailing the process of developing the external dispute resolution scheme (refer comments for clause 5.1.1).</p> <p>State Water also provided correspondence from the Energy and Water Ombudsman NSW responding to State Water's membership enquiry dated 22 June 2005. State Water formally requested membership to the Energy and Water Ombudsman NSW in a letter dated 14 November 2005 and received a reply on 2 December 2005 indicating State Water's membership had been approved on 17 November 2005</p> <p>After some consultation regarding relationship boundary setting, State Water's membership of the Energy and Water Ombudsman NSW officially commenced on 1 January 2006.</p>
<b>5.2.2</b>	The Scheme established by State Water is subject to the Minister's approval.	<b>NA</b>	This requirement is not applicable as State Water have joined an industry based dispute resolution scheme.
<b>5.2.4</b>	The Scheme must comply with the minimum standards, so far as applicable, specified in the Guidelines to the Prevention, Handling and Resolution of Disputes AS4608.	<b>NA</b>	This requirement is not applicable as State Water have joined an industry based dispute resolution scheme. The Energy and Water Ombudsman NSW is a well recognised dispute resolution scheme of which a number of water agencies are members and its processes comply with the standards of AS4608.
<b>5.2.6</b>	State Water must prepare a pamphlet that explains how the Scheme operates and how it can be accessed and make this pamphlet available to the public.	<b>Full</b>	State Water have developed a pamphlet to inform customers of the dispute resolution policy and have published the pamphlet to the State Water website.

Clause	Requirement	Compliance	Comments
5.2.7	<p>State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on the Scheme based on information available to State Water and information reasonably obtained from the Dispute Resolution Body. Where considered appropriate by State Water and the Dispute Resolution Body, confidentiality arrangements are to be made so as not to disclose the Customer's identity in such reports. The report must take into account any issues raised by the Dispute Resolution Body and must contain the following information:</p> <ul style="list-style-type: none"> <li>(a) the number and types of Complaints received by the Dispute Resolution Body, classified in accordance with the Dispute Resolution Body's reporting arrangements;</li> <li>(b) information on any determinations made by the Dispute Resolution Body; and</li> <li>(c) any other relevant information required by IPART to be included in the report.</li> </ul>	Full	<p>State Water has reported on this clause in the 1 September report to IPART and indicated that only two matters were raised since State Water's membership commenced on 1 January 2006. The first matter was classified by EWON as an Enquiry and the second matter was classified as a Level 1 Investigation. Both matters were resolved and closed within 30 days. Details of the complaints were provided in the 1 September report.</p> <p>State Water indicated that no determinations were made by EWON in relation to complaints against State Water during 2005-2006.</p>
5.2.8	State Water must make the report referred to in clause 5.2.7 available to the public.	Full	<p>The information reported under this clause is contained within the 1 September report. The 1 September report is available on State Water's website by following the 'About Us' link from the Home Page. The report is available as a PDF document that can be downloaded free of charge.</p> <p>All State Water offices have access to the report on the external and internal networks and can quickly download and print a copy of the report upon request from a customer.</p>



Clause	Requirement	Compliance	Comments
<b>5.3</b>	<b>Complaints to Other Bodies</b>		
<b>5.3.1</b>	<p>State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on Complaints made against State Water to a court or tribunal such as the Consumer Trader and Tenancy Tribunal (based on information reasonably obtained from these bodies and State Water itself as a party to the Complaint), and the report to IPART shall contain the following information:</p> <ul style="list-style-type: none"> <li>(a) the number and types of Complaints received by such other bodies;</li> <li>(b) the outcome of the Complaints;</li> <li>(c) how the Complaints were resolved;</li> <li>(d) any problems of a systemic nature arising from the Complaints; and</li> <li>(e) any other relevant information required by IPART to be included in the report.</li> </ul>	<b>Full</b>	<p>State Water has reported against the requirements of this clause in its 1 September report to IPART. The report indicates that there were no complaints against State Water made to a court or tribunal during the 2005-2006 audit period.</p> <p>State Water, however, did provide details of an action brought against State Water as they were unsure whether the action was covered under this clause or clause 5.3.2.</p> <p>Lakes R Us Pty Ltd (LRU) sought a declaration under Part 111A of the <i>Trade Practices Act 1974</i> that certain water storages and transport services provided by State Water and Snowy Hydro Limited be declared as being available for use by LRU.</p> <p>The Acting Premier of New South Wales, on the recommendations of the National Competition Council, decided not to make the declaration in regards to the services. LRU applied to the Australian Competition Tribunal for a review of the Acting Premiers' decision. However, LRU had difficulties in formulating its case in May 2006 and applied to the Tribunal to withdraw its application for a review which was subsequently granted by the Tribunal.</p>
<b>5.3.2</b>	<p>State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on any civil actions against State Water to a court (based on information available from the courts and State Water itself as a party to the civil action) where the civil action claims loss, damage or other relief arising from a Complaint against State Water, and the report to IPART shall contain the following information:</p>	<b>Full</b>	Refer comments in clause 5.3.1 above.

Clause	Requirement	Compliance	Comments
	(a) the number and types of civil actions commenced; (b) the outcome of the civil actions; (c) how the civil actions were resolved; (d) any problems of a systemic nature arising from the civil actions; and (e) any other relevant information required by IPART to be included in the report.		

## 6.4

### *Discussion*

In general State Water received a high level of compliance with the requirements of the *Operating Licence* in respect to Complaint and Dispute Handling. However, there are three areas where a lower level of compliance was awarded. These areas are briefly discussed in the following sections.

#### 6.4.1

##### *Clause 5.1.1 Internal Complaints Handling Procedure – Low compliance, and Clause 5.1.4 Determination of Complaint Categories – Low compliance*

This clause requires State Water to establish by no later than 31 October 2005, and continue to have in place, internal Complaints handling procedures for receiving, responding to and resolving Complaints it receives from Customers and the community in relation to any of its Functions.

State Water first raised the issue of the internal complaints handling procedures on 1 December 2004, however, the final procedures were not put into place until 28 July 2006, almost 20 months later. State Water provided some details of the process that occurred during the period from 1 December 2004 to 27 May 2005, however, there is no information on what happened during the period from 27 May 2005 to 28 July 2006, a period of over 14 months. A “Low” compliance rating was applied in respect to clause 5.1.1 given the lack of a coherent scheme being in place prior to 31 October 2005, and the apparent absence of continued endeavours to develop and implement such procedures. A “Low” compliance rating was applied in respect to clause 5.1.4 given the absence of agreement with IPART in respect to appropriate complaint categories.

It is noted that State Water now have a complaints handling scheme in place, however, the Auditors are of the opinion that if State Water had applied the five months of effort in preparing the scheme (between 28 February and 28 July 2006) after March 2005 (or 27 May 2005 as detailed in the additional information), when the scheme’s framework was approved, State Water would have had a functional complaints handling scheme in place by 28 August 2005 (or 27 October 2005), well before 31 October 2005.

#### 6.4.2

##### *Clause 5.1.5 Reporting on Complaints – High compliance*

This clause requires State Water to report to IPART by no later than 1 September each year, for the preceding financial year, on its internal Complaints handling procedures including the following:

- the total number of Complaints;
- once the category of Complaints are determined under clause 5.1.4, the number of Complaints received by the category of Complaint determined in accordance with that clause;
- the number and type of Complaints resolved or not resolved in sufficient detail for IPART to gain an understanding of the timeframe with which the

- Complaint was resolved, how the Complaint was resolved, or why the Complaint was not resolved (as the case may be); and
- any problems of a systemic nature arising from Complaints.

State Water had initially reported in their 1 September report to IPART that they were developing the systems required to report on this clause and that they expected to be able to report to IPART on this clause by 1 September 2007.

State Water provided additional information, however, that indicated that they do collect information on customer complaints and could provide details of the complaints made against State Water over the audit period 2005-2006.

State Water subsequently provided a detailed report of the complaints made against State Water and had this report been submitted by 1 September, it would have easily satisfied the requirements of this clause. However, the information was not provided until 8 November 2006 and was only provided after the audit interviews established that State Water do collect this data.

State Water should ensure that the information provided is available at the submission of the 1 September report to IPART.

#### 6.4.3

##### *Clause 5.2.1 External Dispute Resolution Scheme – High compliance*

This clause requires State Water to have in place by no later than 1 September 2005, and continue to have in place, a Dispute Resolution Scheme (the Scheme) for a Dispute Resolution Body or be a member of an industry based dispute resolution scheme to resolve disputes between State Water and its Customers.

State Water has chosen to become a member of an industry based dispute resolution scheme and has joined the Energy and Water Ombudsman NSW. The Ombudsman is a NSW State Government approved industry dispute resolution body and has a number of other water agency clients.

State Water became an official member of the Energy and Water Ombudsman NSW on 1 January 2006, some four months after the deadline date outlined in the *Operating Licence*.

State Water provided some explanation for the processes undertaken over the period from when the issue was first raised on 1 December 2004 until State Water's membership commenced on 1 January 2006, a period of just over two years (refer comments on clause 6.4.1). However, the information provided indicates that there is a significant delay in the process from State Water's initial enquiry and the response from the Energy and Water Ombudsman NSW on 22 June 2005 until State Water's formal letter requesting membership on

14 November 2005. This delay removed any chance of State Water implementing the scheme prior to the 1 September 2005 deadline.

It is noted though that the Energy and Water Ombudsman NSW scheme is running and was current for the audit period 2005-2006.

## **6.5**

### ***Recommendations***

#### **6.5.1**

##### ***Key recommendations***

R6.1 – State Water should consider providing the information on customer complaints by the 1 September deadline to avoid downgrading their compliance rating.

#### **6.5.2**

##### ***Secondary recommendations***

No recommendations proposed in respect to this section

## 7 Water Delivery Operations

### 7.1 *Overview of Requirements*

Under the provisions of clause 7 of the *Operating Licence*, State Water must:

- take steps to conserve water and minimise losses;
- manage water release functions and operations;
- when required, prepare a Drought Management Plan;
- take action and report on performance in respect to ensuring water metering accuracy;
- prepare annual water balances; and
- prepare an annual water balance and report on system yield in respect to the Fish River Scheme.

Details in respect to each of these requirements are set out in clauses 7.1 to 7.6 of the *Operating Licence*.

### 7.2 *Summary of Findings*

Requirement:	State Water must take steps to conserve water and minimise losses from its operations.		
Compliance:	<b>Water conservation measures</b>		<b>Full</b>
Comments:	State Water provided an extensive list of water conservation works undertaken over the 2005-2006 audit period including general measures, works undertaken in specific valleys and opportunities for improvement of measures taken.		

Requirement:	State Water must endeavour to manage water release functions and operations to ensure the timely availability of water taking into account physical supply constraints.		
Compliance:	<b>Supply constraint issues</b>		<b>High</b>
Comments:	State Water indicated that delivery constraints are governed by the Water Sharing Plan while physical constraints are governed by the size of the assets involved. State Water had some issues related to the delivery of water which reduced the compliance rating (refer comments for Section 9.3).		

**Requirement:** State Water must, in periods of extreme water resource shortage beyond drought of record as and when gazetted by DIPNR [now DNR], develop a Drought Management Plan for river operations in accordance with DIPNR [now DNR] requirements.

**Compliance:** **Drought Management Plan** **Full**

**Comments:** State Water has already developed a Drought Management Plan for the Lachlan Valley and is investigating the need for a Plan for the Namoi Valley. The Plan was prepared in consultation with DNR.

**Requirement:** State Water must report to IPART by no later than 1 September each year on what action it has undertaken over the preceding financial year to address the issue of metering accuracy and its findings in carrying out this action.

**Compliance:** **Water metering accuracy** **Full**

**Comments:** State Water have provided details of their compliance with this clause in the 1 September report to IPART.

**Requirement:** State Water must report to IPART and the Minister, by no later than 1 September each year on its performance against the performance measures approved under clause 7.4.2 for the preceding financial year, including analysis of any systemic problems.

**Compliance:** **Performance measure reporting** **NA**

**Comments:** State Water has provided details of their progress in developing the performance measures in the 1 September report to IPART, which was also copied to the Minister. The performance measures have not, however, been approved by IPART and State Water is consequently not able to report performance against approved performance measures.

**Requirement:** State Water must prepare by no later than 1 September each year, annual water balances in the form of the template at Table 5-1 of the final report by Sinclair Knight Merz "State Water Operating Licence – Water Balance Template" dated 30 March 2005 and in accordance with that report.

**Compliance:** **Water balance reporting** **Medium**

Comments:	State Water stated in their 1 September report to IPART that the water balances were not available but would be completed in October 2006. However, this target was not achieved and State Water is completing water balances for individual valleys as resources allow.
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Requirement:	State Water must prepare by no later than 1 September each year an annual water balance for the Fish River Water Supply Scheme and must report to IPART no later than 29 June 2008 on system yields at specified levels of reliability.
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Compliance:	<b>Fish River Water Balance</b>	<b>Full</b>
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Comments:	State Water provided the Fish River Water Balance in their 1 September report to IPART. The system yield details are not required until 29 June 2008, however, State Water indicated that the results should be available in March 2007.
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### 7.3 *Details of Compliance*

**Table 7-1 Part 7: Water Delivery Operations - Compliance Level**

Clause	Requirement	Compliance	Comments
<b>7.1</b>	<b>Water Conservation</b>		
<b>7.1.1</b>	State Water must take such steps as are reasonably practicable to conserve water and to minimise losses that result from its operations; and to recover associated costs from beneficiaries where practicable.	<b>Full</b>	<p>State Water indicated that there is a lack of an economic driver for water efficiency improvements. For all water conservation measures implemented that save water in the system, the current legislative arrangements require that this water be given to environmental flows. State Water can not use this water to make additional supplies to customers and increase water sales.</p> <p>State Water stated that this is a disincentive to save water as the economic investment can not be recovered. Current guidelines state that water losses are deemed to constitute environmental water (even though they are not specifically released for that purpose). By specifically reducing losses, deliberate environmental flows must be increased to compensate. State Water can not recover costs from the beneficiaries of these increased environmental flows.</p> <p>State Water has undertaken a number of general measures taken in respect to water conservation including the following:</p> <ul style="list-style-type: none"> <li>- Encouragement of discipline in water ordering – once water is released in response to an order, the customer's account is debited;</li> <li>- Planning has been undertaken to determine the best operational procedures consistent with meeting obligations;</li> </ul>

Clause	Requirement	Compliance	Comments
			<ul style="list-style-type: none"> <li>- Efficiency measures have been developed in consultation with users and the Customer Consultative Committee (CCC). An expression of interest to determine customer needs and negotiations in respect to “out of sync” demands have been undertaken;</li> <li>- Block releases have been implemented when allocation is low in some northern areas (following negotiation with users). This conserves water in the system by reducing the number of releases required and the losses associated with each release; and</li> <li>- State Water is moving towards more accurate measuring of extractions.</li> </ul> <p>Water conservation measures implemented in the Lachlan and Macquarie Valley systems include the following:</p> <ul style="list-style-type: none"> <li>- A SCADA system is being implemented to facilitate continuous monitoring on weirs. As a consequence, structures can now be operated in a manner that is more responsive to rainfall (SCADA systems are also being implemented in the Murray and Northern areas);</li> <li>- There is increased river gauging;</li> <li>- Under the Water Sharing Plan, there is a need to replenish stock and domestics users twice annually. The North Marsh Channel, which bypasses the Macquarie Marshes, has been cleaned of silt to gain better delivery efficiency. State Water is negotiating with the Department of Environment and Conservation (DEC) regarding the adjustment of environmental releases to the North Marsh Channel;</li> <li>- The removal of willows in effluent creeks has been agreed with users in the Lachlan system in order to reduce the uptake of water by this riparian vegetation; and</li> <li>- There is a proposal to reduce the storage capacity of Lake Brewster to reduce losses. Lake Brewster is a wide and shallow storage and is prone to losing large volumes of water through evaporation.</li> </ul>

Clause	Requirement	Compliance	Comments
			<p>In the Murrumbidgee system, preliminary work associated with improvements to Yanco Creek to reduce losses was undertaken during 2005-2006. This involved the installation of two (2) flow gauging stages for monitoring purposes.</p> <p>In the Murray-Darling system:</p> <ul style="list-style-type: none"> <li>- there are a number of proposals associated with reducing losses in the Menindee Lakes system; and</li> <li>- State Water is involved on the Steering Committee for the current review of options for water savings in the Darling system.</li> </ul> <p>Whilst flows in the main rivers remain within the banks, there is some opportunity for water savings in the effluent creeks. Water Sharing Plans require that water levels in effluent creeks do not exceed 80% of bank level.</p> <p>There has been investment in improvements to the CAIRO Water Management System, including:</p> <ul style="list-style-type: none"> <li>- a breakdown of carrier sections; and</li> <li>- ongoing development activity to improve decision making tools.</li> </ul> <p>There is now a full time Operations Manager for the Hunter system.</p> <p>Opportunities for improvement include the following:</p> <ul style="list-style-type: none"> <li>- construction of a pipeline to deliver water from Chaffey Dam to Tamworth;</li> <li>- the provision of on-line storages/regulators to effectively break carriers into smaller sections;</li> <li>- delivering water during the winter;</li> <li>- improving monitoring systems with increased use of SCADA systems (to be undertaken in conjunction with DNR). There is potential to extend the monitoring into farms; and</li> </ul>

Clause	Requirement	Compliance	Comments
			<p>- improvement of the time value of water.</p> <p>State Water provided more specific details regarding the water conservation projects listed above in a document entitled "lw 061108 7.1 and 7.2 info.doc".</p>
<b>7.2</b>	<b>Supply Constraints</b>		
<b>7.2.1</b>	State Water must endeavour to manage its water release functions and operations to ensure the timely availability of water taking into account physical supply constraints.	<b>High</b>	<p>Delivery constraints are described in the Water Sharing Plans which also include regulations for permanent and temporary transfers of entitlements. Physical supply constraints are based on the size of the diversion channels that deliver the water. State Water stated that there is a problem with this as DNR can issue water licences that may exceed the capacity of the diversion channel. Where the demand exceeds the capacity, a proportional allocation is provided.</p> <p>State Water indicated that the main problem leading to supply constraints lies in effluent creeks, which are also controlled by the Water Sharing Plans.</p> <p>When there are supply constraints, customers are advised of times when water is not available.</p> <p>Actions implemented to improve the timely delivery of water include temporary increases in weir pool height in periods of higher demand and the implementation of a SCADA system to more accurately measure flows and volumes. Other actions including block releases of water increase the availability of water overall.</p> <p>Details of State Water's performance in delivery of water are covered in clause 9 of the <i>Operating Licence</i> - refer <b>Section 9.3</b>.</p>

Clause	Requirement	Compliance	Comments
<b>7.3</b>	<b>Drought Management Plan</b>		
<b>7.3.1</b>	In periods of extreme water resource shortage beyond drought of record as and when gazetted by DIPNR [now DNR], a Drought Management Plan for river operations must be developed by State Water in accordance with DIPNR [now DNR] requirements.	<b>Full</b>	<p>State Water has already developed a Drought Management Plan for the Lachlan Valley in accordance with DNR requirements and in consultation with DNR.</p> <p>State Water explained the process for implementing a Plan. In accordance with the <i>Water Management Act 2000</i>, a “severe water shortage” can be declared. In this case, the applicable Water Sharing Plan is suspended and the provisions of the Drought Management Plan are implemented.</p> <p>The Department of Natural Resources (DNR) initiates the declaration of a “severe water shortage”, but such action is based on State Water input/advice. State Water indicated that it is proactive in forecasting the onset and need for the implementation of Drought Management Plans and they consult closely with relevant Customer Service Committees (CSCs) prior to providing advice to DNR for a declaration.</p> <p>Under the Water Management Act, a “Direction” can also be made by the Minister, however, in this case the Water Sharing Plan remains active, and a number of special provisions apply. This arrangement currently applies for the Murray Valley.</p> <p>A Drought Management Plan allows for the relative adjustment of allocations to the various sources, that is, high security users; basic water rights users, and; the environment.</p> <p>A Drought Management Plan has been implemented for the Lachlan Valley since 1993-1994, as follows:</p> <ul style="list-style-type: none"> <li>- circumstances have required update of the plan several times;</li> <li>- staff have prepared and implemented an Operations Plan;</li> <li>- there has been a high level of community involvement; and</li> </ul>

Clause	Requirement	Compliance	Comments
			<p>- the process is considered to have gone well.</p> <p>State Water advised that there is also the potential need for the implementation of a Drought Management Plan in the Namoi system this year (2006-2007).</p>
<b>7.4</b>	<b>Water Metering</b>		
<b>7.4.1</b>	State Water must report to IPART by no later than 1 September each year on what action it has undertaken over the preceding financial year to address the issue of metering accuracy (for example, the number or percentage of Customer meters State Water has audited or calibrated) and its findings in carrying out this action.	<b>Full</b>	<p>State Water have included details of their compliance under this clause in their 1 September report to IPART.</p> <p>The report indicates that State Water finalised a set of NSW Water Extraction Monitoring Standards (Standards) in November 2005 which were developed in consultation with the Customer Service Committees, peak water user groups, Catchment Management Authorities and meter suppliers and retailers. The Standards have been agreed upon with DNR to be used for all regulated and unregulated customers of both agencies and have been published on both agencies' websites.</p> <p>State Water stated that the Standards will need to be reviewed in light of the proposed national standards being developed under the National Water Initiative (NWI). State Water is a member of the NWI Metering Expert Group and has indicated that the national standards are likely to be released in early 2007.</p> <p>State Water is currently undertaking analysis to establish the gap between the Standards and the meters currently installed by State Water's customers. State Water will be undertaking auditing of meters and have developed a metering audit form that allows the information to be collected.</p> <p>State Water notes that the customers themselves own and are responsible for maintaining their water meters.</p>

Clause	Requirement	Compliance	Comments
			<p>State Water will be undertaking metering audits over 2006-2007 and will initially concentrate on larger sites that divert a high proportion of the flow. There is a risk that auditing may have to be re-done depending on the final set of standards developed under the NWI.</p> <p>State Water advised that the resources required to undertake metering audits during the 2005-2006 audit period were not available as they were engaged in meter reading in preparation for the price changes to be implemented at the end of October 2006.</p> <p>State Water's Standards have set a target meter accuracy of <math>\pm 5\%</math> in the field while the expected national standards under the NWI will likely be <math>\pm 2.5\%</math> in the laboratory and <math>\pm 5\%</math> in the field.</p>
7.4.2	State Water will, by no later than 31 March 2006, submit to IPART, for IPART's approval, proposed performance measures with respect to State Water's performance in ensuring metering accuracy. Once such measures have been approved by IPART, State Water will comply with these measures for the duration of this Licence and clauses 7.4.3, 7.4.4, 7.4.5 and 7.4.6 will apply.	Medium	<p>State Water stated in their 1 September report that they provided IPART with a list of performance measures related to metering accuracy in April 2006, however, during the audit interviews State Water indicated that they had submitted the performance measures to IPART for review on 18 May 2006. State Water indicated that discussions with IPART over the performance measures were on-going.</p> <p>The performance measures submitted to IPART are:</p> <ul style="list-style-type: none"> <li>- the number of metering sites audited;</li> <li>- the percentage and change in percentage, of audited sites complying with the NSW Water Extraction Monitoring Standards; and</li> <li>- the number of directions issued by State Water on customers with non-complying meters.</li> </ul> <p>State Water noted that there was a specific clause included in existing metering site agreements that if sites are modified then they will need to conform to the newest metering standards in place.</p>

Clause	Requirement	Compliance	Comments
7.4.3	State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance measures approved under clause 7.4.2.	<b>Medium</b>	<p>State Water have not developed any corporate systems for recording or measuring performance against the measures listed in clause 7.4.2 and, as such, there are no current records of past meter auditing activities.</p> <p>State Water have indicated that they have recently awarded a contract to develop a comprehensive recording system. State Water gave no indication of what the scope of this project is or when it is expected to be completed and implemented.</p> <p>State Water provided additional information outlining that it has also developed a pro-forma which is now being used by all Customer Service Operators when conducting metering audits. The completed pro-formas will then be used by State Water to produce reports to IPART to demonstrate compliance with metering audit requirements. State Water have provided a copy of the pro-forma for review.</p>
7.4.4	State Water must report to IPART and the Minister, by no later than 1 September each year on its performance against the performance measures approved under clause 7.4.2 for the preceding financial year, including analysis of any systemic problems.	<b>NA</b>	State Water indicated that it had provided the 1 September report to the Minister for review as background to the process, however, as State Water does not currently have a formal set of performance measures, State Water's performance in achieving these targets can not be reported.
7.4.5	As part of its report, State Water must provide IPART with physical and electronic access to the records kept by State Water that enable it to prepare the report under clause 7.4.4.	<b>NA</b>	State Water does not have any records related to their performance as they do not have a recording system and they have yet to finalise performance measures.



Clause	Requirement	Compliance	Comments
7.4.6	State Water must make the report referred to in clause 7.4.4 available to the public.	Full	<p>State Water's 1 September report to IPART is available on State Water's website by following the 'About Us' link from the Home Page. The report is available as a PDF document that can be downloaded free of charge.</p> <p>All State Water offices have access to the report on the external and internal networks and can quickly download and print a copy of the report upon request from a customer.</p>
7.5	<b>Water Balances</b>		
7.5.1	State Water must prepare by no later than 1 September each year, annual water balances in the form of the template at Table 5-1 of the final report by Sinclair Knight Merz "State Water Operating Licence – Water Balance Template" dated 30 March 2005 and in accordance with that report.	Medium	<p>State Water stated in their 1 September report to IPART that water balances would be available in October 2006, apart from the water balance for the Fish River Scheme. State Water had expected to have all water balances completed by the end of October 2006, however, this has not been achieved. It is proposed to publish each water balance as it is completed; the target completion date is now the end of November 2006.</p> <p>During the audit interviews State Water indicated that water balances for a number of inland valleys have been compiled and sent for publishing on the State Water website, but to date this has not been done. State Water provided the water balances for all valley's except the Hunter Valley which they indicated had an error.</p> <p>State Water stated that in compiling the water balances, there is a need to coordinate and compare information with DNR, which is difficult.</p> <p>State Water provided additional information indicating that the water balances for Gwydir, Namoi, Macquarie, Lachlan, Murrumbidgee and the Hunter Valleys have been completed with the other valleys to be completed as resources allow.</p>

Clause	Requirement	Compliance	Comments
7.5.2	State Water may, in preparing the annual water balances referred to in clause 7.5.1, deviate from this template provided that State Water has obtained the prior written approval of IPART to do so.	NA	<p>State Water stated that the current water balances prepared are in the same format as developed by SKM.</p> <p>State Water are, however, considering a variation to the required SKM format. They have put a proposal to both the State Water Board and DNR for a format more related to the Water Sharing Plans, but have not yet submitted a proposal to IPART for approval.</p> <p>State Water also noted that NWI outcomes are now becoming an issue in respect to reporting requirements.</p>
7.5.3	State Water must make the annual water balances referred to in clause 7.5.1 available to the public.	Medium	State Water indicated that the water balances for Gwydir, Namoi, Macquarie, Lachlan, Murrumbidgee and the Hunter Valleys have been completed and uploaded to the State Water website. State Water provided copies of the water balances and also a water balance fact sheet which will also be published on the State Water website. The fact sheet provides background details on how the water balances are calculated and provides a link to the sheets for each valley.
7.6	<b>Fish River Water Balance and System Yield</b>		
7.6.1	<p>In relation to the Fish River Scheme, State Water must:</p> <p>(a) prepare by no later than 1 September each year, an annual water balance for the Fish River Scheme in the form of the template at Table 4-2 of the final report by Sinclair Knight Merz “Outcomes of consultation on performance standards and indicators for the Fish River Water Supply Scheme” dated 11 March 2005 and in accordance with that report; and</p>	Full	<p>State Water have provided a response to each of the requirements of this clause as outlined below:</p> <p>(a) State Water have prepared a water balance for the Fish River Scheme and included this water balance in the 1 September report to IPART.</p>

Clause	Requirement	Compliance	Comments
	(b) report to IPART by no later than 29 June 2008 on system yield at a specified level of reliability to be determined by State Water in consultation with the Fish River Customer Council. For the purpose of this clause 7.6.1(b), “system yield” is the average annual volume of water that can be supplied by the water supply system, subject to system inflows, an adopted set of operational rules (including the release of environmental water) and a typical demand pattern without violating a given level of service standard; and “reliability of supply” is the proportion of time that a supply system is expected to be able to meet demand, often expressed as the probability that restrictions of any given severity will not be imposed in a given year or month.	<b>NA</b>	(b) This requirement is not due until 29 June 2008, however, State Water have engaged DNR’s Hydrology team to derive the yield. The results are expected in March 2007.
<b>7.6.2</b>	State Water may, in preparing the annual water balance referred to in clause 7.6.1(a), deviate from the template referred to in that clause provided that State Water has obtained the prior written approval of IPART to do so.	<b>Full</b>	The water balance was developed using the SKM template.
<b>7.6.3</b>	State Water must make the annual water balance referred to in clause 7.6.1(a) available to the public.	<b>Full</b>	The Fish River Scheme water balance was included in State Water’s 1 September report to IPART. This report is available on State Water’s website by following the ‘About Us’ link from the Home Page. The report is available as a PDF document that can be downloaded free of charge.  All State Water offices have access to the report on the external and internal networks and can quickly download and print a copy of the report upon request from a customer.

## 7.4

### *Discussion*

In general, State Water have achieved a relatively high level of compliance with the requirements of the *Operating Licence* in respect to Water Delivery Operations. There are, however, a number of medium and high compliance ratings and these are discussed briefly in the following sections.

### 7.4.1

#### *Clause 7.2.1 Supply Constraints – High compliance*

This clause requires State Water to manage its water release functions and operations to ensure the timely availability of water taking into account physical supply constraints.

State Water has highlighted problems with the physical supply constraints such as diversion channel capacities indicating that DNR may sometimes over allocate water licences such that the capacity of the channel would be exceeded if all licence holders require water at the same time. However, State Water also has some issues with the accurate management of water release functions (refer **Section 9.3**) being a major problem.

### 7.4.2

#### *Clause 7.4.2 Meter Accuracy Performance Measures – Medium compliance*

This clause requires that State Water will, by no later than 31 March 2006, submit to IPART for approval, proposed performance measures with respect to State Water's performance in ensuring metering accuracy. Once such measures have been approved by IPART, State Water will comply with these measures for the duration of this Licence and clauses 7.4.3, 7.4.4, 7.4.5 and 7.4.6 will apply.

State Water submitted the relevant performance measures to IPART on 18 May 2006 with the delay being due to:

- confusion of the application of the national NWI standards and how they would relate to any performance measures developed, and State Water's desire to be consistent with the national standards; and
- delays in gaining State Water Board approval of the proposed measures.

### 7.4.3

#### *Clause 7.4.3 Performance Recording Systems – Medium compliance*

This clause requires that State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance measures approved under clause 7.4.2.

The issue of whether State Water has a separate recording system to capture this information is not the key issue, rather the collection of the data by means that are reproducible and auditable are the key concerns. State Water's advice that they have developed pro-formas for conducting metering audits satisfies the two key concerns. State Water need to implement this system and commence collecting data.

#### 7.4.4

##### *Clause 7.5.1 & Clause 7.5.3 Water Balances – Medium compliance*

This clause requires that State Water must prepare by no later than 1 September each year, annual water balances in the form of the template at Table 5-1 of the final report by Sinclair Knight Merz “State Water Operating Licence – Water Balance Template” dated 30 March 2005 and in accordance with that report.

State Water highlighted that there were particular difficulties in compiling the water balances which include:

- the time required to undertake meter readings;
- there is a reliance on power supply distributors to supply electricity readings for pumping stations so that run times and hence flow volumes can be calculated;
- there is no direct correlation between water use readings and licences;
- State Water don’t control the licence database and the database continues to be changed;
- not all licences have yet been finalised by DNR;
- there is no correlation between new and old licences (the change in licences relates to requirements under the Water Management Act);
- there are different types of permanent transfer;
- the notion of water balances is relatively new, and is required to be presented in a new format that differs from that previously used by State Water; and
- initial website setup (including the preparation of fact sheets) has been difficult but is expected to be easier for the next reporting period as the foundation work has been completed.

State Water also stated that there is currently a limited number of staff capable of preparing the water balances and State Water are in the process of training additional staff to undertake the work; however, State Water still consider that the 1 September submission timeframe is too tight.

State Water should consider the option of providing an initial draft of the water balances, together with an appropriate qualifier, by 1 September. Each annual State Water report to IPART would then include an initial draft for the current reporting year together with an updated report for the previous year.

The delay in developing these water balances is also resulting in a downgraded compliance level for clause 7.5.3 which requires that the water balances be made available to the public.

## **7.5**

### ***Recommendations***

#### **7.5.1**

##### ***Key recommendations***

R7.1 – State Water needs to improve performance in coordinating accurate water releases to provide timely delivery of water whilst taking into account physical supply constraints.

R7.2 – State Water to complete all remaining water balances as soon as possible and continue to investigate improvements for the timely delivery of the information by 1 September.

#### **7.5.2**

##### ***Secondary recommendations***

R7.3 – State Water to ensure that the metering performance measures developed are appropriately in line with National Water Initiative standards.

R7.4 – State Water to fully implement the pro-forma metering audit sheets to commence collecting data for inclusion in future 1 September reports to IPART.

## 8 The Environment

### 8.1 *Overview of Requirements*

Under the provisions of clause 8 of the *Operating Licence*, State Water must produce and implement a 5-year Environmental Management Plan. The Environmental Management Plan may be developed for all of State Water's operations, including the Fish River Scheme, or alternatively State Water may develop separate Environmental Management Plans for the Fish River Scheme and the rest of its operations.

State Water must also report on its performance against or compliance with the Environmental Management Plan(s).

### 8.2 *Summary of Findings*

Requirement: State Water must produce a five-year environment management plan by 1 November 2005.

Compliance: **Environment Management Plan** **High**

Comments: State Water implemented the final Environment Management Plan on 2 May 2006. The delay in submitting the Plan was a result of the State Water Board requesting changes to the Plan and the decision to place the draft Plan for public consultation.

Requirement: State Water must, by no later than 1 September each year, or an alternative later date specified by IPART, for the preceding financial year, report to IPART on its environmental performance including its performance against or compliance with the targets under this clause.

Compliance: **Environmental performance reporting** **Full**

Comments: State Water have provided a detailed report on its performance against the Environment Management Plan in their 1 September report to IPART.

### 8.3 Details of Compliance

Table 8-1 Part 8: The Environment - Compliance Level

Clause	Requirement	Compliance	Comments
8.1	<b>Environment Management Plan</b>		
8.1.1	State Water must produce a five-year environment management plan ("EMP") by 1 November 2005. The EMP may be developed for all of State Water's operations (including the Fish River Scheme) or alternatively State Water may develop separate EMPs for the Fish River Scheme and the rest of its operations, in which case the provisions of this clause 8 will apply to each of the EMPs prepared.	<b>High</b>	<p>State Water has reported on the requirements of this clause in their 1 September report to IPART. State Water finalised its Environment Management Plan (EMP) in April 2006 and a final version of the EMP was submitted to IPART on 2 May 2006. This submission date was more than 6 months past the deadline specified in the <i>Operating Licence</i>.</p> <p>State Water stated that the EMP was finalised after a period of public exhibition and incorporation of comments from stakeholder groups including key environmental regulators, Catchment Management Authorities, irrigator groups and environmental non-governmental groups such as the World Wildlife Fund and the Inland Rivers Network.</p> <p>State Water stated that they have developed an EMP that covers all of State Water's operations including the Fish River Scheme.</p> <p>A copy of the EMP was not provided to the Auditors for review, however, a copy was obtained from the State Water website and was reviewed.</p> <p>State Water provided additional information explaining the delay in the submission of the Environment Management Plan. State Water indicated that a draft of the Plan went to the Board for final sign-off on 28 October 2005, however, the Board requested changes. The Board then resolved at its next meeting on 16 December 2005 that the Environment Management Plan should be placed on State Water's website as a draft for comment prior to finalisation. As a result, the Plan was not finalised until April 2006.</p>



Clause	Requirement	Compliance	Comments
8.1.2	<p>The EMP must:</p> <p>(a) include details of State Water's program for addressing its environmental impacts and achieving environmental improvements, including (but not limited to):</p> <ul style="list-style-type: none"> <li>- management and mitigation of riverbank and bed erosion;</li> <li>- management and mitigation of water quality issues associated with storage and release (including mitigation of thermal impacts);</li> <li>- management and mitigation of barriers to fish passage;</li> <li>- an algal management strategy;</li> <li>- energy management and consumption; and</li> <li>- waste management and minimization.</li> </ul> <p>(b) adopt Ecologically Sustainable Development principles;</p> <p>(c) be integrated into State Water's business plans;</p> <p>(d) include indicators to measure the environmental impact of State Water's Asset operations and maintenance; and</p> <p>(e) incorporate environmental improvement targets and timetables for State Water to achieve those targets over the term of the EMP.</p>	Full	<p>State Water has stated in its 1 September report to IPART that the EMP includes the required details as specified in this clause. A brief review of the EMP, and particularly the environmental objectives set in the EMP compared to the requirements of this clause, reveals that the specific requirements have been incorporated as follows:</p> <p>(a) Details of State Water's programs for:</p> <ul style="list-style-type: none"> <li>- Riverbank and bed erosion – Objective 1 <i>Improve the instream and riparian environment</i>;</li> <li>- Water quality in storage and releases – Objective 2 <i>Monitor water quality in storages</i> and Objective 3 <i>Manage storage releases to optimise water quality</i>;</li> <li>- Fish passage – Objective 4 <i>Improve fish passage at weirs</i>;</li> <li>- Algal management – included in Objectives 2 and 3;</li> <li>- Energy management – Objective 6 <i>Manage energy consumption and investigate alternative sources</i>; and</li> <li>- Waste management – Objective 7 <i>Minimise and manage waste</i>;</li> </ul> <p>(b) ESD principles – Environment Policy in Appendix A of the EMP;</p> <p>(c) Integration in State Water's Business Plans – the EMP seems to imply that strategies/objectives in the EMP are incorporated into and reported in State Water's Business Plan, however, State Water has not provided a copy of their Business Plan to validate this;</p> <p>(d) Environmental performance indicators – these are outlined under each Objective in the Plan under the heading 'How performance will be tracked'; and</p> <p>(e) Environmental improvement targets – targets and timetables are set for the strategies included under each Objective.</p>

Clause	Requirement	Compliance	Comments
8.1.3	<p>State Water must review, and if necessary update, its EMP by 1 July 2007. In undertaking this review State Water must consult with the following organisations for the purpose of considering the views of those organisations consulted and whether they seek amendments to the EMP:</p> <ul style="list-style-type: none"> <li>(a) DEC;</li> <li>(b) DIPNR [now DNR];</li> <li>(c) DPI;</li> <li>(d) IPART; and</li> <li>(e) peak environmental non-government organisations.</li> </ul>	NA	<p>This requirement is not due until 1 July 2007.</p> <p>State Water plan to conduct a review and amend the EMP, if required, by 1 July 2007. During this review process State Water will consult with DEC, DNR, DPI, IPART and peak environmental non-governmental organisations. State Water intends to meet with IPART in early 2007 to discuss the process for this review.</p> <p>State Water has also provided an executive briefing document outlining the proposed process for reviewing the EMP.</p>
8.1.4	State Water must make the EMP available to the public.	Full	<p>The EMP is available on State Water's website by following the 'About Us' link from the Home Page. The report is available as a PDF document that can be downloaded free of charge.</p> <p>All State Water offices have access to the report on the external and internal networks and can quickly download and print a copy of the report upon request from a customer.</p>
8.1.5	<p>State Water must, by no later than 1 September each year, or an alternative later date specified by IPART, for the preceding financial year, report to IPART on its environmental performance including its performance against or compliance with:</p> <ul style="list-style-type: none"> <li>(a) its EMP;</li> </ul>	Full	<p>State Water has included a detailed report on its performance against the objectives and strategies included in the EMP in its 1 September report to IPART.</p> <p>State Water stated that the activities associated with the EMP have concentrated on the development of the document, consultation with staff and external stakeholders and drafting of mechanisms to allow the implementation of the EMP.</p>

Clause	Requirement	Compliance	Comments
	<p>(b) any environmental provisions of each Water Management Plan and the State Water Management Outcomes Plan issued under the <i>Water Management Act 2000</i> where applicable to State Water;</p> <p>(c) any environmental regulatory requirements applicable to State Water, including those under the water management work approval(s) issued under the <i>Water Management Act 2000</i> and the <i>Fisheries Management Act 1994</i>; and</p> <p>the environmental provisions of any MoUs referred to in clause 2.3 including any performance standards and indicators established under these MoUs.</p>		<p>State Water have reported on a number of targets including:</p> <ul style="list-style-type: none"> <li>- Commencement of a Wide Area Network (Objective 7);</li> <li>- Develop a State Water Land Management Policy (Objective 8);</li> <li>- Complete a Heritage Management Study (Objective 9);</li> <li>- Submit s170 register to Heritage Office for approval (Objective 9);</li> <li>- Conduct staff training on EMP (Objective 10); and</li> <li>- Establish Community Consultative Committee (Objective 10).</li> </ul> <p>Further details of State Water's performance against their environmental objectives are included in the 1 September report.</p>
8.1.6	State Water must make the report referred to in clause 8.1.5 available to the public.	Full	<p>The 1 September report is available on State Water's website by following the 'About Us' link from the Home Page. The report is available as a PDF document that can be downloaded free of charge.</p> <p>All State Water offices have access to the report on the external and internal networks and can quickly download and print a copy of the report upon request from a customer.</p>

## 8.4

### ***Discussion***

In general, State Water has achieved a high level of compliance with the requirements of the *Operating Licence* in respect to the Environment. There is only one area where a high compliance was awarded with the remaining areas being either full compliance or where there was no requirement for assessment. The single area of high compliance is discussed briefly in the following section.

### 8.4.1

#### ***Clause 8.1.1 Environment Management Plan***

Under this clause State Water must produce a five-year environment management plan (“EMP”) by 1 November 2005. The EMP may be developed for all of State Water’s operations (including the Fish River Scheme) or alternatively State Water may develop separate EMPs for the Fish River Scheme and the rest of its operations, in which case the provisions of this clause 8 will apply to each of the EMPs prepared.

State Water has prepared a single Environment Management Plan covering all of State Water’s operations with the final Plan being submitted on 2 May 2006, approximately six months after the deadline specified in the *Operating Licence*.

State Water provided additional information explaining the delay in submitting the final version of the Plan. The draft Environment Management Plan was submitted to the State Water Board on 28 October 2005 for final signoff, just two days before the 1 November deadline. The Board reviewed the Plan and requested changes to be made. The Board further resolved that the revised draft Plan should be submitted for public and stakeholder comment prior to finalisation.

It is unclear whether the submission of the Environment Management Plan to the State Water Board on 28 October 2005 was the first time the Board had reviewed the document or not, however, the submission of the draft Plan just prior to the deadline date was unlikely to result in an immediate turn around. State Water should have allowed more time for the Board to review and agree on the document. Additional time should also have been allowed for public and stakeholder consultation.

## 8.5

### ***Recommendations***

### 8.5.1

#### ***Key recommendations***

No recommendations proposed in respect to this section.

### 8.5.2

#### ***Secondary recommendations***

No recommendations proposed in respect to this section.

## 9 Performance Indicators

### 9.1 *Overview of Requirements*

Under the provisions of clause 9 of the *Operating Licence*, State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against a number of performance indicators related to:

- State Water (excluding the Fish River Scheme):
  - Water Delivery; and
  - Policing Functions;
- Fish River Scheme:
  - Asset Management;
  - Water Delivery; and
  - Water Quality.

State Water must also report on its performance against its performance indicators.

### 9.2 *Summary of Findings*

Requirement: State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance indicators set out in Schedule 1 of the *Operating Licence*.

Compliance: **Performance indicator record systems** **Medium**

Comments: State Water does not have a single system to measure performance against the indicators, however, State Water have indicated that systems are in place to collect information in respect to eight out of the ten indicators.

Requirement:	Schedule 1, Part A – Water Delivery indicators.	
Compliance:	% of customers contacted for non-complying order	NC
	% of complying orders $\pm 1$ day off delivery	Low
	% of orders rescheduled within one day	NC
	% of time daily minimum flow is met	Full
	% of complying intra-valley transfers made within 4 days of application	Full
Comments:	In general, State Water did not have the recording systems to measure performance against these indicators.	

Requirement:	Schedule 1, Part A – Policing Functions	
Compliance:	<b>Vol of water &gt; access licence conditions</b>	<b>Full</b>
	<b>Value of penalties imposed</b>	<b>Full</b>
	<b>Vol of penalties imposed</b>	<b>Full</b>
	<b>No of licences suspended</b>	<b>Full</b>
	<b>No of approvals suspended</b>	<b>Full</b>
Comments:	State Water achieved full compliance with the requirements of this clause.	

Requirement:	Schedule 1, Part B – Fish River Asset Management	
Compliance:	<b>Ave response unplanned supply</b>	<b>Low</b>
	<b>No of planned supply interruptions</b>	<b>Full</b>
	<b>No of unplanned supply interruptions</b>	<b>Full</b>
	<b>Ave duration of planned interruptions</b>	<b>Full</b>
	<b>Ave duration of unplanned interruptions</b>	<b>Full</b>
Comments:	State Water generally achieved full compliance apart from the average response time to an unplanned interruption which is not generally measured.	

Requirement:	Schedule 1, Part B – Fish River Water Delivery	
Compliance:	<b>% of time daily minimum flow is met</b>	<b>Full</b>
Comments:	State Water achieved full compliance with this requirement for environmental flow release monitoring.	

Requirement:	Schedule 1, Part B – Fish River Water Quality	
Compliance:	<b>% compliance with ADWG 2004</b>	<b>Full</b>
Comments:	State Water generally achieved full compliance with the guidelines from ADWG 2004 apart from one parameter, colour, which achieved 92% instead of 100%.	

Requirement:	State Water must report to IPART, by no later than 1 September each year on its performance against the performance indicators in Schedule 1 for the preceding financial year, including analysis of any systemic problems.	
Compliance:	<b>Performance reporting</b>	<b>Full</b>
Comments:	State Water reported under this clause in their 1 September report to IPART.	

### 9.3

### *Details of Compliance*

**Table 9-1 Part 9: Performance Indicators - Compliance Level**

Clause	Requirement	Compliance	Comments
<b>9.1</b>	State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance indicators set out in Schedule 1.	<b>Medium</b>	<p>State Water has provided some background information on its reporting mechanisms in their 1 September report to IPART. In general, State Water does not have specific systems in place to report against the performance indicators listed in Schedule 1 of the <i>Operating Licence</i>.</p> <p>In addition, State Water has indicated that they are not planning to develop a specific system for recording these details as they will derive their performance results from existing systems.</p> <p>While State Water does not have a single system for reporting, it is able to report on eight of the ten performance indicators from recording systems such as the Computer Aided Improved River Operations (CAIRO) and the Water Accounting System.</p> <p>State Water indicated that in most of the regulated river valleys, the new Water Sharing Plans came into effect during the 2005-06 year and the new water Access Licences and trading rules were progressively rolled-out over an extended period. State Water indicated that this led to considerable overhauls and patches to the existing Water Order and Usage Systems to cope with changing rules.</p>

Clause	Requirement	Compliance	Comments
<b>Schedule 1 Part A</b>	1. Water Delivery		
	“percentage of Customers contacted within one working day of a non-complying water order being placed;”	<b>NC</b>	<p>State Water does not have a system in place to report on this indicator.</p> <p>State Water uses their Water Accounting System to enter compliant orders in the Northern and Central regions whereas in other regions a paper-based system is used, however, neither system allows recording of non-compliant orders or how State Water responds to the orders.</p> <p>State Water are planning to introduce an electronic water ordering system called Water Information Exchange (WIX) which will immediately prevent any non-complying orders from being made. The timeframe for implementation of this system is not defined, although State Water hope to commence some trials of the system in 2006-2007. The Project Manager for WIX is based at DNR.</p> <p>Prior to WIX being implemented, State Water are developing an MS Excel spreadsheet based system for recording non-compliant orders, however, State Water advises that this system is not likely to be implemented until early 2007.</p>
	“percentage of complying orders identified as being delivered outside of +/- 1 day of the scheduled day of delivery;”	<b>Low</b>	<p>State Water does not have a system in place to report on this indicator.</p> <p>State Water stated that they rely on customer complaints to determine if the water ordered has been delivered or not. State Water indicated that their bulk delivery systems require their customers to access their water orders from the river without direct supervision of State Water staff.</p> <p>State Water received six (6) customer complaints related to water ordering in 2005-2006. State Water also indicated that they cannot give the total number of complying orders as small orders are not recorded in the Water Accounting System.</p>



Clause	Requirement	Compliance	Comments
			For one valley, in which four (4) of the six (6) complaints were recorded, there were over 25,000 order-days. This means that complaints were received for about 0.02% of the total water orders in the valley.
	“percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay;”	<b>NC</b>	<p>State Water stated that they do not have any systems to collect information on rescheduled orders, but indicated that they had no known or notified shortages or delays in delivery.</p> <p>During the audit interviews State Water indicated that they did in fact have a number of rescheduled orders, however, the current management/reporting system does not differentiate between an State Water initiated rescheduling or a customer initiated rescheduling, ie whether the rescheduling was due to delivery delays by State Water or changes to the order made by the customer that delay the delivery date.</p> <p>State Water indicated that they fill a total of around 50,000 orders per year and estimate that less than 1% of these orders have required rescheduling.</p> <p>State Water stated that the identification of a potential shortfall in released water may be initially highlighted in the CAIRO system, however, the operator uses their own judgement as to whether this will lead to a shortfall between water released and water ordered.</p>
	“percentage of time that daily minimum flow targets are met;”	<b>Full</b>	<p>State Water reported, in their 1 September report to IPART, that their daily flow targets were met about 93% of the time over the 2005-2006 audit period. Further, State Water indicated that most of the period for which flow targets were not met occurred in the Gwydir Valley and was related to the changing flow conditions in the valley caused by flood flows and the impact they have on flow times for customer orders.</p> <p>State Water have suggested that the definition of the daily minimum flow target be revised in the Implementation Manuals for the Water Sharing Plans.</p>

Clause	Requirement	Compliance	Comments
			During the audit interviews State Water also stated that reporting on the daily minimum flow targets is based on actual operational records not on hydrographically corrected information which is prepared by DNR. State Water indicated that this issue could conflict with delivery to customers and lead to a potential need for re-scheduling of customer orders.
	“percentage of complying intra-valley transfers processed within four working days of State Water’s receipt of correctly completed application form and fee.”	<b>Full</b>	State Water reported in their 1 September report to IPART that they had processed 56% of the 2,735 transfer applications within four working days. State Water also stated that the current fees do not fully recover the cost of State Water’s management of the transfer process and as such it is difficult to increase service levels. State Water also stated that the transfer rules were changed several times requiring additional time to clarify the rules and transfer limits.
	2. Policing Functions		<p>State Water provided some background information on the policing functions. The <i>Water Management Act 2000</i> allows the imposition of penalties for use of water in excess of licence conditions. Penalties may comprise both volume penalties and usage charges of up to five (5) times the value of the excess use. Penalty rules are adopted and implemented on the basis of the areas covered by each Customer Service Committee.</p> <p>State Water indicated that most overruns occur during the year, and customers are asked to get their account in order using the following incremental approach:</p> <ul style="list-style-type: none"> <li>- a verbal request is made for the customer to set their account straight (primarily by purchase of water);</li> <li>- issue of a formal letter; and</li> <li>- imposition of a penalty.</li> </ul>

Clause	Requirement	Compliance	Comments
			<p>State Water indicated that there have been some problems with adjustments in the Murrumbidgee Valley as there has been no water transfer allowed under the Water Sharing Plan during the period March to June. In addition there have been some problems in the Hunter, as follows:</p> <ul style="list-style-type: none"> <li>- there is no established water market; and</li> <li>- prior to this year, there has been 100% allocation.</li> </ul> <p>Under the separation of powers, the Department of Natural Resources (DNR) initiates prosecutions. Under new arrangements, it appears that it will not be possible to prosecute for meter tampering.</p> <p>State Water have not yet set up a process for the suspension of licences and entitlements. This is to be done in conjunction with DNR under the new Water Sharing Plan arrangements.</p>
	“volume of water taken in excess of access licence conditions under the Water Management Act 2000 (ML) and number of licences and licence breaches involved”	<b>Full</b>	State Water reported that the volume of water taken in excess of licence conditions at 30 June 2006 was 3,811.3ML which equates to about 0.07% of average water sales. State Water also reported that there were 44 licences that had taken in excess of their licence conditions.
	“value of penalties imposed by State Water for taking of water in excess of licence conditions under the Water Management Act 2000 or the Water Act 1912 (\$)”	<b>Full</b>	<p>State Water reported that the value of penalties imposed over the 2005-2006 audit period was \$1,230.15. State Water advised, during the audit interviews, that this penalty related to a single case of meter tampering.</p> <p>In comparison to the volume of water taken in excess of licence conditions this represents a penalty of about \$0.32/ML.</p>
	“volume of penalties imposed by State Water for taking water in excess of access licence conditions under the Water Management Act 2000 (ML)”	<b>Full</b>	State Water reported that the volume of penalties imposed over the 2005-2006 audit period was 1,360ML.

Clause	Requirement	Compliance	Comments
	“number of licences and entitlements suspended under the Water Management Act 2000 or the Water Act 1912”	<b>Full</b>	State Water reported that no licences or entitlements were suspended in 2005-2006 under either of the Acts.  During the audit interviews State Water indicated that it has not yet set up a process for the suspension of licences or entitlements. This is to be done in conjunction with DNR under the new Water Sharing Plan arrangements.
	“number of approvals suspended under the Water Management Act 2000”	<b>Full</b>	State Water reported that no approvals were suspended in 2005-2006 under the Act.
<b>Schedule 1 Part B</b>	Fish River Scheme Indicators 1. Asset Management		
	“the average response time for unplanned supply interruptions;”	<b>Low</b>	State Water reported in their 1 September report that the response time for an un-planned interruption was immediate, that is, as soon as staff become aware of a problem, then maintenance staff are deployed to remedy the situation.  During the audit interviews, the issue of response time was clarified as meaning the exact time it takes from being notified of a problem in the system to the rectification of the problem. Where the problem results in an interruption to supply, the time needs to be recorded for the purposes of this indicator.  State Water have provided additional information stating that they have recently implemented a system to ensure accurate collection of this data in the future. The system involves the completion of an Incident Report form detailing the time of notification and the time arrived on-site.
	“number of planned water supply interruptions;”	<b>Full</b>	State Water reported that there were two planned water supply interruptions in 2005-2006.

Clause	Requirement	Compliance	Comments
	“number of unplanned water supply interruptions;”	<b>Full</b>	<p>State Water reported that there were two unplanned water supply interruptions in 2005-2006. State Water indicated that the interruptions resulted from not being able to cross-connect pipes to maintain supply through the duration of the problem.</p> <p>State Water also indicated that the scheme had nine (9) pipe breaks and twelve (12) leaks during the 2005-2006 audit period that were able to be rectified while maintaining supply.</p>
	“average duration of planned water supply interruptions;”	<b>Full</b>	State Water reported that the average duration of planned water supply interruptions was 8 hours.
	“average duration of unplanned water supply interruptions.”	<b>Full</b>	State Water reported that the average duration of unplanned water supply interruptions was 10 hours. State Water advised that they consider an unplanned interruption to be when a customer has not had at least 24 hours notice of the interruption or when a planned interruption exceeds the time originally notified to the customer.
	2. Water Delivery		
	“percentage of time that daily minimum flow targets are met.”	<b>Full</b>	State Water reported that the scheme fully met the daily minimum flow target of 2.5ML/day riparian release.
	3. Water Quality		
	“percentage compliance with Australian Drinking Water Guidelines (2004) at the Fish River Scheme’s water sampling locations for e-coli, colour, turbidity, iron, manganese, aluminium and pH.”	<b>Full</b>	State Water provided details of the monitoring compliance with ADWG 2004 in their 1 September report to IPART. State Water complied with most of the parameters except for Colour which had 92% compliance with ADWG 2004 rather than the required 100%.

Clause	Requirement	Compliance	Comments
9.2	State Water must report to IPART, by no later than 1 September each year on its performance against the performance indicators in Schedule 1 for the preceding financial year, including analysis of any systemic problems.	Full	State Water has reported under this clause in their 1 September report to IPART.
9.3	As part of its report, State Water must provide IPART with physical and electronic access to the records kept by State Water that enable it to prepare the report under clause 9.2.	Full	State Water has committed to providing IPART access to physical and electronic records upon request.
9.4	State Water must make the report referred to in clause 9.2 available to the public.	Full	<p>The 1 September report to IPART is available on State Water's website by following the 'About Us' link from the Home Page. The report is available as a PDF document that can be downloaded free of charge.</p> <p>All State Water offices have access to the report on the external and internal networks and can quickly download and print a copy of the report upon request from a customer.</p>

## 9.4

### *Discussion*

Overall, State Water has achieved a medium level of compliance with the requirements of the *Operating Licence* in respect to Performance Indicators as there are a number of medium, low and non-compliance ratings for specific requirements. These issues are discussed briefly in the following sections.

### 9.4.1

#### *Clause 9.1 Recording Systems – Medium Compliance*

Under this clause, State Water must maintain record systems that are sufficient to enable them to accurately measure their performance against the performance indicators listed in the *Operating Licence*.

State Water have indicated that they do not have, and are not planning to develop, specific recording systems to measure performance against the performance indicators. Rather they are using existing monitoring systems such as CAIRO, the Water Accounting System and the customer complaints system. However, these systems do not provide for the measurement of performance against two (2) of the ten (10) indicators set out in Schedule 1, Part A of the *Operating Licence*, namely:

- “percentage of Customers contacted within one working day of a non-complying water order being placed” and,
- “percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay”.

State Water are developing the Water Information Exchange (WIX) program which is designed to capture water orders directly from a number of sources. The program will not allow non-complying water orders to be entered into the scheduling system and will presumably be flagged and returned to the customer immediately. The Water Information Exchange program, however, is still under development, with trials of the program being undertaken during 2006/07.

### 9.4.2

#### *Clause 9.1 Schedule 1 Part A Section 1 Indicators*

These indicators relate to the performance of State Water in water delivery. State Water achieved the following performance against these indicators:

- “percentage of Customers contacted within one working day of a non-complying water order being placed” – non-compliance

State Water currently has no system in place to record this information. State Water has stated that the Water Information Exchange program will prevent non-complying orders from being made, with, presumably, the customer being notified immediately that the order is non-complying. If this is the case, and assuming that the Water Information Exchange program handles all customer orders, then this performance indicator will no longer be valid and State Water should investigate replacing the indicator. State Water’s comments on the 2<sup>nd</sup> Draft Audit Report acknowledged the lack of reporting systems in place and did not seek to adjust the compliance rating.

- “percentage of complying orders identified as being delivered outside of +/- 1 day of the scheduled day of delivery” – low compliance

State Water indicated that they do not have a specific system to record these details; rather, they rely on customer complaints to identify when water orders have not been delivered. State Water stated that they had received six (6) complaints related to water ordering in 2005-2006, however, could not provide the total number of complying orders, stating that small orders are not recorded in the Water Accounting System. State Water did indicate that one valley received four (4) of the six (6) total complaints and in this valley over 25,000 orders were received; meaning that 0.02% of orders had a complaint against them.

State Water provided comments on the 2<sup>nd</sup> Draft Audit Report indicating that using customer complaints was the only cost-effective method of identifying if orders are delivered on time. However, the use of river flow monitoring such as flow gauging stations may be able to provide this information if the data can be retrieved quickly and if there are enough stations to measure the river flow in sufficient detail.

There are a couple of potential issues in using customer complaints as a performance measure for this indicator:

- There may still be flow in the river – even if there is a delay in the scheduled water release travelling down the river, the customer may still be able to access their order on the scheduled day of delivery. If there is flow in the river the customer is likely to extract their order, however, the customer may be extracting water meant for environmental flows. There would be no customer complaint recorded in this case even though there was a delay in the scheduled delivery, and further, there is the problem that water meant for environmental flows has been unknowingly extracted by the customer.
- The customer may not complain – the performance indicator specifies a range of +/- one (1) day outside the scheduled day of delivery. However, the customer may not complain immediately, that is, within one (1) day of the scheduled delivery date. The customer could conceivably wait a couple of days for the scheduled delivery to arrive and only then, if the required flow still has not arrived, might the customer ring up and complain. If the flow arrives two (2) days after the scheduled delivery date, the customer might just extract their order and not notify State Water that the delivery was late. This latter example would still be a breach of the target and must be reported under the *Operating Licence*.

The latter issue raised above may be a problem with the specified target of +/- one (1) day in the *Operating Licence*, which may not reflect the reality of scheduling water deliveries within State Water’s operations. State Water have



previously indicated that the process of delivering releases to customers down river is complicated with it sometimes taking up to two (2) weeks to deliver water from the release point to a customer in the far reaches of the river. This target should perhaps be reviewed to better reflect the uncertainty in scheduled water deliveries.

State Water also noted in their comments on the 2<sup>nd</sup> Draft Audit Report that if the customers were taking environmental flows then this might have an impact on State Water's performance in meeting daily flow targets. State Water, however, indicated that over the audit period they achieved their daily flow targets 93% of the time. While this is a commendable achievement, there are many issues that affect environmental flows such as variances in rainfall, infiltration, leakage and evaporation that might make this comparison irrelevant. State Water's comments on the 2<sup>nd</sup> Draft Audit Report did not justify an adjustment to the compliance rating awarded.

- *“percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay”* – non-compliance

State Water have indicated that they are able to report on the number of rescheduled orders, however, are unable to distinguish if the customer has rescheduled the order or if the rescheduling was a result of State Water operations. State Water stated that out of a total of around 50,000 orders per year they estimate less than 1% of the orders required rescheduling of any kind, however, did not provide specific evidence to confirm this.

State Water's current method of recording whether an order has been rescheduled could be expanded to detail whether the reschedule was a result of a customer request or a State Water operational requirement. The new Water Information Exchange system could also perhaps be used to record these details for customer.

#### 9.4.3

##### *Clause 9.1 Schedule 1 Part B Section 1 Indicators*

These indicators relate to the performance of State Water in the operation of the Fish River Water Supply Scheme. State Water achieved the following performance against these indicators:

- *“the average response time for unplanned supply interruptions”* – low compliance

State Water reported that their response time was immediate, however, this response indicates that there is not a clear understanding of the intention of the target. This indicator is designed to measure the time elapsed from receiving notification of a problem in the system (whether by an automated alarm, notification by a customer or staff member, or any other person) to rectifying the problem. This indicator only applies for unplanned supply interruptions, that is, where the problem is unscheduled and where the problem results in a lack of supply.

State Water acknowledged that they did not have a system in place to report on performance against this indicator. State Water indicated in their comments on the 2<sup>nd</sup> Draft Audit Report that they have recently implemented a system to collect information on this indicator through the use of an Incident Report form which details the time of notification of the incident and the time arrive on-site. State Water also indicated in their comments that they are confident their customers would confirm that the small number of unplanned supply interruptions were attended in a timely manner.

## **9.5**

### ***Recommendations***

#### **9.5.1**

##### ***Key recommendations***

R9.1 – State Water should accelerate the implementation of the Water Information Exchange program to ensure that the information required (as detailed in the discussion above) under this part of the *Operating Licence* is collected for the next Operational Audit.

R9.2 – State Water should investigate alternative methods of measuring performance in delivering orders within +/- one (1) day of the scheduled day of delivery. This may include, for example, additional flow gauging stations at strategic locations to assist in monitoring for the timing of scheduled releases.

R9.3 – State Water should investigate whether the current method of recording rescheduled orders can be expanded to note whether the rescheduling was requested by the customer or was a result of State Water operations.

R9.4 – State Water to accelerate implementation of the Incident Report form and ensure that staff are provided training in the use of the form. The information collected on the form should be stored in order to report the information at the next Operational Audit.

#### **9.5.2**

##### ***Secondary recommendations***

R9.5 – State Water may wish to review the performance target related to reporting the delivery of water orders outside +/- one (1) day of the scheduled day of delivery to more accurately reflect the complexities of water delivery.

## 10 Pricing

### 10.1 *Overview of Requirements*

Under the provisions of clause 10 of the *Operating Licence*, State Water must apply a level of fees, charges and other amounts payable for its services subject to the terms of the *Operating Licence*, the *State Water Corporation Act* and the maximum prices and methodologies for State Water's supply of water determined from time to time by IPART.

State Water's pricing policies and practices must also be consistent with the COAG Strategic Framework for Water Reform and other initiatives relating to water.

### 10.2 *Summary of Findings*

Requirement:	State Water to apply fees and charges for all services in accordance with the terms of the <i>Operating Licence</i> , relevant legislation, COAG Strategic Framework for Water Reform initiatives, and any IPART determinations related to setting the maximum fees and charges payable.		
Compliance:	<b>Price setting</b>		<b>Full</b>
Comments:	State Water applies the fees and charges specified in the most recent IPART Bulk Water Pricing Determination.		

### 10.3

### *Details of Compliance*

**Table 10-1 Part 10: Pricing - Compliance Level**

Clause	Requirement	Compliance	Comments
10.1	State Water must apply the level of fees, charges and other amounts payable for its services subject to the terms of this Licence, the Act and the maximum prices and methodologies for State Water's supply of water determined from time to time by IPART.	Full	State Water applies the fees and charges specified in the latest IPART Pricing Determination.
10.2	The pricing policies and practices of State Water must be consistent with the COAG Strategic Framework for Water Reform and other COAG initiatives relating to water. In particular, State Water must ensure:	Full	State Water applies the fees and charges specified in the latest IPART Pricing Determination.
10.2.1	the usage based component of charges is not lower than 50% by 1 July 2006; and	Full	
10.2.2	the usage based component of charges is not lower than 60% by 1 July 2008.	Full	
10.3	Any submission by State Water to IPART in relation to the maximum prices and methodologies for State Water's supply of water to be determined by IPART is to reflect the applicable usage based component of charges referred to in clause 10.2.	Full	Clause 10.3.3 of State Water's pricing submission <i>State Water Corporation Bulk Water Pricing Submission to the Independent Pricing and Regulatory Tribunal</i> , September 2005, which is available on the IPART website, outlines its proposals in respect to the usage based component of charges. These proposals comply with the requirements of this clause.

**10.4**

***Discussion***

State Water operates under the IPART Bulk Water Pricing Determination which sets the maximum fees and charges payable for all services.

**10.5**

***Recommendations***

**10.5.1**

***Key recommendations***

No recommendations proposed in respect to this section.

**10.5.2**

***Secondary recommendations***

No recommendations proposed in respect to this section.



## **Appendix A Operational Audit Brief**

This Appendix includes the Brief prepared by IPART for undertaking this Operational Audit which is included to show the scope of services required.



## **Request for Tender**

**RFT No W2/2006**  
**("RFT Reference")**

Operational Audit of Sydney Water Corporation

Operational Audit of Hunter Water Corporation

Operational Audit of the Sydney Catchment Authority

Operational Audit of State Water Corporation

### **IMPORTANT NOTE**

This Request for Tender refers to four Operational Audits, namely audits of Sydney Water Corporation, Hunter Water Corporation, The Sydney Catchment Authority and State Water Corporation.

Tenderers may wish to be considered for one or more of these audit projects.

Tenderers who wish to be considered for more than one audit need to submit a separate tender for each audit.

Tenders close Friday 18 August 2006



## **Some Background on the Regulatory Environment and the Water Utilities**

Sydney Water Corporation (Sydney Water) is a State Owned Corporation that provides water, sewerage and some stormwater drainage services to about 4 million people within Sydney, Blue Mountains and Illawarra regions.

Hunter Water Corporation (Hunter Water) is also a State Owned Corporation that provides water, sewerage and some stormwater drainage services to almost 500,000 consumers within the localities of Newcastle, Lake Macquarie, Maitland, Cessnock and Port Stephens.

The Sydney Catchment Authority (SCA) was established to manage water supply and protect catchments, supply bulk water and regulate activities within the catchments to improve water quality, protect public health and protect the environment. It has primary responsibility for Sydney's bulk water supply, which is drawn from the catchments of four major river systems – the Warragamba, Upper Nepean, Woronora and Shoalhaven. These catchments extend over 16,000 square kilometres and surround the Greater Sydney Metropolitan Region.

State Water Corporation (State Water) operates 21 dams and 280 weirs and river regulators to deliver bulk water to regional and rural NSW. It provides bulk water to river pumpers, irrigation companies, towns, farms, mines and electricity generators. State Water also delivers water for the environment as well as unlicensed stock and domestic users on regulated rivers.

The NSW Government has granted Operating Licences to these water utilities in accordance with the relevant enabling legislation (*Sydney Water Act 1994*, *Hunter Water Act 1991*, *Sydney Water Catchment Management Act 1998* and *State Water Corporation Act 2004*). A copy of the current Operating Licences can be found at [www.sydneywater.com.au](http://www.sydneywater.com.au), [www.hunterwater.com.au](http://www.hunterwater.com.au), [www.sca.nsw.gov.au](http://www.sca.nsw.gov.au), and [www.statewater.com.au](http://www.statewater.com.au). Licences for the metropolitan utilities include a requirement that an annual Operational Audit of the utility's performance against its obligations under the respective Licence be undertaken. The State Water licence is required to be audited every two years following an initial audit. This Request for Tender refers to these audits.

It is intended that staff from the Tribunal's Secretariat will chair all audit meetings. The role of the Secretariat staff at these meetings is to facilitate discussion and manage any difficulties that arise between the auditor and the utility. This arrangement will also allow the Tribunal to be fully informed of the progress of these audits.

These audits are used by the Tribunal as the basis for its reports on the utility's performance and recommendations to the relevant portfolio Minister. The Environment Protection Authority, the Department of Infrastructure, Planning and Natural Resources and NSW Health continue to regulate water utilities activities concerning the environment, their use of water resources and public health respectively.

NSW is a signatory to the National Water Initiative. An obligation under this inter-governmental agreement is that each State collects data on benchmark indicators from certain water utilities. The Water Services Association of Australia (WSAA) will co-ordinate the collection of the national data on behalf of the National Water Commission.

The audits of performance against the Operating Licences for both Sydney Water and Hunter Water will include audits of these NWI indicators. Indicator definitions are shown at <http://www.wsaa.asn.au/pdf/2006/nationalperformanceframework.pdf>. It should be noted that it will not be mandatory for utilities to provide data for all indicators in the WSAA document, only those designated as NWI indicators (73 indicators in total). Audit of other WSAA indicators will be voluntary. The Tribunal will provide the successful tenderer with an excel spreadsheet template to accommodate NWI data.

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## **Schedule 1      Services Required**

### **1. Services**

This Request for Tender refers to four Operational Audits, namely audits of Sydney Water Corporation, Hunter Water Corporation, The Sydney Catchment Authority and State Water Corporation. The audits of Sydney Water and Hunter Water will also incorporate an audit of benchmark indicators for the National Water Initiative (NWI).

**Tenderers may wish to be considered for one or more of these audit projects. Tenderers who wish to be considered for more than one audit need to submit a separate tender for each audit.**

#### **Objectives of Consultancy**

The objective of each of these audits is to assess the utility's performance against the relevant Operating Licence for the period from 1 July 2005 to 30 June 2006. For Sydney Water and Hunter Water the audit will also assess performance against NWI benchmark indicators.

#### **Detailed Scope of Work**

##### **Operational Audits**

In undertaking the operational audits, the auditor must:

- a) conduct a detailed examination of those utility activities that are regulated by the Operating Licence;
- b) assess the level of compliance achieved by the utility against each of the requirements of the Operating Licence, providing detailed supporting evidence for this assessment and reporting compliance according to the Tribunal's established compliance scoring methodology;
- c) assess and report on progress by the utility in addressing any comments made by the relevant portfolio Minister pertaining to previous audits (Attachment 1), providing supporting evidence for these assessments;
- d) for each section of the Operating Licence, identify factors (if any) that have affected the utility's performance for the period from 1 July 2005 to 30 June 2006. This includes verifying the calculation of performance indicators associated with relevant requirements of the operating licences and undertaking an assessment of any underlying trends in performance arising from these indicators. Make recommendations to the Tribunal on how the utility can improve its performance in the future, based on the audit assessment;
- e) provide a formal briefing to the Tribunal or the Tribunal's Secretariat comprising an overview of the utility's overall performance against the requirements of the Operating Licence and the key findings of this assignment; and
- f) prepare a full report on the findings of the assignment, including a summary of the utility's overall performance against the requirements of the Operating Licence and detail of its compliance with each requirement of the Operating Licence and any requirements of the Minister in Attachment 1.

The auditor will be responsible for assessing and interpreting the audit requirements in the relevant Operating Licence and the Act and ensuring that the audit process satisfies all statutory requirements. Notwithstanding this, the audit report should reflect the emphasis of the legislation and the Operating Licence on water quality, system performance, environmental and consumer issues. Additionally, the Tribunal has identified some key issues for the 2004/2005 round of utility audits set out in the following table.

Utility	Issue
Sydney Water	Water Conservation and Demand management, Water quality
Hunter Water	Drinking Water Continuity
	Debt and disconnection
SCA	Catchment Management, Water quality
	Performance Criteria

Under the Operating Licences, the water utilities are required to provide the Tribunal with a range of reports to inform the Operational Audit. This package of information will be provided to each successful tenderer.

The Tribunal will advertise these audit processes and seek submissions from the public. The audit process must take account of any public submissions received and the views of relevant regulators (Department of Environment and Conservation, NSW Health and the Department of Natural Resources) and other stakeholders including environment, social welfare and public interest groups.

The Tribunal has determined that the Secretariat should undertake some aspects of future operational audits. The successful tenderer will be expected to provide the Secretariat with some training and guidance in audit concepts and procedures.

### **NWI Indicators**

The Tribunal anticipates that the audit of NWI data will be done concurrently with the Operational Audits of Sydney Water and Hunter Water. The Tribunal will require that data and comments be entered into the electronic data templates and that these will be provided to the Tribunal by Friday 13 October, 2006.

In undertaking the NWI audit, for any measure not included in the Operational Audit, the auditor must ensure the consistency and comparability of audit results. This will include analysis of documented procedures, information and quality controls, and relevant data. Any changes in systems and documented procedures must be identified.

Compliance will need to be graded according to the NWI compliance scale, which will be provided to the successful tenderer. In cases of significant non-compliance, the auditor will need to assess the utility's business's plan to ensure compliance.

### **Outputs**

The main outputs from each audit are:

1. two draft reports and a final written report addressing the objectives of the consultancy relevant to the Operating Licence and the Ministerial requirements.

2. discussions and meetings with the Tribunal and/or the Tribunal Secretariat, and
3. presentations to the Tribunal and/or Tribunal Secretariat which outline the major issues and findings relevant to the objectives.

Four bound copies and 1 loose-leaf copy, as well as electronic copies in Microsoft Word format, should be provided for the draft and final reports referred to in point 1 above. Details of the Tribunal's preferred format will be provided to the successful tenderer.

The first draft report should provide details of audit findings for each auditable requirement of the relevant Operating Licence. The second draft report should also include compliance assessment, commentary and relevant summaries.

On completion of the audit, the auditor's Operating Licence reports, working papers and advice provided to the Tribunal will become the property of the Tribunal. The final Operating Licence audit reports are provided to the relevant portfolio Minister (the Sydney Water audit report will be tabled in Parliament). Accordingly, the report should be clearly and logically set out and written in plain English, avoiding the use of unnecessary technical language. The Tribunal will also publicly display and make the report available for downloading on its website.

For the NWI audit, the Tribunal requires a 7 page WSAA excel data template be completed with relevant commentary.

### **Timing**

The successful tenderer must be able to meet the following work schedule:

<b>Activity</b>	<b>State Water</b>	<b>Hunter Water</b>	<b>SCA</b>	<b>Sydney Water</b>
Start Contract	28 August	28 August	28 August	28 August
First Draft Audit Report	29 September	29 September	29 September	29 September
NWI excel report complete		13 October		13 October
Second Draft Audit Report	27 October	27 October	27 October	27 October
Discussion of Final Draft	4 December	4 December	4 December	4 December
Delivery of Final Draft	15 December	15 December	15 December	15 December

Formal written progress updates will be required from the consultant on a weekly basis. Formal review meetings will be required following the delivery of each draft audit report (early October and early November). Other progress meetings may be required. The detailed consultancy work plan should reflect these progress meetings.

### **Proposal**

The consultancy proposal should demonstrate an appreciation of the task and a description of the intended approach for carrying it out. It should list the personnel to be involved, including resumes detailing relevant experience. A detailed work plan, which includes the allocation of resources to tasks, is also required.

## **2. Closing date for tenders**

Tenders to this RFT must be lodged with the Tribunal by no later than 5:00 pm on Friday 18 August 2006 ("Closing Date").

## **3. Further Information**

All enquires in relation to this RFT must specify the RFT Reference and must be directed in writing in hard copy format, facsimile, or e-mail to:

Name	<b>Bob Burford</b>
Telephone	(02) 9290 8408
Facsimile	(02) 9290 2061
E-mail	bob_burford@ipart.nsw.gov.au
Address	Level 2 44 Market Street SYDNEY NSW 2000

A detailed response that addresses all enquiries received will be provided to all tenderers.



## **Appendix B      State Water Corporation Operating Licence 2005-2008**

This Appendix contains State Water Corporation's *Operating Licence* for the period from 2005-2008. State Water Corporation's performance against the requirements of this *Operating Licence* was assessed for this audit.



New South Wales

**STATE WATER CORPORATION ACT 2004**

**OPERATING LICENCE ISSUED UNDER  
SECTION 11(1) OF THE  
STATE WATER CORPORATION ACT 2004**

I, Professor Marie Bashir AC, Governor of the State of New South Wales, with the advice of the Executive Council and on the recommendation of the portfolio Minister, in pursuance of section 11(1) of the *State Water Corporation Act 2004*, hereby grant the operating licence of State Water Corporation subject to the terms and conditions set out below, commencing 24 June 2005.

A handwritten signature in cursive script, reading "Marie Bashir".

**Governor of New South Wales**

Signed at Sydney, this 22nd day of June 2005.

**STATE WATER  
OPERATING LICENCE**

**UNDER THE *STATE WATER CORPORATION ACT 2004***

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# **1 Information about this Licence**

## **1.1 Purpose of Licence**

1.1.1 The purpose of this Licence is to set out the terms and conditions under which State Water is to:

- (a) meet the objectives and other requirements imposed on it in the Act;
- (b) provide, construct, operate, manage and maintain efficient, co-ordinated and commercially viable systems and services for capturing, storing and releasing water;
- (c) recognise the rights given to Customers and the community by this Licence;
- (d) be subject to Audits of compliance with this Licence;
- (e) undertake the Functions of the Minister administering the *Water Management Act 2000* under that Act or the *Water Act 1912* or the Ministerial Corporation under any Act or law conferred on State Water by this Licence;
- (f) comply with the quality and performance standards in this Licence.

*Note: This Licence is granted pursuant to section 11 (1) of the Act.*

## **1.2 Duration of Licence**

1.2.1 This Licence is for a term of 3 years from the Commencement Date.

## **1.3 End of Term Review**

1.3.1 A review of this Licence must be undertaken on or about 1 January 2007:

- (a) to determine whether this Licence is fulfilling its objectives;
- (b) in relation to any matter required to be reviewed by this Licence; and
- (c) to determine the terms of any renewal of this Licence.

1.3.2 The review is to be undertaken by IPART, unless the Minister otherwise determines that another person is to undertake the review.

1.3.3 The person undertaking the review must engage in Public Consultation as part of the review.

1.3.4 The person undertaking the review is to report to the Minister within 12 months of commencing the review on the following:

- (a) the findings of the review;
- (b) any recommendations for amendments to this Licence, including any additional terms to be included in any renewal of this Licence; and

- (c) any recommendations for amendments to any law that adversely impacts on this Licence.

1.3.5 State Water must make the report available to the public.

1.3.6 The Minister may accept or reject any recommendation made by the person undertaking the review.

1.3.7 If any recommendation made by the person undertaking the review and accepted by the Minister requires an amendment to this Licence, the recommendation is of no force or effect unless this Licence is relevantly amended in accordance with the Act.

1.3.8 Any recommendation made by the person undertaking the review that is not accepted by the Minister has no force or effect.

## **1.4 Amendment of Licence**

1.4.1 This Licence may be amended by the Governor in accordance with section 13 of the Act.

*Note: Section 13 of the Act provides that the Governor, on the recommendation of the portfolio Minister, may amend or substitute the operating licence or impose, amend or revoke conditions of the operating licence. The portfolio Minister must consult with State Water prior to making such a recommendation to the Governor.*

## **1.5 Contravention of Licence**

1.5.1 State Water acknowledges that, if the Minister is of the opinion that State Water has contravened this Licence, the Minister may take action against State Water in accordance with the Act.

1.5.2 State Water acknowledges that if State Water contravenes this Licence, IPART may take action against State Water in accordance with the Act.

*Note: Section 16 of the Act provides that, where the Minister is of the opinion that State Water contravenes this Licence, the Minister may serve a notice on State Water requiring it to rectify the contravention, or in addition to or instead of the notice to rectify, the Governor may direct that State Water pay a monetary penalty of an amount to be determined by the Governor. Section 17 of the Act provides that where State Water knowingly contravenes this Licence, IPART may impose a monetary penalty on State Water not exceeding \$10,000 for the first day of the contravention and a further \$1,000 for each subsequent day (not exceeding 30 days) the contravention continues. Alternatively IPART may require State Water to take such action as IPART considers appropriate in the circumstance eg requiring the sending of information to customers or the publication of notices in newspapers.*

## **1.6 Cancellation of Licence**

- 1.6.1 This Licence may be cancelled by the Governor in the circumstances described in the Act.

*Note: Section 19 of the Act sets out the circumstances in which this Licence may be cancelled by the Governor.*

## **1.7 Availability of Licence**

- 1.7.1 State Water must make this Licence available to the public.

## **1.8 Information provided to IPART under Licence**

- 1.8.1 Information provided to IPART under this Licence may be used by IPART for the purpose of an investigation or report under the *Independent Pricing and Regulatory Tribunal Act 1992* in relation to State Water, or in the discharge of any function lawfully conferred on IPART.

# **2 State Water's Responsibilities**

## **2.1 Responsibility of State Water under this Licence and other laws**

- 2.1.1 State Water must comply with the Licence and all applicable laws.

*Note: State Water has obligations under a number of laws including:*

- *Water Management Act 2000*
- *Water Act 1912*
- *Protection of the Environment Operations Act 1997*
- *Independent Pricing and Regulatory Tribunal Act 1992*
- *Environmental Planning and Assessment Act 1979*
- *State Owned Corporations Act 1989*
- *Dams Safety Act 1978*
- *Fisheries Management Act 1994.*

## **2.2 Responsibilities of State Water under the Act**

- 2.2.1 State Water acknowledges that its principal objectives ("Principal Objectives") under the Act are to capture, store and release water in an efficient, effective, safe and financially responsible manner.

- 2.2.2 State Water acknowledges that the other objectives ("Other Objectives") of State Water are:

- (a) to be a successful business and to that end:
- (i) to operate at least as efficiently as any comparable business; and
  - (ii) to maximise the net worth of the State's investment in State Water;



- (b) to exhibit a sense of social responsibility by having regard to the interests of the community in which State Water operates;
- (c) where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6(2) of the *Protection of the Environment Administration Act 1991*;
- (d) to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

2.2.3 State Water acknowledges that the Other Objectives are of equal importance, but are not as important as the Principal Objectives.

## **2.3 Memorandum of Understanding**

2.3.1 State Water must use its best endeavours to enter into, by 1 October 2005, Memoranda of Understanding (MoU) with each of the Directors-General of DEC, DPI and DIPNR. State Water must maintain these MoUs for the duration of this Licence.

2.3.2 The purpose of the MoUs is to form the basis for co-operative relationships between the parties to the MoU, in particular:

- (a) the MoU with DIPNR is to recognise the roles of DIPNR in regulating water access, use and management and State Water in delivering water and managing assets, and is to address the co-ordination of Functions and associated responsibilities between DIPNR and State Water in undertaking their respective roles, including arrangements in relation to information sharing and the making and announcements of available water determinations and controlled flows;
- (b) the MoU with DPI is to recognise the role of DPI as the agency responsible for fisheries management in the State and address aquatic habitat and fish passage impacts of State Water's operations and information sharing arrangements;
- (c) the MoU with DEC is to recognise the role of DEC as the agency responsible for environmental protection and conservation of natural and cultural heritage and address river health and water quality impacts of State Water's operations and information sharing arrangements.

2.3.3 Clause 2.3.1 does not limit the persons or regulatory agencies with whom State Water may enter into a MoU.

2.3.4 State Water must make the MoUs referred to in clause 2.3.1 available to the public.

2.3.5 State Water must, by no later than 1 September each year, for the preceding financial year, report to IPART on its performance against and compliance with the

MoUs referred to in clause 2.3.1 including such relevant information as may be required by IPART to be included in the report.

2.3.6 State Water must make the report referred to in clause 2.3.5 available to the public.

### 3 Functions

#### 3.1 State Water Functions authorised by the Licence

*Note: Section 6 of the Act specifies the principal functions of State Water as follows:*

- (a) to capture and store water and to release water:*
  - (i) to persons entitled to take the water, including release to regional towns, and*
  - (ii) for the purposes of flood management, and*
  - (iii) for any other lawful purpose, including the release of environmental water,*
- (b) to construct, maintain and operate water management works,*
- (c) any other functions conferred or imposed on it by the operating licence or by or under this or any other Act or law.*

*In addition, under section 12 of the Act the Licence may confer on State Water specified functions of the Minister administering the Water Management Act 2000 under that Act or the Water Act 1912 or the Ministerial Corporation under any Act or law. Functions conferred on State Water may also be exercised by the Minister or Ministerial Corporation unless these Functions are exclusively conferred on State Water. The Functions conferred under this clause are not exclusively conferred.*

3.1.1 The following Functions under the *Water Management Act 2000* are conferred on State Water by this Licence, subject to any arrangements entered into between the Minister for Energy and Utilities and the Minister for Natural Resources:

- granting consents to temporary water transfers under sections 71T and 71V ;
- debiting and crediting of water accounts under sections 76, 85 and 85A;
- suspending access licences under section 78 and suspending approvals under section 109;
- debiting water from water accounts and/or imposing civil penalties under section 85B;
- imposing and recovering fees and charges under section 114;
- directing temporary water restrictions under section 323;

- issuing directions concerning the production of information under section 324, waste of water under section 325, and unusable water management works under section 330;
- issuing directions to protect water sources under section 326 and stop work where unlawful activity is occurring under section 327;
- issuing directions to holders of basic landholder rights under section 328;
- issuing directions for temporary stop work orders under section 329;
- ordering landholders to take specified measures to prevent damage to water management works by straying stock under section 331;
- taking remedial measures when a person fails to comply with directions, under section 334;
- applying to the Land and Environment Court for an injunction under section 335;
- issuing certificates under section 362B; and
- recovering fees, charges and civil penalties under sections 362A and 362C.

3.1.2 The following Functions under the *Water Act 1912* are conferred on State Water by this Licence, subject to any arrangements entered into between the Minister for Energy and Utilities and the Minister for Natural Resources:

- receiving water orders under section 20AF;
- approving or refusing temporary transfers under Division 4C of Part 2, including taking action under section 20XA;
- imposing and recovering charges in respect of any entitlement under the provisions of sections 22C, 117B or 194;
- suspending any licence or entitlement under sections 22C (9) or 117B (8); and
- waiving or remitting charges under 22C (10) or 117B.

3.1.3 State Water must exercise any Functions referred to in clauses 3.1.1 and 3.1.2 consistently with the *Water Management Act 2000*, the *Water Act 1912*, this Licence and any relevant Water Management Plan.

## **4 Customers and Community Engagement**

### **4.1 Community Consultative Committee**

4.1.1 State Water must establish and regularly consult with a statewide community consultative committee (“CCC”) to enable community involvement in issues relevant to the performance of State Water’s obligations under this Licence, except in relation to the Fish River Scheme.

- 4.1.2 State Water must appoint the members of the CCC consistently with this Licence. The membership of the CCC must include a representative from at least each of the following:
- (a) Customers (excluding Fish River customers);
  - (b) environment groups;
  - (c) basic water right holders;
  - (d) regional business and consumer groups;
  - (e) Catchment Management Authorities; and
  - (f) local government.
- 4.1.3 The term of a member of the CCC will expire two years after his or her appointment. A member will be eligible for re-appointment for one further consecutive term.
- 4.1.4 State Water must provide the CCC with information within its possession or under its control necessary to enable the CCC to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege.

## **4.2 Valley Based Customer Service Committees (excluding Fish River customers)**

- 4.2.1 State Water must establish and regularly consult with valley based customer service committees (“CSCs”) to enable Customer involvement in issues relevant to the performance of State Water’s obligations to Customers under this Licence or the customer service charter referred to in clause 4.3. The membership of the CSCs must also include representatives from unregulated water Customers, groundwater Customers and the relevant Catchment Management Authority. For the purposes of this clause 4.2, Customer does not include a Fish River customer.
- 4.2.2 State Water must provide the CSCs with information within its possession or under its control to enable the CSC to discharge the tasks assigned to the CSC, other than information or documents over which State Water or another person claims confidentiality or privilege.

## **4.3 Customer Service Charter (excluding Fish River)**

- 4.3.1 State Water must, in consultation with the CSCs, establish and continue to have in place a customer service charter (“Charter”).

*Note: The Charter was established on 28 January 2005.*

- 4.3.2 The Charter must set out the mutual responsibilities or obligations of State Water and its Customers (excluding Fish River customers) consistently with this Licence, the Act, the *Water Management Act 2000* and the *Water Act 1912*.
- 4.3.3 State Water must make the Charter available to the public.
- 4.3.4 State Water must, in consultation with the members of the CSCs, regularly review, and if necessary update, its Charter and in any event must do so by no later than 1 July 2007.
- 4.3.5 State Water must by no later than 1 September each year, for the preceding financial year, report to IPART on its overall performance against its obligations under the Charter and where appropriate State Water is also to report on its performance against its obligations under the Charter in relation to each valley.
- 4.3.6 State Water must make the report referred to in clause 4.3.5 available to the public.

#### **4.4 Fish River Customer Council**

- 4.4.1 State Water must establish and regularly consult with a fish river customer council (“Fish River Customer Council”) to enable Fish River customer involvement in issues relevant to the performance of State Water of its obligations to Fish River customers under this Licence and any Customer Contract.
- 4.4.2 State Water must appoint the members of the Fish River Customer Council consistently with this Licence. The membership of the Fish River Customer Council must include a representative from at least each of the following:
- (a) Lithgow City Council;
  - (b) Oberon Council
  - (c) Delta Electricity; and
  - (d) Sydney Catchment Authority.
- 4.4.3 State Water must provide the Fish River Customer Council with information within its possession or under its control to enable the Fish River Customer Council to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege.

#### **4.5 Customer Contracts (Fish River customers only)**

- 4.5.1 State Water must use its best endeavours to enter into agreements with its Fish River customers during the term of this Licence, in relation to the arrangements to apply to the supply of water by the operation of the Fish River Scheme.
- 4.5.2 The terms of the arrangements must, as a minimum, include:
- (a) the standard of the quality of water supplied;

- (b) the continuity of water supplied (ie interruption, disconnection and reconnection to supply);
- (c) the metering arrangements;
- (d) the costs to be paid by Fish River customers for the supply of water and other services to them; and
- (e) any other terms agreed between State Water and its Fish River customers.

#### **4.6 Code of Practice and Procedure on Debt Management**

- 4.6.1 State Water must have in place by no later than 1 July 2005, and continue to have in place, a code of practice and procedure on debt management (“Code”).
- 4.6.2 The Code must:
  - (a) provide for deferred payment or payment by instalment options; and
  - (b) provide that the payment options referred to in (a) are to be advised in bills.
- 4.6.3 State Water must make the Code available to the public.

### **5 Complaint and Dispute Handling**

#### **5.1 Internal Complaints Handling Procedure**

- 5.1.1 State Water must establish by no later than 31 October 2005, and continue to have in place, internal Complaints handling procedures for receiving, responding to and resolving Complaints it receives from Customers and the community, relating to any of its Functions.
- 5.1.2 The internal Complaints handling procedures of State Water must be based on the Australian Standard *AS4269-1995 Complaint Handling*.
- 5.1.3 State Water must make these procedures available to the public.
- 5.1.4 State Water must, in consultation with IPART, determine appropriate Complaint categories by no later than 31 October 2005. The Complaint categories must include categories relevant to the Fish River Scheme.
- 5.1.5 State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on its internal Complaints handling procedures including the following:
  - (a) the total number of Complaints;
  - (b) once the category of Complaints are determined under clause 5.1.4, the number of Complaints received by the category of Complaint determined in accordance with that clause;

- (c) the number and type of Complaints resolved or not resolved in sufficient detail for IPART to gain an understanding of the timeframe with which the Complaint was resolved, how the Complaint was resolved, or why the Complaint was not resolved (as the case may be); and
- (d) any problems of a systemic nature arising from Complaints.

5.1.6 State Water must make the report referred to in clause 5.1.5 available to the public.

## **5.2 External Dispute Resolution Scheme**

5.2.1 State Water must have in place by no later than 1 September 2005, and continue to have in place, a Dispute Resolution Scheme (the Scheme) for a Dispute Resolution Body or be a member of an industry based dispute resolution scheme to resolve disputes between State Water and its Customers.

5.2.2 The Scheme established by State Water is subject to the Minister's approval.

5.2.3 The Dispute Resolution Body is to hear disputes and Complaints made by Customers in relation to:

- (a) Water Delivery;
- (b) Customer accounts;
- (c) State Water's responsibilities in relation to the communication of water availability and access notifications; and
- (d) the exercise by State Water of the Functions conferred under clause 3 of this Licence.

5.2.4 The Scheme must comply with the minimum standards, so far as applicable, specified in the Guidelines to the *Prevention, Handling and Resolution of Disputes AS4608*.

5.2.5 The Scheme must have the following features:

- (a) the decision-making process of the Dispute Resolution Body and administration of the Scheme is to be independent from State Water;
- (b) State Water agrees to abide by the decisions of the Dispute Resolution Body in relation to disputes referred to it for resolution;
- (c) the Scheme must adopt informal proceedings which discourage an adversarial approach;
- (d) decisions of the Dispute Resolution Body should be fair and be seen to be fair, by observing the principles of procedural fairness, by making its decisions based upon the information before it, and by having specific criteria upon which its decisions are based;

- (e) the Scheme is to operate efficiently by keeping track of disputes referred to it, ensuring complaints are dealt with by the appropriate process, and by the Dispute Resolution Body regularly reviewing the operation of the Scheme; and
  - (f) the Scheme is to be provided by State Water to Customers free of charge.
- 5.2.6 State Water must prepare a pamphlet that explains how the Scheme operates and how it can be accessed and make this pamphlet available to the public.
- 5.2.7 State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on the Scheme based on information available to State Water and information reasonably obtained from the Dispute Resolution Body. Where considered appropriate by State Water and the Dispute Resolution Body, confidentiality arrangements are to be made so as not to disclose the Customer's identity in such reports. The report must take into account any issues raised by the Dispute Resolution Body and must contain the following information:
  - (a) the number and types of Complaints received by the Dispute Resolution Body, classified in accordance with the Dispute Resolution Body's reporting arrangements;
  - (b) information on any determinations made by the Dispute Resolution Body; and
  - (c) any other relevant information required by IPART to be included in the report.
- 5.2.8 State Water must make the report referred to in clause 5.2.7 available to the public.

### **5.3 Complaints to Other Bodies**

- 5.3.1 State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on Complaints made against State Water to a court or tribunal such as the Consumer Trader and Tenancy Tribunal (based on information reasonably obtained from these bodies and State Water itself as a party to the Complaint), and the report to IPART shall contain the following information:
  - (a) the number and types of Complaints received by such other bodies;
  - (b) the outcome of the Complaints;
  - (c) how the Complaints were resolved;
  - (d) any problems of a systemic nature arising from the Complaints; and
  - (e) any other relevant information required by IPART to be included in the report.
- 5.3.2 State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on any civil actions against State Water to a court (based on information available from the courts and State Water itself as a party to the civil



action) where the civil action claims loss, damage or other relief arising from a Complaint against State Water, and the report to IPART shall contain the following information:

- (a) the number and types of civil actions commenced;
- (b) the outcome of the civil actions;
- (c) how the civil actions were resolved;
- (d) any problems of a systemic nature arising from the civil actions; and
- (e) any other relevant information required by IPART to be included in the report.

## **6 Asset Management**

*Note: Under DIPNR's water management works approval(s) issued under the Water Management Act 2000, State Water will also be subject to conditions in relation to the use of its Assets to access water for storage and Water Delivery using river channels and other natural features.*

### **6.1 Asset Management Obligation**

6.1.1 State Water must ensure that its Assets are managed in a manner consistent with:

- (a) its obligations in this Licence, and all applicable laws, policies and guidelines with which State Water must comply, including the requirements of the NSW Dams Safety Committee;
- (b) the principles of the NSW Government's Strategic Management Framework and the NSW Government's Total Asset Management (TAM) Policy and Guidelines;
- (c) the lowest life cycle cost and acceptable risk of the Assets;
- (d) the whole life of the Assets; and
- (e) its assessment of the risk of loss of the Asset, and capacity to respond to a potential failure or reduced performance of the Assets.

### **6.2 Reporting on the Asset Management System**

6.2.1 At least once during this Licence at a time agreed with IPART, State Water must report to IPART on the state of each group of Assets managed by State Water.

6.2.2 The report must include the following information:

- (a) a description of the processes, practices, systems and plans State Water uses in managing the Assets;
- (b) a description of each group of Assets;

- (c) an assessment of the expected capability of the Assets to deliver the services required to be delivered by State Water and meet the existing obligations of State Water consistent with this Licence and all applicable laws with which State Water must comply;
- (d) an assessment of the major issues or constraints on current and future performance of the Assets;
- (e) the strategies and expected costs of future investments in the Assets;
- (f) progress in implementing the management of State Water's Assets and any recommended improvements in processes, practices, systems and plans for the management of the Assets; and
- (g) such other information reasonably required by IPART.

### **6.3 Auditing the Asset Management System**

- 6.3.1 At least once during this Licence IPART may (at any time it determines) conduct an audit of State Water's compliance with this clause 6. The audit may form part of an Audit or be conducted separately from an Audit, at the discretion of IPART.
- 6.3.2 In addition, IPART may at any time audit State Water's compliance with this clause 6 for the purpose of:
  - (a) investigating and reporting on, or reviewing the pricing of State Water's services under the *Independent Pricing and Regulatory Tribunal Act 1992*; or
  - (b) investigating compliance by State Water with specific areas of its Asset management.
- 6.3.3 Any audit undertaken under this clause 6 must comply with the scope and audit specifications determined by IPART.
- 6.3.4 The provisions of clause 12 apply to an audit under this clause 6 as if the audit under clause 6 is an Audit under clause 12.2 and 12.3 or an additional audit under clause 12.4.

### **6.4 Augmentation of Water Management Works**

- 6.4.1 In considering any augmentation of water management works, State Water must consider as a priority any additional scope for cost-effective demand management strategies by Customers.

## **7 Water Delivery Operations**

*Note: State Water must operate its water management works consistently with any licences or approvals granted by the Minister for Natural Resources and must only release water from those works consistently with*

*any relevant Water Management Plan under the Water Management Act 2000. Under DIPNR's water management works approval(s) issued under the Water Management Act 2000, State Water will be provided with the necessary conditions to use its Assets to deliver water.*

## **7.1 Water Conservation**

- 7.1.1 State Water must take such steps as are reasonably practicable to conserve water and to minimise losses that result from its operations; and to recover associated costs from beneficiaries where practicable.

## **7.2 Supply Constraints**

- 7.2.1 State Water must endeavour to manage its water release Functions and operations to ensure the timely availability of water taking into account physical supply constraints.

## **7.3 Drought Management Plan**

- 7.3.1 In periods of extreme water resource shortage beyond drought of record as and when gazetted by DIPNR, a Drought Management Plan for river operations must be developed by State Water in accordance with DIPNR requirements.

## **7.4 Water Metering**

- 7.4.1 State Water must report to IPART by no later than 1 September each year on what action it has undertaken over the preceding financial year to address the issue of metering accuracy (for example, the number or percentage of Customer meters State Water has audited or calibrated) and its findings in carrying out this action.
- 7.4.2 State Water will, by no later than 31 March 2006, submit to IPART, for IPART's approval, proposed performance measures with respect to State Water's performance in ensuring metering accuracy. Once such measures have been approved by IPART, State Water will comply with these measures for the duration of this Licence and clauses 7.4.3, 7.4.4, 7.4.5 and 7.4.6 will apply.
- 7.4.3 State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance measures approved under clause 7.4.2.
- 7.4.4 State Water must report to IPART and the Minister, by no later than 1 September each year on its performance against the performance measures approved under clause 7.4.2 for the preceding financial year, including analysis of any systemic problems.
- 7.4.5 As part of its report, State Water must provide IPART with physical and electronic access to the records kept by State Water that enable it to prepare the report under clause 7.4.4.

- 7.4.6 State Water must make the report referred to in clause 7.4.4 available to the public.

## **7.5 Water Balances**

- 7.5.1 State Water must prepare by no later than 1 September each year, annual water balances in the form of the template at Table 5-1 of the final report by Sinclair Knight Merz “State Water Operating Licence – Water Balance Template” dated 30 March 2005 and in accordance with that report.

*Note: A copy of this report can be found on IPART’s website at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).*

- 7.5.2 State Water may, in preparing the annual water balances referred to in clause 7.5.1, deviate from this template provided that State Water has obtained the prior written approval of IPART to do so.
- 7.5.3 State Water must make the annual water balances referred to in clause 7.5.1 available to the public.

## **7.6 Fish River Water Balance and System Yield**

- 7.6.1 In relation to the Fish River Scheme, State Water must:

- (a) prepare by no later than 1 September each year, an annual water balance for the Fish River Scheme in the form of the template at Table 4-2 of the final report by Sinclair Knight Merz “Outcomes of consultation on performance standards and indicators for the Fish River Water Supply Scheme” dated 11 March 2005 and in accordance with that report; and

*Note: A copy of this report can be found on IPART’s website at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).*

- (b) report to IPART by no later than 29 June 2008 on system yield at a specified level of reliability to be determined by State Water in consultation with the Fish River Customer Council. For the purpose of this clause 7.6.1(b), “system yield” is the average annual volume of water that can be supplied by the water supply system, subject to system inflows, an adopted set of operational rules (including the release of environmental water) and a typical demand pattern without violating a given level of service standard; and “reliability of supply” is the proportion of time that a supply system is expected to be able to meet demand, often expressed as the probability that restrictions of any given severity will not be imposed in a given year or month.

- 7.6.2 State Water may, in preparing the annual water balance referred to in clause 7.6.1(a), deviate from the template referred to in that clause provided that State Water has obtained the prior written approval of IPART to do so.
- 7.6.3 State Water must make the annual water balance referred to in clause 7.6.1(a) available to the public.

## **8 The Environment**

*Note: State Water must conduct its operations in compliance with requirements of the Water Management Act 2000, the State Water Management Outcomes Plan and the Water Management Plans established under that Act.*

### **8.1 Environment Management Plan**

- 8.1.1 State Water must produce a five-year environment management plan (“EMP”) by 1 November 2005. The EMP may be developed for all of State Water’s operations (including the Fish River Scheme) or alternatively State Water may develop separate EMPs for the Fish River Scheme and the rest of its operations, in which case the provisions of this clause 8 will apply to each of the EMPs prepared.
- 8.1.2 The EMP must:
- (a) include details of State Water’s program for addressing its environmental impacts and achieving environmental improvements, including (but not limited to):
    - (i) management and mitigation of riverbank and bed erosion;
    - (ii) management and mitigation of water quality issues associated with storage and release (including mitigation of thermal impacts);
    - (iii) management and mitigation of barriers to fish passage;
    - (iv) an algal management strategy;
    - (v) energy management and consumption; and
    - (vi) waste management and minimization.
  - (b) adopt Ecologically Sustainable Development principles;
  - (c) be integrated into State Water’s business plans;
  - (d) include indicators to measure the environmental impact of State Water’s Asset operations and maintenance; and
  - (e) incorporate environmental improvement targets and timetables for State Water to achieve those targets over the term of the EMP.
- 8.1.3 State Water must review, and if necessary update, its EMP by 1 July 2007. In undertaking this review State Water must consult with:

- (a) DEC;
- (b) DIPNR;
- (c) DPI;
- (d) IPART; and
- (e) peak environmental non-government organisations;

for the purpose of considering the views of those organisations consulted and whether they seek amendments to the EMP.

8.1.4 State Water must make the EMP available to the public.

8.1.5 State Water must, by no later than 1 September each year, or an alternative later date specified by IPART, for the preceding financial year, report to IPART on its environmental performance including its performance against or compliance with:

- (a) its EMP;
- (b) any environmental provisions of each Water Management Plan and the State Water Management Outcomes Plan issued under the *Water Management Act 2000* where applicable to State Water;
- (c) any environmental regulatory requirements applicable to State Water, including those under the water management work approval(s) issued under the *Water Management Act 2000* and the *Fisheries Management Act 1994*; and
- (d) the environmental provisions of any MoUs referred to in clause 2.3 including any performance standards and indicators established under these MoUs.

8.1.6 State Water must make the report referred to in clause 8.1.5 available to the public.

## **9 Performance Indicators**

9.1 State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance indicators set out in Schedule 1.

9.2 State Water must report to IPART, by no later than 1 September each year on its performance against the performance indicators in Schedule 1 for the preceding financial year, including analysis of any systemic problems.

9.3 As part of its report, State Water must provide IPART with physical and electronic access to the records kept by State Water that enable it to prepare the report under clause 9.2.

9.4 State Water must make the report referred to in clause 9.2 available to the public.

## **10 Pricing**

- 10.1 State Water must apply the level of fees, charges and other amounts payable for its services subject to the terms of this Licence, the Act and the maximum prices and methodologies for State Water's supply of water determined from time to time by IPART.
- 10.2 The pricing policies and practices of State Water must be consistent with the COAG Strategic Framework for Water Reform and other COAG initiatives relating to water. In particular, State Water must ensure:
  - 10.2.1 the usage based component of charges is not lower than 50% by 1 July 2006; and
  - 10.2.2 the usage based component of charges is not lower than 60% by 1 July 2008.
- 10.3 Any submission by State Water to IPART in relation to the maximum prices and methodologies for State Water's supply of water to be determined by IPART is to reflect the applicable usage based component of charges referred to in clause 10.2.

## **11 Licence Authorisation and Area of Operations**

### **11.1 What the Licence authorises and regulates**

- 11.1.1 This Licence is granted to enable and require State Water to provide, construct, operate, manage and maintain efficient, coordinated and commercially viable systems and services to capture, store and release water.
- 11.1.2 State Water must ensure that its systems and services meet the performance standards, including without limitation the performance indicators, specified or required to be developed under this Licence in relation to Water Delivery and any other applicable requirements set out in this Licence.

### **11.2 Powers Not Limited**

- 11.2.1 This Licence does not restrict State Water's power to carry out any Functions conferred or imposed under any applicable law.

### **11.3 Operating Guidelines**

- 11.3.1 State Water must take into account any policies or guidelines made and issued by the Government as required for the purposes of meeting its obligations under this Licence.

## **11.4 Area of Operations**

- 11.4.1 This Licence enables State Water to exercise its Functions in or in respect of an area in or outside the Area of Operations.

## **11.5 Non-Exclusive Licence**

- 11.5.1 This Licence does not prohibit a person from supplying water (whether Bulk water or otherwise) to a person (including a person that is a Customer) in the Area of Operations, if it is lawful to do so.

# **12 Operational Audits**

## **12.1 Commission of Operational Audits**

- 12.1.1 IPART must initiate an Audit of State Water's operations as soon as practicable after 29 June 2006 covering the preceding financial year as required by this clause 12. After that, IPART must initiate an Audit of State Water every two years.
- 12.1.2 The Audit must be conducted either by IPART or by a person IPART considers is suitably qualified to perform the Audit.
- 12.1.3 As part of the Audit, IPART must invite members of the public to make submissions to it. IPART may also undertake any other public consultation it considers appropriate.
- 12.1.4 IPART may include in its Audit all or any of the matters referred to in clause 12.2 and where in any Audit a matter is not made the subject of that Audit, IPART may require State Water to provide IPART with a report on the matter not included in the Audit.

## **12.2 What the Audit is to Report on**

- 12.2.1 IPART or the person undertaking the Audit must investigate and prepare a report on any or all of the following:
- (a) compliance by State Water with its obligations in each of clauses 2.3, 4, 5, 6, 7, 8, 9 and 10 (and any Schedules referred to in those clauses) of this Licence; and
  - (b) any other matter required by this Licence, the Act or administrative direction to be assessed and considered as part of the Audit.
- 12.2.2 IPART must ensure the report of the Audit addresses the matters in clause 12.2.1 and advises the Minister of the following matters:
- (a) areas in which State Water's performance under this Licence may be improved;
  - (b) any changes to the Licence that are considered necessary;



- (c) any penalties or remedial action required as a result of State Water's performance under this Licence;
- (d) whether the Minister should recommend that State Water's Licence be cancelled by the Governor under section 19 of the Act for reasons identified in the report; and
- (e) any other matter relating to the Audit or IPART's functions in relation to this Licence considered appropriate.

### **12.3 Reporting of Audit**

- 12.3.1 IPART must ensure that the Audit report is presented to the Minister within one month after its receipt by IPART.
- 12.3.2 If the Audit report has identified areas of non-compliance with this Licence, State Water must, when requested by the Minister in writing, and within any timeframe specified in the request, furnish to the Minister the following:
  - (a) reasons for the non-compliance;
  - (b) identify the measures that will be taken by State Water to address the non-compliance; and
  - (c) provide such other advice concerning the non-compliance as is requested by the Minister.
- 12.3.3 Any requirements under clauses 12.3.2 are in addition to any other action that is taken or is required to be taken as a consequence of any identified non-compliance by State Water of this Licence.

*Note: See clause 1.5 (Contravention of Licence).*

### **12.4 Additional Audits**

- 12.4.1 IPART must initiate additional audits of State Water if required by the Minister.
- 12.4.2 An additional audit may address one or more of the matters in clause 12.2.1 or any other matter required by the Minister.
- 12.4.3 The provisions of this clause 12 applying to the Audit will apply equally to additional audits (all necessary changes having been made), to the extent those provisions are relevant.

### **12.5 Provision of Information**

- 12.5.1 State Water must provide IPART, or the person appointed by IPART under clause 12.1.2, with all information within its possession or under its control necessary to the conduct of the Audit or an additional audit, including whatever information is requested by IPART or the person appointed by IPART.

- 12.5.2 The information sought under clause 12.5.1 must be made available within a reasonable time of it being requested.
- 12.5.3 For the purposes of the Audit, or a report to IPART under clause 12.1.4, on being required by IPART, State Water must, within a reasonable time, permit IPART or its appointee to:
- (a) have access to any works, premises or offices occupied by State Water;
  - (b) carry out inspections, measurements and tests on, or in relation to, any such works, premises or offices;
  - (c) take on to or into any such premises, works or offices any other persons or equipment as necessary for the purposes of performing the Audit or verifying the report;
  - (d) inspect and make copies of, and take extracts from, any books and records of State Water that are maintained in relation to the performance of State Water's obligations in accordance with this Licence; and
  - (e) discuss matters relevant to the Audit with State Water's employees.
- 12.5.4 If State Water contracts out any of its activities to third parties (including a subsidiary) it must take all reasonable steps to ensure that, if required by IPART, any such third parties do things specified in this clause 12 that extend to State Water as if that third party were State Water.
- 12.5.5 For the purpose of an Audit, or a report to IPART under clause 12.1.4, the information to be provided by State Water or a third party under clause 12.5.1 will include information over which State Water or a third party claims confidentiality or privilege. IPART or the person appointed by IPART is required to enter into reasonable arrangements with State Water or such third party to ensure confidential information is kept confidential.

## **13 Notices**

- 13.1 Any notice or other communication given under this Licence is to be made in writing addressed to the intended recipient at the address shown below or the last address notified by the recipient.

### **State Water**

The Chief Executive Officer  
State Water Corporation  
PO Box 1018  
DUBBO NSW 2830

## IPART

The Chief Executive Officer  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office NSW 1230

## 14 Definitions and Interpretations

### 14.1 Definitions

#### 14.1.1 In this Licence:

**Act** means the *State Water Corporation Act 2004* and any regulations in force under it.

**Area of Operations** means the area of operations of State Water within the meaning of section 15 of the Act and set out in Schedule 2.

**Asset** includes any structure, plant, equipment, corporate and business system of State Water which causes, allows or assists the performance of its Functions and objectives under the Act and this Licence.

**Audit** means the operational audit of State Water under clause 12.

**Authorised users** mean the holders of basic rights and access licences under the *Water Management Act 2000* and *Water Act 1912*.

**Bulk water** means water delivered to meet the needs of the environment and authorised users.

**Catchment Management Authority** means those authorities listed in Schedule 1 of the *Catchment Management Authorities Act 2003*.

**Commencement Date** means 24 June 2005 - the date on which these terms and conditions of licence take effect.

**Complaint** means a contact between any person and State Water in which the person expresses dissatisfaction with State Water's products, services, infrastructure, policy, actions or proposed actions or failure by State Water, its employees or contractors to act.

**Customer** means any person authorised under the *Water Management Act 2000* or the *Water Act 1912* to take and use water and to whom State Water makes available water by the operation of any of its works or to whom State Water provides a service and includes Fish River customers.

**Customer Contract** means any agreement entered into between State Water (or its predecessor) and a Fish River customer.

**DEC** means the Department of Environment and Conservation.

**DIPNR** means the Department of Infrastructure, Planning and Natural Resources.

**Dispute Resolution Body** means a reputable person possessing qualifications and experience in dispute resolution by way of mediation or otherwise and includes a person who carries out investigative functions in the nature of an ombudsman.

**DPI** means the Department of Primary Industries.

**Ecologically Sustainable Development** has the same meaning given to that expression in the *Protection Environment Administration Act 1991*.

**Fish River customer** means any person to whom State Water makes available water by the operation of the Fish River Scheme.

**Fish River Scheme** means the Fish River water supply scheme as defined in the Act.

**Functions** include a power, authority or duty.

**IPART** means the Independent Pricing and Regulatory Tribunal of NSW established under the *Independent Pricing and Regulatory Tribunal Act 1992*.

**Licence** means this operating licence granted under the Act to State Water or any amendment of it, and as in force for the time being and includes the Schedules that are incorporated into this Licence by reference.

**Minister** means the Minister responsible for administering those provisions of the Act relating to this Licence.

**Ministerial Corporation** means the Water Administration Ministerial Corporation constituted by the *Water Management Act 2000*.

**Public Consultation** has the meaning given to it in clause 14.2.5.

**State** means the State of New South Wales.

**State Water** means the State Water Corporation constituted by the Act.

**State Water Management Outcome Plan** means the State Water Management Outcomes Plan established under s.6(1) of the *Water Management Act 2000*.

**Water Delivery** means the operation of State Water's works for the purpose of making water available to Authorised users, Customers and the environment.

**Water Management Plan** means a management plan as defined under the *Water Management Act 2000*.

## **14.2 Interpretations**

14.2.1 The following rules apply in interpreting this Licence, except where the content makes it clear a rule is not intended to apply.

14.2.2 In this Licence, unless the contrary intention appears:

- (a) the word person includes an individual, a body corporate, an unincorporated body or other entity and one or more of each of them;

- (b) headings are for convenience only and do not affect the interpretation of the Licence;
- (c) notes do not form part of this Licence but may be used to assist in the interpretation if there is an ambiguity;
- (d) words importing the singular include the plural and vice versa;
- (e) a reference to a law or legislation (including the Act) includes regulations made under the law or legislation;
- (f) a reference to regulations includes ordinances, codes, licences, orders, permits and directions;
- (g) a reference to a law or regulations in this Licence includes consolidations, amendments, variations, re-enactments, or replacements of any of them;
- (h) a reference to person includes a reference to the person's executors, administrators, successors, substitutes (including, but not limited to, persons taking by novation) and assigns;
- (i) a reference to a financial year means a period of 12 months commencing on 1 July and ending on the next following 30 June; and
- (j) a reference to a clause or Schedule is to a clause or Schedule to the Licence.

14.2.3 Terms defined in the Act, *Water Act 1912* and *Water Management Act 2000* have the same meaning in this Licence, unless a contrary definition is specified in this Licence.

14.2.4 Whenever this Licence requires State Water to make something "available to the public", State Water must:

- (a) publish the document on its Internet website and make it available to download free of charge;
- (b) make the document available at its offices for viewing by any person, free of charge; and
- (c) make the document available at its offices for collection by any person, for which State Water may charge a reasonable cost;

14.2.5 If this Licence requires that something undergo Public Consultation, it requires as a minimum that:

- (a) notice of that thing and the nature and timing of the consultation be:
  - (i) advertised in a major daily newspaper circulating in the Area of Operations;
  - (ii) communicated to government agencies, organisations and persons to whom it would reasonably be expected notice should be given;

- (iii) displayed on State Water's website;
    - (iv) given to the Customer or community committees or councils referred to in clause 4;
    - (v) given to IPART; and
  - (b) submissions be sought from the public and that these submissions be considered by the person conducting the review.
- 14.2.6 If any part of this Licence is prohibited, void, voidable, illegal or unenforceable, then that part is severed from the Licence but without affecting the continued operation of the remainder of the Licence.
- 14.2.7 A reference in this Licence to any organisation, association, society, group or body shall, in the event of it ceasing to exist or being reconstituted, renamed or replaced or if its powers or functions are transferred to any other entity, body or group, refer respectively to any such entity, body or group, established or constituted in lieu thereof or succeeding to similar powers and functions.
- 14.2.8 A reference in this Licence to a document is a reference to the document as amended, revised or replaced.
- 14.2.9 Except where a contrary intention appears in this Licence, where there is disagreement between State Water and IPART as to the proper interpretation of any term of this Licence, the matter must be referred to the Minister for resolution by the Minister or a person appointed by the Minister.

# SCHEDULE 1

## Performance Indicators

### Part A – State Water performance indicators (excluding Fish River Scheme Indicators)

#### 1. Water Delivery

- percentage of Customers contacted within one working day of a non-complying water order being placed. **Note:** A “non-complying water order” is an order which does not comply with licence conditions or which contains insufficient information for State Water to supply water;
- percentage of complying orders identified as being delivered outside of  $\pm 1$  day of the scheduled day of delivery. **Note:** A “complying water order” is an order which does comply with licence conditions and which contains sufficient information for State Water to supply water and “scheduled day of delivery” is per period of required notice specified in works approvals, licences or entitlements. **Further note:** State Water is usually only made aware of late deliveries via customer complaints or notification;
- percentage of water orders rescheduled in consultation with Customers within one working day of a known shortage or delivery delay. **Note:** This indicator should be calculated as a percentage of the total number of water orders rescheduled due to a known shortage or delivery delay;
- percentage of time that daily minimum flow targets are met. **Note:** “Daily minimum flow targets” are those specified in relevant Water Management Plans or by the Minister for Natural Resources or by the Ministerial Corporation; and
- percentage of complying intra-valley transfers processed within four working days of State Water’s receipt of correctly completed application form and fee. **Note:** “Intra-valley transfer” means the transfer of allocated water from one licence to another licence within

a valley and includes transfers under the *Water Management Act 2000* and the *Water Act 1912*.

## **2. Policing functions**

- volume of water taken in excess of access licence conditions under the *Water Management Act 2000* (ML) and number of licences and licence breaches involved;
- value of penalties imposed by State Water for taking of water in excess of licence conditions under the *Water Management Act 2000* or the *Water Act 1912* (\$);
- volume of penalties imposed by State Water for taking water in excess of access licence conditions under the *Water Management Act 2000* (ML);
- number of licences and entitlements suspended under the *Water Management Act 2000* or the *Water Act 1912*; and
- number of approvals suspended under the *Water Management Act 2000*.

## **Part B - Fish River Scheme Indicators**

### **1. Asset Management**

- the average response time for unplanned supply interruptions;
- number of planned water supply interruptions;
- number of unplanned water supply interruptions;
- average duration of planned water supply interruptions;
- average duration of unplanned water supply interruptions.

**Note:** An “unplanned water supply interruption” is an interruption to water supply to a Customer where the Customer has not received at least 24 hours notice of the interruption from State Water. It also includes situations where the duration of a planned interruption exceeds that which was originally notified to the Customer – in which



circumstances, the length of the entire interruption is counted as an unplanned supply interruption. A “planned water supply interruption” is an interruption to water supply where the Customer has received at least 24 hours notice of the interruption and the duration of the interruption does not exceed that which was originally notified to the Customer.

## **2. Water Delivery**

- percentage of time that daily minimum flow targets are met. **Note:** “Daily minimum flow targets” are those specified in relevant Water Management Plans or by the Minister for Natural Resources or by the Ministerial Corporation or as advised in writing by DIPNR;

## **3. Water Quality**

- percentage compliance with *Australian Drinking Water Guidelines (2004)* at the Fish River Scheme’s water sampling locations for e-coli, colour, turbidity, iron, manganese, aluminium and pH. **Note:** The guideline value for turbidity is to be the value for public health rather than the aesthetic value (ie % of samples above 1 Nephelometric Turbidity Unit) and the “Fish River Scheme’s water sampling locations” are those identified in the letter from State Water to IPART dated 29 April 2005.

## SCHEDULE 2

### Area of Operations

**Area of Operations** of State Water means the area of operations of State Water within the meaning of section 15 of the Act.

As at the commencement of this Licence, section 15 of the Act provides:

- “(1) The area of operations of the Corporation is the whole of the State, other than the following areas:
- (a) the area of operations of Sydney Water Corporation within the meaning of the [\*Sydney Water Act 1994\*](#),
  - (b) the area of operations of Sydney Catchment Authority within the meaning of the [\*Sydney Water Catchment Management Act 1998\*](#),
  - (c) the area of operations of Hunter Water Corporation within the meaning of the [\*Hunter Water Act 1991\*](#),
  - (d) the area of operations of a water supply authority.
- (2) Despite subsection (1) (b) and (d), the area of operations of the Corporation includes the area of operations of the Corporation in its capacity as a water supply authority in relation to the Fish River water supply scheme.
- (3) Despite subsection (1), the operating licence may authorise the Corporation to carry out any of its functions:
- (a) outside the State, or
  - (b) in any of the areas referred to in subsection (1) (a)–(d) with the agreement of Sydney Water Corporation, Sydney Catchment Authority, Hunter Water Corporation or the water supply authority, respectively (the **relevant body**).
- (4) If, under subsection (3) (b), the Corporation is to carry out its functions in more than one of the areas referred to in subsection (1) (a)–(d), the Corporation is to obtain the agreement of each relevant body in relation to the exercise of those functions.
- (5) Nothing in this Act affects the area of operations of Sydney Water Corporation, Sydney Catchment Authority or Hunter Water Corporation.
- (6) In this section, a reference to the **area of operations** of a water supply authority means the area of operations prescribed for that

water supply authority by regulations made under section 289 (1) of the [\*Water Management Act 2000\*](#).”



## **Appendix C      Utility Interviews – Agenda and Notes**

This Appendix contains the Agenda for the Operational Audit Interviews conducted with the State Water Corporation over 1 November 2006 to 3 November 2006. Edited general notes taken during the interviews by the Auditors and IPART's representative have also been included as a record of items discussed during the interviews.

## Draft Schedule of Interviews with Halcrow

Location: Level 2, 234 George St SYDNEY

### **Interviewees**

Dan Berry - Manager, Information and Operations  
Warwick Battye-Smith – Operations Manager Fish River Water Supply Authority  
Dennis Zandona – Manager Corporate Services  
Suzie Gaynor – Ministerial Communications Co-ordinator

### **Wednesday 1 November**

### **Interviewee**

2.00 – 3.30	Clause 7: Water Delivery Operations 7.4 Water Metering	Dan Berry
3.30 – 3.50	BREAK	
3.50 – 5.20	Clause 7: Water Delivery Operations 7.5 Water Balances	Dan Berry

### **Thursday 2 November 2006**

### **Interviewee**

8.30 – 9.30	Overview of State Water Corporation	Abel Immaraj
9.30 – 10.30	Clause 9: Performance Indicators Policing Functions	Dan Berry
10.30 – 10.50	BREAK	
10.50 – 12.20	Clause 9: Performance Indicators Asset Management	Dan Berry Warwick Battye-Smith
12.20 – 1.00	LUNCH	
1.00 – 2.30	Clause 7: Water Delivery Operations 7.6 Fish River Water Balance	Dan Berry Warwick Battye-Smith
2.30 – 2.50	BREAK	
2.50 – 3.50	Clause 7: Water Delivery Operations 7.3 Drought Management Plan	Dan Berry
3.50 – 4.10	BREAK	
4.10 – 5.00	Additional Questions: Clause 7.3 and 7.6 and Clause 9 Policing and Asset Management	Dan Berry Warwick Battye-Smith

**Friday 3 November 2006**

**Interviewee**

8.30 – 9.30	Clause 4: Customers and Community 4.3 Customer Service Charter	Dennis Zandona Suzie Gaynor
9.30 – 9.50	BREAK	
9.50 – 11.00	Clause 5: Complaints and Dispute Handling 5.1 Internal Complaints Handling Procedures	Dennis Zandona Suzie Gaynor
11.00 – 11.20	BREAK	
11.20 – 12.50	Clause 7: Water Delivery Operations 7.1 Water Conservation 7.2 Supply Constraints	Dan Berry
12.50 – 1.30	LUNCH	
1.30 – 3.00	Clause 9: Performance Indicators Water Delivery	Dan Berry
3.00 – 3.20	BREAK	
3.20 – 5.30	Additional questions for Clause 7 and 9 Viewing of Electronic Records if requested (internet, intranet, CAIRO, other)	Dan Berry

Note: Marysia Derewlany, Lisa Welsh and Jubrahil Khan will be present for all interviews.

## 2006 Operational Audit of State Water Corporation Interview Notes

### 1

#### *Introduction*

These notes have been prepared to record the proceedings of the Audit Interviews undertaken with representatives of the State Water Corporation at their George Street, Sydney offices from 1 November 2006 to 3 November 2006.

Those present during the interviews included:

- IPART:
  - Michael Sedwell (Chair).
- Halcrow (Auditor):
  - Jim Sly;
  - David Francis;
  - Colin Rudd.
- State Water Corporation:
  - Abel Immaraj – Chief Executive Officer (Part);
  - Dan Berry – Manager Information and Operations;
  - Geoff Borneman – Customer Service Manager, Central Area (Part);
  - Dennis Zandona – Manager, Corporate Services (Part);
  - Suzie Gaynor – Ministerial Communications Coordinator (Part);
  - Marysia Derewlany – Company Secretary/Manager Strategic Policy and Compliance;
  - Lisa Welsh – Policy and Regulatory Compliance Manager
  - Jubrahil Khan – Customer Service Manager, North Area.

For the purposes of these notes:

- “SWC” – means “State Water Corporation”;
- SWC Report to IPART – means the report *Report to IPART under the Operating Licence*, State Water Corporation, 1 September 2006; and
- “DNR” – means the Department of Natural Resources.

Discussions generally followed the *Draft Schedule of Interviews with Halcrow*, a copy of which is included in **Appendix A**. Where additional items were discussed, appropriate notes have also been included. Notes have been prepared in accordance with the order that the relevant clauses appear in the SWC *Operating Licence*.



## 2

### *Overview of State Water Corporation*

Abel Immaraj presented an overview of the SWC business. Summary points are as follows:

- SWC is a bulk water supply agency; it is responsible for the transport of water from the storages.
- SWC does not own the water, except for water in the Fish River Water Supply Scheme.
- SWC was constituted on 1 July 2006 as a consequence of reforms being undertaken primarily to separate regulatory and operational functions. The five (5) main drivers for constituting the SWC were:
  - separation of the regulatory and operational functions;
  - commercial practice;
  - effectiveness and efficiency;
  - stakeholders; and
  - COAG initiatives (such as the National Water Commission).
- The NSW Treasurer and the Minister for Finance are the owners (Shareholders) of the SWC.
- The Department of Natural Resources (DNR) performs a regulatory role in respect to the creation and assignment of rights. It issues licences, water rights, etc and is the approval agency for the Water Sharing Plans applicable to each catchment. SWC delivers the rights created/assigned by DNR.
- The Minister for Natural Resources delegates some powers for implementation by SWC.
- SWC is managed in four (4) areas – North, Central, South and Coastal. The Central area also includes the Fish River Water Supply Scheme.
- SWC is responsible for:
  - delivering 5,500 gigalitres of water per annum; and
  - maintaining the assets, which have a total value of \$2.6 billion (\$2.8 billion including Hume Dam).
- The SWC supply system operates primarily through a natural carrier system (watercourses). As a consequence, transfer times are slow and can be variable.
- Less than 40% of the water released from storage goes to regulated users (paying customers). Environmental compliance is a significant part of SWC's operations, with the balance of the released water being deemed to be used by the environment.

- SWC undertakes daily monitoring of system flows and water levels.
- The timing of the release of water for the environment is an issue.
- All customers have an allocation of water for use. Water allocations can be transferred on either a temporary or permanent basis.
- SWC has approximately 300 employees.
- SWC has established Memoranda of Understanding (MoUs) with the Department of Natural Resources (DNR), the Department of Environment and Conservation (DEC) and the Department of Primary Industries (DPI).
- SWC has established a Community Consultative Committee (CCC). The second meeting of the CCC is due to be held in November/December 2006.
- Detailed Implementation Manuals that outline procedures in respect to SWC's operational obligations are not currently in place. It is estimated that it will be a further 6 to 12 months before these documents are in place.
- Key issues for the SWC are:
  - commercialisation;
  - legacy systems and processes;
  - significant Government subsidies, particularly in respect to Capital Expenditure;
  - water pricing (currently 70% fixed; moving to 40% fixed next year);
  - drought and climate variability; and
  - the regulatory environment.

### 3

#### ***Clause 4 – Customers and Community***

#### *3.1*

##### *4.3 – Customer Service Charter (excluding Fish River)*

- A “Customer Service Charter” (“Charter”) has been established and is available on the SWC web site (the Charter has been sighted).
- SWC indicated that they recognise that there are a lot of items that are included in the Charter that are not measurable or can't be met.
- The Charter includes details of the responsibilities of customers as well as those of the SWC.
- The process of reviewing the Charter (as required under Clause 4.3.4 of the Operating Licence) has commenced. Activities undertaken/proposed are as follows:
  - a customer survey was undertaken in July 2006;
  - a draft new Charter is to be developed based on best practice adopted by other agencies;

- the draft new Charter will be put to the Community Consultative Committee for review and comment; and
  - the target completion date for the new Charter is 1 July 2006 (which is in accordance with the Operating Licence).
- A Customer Contract concept was proposed by SWC, but not adopted by the regulators.
- SWC acknowledged that the existing Charter does not fully address the requirements of the *State Water Corporation Act 2004*, the *Water Management Act 2000* or the *Water Act 1912*, as required under Clause 4.3.2 of the Operating Licence. SWC plans to better address these requirements during the current review of the Charter.
- For the 2006 Report to IPART, reporting in respect to SWC's obligations under the Charter has been on a state wide basis. SWC indicated that they are unable to report on a valley basis at this time. In the future, reporting will be on a valley basis; the available information can generally be related back to the respective valleys.

## 4

### ***Clause 5 – Complaints and Dispute Handling***

#### 4.1

##### *5.1 – Internal Complaints Handling Procedures*

- SWC acknowledged that internal complaints handling procedures were not in place by 31 October 2005 (as required under Clause 5.1.1 of the *Operating Licence*).
- SWC has consulted with IPART regarding appropriate complaint categories. The proposed categories are generally in line with the standard (Australian Standard AS 4269 *Complaint handling*).
- SWC reports to its management team and Board in respect to complaints on a quarterly, half yearly and annual basis.
- SWC has adopted new processes for internal complaints handling. The implementation of these processes is currently being rolled out. Activities undertaken or planned are as follows:
  - procedures have been written;
  - internal training is currently in progress, with a training presentation being made at all SWC offices (copies of the training material and training program are to be provided); and
  - an education process for customers, as well as staff, is to be implemented.

- A clear definition of what constitutes a complaint needs to be agreed and communicated. The definition currently adopted is that a complaint exists when a customer is not satisfied, ie “a customer expresses dissatisfaction”.
- SWC emphasised that their new approach to complaint management included proactively asking customers if they wish to register a complaint when expressing dissatisfaction. The process allows for SWC staff to complete a complaint form; this does not have to be undertaken by the customer.
- The new process of handling complaints was described as follows:
  - once a complaint form has been raised (filled out), it is copied to the Ministerial Communications Coordinator (Suzie Gaynor);
  - resolution of the complaint is undertaken by the local office;
  - Ministerial Communications Coordinator (Suzie Gaynor) follows up to ensure that the complaint is closed out; and
  - Ministerial Communications Coordinator (Suzie Gaynor) collates the closing documentation.
- SWC agreed to provide a copy of the training module, a sample complaint form and a copy of the flow chart included in the front of the complaints form pad.
- In respect to the absence of information regarding complaints in the SWC Report to IPART, SWC agreed to go back and extract the relevant information for 2005-2006 as best as possible.
- The Customer Service Committees (CSCs) are aware of the new complaints handling process, but have not yet been fully briefed.
- The recent move to quarterly billing has resulted in many complaints.
- Copies of invoices and other documentation are to be provided.
- In responding to complaints, there is a need to focus on SWC’s role and associated activities.

#### 4.2

##### *5.2 – External Dispute Resolution Scheme*

- It was noted that SWC has appointed the Energy and Water Ombudsman NSW (EWON) as their external Dispute Resolution Body.
- SWC advised that a total of three (3) complaints had been received by EWON during 2005-2006. These complaints were resolved by a telephone call; in each case a misunderstanding regarding responsibilities was resolved.

**5**

***Clause 7 – Water Delivery Operations***

**5.1**

***7.1 – Water Conservation***

- SWC commented that the conservation of water is the reason that SWC exists, however, there have been no indicators for their effectiveness in achieving that role.
- SWC indicated that there is a lack of a business driver for efficiency improvements, ie there is no increase in sales as extra water generated goes to the environment.
- It was again noted that SWC does not own the water.
- Measures taken in respect to water conservation include:
  - encouragement of discipline in water ordering, ie once water is released in response to an order, the customer's account is debited;
  - planning has been undertaken to determine the best operational procedures consistent with meeting obligations;
  - efficiency measures have been developed in consultation with users and the Customer Consultative Committee (CCC). An expression of interest to determine customer needs and negotiations in respect to out of sync demands have been undertaken;
  - block releases have been implemented when allocation is low in some northern areas (following negotiation with users); and
  - SWC is moving towards more accurate measuring of extractions.
- Water conservation measures implemented in the Lachlan and Macquarie systems include:
  - a SCADA system is being implemented to facilitate continuous monitoring on weirs. As a consequence, structures can now be operated in a manner that is more responsive to rainfall (SCADA systems are also being implemented in the Murray and Northern areas);
  - there is increased river gauging;
  - under the Water Sharing Plan, there is a need to replenish stock and domestics users twice annually. The North Marsh Channel, which bypasses the Macquarie Marshes, has been cleaned to gain better delivery efficiency. SWC is negotiating with the Department of Environment and Conservation (DEC) regarding the cessation of releases to the North Marsh Channel;
  - the removal of willows in effluent creeks has been agreed with users in the Lachlan system; and
  - there is a proposal to reduce the storage capacity of Lake Brewster (a similar situation to Lake Mokoan in Victoria).

- In the Murrumbidgee system, preliminary work associated with improvements to Yanco Creek was undertaken during 2005-2006. This involved the installation of two (2) flow gauging stages for monitoring purposes.
- In the Murray-Darling system:
  - there are a number of proposals associated with the Menindee Lakes system;
  - SWC is involved on the Steering Committee for the current review of options for water savings in the Darling system; and
  - A staff member has been appointed to provide SWC involvement.
- There is an issue in that water losses are currently deemed to constitute environmental water (even though not specifically released for that purpose).
- Whilst flows in the main rivers remain within the banks, there is some opportunity for water savings in the effluent creeks. Water Sharing Plans require that water levels in effluent creeks do not exceed 80% of bank level.
- There has been investment in improvements to the CAIRO Water Management System, including:
  - a breakdown of carrier sections; and
  - ongoing development activity to improve decision making tools.
- There is now a full time Operations Manager for the Hunter system.
- Opportunities for improvement include the following:
  - construction of a pipeline to deliver water from Chaffey Dam to Tamworth;
  - the provision of on-line storages/regulators to effectively break carriers into smaller sections;
  - delivering water during the winter;
  - improving monitoring systems with increased use of SCADA systems (to be undertaken in conjunction with DNR). There is potential to extend the monitoring into farms; and
  - improvement of the time value of water.

## 5.2

### 7.2 – *Supply Constraints*

- Physical supply constraints are described in the Water Sharing Plans.
- The main problem leading to supply constraints lies in effluent creeks, which are controlled by the Water Sharing Plans.
- Where demand exceeds channel capacity, a proportional allocation is provided.
- Users are advised of times when water is not available.

- Actions implemented to improve the timely delivery of water include:
  - temporary operation of weir pools at higher levels; and
  - implementation of a SCADA system.
- Constraints are primarily addressed in the Water Sharing Plans.

### 5.3

#### 7.3 – Drought Management Plan

- Under the Water Management Act, a “severe water shortage” can be declared. In this case, the Water Sharing Plan is suspended and the provisions of the Drought Management Plan are implemented.
- A Drought Management Plan (for which relevant documentation is to be provided) has been implemented for the Lachlan Valley since 1993-1994, as follows:
  - circumstances have required update of the plan several times;
  - staff have prepared and implemented an Operations Plan;
  - there has been a high level of community involvement;
  - the process has gone well.
- Under the Water Management Act, a “Direction” can also be made by DNR, however, in this case the Water Sharing Plan remains active. This arrangement currently applies for the Murray Valley.
- There is potential for implementation of a Drought Management Plan in the Namoi system this year (2006-2007).
- A Drought Management Plan allows for adjustment of allocations to:
  - high security users;
  - basic water rights users; and
  - the environment.
- SWC indicated that they are proactive in forecasting the onset and need for the implementation of Drought Management Plans. They consult closely with Customer Service Committees (CSCs) in this regard.
- The Department of natural Resources (DNR) initiate the declaration of a “sever water shortage”, but such action is based on SWC input/advice.

### 5.4

#### 7.4 – Water Metering

##### 7.4.1 – Metering Accuracy:

- SWC have included information pertaining to the issue of metering standards in the SWC Report to IPART.
- Commencing this year, auditing is being undertaken in accordance with the NSW Water Extraction Monitoring Standards. Customer Service Officers have in the past used various methods, until National standards have been adopted.

- The Standard calls for  $\pm 5\%$  accuracy in the field.
- Customer owns the meter and has responsibility under its licence to maintain that meter.
- SWC is contracting DNR to undertake a check on Contractor.
- There is a large world market for meters for smaller pipe diameters, ie less than or equal to DN300. Consequently, meters are expected to meet the required  $\pm 5\%$  accuracy.
- There is a smaller market for meters suitable for use on large diameter pipes, ie DN450-DN900. As a consequence, the accuracy of available meters is not expected to be as high, and at this stage, metering of these size pipes has not been addressed. The main issues for these conduits are as follows:
  - the high cost of installation, particularly in respect to providing the required upstream and downstream clear distances;
  - the irregular profile of concrete pipes;
  - the potential for deformation and internal corrosion of steel pipes;
  - problems with the equipment available to calibrate these meters; and the accuracy range for particular meters.
- The required  $\pm 5\%$  accuracy can be achieved in open channel carriers.
- Even though individual gauging readings may attract an accuracy of  $\pm 10\%$ , the errors cancel out over a period of time.
- SWC is encouraging the use of meters having a greater range of accuracy.
- The adoption of a metering standard on a National basis is expected by December 2006. This is expected to require accuracies of  $\pm 2.5\%$  in the laboratory and  $\pm 5\%$  in the field.
- The Department of Agriculture, Fisheries and Forestry (DAFF) have awarded a contract to undertake in-situ verification of performance to Ecowise, who are expected to report by February 2007.
- Magflo meters are not generally a problem; mechanical meters are more of a problem.
- Audits check whether the meter is:
  - achieving the required  $\pm 5\%$  accuracy; and
  - is measuring all of the passing flow.
- The pro-forma “Site Audit for Compliance with Monitoring Standards” was sighted.



- SWC advised that there were no resources available to undertake metering audits. Staff who would be undertaking this work have been otherwise engaged, in particular engaged in meter reading for the price change to be imposed at the end of October 2006.
- Action taken at this stage includes:
  - the National Standard has been adopted;
  - an audit form and audit process has been adopted;
  - an audit plan has been prepared;
  - no formal audits have yet been undertaken (only trial audits had been undertaken to the end of June 2006); and
  - no compliance notices have been issued.
- SWC indicated that they have prepared an audit plan on a valley basis, although no documentation was provided. It is understood that the plan will endeavour to target 20% of the highest users.

#### 7.4.2 – Performance Standards:

- SWC advised that details of their proposed performance measures were submitted to IPART for review on 18 May 2006.
- The delay (beyond 31 March 2006) in submitting the proposals was due to several factors, including:
  - confusion over the National standard;
  - the desire for SWC's standard to tie in with the National Standard; and
  - the delay in gaining SWC Board approval of the proposals.
- SWC advised that discussion with IPART in respect to the proposed performance measures is still ongoing. At this stage, SWC has been asked to comment on a proposal drafted by IPART.
- As performance measures have not yet been agreed between SWC and IPART, performance is not yet being measured.
- It is expected that the National Standard will be in place by April/May 2006.
- SWC noted that there is a 'grandfather' clause applicable to existing metering sites at the time of audit. If sites are modified, they will need to comply with the adopted Standard.

#### 7.4.3 – Record Systems:

- SWC advised that there is currently no corporate system for recording measuring performance. Consequently, there are no records of past verification activities.

- SWC further advised that they have awarded a contract to develop a recording system.

#### 7.4.4 – Ministerial Reporting:

- The SWC Report to IPART was also sent to the Minister.
- SWC will provide a copy of the covering letter.

### 5.5

#### *7.5 – Water Balances*

- Apart from the water balance for the Fish River Scheme, water balances have not yet been completed. Water balances for a number of inland valleys have been compiled and sent for publishing on the SWC web site, however, this has not yet been done.
- SWC had expected to have all water balances completed by the end of October 2006, however, this has not been achieved. It is proposed to publish each water balance as it is completed; the target completion date is now the end of November 2006.
- In compiling the water balances, there is a need to correlate information with DNR, which is difficult.
- Particular difficulties in compiling the water balances include:
  - the time required to undertake meter readings;
  - there is a reliance on power supply distributors for providing power usage data that can be used to determine pump run hours and hence water flow
  - there is no direct correlation between water use readings and licences;
  - SWC don't control the licence database;
  - the database continues to be changed;
  - not all licences have yet been finalised by DNR;
  - there is no correlation between new and old licences (the change in licences relates to requirements under the Act);
  - there are different types of permanent transfer;
  - the notion of water balances is relatively new, and is required to be presented in a new format that differs from that previously used by SWC;
  - office collation ???; and
  - initial web site setup (including the preparation of fact sheets).
- There are currently limited staff capable of preparing the water balances. SWC are in the process of training additional staff to undertake the work. Nonetheless, they consider that the 1 September submission timeframe (Operating Licence requirement) is too tight.

- The option of providing an initial draft of the water balances, together with an appropriate qualifier, by 1 September was suggested. Each annual SWC Report to IPART would then include an initial draft for the current reporting year together with an updated report for the previous year. SWC agreed that this may be a workable alternate approach.
- The question was raised as to whether the water balances are required for transparency purposes only. It was noted that they are likely to be used for 5 or 10 year reviews of the Water Sharing Plans.
- SWC are considering a variation to the required SKM format. They have put a proposal to both the SWC Board and DNR for a format more related to the Water Sharing Plans, but have not yet submitted a proposal to IPART for approval. SWC also noted that NWI outcomes are now becoming an issue in respect to reporting requirements.
- It has taken four (4) weeks to get information published on the web site, and it is still not in place. The process is expected to be much quicker next year, following completion of the initial setup and training.
- It was suggested that SWC explore getting better cooperation from DNR by way of the Memorandum of Understanding between SWC and DNR.
- SWC agreed to provide available water balances for inclusion in the audit report.

5.6

#### *7.6 – Fish River Water Balance*

- The Fish River Water Balance is presented in the required format in the SWC Report to IPART.
- SWC is planning to add an additional line to the water balance template. It is understood that this will involve a further breakdown of one of the existing items and will not constitute a significant change. SWC will forward a copy of the revised template to IPART for noting/approval in accordance with Clause 7.6.2 of the *Operating Licence*.

6

### ***Clause 9 – Performance Indicators***

6.1

#### *Water Delivery*

##### Notification of Non-Complying Water Orders:

- There is no specific system for recording performance and SWC is not planning to build one specifically for this purpose. Performance figures are derived from other existing systems.

- In the North and Central Regions, compliant order figures were entered into the corporate system (non-compliant orders were not entered). In other regions, records are kept in a paper based system.
- SWC indicated that no complaints had been received in respect to orders.
- It is planned to introduce an electronic water ordering system, a web/touch phone based system named Water Information Exchange (WIX). This system will incorporate checks against non-compliant orders. The timeframe for its implementation is not defined, although it is hoped that some trials will be undertaken this year. The Project Manager is based in DNR.
- Prior to the implementation of WIX, an MS Excel spreadsheet based system is being implemented, however, this is not yet in place.
- SWC expect to have some information reported for the current year. This may be information for a partial year, or they may back calculate for the whole year.
- SWC are planning to seek some variation to the water delivery performance indicators in the next licence review.

#### Timely Delivery of Water:

- Once an order has been placed, it is up to the customer to take that water.
- The only indicator of non-compliance is the receipt of a complaint. There have been six (6) reported complaints in the reporting period, as follows:
  - four (4) on the Lachlan system; and
  - two (2) on the Murrumbidgee system.
- SWC noted that 2,000 gigalitres each are released on the Murray and Murrumbidgee systems. Murray Irrigation, Murrumbidgee Irrigation and Coleambally Irrigation are the primary customers.
- The consequence of under-release is significant in that it leads to complaints; over-release is considered less of an issue, but it leads the loss of water.
- Issues are generally dealt with face to face between the operator, Customer Services Committee and the downstream customers.
- Performance is based on volume delivery only. The stream level at which the water is supplied is not a performance criteria.
- SWC noted that some downstream customers only require delivery within a two week period. SWC continually communicates the progress of the water being transported.

- It was suggested that contact be made with other stream based bulk water suppliers, eg Goulburn-Murray Water, to determine how they monitor their performance in respect to delivery of water.

#### Re-scheduling Delivery of Water:

- The current management/reporting system does not differentiate between SWC and customer initiated rescheduling.
- It was suggested that it is probably better to report the total extent of re-scheduling, with a caveat that the figures include customer initiated re-scheduling.
- SWC fill a total in the order of 50,000 orders per year; less than 1% of orders are re-scheduled.
- Identification of a potential shortfall in released water, and consequently the need to re-schedule delivery, is based primarily on operator judgement. Although the CAIRO system may indicate a shortfall, the final judgement is made by the operator.

#### Minimum Flow Targets:

- The definition of the targets is the main issue. These are set in accordance with the Water Sharing Plans, however, Implementation Manuals have not yet been developed.
- The Implementation Manuals will set out the basis upon which daily minimum flow is determined.
- Reporting is based on actual operational records, not on hydrographically corrected information (which is prepared by DNR). This can conflict with delivery to customers and lead to a potential need for re-scheduling.

## 6.2

#### *Policing Functions*

- The Act allows the imposition of penalties for use of water in excess of licence conditions. Penalties may comprise both volume penalties and usage charges of up to five (5) times the value of the excess use.
- Penalty rules are adopted and implemented on the basis of the areas covered by each Customer Service Committee.
- Most overruns occur during the year, and customers are asked to get their account in order using the following incremental approach:
  - a verbal request is made for the customer to set their account straight (primarily by purchase of water);

- issue of a formal letter; and
  - imposition of a penalty.
- There have been some problems with adjustments in the Murrumbidgee as there has been no water transfer allowed under the Water Sharing Plan during the period March to June.
- There have been some problems in the Hunter, as follows:
  - there is no established water market; and
  - prior to this year, there has been 100% allocation.There are expected to be further problems in the current year.
- The penalty reported in the SWC Report to IPART relates to a single case of meter tampering.
- Under the separation of powers, the Department of Natural Resources (DNR) initiates prosecutions. Under new arrangements, it appears that it will not be possible to prosecute for meter tampering.
- SWC have not yet set up a process for the suspension of licences and entitlements. This is to be done in conjunction with DNR under the new Water Sharing Plan arrangements.

### 6.3

#### *Fish River Scheme – Asset Management*

- The Fish River Scheme comprises a pipeline from the Oberon Dam and supplies water to four (4) bulk water customers and a number of retail customers. Some water is supplied for potable use.
- The Fish River Scheme comprises a dam and a weir for raw water supply, as well as reservoirs, 236 kilometres of pipelines, four pumping stations, a tunnel, chlorinator and clarification plants for water transfer and reticulation to customers.
- SWC advised the following in respect to average response times:
  - initial response is immediate, ie the duty operator will go and look at the problem. If the problem can be isolated, this is done and repair is undertaken during working hours. If the problem cannot be isolated, repair works are initiated immediately;
  - all notifications of interruption to supply are recorded. The time taken from notifying an interruption to supply until the time that repairs are completed can be determined (the time is taken from timesheets). If there is no interruption to supply, then the issue is not recorded.
- SWC further indicated that there is room to improve their processes in respect to response reporting, as follows:
  - there is currently no real management reporting in respect to this issue;

- they feel that there is a need to be more aware of the issues involved, and that this would assist them in their management approach.
- SWC indicated that they would provide details of actual supply interruptions, including copies of job cards.
- The following action is being undertaken to minimise water loss:
  - SWC are aiming to better the industry average of 6% water loss;
  - a water balance assessment is undertaken each week;
  - water balance assessments sometimes provide the first indication of a problem (eg pipeline failure);
  - SWC have been implementing a program of pipeline replacement; and
  - routine inspections along pipeline routes are undertaken as part of the general maintenance program.
- Promotion of water conservation measures is primarily in the hands of the retail water agencies and the Department of Energy, Utilities and Sustainability (DEUS).
- SWC indicated that, through the process of compiling information for the SWC Report to IPART, they have recognised the need for further document their procedures.

#### 6.4

##### *Fish River Scheme – Water Delivery*

- SWC indicated that there is no documented requirement for riparian flow releases. Historically, SWC release 2.5 megalitres per day.
- There is currently no Water Sharing Plan in place for the Fish River.
- SWC agreed to provide some additional documentation relating to riparian flow releases on the Fish River.

#### 6.5

##### *Fish River Scheme – Water Quality*

- Under existing arrangements, SWC does not guarantee that water supplied from the Scheme meets potable water standards. Quality requirements are met at the point of supply, however, quality can deteriorate by the time the retailers supply to their customers.
- Supply agreements, including minor consumer agreements, are currently being re-negotiated. Related documents have been included with information previously provided for audit purposes.
- As seen in the reported water quality information (refer SWC Report to IPART), colour is an issue.
- In respect to E Coli, the following comments were provided by SWC:
  - just meeting NH&MRC Standards;

- there is no evidence of systemic problems;
  - there are no plans for any upgrade works in respect to water quality;
  - where a test indicates a failure the test procedure is very often found to be the cause of the failure; a re-test often provides compliant results; and
  - there has been a problem with the quality of water supplied to Lithgow.
- SWC agreed to provide a copy of a typical supply agreement.

## 7

### *Other*

- SWC demonstrated use of the CAIRO Water Management Accounting application. The procedure by which water orders are compiled and release requirements are determined was demonstrated for the Gwydir Valley.
- SWC advised that flow information for all rivers is available at [www.waterinfo.nsw.gov.au](http://www.waterinfo.nsw.gov.au).



## **Appendix D     Stakeholder Consultation**

This Appendix contains the letters sent to the stakeholders requesting their comments on the State Water's performance and the responses received from the stakeholders.



NSW Government

**DEPARTMENT OF NATURAL RESOURCES**

Contact: Richard Nevill  
Phone: (02) 4729 8127  
Fax: (02) 4729 8141  
Email: [Richard.Nevill@dnr.nsw.gov.au](mailto:Richard.Nevill@dnr.nsw.gov.au)

Our ref: DGC06/806  
Your ref: KMWFBJ/32/6111732  
File: Letter to Halcrow DGC06-806.doc

Mr David Francis  
Senior Engineer  
Water Business Group  
Halcrow Pacific Pty Ltd  
Level 1, 542 Station Street  
MELBOURNE VIC 3128

15 January 2007

Dear Mr Francis

**Subject: State Water Corporation Operational Audit 2005/06**

I refer to your letter of 14 November 2006 concerning the 2005-2006 Operational Audit of State Water Corporation. A teleconference was held between the Department of Natural Resources and Halcrow on Thursday 11<sup>th</sup> January 2007. Senior officers from the Department discussed and elaborated on several key issues of concerns to the Department and generally on the performance of State Water in delivering its services during 2005/06. The discussions held during the teleconference are summarised in Tag A along with some additional comments.

Thank you for the opportunity to provide comment on State Water Corporation's Operational Audit 2005/06. Should you have any further enquiries about this matter, please contact Mr Richard Nevill on telephone number (02) 4729 8127 or email [Richard.Nevill@dnr.nsw.gov.au](mailto:Richard.Nevill@dnr.nsw.gov.au).

Yours sincerely

Salim Vhora  
Manager Corporate Licensing Unit  
Compliance and Licensing

# **State Water Corporation Operating Licence Audit 2005-2006**

## **– DNR Comments**

### **Book-Keeping and Maintenance of Records**

- Book-keeping by State Water Corporation (State Water) is generally poor. There are several instances where the water accounts have not been kept up to date. This has resulted in inaccurate information being provided to the Department of Natural Resources (DNR) to make resource assessments and water determinations. In particular, major errors in the accounting of water by State Water (particularly intra-state, inter-state and inter-valley transfers) have resulted in inaccurate allocation of water by DNR through its Annual Water Determinations. State Water's book-keeping must be accurate and kept up to date to ensure appropriate water determinations are made. The requirement to maintain up to date records is of particular importance to current water planning, given the current drought conditions and general water shortage throughout the state.
- There appears to be no clear requirement on State Water to maintain records and provide information to DNR for resource assessments. The requirement for State Water to maintain current records and provide up to date information to should clearly identified and included in the Operating Licence.

### **Compliance Issues**

- There have been occurrences where State Water has gathered information or evidence for prosecution and provided it to DNR to take further legal action, but has apparently been unhappy with the legal action taken by DNR. A draft compliance protocol for DNR and State Water is currently being developed by DNR to ensure clear identification of compliance responsibilities and actions between the two organisations. This issue of compliance responsibilities should be clarified and incorporated into the Operating Licence or Memorandum of Understanding as appropriate.

### **Memorandum of Understanding with DNR**

- The MoU was being developed during the period covered by this audit and commenced shortly thereafter, on 26<sup>th</sup> July 2006. As such, there was no MoU in place during the period covered by this audit (i.e. 1<sup>st</sup> July 2005 to 30<sup>th</sup> June 2006). Although the MoU complies with the requirements of the Operating Licence, the MoU require revision to ensure that following issues are included:
  - Crop statistics – provision of information by State Water on the types of crops being grown with the irrigation water and the area planted;
  - Water account keeping – ensuring that accurate and up to date water accounts are kept;
  - Supplementary water access – agreement on times when supplementary water may be accessed;

- Temporary water trades – rules relating to temporary trading of water volumes; and
  - Compliance – protocols for compliance activities for DNR and State Water, including identification of responsibilities, protocols for collection of evidence and legal prosecution.
- DNR considers that the requirement under Section 7 of the MoU for a single contact officer in each organisation may require amendment. A single contact within DNR may cause unnecessary delays in processing issues. It is suggested that a small number of different contacts be identified in operational areas. For example, a single contact could be established for each of the following areas of operation: water transfers; DNR water management charges and accounts; and general operational issues.

## **Delegations**

- There are a number of powers conferred upon State Water by DNR via direct delegation in addition to those formally conferred under the current Operating Licence (Section 3). Until such time these delegations are formally included into the Operating Licence, State Water's performance should be assessed as part of the annual audit.

## **Functions**

- State Water is working with DNR to define roles and responsibilities between the two organisations regarding functions such as compliance, crediting of water accounts, supplementary water allocations, water quality and management. These responsibilities should be considered as "Functions" under Section 3 of the Operating Licence, so that compliance with these functions may be assessed in the future. State Water must also be required to report against these functions to DNR on a regular basis. An example of where delegated functions are not adequately reported is where DNR has delegated the authority to access supplementary water for the Gwydir regulated river, but reporting to DNR by State Water on this issue is inadequate.

## **Customer Service Charter**

State Water has reported in its Report to IPART under the Operating Licence<sup>1</sup> dated 1 September 2006 that:

- State Water will report on extraction performance against water ordering to customers and that the North and Central Areas (of State Water) are providing this information for customers. It is not clear whether State Water is providing this information for its other areas of operation.
- if under-recovery of costs remains significant, it will not continue the "service for DNR" for the processing of intra-valley water trades. DNR agrees that State Water may be under-recovering its costs for this activity, but does not agree that it is a service for DNR. This activity is required to be undertaken by State Water as part of its charter of supplying water to customers.

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<sup>1</sup> State Water Corporation – Report to IPART Under The Operating Licence, 1 September 2006.

- it considers that all water, including Basic Landholder Right (BLR) water flowing through a meter is chargeable. The legislation allows landholders to take a limited volume of water for BLR without the need for a licence, but does not specify how the water could be taken. DNR considers that BLR issues need to be considered on a case by case basis and that State Water needs to explain to complainants that water taken through the meter is assumed to be the licensed extraction. If the customer wishes to separate between two extractions they should be advised to install their own separate pump and pipeline.

### **Water Conservation and Efficiency of Water Releases**

- Section 7.1.1 of the Operating Licence requires that State Water must take such steps as are reasonably practicable to conserve water and to minimise losses that result from its operations. There is anecdotal evidence within DNR of State Water not managing its water releases to ensure water efficiency. This is of particular concern given the current water shortage in New South Wales. The Peel River in northern NSW has had a zero allocation for general security licences for some time and only high security and town water supply extraction is permitted. State Water has only been required to release water from its works to Tamworth for extraction by Tamworth Regional Council, but there is evidence of river flows past Tamworth, indicating that an excessive amount of water has been released.

### **Drought Management Plan**

- Up to the present only the Lachlan River has been identified as requiring suspension of the Water Sharing Plan, and development of a Drought Management Plan (DMP). Other areas/valleys may require a DMP in the future. The DMP for the Lachlan River has been completed by State Water with adequate consultation and input from DNR. DNR considers that State Water has adequately met this condition of the Operating Licence.

### **Environment Management Plan**

- Input was sought from DNR in early 2006 on the Environment Management Plan (EMP), and as a result of that input, the draft EMP was modified. The EMP was finalised in April 2006. DNR considers that State Water has adequately met this condition of the Operating Licence.

**Francis, David**

**Subject:** FW: 2006-07 IPART Operational Audit of State Water Corporation [Filed 16 Feb 2007 15:19]

Dear ,

As you may be aware, the Independent Pricing and Regulatory Tribunal (the Tribunal) is currently conducting an audit of State Water Corporation's performance against the requirements of their Operating Licence 2005-2008. The Tribunal has engaged Halcrow to undertake the audit and provide advice to the Tribunal.

As part of the audit process we are contacting representatives from a number of Customer Service Committees to gain feedback on a number of issues. As discussed I will be contacting each you by telephone again between Wednesday 21 and Friday 23 next week to seek your comments on the issues outlined below. The key issues you raise will be reported in our final Audit Report to the Tribunal, however the responses will be reported anonymously, that is, the name of the respondent and the CSC you represent will not be included in the report. You may also wish to make a more formal written submission to the audit and in this case we would require all responses to be provided by, at the latest, Monday 5 March 2007. All responses will be collated and summarised into a written report, a copy of which will be provided to State Water Corporation for comment.

We are specifically seeking comment on the compliance of State Water Corporation with Clause 4.2.2 of the Operating Licence 2005-2008, which states that:

*"State Water must provide the CSCs with information within its possession or under its control to enable the CSC to discharge the tasks assigned to the CSC, other than information or documents over which State Water or another person claims confidentiality or privilege."*

In relation to this requirement, we are seeking your comment on issues such as:

- whether the information provided is adequate and whether the quality of information provided is sufficient to enable the CSC to discharge its duties;
- whether information is provided in a timely fashion;
- whether information requested by the CSC members has been refused or only partially provided;
- any general issues on the provision of information to the CSC; and,
- other operating matters that you may wish to discuss.

A number of other issues have also been raised in specific submissions to the Tribunal and we would seek also your comment on these issues, which include:

- Delays in invoicing for water accounts and the quality/accuracy of bills; and
- Compliance and enforcement activities undertaken by State Water in relation to compliance with water entitlements - in particular, whether the compliance and enforcement actions are taking place, whether compliance is being monitored at a sufficient level, and the issue of zero tolerance policies.

If you feel that there are other important issues related to State Water Corporation's performance against the requirements of its Operating Licence, please also highlight these issues.

I look forward to talking with you next week, however if you have any questions on these issues or if you are going to be unavailable between Wednesday and Friday next week please do not hesitate to contact me using any of the details listed below. If you wish to pre-arrange a time for my call or if you would prefer a specific time please give me a call.

Thank you and regards,

David.  
Project Manager  
2006/07 Operational Audit for State Water Corporation

**David Francis**  
Senior Engineer, Water & Power Business Group

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Level 1, 542 Station Street, Melbourne, VIC, 3128

ph. 03 9899 9777 fax. 03 9899 1214 mob. 0403 399 419

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21/03/2007

Dear Mr [REDACTED]

As you may be aware, the Independent Pricing and Regulatory Tribunal (the Tribunal) is currently conducting an audit of State Water Corporation's performance against the requirements of their Operating Licence 2005-2008. The Tribunal has engaged Halcrow to undertake the audit and provide advice to the Tribunal.

**We need a surety that the "advice" provided by Halcrow's is consistent with the full range of views that IPART should have available to it to effectively perform its role.**

As part of the audit process we are contacting representatives from a number of Customer Service Committees to gain feedback on a number of issues. As discussed I will be contacting each of you by telephone again between Wednesday 21 and Friday 23 next week to seek your comments on the issues outlined below. The key issues you raise will be reported in our final Audit Report to the Tribunal, however the responses will be reported anonymously, that is, the name of the respondent and the CSC you represent will not be included in the report. You may also wish to make a more formal written submission to the audit and in this case we would require all responses to be provided by, at the latest, Monday 5 March 2007. All responses will be collated and summarised into a written report, a copy of which will be provided to State Water Corporation for comment.

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*"State Water must provide the CSCs with information within its possession or under its control to enable the CSC to discharge the tasks assigned to the CSC, other than information or documents over which State Water or another person claims confidentiality or privilege."*

**The TOR note that "State Water staff will take advice from (CSC) members into account when making decisions which affect customers." This is not happening.**

In relation to this requirement, we are seeking your comment on issues such as

**Since establishment, we have experienced extraordinary difficulty having available to the Committee, any adequate or competently compiled**

**financial estimates, resulting costs comparison, financial statements, or data underlying its water pricing strategies recommended to IPART.**

**At the Committee meeting of 20 June, 2006;**

- No State Water or DNR financial data for 2005-2006 or 2006-2007 was available to the Committee, as usual.**
- No financial data to support the submissions to IPART by either State Water or DNR were available to the Committee which might allow the Committee or its constituents some intelligent rebuttal of the outrageous claims included in the submissions,**

- We were advised that quarterly billing has been introduced, despite the objections of the Committee, silently unanswered by senior State Water management,
- No believable infrastructure or technology asset management plans or strategies are in place, other than a continuous call for more “budget” to be included in IPART’S determinations. There is undue waste and lack of any commercial planning, and little if any accountability to comparing raisings from the valley approved by IPART with spending, nor of the need for such spending. In addition some State Water staff pay little heed to Committee advice in their day to day spending on the asset program

Then in September, State Water advised the Chairman of our CSC that valley based financial information was too “unreliable” to be presented to

the CSC and that we would have to wait a further 12 months for any meaningful valley based financial information.

We submit that there is a lack of will to facilitate the legitimate role of the CSC, and that is based either on gross incompetence or a desire to hide

and conceal information on which judgements can be made as to the legitimacy of costs and charges.

And nothing has changed ! Why do they keep asking ?

- whether the information provided is adequate and whether the quality of information provided is sufficient to enable the CSC to discharge its duties; **financial information has been hopelessly inadequate I can't understand how IPART was able to discharge its duties. Flag this against the key aspects from the Customer Charter.**
- whether information is provided in a timely fashion; **often the information just didn't exist, hence being late. Don't understand how SW can operate as an efficient business when key systems don't appear to be in place.**
- whether information requested by the CSC members has been refused or only partially provided; **I'm unaware of being refused access to info.**
- any general issues on the provision of information to the CSC; and, **Annual reporting and tardy response 12 months late could have combined 2 years of reporting into 1 - efficiency gain.**
- other operating matters that you may wish to discuss. **Inability of the CSC to effect change within SW. the Charter suggests moving towards more of a partnership arrangement; but the reality has been little if any change, still just another Government department.**

I think their response to the valley asset report that we presented provides adequate judgement of their willingness to work with the CSC, on anything other than superficial matters. You might recall the comments in the report about water balances for the different sections of the valley, on alternative views on infrastructure, to my mind almost totally ignored.

A number of other issues have also been raised in specific submissions to the Tribunal and we would seek also your comment on these issues, which include:



- Delays in invoicing for water accounts and the quality/accuracy of bills; and **Never received a correct invoice from SW first time. Last year got it wrong 3 times. I like the delays.....good for business.....ours**

**see comments above on the process of introduction of quarterly billing. In respect of bills, unkind people could suggest if they got their in arrears bills out on time they would help their cash flow, but who's complaining ?**

- Compliance and enforcement activities undertaken by State Water in relation to compliance with water entitlements - in particular, whether the compliance and enforcement actions are taking place, whether compliance is being monitored at a sufficient level, and the issue of zero tolerance policies. **They seem to have pulled back from this and have flagged less frequent meter readings etc.**

**SW suffers from using DNR as a compliance model. DNR don't care about enforcement and compliance unless it is bashing someone like us. SW claim they**

**have insufficient staff, but it is really their systems of work. I could evidence their recent defiance on the overuse as a result of the cuts to allocations, and their**

**recent suggestion that they are following up last years overusers.**

**If you feel that there are other important issues related to State Water Corporation's performance against the requirements of its Operating Licence, please also highlight these issues. How about IPART's capacity to force compliance?**

**State Water was recently off on an expensive exercise in "surveying customer attitudes and needs". This at the same time that they ignore the valid review role of their customers representatives, and covertly conspire to accelerate their price and revenue increases in a valley that is advisedly at 127% cost recovery. One might have thought that customer needs start with information being reasonably available and prices being at a level no higher than needed to sustain the monopoly service. Unless State Water gets its priorities right and deals with its distaste for openness and full information access with the Customer Services committee, we do not wish to be made pay for surveys which are simply distractions.**

**Local water delivery service is a well appreciated feature of local operations and we have no complaint about the local operators. The problems to our mind are systemically entrenched at the senior board and management level.**

**IPART has a role to undertake in regulating State Water's performance under its licences, as well as reviewing State Water's actual costs, especially as they are allocated between users and the community. To date we have seen little evidence that actual costs incurred have featured in the determinations made on price. As part of the Customer Service Committee we would have thought there was a logical role of review.**

**We are certainly concerned with the defiance that State Water is able to get away with of its legitimate responsibility to the CSC, seemingly with no surveillance or meaningful review by IPART as the licence regulator. On the contrary it seems to us that such behaviour is rewarded with more unexplained imposition of unjustified costs on users, and incredibly a**

move to upper bound pricing. We are assured that move was at the sole discretion of IPART, and not an outcome of NSW government pleading.

State Water must be accountable to the CSC's for its relationship with CSC's and its finances  
Contestability must be increased through specific defined fee for service contracts  
Valley costs and revenues must be separated from state lolly jars  
And just as importantly, the Halcrow report to IPART and the Ipart Audit must be made available to CSC's or publicly.

I look forward to talking with you next week, however if you have any questions on these issues or if you are going to be unavailable between Wednesday and Friday next week please do not hesitate to contact me using any of the details listed below. If you wish to pre-arrange a time for my call or if you would prefer a specific time please give me a call.

Thank you and regards,

David.  
Project Manager  
2006/07 Operational Audit for State Water Corporation

**David Francis**

Senior Engineer, Water & Power Business Group

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Level 1, 542 Station Street, Melbourne, VIC, 3128

ph. 03 9899 9777 fax. 03 9899 1214 mob. 0403 399 419

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## **Notes from Consultation with XXXX Customer Service Committee**

- Have only recently had problems with allocations – some problems with leakage and broken infrastructure resulting in supply problems
- CSC has issue with getting involvement from all parts of the valley
- Have big issue with DNR over planned Environmental Contingency Allowance releases
  - River WSP consultation up to end of August 2006
  - October 2006 DNR planned ECA release – 10% of dam released without consultation with the CSC
- Minor inputs from unregulated and groundwater customers on CSC
- CSC is normally able to come to a consensus position with SWC on most issues
- CSC had good consultation with SWC during the last IPART pricing review
  - CSC discussed full cost recovery – as long as they are efficient costs to recover
  - CSC decided on a higher fixed charge than guidelines at 60%
- CSC valley is currently running at a loss
- CSC is happy with level of information provided by SWC
- CSC indicated SWC willingly provide information and have not encountered a scenario where not enough information was provided
- CSC are planning a meeting with SWC to discuss SWC budget for the valley
- No real issues with uncontrolled flows except in one area
  - Valley typically has smaller reaches
  - Reaches are defined in Water Sharing Plans
  - CSC has discussed installing electronic flow metering to increase accuracy
  - CSC notes the need to coordinate existing metering sources
- No change in billing issues – still not getting regular bills – CSC notes this is an issue to be sorted out
- Enforcement and compliance issues not significant in the valley – customers have mostly had high allocations
- CSC are planning a meeting with SWC to discuss compliance issues in light of recent, significant decreases in allocations
- CSC noted that prior to SWC corporatisation the CSC Chairs used to meet regularly – this should be reintroduced



## **Appendix E      State Water's Response to Second Draft Audit Report**

This Appendix contains the response submitted by the State Water to the findings of the second Draft Audit Report.

Contact: Lisa Welsh  
Phone: 9354 1069  
Fax: 9354 1106

Mr Michael Keating AC  
Chair  
Independent Pricing and Regulatory Tribunal  
Level 2, 44 Market Street  
SYDNEY NSW 2000

19 February 2007

Dear Mr Keating

**Operational Audit of State Water Corporation  
Response to the Draft Report**

I refer to the draft report prepared by Halcrow regarding State Water Corporation's performance with its Operating Licence in 2005-06. As you would be aware, this is the first operational audit that State Water has participated in since becoming a State Owned Corporation on 1 July 2004. I am pleased to note the large majority of compliance requirements have received Full or High compliance ratings.

Despite this result, I note that there were several instances of Low and Non-compliant ratings. Attachment 1 contains my comments on these ratings and also on one of the requirements which received a High rating.

My comments on the draft recommendations are included at Attachment 2. I have also included additional information on business interactions with the Department of Natural Resources at Attachment 3.

If you have any questions regarding these comments, please contact Lisa Welsh, Policy and Regulatory Affairs Manager (9354 1069).

Yours sincerely



Geoff Borneman  
Acting Chief Executive Officer

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## Comments on Specific Ratings

### *2.3.1 Use of Best Endeavours to Enter into a Memorandum of Understanding (MoU) with the Department of Natural Resources (DNR)*

Although State Water believes it used its best endeavours to enter into an MoU with DNR by 1 October 2005, State Water accepts that it was unable to provide a complete record of interactions with DNR to support this. However, as some evidence was provided, I believe this rating should be increased.

### *Water Delivery Performance Indicators*

The remaining two non-compliance ratings were received for State Water's inability to collect information on two performance indicators: percentage of customers contacted within one working day of a non-complying order being placed; and percentage of orders rescheduled in consultation with customers within one working day of a known storage or delivery delay.

State Water's current operations systems are not equipped to collect the information required on these two indicators. To address this issue in the short term, information on both of these performance indicators will be collected by river operators using a paper based system. This system will eventually be replaced with an electronic water ordering system, the Water Information Exchange, which is currently being developed by the Department of Natural Resources.

In addition, State Water received two Low compliance ratings for a further two performance indicators. A Low compliance rating was received for the percentage of orders delivered outside +/- one day of the scheduled day of delivery. State Water relies on customer complaints to comply with this indicator. The discussion in the auditors' draft report relating to this rating implies that if State Water is not sending the correct volumes to fill orders, customers may still be able to extract their orders from the flow in the river. In such cases there would be no customer complaints although customers would be extracting water intended for environmental flows.

However, in these circumstances, State Water would fall short of its daily flow targets. In reality, State Water met its daily flow targets 93% of the time in 2005/06. Furthermore, State Water received only 6 customer complaints relating to the untimely delivery of ordered water, compared to thousands of customer orders. This indicates water orders in 2005-06 were delivered with a high degree of accuracy. Therefore State Water believes the rating for this requirement should be increased.

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*Fish River Scheme Indicators*

State Water also received a Low compliance rating for the average response time to unplanned supply interruptions at the Fish River Water Supply Scheme (FRWSS). Current practice for FRWSS is to respond to unplanned supply interruptions as soon as it receives notification. State Water acknowledges it did not have the systems in place to document response times in 2005-06 and has therefore received a Low compliance rating. However, State Water is confident customers would be able to confirm the very limited number of unplanned interruptions were responded to in a timely manner.

*4.4.3 Provision of information to the Fish River Customer Council*

State Water must provide the Fish River Customer Council with information to enable it to discharge the tasks assigned to it. In the current draft, this requirement has received a High rating, despite the fact that the Auditors have been provided with minutes and action sheets from Council meetings demonstrating State Water's compliance with this requirement. State Water understands that the auditors intend to contact members of the Council to confirm that information requests have been met. If such confirmation is received, State Water believes this rating should be upgraded to Full.



## Response to Recommendations

*R4.1 – SWC to consider revising the MoU with DNR in order to address the issue of the arrangements for making announcements of available water determinations and controlled flow.*

State Water will consider the inclusion of arrangements for making announcements of available water determinations and controlled flow in the MoU. However, inclusion will be subject to the concurrence of DNR, as the other signatory to the MoU.

*R4.2 – SWC should consider preparing a more formal report of performance against and compliance with the MoUs including, as a base, a list of the requirements of the MoU and how SWC has complied with each one.*

State Water agrees that reporting on compliance with each MoU should be based on the requirements in the MoUs. State Water will use this approach in the 1 September Report to IPART.

*R4.3 – SWC need to provide additional detail on performance against and compliance with the MoU with DNR including all the various activities that SWC and DNR collaborate on.*

State Water has provided the auditors with a variety of information regarding specific instances of interaction with DNR pursuant to the MoU. State Water also provided additional information regarding regular interaction with DNR to make the monthly Resource Assessments.

In addition, although the auditor's comments preceding this recommendation indicate State Water did not provide any evidence regarding the attendance of DNR at CSC meetings, State Water has provided the Auditors with a full record of CSC meetings minutes during 2005-06. These minutes indicate DNR attended various CSC meetings, including Macquarie, Lachlan and Murrumbidgee CSCs.

However, State Water acknowledges that there are a range of "business as usual" activities involving DNR were not comprehensively detailed. Further information describing these interactions with DNR is included at Attachment 3. In future reports, State Water will continue to provide more detailed information on standard "business as usual" interactions with DNR under the MoU.

---

*R5.1 – SWC should ensure that their financial systems are able to provide information as requested by CSCs.*

State Water is currently undertaking a Corporate Information Systems Project to ensure that all reporting requirements can be met, including the provision of financial information to CSCs.

*R5.2 – SWC should consider revising Clause 4.6.2 of the Operating Licence at the upcoming Operating Licence review to reflect their stance on alternative payment plans.*

Although changes to the Operating Licence can only be made by State Water's Portfolio Minister, the Minister for Water Utilities, State Water will use the upcoming end of licence review to advocate for this change to be made to the Operating Licence.

*R6.1 – SWC should consider providing the information on customer complaints prior to the 1 September deadline to avoid downgrading their compliance rating.*

State Water has just implemented a new customer complaints handling system and is compiling information on complaints on a monthly basis for reporting to management. This information will therefore be readily available for inclusion in the 1 September Report to IPART.

*R7.1 SWC needs to improve performance in co-ordinating accurate water releases to improve compliance for management of water releases while taking into account physical supply constraints.*

State Water understands that the compliance issue surrounding this recommendation actually relates to the monitoring and reporting of performance indicators for water delivery under section 9 of the Operating Licence, and not actual performance in co-ordinating releases. Therefore, if State Water was able to report fully on its timely delivery of water, this would provide sufficient evidence of compliance with the requirements under Clause 7.2.1 of the Operating Licence. State Water has addressed the issue of performance indicator measurement in Attachment 1.

*R7.2 SWC to complete all remaining water balances and continue to investigate improvements to the timely delivery of the information by 1 September.*

State Water agrees with Halcrow's suggestion that provisional water balances should be provided by 1 September, with final balances included in the subsequent year's report.

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*R7.3 (Secondary Recommendation) – SWC to ensure that the metering performance measures developed are appropriately in line with National Water Initiative standards.*

A State Water representative attends the national metering expert group which is advising the National Water Commission. State Water will continue its active participation to ensure metering standards continue to be consistent with the National Standards.

*R7.4 (Secondary Recommendation) – SWC to fully implement the pro-forma metering audit sheets to commence collecting data for inclusion in future 1 September reports to IPART.*

State Water has already implemented the metering audit sheets across all areas of operations. This data will be included in the 1 September report.

*R9.1 – SWC should accelerate the implementation of the Water Information Exchange Program to ensure that the information required under this part of the Operating Licence is collected for the next Operational Audit.*

State Water will investigate accelerating this project and assuming responsibility from the current project managers, the Department of Natural Resources. However, this approach will be difficult give the constraints on Operating Expenditure imposed in the 2006 Bulk Water Determination.

*R9.2 – SWC should investigate alternative methods of measuring performance in delivering orders within +/- 1 day of the scheduled delivery. This may include, for example, additional flow gauging stations at strategic locations to assist in monitoring for the timing of scheduled releases.*

State Water's operating environment is both complex and imprecise and therefore determining performance indicators which are both meaningful and measurable is challenging.

Although the installation of additional gauging stations would improve the accuracy of measuring performance with this indicator, it would be costly as up to 2,400 additional gauges would be required. State Water will be using the end of Operating Licence review to advocate alternative water delivery performance indicators, that are measurable and cost effective.

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*R9.3 – SWC should investigate whether the current method of rescheduling orders can be expanded to note whether the rescheduling of information was requested by the customers or was a result of SWC operations.*

The CAIRO system is a complex spreadsheet-based system which tracks the flow of water through each river system. Although it also collects information on rescheduled orders, this is for operational purposes only, to ensure the continuing accuracy of water delivery. It would not be practicable for this system to be adjusted for the purpose of collecting information on this performance indicator. In future, State Water proposes to collect this information via a paper-based system.

*R9.4 – SWC to accelerate implementation of the Incident Report form and ensure that staff are provided training in the use of the form. The information collected on the form should be stored in order to report information at the next Operational Audit.*

State Water has already implemented the Incident Report form and the relevant staff have been instructed in its use. The form is being used to collect information on response times to unplanned interruptions to water supply and this information will be included in the 1 September Report to IPART.

*R9.5 (Secondary Recommendation) – SWC may wish to review the performance target related to reporting the delivery of water orders outside +/- 1 day of the scheduled delivery to more accurately reflect the complexities of water delivery.*

State Water will use the opportunity presented by the upcoming end of Operating Licence review to advocate for changes to this performance indicator.

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**Summary of Business Interactions between State Water Corporation (SWC) and the Department of Natural Resources (DNR)**

Operations Planning	SWC plans annual operations for a range of scenarios from drought, dry, median and wet conditions on the storage behaviour. SWC carries out allocation prognosis for different scenarios.	DNR provides modelling data. The models are updated based on input by SWC operations & performance review.
Resource Assessments (RA)	RA is done by SWC and sent to DNR for approval or SWC input storage data, water account info, crop details etc. to the RA process by DNR, depending on the agreement in each Area.	Central Area: Approved by DNR after checking by Water Management Division. Approvals are communicated electronically to SWC. Other Areas: RA is done by DNR
Available Water Determination orders	Once the RA is approved, if there is an allocation increase then the draft AWD orders are prepared by SWC and electronically sent to DNR for signature.	AWD orders are issued and copies sent to SWC
Allocation media release	Media releases are prepared and issued jointly by SWC and DNR.	
Crediting of water accounts with AWDs	Checking for correctness of information and feedback to DNR	Actual crediting of allocations in the water accounts
Water accounts	Managed by SWC. statements sent to customers periodically and on request.	Audit

<b>Task</b>	<b>Role of State Water</b>	<b>Role of DNR</b>
Carryover evaporation reduction	Calculated and applied to the carryover sub-accounts by SWC	None
Other dealings under section 71	Advise to DNR on the status of account water and feedback	Processed, approved and managed in the system by DNR licensing
Supplementary events	Determined and managed by SWC as per Implementation Manual (IM) and communicated to DNR. Reporting to DNR	Approval within 4 hours of communication from SWC. Audit event report.
Environmental water release	Advises Flow Environmental Reference Group (EFRG), or other, on operations and Water Sharing Plan Rules.  Release is managed as per DNR approval.	Decision after recommendation by EFRG and issuance of approval to release.
Air Space Operations	Executed by SWC on advice from Flood Mitigation Zone reference group	Approval of airspace operations protocol as per IM.
Management of supply constraints	SWC as per protocol developed in consultation with CSC	Approval of supply constraint management protocol.
Drought Management	Development of Drought Contingency Plans (DCP) in consultation with CSC and recommendations to DNR	Approval of DCP



## **Halcrow Pacific Pty Ltd**

### **Melbourne**

Level 1, 542 Station Street, Box Hill, Melbourne, VIC 3128  
Tel +61 3 9899 9777 Fax +61 3 9899 1214

### **Sydney**

Level 22, 68 Pitt Street, Sydney, NSW 2000  
Tel +61 2 9250 9900 Fax +61 2 9241 2228

### **Brisbane**

Suite 758, 320 Adelaide Street, Brisbane, QLD, 4000  
Tel +61 7 3010 9272

**[www.halcrow.com](http://www.halcrow.com)**