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INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

Our reference: 01/369

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19 September 2001

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Dear David

Supplementary information for the Review of Hunter Water's Operating Licence

Thank you for Hunter Water's recent submission to the Operating Licence Review. The Terms of Reference from the Minister of Energy requires the Tribunal to consider the applicability of the terms in the operating licences for Sydney Water Corporation and the Sydney Catchment Authority, to Hunter Water. As this covers a broad range of issues, the Tribunal seeks additional comments from Hunter Water on the matters described below.

Environment

Bulkwater Supply and Catchment Management

A key responsibility for Hunter Water is to provide, manage and maintain systems for supplying water. This is similar to the catchment management and bulkwater supply role of the Sydney Catchment Authority.

Hunter Water and the Catchment Authority are issued with Water Use Licences from the Department of Land and Water Conservation (DLWC). In addition, the Memorandum of Understanding (MOU) established with NSW Health monitors the health aspects of water supplied to customers. While the Tribunal does not wish to duplicate these roles, we consider that the Operating Licence should recognise the obligations that Hunter Water has in terms of bulkwater quality and catchment management and protection.

The Catchment Authority's Operating Licence provides for the Management and Protection of the Catchment (Part 7 and Part 8) and Bulkwater Quality (Part 6). An important requirement is to establish a Risk Management Plan. The Tribunal seeks comments from Hunter Water on whether similar conditions should be included in their new Operating Licence.

Security of Supply – Water Reliability

Hunter Water has indicated in discussions with the Tribunal that they will be presenting a supplementary public submission on this issue.

As security of supply in drought is currently a standard in Hunter Water's existing Operating Licence, this issue will also need to be considered as part of the System Performance Standards consultancy.

Environmental Management Plan (EMP)

In its submission, Hunter Water proposes to produce an EMP every 5 years and to assess progress against the plan as part of the annual Operational Audits.

The Tribunal seeks Hunter Water's views on whether the EMP should be a public document with public and stakeholder input into its content. Sydney Water under its Operating Licence is required to engage in public consultation in developing its Environment Plan.

Environmental and Ecologically Sustainable Development (ESD) Indicators

Hunter Water proposes to make an additional submission on ESD indicators with input from its Consultative Forum. In that submission, Hunter Water may also wish to respond to the comments in the submission from the Central Coast Community Environment Network (CCCEN), which is available on the Tribunal's website.

Pollution Reduction

Hunter Water has recommended environmental indicators for the quantity of waste to landfill, proportion of construction waste recycled and office paper recycled. The Tribunal would be grateful for comments from Hunter Water on whether a reporting requirement for pollution reduction targets or a pollution reduction strategy should be included in the Operating Licence.

Trade Waste

Hunter Water has recommended an environmental indicator reporting on the number of trade waste incidents in the sewerage system. The Tribunal would appreciate comment from Hunter Water on whether a trade waste policy and management plan should be established as part of the Operating Licence, as is the case for Sydney Water. As part of its annual audit, Sydney Water is required to report to the Licence Regulator on its progress against the plan's objectives and indicators.

Customers

Customer vs Consumer

Hunter Water stated in its submission to the review of Sydney Water's Customer Contract, that many customer rights specified in the Contract should also apply to all consumers, including those who occupy, but do not own property. Further, the only distinction that should apply between customers and consumers are for financial purposes.

The Tribunal acknowledges that in Hunter Water's submission to the review of their Operating Licence, it is recommended a number of customer related provisions

should be included in the Customer Contract, such as rebates, debt & disconnection, community consultation and dispute resolution procedures.

Given the current regulatory structure and the nature of a Customer Contract, the Tribunal believes that one way to ensure that provisions apply to both customers and consumers, is to have conditions in the Operating Licence providing consumers with the same rights as customers.

The Tribunal would be grateful for Hunter's views on how this could be achieved and what provisions should be included in this category.

Dispute Resolution

Hunter Water has recommended that their dispute resolution processes, including complaints handling procedures, should form a part of the Customer Contract. The Tribunal would be grateful for comment on whether Hunter Water believe that the dispute resolution procedures should extend to both customers and consumers and in addition, whether there should be the requirement for reports in regards to the number and types of complaints as contained in Section 12.1.6 of Sydney Water's Operating Licence.

Debt & Disconnection

Hunter Water support including the current debt & disconnection procedures in the Customer Contract. The Tribunal would appreciate further clarification of the procedures outlined in the submission. In particular, the availability and communication of deferred and instalment payment options for customers. A submission received from Port Stephens Council recommends that customers should be allowed to pay their accounts monthly if they so wish. The Council is particularly concerned about residents who fall into arrears and whether repayment schedules can be negotiated.

According to Hunter Water's current procedures, customers with a good payment record receive a reminder notice after 7 days. The Tribunal would be grateful for information on how a good payment record is established and what the practice is for customers that do not meet this condition.

General Licence Conditions

The following conditions from Sydney Water's Licence may be relevant for the new Hunter Water Licence. In some cases, similar clauses already exist in Hunter Water's Licence. Other clauses are similar to conditions in the *Hunter Water Act 2022*, which refer directly to the Operating Licence.

The clauses are listed according to the sections in which they appear in Sydney Water's Licence. The Tribunal is seeking comment from Hunter Water on whether similar clauses should be included in their new Licence.

Part 2: Objectives of the Licence, Licence Amendment, Contravention of Licence, Cancellation of Licence

- Part 3: Responsibilities of Hunter Water
- Part 4: What the Licence Authorises and Regulates, Powers not limited, Areas of Operations, Connection of Services, Non-exclusive Licence
- Part 11: Pricing
- Part 13: Contracting Out, Damage & Compensation to Persons, Competitive Neutrality
- Part 14: Notices

Operational Audit Conditions

Hunter Water's existing Licence specifies terms of reference in relation to the Annual Operational Audit and any other Audit that the Minister or Licence Regulator may require.

Sydney Water's Operating Licence has specific reporting requirements in the Audit, including distribution and the provision of information to the Auditors (Part 10).

The Tribunal would be grateful for the views of Hunter Water on the formal reporting requirements of the Operational Audit. In particular, whether the Audit should be tabled in Parliament and if the Tribunal should be responsible for the publication and distribution of the Audit each year.

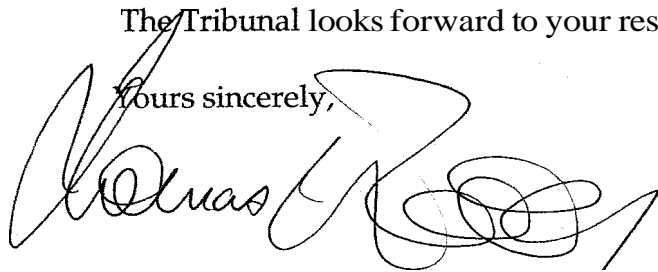
Memoranda of Understanding (MOU)

Hunter Water has established MOUs with NSW Health, the EPA and DLWC. These have occurred voluntarily outside of any regulatory requirement. The Tribunal would appreciate Hunter Water's views on whether these relationships should be formalised by including a condition in the new Operating Licence to recognise the MOUs in a regulatory context.

The Tribunal believes that it is important for the Operating Licence review to understand Hunter Water's position in regard to these issues. We would be grateful to receive a supplementary public submission from Hunter Water by Friday, 19 October, to allow consideration by other stakeholders prior to the workshop on 20 November.

The Tribunal looks forward to your response.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Thomas G Parry', written over a faint, larger version of the same signature.

Thomas G Parry
Chairman

Supplementary Information for the Review of Hunter Water's Operating Licence

This supplementary submission is structured around a series of specific questions raised by the Tribunal in a letter to the Corporation dated 19 September 2001. The issues are dealt with in the order raised in that letter. Additional information on leakage has been provided at the end of the submission in response to a number of comments in public submissions relating to interpretations of the Corporation's performance in this area from data presented in the Water Services Association of Australia publication, "WSAAfacts".

1. Bulk Water Supply and Catchment Management

The Tribunal seeks comments on whether Hunter Water Corporation's (HWC) operating licence should contain similar requirements to those of the Sydney Catchment Authority (SCA) for management and protection of the catchment and specifically whether there should be a requirement for a catchment risk management plan.

By way background, it should be noted that Hunter Water Corporation does not own its catchment areas. The catchment areas comprise areas of national park (including some declared wilderness areas), crown land areas under the control of the Department of Land and Water Conservation and, for the lower Williams River, areas of multiple land-uses and largely under private ownership (mainly farmland).

The Williams River Catchment Regional Environmental Plan (REP) provides planning protection for the multiple-use catchment of the Williams Valley. Other protection is provided by the special areas regulation under the *Hunter Water Act, 1991* and this regulation covers all catchment areas. In addition, the Corporation monitors and comments on development proposals in all catchments through arrangements in place with the Department of Land and Water Conservation.

The lower Williams River valley is essentially the catchment for Grahamstown Dam. The mechanisms in place (through the REP and special areas regulation) provide suitable protection given that Grahamstown Dam is an off-river storage. This means we can generally confine pumping from the river to the dam to periods when river water quality is suitable. Our long-term monitoring of the water quality in the lower Williams River shows no trend deterioration in the key quality parameters measured. In addition, the large storage volume of Grahamstown Dam provides long detention times in storage – thereby enhancing the quality of water supplied from that source.

The information in this submission should not be seen as implying that HWC does not take an active role in catchment management. The Corporation is involved in a wide range of activities in the catchments as is the Department of Land and Water Conservation and other parties such as the Hunter Catchment Management Trust. The Corporation is an active member of the Williams River Total Catchment Management Committee and supports many of the committee's programs and projects both financially and with input from Corporation staff. The Corporation has actively implemented the recommendations from the Healthy Rivers Commission Inquiry into the Williams River and participated in the Commission's

current inquiry into the Hunter River system. The Corporation is also actively involved in a range of activities in relation to the water reserve areas overlying the sandbed groundwater resources. This includes feral animal control and fire control with the Corporation maintaining its own fire tanker and crews as part of the NSW Rural Fire service. The Corporation chairs the Port Stephens Feral Animal Management Committee and around 50% of the Committee's funding for feral animal control and research is provided by HWC.

It is also important to note that HWC and SCA have quite different roles and functions explicitly specified in their respective legislation.

In short, the SCA has very detailed catchment management and protection roles under its legislation which are not provided for in HWC's legislation. The SCA's legislation assigns the Authority a role "*to manage and protect the catchment areas and catchment infrastructure works ..*" [13(a)]. SCA is also assigned objectives "*to ensure that the catchment areas and the catchment infrastructure works are managed and protected so as to promote water quality, the protection of public health and public safety, and the protection of the environment.*" [14(1)(a)]. This role and objective is translated into legislated functions for the SCA as;

- "*To manage and protect the catchment areas and the catchment infrastructure works vested in or under the control of the Authority*" [16(1)(d)]
- "*To protect and enhance the quality of water controlled by the Authority*" [16(1)(e)]
- "*To undertake research on catchments generally, and in particular on the health of the Authority's catchment areas*" [16(1)(f)].

Additionally, the Section 41 of the *Sydney Water Catchment Management Act, 1998* provides for the Governor to declare the catchment areas of the Authority.

By contrast, the *Hunter Water Act, 1991* does not define catchment management as a function of the Hunter Water Corporation. The Act specifies HWC's functions as:

- (a) *Supplying water, and*
- (b) *Providing sewerage and drainage services, and*
- (c) *Disposing of waste water* [12(1)].

The *Hunter Water Act* provides for catchment protection via a special areas regulation. This is provided in Division 8 of the Act and the Minister for Land and Water Conservation administers this Division. (The Minister for Energy and Utilities administers all other divisions of the *Hunter Water Act*). Under Division 8, the Director of Water Resources (now the Director-General of the Department of Land and Water Conservation) has the control of special areas for the purposes of this Division [s52, Division 8].

Given that, under legislation, Hunter Water Corporation does not have catchment protection and management responsibilities and bulk water quality requirements (whereas SCA has very explicit and important catchment responsibilities), it is inappropriate to include the similar provisions to those in Parts 6, 7 and 8 of the SCA Operating Licence.

2. Security of Supply - Water Reliability

In its August submission to the IPART review, the Corporation provided its view on how best to handle the issue of security of supply in an operating licence context. In short, we recommended that, rather than setting arbitrary and quantitative rules which could have the unintended effect of triggering major expenditure on augmentation, the licence should require the Corporation to prepare a "Security of Supply" plan. This plan would then form the

background to any consideration of source augmentation or other strategies such as non-price demand management measures (eg retrofit programs, rainwater tank promotions etc).

It is the Corporation's belief that a requirement to prepare a security of supply plan provides a better tool for the operating licence than does a single mathematical rule or series of mathematical rules for supply reliability. The Corporation acknowledges the issues that exist with the current 1 in 10 rule (eg volatility to changes in key parameters, risk of extensive restriction periods while still complying).

The basic objective of the security of supply plan would be to ensure that there is enough bulk storage so that over an extended drought period, demand does not exceed raw water availability (storage and inflow) by an amount sufficient to empty the source storages. It also helps assess when storage depletion rates need to trigger other actions such as further demand management initiatives or source augmentation.

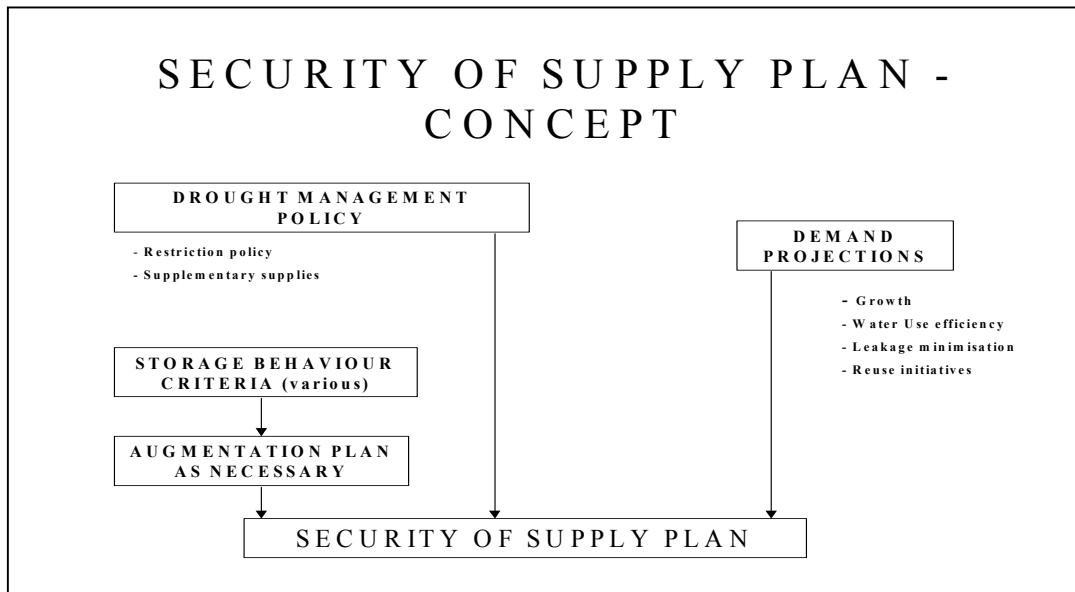
The Security of Supply Plan would consider:

A	A range of storage performance criteria	<ul style="list-style-type: none"> • rate of storage depletion • rate of storage recovery • ratio of storage volume to annual demand • risk of restrictions • duration of restrictions.
B	A drought management policy	<ul style="list-style-type: none"> • when to apply restrictions and type of restrictions • availability of alternate sources (eg augment sandbeds, desalination) and what the lead times were for them to be operational.
C	Demand projections considering	<ul style="list-style-type: none"> • growth • leakage control • reuse • water use efficiency and demand management initiatives.

After assessing all of these issues, decisions would then be made as to the need or otherwise for any storage augmentation over the relevant 5-year operating licence period. There are a number of ways to meet security of supply objectives and these need to be assessed on a least-cost basis with the flexibility to change the mix of strategies from time to time. All the criteria would be reviewed annually to take account of factors such as demand changes with the emergence of new industries or when major industrial businesses close down. This review would determine any necessary amendments to the plan on a least-cost basis. The links between these components are illustrated in the figure on the next page and the following discussion provides more detail on each of the components.

A Range of Storage Behaviour Criteria

The Corporation believes that it is not necessarily appropriate to adopt a single mathematical criterion or rule (such as the 1 year in 10 year restriction rule) for assessing total storage needs. As indicated above this can lead to volatility in augmentation strategies as key factors (such as demand, connection growth, per capita consumption) change over time. This can be a problem when dealing with water resource infrastructure for which planning has both a long lead time and is covers fairly long-term horizons (20 years plus).



The Corporation is assessing the types of storage performance criteria used by other major authorities as decision tools for source augmentation decisions. This assessment is being undertaken with a view to developing a suite of storage performance indicators that can be reviewed regularly to guide consideration of the need for augmentation and/or demand management measures.

By using a range of indicators, the volatility of any single component indicator can be overcome. Also locally relevant levels for particular indicators can be established to take account of the specific climatic conditions of the Lower Hunter. For instance, the fact that our major storages are in the coastal region of the State means that they are subject to more regular rainfall than inland storages. This has implications for storage volume, rate of storage depletion and rate of storage recovery indicators – all of which could be components of a multi-indicator decision framework within the security of supply plan.

B Drought Management Policy

The level of bulk storage that a water authority requires also has to be related to the organisation's drought management plan or policy. Consideration needs to be given to the level of total storage at which restrictions should be first applied and what type of restrictions (eg ban on fixed sprinklers; ban on hand held hoses, ban on all external use, etc) should be applied as storage levels decline. This requires sound assessment of customer behaviour under the various restriction options for various times of the year or seasonal influences.

The other issue that needs consideration is whether or not an organisation has the capacity to access alternative sources if, and when, the bulk storage reaches certain levels. For instance, in the Corporation's situation, there is some capacity to augment groundwater infrastructure by installing new bores in the Tomago sandbeds and by accessing the North Stockton sandbed reserves. This potential is recognised in drought provisions within the Corporation's water management licence issued by the Department of Land and Water Conservation. In addition, consideration could be given to the use of desalination equipment given that some of our source infrastructure is in a coastal area where there is the potential to access "brackish" estuarine water for desalination.

When assessing these alternative sources, the key issues to consider are both the cost of accessing the sources and the time that it would take to bring these alternative sources into

operation. When making these assessments, issues such as the rate of depletion of existing storages need to be considered along with the restrictions policy as this will give an indication of how much time is available to provide alternative sources. This decision requires careful timing to make sure that an organisation does not trigger expenditure on alternative sources too early in the depletion cycle of its water resources. In such situations, there is a high probability that these resources will be replenished (even partially) and the expenditure on the alternative sources therefore would be redundant.

C Demand Projections

As indicated above, there are a number of elements that must be considered in assessing future demand. The dominant ones are growth, leakage control and demand management initiatives such as reuse and water-use efficiency (by consumers).

For growth, it is necessary to make assessments both with regard to number of expected new connections to a supply network and also what the consumption patterns will be for each connection. This needs to be done across the residential, industrial and commercial sectors. It is especially difficult for the industrial sector as major users can either close down or come on line at any time and these events can be difficult to predict. Additionally, there is a wide variation in the use patterns amongst the industrial customers due to quite different demands for water in different industrial processes and products. Factors affecting industrial demands are especially important for an authority such as Hunter Water, which has a large industrial base and a small number of relatively large water-use customers.

The Corporation already takes a very pro-active stance with industrial customers in the marketing of reuse or water recycling. This will continue to be the case into the future and, at the current time, Hunter Water reuses in excess of 10% of all of its treated wastewater effluent. This ranks the Corporation well above the industry average on a national basis.

Another key issue is how to project future residential consumption given changes in residential property development that are emerging. For instance, what level of flats/units is expected as against traditional stand-alone dwellings? And, what effect will these changes have on per capita consumption trends and levels? Hunter Water monitors trends in these developments in order that future demand projections can take such issues into account.

It is also necessary to look at current per capita consumption in the residential sector in order to make realistic assumptions as to whether or not further savings are achievable. Again, Hunter Water has a very long history of demand management through pricing signals and education campaigns

Residential customers in the Hunter use much less water than do consumers in other comparable areas of Australia. The most recent assessment available from the Water Services Association of Australia (WSAA) shows that the average household use by Hunter Water's customers is equal lowest with one other agency for the nineteen major Australian authorities and that this consumption is 23% lower than the average. Hunter Water has ranked lowest since 1993 (when WSAA first compiled residential water use statistics). To a large extent, this reflects the fact that the community has already taken up the challenge of adopting water efficient devices and water-use practices.

There is also a need for a water authority to manage its own assets in terms of leakage. In a number of areas, for many years, Hunter Water has applied the technology of pressure reduction in order to minimise the potential for breaks in certain areas thus reducing the risk of system leakage.

Hunter Water has also, over the last 12 months, undertaken significant work developing a water loss management system. This involves a range of techniques such as field surveillance of vulnerable assets, night-flow testing of supply zones to determine areas of potential leakage and the 24 hour use of telemetry to alarm abnormal flows, pressures, reservoir levels, etc. All of these efforts are geared toward minimising levels of system leakage to the point where the organisation's unaccounted for system leakage is in the order of 5%. The last 12 months have seen a number of significant leaks identified and repaired. This has resulted in an overall improvement on past performance and a much more rigorous management and monitoring regime now exists. The Corporation is routinely using International Water Association's water loss software as a management tool. This software enables more accurate quantification and recording of water accounting processes and identifies areas where there is potential for improved performance in line with international best practice.

Reference to leakage information in the Water Services Association of Australia publication *WSAAfacts* in the IPART *Issues Paper* and in some public submissions has overshadowed recent initiatives by Hunter Water Corporation to address this issue. As a result, a more detailed discussion of the Corporation's recent initiatives in leakage is provided later in Section 12 of this submission.

3. Environmental Management Plan (EMP)

The Tribunal seeks our views on whether the EMP should be a public document with public and stakeholder input into its contents.

The Corporation currently seeks input to its EMP via Hunter Water Corporation's community consultative forum. As the consultative forum is made up of representatives from environment groups, government and semi-government agencies responsible for natural resource management, industry groups, social groups and others, it is considered that this group is the most appropriate stakeholder group from which to draw comments on the EMP. It is important to realise that Hunter Water Corporation services a population of just under 500,000 people compared to the 4 million people served by Sydney Water Corporation. The Hunter's smaller population cannot viably support a number of customer councils and other consultative mechanisms that are used in Sydney. Hunter Water has found that the representation of the consultative forum provides good community feedback on key issues.

To get additional stakeholder input into the content of the EMP on an annual basis, we could include a draft copy of the EMP on the Corporation's website and advise relevant stakeholder groups outside the consultative forum that we were seeking their input. A similar approach was followed for some years in the early 1990s when the Corporation sought input from a number of local environment groups into the review of the EMP. However, after a number of years, these groups informed the Corporation that they did not consider it appropriate to provide input to the EMP and that they would rather be informed of our achievements in environmental management. This response was one of the reasons why the Corporation began producing an Annual Environmental Report to provide a wide range of audiences with information about the Corporation's environmental programs and achievements.

4. Environmental and Ecologically Sustainable Development (ESD) Indicators

The Corporation's August submission included a set of environmental indicators relevant to our situation and meaningful in providing time series data on environmental performance and

environmental condition. We also undertook to seek input from the community consultative forum on environmental indicators for inclusion in the licence.

The indicators included in the August submission were discussed at length at the meeting of the forum on 13 September and a number of constructive views were put forward including linking the indicators to accepted environmental and ESD principles.

We are working on a separate supplementary submission to put these views and amended indicators to the Tribunal. It is our intention to provide this additional submission early in November.

5. *Pollution Reduction*

Environmental indicators relating to the quantity of waste to landfill, construction waste recycling and office waste recycling are included in the Corporation's "waste recycling and purchasing policy" that is reported to the NSW EPA. The Corporation currently has a commitment to report on our pollution reduction targets in relation to that policy. These indicators were also included as solid waste indicators in the proposed set of environmental and ESD indicators included with our August submission. It is considered that these indicators will not change in the current review of the indicators following the input from the consultative forum.

Therefore, the Corporation believes that including a separate and specific requirement to also report on these matters elsewhere in operating licence is an unnecessary duplication and potentially confusing to the community.

6. *Trade Waste*

Hunter Water Corporation currently has a trade waste policy and management plan. It is unclear if there would be any benefits associated with including the trade waste policy management plan within the operating licence as trade waste management provides environmental protection primarily by protection of the treatment processes. All of Hunter Water Corporation's wastewater treatment works provide either secondary or tertiary treatment resulting in a high degree of environmental protection from trade waste problems. Discharge from treatment plants is regulated at that point by the EPA, which specifies standards for the effluent discharge.

Again, the Corporation's proposed environmental and ESD indicators include indicators to measure trade waste performance by reporting on trade waste incidents in the sewer transport and treatment systems. We believe this is the most appropriate way to monitor and measure trade waste performance and environmental protection. It would be possible to adopt a trade waste indicator based on the number of trade waste permits issued. It is our belief that this is largely an administrative measure and provides little indication of system or environmental performance.

In this context, our preferred approach is that there be no direct reference to trade waste in the operating licence itself but rather for trade waste performance to be monitored via the proposed environmental and ESD indicators put forward in our August submission. Again, we do not believe these indicators will change with our November submission on Environmental and ESD indicators.

7. Customer vs Consumer

It is the Corporation's view that the customer for the purposes of the "customer contract" is the person with whom we have a financial arrangement. This person is the owner of the property.

Only customers that are property owners have financial obligations for bill paying and therefore have an entitlement to bill rebates and payment assistance. In this regard, the rebates under the Corporation's voluntary "Customer Charter" apply only to property owners. These customers, as property owners, also have responsibility for customer obligations relating to the protection of the utility's infrastructure and service delivery (eg backflow prevention, illegal stormwater connection to sewer, trade waste permit violations etc). In our August submission, we proposed that the rebate provisions should be included in the customer contract.

In addition to rebates, the Customer Charter documents the Corporation's voluntary objectives for responding to service interruptions (ie as response times and alternative facilities provided). These objectives also apply to those who occupy, but do not own property (ie to tenants). For example, if a property experiences a sewer overflow at the shaft, Hunter Water's response and actions taken to rectify this problem are no different for a property occupied by an owner or by a tenant. These objectives are summarised in Attachment A.

We believe there is a significant difficulty in incorporating commitments about responding to service interruptions in a legal contract. A principal difficulty relates to the logistics of addressing interruptions under highly variable conditions. While in most instances, we can live up to our objectives, there are occasions when circumstances beyond our control mean that we cannot. These can result from a need to be flexible and respond to emergencies, which can change response priorities at any time.

There are also logistical and resourcing issues in responding to major interruptions. This is particularly so for provision of alternative toilet and water supplies. Clearly, it is not practical for the Corporation always to have direct access to large numbers of potable toilets or large quantities of bottled water through local suppliers for large-scale emergencies.

For example, following extensive heavy rain in May this year and resultant problems with council drainage in the area, around 60 properties in the Swansea area experienced localised stormwater flooding and problems to varying degrees with the sewerage system. Some residents were unable to use their plumbing facilities and others were affected by sewer overflows either from their own drainage pipes or from the Corporation's manholes. We responded to this problem by:

- Tankering sewage from manholes to reduce overflows
- Arranging emergency works with Council to alleviate some stormwater flooding problems
- Providing portable toilets where residents could not use their own facilities
- Personal contact with the affected residents
- Cleaning up and restoring the sites once the flooding had subsided
- Conducting on-site investigations to ensure that there were no restrictions in the sewer main that may have exacerbated the problems.

Most of these actions are not specified in the Charter and it would be extremely difficult to specify these and similar responses in a legal contract. This highlights a need to remain flexible and leave open a wide range of options to deal with such problems on a case-by-case

basis. While the Charter commitment to supply portable toilets was employed in this instance, so was a range of other options including tankering from manholes.

As outlined above, the August submission proposed that the “rebate” provisions of the Charter be incorporated in the customer contract. However, it is the Corporation’s belief that the “response to interruptions” provisions should continue to be outlined in the Customer Charter as they are now and the range of options for rectification and redress left to the Corporation to determine and implement as each incident dictates. The responses outlined in the Charter should be limited to the commitments that the Corporation will aim to achieve, where practical.

The Corporation does have a good track record of responding to these incidents as quickly and thoroughly as available resources (both the Corporation’s and those of external suppliers) will allow. It is therefore recommended that, apart from specifying rebate entitlements, the Contract should do no more than oblige the Corporation to have in place a Charter that outlines our commitments in relation to redress and responding to any service interruptions. The commitments themselves would not be specified in the contract. If, in future, the Corporation’s responses to such situations are demonstrated to be inadequate in terms of community expectations and logistical capability, the Tribunal could research other options.

8. Dispute Resolution

As indicated in the Corporation’s original submission and above, consumers are treated in the same way as customers in everything other than financial transactions. In this way the dispute resolution process would be extended to both customers and consumers.

The current complaint management system used by the Corporation called “Customer Care” does not enable reporting in the categories or statistical data outlined in Sydney Water’s Operating Licence.

The Corporation is currently examining the feasibility of a new complaint management system. This is being considered in light of a broader review of the current customer information system (CSS) which is being considered for replacement. The decision to proceed with a complaint management system on its own merits will depend on the outcome of a cost/benefit assessment of the proposal currently under way. This is in line with the Tribunal’s intention that the operating licence and customer contract review process would be a cost-neutral process.

9. Debt & Disconnection

As outlined in detail in our August submission, the Corporation is mindful that some customers experience genuine hardship from time to time. For this reason, Hunter Water has well-established policies and procedures that ensure customers have every opportunity to seek assistance in the event of financial hardship. In addition to providing 21 days for payment, customers can make arrangements to pay their accounts by instalments. Before a customer reaches the point that restriction or disconnection is being considered, there are a number of steps that must be taken – all of which are designed to provide opportunities for the account to be addressed to avoid further recovery action (including restriction or disconnection). The Corporation’s approach is again outlined in the table below. For customers with a good payment record, the steps in numbered in Column A are followed. For other customers the steps as numbered in Column B are followed.

A Steps	B Steps	Action
1	1	Initial 21-day payment period.
2	n/a	A reminder letter is sent allowing a further 7 days for payment. No interest is charged on this additional period.
3	2	A letter is sent advising that recovery action will be initiated unless payment is made within 7 days.
4	3	If the account remains unpaid or no payment arrangements have been made, a letter is hand delivered to the property address, advising of the intention to restrict or disconnect if payment not made within the next 7 days.
5	4	Where the notice of impending restriction or disconnection remains unpaid or no arrangements to pay have been made, the water supply will be restricted. In some extreme cases the water supply may be disconnected.

n/a – not applicable to this group

It is our belief that this is a generous approach in comparison with the practices of other utilities. In particular, the initial 21 day payment period is relatively generous in comparison to that of other utilities, there are at least 4 steps to go through before restriction and the final step provides 7 days notice of impending disconnection (whereas other utility codes often provide only 48 hours notice at this point). In all, up to 42 days is allowed between billing and restriction with continual customer/consumer contact in this period.

Access to payment arrangements by instalments is available to customers (ie property owners) who are experiencing financial hardship. The availability of extended payments for those in this position, is outlined in the Customer Care document, which appears on the website www.hunterwater.com.au. These extended payment arrangements are not rigidly set at weekly, fortnightly or monthly payments but rather tailored to the customer's individual circumstances and income position. The availability of this option is also advised in the Customer Charges Guide - a pamphlet which is sent out with every account on an annual basis (with the first account after new prices are agreed by IPART).

The Corporation's current billing system does not enable monthly payments other than by direct debit arrangements (see below). As indicated above, customers that do have genuine financial hardship do have access to extended payment arrangements which may be negotiated as weekly, fortnightly or monthly instalments depending on the circumstances presented. Application can be made by contacting the Corporation's call centre or one of the local Customer Centres.

There are also customers that choose to make regular weekly, fortnightly and monthly payments towards their water account (in advance) using the direct debit facility. All customers meeting the financial institution requirements and the Corporation's requirements for using the direct debit facility, can have access to this system.

A customer can establish a good payment record simply by effectively managing payment of their account. In essence, if a customer has had no recovery actions beyond a "Reminder Letter" in a 12-month period, then the customer services system will automatically recognise them as having a good payment record. Those with a good payment history essentially are afforded an additional 7 days for payment. Any accounts that have proceeded to recovery action beyond a reminder letter in a 12 month period (ie "Proposed Recovery" letter), do not

have access to the additional 7 days for payment. A customer's record can improve by employing sound financial management practices for 12 months.

10. General Licence Conditions

The Tribunal has sought comment on whether similar general licence conditions to those in Sydney Water Corporation's operating licence should be included in the new Hunter Water Corporation operating licence. The Corporation's comments on applying the general conditions in the SWC licence to HWC are provided below according to the sections in which they appear in the SWC licence.

- ***Part 2 – Objectives of the Licence etc***

Hunter Water Corporation generally concurs with inclusion of similar requirements to sections 2.1 and 2.2 of the SWC licence. Possible amendments to the wording could include: *(c) recognise the rights given to Customers and Consumers via the Customer Contract*. (Additional wording underlined).

Given that Hunter Water Corporation is committed to joining the Electricity and Water Ombudsman Scheme (EWON) and that this will be outlined also as a dispute mechanism in the customer contract, there is no need for a clause similar to cl 2.1(e) in the SWC licence.

In our August submission, we recommended that there be no mid-term review. In this context, we do not support a similar provision to licence section 2.3.

Hunter Water Corporation generally concurs with the provisions of section 2.4. References in these causes to the "*Licence Review Body*" should now refer to IPART. Clause 2.4.8 should be revised to make the report available through IPART along the lines of the process followed for the report to the Minister for Energy on the Review of System Performance Standards in Sydney Water Corporation's Operating Licence.

For section 2.5, similar provisions could apply to Hunter Water Corporation and clause 2.5.2 could be drafted along the lines:

"Before notice of the amendment is published in the Gazette, the Minister must give Hunter Water"

For licence section 2.6, Hunter Water concurs with inclusion of a similar provision cross referenced to the relevant section of the *Hunter Water Act, 1991* (section 17). The Tribunal needs to consider appropriate wording for the Licence to reflect its responsibilities under sections 17A and 17B.

For licence section 2.7, Hunter Water concurs with inclusion of a similar provision cross referenced to the relevant section of the *Hunter Water Act, 1991* (section 17(1) (c) and section 18).

- ***Part 3 - Responsibilities of Hunter Water***

Amended provisions for sections 3.1.1 and 3.2.1 to take account of different legislation references and updates could have corresponding clauses in the new Hunter Water licence. The remaining clauses in the SWC licence (3.2.2 to 3.3.3) refer to specific provisions of the Sydney Water Act for which there are no counterparts in the Hunter Water Act. Similar

clauses, therefore, are not relevant to Hunter Water. Clauses 3.3.1 to 3.3.3 deal specifically with memoranda of understanding with other agencies. Similar memoranda are not required under the *Hunter Water Act, 1991* and thus do not need to be incorporated in the operating licence. Further discussion of the appropriateness of including MOUs as regulatory requirements is provided later in this submission in relation to IPART's request for additional information on that matter.

- ***Part 4 – Licence Authorisation and Area of Operations***

Hunter Water Corporation generally concurs with similar provisions to section 4 being included in the new licence subject to necessary changes to cross references to legislation. (eg Licence section 4.3 should cross reference to section 16(2) of the *Hunter Water Act, 1991* and licence section 4.4.2 should reference section 50 or section 50(1)(b) of the *Hunter Water Act, 1991*. The Tribunal should confirm the appropriate cross-references to legislation.

- ***Part 11 - Pricing***

Pricing is regulated by IPART quite separately from operating licence regulation. The Corporation is of the view that inclusion of this section is duplication of regulation. It is unnecessary and serves to make the licence document and overall the regulatory framework more confusing to the community.

However, because this is only a small section of the licence, Hunter Water Corporation does not object to its inclusion in the licence.

- ***Parts 13 and 14 Liability Issues and Notices***

Hunter Water Corporation generally concurs with similar provisions to sections 13 and 14 being included in the new licence subject to necessary changes to cross references to legislation where these apply. (eg *Hunter Water Act, 1991* does not contain similar provision to s 91 of *Sydney Water Act* on contracting out – thus cross reference to legislation will not be possible. Licence section 13.2 cross references to section 41 of the *Sydney Water Act* – for Hunter Water it would need to cross reference to section 22. Similarly, the reference in 13.2 to “Division 4 of Part 6” for SWC would need to be changed to Division 2 of Part 5” for HWC.

The Tribunal should confirm all cross references discussed in Section 11 of this submission with respect to the SWC Operating Licence, the *Sydney Water Act, 1994*, and the *Hunter Water Act, 1991*.

11. Memoranda of Understanding (MOU)

The Tribunal has noted that HWC has MOUs with NSW Health, EPA and DLWC.

The Corporation believes that, in principle, MOUs should not be referenced in the operating licence for two reasons:

1. MOUs are generally supplementary to other primary regulatory instruments. This is the case for the Corporation's MOUs with DLWC and EPA. In both these cases, the MOUs are voluntary agreements that support the primary regulatory instruments – licences

issued by DLWC and EPA. The primary regulatory instrument should form the basis of regulation and MOUs should provide additional administrative detail etc, if required. As the DLWC and EPA licences sit along side the operating licence, there is no need or justification for these MOUs to be referenced in the operating licence.

The origin of including MOUs in the operating licence is linked to the initial 1995 Sydney Water operating licence where MOUs were considered appropriate as other primary regulation did not exist and the content of the MOUs was more “regulatory” in nature than today. Today, primary licences have taken on this regulatory function. Thus including reference to the MOUs in the revised operating licence is not only a form of duplication of regulation but it is also of dubious value as the MOUs cover administrative matters relating to the primary regulatory instruments, not regulatory matters.

The exception is the MOU with NSW Health, which covers some important aspects of drinking water quality regulation. However, the Corporation would prefer to see the key clauses or elements of the MOU with NSW Health duplicated in the operating licence rather than a reference to the MOU or by requiring the Corporation to comply with any requirements set by NSW Health in an MOU or other agreement. This avoids potential third party conflicts, which are discussed further below.

2. A significant potential problem with a requirement to have/establish MOUs is that such a requirement introduces a third party to the operating licence (which otherwise is a licence issued by Government to the water corporation). In our August submission, we articulated the six key principles for licence regulation. Two of these principles are related and important here –ie that the requirements of the licence must be within the control of the regulated agency and third party obligations should be avoided. Our August submission stated:

*Licences should not include third-party obligations. Operating licences are intended to regulate the activities of the **regulated utility only** and should not impose requirements on other agencies or parties. The activities of third parties are outside the control of the regulated utility and a licence issued to one party cannot be regulatory instrument on any other party.*

A particular problem with requirements for third party agreements is that the third party may have no incentive to be part of the agreement resulting in delays and/or costly and wasteful protracted negotiations.

Hunter Water Corporation believes it is not sound regulatory practice for an operating licence to require a regulated agency to negotiate or have in place MOUs with third parties. MOUs are voluntary, mutual agreements between two parties. By requiring a regulated agency to have an MOU with another body or agency, a third party is introduced to the operating licence framework. Third parties referenced in an operating licence are not bound in any regulatory or legal sense by the operating licence between the government and the regulated agency or to negotiate a MOU or any other agreement. Where such provisions are included in an operating licence, the regulated agency could be in breach of the licence if it fails to negotiate a MOU.

The overall regulatory framework now applying to the major regulated water utilities in NSW now includes a comprehensive range of primary regulatory instruments based on legislation. These cover pricing (IPART), access to raw water sources and water resource management (DLWC licences) and the operation of wastewater systems including wastewater transport, treatment and disposal to the environment (EPA licences). In this context, including

provisions in the new operating licence to recognise MOUs with DLWC and EPA as regulatory instruments is “belts and braces” approach of little value. Such a belts and braces approach appears inconsistent with the guiding principle of taking “*a light handed approach to regulation wherever feasible*” articulated in the Tribunal’s current Business Plan.

This view is supported by DLWC in its submission to the review of the operating licence. The Department expressed a strong view against inclusion of the MOU as a licence requirement, stating “*as a voluntary agreement, it is considered inappropriate for the MOU to take on the status of an operating licence requirement.*” Hunter Water believes that the MOU with DLWC should not have the status of an operating licence requirement. The MOU with EPA is similarly a voluntary agreement and equally should not have regulatory status. It is noteworthy that the submission from the EPA focuses only on licence arrangements and does not comment on, or indicate, the need for a separate MOU.

12. Distribution System Leakage and Losses

A number of public submissions to the review of Hunter Water Corporation’s operating licence review have commented on the relatively high levels of total system loss reported in the Tribunal’s *Issues Paper* and extracted from the 1999/00 loss figures quoted Figure 11.5 (page 68) of *WSAAfacts 2000*. The *Issues Paper* selectively quotes the overall figure only from this table and does not balance the discussion with the other measure presented in Figure 11.5 – “*Loss per 100 kilometres of main*” - which appropriately takes into account system configuration considerations. While the *Issues Paper* correctly noted that the overall level for 1999/00 is highest level overall of major authorities, the more appropriate measure (the rate per 100 kilometres) is by no means the highest and close to the national average (265.68ML for HWC compared to a national average of 259.08ML). This measure is believed to be a better relative measure because it takes account of the Corporation’s relatively extensive distribution infrastructure (compared to those of other agencies).

It is also noted that few of the public submissions that have commented on the leakage issue appear to have taken into account the material presented in the Corporation’s August submission. This information shows that recent reviews of the Corporation’s leakage indicate that system losses are much lower than those previously reported to WSAA.

Given the above, it is important that a clear and more accurate picture is available. For this reason, we have chosen to present some additional information on leakage in this supplementary submission.

Over many years, Hunter Water has achieved significant gains in water conservation measures as part of its demand management initiatives, particularly in relation to domestic reductions and industrial reuse of wastewater.

Water loss management is also an important part of the Corporation’s demand management programs and to enhance this component Hunter Water has developed an action plan focussing on water loss management as part of its Environmental Management Plan. The aim of the water loss management plan is to ensure that a systematic approach is adopted to water loss minimisation within the distribution system. The plan also details the approach taken in order to quantify and record water losses in order to improve the accuracy of the water accounting process.

The approach adopted by Hunter Water involves three stages.

1. To improve the current water accounting processes in order to quantify the extent of actual system water losses.
2. To employ passive leak measures to identify those areas in which losses may be occurring. Passive measures involve using current monitoring systems, such as the Hunter Water Supervisory Control and Data Acquisition (SCADA) system, in order to localise the areas where losses are occurring.
3. To employ specialised active leak detection equipment in areas identified by the passive means to locate individual leaks for repair. This staged approach ensures that the resources in water loss management are employed in the most cost-effective way.

The first stage of the water loss minimisation program has been to improve the way in which water losses are identified and quantified. The failure to identify and account for authorised consumption and known losses can result in a high level of “unaccounted for water” within a system. This can result in a distorted view of system performance and lead to a waste of resources as attempts are made to locate leaks that do not exist.

As part of the process to improve water accounting at Hunter Water, a complete calibration of the system input flow meters has been carried out in order to ensure that an accurate system input figure is used in loss calculations. The calibration of these meters (against physical ‘drop tests’ – measuring specific volumes of water from a reservoir and comparing to the meter reading) has shown that the system input figure used has been higher than the actual flow. These meters have now been adjusted to show the correct reading. The accuracy of the meters is now verified on a daily basis using the SCADA system to detect any drift in the readings.

A number of system monitoring changes have also been implemented in order to improve the accuracy of water loss records. These systems use data generated by records completed by field maintenance staff (attending breaks, main flushing etc) to provide a more accurate estimate of the location and quantity of losses. This ensures that active leak detection measures are only used in areas with losses from unknown causes.

The combination of an accurate system input figure and accurate loss data has allowed Hunter Water to determine a more accurate estimation of the level of real water loss in the distribution system. The next stage of the loss minimisation project is to determine where these losses are occurring and repair them where it is economically feasible to do so.

A number of initiatives have been introduced with a view to identifying components of the Gross Unaccounted for Water. After allowing for estimated under reading of customer meters (5%), unmetered use by Hunter Water and identified breaks, the “net unaccounted for water” has been calculated to be 4,311 megalitres, or 5.6% of total supply. The 2000/2001 figure is lower than in previous years due to the inclusion of the customer meter error and improvements in the processes used to identify and record water losses. This is a significant change from earlier inaccurate measures of system water losses of around 14% to 17%.

These revised procedures present a more realistic picture of the leakage position in the Hunter and will significantly alter the information on which the *WSAAfacts* information is derived. It also means that the information presented in section 5.3.2 of the IPART *Issues Paper* does not present a true picture of the leakage situation in 2001, and previously.

The percentage of “net unaccounted for water”, or water lost through unknown causes, is expected to decline as water accounting systems are improved and our active leak control processes are continued. A further international trend is to move away from reporting unaccounted for water as a percentage of supply. The more meaningful measure is to express

actual losses in litres per connection or kilometre of main (a similar measure to the second measure presented in Figure 11.5 of *WSAAfacts 2000* and not quoted in the *Issues Paper*).

**Customer Charter Objectives for
Responding to Service Interruptions**

If you have a standard connection to Hunter Water's water or sewerage system, we aim to:

- Assess the urgency of your problem within 30 minutes of being contacted, and dispatch repair crews according to the priority assigned to the problem.
 - Reinstate water or sewer services within six hours and generally clean up the area afterwards.
 - When we can't fix the problem within six hours, you can request alternative water or toilet facilities and they will be provided, wherever practical.
 - Give you two days notice of any planned interruptions to your water supply.
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