



HUNTER WATER CORPORATION

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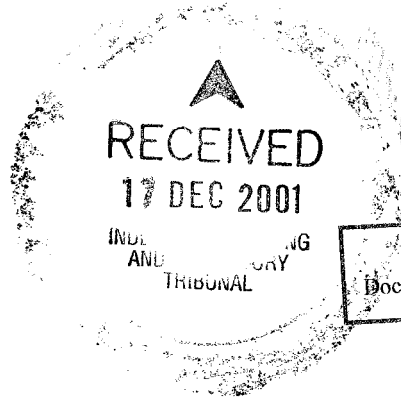
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FAXED
12.12.01

RE: D:/Di Neill/Word/Letter/IPART_Consultant report

11 December 2001

Dr Thomas G Parry
Chairman
Independent Pricing & Regulatory Tribunal
PO Box Q290
QVB POST OFFICE NSW 1230



Dear Dr Parry

Re: Hunter Water Corporation Review of Operating Licence, Consultant's Report and Workshop Transcript

Thank you for IPART's letter of 27 November 2001 advising that both the transcripts of the Newcastle Workshop and the final report by Halcrow Management Services is available on the IPART website. I also note that PART is seeking submissions from stakeholders on the Halcrow report.

Hunter Water has now had an opportunity to read the final Halcrow report and while further discussion is required in a number of strategic areas as proposed by the author and as outlined in the report, the Corporation's major response relates to the setting of Operating Licence targets for the key system areas of water pressure, water discontinuity and sewer overflows.

Firstly, Hunter Water acknowledges that the setting of standards is a difficult area and a balance is required to ensure best community outcomes. If too high a hurdle is set, community costs can dramatically increase and if too low a hurdle is set, there is less incentive for improvement. In setting licence targets the following is acknowledged.

- Hunter Water's performance in any one year is strongly influenced by a range of factors including climate, criticality of assets and risk of failure. For example, last summer saw extreme demands for water which put pressure on the water system. The sustained dry conditions can encourage root growth which can lead to additional sewer overflows through tree root blockage. In other years Hunter Water can achieve licence targets with more comfort and at less cost.
- The aim of the operating licence review (as set by PART) is to set targets which are revenue neutral on Hunter Water's customers (until further research can be undertaken assessing the benefits to the community of higher expenditure).
- Exclusion clauses (for rare events) which absolve Hunter Water responsibility for licence failure are difficult to communicate to the community and raise issues on how accountability mechanisms should be applied.

Given the above, Hunter Water proposes targets for the key areas on water pressure, water discontinuity and sewer overflows should be set which

- are cost neutral;
- do not rely on exclusion clauses; and
- are a reasonable tightening of existing standards.

The final Halcrow report indicates tight target levels that don't meet these criteria (and come with a number of caveats). For example, while the author notes that climate can have a significant impact on performance and in setting a target for sewer overflows, the report notes that in severe years (page 60) "*it would be possible for effort to be varied year on year in response to such circumstances.*" In effect, an increase in "*effort*" would equal a major increase in expenditure. Our analysis indicates that such an increase would lead to an inappropriate use of community resources for maintenance programs which don't provide an appropriate community service benefit. We would need to move from expenditure of \$500 per sewer overflow avoided to around \$2,500 per event avoided. This is not cost effective given the community benefits obtained for the increased expenditure. Overall, we consider that these factors need to be taken into account in setting targets. Hunter Water is happy to provide further information as necessary on this important issue.

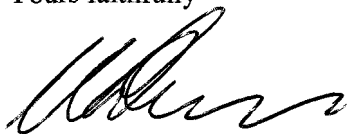
On a similar theme, Halcrow notes that in setting the water discontinuity target "*more extreme drought conditions could compromise Hunter Water's ability to meet the suggested compliance target in subsequent wet years and should be taken into account in making regulatory judgements.*" In effect, it appears that Halcrow are suggesting an exclusion clause be provided for climatic extremes. From a Corporation viewpoint, this exclusion needs to be clear and transparent. If this does not occur and there is blurring of responsibility, the tighter target can be met but again only with significant increased expenditure which is not cost effective against the community benefits obtained. Analysis indicates we would need to move to a regime where \$200 is spent for each hour of discontinuity avoided for each property. Again, further information/ analysis can be provided on this issue as necessary.

With respect to the pressure standard, the Corporation notes the Halcrow proposal to reduce minimum water pressure in the Hunter from 20m to 15m on the basis of leakage control. As discussed at the workshop, this will do little for leakage control and is out of kilter with virtually our entire water system (comprising over 4,000km of mains) which has been designed to achieve at least a minimum level of 20m. It is considered that the reduction proposed would be strongly opposed by the local community who have arranged their private plumbing configuration and elevation of house levels based on the higher value. The cost and inconvenience to the community in lowering the pressure standard needs to be considered.

On a minor note, the target level set for pressure is unclear with a value of 2,000 properties (page 50) set in the main part of the text but a value of 1,500 properties set in the executive summary. This requires clarification.

While Hunter Water considers that the issues of targets for key licence standards requires further discussion to ensure best community outcomes, it is important that this does not overshadow the overall constructive outcomes/ principles that have come out of the review process and public workshop to date. Thank you for seeking Hunter Water's views on these matters. If any further information is required please don't hesitate to contact myself or the Corporation's Manager Corporate Planning & Government Regulation, Kevin Young, on 02 4979 9582.

Yours faithfully



David Evans
Managing Director