



NSW Government

**DEPARTMENT OF NATURAL RESOURCES**

Contact: Salim Vhora  
Phone: (02) 4729 8128  
Mobile: 0412 104 474  
Fax: (02) 4729 8141  
Email: [salim.vhora@dnr.nsw.gov.au](mailto:salim.vhora@dnr.nsw.gov.au)

Review of Operating Licence for HWC  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office NSW 1230

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8 November 2006

Attention: Michael Seery/Bob Burford

Dear Sir or Madam

**Subject: DNR's submission - HWC Operating Licence review**

Please find enclosed Department's submission on the IPART's discussion paper "End of Term Review of the Operating Licences for Hunter Water Corporation September 2006".

Should you have any further enquiries in respect of this matter, please contact me on telephone number (02) 4729 8128.

Yours sincerely

Salim Vhora  
Manager, Corporate Licensing Unit  
Compliance and Licensing

## End of Term Review of Hunter Water Corporation's Operating Licence

### Department of Natural Resources response

IPART Issue	IPART Issue - summary	HWC Response - Summary	DNR Response
<p>1. Does the Operating Licence (O.L) reflect best regulatory practice</p>	<p>Minimise regulatory overlap and avoid regulatory inconsistency.</p> <p>Remove requirement for MOU with DNR</p> <p>Reduce duplication and improve transparency by requiring results to be published of monitoring and reporting undertaken in compliance with the DNR Water Management and Water Access Licences (water licences)</p> <p>Remove obligations concerning environmental water quality and water supplied for other purposes to</p>	<p>Agree that the O.L. has the balance of all the regulatory instruments 'about right'.</p> <p>Some minor updating to reflect changes required.</p>	<p>Agree. Ensure that the DNR Water Licences do not encroach onto O.L. area and vice versa.</p> <p>Agree. Removing the requirement for MoU with DNR.</p> <p>Agree. Reporting requirements should be modified both in the O.L and water licences so that there is no duplication required.</p> <p>Water licences have Water Quality (WQ)/River health monitoring requirements to assess impacts of authorised works mainly downstream of</p>

	<p>the extent that they are either inconsistent with or overlap, the activities of other regulators.</p> <p>Rationalise the number and definitions of indicators, especially where these provide consistency with those being collected as part of the National Water Initiative (NWI).</p> <p>Require more outcomes focussed catchment report</p>		<p>dams. WQ monitoring aimed at meeting drinking water quality is primarily a requirement of NSW Health and should continue under O.L.</p> <p>WQ monitoring for Groundwater has the dual purpose of assessing drinking water quality; and providing information for ground water management. It should primarily be contained within water licence.</p> <p>Agree.</p> <p>Agree.</p>
<p>2a Is the operating licence fulfilling its objectives?</p>	<p>The overriding objective is to enable and require HWC to lawfully provide the services specified under the HWC's Act within its area of operation.</p>	<p>The O.L. should focus on customer service and transparent operational performance.</p>	<p>Proposed changes identified in the O.L. as part of this review will enable the O.L. to fulfil its objectives. Nonetheless environmental obligations need to be considered at equal</p>

			<p>footing with the other obligations such as customer service. It is understood that there are other instruments that regulate environmental aspects of the HWC, but the O.L. has a valuable role in linking different instruments /objectives and provide a balanced pathway for HWC.</p>
<p>2c. How effective is the Integrated Water Resource Management Plan (IWRMP) and what outcomes have been achieved?</p>	<p>The IWRMP should contain measures other than increasing storage capacity.</p>	<p>The current IWRMP is not likely to achieve the required outcomes. Major review in progress. Will include all aspects of demand management, supply, etc.</p>	<p>Agree that the review of the IWRMP is required.</p> <p>The IWRMP should provide a link between to O.L. and the water licences.</p> <p>The role of O.L. with respect to IWRMP is to evaluate various supply and demand side options/targets. The water licences cater for supply side options where it involves extractions from natural water sources. It is critical that the IWRP is comprehensive in every aspect, peer reviewed and ratified by DNR and IPART before being adopted as a management tool.</p>
<p>2d. With respect to the IWRMP, what targets,</p>	<p>Current IWRP is heavily weighted towards supply</p>	<p>Existing cap on residential use (215 KL/yr) is the best target</p>	<p>The current targets specified in the O.L. are difficult to assess</p>

<p>standards, indicators or other proposals has Hunter Water formulated for consideration as part of this review?</p>	<p>augmentation.</p> <p>Water savings of double the targeted amount are possible.</p> <p>Community support for more aggressive approach to demand management. Considering options for various water conservations targets: per capita performance, cap total volume from storage, percent reduction in forecast demand, cost effective standards.</p>	<p>for managing demand growth.</p> <p>It is not clear what the purpose of a sustainable yield target is and how setting arbitrary sustainable yield target in the operating licence fit into the resource planning context of the IWRP.</p> <p>Longer planning time for IWRP required.</p> <p>MCA approach to be adopted.</p>	<p>and are not consistent with targets introduced for other water utilities such as Sydney Water.</p> <p>Recently better results have been achieved in Sydney and other areas with innovative and rigorous demand management measures, with average Sydney house hold demand dropping by 18 KL in the last year.</p> <p>Detailed comments on the current IWRP provided in TAG A (attached).</p>
<p>2e. How appropriate are the environmental and ESD indicators outlined in clause 9.2.6 of the operating licence?</p>	<p>Public reporting of environmental performance required to determine the effectiveness of the Environmental Management Strategy. Some indicators need to be reviewed</p>	<p>Review ESD indicators in light of NWI parameters in 2007</p>	<p>Need to align ESD indicators with NWI for consistency with similar utilities, but some parameters for assessment of local issues needs to continue.</p>
<p>3a. What quality and performance standards should be specified in the licence in respect of:</p> <ul style="list-style-type: none"> <li>i. water quality</li> <li>ii. service interruptions</li> <li>iii. price levels</li> </ul>	<p>The O.L. specifies water quality requirements for bulk raw water, drinking water and water provided for other purposes.</p> <p>The O.L. to recognise the 2004 Drinking Water Guidelines.</p>	<p>Raw water quality is covered by the non-standard supply agreements between individual customers and HWC and does not need to be specified in the O.L.</p>	<p>See comments under Issue No 1 above.</p> <p>Support IPART's proposal to review Bulk Water and Catchment WQ monitoring as per SCA's O.L.</p>

<p>iv. other matters</p>	<p>Replace the requirement to comply with a list of substances and align it with the requirements similar under SCA's O.L.</p> <p>Remove duplication of WQ monitoring between O.L. and water licences.</p> <p>Require HWC to take conciliatory approach in Catchment WQ monitoring.</p>	<p>Parameters established in the MOU with Health should not be repeated in the O.L.</p>	<p>Agree that raw water and recycled water quality should be covered by individual supply agreements and be dependant on end use.</p> <p>One of the objectives of the O.L. is to provide a safe drinking water supply. In order to meet this objective, the O.L. needs to contain the drinking water quality requirements. As long as the requirements are same as those in the MoU between HWC and NSW Health, there is no conflict.</p> <p>Providing safe drinking water is an ongoing pricing element of which IPART needs to be mindful of for future price changes.</p> <p>No comments on service interruptions, price levels and other matters</p>
<p>3c. What functions should be conferred or imposed on the Tribunal by the operating licence in connection with operational audits of the</p>	<p>Operational audits are used to monitor and report on compliance with the O.L.</p>	<p>Audit function should be to confirm compliance across the full O.L.</p>	<p>No comment</p>

Corporation?			
3d. What terms and conditions should be included in the operating licence on how the Tribunal prepares the operational audit?	Initial comprehensive review followed by a more targeted risk-management approach.	Targeted approach; data audit	DNR advocates reforms/changes adopted into SCA and SWC's O.L.s are considered for review of HWC O.L. That is, an operational audit every two years and limited or issue-based audits on a yearly basis if required.
4. What terms and conditions are required in the operating licence to protect customer standards and consumer rights?	The NWI indicators should prevail	The National Water Initiative customer service indicators should be the primary measure of HWC's O.L.	Agree with HWC.

## Detailed comments on issues 2c and 2d

2c. How effective is the Integrated Water Resource Management Plan (IWRMP) and what outcomes have been achieved?

HWC has a large off storage (Grahamstown Dam) which needs to be filled during wet years or during high flows. This means that HWC needs to divert a volume of water to Grahamstown Dam that is much greater than the expected requirements. The Water Sharing Plan needs to recognise/authorise the diversions volume for storage and provide for a volumetric entitlement that caters for the actual requirement. The various parameters/options that IPART will consider for managing supply and demand as part of the review will help to define a suitable volumetric entitlement. DNR supports HWC in that the purpose of the Integrated Water Resources Plan (IWRP) is to identify the optimal mix of demand reducing and supply improvement options for the future to ensure HWC remains within available yield. It appears that the IWRP will provide a common link between DNR's water licences and the Operating Licence (O.L.). The O.L. would mandate various options/targets on the supply and demand side under the IWRP, while DNR's water licences cover supply or yield from natural water sources. DNR considers it essential that the IWRP is comprehensive in every aspect and peer reviewed and ratified by DNR and IPART before being adopted as a management tool.

2d. With respect to the IWRMP, what targets, standards, indicators or other proposals has Hunter Water formulated for consideration as part of this review?

### Comments on existing IWRP/recommendations for review of the IWRP

Section 9.2 – Supply augmentation. – discusses the “least cost approach based on an assessment of the financial, social and environmental costs”. DNR believes that this assessment is biased heavily towards the financial costs, with little consideration given to environmental costs. As an example, page 64 of the IWRP presents the financial costs of various options, and the improvements in system yield as a result, however, the environmental assessment of extracting additional water from the Williams River (page 65 of the IWRP) is limited to highlighting the small percentage of annual volume currently extracted. While on average this is the case, the impact on the river system during drought periods may be significant, as the overall proportion of water extracted during these years may be quite high. In addition, studies undertaken by HWC as part of their water licence requirements have highlighted the impact the weir structure is having on the Williams River, in addition to the volumes of water extracted.

The IWRP presents demand forecasts for a 10 year planning horizon. Given that some of the augmentation options involve the construction of major infrastructure, with a lead in time well exceeding 10 years, the planning horizon specified for the IWRP be greater than 10 years.

Section 9.2 – Demand Management Initiatives. – The IWRP does not provide sufficient information regarding the volumes of water currently recycled or forecast to be recycled. Total demand management savings (obtained through DNR licence requirements) have been assessed to be 8.4GL/annum by 2031. This estimate seems low when compared to other water authorities. As an example, Sydney Water is expected to achieve savings of 85GL/year, or 13.4% of current use within 8 years (2003 – 2001), despite the population increasing by 360 000 people during this period (IPART demand mgt expectations). This information is presented below:



Year	Hunter Water		Sydney Water	
	2006	2031	2003	2011
Estimated Population	500 000	625 000	4 210 000	4 570 000
Consumption (litres per person per day)	398	396	413	329
Total Consumption (GL/yr)	72.63	90.31	634	549

\*Note 500 000 population is an estimate only.

If HWC water use were to reduce usage to 329 litres per person per day (as for Sydney), then their total requirement in 2031 would be 75.1GL, which could be serviced by their current infrastructure!

Section 9.2 – Water Conservation Targets. – DNR considers that the current targets specified in the O.L. are difficult to assess and are not consistent with targets introduced for other water utilities (such as Sydney Water). For example, Hunter Water claim that their per household use is amongst the lowest of any water authority in Australia (HWC website). However, this may be because of differences in the type of housing present in the area, and the number of people per household. DNR would favour a consistent approach to conservation targets to be applied across different utilities. However, while the Sydney Water assessment provides a useful guide, it is recognised that industrial usage will vary widely depending on location. As a result, DNR would favour an assessment which results in a conservation target for residential supply which was consistent across the state (taking into account variations in climatic conditions, and differences in housing type, where necessary), similar to the BASIX water savings assessments for new residential development. Industrial requirements should be assessed on a case by case basis, taking into account industry best practice standards. Applying the above would allow an average annual usage target to be developed for HWC, which would vary with population, or if a new industry was approved.

Section 9.2 – Relaxing the Security of Supply Criteria – this section refers to the “Sustainable Yield”. This term is also used throughout the IWRP. DNR believes that the term which should be used here is System Yield. Sustainable yield should refer to the volume of water which may be sustainably extracted from a water source without causing undue environmental degradation, which would not change if the security of supply criteria were relaxed. However, should additional environmental rules be determined to be necessary (such as accessing only a proportion of flows from a water source during flow events), the system yield may decrease. The IWRP does not factor in the possibility of a reduction in system yield as a result of possible environmental requirements.

Section 9.2 – Relaxing the security of Supply Criteria It is noted that the aim of the security of supply criteria should be restriction occurring once every 10 years. However the IWRP (p44) states that the chance of entering restrictions is only 6%. The IWRP should undertake an assessment on the system yield improvements which may be obtained by relaxing the security of supply criteria to 10%, and also review how this would alter the augmentation options proposed.