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Dear Dr Keating,

### **Review of Hunter Water Corporation's Operating Licence**

The Nature Conservation Council of NSW (NCC) is the peak non-Government environment organisation in NSW, representing over 120 member groups throughout the State. NCC would like the following comments to be taken into account in IPART's review of Hunter Water Corporation's operating licence.

#### **1. Need for an effective Operating Licence**

NCC believes the over-arching operating licence, ensuring that Hunter Water Corporation (HWC) meets specific standards of environmental, customer and community performance, to be an essential element in the governance of the corporation so long as it remains a monopoly or dominant operator within its area. The operating licence helps to ensure that HWC does not abuse its powerful position and that it performs to standards and proceeds in directions that have been agreed by the government after consultation with the community. Only IPART, by virtue of its roles as a regulator of the operating Licence, and of HWC's pricing policy, is in a position to ensure that these expectations of the government and the community are met.

## **2. Cost of Regulation**

It is accepted that government regulation of Hunter Water Corporation needs to be efficient and avoid wasteful duplication so as not to add unnecessarily to operating costs. NCC believes that regulation of HWC through its operating licence is meeting these requirements. It is understood that Sydney Water Corporation (SWC), which operates under the same regulatory framework as HWC, meets its regulatory obligations with less than 1% of its operating expenditure (including EPA licensing of STP discharges). This is not a great burden. If SWC and HWC were operating in a fully competitive market, their costs of dealing with competition (that is 'market regulation') would be much heavier.

## **3. Need for mandated targets within the Licence**

In order to be effective the Operating licence must mandate specific targets, benchmarks and indicators against which performance can be measured, monitored and audited. NCC therefore does not support suggestions that mandated targets, standards and benchmarks in the operating licence should be replaced by 'self-imposed' ones – some of them 'voluntary' – adopted by HWC from time to time, either under the corporation's Integrated Water Resources Planning (IWRP) process or under some other framework.

## **4. HWC's increasing responsibility**

Population projections for the lower Hunter suggest a 25% increase by 2030. As well as supplying its own area, Hunter Water will soon be supplying about 10% of water consumed in the adjacent Gosford-Wyong area through an augmented pipeline. Although water supply in the HWC catchments has held up well compared with the drought-affected SWC and Gosford-Wyong catchments, this may not continue as the effects of climate change unfold. These factors suggest that IPART's approach to the operating licence and its regulation must be more rigorous than in the past.

## **5. Catchment management arrangements**

NCC notes that IPART has called on HWC to provide a supplementary submission on catchment management. NCC supports the principle that management arrangements for the delivery and consumption of water should be sensitive to what is happening in the catchments where the water is

sourced. If there is a disconnect between water catchment and water consumer, the water catchment is likely to be poorly managed. NCC notes that the advent of Catchment Management Authorities has brought some welcome additional resources to this area but has also added another level of governance, with a CMA now in place for Hunter and the Central coast. This, together with HWC's increasing responsibility for supplying water to the Central Coast, suggests that management of urban water supply catchments across both areas may need to be reflected in complementary provisions in HWC's operating licence and in the operating licence to be made for the Central Coast Water Corporation when it is formed.

## **6. Demand - supply balance**

NCC notes that HWC's strategy under its IWRP process is biased towards supply augmentation, notably an upgrade of the Grahamstown Dam to increase storage capacity. NCC questions such an approach as it relies on drawing increasing volumes of water from HWC's catchments with all the associated environmental and social costs.

HWC's household demand management target of 215 KL/a based on a five year rolling average is considered by NCC to be a poor level of performance. The comparable SWC figure is 202 KL/a and HWC concedes in its IWRP that considerably greater water savings are possible. Per capita water consumption in the HWC area, which in past years was lower than in the SWC area as a result of pioneering pricing reforms, is now trending higher than SWC.

HWC seems reluctant to encourage the use rainwater tanks; it offers a lower rebate on their installation than offered by SWC, and on more restrictive terms.

NCC is not impressed with HWC's suggestion of a 2007 recycling target of 13% of dry weather flows as this is to be only a voluntary target and it is set against a background of falling volumes of recycled water over recent years.

Similarly, NCC is not impressed by HWC's commitment to an ongoing water efficiency target of only 1000 ML/a. Hobart aside (which has not set a target) this is believed to be the lowest target set by any major urban water authority in Australia.

NCC does not agree with HWC's suggestion that some of its DM targets should be 'voluntary' and that it should abandon its obligation to quantify environmental and social costs of demand/supply options in favour of 'multi-criteria analysis'.

NCC also notes that as HWC is an increasingly important supplier of water to Gosford-Wyong where water supplies are stressed, it cannot operate within its own area as if there were no relationship between the two operating areas. HWC's augmented water supply pipeline to Gosford-Wyong will carry up to 9,125 ML/a, equal to about 12% of HWC's usual annual water distribution, or some 16.5 year's normal growth in demand.

The Nature Conservation Council asks that IPART ensure that the above issues are dealt with and that the terms of the new operating licence for the Hunter Water Corporation properly address the needs of the environment and the conditions likely to confront the communities of the Hunter and Central Coast over the next five years.

Yours sincerely,

Peter Prineas  
Public Officer NCC