


Our reference: 06/395

27 October 2006

Mr Kevin Young
Managing Director
Hunter Water Corporation
PO Box 5171
HRMC NSW 2310


Dear Mr Young

PO Box Q290, QVB Post Office NSW 1230
Level 2, 44 Market Street Sydney NSW 2000
T (02) 9290 8400 F (02) 9290 2061
ABN 49 202 260 878

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HUNTER WATER CORPORATION (HWC) OPERATING LICENCE REVIEW

Thank you for HWC's submission to the operating licence review. I am writing to seek clarification of a number of issues raised in the submission.

Catchment management

Chapter 6 of the Tribunal's Issues Paper seeks comment on what catchment management obligations, if any, are appropriate for HWC's new Operating Licence.

HWC's submission does not appear to address this issue and so I would be grateful if HWC could provide a supplementary submission suitable for public display which outlines the Corporation's views with respect to this issue.

Managing the supply and demand for water

The Operating Licence requires that the end of term review evaluate and report on the outcomes achieved by the Integrated Water Resources Plan (IWRP). Under clause 8.3.18 of the Licence, HWC is also required to "...outline targets, standards, indicators or other proposals for consideration as part of the Licence review."

It would be helpful if HWC would provide further information in respect of:

- An evaluation of the performance of the IWRP, including why HWC believes that the current IWRP process "... is not adequate for future planning..." (Submission, p 18)
- Actual performance over the period 2002/03 to 2005/06 against the forward projections made under clause 8.3.12 of the Operating Licence for residential and non-residential consumption growth, leakage and real losses, demand for recycled water and water savings achieved through HWC's demand management initiatives
- Implications for demand growth arising from HWC's supply of water to the Central Coast and projected increases in population growth forecast by the Department of Planning

- Constraints and rules on bulk water extractions imposed by any new water licences and water sharing plans issued by the Department of Natural Resources
- Future water-efficiency and supply-side options (including estimated 'levelised cost' per kilolitre of each option where available and impact on the available yield) being considered by HWC.

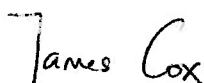
HWC's submission suggests the use of 'multi-criteria analysis' as an alternative to the costing of environmental and social impacts associated with demand and supply options currently required under the IWRP process. It would be useful if HWC provided further information on the advantages of this approach.

On the issue of leakage, HWC suggest that the Licence should require reporting against the Infrastructure Leakage Index (ILI). I understand that this index represents the ratio of real losses to unavoidable real losses, with the level of unavoidable real losses being a theoretical estimate. To further discussion on this issue, I would be grateful if HWC could provide a more detailed explanation on the ILI and the methodology that underpins it.

I request that HWC provide its supplementary submission by no later than **close of business, Monday 6 November 2006.**

Please note that this letter and HWC's response to it will be treated as a public submission and displayed on the Tribunal's website. If you have any questions or wish to discuss any aspect of the enclosed, please contact Michael Seery on 9290 8421.

Yours sincerely



James Cox
Chief Executive Officer and Full Time Member
T (02) 9290 8411