

COASTAL VALLEYS CUSTOMER SERVICE COMMITTEE

Response to the IPART Issues Paper on the Review of the Operating Licence for State Water Corporation

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Submitted by:

Bob Doyle
Chair
Coastal Valleys Customer Service Committee
PO Box 915
MUSWELLBROOK NSW 2333

Submitted to:

The Review of Operating Licence for State Water Corporation
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

1. INTRODUCTION

The Coastal Valleys Customer Service Committee (Coastal Valleys CSC) has prepared the following comments for consideration of IPART in relation to the Issues Paper for Review of the Operating Licence for the State Water Corporation.

The Coastal Valleys CSC has developed this submission in a similar manner to our previous submission to IPART in May 2001 in that:

- ❖ This submission by the Coastal Valleys CSC represents the collective view of a committee made up of a diverse representation of consumptive users.
- ❖ There are some issues where members of the Coastal Valleys CSC have differing views. Those views are not discussed in detail as committee members can make representation independent of this submission.
- ❖ The purpose of the Coastal Valleys CSC is to represent customers in their respective coastal valleys by providing advice to State Water Corporation on the effective management and delivery of rural bulk water and asset management.

Many of the issues impacting on the coastal valleys are common to other customer service areas across NSW but there are a significant number of issues that are unique to the coastal valleys. The health of our river systems and the factors that impact on it are quite different to other river systems.

For example:

1. Urbanisation and industry are largely confined to the coast - with substantial impacts.
2. The proportion of total river flows that end up as estuary inflows on the coastal valleys is high in comparison to the inland systems.
3. There are a large number of small customers on unregulated rivers.

These are just three (3) examples of how the coastal valley areas differ from other service areas. Therefore, the importance of identifying impacts of this Operating Licence on coastal customers of State Water Corporation is important.

The newly corporatised State Water Corporation's primary business is supplying bulk water to regulated customers. Historically the Coastal Valleys CSC has represented regulated, unregulated and groundwater customers. In the coastal area most of State Water Corporation customers are on unregulated streams.

There is a confidence amongst regulated customers that State Water Corporation will continue to provide a good service at an acceptable cost. However, there is a great deal of uncertainty amongst the unregulated customers as to their link to the State Water Corporation Operating Licence. Historically there is mixed experience about the service provided by what was Department of Land and Water Conservation (DLWC). There are examples of excellent service, as well as, examples of poor service. While State Water Corporation has been accountable and transparent with the costs of running the business, the same cannot be said for the natural resource management component of costs administered by the Department of Infrastructure, Planning and Natural Resources (DIPNR) and charged to State Water Corporation customers. Fundamentally, unregulated bulk water users should not be customers of State Water Corporation; they should be customers of the DIPNR. The concern is the difference in the level of service and commitment to consultation that, historically have been provided by State Water Corporation, versus DLWC and now DIPNR.

There will be significant implications for unregulated water users with issues such as infrastructure ownership, billing and metering. Depending on who has responsibility for managing the water use, if State Water Corporation have no responsibility to manage water use, the Coastal Valleys CSC has some specific requests to IPART to enforce an acceptable level of service and accountability from DIPNR. This submission aims to address these issues on the basis of concerns expressed by the Coastal Valleys CSC.

If DIPNR can guarantee a commitment to consultation, openness and accountability to unregulated customers, using a model at least as effective as that developed by State Water then unregulated customer's interests are probably best fully serviced by DIPNR. (This does not exclude State Water Corporation from billing and metering of unregulated and groundwater customers under contract.)

If DIPNR cannot guarantee a commitment to service and accountability for unregulated customers, then customers would prefer to remain under the management of State Water Corporation. , bearing in mind that both regulated and unregulated customers will have exactly the same issues to be addressed with DIPNR in the water management costs attributions yet to be addressed.

State Water Corporation has a good record for customer service for all customers. It is important to customers that this Operating Licence will, at least, maintain the level of service currently provided and that we continue to be a part of the consultative process that assists the business to improve.

The process of this submission has been to address the points raised in Issues Paper - IPART Review of the Operating Licence for State Water Corporation. The numbers referred to in this document relate to the corresponding sections in the Issues Paper - IPART Review of the Operating Licence for State Water Corporation.

2. OVERVIEW OF STATE WATER – ITS OBJECTIVES, FUNCTIONS AND AREAS OF OPERATION

2.2 FUNCTIONS

As a general comment the Coastal Valleys CSC considers that there is a danger that State Water Corporation, in meeting the requirements of the licence, will get bogged down with compliance and consultation. Therefore, it will be unable to focus on improving its business performance. The licence from that perspective is not a particularly commercially orientated charter for the new corporation.

2.2.1 Delegated functions

The Tribunal welcomes comments on:

- ❖ whether the delegated functions outlined above include all the appropriate functions that need to be delegated to State Water for it to effectively perform its role*
 - ❖ whether any of these functions should be exclusively conferred on State Water or confined in any way*
 - ❖ whether the Operating Licence should address how the exercise of these functions is to be co-ordinated between State Water and DIPNR*
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- ❖ whether the delegated functions outlined above include all the appropriate functions that need to be delegated to State Water for it to effectively perform its role*

Available Water Determinations:

DIPNR have participated in the Water Sharing Plans process and have effectively set the rules. State Water Corporation has the role to manage within these rules and so for efficiently delivering water in a timely and cost efficient manner, State Water Corporation should be delegated to undertake the Available Water Determinations and announce the allocation levels in accordance with the Water Sharing Plans.

The Operating Licence should clearly define lines of responsibility between DIPNR and State Water Corporation.

The Operating Licence defines State Water Corporation as owning Infrastructure on Unregulated Streams:

If State Water Corporation is going to own the infrastructure on unregulated streams, then State Water Corporation should have unregulated customers under its banner. If State Water Corporation continues to own the infrastructure, then State Water Corporation needs more defined powers for the operation and maintenance of these structures, including all infrastructure, such as, cuttings on unregulated streams. State Water Corporation needs the appropriate powers to manage the entire infrastructure defined in the terms of the Operating Licence.

It is our preference that this infrastructure be owned and maintained by DIPNR and the responsibility of managing water for the unregulated customers be undertaken by DIPNR.

A major concern of unregulated customers in the coastal valleys is that the cost of services such as metering will be disproportionate to the volume of water extracted. The bureaucratic process of administration may be impossible to achieve cost recovery and, as such, should be funded under a Community Service Obligation (CSO).

❖ *whether any of these functions should be exclusively conferred on State Water Corporation or confined in any way*

The Operating Licence must define clearly which tasks and processes are carried out by State Water Corporation and which are carried out by DIPNR.

The majority of the Coastal Valleys CSC supported these delegated functions and considered it necessary to allow State Water Corporation to effectively manage bulk delivery when the supply is limited.

The alternative view is that State Water Corporation should have no capability to suspend access Licences and approvals as these are issued by DIPNR. Transparency and accountability have been touted as fundamental reasons for the corporatisation of State Water Corporation in the first place so, in order to maintain this, State Water Corporation should only recommend such action to DIPNR who should be held accountable for the outcome. The functions delegated to State Water Corporation should be exclusive to State Water Corporation otherwise customers could see themselves with two masters. Customers could play DIPNR and State Water Corporation off against each other; DIPNR could also cause troubles for State Water Corporation. Customers need to have a clear and natural(logical) understanding of whom is responsible.

❖ *whether the Operating Licence should address how the exercise of these functions is to be coordinated between State Water Corporation and DIPNR*

Most certainly the Operating Licence should clearly delineate functional responsibility of State Water Corporation and that of DIPNR where there is commonality of interest/action necessary for each to effectively perform its role. This could best be carried out at the activity level, setting up formalised processes and accountability along with defined performance reporting against the same.

Until a mutually understood relationship exists between DIPNR and State Water Corporation the MOU will not be the appropriate place to understand how the functions are to be exercised.

State Water Corporation should operate all gauging stations on the regulated rivers. A concern was raised about access to data during potential flood events. It was considered the river height data be continued to be available free for public good for the purpose of flood monitoring. Some organised access may be required in order to maintain reliability.

2.2.2 Water Supply Functions

The Tribunal welcomes comments on whether any aspects of operating the Fish River water supply scheme should be specifically addressed in the Operating Licence

Our CSC does not have a good understanding of the Fish River Scheme.

4. THE ROLE OF THE OPERATING LICENCE

4.2 Regulatory best practice

Given the regulatory framework State Water Corporation operates within, the Tribunal welcomes comment on how potential regulatory overlap should be addressed in setting the terms of the Operating Licence

It is the potential for regulatory and operational overlap that was of further concern of whether State Water Corporation or DIPNR should be managing unregulated customers. Regulatory overlap needs to be minimised, if not eliminated, by IPART coordinating and compiling performance requirements, measures and reporting from others regulating areas of State Water Corporation functionality (DIPNR, Dams Safety, Workcover, EPA). IPART can be given accountability for managing this function as it appears to be the Licence Regulator and, one assumes that, to meet State Water Corporation's objectives, realistic performance will need to be evidenced credibly in these other areas of social architecture.

If the Operating Licence is to include unregulated water users, then, in order to avoid duplication and wasting resources, State Water Corporation should be able to own, operate and charge for unregulated infrastructure. Accordingly, State Water Corporation should also be responsible for unregulated stream operations and metering.

There is a logical argument that all hydrometric services should be in one organisation within NSW. As stated previously, it is our preference that unregulated customers be fully managed by DIPNR provided DIPNR improve their performance. If State Water Corporation is able to efficiently and cost effectively operate all gauging stations and there is a net benefit to the customer (including the unregulated customer) the CSC would support State Water Corporation operating all hydrometric services.

5. SYSTEM PERFORMANCE

5.1 OBLIGATIONS TO MEET PERFORMANCE STANDARDS AND MONITOR PERFORMANCE INDICATORS

5.1.2 Potential performance standards and indicators for State Water Corporation

The Tribunal welcomes comments on:

- ❖ *Appropriate performance standards and indicators for State Water Corporation, taking into account the need for these to be reasonable, measurable and auditable (as discussed in 5.1.1 and 5.1.2)*
- ❖ *Whether any components of State Water Corporation's system (e.g. Fish River water supply scheme) should be subject to different or additional performance standards and indicators.*
- ❖ *All of the other issues discussed above*

- ❖ ***Appropriate performance standards and indicators for State Water Corporation, taking into account the need for these to be reasonable, measurable and auditable (as discussed in 5.1.1 and 5.1.2)***

There is a danger that State Water Corporation in meeting the requirements of the licence will get bogged down with compliance and consultation that it will be unable to focus on improving its business performance. The licence from that perspective is not a particularly commercially oriented charter for the new corporation.

Any performance framework for State Water Corporation must be one which will provide a balanced activity/resource focus in progressing the organisation's objectives and reporting against which will provide reasonable representation of the organisation's sustainability of that effort. Measurements must be comparable to progressive sustainability management practice and they must address issues of concern to stakeholders. The business-reporting framework can be designed around the concept of a Triple Bottom Line.

Performance in areas such as governance, profitability, ethics, employment practices, health and safety, environmental impact, impacts on a host community, regulatory compliance systems, stakeholder communication and service level agreements would be included in such a framework and should be stipulated in any Operating Licence for State Water Corporation.

Many of the performance standards and indicators listed in the table appear to be directed to the organisational context as opposed to a strategic context, the latter being State Water Corporation meeting its objectives in Government and society (*Managing its Business Model*) the former being State Water Corporation identifying and managing the organisational success factors of its business model. Management of the strategic context is that which should be of focus in the Operating Licence and is the job of the Board overseen by the Licence Regulator. Performance management in the organisational context is the job of the Executive overseen by the Board. Inclusion of organisational context performance within the Operating Licence will cloud the very transparency and accountability corporatisation was intended to produce.

A Triple Bottom Line performance and reporting framework should be developed for State Water Corporation to manage the organisation from a strategic perspective leaving organisational strategy and its management framework to the Corporate Management body to enable and sustain strategic direction touchstones of the Operating Licence.

With such an approach to regulatory performance management for State Water Corporation, many of the seven further issues would be addressed.

- ❖ ***Whether any components of State Water Corporation's system (e.g. Fish River water supply scheme) should be subject to different or additional performance standards and indicators.***

The Coastal Valleys CSC does not understand the Fish River water supply scheme and are not impacted by it, therefore, hesitant to make a comment, other than, Fish River and Lowbidgee are not bulk water delivery services and as such they should be subject to some different performance indicators.

5.2 OBLIGATIONS TO DEVELOP AND IMPLEMENT ASSET MANAGEMENT STRATEGIES

5.2.2 Possible objectives of asset management provisions in initial licence

The Tribunal welcomes comments on what asset management obligations should be included in State Water Corporation's Operating Licence.

To avoid a heavy-handed “command and control” regulatory regime, assurance in the area of asset management practice can be achieved by addressing best practice stewardship of the State Water Corporation economic asset base as a performance requirement and, subject the same to a third party regulatory audit for compliance.

6. ENVIRONMENTAL OBLIGATIONS

6.1 Augmenting the broader regulatory framework

The Tribunal welcomes comments on:

- ❖ *whether any potential environmental impacts of State Water Corporation's operations are not adequately regulated through the broader regulatory framework*
- ❖ *if so, whether obligations to manage or minimise these impacts should be included in the Initial Operating Licence – either as part of system performance standards discussed in Chapter 5 or as a general requirement of the licence*

- ❖ ***whether any potential environmental impacts of State Water Corporation's operations are not adequately regulated through the broader regulatory framework***

The Coastal Valleys CSC does not see where State Water Corporation operations cannot be covered by existing regulations. The advantage of including environmental obligations in the Operating Licence is that they can be specific to State Water Corporation and State Water Corporation may be able to avoid some requirements under other legislation such as the POE Act. Conversely the reverse can apply and if environmental obligations are included in the operation licence they could be more onerous. As State Water Corporation will be under the Greens microscope, the best approach is to use existing regulatory framework for environmental obligations.

If the Operating Licence includes environmental obligations they should only relate to what State Water Corporation can achieve and to what State Water Corporation is clearly responsible for in the operation context. Using Cold Water Pollution as an example, if this is the responsibility of State Water Corporation in its releases, then it State Water Corporation should not be expected to meet a higher standard than that is required under the Pollution of the Environment Operation Act.

- ❖ ***if so, whether obligations to manage or minimise these impacts should be included in the Initial Operating Licence – either as part of system performance standards discussed in Chapter 5 or as a general requirement of the licence***

Covered in 5.

6.2 Stipulating requirements for development of Environmental Management Plan

The Tribunal welcomes comments on:

- ❖ *the requirements (in terms of content, consultation and reporting) related to State Water Corporation's EMP that should be included in the Initial Operating Licence*
- ❖ *the environmental performance indicators that State Water Corporation should be required to monitor and report on (either as part of its EMP or as part of its system performance standards and indicators discussed in Chapter 5)*

Covered in 5. Consultation with stakeholders when developing Environmental Management Plans. Indicators should be relevant and understandable to the community and stakeholders.

6.3 Ensuring appropriate environmental performance obligations

The Tribunal welcomes comments on:

- ❖ *whether there are aspects of the MoUs between State Water Corporation and each of DEC, NSW Fisheries and DIPNR that need clarification or strengthening*
- ❖ *whether any terms or conditions included in these MoUs should be included as an obligation in State Water Corporation's Initial Operating Licence*

- ❖ *whether there are aspects of the MoUs between State Water Corporation and each of DEC, NSW Fisheries and DIPNR that need clarification or strengthening*

MOUs should be reviewed by IPART to see if they are working and achieving something.

- ❖ *whether any terms or conditions included in these MoUs should be included as an obligation in State Water Corporation's Initial Operating Licence*

Terms and conditions from within MOU should only be included in the Operating Licence if the specific Terms and Conditions of the MOU are not being adhered to.

MOUs should have a review timeframe to make sure they are effective.

7 CUSTOMER SERVICE OBLIGATIONS

7.1 The key service issues for customers

The Tribunal welcomes comments on:

- ❖ *whether there are important service related issues for State Water Corporation's customers other than those specified above*
- ❖ *if so, whether customer service obligations included in the Initial Operating Licence should reflect these issues*
- ❖ *what customer service performance standards and indicators should be included in the licence*

7.2 The relationship between State Water Corporation and its customers

The Tribunal welcomes comments on the implications (if any) on State Water Corporation's relationship with 'regulated river customers':

- ❖ *of the fact that customers are created via access licences with DIPNR (e.g. must State Water Corporation consult with DIPNR before taking certain action in relation to the customers?)*
- ❖ *of operating the Fish River water supply scheme*
- ❖ *The Tribunal welcomes comments on whether the Initial Operating Licence should include customer service obligations related to the services it provides to unregulated rivers and groundwater users (who are DIPNR's customers)*

❖ of the fact that customers are created via access licences with DIPNR (e.g. must State Water Corporation consult with DIPNR before taking certain action in relation to the customers?)

State Water Corporation should have no delegated DIPNR responsibilities incorporated into its Operating Licence. This simply confuses the role of State Water Corporation and in the case mentioned that of DIPNR to both public and staff, again working against the very transparency and accountability supposedly established through corporatisation. All non-core business arrangements should be constructed on a normal commercial basis, especially since State Water Corporation's role has been emphasised as primarily operational and commercial in nature.

As a contractor to DIPNR or anyone else, State Water Corporation should operate under predefined guidelines and processes when dealing with a client's customers otherwise it commences to run DIPNR's business for them.

The functions delegated to State Water Corporation should be exclusive to State Water Corporation otherwise customers could see themselves with two (2) masters. Customers could play DIPNR and State Water Corporation off against each other; DIPNR could also cause troubles for State Water Corporation.

Customers need to have a clear understanding of whom is responsible.

❖ *of operating the Fish River water supply scheme*

❖ *The Tribunal welcomes comments on whether the Initial Operating Licence should include customer service obligations related to the services it provides to unregulated rivers and groundwater users (who are DIPNR's customers)*

The Unregulated Customer

We understand it is State Water Corporation's preference not to have unregulated consumptive users as customers and it is logical for DIPNR to have these water users as customers. We also understand across the state there is a preference for State Water Corporation to deal with just regulated customers.

During the corporatisation process, the Coastal Valleys CSC expressed concern about who will look after the interests of the unregulated customer. To State Water Corporation's credit they have genuinely tried to accommodate the unregulated users interests. With varying degrees of confidence, we consider that for efficient implementation of the Operating Licence and, the expected role of DIPNR, DIPNR should be the organization fully responsible for servicing the unregulated customer.

To efficiently manage unregulated rivers there is a need to determine and administer daily river flows, individual daily flow shares within differing flow classes, annual volumetric water accounts, share

registers as well as maintaining and calibrating river gauging stations as required - especially in low flows. The coastal rivers area is never going to be a good business for State Water Corporation and there is a risk that implementation of Water Sharing Plans will become an unfair burden on unregulated customers. If during the continued development of cost effective methods of managing unregulated rivers the regulator has full control there is a better opportunity to minimise bureaucracy. There are examples of low cost metering and self-regulation on coastal rivers that effectively deliver water-sharing outcomes. These represent minimal business opportunity to State Water Corporation. There are also examples where the full cost recovery of metering and sharing the water will stop efficient use of the resource with no other benefit. Full implementation of WSPs on unregulated rivers needs a significant and ongoing consultation with stakeholders. The cost of managing the unregulated customers will need to be funded by a CSO but it should be under a DIPNR responsibility.

While this IPART review is not the ideal forum for discussing our expectations of DIPNR, our customers strongly believe that if DIPNR cannot guarantee a number of commitments they will be better served under the State Water Corporation umbrella and, as such, we include our expectations of DIPNR in this submission. At the same time, there should be no inclusion of DIPNR customer service obligations in the State Water Corporation Operating Licence.

Consultation

It is of paramount importance that a consultative process similar to the State Water Corporation CSC process be set up. It should be made up of customers, DIPNR and CMA representatives. The number and area of representation needs to be determined by consultation between customers and DIPNR. As a starting point across the state, there are unregulated representatives on the current Customer Service Committees that could workshop the concept. One of the advantages of the Coastal Valleys CSC is the opportunity to see how other regions work with their customers. This is particularly useful for those committees where the relationships aren't as good as others.

Infrastructure

If DIPNR is the primary agency responsible for managing the water use, they should have responsibility for the infrastructure on the unregulated rivers. It may be that State Water Corporation has the expertise to maintain the infrastructure and, as such, State Water Corporation may maintain and operate the infrastructure under a commercial service agreement with DIPNR.. As stated in 4.2 the Coastal Valleys CSC would agree to State Water Corporation owning and operating all gauging stations if it provides a benefit to all water users including unregulated customers.

Accountability

The Coastal Valleys CSC's major concern over DIPNR's ability to manage the water for the unregulated customer is accountability and transparency of the cost charged to the customer. The Coastal Valleys CSC has an expectation that DIPNR have to improve their performance and, it is with this expectation, that the Coastal Valleys CSC supports DIPNR being fully responsible for managing water use. If DIPNR cannot commit to guaranteeing this accountability and transparency, then the unregulated customers would prefer to be under the control of State Water Corporation.

Metering

The cost of metering for the small unregulated customers is a major concern. There is a need to develop options that are low cost and yet meet the needs of the regulators. Now State Water Corporation has more a business focus it may not be the better organization to service the needs of the small unregulated customer. Where metering is undertaken using conventional methods State Water Corporation may undertake the work on behalf of DIPNR. The role of State Water Corporation needs to be clearly defined and costed. While it is expected that there are efficiencies to be gained by using State Water Corporation's expertise and resources, it is important that the costs of doing business on the unregulated rivers be separated from the regulated river functions of State Water Corporation. The Coastal Valleys CSC has no concerns with State Water Corporation undertaking metering under a commercial agreement for DIPNR.

Flexibility

While there is a clear understanding of how the regulated rivers are managed including the adoption of WSPs (except for the Paterson, Brogo and Iron Pot Creek) it is not well understood how water sharing will be efficiently implemented on the coastal unregulated streams. If there is one organization, DIPNR, it should allow more opportunity for innovative management systems to be developed on what will always be a poor business opportunity now that State Water Corporation is corporatised.

The Groundwater Customer

The CSC makes a distinction between the unregulated customer and the groundwater customer. It would initially seem apparent using the logic used for the unregulated customer that DIPNR should have responsibility for the groundwater customer.

In the Hunter the close link between many of the groundwater customers and the regulated system means it is both practical and efficient to include the groundwater customer under State Water Corporation's responsibility.

Management of groundwater customers is relatively simple once the regulator (DIPNR) has set the rules. Groundwater customers are confident about accountability and transparency of costs under the management of State Water Corporation and acknowledge the customer service focus demonstrated by State Water Corporation. There is not yet that confidence with DIPNR.

8 COMMUNITY ENGAGEMENT OBLIGATIONS

The Tribunal welcomes comments on:

- ❖ *the most effective form of community consultation*
- ❖ *appropriate components of CSC and CCC membership*
- ❖ *whether the State-wide CCC is an effective forum/vehicle for community consultation*
- ❖ *requirements related to community consultation that should be included in the Initial Operating Licence*

❖ *the most effective form of community consultation*

The Coastal Valleys CSC considers the current requirement for CCC and valley-based CSCs is appropriate. The CSC process, from the customers' perspective, has worked very well. There is a need for a CCC particularly now State Water Corporation is corporatised and one (1) CCC for the state should be an efficient use of resources. If the unregulated customers are no longer part of State Water Corporation, this will necessitate some change in members but the principle role of the CSC should remain unchanged.

❖ *appropriate components of CSC and CCC membership*

CCC should be a peak body representing the various classes of State Water Corporation stakeholder. There should be an equal representation of each class, particularly as customers already had significant influence in the CSC's. Representatives on the CCC should include members of the NSW Farmers and NSW Irrigators Council.

The present composition of the Customer Service Committees appears to have been extremely successful to date. The valley basis is the nearest we have come to recognising that easternfall water is different to that west of the range. It is important to maintain the successful structures that presently exist. The customer base is integral to the success of the CSC. If the Operating Licence doesn't include unregulated customers then these positions on the CSC will become redundant. For these committee members it would be important to continue in their role on the CSC until a new consultative process is commenced under DIPNR in order to allow some continuity to the consultation process as DIPNR and the CMA have a role on the SW CSCs.

❖ *whether the State-wide CCC is an effective forum/vehicle for community consultation*

Our CSC agrees it is appropriate providing appointments are made from stakeholder-class representative group nominations.

9 PROVISION IN RELATION TO AUDITING THE OPERATING LICENCE

The Tribunal seeks comments on the following:

- ❖ *the most appropriate auditing and reporting approach for State Water Corporation (e.g. a broader scope, fixed audit approach, or a risk management approach)*
- ❖ *the areas of State Water Corporation's operations that a more targeted audited approach should focus on.*

❖ *the most appropriate auditing and reporting approach for State Water Corporation (e.g. a broader scope, fixed audit approach, or a risk management approach)*

This is seen as an unnecessary question as Best Practice audit techniques, processes and regimes are well-established and, surely the only requirement is to ensure any audit can guarantee trustworthy reflection of the level of due diligence. Any attempt to focus the scope (*beyond identification of business boundaries*), content or audit technique to be used under an audit engagement would surely constitute a contrivance.

❖ *the areas of State Water Corporation's operations that a more targeted audited approach should focus on*

This could only be determined in consultation with professional auditors so that consequences of an informed decision in light of the risks and benefits of such an approach are appreciated.

Conclusion

The Coastal Valleys CSC appreciates the opportunity to participate in this review of the Operating Licence. The Coastal Valleys CSC was probably the least enthusiastic about State Water Corporation corporatising as the regulated rivers on the coast have the furthest to improve to achieve cost recovery and there is this added component of a dividend. We have also been fearful that the unregulated customer is at high risk to being bullied by bureaucracy and while State Water Corporation has consulted well through the CSCs most issues were the responsibility of DIPNR. The unregulated customer, particularly on the many small coastal rivers, is not as well organised as the regulated customers and the CSC process has been of significant benefit to them in providing a process to address concerns.

State Water Corporation from the outset made it clear they didn't want the unregulated customer as it was always going to be difficult, if not impossible, to achieve cost recovery. State Water Corporation has listened to our concerns and made a genuine attempt to include the unregulated customer within its licence responsibilities. If DIPNR can be made accountable they should be responsible for the unregulated customers. If they can not guarantee a commitment to service and accountability then our unregulated customers would prefer to stay under State Water Corporation responsibility. This has significant pricing impacts that we will aim to address at the Pricing Review.

State Water Corporation can only be a successful business in the long term if it delivers a value for money service to the customer. While it is a monopoly business the customer can always choose not to use the product. On the coast there is not full utilisation of the available resource and that only makes it more difficult to achieve cost recovery. The customer appreciates the need to aim for cost recovery and so this Operating Licence review is significant in that the Operating Licence must clearly define its functions and not constrain the business from being able to improve its efficiency of operation.