

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

HUNTER WATER'S DRAFT OPERATING LICENCE 2017-2022

Tribunal Members

Dr Peter Boxall AO, Chairman
Ms Deborah Cope, Member

Members of the Secretariat

Mr Hugo Harmstorf, CEO, Mr Rob O'Neill, Mr Brian Gardoll,
Mr Robert Aposhian and Ms Jamie Luke

Held at Harbourview, 150 Wharf Road, Newcastle

On Tuesday, 21 February 2017 at 10.00am

1 OPENING REMARKS

2
3 THE CHAIRMAN: Welcome, and thank you all very much for
4 coming. I would like to welcome you to this public
5 workshop on IPART's review of the Hunter Water operating
6 licence. I would like to begin by acknowledging that this
7 hearing is being held on the traditional lands of the
8 Awabakal and Worimi peoples. We pay our respects to their
9 elders past and present.

10
11 My name is Peter Boxall and I am Chair of IPART. I am
12 joined today by my fellow tribunal member, Deborah Cope.
13 Assisting the tribunal today are members of the IPART
14 secretariat, Hugo Harmstorf, our CEO, Rob O'Neill,
15 Brian Gardoll, Robert Aposhian and Jamie Luke.

16
17 The purpose of this review of the Hunter Water
18 operating licence is to investigate whether the licence is
19 fulfilling its objectives and whether any issues have
20 arisen during the current term that may impact on its
21 effectiveness. The current licence expires on 30 June
22 2017.

23
24 This review is considering a range of issues including
25 whether to include an obligation to service wholesale
26 customers, changes in the customer contract, the inclusion
27 of an economic level of work conservation methodology and
28 changes to Hunter Water's asset management system, to name
29 a few.

30
31 The purpose of today's workshop is to provide an
32 opportunity for stakeholders to discuss the proposed
33 changes in the draft operating licence package, which
34 includes the licence, the customer contract, the reporting
35 manual, a report and a cost benefit analysis.

36
37 Our draft recommendations aim to ensure the terms and
38 conditions of the licence are transparent and auditable,
39 consider the interests of stakeholders and impose the
40 minimum regulatory burden on Hunter Water.

41
42 I would like to thank those who have provided written
43 submissions to our issues paper in July last year. Your
44 comments are a valuable input to the preparation of the
45 draft licence package released in December.

46
47 This workshop is an important part of our consultation

1 process for this review. In addition to the views
2 expressed in written submissions, we will consider views
3 you provide today in making our final decisions.
4

5 We are seeking comments on all our draft
6 recommendations. The due date for written submissions is
7 3 March. We are due to release our final report to the
8 Minister for Energy and Utilities in May 2017.
9

10 Before we start the discussion on the draft
11 recommendations, we will present an overview to provide
12 some context for the discussion on each topic. I will then
13 invite participants at the table to provide comment on
14 those topics. Following discussion by those around the
15 table, I will then invite comments from those in the
16 general audience.
17

18 At this point, I'll hand over to Brian Gardoll,
19 Director of Water Licensing, to begin the session.
20

21 MR GARDOLL: Thank you, Peter, and thank you everybody for
22 your attendance. Just a couple of housekeeping issues,
23 before we start. There are toilets just down there on the
24 left-hand side. There are also some out in the foyer area
25 and downstairs. If, for any unforeseen reason, we need to
26 evacuate the buildings, the exits are the obvious ones -
27 where you came in this morning and an exit out through the
28 exit door at the back corner - just in case there is any
29 need to utilise those and hopefully there won't be.
30

31 The workshop today has actually been divided into
32 three sessions. The first session will be discussing the
33 changes to the customer contract, the obligations to
34 service wholesale customers, and stakeholder relations. We
35 will then have a break, so there will be a light morning
36 tea available during that break period. It will only be 10
37 or 15 minutes, for people to gather a cup of coffee or tea
38 and return back.
39

40 The second session, which we will then go into, will
41 discuss the economic level of water conservation, service
42 and performance standards, and organisational systems
43 management.
44

45 We then propose to have a third session, which really
46 is to discuss any other topics which anybody attending here
47 today may wish to raise and any questions or discussion

1 that is required on any other topics. We have sought out
2 what we believe are the key topics for discussion, but, of
3 course, we are open to any discussion on any other issues
4 as well.

5
6 I should again remind people of the timetable. We
7 actually released the issues paper back in May 2016. To
8 that issues paper, we received quite a number of
9 submissions, which we much appreciated, and that helped us
10 produce and release the draft licence package in December
11 last year.

12
13 That package has now been out for a couple of months.
14 People have had much opportunity to review the contents of
15 that. We have copies available here for anyone who may not
16 have picked up one.

17
18 Obviously today we have the public workshop here in
19 Newcastle, again to just help us reach the key stakeholders
20 involved in Hunter Water's operation. We are looking for
21 those submissions that will be the outcome of the package
22 and this workshop. We are expecting those or looking for
23 those to be received by 3 March.

24
25 That will allow us then to finalise the operating
26 licence for Hunter Water, which we intend to present to the
27 minister in May this year as well for commencement of the
28 licence on 1 July 2017.

29
30 We can now work into our first session. As suggested
31 to you; we will first look at the customer contract and the
32 changes that are proposed to be made to the customer
33 contract. To introduce and take us through that session
34 I'll call on Robert Aposhian, who is one of our principal
35 analysts, to present that material to us.

36
37 SESSION 1 - Changes to the customer contract

38
39 MR APOSHIAN: Thanks, Brian. The first topic we would like
40 to present concerns changes to the customer contract. Of
41 the changes proposed, the most significant concern changes
42 to the rebate scheme. Our view is that rebates should be
43 provided for events that cause inconvenience to customers;
44 should be set at a level proportionate to the extent of the
45 inconvenience; and the recipient should be the
46 inconvenienced occupant, which may be a property owner or
47 which may be a tenant.

1
2 Bearing these three points in mind, the proposed
3 changes to the existing regime are follows:
4

5 Rebates for planned interruptions are limited to
6 interruptions between the hours of 5am and 11pm. These
7 hours align with the times of the day that most customers
8 and consumers would be inconvenienced. This is consistent
9 with IPART's stated position regarding the purpose of
10 rebates as compensation for inconvenience.
11

12 Rebates for unplanned wastewater overflows are
13 increased from two payments per year for the first and
14 third events to a payment for each of the first three
15 events per year to match Sydney Water's rebates. This
16 change would provide affected customers with larger rebates
17 which better reflects the inconvenience experienced.
18

19 We would note that Sydney Water's rebate scheme
20 provides for a full rebate of the annual service charge
21 after the second wastewater overflow event or the third
22 unplanned interruption to water of wastewater services. We
23 conducted a cost benefit analysis of the issue and
24 concluded that the costs of such a change would outweigh
25 the benefits.
26

27 The third change to rebates concerns low water
28 pressure rebates. The proposed change involves using
29 Hunter Water network models to forecast the minimum
30 drinking water pressures experienced by customers using
31 peak day demands for the preceding financial year.
32 Customers identified in this manner, as well as those who
33 notify Hunter Water directly, would receive the rebate
34 automatically, to a maximum of one rebate for low pressure
35 event per customer per year. The current rebate applies
36 after six reported events.
37

38 We also note that rebates provided by Hunter Water are
39 issued as multiples of 15 kilolitres on the affected
40 property's water usage charge and not for the water service
41 charge. In this way, the inconvenienced customer, which
42 may be the property owner or the tenant, receives the
43 benefit of the rebate as the inconvenienced party.
44

45 We conclude there that:

46 Rebates are more generous, more reflective
47

1 of inconvenience, more consistent with
2 other utilities, and require less reporting
3 effort from the customer.
4

5 The other changes to the customer contract include:'

6
7 Simplified channels of communication with Hunter
8 Water;

9 Simplification of the clauses in the customer contract
10 to help customers understand what it means and how it
11 applies to them, for example, where Hunter Water's
12 responsibilities end and their responsibilities begin
13 regarding plumbing infrastructure within and outside their
14 property boundary.

15 A new insolvency event clause has been included to
16 minimise Hunter Water's exposure to loss from businesses
17 going out of business.

18 There is a mechanism included to suspend Hunter
19 Water's performance obligations for unusual events out of
20 its control, such as for a catastrophic event like the east
21 coast low;

22 The structure of the customer contract has been
23 simplified with a more logical sequencing of clauses to
24 help customers quickly find what is relevant to them.
25

26 I'll hand back to Brian at this point.
27

28 MR GARDOLL: Thank you, Robert. I should also remind
29 people or indicate that this whole session is actually
30 being recorded by our transcriber. The transcript will be
31 put up on our website over the coming days, so if any of
32 you want to look back on your words or some of the
33 information that has been provided or some of discussion
34 that has occurred, you are quite welcome to do that. That
35 does mean, of course, if you are making a presentation or
36 coming to the microphone to make comment, that, to assist
37 the proceeding, we would really appreciate if you would
38 clearly state your name, who you may be representing, and
39 then speak slowly and clearly for our transcriber.
40

41 Robert has just outlined the customer contract issues
42 or the changes that are proposed for the operating licence.
43 We would like people to consider:
44

45 What are your views on the changes, particularly in
46 relation to rebates;

47 What are your views in relation to the draft customer

1 contract, which has been released as part of the draft
2 operating licence package; and

3 Are there any other issues that you would like
4 considered in relation to the customer contract?

5
6 As we will do with each of the sessions as we make our
7 way through today's workshop, I will ask Hunter Water to
8 put forward any comments or presentation they would like to
9 make in relation to the customer contract and we will do
10 that for each session. So, Hunter Water, if you would like
11 to present anything, now is the time, thank you.

12
13 MR BENTLEY: Jim Bentley, Hunter Water. Just a brief
14 comment, thank you. What we are trying to achieve here is
15 to ensure fairness and balance, I suppose. I think what we
16 have put forward - what we are supporting and what we are
17 presenting today - is, in our opinion, striking a
18 reasonable balance between the rebates in particular being
19 fairer than they perhaps have been up to now and, of
20 course, the balancing for that is that the cost of that
21 rebate, one way or another, gets shared by everybody else.

22
23 In particular, the changing from the six events to the
24 one event for the low drinking water pressure is probably
25 the biggest single fundamental change that puts that on a
26 much fairer base. Overall, the rebate changes that are
27 proposed strike a reasonably fair balance, as discussed.

28
29 Emma, do you have any comments you would want to make?

30
31 MS TURNER: Just to provide a bit of an overview of how we
32 reviewed the rebates that we proposed. We undertook a
33 review across the water industry in Australia and compared
34 the rebates that we offered to those with the other
35 utilities - the types of events and the level of the
36 rebates. We sought feedback internally from our customer
37 services division that interacts with our customers for any
38 feedback they had from customers on the difficulty in
39 obtaining a rebate or how fair they thought they were.

40
41 We also reviewed some of the statistics on a number of
42 rebates paid out and therefore whether they were operating
43 efficiently. We compared that with some survey work that
44 we had previously done on the level of inconvenience and
45 whether customers expected a rebate.

46
47 We understand there is still a difference in the

1 rebate events and the rebate levels with Sydney Water and
2 we look forward to doing some further customer engagement
3 work in the lead-up to the next operating licence and
4 customer contract review to further inform requirements for
5 rebates.

6
7 THE CHAIRMAN: Thanks, very much, Emma and Jim. Anything
8 else from Hunter Water at this stage? No. Now might be a
9 good chance to call on Chris Dodds, from EWON, who would
10 like to make a short presentation.

11
12 SESSION 1 - EWON presentation

13
14 MR DODDS: Chris Dodds, EWON. Thanks for the opportunity
15 to present. I want to begin by giving apologies from the
16 Ombudsman, who intended to be here herself. Unfortunately
17 something came up, which she just could not get out of.

18
19 I also acknowledge the traditional owners of the land,
20 the Awabakal and Worimi people.

21
22 Also I thank Hunter Water for the photos that they
23 provided us last year, which we have managed to include in
24 our presentation.

25
26 We investigate and resolve complaints from customers
27 of electricity, gas and some water authorities, including
28 Hunter Water. We made a submission initially through
29 IPART. The three key areas we focused on were supply
30 interruption rebates, wastewater overflow rebates, and
31 water restrictions for tenants.

32
33 I must say as well that we welcomed the changes to the
34 customer contract, particularly the writing of it. It
35 makes it easier to understand and brings it all into line
36 so there is a similarity in the structure and layouts with
37 Sydney Water. We also welcome the number of new
38 improvements.

39
40 In particular we strongly support Hunter Water's
41 approach to their mechanism of paying rebates, through a
42 water usage allowance. We think that accurately reflects
43 the inconvenience to either the owner or the consumer or
44 the customer and the consumer.

45
46 While we did raise in our submission some concerns
47 about the payment of rebates only in peak hours, since

1 then, I have had a closer look at Hunter Water's website
2 and found that if there is an outage outside of peak hours,
3 Hunter Water welcomes the customer or the consumer
4 contacting them to talk about the level of inconvenience.
5 On the website they said that they are more than happy to
6 consider paying that rebate if there is demonstrated
7 inconvenience, so that immediately solved our concern about
8 that issue.
9

10 Our primary concern with the supply and interruption
11 rebates is that for planned interruptions of longer than
12 five hours, the eligibility has a bar of three events,
13 Hunter Water, in its own submission, pointed out that, in
14 the last four years, there has never been such an instance.
15 When you think about it, that makes sense. If there is a
16 planned interruption, it is to fix a problem that is known
17 about. One assumes that if it is fixed, it is highly
18 unlikely that it is going to recur within that 12 months,
19 if the work is done properly.
20

21 To a certain extent, we think that there is a bar that
22 is set that has the potential to make sure no customer ever
23 gets a rebate for a planned interruption. Even if the
24 rebate was to be paid, a Hunter Water customer receives of
25 the value of \$33.75. If a similar three planned
26 interruptions for longer than five hours were to occur in
27 Sydney Water's provision area, the rebate would be \$195.
28

29 We do not think that is fair, reasonable or in
30 accordance with good industry practice, particularly
31 because the costs that customers pay for water supply
32 charges and for water usage are extremely comparable
33 between the two water authorities.
34

35 With the wastewater overflow rebate, again we do think
36 that Hunter Water's proposal to now pay on one, two and
37 then three events is a really significant improvement on
38 what currently exists. However, again we look at the
39 equivalent amount that a customer receives if there are two
40 events in the Sydney Water area compared to the rebate that
41 is provided to a Hunter Water customer and the discrepancy
42 is really significant - \$198.80 compared with \$644.60.
43 Again we do not think that that is fair and equitable.
44

45 We are not advocating that Hunter Water change their
46 mechanism, but we are advocating that the amount paid
47 through the kilolitre usage is actually increased. That

1 slide shows a little table, which we will include in our
2 submission. That actually shows the comparison of the
3 rebate values. As you can see for three planned
4 interruptions, as I said, the rebate is \$33.75. For two
5 wastewater overflows, it is \$185 versus \$644.

6
7 The final issue that we raised in our submission was
8 about water restrictions for tenants. I make it plain that
9 we consider that the Hunter Water customer contract
10 actually is satisfactory as it is in terms of this and it
11 is more an issue of practice. This is not a major issue,
12 but it is an issue that has significant impact on consumers
13 and customers, and that is where bills are not paid and
14 there is a restriction in place.

15
16 As I said, it is not a major issue. In 2016, we
17 received only 13 complaints from customers who had had
18 completed restrictions. In five of these cases, we were
19 able to contact Hunter Water - as we do with electricity
20 disconnections and gas disconnections - and through a
21 process of negotiation, we organised part payment and a
22 payment plan to be put in place that enabled the
23 restriction to be lifted.

24
25 In three of those cases we were unable to do that. In
26 each instance we were told by Hunter Water that it is not
27 their policy to lift the restriction for tenants, or
28 consumers rather, and that they have to pay in full before
29 the restriction can be lifted.

30
31 In our previous submission we go into detail - quite
32 lengthy detail - on why we think this is unfair. We do
33 believe that where a tenant receives a restriction notice
34 and identifies to Hunter Water as a tenant, extra time
35 should be allowed so that they can take the necessary
36 action they need to take in the New South Wales Civil and
37 Administrative Tribunal, which is their only recourse to
38 take action against the landlord. Where there is a
39 restriction, Hunter Water should be prepared to lift that
40 restriction if a tenant makes a part payment and commits to
41 a payment plan.

42
43 Think about it: if a tenant has already paid their
44 water usage to their landlord, to get the restriction
45 lifted they not only have to pay the water usage again but
46 they have to pay the landlord's share of it and they need
47 time to get the money together - they need that time. So

1 we think that it is only appropriate that where a tenant
2 contacts Hunter Water after a restriction that they be
3 offered an option to do a part payment and enter a payment
4 plan.

5
6 Having covered that, I want to finish on this note.
7 We believe that Hunter Water should act in accordance with
8 its current customer contract 11.2.8, and the section that
9 is appropriate is (d) which states that a restriction will
10 not occur "without providing the occupier reasonable
11 opportunity to pay the account." We believe the spirit of
12 that clause should apply to where a restriction has already
13 occurred as well.

14
15 We have had some conversations with Hunter Water since
16 our opportunity to present here on this issue and we are
17 looking forward to continuing those conversations in a very
18 positive way.

19
20 I have three case studies, but I will just put one up.
21 They all are the same, basically, but the amount for the
22 restriction is different. The relevant statement is that
23 following a review by the Ombudsman, EWON has reviewed its
24 approach to these matters. In fact, we were responding to
25 customers a little bit the way Hunter Water was, saying,
26 "Look you haven't got a contract with Hunter Water." We
27 would provide appropriate advice such as "Contact Hunter
28 Water and try and negotiate a payment plan." We would ring
29 and do that as well, but where Hunter Water said, "It's our
30 policy not to do it", we would back off.

31
32 The Ombudsman has now indicated that she has given
33 instructions to the investigative staff to continue to
34 engage Hunter Water around that and for us to treat the
35 consumer as a customer.

36
37 Thank you very much for the opportunity. Again I must
38 emphasise that on the majority - the greater majority -
39 these are small things in the broad frame of the licence
40 renewal. From our experience, we think Hunter Water is
41 doing a really good job. Their complaint levels are low
42 and we look forward to working with them around the tenancy
43 issue. Thank you.

44
45 THE CHAIRMAN: Thank you very much, Chris. Hunter Water,
46 would you like to make some comments? Jim?

1 MR BENTLEY: Thank you. The tribunal would be aware that
2 I am relatively new in the post, and I have to say that
3 there is not very much that the speaker just said that I
4 don't agree with, particularly around the tenancy issue.
5 I recommend that we get together and I am sure we can reach
6 a position that we would be comfortable with. I think
7 I agree with the sentiment, particularly around giving them
8 more time.

9
10 THE CHAIRMAN: Thank you very much, Jim. Are there any
11 others? Deborah?

12
13 MS COPE: Emma, you mentioned that you had done research
14 around what other utilities provided in terms of the
15 quantity and type of rebates. There were comparisons
16 provided with Sydney Water, but what does the work you did
17 indicate about the levels in other utilities?

18
19 MS TURNER: There is an extensive variation on the
20 criteria across Australia in relation to the planned
21 interruptions. We relied on customer engagement where the
22 customers have indicated that they didn't expect a rebate
23 for a planned interruption, if they understood that that
24 was a requirement for utilities to undertake periodic
25 maintenance work.

26
27 The Victorian utilities, for example, do not provide a
28 rebate for planned interruptions, only unplanned. If we
29 interrupt for longer than the notified period or start the
30 shut-down earlier or later, it becomes an unplanned
31 interruption as well, which then makes the affected party
32 eligible for a rebate.

33
34 In relation to the wastewater overflows, many of the
35 other utilities had a higher level of rebate. For example,
36 \$1,000 is the rebate, but only if the overflow is not
37 contained within a certain period, such as four hours or
38 five hours, whereas our rebate is paid if it enters the
39 property at all. If it is contained within an hour or if
40 it is contained immediately, the rebate is still payable.
41 That is not the case with other utilities around Australia.

42
43 We are planning to do some thorough customer
44 engagement work to inform future performance standards. As
45 part of that, we would like to go back out to the community
46 and seek some further views and expectations around rebates
47 as well.

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THE CHAIRMAN: Thanks, Emma. Any questions or comments from the floor? Yes, Rick.

MR BANYARD: Thank you, very much. I am Rick Banyard from the Property Owners Association of NSW. It is interesting that the Chairman knows my name because I have banged this drum on a number of occasions on the issue of customer contracts.

THE CHAIRMAN: It is good to see you again.

MR BANYARD: Customers contracts are a really complex exercise. This morning, the speakers so far have talked about customers, consumers and users all in the same breath, all without actually tying their comments to the word that they are really meaning. I think all this has to stop.

It was interesting this morning, when I was getting some things out to come to this meeting, I actually got out the submission that the Property Owners Association made to you in 2006. There have been promises and suggestions that things will get changed and get fixed up. The tribunal has to very clearly put forward the responsibilities of the customer, the responsibilities of the consumer and the responsibilities of the user.

The customer, according to the contract and according to the new draft contract, is a property owner and cannot be anything else; it is not a tenant. The consumer is basically the tenant as would be the other people who occupy the property other than the owner/occupier who is under the customer contract.

In the Hunter, it is much the same as the whole of the New South Wales. About 50 per cent of properties are occupied by owners. The other 50 per cent of properties are occupied by people who are tenants, either legal tenants under the Residential Tenancy Act or tenants who do not come under the Tenancy Act, and they represent between 30 and 35 per cent of the people. Then you have the other people such as occupiers of granny flats and relatives living in premises who are not directly the owner of the property.

The user of the water and the sewerage and other

1 services that Hunter Water provides is basically everybody.
2 It can be the visitor who walks down the promenade here and
3 gets a drink out of the bubbler. That person is a user.
4

5 The time has come that we really must address these
6 issues and put those three categories very clearly and very
7 precisely in the definition.
8

9 The owner basically has the responsibility to be
10 responsible for the billing as it stands now. The owner is
11 the one who is delivered the bill, not the tenant. The
12 tenant has no legal obligations to pay the bill to Hunter
13 Water or anybody else. The only person who have the legal
14 obligation to pay for water usage or for water is the
15 owner. In that case, the owner can only pay for the usage
16 component provided it meets conditions under the
17 Residential Tenancy Act, which is a very restrictive set of
18 conditions.
19

20 For the privilege of being the biller of the tenant,
21 the landlord has to pay for fees and charges incurred in
22 getting the money from them, including the agent's
23 commission. The landlord is out of pocket for providing
24 that service. The landlord also provides the debt recovery
25 costs of getting that money, which Hunter Water doesn't
26 pay. Hunter Water doesn't reimburse the landlords for the
27 debt recovery costs. I am particularly talking about
28 residential tenancy. The Property Owners Association is
29 the organisation of landlords. That is what we are.
30 There are about 350,000 tenanted properties across the
31 state.
32

33 When it comes to the tenants' concern, some of the
34 restrictions that apply that were mentioned by the previous
35 speaker relate to unknown tenants. I ask the question:
36 how does Hunter Water know who are tenants? They have no
37 idea at all. They know who the owner is of a property but
38 they have no idea who is tenant. Therefore there can be
39 some confusion, and I would suggest that Hunter Water
40 accidentally restricts water to some people because they
41 are not aware of that person being a tenant.
42

43 The examples that were given in the case study do not
44 say whether those tenants were covered under the
45 Residential Tenancy Act or whether they were, in fact, a
46 tenant for some other purpose.
47

1 The tenants themselves are in a really confused
2 position when it comes to water. Tenants do not get any
3 messages or any signals about water conservation issues and
4 measures, which are a thing that the community wants. The
5 landlord is the one who has to do all of the things for
6 conservation, and whatever, and the tenant does not do
7 that. The tenant actually gets free benefit quite
8 frequently because of the conservation measures that
9 landlords have to do, such as the fitting of low water
10 usage toilets, shower heads and the like. They are a cost
11 to the landlord and the tenant gets the benefit.
12

13 The Residential Tenancy Act is very restrictive.
14 Especially under the Act as it now stands, a large
15 proportion of landlords have great difficulty passing costs
16 on to tenants because of the issues of compliance,
17

18 The final thing I will say is we have the issue of
19 large numbers of properties that are unmetered. That is a
20 situation that needs to be addressed. Everybody should be
21 allowed to take out a customer contract - just like you can
22 for your phone, just like you can for electricity, just
23 like you can for gas, just like you can for your mobile
24 phone, just like you pay for petrol, everybody should be
25 entitled. It is quite unreasonable from a landlord's point
26 of view or a property owner's point of view that tenants
27 are exempt from having a bill. Thank you.
28

29 THE CHAIRMAN: Thanks very much, Rick. Would anybody else
30 in the audience like to ask a question or make a comment?
31

32 One thing that occurred to me when Chris Dodds was
33 presenting was: when comparing the fees that are incurred
34 with Hunter Water being much less than Sydney Water, if
35 there were a change to those fees, that would then be borne
36 by all the water users in the Hunter. This is what needs
37 to be taken into consideration; it is about what is in the
38 best interests of the water users as a whole. Any changes
39 to rebates and things like that will end up being paid for
40 by all water users.
41

42 I just wondered, Chris, whether you had any view on
43 that.
44

45 MR DODDS: Yes, I think that's right, but I also think you
46 have to look at the purpose of rebates. In doing my
47 reading about it and, in our submission, we argued there

1 were two purposes: one was to encourage better performance
2 by the authority, and that is certainly true in
3 electricity, gas and in water; and also to reimburse
4 for inconvenience.

5
6 Quite frankly, with all due respect, I think that one
7 of the questions that was in Hunter Water's submission
8 about what consumers in general think talked about, "Do you
9 think you're entitled to a rebate?", or something like
10 that, but the rebate related to a planned interruption for
11 three hours and what we are talking about is planned
12 interruptions extending over five hours.

13
14 I take the point if there are no planned interruptions
15 that had that extension beyond five hours and people get
16 the rebate if the work takes longer than five hours, that
17 solves the problem. So that is probably not an issue if
18 the reality is you never do planned interruptions for
19 longer than five hours.

20
21 In terms of the quantum, again we're talking about
22 giving better performance but reimbursement for
23 inconvenience. Quite frankly, in our job, when customers
24 have had a wastewater overflow, they often send us photos.
25 It is not the most desirable job to be an investigative
26 officer looking at those overflows.

27
28 I can remember one particularly graphic example. A
29 children's party was set up in a rumpus room type of place.
30 There was an explosion from high pressure and the whole
31 room was completely destroyed. The children's party was
32 effectively destroyed. Luckily it was before the kids were
33 in the room.

34
35 EWON thinks that, in fact, Sydney Water's level of
36 rebates are an appropriate level for the level of
37 inconvenience. I am not saying change it for Hunter Water
38 today. In our submission, I think we said Hunter Water and
39 IPART should work on it. It has taken a while to get the
40 charges to the same level. It has been a long-term project
41 and I think ensuring equity in the rebates is a long-term
42 project as well.

43
44 Given that some areas of Hunter Water's catchment -
45 Lake Macquarie, Port Stevens - are retirement areas, for
46 those people there who have lived in Sydney and who
47 experience this, the question is, "If we live here now, is

1 our inconvenience less because we live in the Hunter Water
2 area than when we were living in the Sydney Water area?"
3 That's our point.

4
5 THE CHAIRMAN: Thank you, Chris.

6
7 MS MURAS: Heidi Muras from Sydney Water. I didn't want
8 to comment specifically on the level of rebates, but I was
9 very interested to hear the views of others here today.
10 I do want to echo what Emma has said, that there is a wide
11 a variety of both the types of rebates and the amounts of
12 those rebates across Australian utilities. We did a
13 similar process when we looked at our customer contract in
14 the last review. There really is not a consistent approach
15 that you could look at to say, "This is the typical rebate
16 that you would pay for this typical circumstance in
17 Australia."

18
19 I also want to note that, in our submission to IPART,
20 Sydney Water will not be supporting the changes to the
21 operating licence - in clause 6.2, I think it is - that
22 extend obligations of providing rebates to tenants simply
23 because, while I definitely take on board the comments made
24 by other parties today, we just do not have a mechanism
25 with which we could provide those rebates to tenants.

26
27 Our billing system is based on properties. We have
28 deemed customers contracts with property owners. That is
29 just historically how it has been set up. We do not know,
30 as was mentioned, who are tenants in those properties or in
31 which property our customers are owners. We would not
32 support any obligation to provide rebates to tenants at
33 this stage simply because if such a change were to be made
34 to our licence, we just would not have the mechanism to be
35 able to do that.

36
37 THE CHAIRMAN: So you would have the rebate go to the
38 property owner and they could, in turn, rebate the tenants?

39
40 MS MURAS: Exactly. That is what occurs at this point in
41 time. That is a matter between the property owner and
42 their tenant and their particular agreement about whether
43 or not they pass that rebate on.

44
45 THE CHAIRMAN: Thank you very much, Heidi. Rob?

46
47 MR O'NEILL: I have a follow-on question for EWON. Chris,

1 you pointed out quite nicely in your table that is still on
2 the screen the differences between the two utilities. Also
3 on that table there is a difference between the planned and
4 unplanned interruptions rebate. One of the things that we
5 are looking at carefully is the appropriateness of having
6 that difference. In considering that, we do have to think
7 about the inconvenience versus performance-based issues.
8 I would like to hear your thoughts on having a difference
9 there. Obviously you would note, as you correctly pointed
10 out in the Sydney Water table, that the rebates are the
11 same between planned and unplanned.

12
13 MR DODDS: In terms of the difference for the unplanned
14 ones, it is not significant, I suppose, \$100 for three
15 unplanned. They are \$33.35 and \$67.50. We do not see that
16 as a major problem and we did not raise the issue of the
17 difference for the three unplanned.

18
19 In terms of the difference between unplanned and
20 planned, we consider that if there is a planned
21 interruption that goes beyond five hours, that sets a level
22 of inconvenience for customers that needs to be
23 recompensed. We have no problem with that. I think that
24 when I read the notes in the table at the end of the IPART
25 document, there seemed to be a misunderstanding that we
26 were objecting to the five-hour barrier, and we were not at
27 all. Any planned interruption under five hours, I agree
28 customers understand and expect, but it is where it goes
29 beyond five hours. As I said before, I think Hunter Water
30 seemed to imply that they do not do planned interruptions
31 of longer than five hours and if a planned interruption
32 goes longer, then it turns into an unplanned interruption,
33 so a rebate is paid.

34
35 Our primary concern is the difference. I understand
36 that across the country there are different standards, but
37 from EWON's perspective, our role and our constitution is
38 about looking for good and best industry practice and
39 trying to look at fair and reasonable outcomes for
40 customers and, in that context, we don't see a problem.

41
42 I will respond to the point made by Sydney Water.
43 I don't think anyone is wanting to set up a whole - it
44 would solve the Property Owners Association's problem if
45 New South Wales went the same way as Victoria and set up a
46 different account for occupiers as opposed to owners. That
47 would solve a lot of problems and it would reduce the

1 number of disputes in NCAT. It would be desirable all
2 around, but it would be an incredibly expensive exercise -
3 a whole new billing systems, new rules and laws. However,
4 we don't believe it would be a huge problem for Sydney
5 Water to apply their rebates to the water usage component
6 of the bill rather than the charges component of the bill.
7

8 Sydney Water does have a water usage component. That,
9 in itself, would mean it would go to occupiers - consumers
10 or tenants, whatever term you want to use - because, under
11 the Residential Tenancies Act, if the property is metered
12 then they are obliged to pay for water usage. It is a
13 matter of where you allocate the rebate inside the billing
14 system rather than having to change everything.
15

16 That is where we said we didn't think it would be a
17 hugely costly exercise in terms of billing systems to
18 increase the rebate level. For Hunter Water, it is a
19 matter of increasing the kilolitre allowance for planned
20 interruptions just making it 15 kilolitres, I think it is,
21 or if you wanted to increase it, make it 35 or 40, or
22 whatever the figure comes to to bring it to the cash value
23 of the rebate.
24

25 THE CHAIRMAN: Thank you very much, Chris. Rick?
26

27 MR BANYARD: I thank Sydney Water for bringing up the
28 issue as to whether the landlord or the tenant, or the
29 property owner or the tenant gets the rebate.
30

31 Our association's view is that rebates are a
32 reasonable mechanism for a lot of efficiency reasons and
33 the like and rebates should apply. However we believe that
34 the rebates should go 100 per cent to the property owner
35 and not to the tenant.
36

37 This brings up a whole lot of difficulties, though,
38 because there can be circumstances when a tenant may suffer
39 considerable damage and the property owner doesn't. It may
40 be the tenant's car might get damaged, which is nothing to
41 do with the owner of the property. However, if we have a
42 mechanism where the tenant wants to claim money for damage
43 that is incurred, who is going to set the money?
44 Effectively the licence is set in the value of the money,
45 such as \$101 or whatever the case may be, but the tenant
46 may be wanting more money. Is the landlord then going to
47 be liable for handing over not only the money that is paid

1 as the rebate but actually topping up that rebate? Under
2 what criteria is the landlord and the tenant going to
3 decide who gets what share of the rebate? There are a
4 whole lot of issues there.

5
6 THE CHAIRMAN: Thank you, Rick. Emma?

7
8 MS TURNER: Thank you, I will just respond to Rick's
9 comments. The rebates are separate from the other redress
10 clauses that are available under the customer contract, so
11 if the occupant was to suffer damage and come to Hunter
12 Water requesting payment for rectification of that damage,
13 that is dealt with in addition to any rebate that's
14 payable. Under the current customer contract, a tenant is
15 able to have access to the same redress provisions, so we
16 could pay to make good on a damaged vehicle, for example,
17 or other property, if it was caused by Hunter Water.

18
19 MR BANYARD: Can you clarify that, Emma? It's not under
20 the customer contract, it's under the consumer provisions
21 that you have.

22
23 MS TURNER: It is currently within the first part of the
24 customer contract, which is not in the draft new customer
25 contract, but we will be requesting in our written
26 submission that that be reinstated.

27
28 THE CHAIRMAN: Thanks, Emma. Any further comments or
29 questions on this before we move on to the obligation to
30 service wholesale customers?

31
32 Thank you. That was a very good discussion. I now
33 call on Jamie to present the introduction to the obligation
34 to service wholesale customer.

35
36 SESSION 1 - Obligation to service wholesale customers

37
38 MS LUKE: Good morning, all. I will be presenting to you
39 an overview of the proposed new obligation to service
40 wholesale customers.

41
42 In our draft report, we recommended Hunter Water to
43 extend the obligation to provide services to wholesale
44 customers where the person requesting the service must be
45 authorised under a licence or authorisation under the Water
46 Industry Competition Act, which we refer to as the WIC Act.
47 This includes two types of WIC Act licensee - the network

1 operators and the retail suppliers.

2
3 The services requested include water and sewerage
4 services where connected or a connection is available.
5 Water service could include drinking water, unfiltered water
6 or recycled water. Sewerage service could include
7 collection, transportation, treatment and disposal of
8 sewage. However, the supply of drainage for stormwater
9 service is excluded.

10
11 The end-use customers must be within Hunter Water's
12 area of operations. Hunter Water would be able to impose
13 conditions on wholesale customers to ensure safe reliable
14 and financially viable supply of services.

15
16 Under the current licence, Hunter Water is required to
17 provide services to any property situated in the area of
18 operations. Hunter Water may impose conditions on the
19 property owner to ensure safe, reliable and financially
20 viable services.

21
22 This obligation has been in place for almost 10 years
23 and has provided a clear obligation for Hunter Water to
24 service properties or properties' owners.

25
26 Two private water utilities were granted water utility
27 licences under the WIC Act in 2015 to service about 2,500
28 lots in Huntlee and Cooranbong, located within Hunter
29 Water's area of operations.

30
31 This created the situation where new private utilities
32 are purchased drinking water and sewerage service from
33 Hunter Water to then on-sell these services to their own
34 customers. These private utilities do not own properties,
35 therefore the current obligation to service properties does
36 not apply.

37
38 We note that although there is currently no obligation
39 to service wholesale customers, Hunter Water has negotiated
40 and cooperated with them to date in good faith. This has
41 resulted in the signing of utility service agreements
42 between the parties to enable the timely servicing of
43 Cooranbong and Huntlee.

44
45 To summarise, the reasons for changes in relation to
46 the obligation to service the wholesale customers are:
47

1 Hunter Water is a monopoly supplier of water and
2 sewerage services in the Hunter Water region. They are the
3 only supplier in the market.

4 Hunter Water should not be able to refuse to supply
5 wholesale customers as this could stifle competition by
6 preventing wholesale customers from entering into the
7 market.

8 We consider that Hunter Water should be obliged to
9 provide services where it has effectively foreclosed any
10 other suppliers from providing that same service to end-use
11 customers. We consider that Hunter Water has foreclosed
12 other services in the area where they have existing water
13 supply or sewerage network.

14 The Hunter Water Act does not require operating
15 licences to exclusively deal with landowners in the
16 provision of services. The definition of "customer" in the
17 Act is a person who is taken to have entered into a
18 customer contract - which is with the landowner, a deemed
19 customer contract - or a person who has made a contract
20 with a corporation of a kind referred to in section 37,
21 which is a negotiated contract.

22
23 So why limit the obligation to wholesale customers and
24 not open it up more broadly to any person? This is because
25 wholesale customers, which we have defined as WIC Act
26 licensees in the draft licence, are assessed to have the
27 technical financial and organisational capacity to
28 construct, operate and maintain water industry
29 infrastructure or supply retail services to end-use
30 customers.

31
32 "Any person" could be so broadly defined that Hunter
33 Water could be required to negotiate supply of services to
34 numerous individuals resulting in unintended consequences.
35 There are no standard terms and conditions for this
36 purpose.

37
38 We consider that these changes would facilitate
39 competition in the provision of water and sewerage services
40 while minimising the risk to Hunter Water and protecting
41 end-use customers.

42
43 THE CHAIRMAN: Obligation to service wholesale customers -
44 Hunter Water, would you like to say anything?

45
46 MR BENTLEY: I think I can be quite quick. I can't
47 foresee a set of circumstances where we would not agree to

1 provide such services. I guess our point is more whether
2 there is really a case for an additional condition, as it
3 were. The action is not something that we have a problem
4 with in terms of what our responsibility would be; it is
5 more a matter of the administration and the regulatory
6 burden rather than what our responsibility is intended to
7 be.

8
9 THE CHAIRMAN: Thank you, Jim. Peter?

10
11 MR SHIELDS: I'll just add to that, thank you, Peter.
12 We do not oppose this recommendation. The key issues and
13 the whole question of pricing issues have been addressed
14 separately. We just need to point out that no wholesale
15 customer made any representations throughout the course of
16 the review questioning or raising any problem or concern
17 with the way that Hunter Water has dealt with wholesale
18 customers to date. We are always mindful of protecting our
19 reputation.

20
21 THE CHAIRMAN: Thank you very much, Peter. Are there any
22 other questions or comments on this particular issue? Rick
23 and then Heidi.

24
25 MR BANYARD: I have a question relating to the provision
26 of services to others than just the property owner. Does
27 that provision of services include a water meter? The
28 water meter is a really essential component of the service
29 that is provided to the water user, and that needs
30 clarifying. In most cases with brand new properties, new
31 businesses and new enterprises, the actual owner is
32 responsible for paying for that meter as far as the
33 plumbing part of it is concerned. But we have lots and
34 lots of premises and properties that do not have meters.

35
36 Meters probably do not have to be the same as the
37 conventional old very expensive mechanical meters. There
38 are a lot of electronic meters around today. In fact, the
39 installation of electronic meters as a component of the
40 service can actually bring a whole lot of benefits to
41 Hunter Water and to other water authorities because it can
42 mean they can improve, with the use of new technology
43 methods, in actually reading the meters.

44
45 THE CHAIRMAN: It might be worth mentioning the way this
46 came up was because you could have a situation such as when
47 you have a WICA licensee who is developing a new building

1 infill development in Sydney. They are supplying recycled
2 water and various other services to the people living in
3 that building but they are not the property owner. What
4 came up was that, technically, without a clause like this -
5 not that anybody has ever suggested that Hunter would do
6 this, not that anybody has ever raised a complaint about
7 Hunter Water - the water supply - the monopoly water
8 supplier - does not have to service them under the way the
9 licence stood.

10
11 What this says is that there is an obligation to
12 supply a WICA licensee, even if they are not a property
13 owner, and the issue of price is being dealt with in a
14 separate review. That is the way this came up.

15
16 Whether they have a meter or not, I am not the best
17 person to answer that. In a sense, that is something for
18 the WICA licensee when negotiating with a water supplier -
19 either Sydney Water or Hunter Water in practice.
20 Arrangements on metering and connections and things like
21 that would be taking place as part of that negotiation.

22
23 MR BANYARD: I was aware of that provision, but it has
24 occurred to our association that, somehow or other, the
25 meter must be a part of the service and, therefore, maybe
26 IPART should note that a service should also include
27 relevant metering devices, or some phrase like that.

28
29 THE CHAIRMAN: We will take that on board. Thanks, Rick.
30 Heidi?

31
32 MS MURAS: I want to state for the record that we have a
33 similar view to Hunter Water. Again our experience has
34 shown that we have never refused supply to a competitor.
35 In fact, we could not envisage any situation in the future
36 where we would do so either. That is not just for
37 reputational reasons, but under Australian consumer law, as
38 we stated in our submissions for this review, there are
39 already existing protections there for WICA licensees, but
40 we would never refuse supply because of those provisions. .

41
42 We do have some concerns that this is a significant
43 addition to the licence in that, currently under the
44 proposed drafting, there is inconsistency between the
45 definition used for the draft wholesale price review and
46 the definition and the context put forward for the draft
47 operating licence. I suppose our concerns are that that

1 may in the future result in unintended consequences or have
2 gaps or duplications that could cause difficulty for either
3 the public or the utility or the WICA licensee. It may
4 cause confusion or result in misinterpretation that was not
5 in accordance with the tribunal's objective for adding the
6 clause.

7
8 As there does not seem to be a strong driver to add
9 it, and as no other stakeholder submissions requested the
10 new requirement be added to the licence at this point in
11 time, a number of submissions suggested that the tribunal
12 perhaps defer consideration until the completion of the
13 pricing review. While our first preference would be not to
14 include the requirement, because we do not think an
15 additional licence obligation is necessary, our second
16 preference would definitely be to defer consideration until
17 the completion of the wholesale price review just to ensure
18 there is complete consistency between those two regulatory
19 instruments.

20
21 THE CHAIRMAN: Thank you very much, Heidi. We are right
22 on that. We will complete the wholesale pricing review
23 very shortly and make sure that it is consistent. Thank
24 you for that. Deborah?

25
26 MS COPE: Heidi, at this stage, do you have any specific
27 concerns about the way the definition is in the licensing
28 document?

29
30 MS MURAS: Just that the definition of "wholesale
31 customer" is different and the definition of "services" is
32 different, and we do not see why they would be. We would
33 just prefer them both to be the same just so there is that
34 absolute clarity and certainty over the scope of the
35 obligation.

36
37 MS COPE: So the difference is in the definition rather
38 than specific issues with the current definition of
39 pricing, given I hear your point that you do not think it
40 should be there at all.

41
42 MS MURAS: Yes, but if it were to proceed, we would
43 strongly prefer the definitions to be consistent because we
44 think that if there is a regulatory obligation to supply,
45 that should be related to the regulated service the price
46 is being set for.

1 The definitions that we are particularly concerned
2 about are "wholesale customer services" because "services"
3 is just defined as general services in the draft operating
4 licence, but there is a particular definition of "wholesale
5 services" in the draft wholesale determination.
6

7 The other issue that we will be talking about in our
8 submission is the deliberate inclusion of existing services
9 and negotiated agreements in the obligation but they are
10 excluded from the draft regulated wholesale price, and we
11 do not think that that is necessary either. If something
12 is subject to an existing agreement or a negotiated
13 agreement, there would then be a contractual obligation to
14 supply under that agreement. We think that the regulatory
15 agreement, in that circumstance, would be unnecessary. It
16 is just not needed and is potentially confusing.
17

18 THE CHAIRMAN: Thank you. Anything else on obligation to
19 service wholesale customers?
20

21 All right. The next one we move on to is stakeholder
22 relations, and this will be Robert.
23

24 SESSION 1 - Stakeholder relations 25

26 MR APOSHIAN: This part of the licence review focuses on
27 agreements between Hunter Water and its major stakeholders.
28 Currently Hunter Water has a memorandum of understanding
29 with NSW Health, which has been working well and which we
30 expect will be renewed between the two agencies. No
31 changes were proposed regarding this agreement and both
32 agencies have indicated their satisfaction with the current
33 system.
34

35 The first change we are proposing is the inclusion of
36 a code of conduct with private water utilities in Hunter
37 Water's area of operations. These private water utilities are
38 issued licences under the WIC Act to supply water sewerage
39 services in competition with public water utilities.
40

41 WIC Act licensees are required by the terms of their
42 licences to have a code of conduct with the public water
43 utilities to which they connect their services. Public
44 water utilities have no such requirements in their
45 licences.
46

47 The recent Sydney Water operating licence review

1 determined that this change was appropriate to minimise
2 risks, to ensure there was a corresponding obligation on
3 both parties, and to enhance cooperation between the public
4 water utility and WIC Act licensees.

5
6 Our analysis supported adding a new clause to Hunter
7 Water's operating licence. The benefits of having a code
8 of conduct may enhance the potential for competition in the
9 water industry, which can lead to a range of benefits
10 including greater innovation, lower costs and enhanced
11 service levels. It is consistent with Sydney Water's
12 licence and is also consistent with the new obligation for
13 Hunter Water to provide services to wholesale customers.

14
15 The second change we are proposing is to negotiate an
16 MOU with Fire and Rescue NSW. The recent Sydney Water
17 licence included a new requirement for it to liaise with
18 Fire and Rescue NSW and use its best endeavours to develop
19 and enter into an MOU. The licence also prescribed some of
20 the matters that such an MOU should address.

21
22 The purpose of the MOU is to form the basis of a
23 cooperative relationship between the parties, to develop
24 roles and responsibilities for each party, to identify
25 needs and constraints, and to identify and develop
26 strategies for efficient and effective provision of
27 firefighting water. In effect, it is about information
28 sharing and consultation to enable better forward planning
29 as it relates to the provision of firefighting water.

30
31 We assessed whether the operating licence should
32 include specific requirements relating to minimum pressures
33 and flows. Our assessment showed the required expenditure
34 would be substantial, requiring either government funding
35 or a significant price increase across the customer base.
36 We rejected this option and recommended the new licence
37 requirements match Sydney Water current licence clauses.

38
39 Hunter Water also has an existing roles and
40 responsibilities protocol with DPI Water relevant to the
41 Lower Hunter Water Plan.

42
43 Submissions received agreed that the protocol with DPI
44 Water should be continued. It ensures consistency across
45 public water utility licences. With the next supply
46 augmentation review for the Hunter region needed by no
47 later than 2023, it makes sense that Hunter Water and DPI

1 Water contribute their expertise in a collaborative manner
2 to the next Lower Hunter Water Plan iteration.

3
4 We recommend a small change to the current protocol to
5 better reflect the current state of the Lower Hunter Water
6 Plan. These changes are:

7 Amending the obligation to "review and implement"
8 the Lower Hunter Water Plan rather than to "develop" the
9 plan;

10 Specifying the purpose of the protocol in the licence
11 clause and acknowledging the role of DPI Water in
12 addressing water supply security in the Lower Hunter.

13
14 THE CHAIRMAN: On stakeholder relations, first, Hunter
15 Water, would you like to say anything?

16
17 MR BENTLEY: The only thing I would feel strongly about in
18 there really, I guess, would be DPI Water and the Lower
19 Hunter Water Plan. Of course we issue water
20 collaboratively, I would not argue against that. But for
21 us to be obligated to implement whatever the Lower Hunter
22 Water Plan says, we have a board member of Hunter Water who
23 has been actively involved in the discussions, so I think
24 yes, we should have the role and responsibilities going
25 forward, but I would resist any imposition on the board or
26 taking away their decision-making responsibility.

27
28 THE CHAIRMAN: Would anyone like to respond to that?

29
30 MR O'NEILL: Looking carefully at the provision, I would
31 not read it as an obligation to implement the Lower Hunter
32 Water Plan. I would read it as an obligation to use your
33 best endeavours to have a role and responsibilities
34 protocol that relates to that, so then the negotiation
35 effectively would be around who does what in relation to
36 reviewing and implementing the plan. If the concern is
37 that it can be interpreted in a different way, we could
38 have a look at the wording.

39
40 THE CHAIRMAN: I think we felt that rather than having to
41 develop a plan, the tribunal had a draft view that it was
42 not really Hunter Water's job to develop a plan, that this
43 is very much DPI's job. There is then a question about
44 once the plan is developed and it is adopted, what would be
45 a protocol for roles and responsibilities with respect to
46 the Hunter and DPI? We would be happy to take submissions
47 on this issue, if you read, I guess, maybe narrower than we

1 anticipated.

2

3 MR BENTLEY: As long as we are clear on that
4 interpretation, that is fine. We certainly see that we
5 should be actively involved in the development of that plan
6 and as long as, ultimately, the formal decision-making
7 process is more investments than operational changes that
8 follow, that's fine.

9

10 THE CHAIRMAN: Thanks very much, Jim. Any other comments?
11 Yes?

12

13 MR SIMONS: Mark Simons from DPI Water. We support the
14 proposal to include the clauses you are talking about.
15 I guess, from the point of view of the Lower Hunter Water
16 Plan, it came into existence as a result of a cabinet
17 decision. It is not a statutory plan. Anything that
18 recognises the importance of that planning process and
19 allows us to build on that is something we would support.

20

21 I take your point regarding the board, but I think the
22 Lower Hunter Water Plan is really about working
23 collaboratively between the agencies to come up with a
24 plan.

25

26 THE CHAIRMAN: Thank you very much, Mark. Peter, did you
27 want to say anything?

28

29 MR SHIELDS: No, thank you

30

31 THE CHAIRMAN: Anybody else on this topic? . We are a
32 little ahead of schedule, so I am not sure whether morning
33 tea would be ready yet. Maybe we could see whether morning
34 tea could be brought forward, if that's possible. In the
35 meantime, why don't we start on the economic level of water
36 conservation. Jamie will introduce that.

37

38 SESSION 2 - Economic level of water conservation

39

40 MS LUKE: In our draft report, we recommended that Hunter
41 Water adopt the concept of economic level of water
42 conservation, which we refer to as ELWC. This is based on
43 the concept that water conservation projects should only be
44 undertaken where economical. The proposed new licence
45 requirements are:

46

47 To develop the approach, principles and methodology

1 for determining the ELWC for IPART approval by November
2 2018.

3 The ELWC methodology must be able to consider four
4 elements in developing a water conservation program: The
5 four elements are water storage and transmission; water
6 leakage; water recycling; and water efficiency. Our
7 current thinking is water leakage relates to leakage
8 downstream of the water filtration plants.

9 The implementation of the water conservation program
10 must be reported annually with a five-year outlook from
11 2020.

12
13 Under the current licence, Hunter Water has to meet
14 the water conservation target of 215 kilolitres per year
15 per residential property. The five-year rolling average
16 reported in 2015-16 was 171 kilolitres per year, which is
17 about 20 per cent below the target. Hunter Water has
18 clearly met the licence obligation.

19
20 In terms of leakage from its drinking water network,
21 Hunter Water has developed and obtained approval of the
22 methodology for determining the economic level of leakage.
23 This was a one-off requirement which has been met by Hunter
24 Water. Until the new water conservation program is
25 developed in September 2019, there would be a transitional
26 arrangement between the start of the licence in 2017, where
27 Hunter Water would be required to maintain the current
28 water conservation target and the economic level of
29 leakage.

30
31 To summarise, the reasons for the changes in relation
32 to conservation are:

33 We have developed a more holistic approach in managing
34 water conservation projects, which is the ELWC. This
35 concept can incorporate many elements of water
36 conservation, not just about leakage management.

37 A well-designed ELWC methodology should allow Hunter
38 Water to take a business-wide approach to assess ongoing and
39 new investment in water conservation measures and to better
40 determine the appropriate level of that investment.

41 This should eliminate the use of arbitrary or outdated
42 targets to drive water conservation activities.

43 Our thinking is that the new ELWC methodology should
44 be able to consider both supply side and demand side water
45 conservation projects. This approach should then be able
46 to take into account initiatives identified in the Lower
47 Hunter Water Plan.

1 We estimated that the benefits outweigh the costs of
2 developing the ELWC.

3 The qualitative benefits include increased efficiency
4 and flexibility from considering a wider set of water
5 conservation activity to optimise expenditures in water
6 conservation, rather than just focusing on water leakage or
7 a water usage target.

8
9 THE CHAIRMAN: Okay, thank you, Jamie. Actually the
10 morning tea is ready, so it might be an idea that we break
11 now. It is 11.20 and we can resume at 11.40.

12
13 SHORT ADJOURNMENT

14
15 THE CHAIRMAN: Welcome back. The economic level of water
16 conservation - Hunter Water would you like to make any
17 comments?

18
19 MR BENTLEY: Just in overall terms, we are very supportive
20 of the concept. I think it is really important that we are
21 not just focused on leakage or not just focused on the
22 capital demand or what have you.

23
24 The only point I would make is I think language is
25 important, so forgive me if I sound a bit pedantic. Where
26 we say we will undertake conservation initiatives "only
27 where economic", of course, we agree it should be economic,
28 but it implies or it could be inferred that we are doing so
29 much conservation work that is uneconomic out there.

30
31 I think when we do this work properly, we will
32 understand the need to do more and I think we need an
33 appropriate balance on what is economic and a current
34 calculation of the marginal cost of water with uncertainty
35 around what future survival limitation may be required,
36 I think probably undervalues water not overvalues water.
37 The fact is that we are so way under the 215 number that
38 was quoted. To be honest we do not have as comprehensive a
39 program as I think we should have.

40
41 That would be my only caution. We are fully
42 supportive of the concept and very happy to work on the
43 development of what our strategy may be, but my advice
44 would be "where economic", not kind of "only where
45 economic", which could give the wrong impression.

46
47 THE CHAIRMAN: Thank you very much for that, Jim. Anybody

1 else? Peter?

2

3 MR SHIELDS: If I could just add to that, we supported the
4 ELWC concept in our response to the issues paper.

5 Throughout the course of last year we were involved in the
6 interagency group that Sydney Water established to build up
7 their methodology. They did some really good work in
8 looking at the value of water and developing up the details
9 of their methodology.

10

11 We would look to learn by what Sydney Water did
12 throughout that process and modify their methodology for
13 the operating environment and customer engagement processes
14 and the scale of operations that we have in the Hunter.

15

16 One difference between Sydney Water ELWC and ours is
17 the inclusion of "storage and transmission". It is easy to
18 conceptualise what a recycling project is or what a demand
19 management initiative is and water efficiency measures, but
20 the term "storage and transmission" sort of describes part
21 of the supply chain. We are not against including that in
22 a licence clause, but it would be useful if the tribunal
23 could include some description in the final report of the
24 types of the activities that they had in mind when they
25 extended the definition to include "storage and
26 transmission".

27

28 THE CHAIRMAN: Thanks, Peter. We will definitely take
29 that on board. Indeed, at the moment, we are working on a
30 draft licence for WaterNSW. This issue about whether you
31 are supplying or whether you storing and transmitting has
32 come up. We will take that on board, thanks.

33

34 MR SHIELDS: Another issue that we will set out in our
35 response to the draft report is the fact that our water
36 licences have extraction limits as well, so savings that we
37 may make in the storage area, we may not be able to take
38 the benefit of that. We will just explain that in a plain
39 way in our submission.

40

41 THE CHAIRMAN: Thank you. Yes, Jim?

42

43 MR BENTLEY: We do support that we should be looking
44 across the whole of our system. If that is your intent, we
45 fully support it, but I don't think I need you to tell me
46 what initiatives I should be taking. Just to be clearer
47 around, yes, if you are saying we take a system approach to

1 it, absolutely, and we can work out the details.
2
3 THE CHAIRMAN: We do not tell "You do a draft", and you
4 tell us --
5
6 MR BENTLEY: No, I didn't want to be - but, yes, certainly
7 a system approach makes a lot of sense.
8
9 THE CHAIRMAN: Good, that's great. Are there any comments
10 or questions from the floor? Yes?
11
12 MS DRINKWATER: Kate Drinkwater from DPI Water. We
13 support the concept of the ELWC.
14
15 THE CHAIRMAN: That's good.
16
17 MS DRINKWATER: However, we feel that the economic
18 analysis for the Lower Hunter Water Plan - which we do in
19 very close partnership with Hunter Water; in fact, the
20 modelling is done by Hunter Water - is designed to arrive
21 at the economic level of investment in both supply and
22 demand measures. Therefore, the ELWC concept is already
23 wrapped up in what is done for the Lower Hunter Water Plan.
24
25 I guess we are concerned to avoid duplication of
26 effort and the potential for inconsistency. I note that
27 when Jamie spoke, what she said did cover off some of our
28 concerns, although our preference would be for the
29 operating licence to refer to the Lower Hunter Water Plan
30 rather than requiring Hunter Water to develop a separate
31 methodology.
32
33 THE CHAIRMAN: Thanks, Kate. Are there other questions or
34 comments? Yes?
35
36 MR EVANS: Nathan Evans, Newcastle City Council. I would
37 like to say that local councils are interested in working
38 together with Hunter Water on conservation, such as water
39 harvesting projects. That could be something that could
40 work with the Lower Hunter Water Plan to reduce the actual
41 triggers for the desalination plant, for example. I would
42 just add that.
43
44 THE CHAIRMAN: Thanks very much, Nathan. Rick?
45
46 MR BANYARD: Our association - as I believe most people
47 do - supports water conservation. There is a bit of a

1 catch to it, though, because the better job Hunter Water
2 does in conserving water, the less revenue they get and
3 that is a real balance. They should not be too concerned
4 about losing revenue because I think consumers - the
5 users - are prepared to pay for it as long as it is clearly
6 and transparently seen that the conservation is occurring.

7
8 THE CHAIRMAN: Thanks very much, Rick. Are there any
9 other questions or comments on the economic level of water
10 conservation? Does the secretariat want to say anything?

11
12 Let's move on to the next one on the agenda, which is
13 service and performance standard and I'll call on Robert.

14
15 SESSION 2 - Service and performance standards.

16
17 MR APOSHIAN: Service and performance standards covers a
18 chapter in the operating licence relating to water quality
19 and overall utility performance.

20
21 We raised the question in the issues paper of whether
22 the existing system performance standards are too generous
23 given that Hunter Water routinely meets the standards by a
24 considerable margin. The standards are included in the
25 current licence to reflect the fact that Hunter Water is a
26 monopoly provider of essential services and are aimed at
27 ensuring customers receive a suitable level of service.
28 There are trade-offs between the standard of service
29 provided by Hunter Water and the costs of providing that
30 service. The challenge is to meet customers' expectations
31 and minimum requirements whilst not exceeding their
32 willingness to pay.

33
34 We are proposing that the current systems performance
35 standards threshold be retained in the new operating
36 licence. However, we recommend further investigation and
37 analysis be undertaken during the life of the new licence
38 to inform any potential changes to those standards in the
39 future.

40
41 To provide the information for the review, it is
42 proposed that Hunter Water survey its customers before the
43 next pricing review in 2020 to determine the levels of
44 service for which customers are willing to pay. We have also
45 proposed that Hunter Water investigate the underlying
46 performance standards that should apply if major weather
47 events are removed from the system performance standard

1 measurement and collect relevant data to inform the next
2 pricing review and operator licence review with regard to
3 reevaluating these standards.
4

5 A new licence condition was included in the draft
6 licence to ensure the completion of these information
7 gathering tasks within the term of the new licence to
8 inform a future review of the performance standards.
9

10 The next topic concerns unfiltered water and applies
11 to customers situated between Chichester Dam and Dungog
12 water treatment plant that do not have direct access to
13 potable water. Hunter Water supplies its customers with
14 unfiltered water, which is basically raw water with added
15 chlorine. This water is transferred by the pipeline from
16 Chichester Dam to Dungog. Hunter Water has developed
17 non-standard customer contracts to provide the terms and
18 conditions of supply and to note the non-potable quality of
19 the water being supplied to these customers.
20

21 Our analysis concluded that Hunter Water's current
22 activities in updating its non-standard customer contracts
23 with these customers was sufficient, supported by
24 additional educational materials regarding the safe use of
25 unfiltered water. The arrangement is reflective of the
26 management framework in the Australian Drinking Water
27 Guidelines.
28

29 Although we concluded that the existing licence clause
30 was sufficient, we amended the note to clause 3.1.1 of the
31 new licence to clarify that managing the potential misuse
32 of unfiltered water for drinking purposes is addressed
33 under the management framework of the ADWG.
34

35 The final point concerns the role of NSW Health.
36 There has been some uncertainty regarding the role of
37 Health under the operating licence. That uncertainty
38 revolves around whether Health is required to approve
39 changes in Hunter Water's water quality management systems.
40 Health submitted that it is not an approval authority and
41 has no statutory approval processes. Hunter Water has
42 indicated that it expects to continue its current approach
43 of involving Health when developing and implementing
44 significant changes to its management systems to ensure
45 that outcomes are mutually acceptable. Both parties had
46 indicated that they are satisfied with the current
47 arrangements of reviewing any significant changes to water

1 quality management documents.

2
3 To remove any doubt from the licence and clarify
4 stakeholder understanding, we have proposed the removal of
5 the relevant subclauses, specifically clauses 2.1.4 and
6 2.2.4, of the current licence.

7
8 Another issue concerned the definition of "significant
9 change" - that is, what constitutes a significant change to
10 the water quality management systems?

11
12 We consider the management changes to documentation,
13 whether the changes are significant or not, are part of the
14 implementation requirements described in the operating
15 licence. The existing clauses implicitly require these
16 changes to be to the satisfaction of Health. These
17 requirements are captured in the current licence and will
18 be retained with minor editorial changes.

19
20 THE CHAIRMAN: Thank you very much, Robert. Any comments
21 from Hunter Water on the service and performance standards?

22
23 MR BENTLEY: Just briefly, Mr Chairman. We support the
24 concept that we should be consulting about what the
25 standards should be. There is no disagreement about that.

26
27 On the matter of unfiltered water, I personally have
28 been in discussions with the customers who we have on
29 unfiltered water. It is a complex and difficult issue. We
30 fully agree that it should not be being used for potable
31 purposes. We are left with the legacy of the fact that it
32 had been supplied for a long period of time and we are
33 working with those customers to ensure that we have a
34 solution in place and we will do everything we can.

35
36 I think sometimes the terminology cannot be helpful -
37 calling it "untreated", and then they say, "Well, you are
38 putting chlorine in it", or calling it unfiltered - it is
39 basically non-potable. That would be a much better
40 terminology to use and it would make it crystal clear to
41 people. Some of us were discussing, in the coffee break,
42 the perception from customers, consumers, users - all three
43 in the category - or the lack of understanding and why
44 should they understand. We kind of do this for our whole
45 careers, as it were: we do not chlorinate and filter and
46 do all the other things we do to water because it is always
47 unfit to drink - we don't - it is because it might not be

1 under certain circumstances. The fact that they have been
2 drinking it for a long time and they have not got ill does
3 not mean no-one ever will. That is quite a difficult thing
4 to get through. I think we need to be crystal clear that
5 it is non-potable water and we should not have this
6 ambiguity.

7
8 THE CHAIRMAN: I agree. Thank you, Jim. Are there any
9 other comments in Hunter Water? Any comments on this from
10 the floor or questions? Paul?

11
12 MR BYLEVELD: Paul Byleveld, NSW Health. I'll address the
13 points relating to Health in the proposed changes to the
14 operating licence. Firstly, NSW Health is satisfied that
15 the licence provides for adequate protection of public
16 health and that the licence is the most appropriate
17 mechanism to set out key government requirements of public
18 interest.

19
20 For the last decade, the operating licence has
21 required risk-based drinking water management. IPART's
22 process to audit this requirement is well established and
23 well regarded. To address the potential duplication
24 between the Public Health Act and operating licence
25 requirements, the Chief Health Officer has exempted the
26 Hunter Water Corporation from the requirement for a quality
27 assurance program for the duration of the current operating
28 licence. NSW Health intends to grant an exemption for the
29 duration of the new licence.

30
31 NSW Health supports the proposed amendments to the
32 licence and agrees that drinking water quality compliance
33 responsibilities should remain with the licence rather than
34 being moved to NSW Health. As noted in IPART's draft
35 report from December, the current water quality
36 arrangements worked well for NSW Health and we hear they
37 worked well for Hunter Water.

38
39 For the duration of the existence of Hunter Water
40 Corporation, since the former Water Board was corporatised,
41 we have maintained a memorandum of understanding that
42 provides the basis for communication and cooperation and
43 provides a joint focus on protecting private health.

44
45 NSW Health does not object to removing the requirement
46 for NSW Health to approve any changes to the management
47 systems, be they for drinking water or for recycled water.

1 The consideration of any changes should form part of the
2 implementation of these management systems and, through
3 that, NSW Health's satisfaction can be ensured.
4

5 We note the proposed changes in terms of communication
6 around non-potable water. We support that and believe that
7 this is best managed through clear communication with
8 consumers supported with education and materials so the
9 consumers are aware of potential risks.

10 In conclusion, NSW Health is satisfied that the
11 operating licence and the proposed changes will provide
12 greater protect for public health.
13

14
15 THE CHAIRMAN: Thank you very much, Paul. Are there any
16 other questions or comments on this topic? No? All right,
17 thank you very much.
18

19 We will move on to the next one, which is
20 organisational systems management, and I call on Jamie.

21
22 SESSION 2 - Organisational systems management.
23

24 MS LUKE: This is the last part of session 2. In our
25 draft report we recommended:
26

27 Hunter Water to maintain an asset management system
28 that is consistent with ISO55001 (Asset Management -
29 Management Systems' requirements) and to have this system
30 certified by 1 July 2018.

31 Hunter Water to also maintain certification and
32 implementation of the environmental management system and
33 quality management system to the revised international
34 standards by September 2018.

35 We propose to remove the requirement to submit the
36 state of the assets report because we consider it an
37 unnecessary regulatory burden. We propose a one-off
38 submission of a copy of the strategic asset management plan
39 to IPART in 2018 once the certification had been achieved.
40 The preparation of this strategic asset management plan is
41 a requirement under the international standard and we do
42 not consider this as an additional burden for Hunter.

43 We also recommended removing the reporting requirement
44 to notify IPART of "significant proposed changes", as major
45 organisational systems have been certified or close to
46 being certified to international standards. We propose to
47 change the reporting requirement to "changes made" in the

1 Hunter's annual report.

2

3 Under the current licence, Hunter Water has been
4 maintaining an asset management system consistent with the
5 Water Services Association of Australia's Aquamark
6 benchmarking tool.

7

8 Hunter Water's environmental management system has
9 been certified to ISO14001 and the quality management
10 system has also been certified to ISO9001. However, both
11 of these international standards have been updated recently
12 in 2015. Certified organisations are required to adopt the
13 new versions by no later than September 2018 in order to
14 maintain certification. This is why we have set the time
15 frame in the licence to September 2018.

16

17 To summarise, the reasons for the changes in relation
18 to organisational management systems are:

19

20 We consider industry good practice is to have systems
21 that are consistent with international standards.

22

23 Besides requiring Hunter Water to have an asset
24 management system that is consistent with the international
25 standard, we have considered whether the licence should
26 require Hunter Water to obtain certification as well.

27

28 We consider the benefits would outweigh the costs of
29 certification.

30

31 The benefits of certification include a potential
32 lighter hand approach in operational audits in relation to
33 asset management requirements; and recognition of good
34 asset management practices by international communities.

35

36 THE CHAIRMAN: Thank you, Jamie. Organisational systems
37 management - any comments from Hunter Water?

38

39 MR BENTLEY: We support it.

40

41 THE CHAIRMAN: Thank you, good. Any comments from the
42 floor? No? Everybody generally supportive. Great.

43

44 That just leaves me to ask Brian to introduce the
45 wrap-up session.

46

47 SESSION 3: Other questions and comments

48

49 MR GARDOLL: Thank you, Peter, and thank you everyone.

1 There has been some excellent discussion as we have made
2 our way through the morning. It certainly has contributed
3 to what our thinking will be and it is very much
4 appreciated.

5
6 As we stated at the very start of this workshop, we
7 have gone through and selected what we believe are probably
8 the most substantial issues for discussion. However, we
9 would certainly like to open the floor for any issues that
10 maybe we have not covered and that people may think are
11 also substantial. I would like to call upon anybody who
12 might like to place anything before us at the moment - or
13 anyone from the panel at all?

14
15 THE CHAIRMAN: Jim?

16
17 MR BENTLEY: Just to reply to Nathan from the Newcastle
18 City Council. When we talked earlier about a system
19 approach, it is really important that we are working
20 together as partners. There are sometimes regulatory and
21 other things that can get in the way, but the important
22 thing is we have to think of the system and then work out
23 what is the right way of implementing it rather than
24 allowing apparent barriers, as it were, to prevent us from
25 doing the systems. We welcome the chance to work more
26 closely with the council from hereon in.

27
28 THE CHAIRMAN: Thank you, Jim. Anybody else? Nathan?

29
30 MR EVANS: I would like to touch on the new clause that
31 has been included in the draft operating licence for Hunter
32 Water to be able to augment the drainage network. I guess
33 this touches on a legacy of drainage in the Hunter region
34 where there is a shared ownership and a shared
35 responsibility for drainage as a whole.

36
37 Our experience from managing stormwater over time has
38 been that integration is really the key to achieving
39 results. We really look forward to continuing our good
40 working relationship and integrating water aspects across
41 the whole water cycle.

42
43 Obviously drainage is only one part of that and water
44 supply and wastewater is also another part. I guess it all
45 feeds into our shared objective of liveability and I think
46 that is one thing that a lot of organisations share as an
47 objective. We have been really looking at the role of

1 water and how that plays a part in this objective and how
2 we can use all forms of water as a resource in the future,
3 with its uncertainties, to meet that objective of
4 liveability and to deliver for our communities.

5
6 In the past, we have not had a clear position in an
7 operating licence or an Act that binds us working together.
8 We have had really strong relationships in the past working
9 together on drainage and flood risk management and so on.
10 That, I think, has waned in recent years and we are looking
11 forward to this update and initiative and any opportunity
12 to clarify issues such as water quality or water as a
13 resource in the operating licence. If there are any other
14 words you think should go in there to help that
15 relationship be maintained and give it strength in the
16 future, we would appreciate that.

17
18 There were a couple of points touched on in your draft
19 report, such as water quality. There was not a resolution
20 as to whether Hunter or others were responsible for the
21 water quality in their drainage network. That was
22 something that was kind of not tied up.

23
24 THE CHAIRMAN: Are you planning to put in a submission?
25 That would be helpful.

26
27 MR EVANS: Okay, yes.

28
29 THE CHAIRMAN: Even if it's just on this topic,.

30
31 MR EVANS: Yes. Thank you, that's it.

32
33 THE CHAIRMAN: Thank you very much. Thanks for your
34 contribution, Nathan. Are there any other questions or
35 comments?

36
37 MR GARDOLL: We have provided some prompts on the screen,
38 just in case people want to go away and consider some other
39 issues. As you can see on the slide at the moment, there
40 is the change in the licence structure. That is something
41 that we have looked at to try and reflect and make a more
42 considered approach to the structure of the licence.

43
44 The new licence objectives that are included, that is
45 a new proposed change to the licence as well.

46
47 Stormwater, Nathan has just raised that question and

1 we look forward to any submissions in relation to
2 stormwater.

3
4 The interaction between the licence and the IPART
5 pricing determination has been raised earlier as well and
6 also changes to the reporting manual. The reporting manual
7 itself is a significant document and we would encourage
8 everyone to not skip over that one. Have a look at that
9 and see if there are any issues you would like to raise in
10 relation to that. Obviously we are encouraging and looking
11 for submissions to help us finalise the final document.

12
13 CLOSING REMARKS

14
15 THE CHAIRMAN: Thanks very much, Brian. That just leaves
16 me to wrap up the session and to thank you all very much
17 for your attendance and your contribution. It has been a
18 good session, I think. We have a number of things to think
19 about as we go forward, so we really appreciate your effort
20 in making time to come here and to make a contribution.

21
22 A transcript of today's proceedings will be available
23 on our website in a few days.

24
25 As previously mentioned, we are accepting submissions
26 from stakeholders on the draft operating licence package
27 until 3 March, which is a Friday. We would prefer
28 submissions via our online form, which can be found on our
29 website, but you can also send them by mail to the address
30 shown.

31
32 The final operating licence is due to be submitted to
33 the Minister for Energy and Utilities in May for his
34 consideration and approval and a new operating licence, we
35 expect, will be effective from 1 July 2017.

36
37 Thank you once again for your contribution and have a
38 good afternoon.

39
40 AT 12.10PM, THE TRIBUNAL WAS ADJOURNED ACCORDINGLY
41
42
43
44
45
46
47