

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF HUNTER WATER CORPORATION'S
OPERATING LICENCE PUBLIC WORKSHOP

Tuesday, 5 December 2006

At Crowne Plaza Hotel
Cnr Merewether Road and Wharf Road
Newcastle

. 5/12/06 1
Transcript produced by ComputerReporters

ATTENDEES:

Michael Seery - IPART secretariat

Richard Warner - IPART secretariat

Nigel Rajaratnam - Senior Analyst, IPART

Bob Burford - Water Licensing, IPART

Lil Cullen - Senior Analyst, IPART

Kevin Young - Managing Director, Hunter Water Corporation

Paul Byleveld - Manager, Water Unit, New South Wales Health

Kelly Main - Hunter New England Environmental Health

Philippe Porigneaux - Hunter New England Environmental Health

Damian Sams - Investigations Policy Officer and Energy and Water Ombudsman, New South Wales

Rick Banyard - Property Owners Association of New South Wales

Salim Vhora - corporate licensing, DNR

Leigh Martin - Total Environment Centre (also Nature Conservation Council)

Jim Wellsmore - Public Interest Advocacy Centre

Pierre Louys - Executive Officer, Hunter Region Landcare Network

.5/12/06 2

Transcript produced by ComputerReporters

1 THE CHAIRMAN: I would like to begin by welcoming you all
2 to this public workshop which we are conducting on the end
3 of term review of the Hunter Water Corporation's operating
4 licence. I would like to begin by introducing my fellow
5 Tribunal members. Jim Cox is on my left and is the chief
6 executive of IPART; Sibylle Krieger is on my right and is a
7 part-time member of the Tribunal.
8

9 Before we get down to business in the real sense, I
10 would like to make a few comments about this review and I
11 will then outline the format of the workshop. The Tribunal
12 is conducting this review under part 4B of the Independent
13 Pricing and Regulatory Tribunal Act 1992. This review is
14 considering the role and scope of the licence and whether
15 all relevant requirements and community expectations are
16 being adequately taken into account.
17

18 The Tribunal is required to review the existing
19 operating licence and recommend to the Minister for Water
20 Utilities the terms of the new operating licence of the
21 Hunter Water Corporation, and that new operating licence
22 will take effect from 1 July next year. The Tribunal notes
23 that Hunter Water is a monopoly supplier of water and waste
24 water services. The operating licence is a key regulatory
25 instrument for regulating the performance and ensuring the
26 accountability of Hunter Water. Together, the operating
27 licence and the other regulatory instruments are intended
28 to protect public health, the environment and consumers and
29 ensure that Hunter Water is adequately held to account in
30 exercising its monopoly power.
31

32 The Tribunal, as some of you may know, has recently
33 completed a review of the burden of regulation. During
34 that review a number of water agencies commented on the
35 burden that regulation imposed on them. The Tribunal has
36 noted those concerns and we were also already very
37 conscious of the cost that regulation imposes on doing
38 business. That's a cost which must ultimately be passed to
39 consumers through prices. So we are cognisant as a
40 Tribunal of the need to balance the benefits and costs of
41 regulations in making our recommendations to Ministers on
42 the terms and conditions in Hunter Water's operating
43 licence.
44

45 We expect as a Tribunal that our recommendations to
46 the Minister for an amended operating licence will reflect
47 the need to strike this balance between the benefits and

1 costs. Indeed, we are as a matter of self-discipline
2 intending to prepare a regulatory impact statement. I am
3 not sure we are required to, but we think we should do
4 that. Certainly if this was a first licence, we'd have to
5 do it, and we think we should do it in this case also.
6

7 As you will be aware, the workshop is part of the
8 Tribunal's public consultation process in the development
9 of this new operating licence for Hunter Water. As part of
10 the process the Tribunal prepared an issues paper in
11 September and we received a number of submissions.
12 Following consideration of matters raised by stakeholders
13 in the submissions and this workshop today, the Tribunal
14 will recommended to the Minister an amended operating
15 licence for commencement on 1 July next.
16

17 Finally, I want to say a few words about how this
18 workshop will be conducted. You all have available to you
19 the agenda and the timetable which indicates each
20 discussion topic or session in the workshop. You can see
21 it's a pretty full day with the time we have available, so
22 we want to use that as productively as we can. Members of
23 the Tribunal secretariat will introduce each discussion
24 topic with a short presentation. After each introductory
25 presentation by that secretariat member, I will ask
26 participants here at the roundtable to present their
27 position on that issue. I am going to ask you at the
28 roundtable to limit your time to approximately three
29 minutes for each topic, so everyone gets a fair crack at
30 the whip. As usual, we don't expect that participants will
31 be interrupted by exercising their three minutes.
32

33 At the conclusion of each topic, I hope to make time
34 available to people who are not at the table but at the
35 back of the room, if they want to intervene with questions
36 or comments. I hope to make a bit of time at the end of
37 each topic.
38

39 The Tribunal will be making available a transcript of
40 today's proceedings and this will be available on the
41 Tribunal's web site within the next week. Before
42 commencing the first session, I think it would be helpful
43 to me and no doubt to the transcribers if participants at
44 the roundtable introduced themselves.
45

46 MR SEERY: Michael Seery from the IPART secretariat.
47

1 MR WARNER: Richard Warner from the IPART secretariat.
2
3 MR YOUNG: Kevin Young, Managing Director, Hunter
4 Water Corporation.
5
6 MR BYLEVELD: Paul Byleveld, Manager, Water Unit, New
7 South Wales Health.
8
9 MS MAIN: Kelly Main, Hunter New England Environmental
10 Health.
11
12 MR PORIGNEAUX: Philippe Porigneaux, Hunter New
13 England Environmental Health.
14
15 MR SAMS: Damian Sams, Investigations Policy Officer and
16 Energy and Water Ombudsman, New South Wales.
17
18 MR BANYARD: Rick Banyard, Property Owners Association
19 of New South Wales.
20
21 MR VHORA: Salim Vhora, Corporate Licensing, DNR.
22
23 MR MARTIN: Leigh Martin, Total Environment Centre and I'm
24 also representing the Nature Conservation Council today.
25
26 MR WELLSMORE: Jim Wellsmore from the Public Interest
27 Advocacy Centre.
28
29 MR LOUYS: Pierre Louys, Executive Officer of the Hunter
30 Region Landcare Network.
31
32 THE CHAIRMAN: Michael, I think you're going to
33 introduce the first topic, the purpose of the operating licence.
34
35 MR SEERY: Good morning everybody. This morning I will
36 briefly talk about the role of the operating licence. I am
37 going to firstly look at some background and policy
38 contexts, the regulatory framework, and the purpose or role
39 of the operating licence, then briefly talk about how best
40 practice regulation will fit into this, and finally finish
41 off with some accountability of performance through the
42 audits. At the end of the session I will have some issues
43 for discussion.
44
45 Like all other corporatised state-owned water agencies
46 in New South Wales, Hunter Water is subject to regulation
47 through an operating licence. Hunter Water has had the

1 licence since 1991/92 when it was corporatised.
2
3 However, unlike our previous reviews, a couple of
4 things have happened in the recent past that makes this
5 review different to the others. Firstly, the New South
6 Wales Parliament has recently passed legislation to
7 facilitate competition and establish third-party access for
8 water. This regime requires all private operators to have
9 either a network operating licence or a retail operating
10 licence. Whereas in the past it's only been state-owned
11 organisations that have had an operating licence, in the
12 future private sector participants will need to have an
13 operating licence. This certainly puts the context of how
14 we undertake the review, firstly, and, secondly, the
15 possible outcomes, into consideration.
16
17 The purpose of the third-party access regime, and in
18 particular the purpose of the operating licence regime, is
19 to ensure the continued protection of public health, the
20 environment and consumers.
21
22 The second thing that's different about this review
23 is, as the chairman mentioned earlier, that the Tribunal
24 has recently conducted a review of the burden of regulation
25 and articulated principles of best practice. I will return
26 to this issue of best practice regulation later in the
27 presentation, but first I would like to discuss the
28 regulatory framework and the role of the operating licence.
29
30 The Act establishes the operating licence and the
31 licence regulator as the key elements of the regulatory
32 framework. In accordance with the Act, the operating
33 licence must set the terms and conditions to allow Hunter
34 Water to undertake its primary responsibilities; to ensure
35 that systems and services meet the quality performance
36 standards in relation to water quality, service
37 interruptions and price levels; and to require the
38 corporation to maintain procedures under which the
39 corporation consults with its customers at regular
40 intervals in relation to the provision of systems and
41 services.
42
43 That's what the Act says has to be in an operating
44 licence. I think we need to look more closely at this
45 issue of what the purpose of an operating licence is in a
46 minute.
47

1 Hunter Water has a number of regulators, some of which are
2 represented here today: IPART, and we will not dwell on our
3 role; the Department of Natural Resources, which is the water
4 recourse manager for New South Wales, responsible for water
5 access, use and management; New South Wales Health, in
6 particular responsible for the setting of the standard of
7 water quality; the Department of Environment and
8 Conservation responsible for environment protection and
9 conservation within catchment; and the Dam Safety Committee
10 which is the dam safety regulator for New South Wales.

11
12 What's the role of the operating licence? We had a
13 bit of a think about this in the secretariat and in the
14 Tribunal over the last few weeks and we have tried to
15 summarise it as this. The role is to protect public
16 health, the environment and consumers, to facilitate public
17 confidence in the quality of Hunter Water's drinking water,
18 and sustainable management of Hunter Water's asset base and
19 the natural resources associated with its water supply
20 catchments. The operating licence does this particularly
21 through setting the quality and performance standards,
22 ongoing monitoring, auditing and enforcement of Hunter
23 Water's performance with its obligations.

24
25 In our materials that we sent out we summarised some
26 of the views; hopefully we summarised those correctly.
27 On the role of the operating licence, Hunter Water says
28 that the Hunter operating licence should focus on delivery
29 of appropriate standards of service to customers, and that
30 the central theme of the new licence should be customer
31 service and transparency of operational performance.

32
33 The NCC, on the other hand, thinks that the operating
34 licence is an overarching document which is an essential
35 element of governance. IPART ensures expectations of
36 government and community are met. The TEC supports the
37 current model, and believes that Hunter Water's view is
38 narrow and the licence should ensure accountability and
39 ensure a comprehensive picture of performance.

40
41 On the scope of the operating licence, Hunter Water
42 considers that the extent and coverage is about right, and
43 the provisions complement other regulatory instruments.

44
45 The TEC believes that there should be a requirement in
46 the operating licence that where Hunter Water contracts
47 with third parties, those contracts should include

1 provisions consistent with the licence.

2
3 In its recent report on the burden of regulation, the
4 Tribunal set out its support for greater coordination of
5 the regulatory effort, the streamlining of the regulatory
6 processes including the use of common definitions and
7 reporting frequencies across regulator agencies, and the
8 identification of removal of unnecessary reporting
9 requirements.

10
11 Consistent with this, our issues paper, which we
12 released in September, set out the principles of regulatory
13 best practice, to be effective and justified, to provide a
14 net benefit to society, not to be unduly prescriptive,
15 minimise regulatory overlap, avoid regulatory
16 inconsistency, be enforceable through an audit process,
17 include only those matters that are within the control of
18 Hunter Water, and express Hunter Water's obligations
19 clearly and concisely. The Tribunal is mindful of the
20 concerns about the burden of regulation and the cost
21 regulation imposes on doing business, which must ultimately
22 be passed to customers.

23
24 To represent regulatory best practice the operating
25 licence should achieve the desired outcomes without
26 imposing unnecessary compliance and administrations costs.
27 In developing the amendments to the operating licence, as
28 the Chairman mentioned earlier, IPART will be adopting a
29 regulatory impact statement approach.

30
31 To reflect the regulatory best practice, the issues
32 paper identifies a number of opportunities to reform the
33 Hunter Water operating licence. These are listed in the
34 issues paper. They are shown there. I will not read
35 through all those. You are all aware of them, and they
36 should be in the material you have been presented.

37
38 We had some stakeholder views on what best practice
39 regulation should be. Hunter Water strongly supports this
40 in principle. The principle is outlined in the issues
41 paper. In applying the principles, however, it is
42 important to acknowledge that it is regulated through a
43 number of different regulatory instruments and the licence
44 should be seen as part of that suite of instruments.

45
46 DNR thought that the regulatory overlap should be
47 minimised and avoided, that the water licences should not

1 encroach on operating licences and vice versa. It agreed
2 that the requirement for the memorandum of understanding
3 with DNR should be removed from the licence. The reporting
4 requirements should be modified in the licence and the
5 water licence so that there is no duplication. It might be
6 good to hear sometime today from DNR as to how that could
7 be achieved.

8
9 Proposed changes will enable the licence to fulfil its
10 objectives. While other instruments regulate the
11 environmental aspects of Hunter Water's operations, the
12 licence is a valuable role in linking different instruments
13 and provides a balanced pathway for Hunter Water.

14
15 The NCC believes that regulation needs to be efficient
16 and avoid wasteful duplication. Regulation of the Hunter
17 Water through the operating licence is meeting these
18 requirements. NCC believes that the cost of regulation is
19 not a burden and is less than the cost associated with
20 being in a competitive market.

21
22 The Public Interest Advocacy Centre argues that the
23 value of a new licence depends on how effectively it
24 encapsulates the expected service and performance
25 requirements. Implementation must reflect best practices
26 such as consistency in terminology, effective stakeholder
27 consultation, and clearly identified benefits of any new
28 requirements. The primary test for the best practice must
29 be the extent to which it addresses community and customer
30 concerns. The cost of regulation has not impeded the
31 capacity of Hunter Water to return dividends to
32 shareholders nor has it been a driver of price increases.

33
34 The final aspect of my presentation relates to the
35 accountability. Under the current operating licence the
36 Tribunal must undertake an annual audit of how effectively
37 Hunter Water meets its obligations each year. As an
38 outcome of the Sydney Water, the State Water and Sydney
39 Catchment Authority operating licence reviews over the last
40 two years, there has been a more flexible approach to
41 compliance and audit reporting has been undertaken. The
42 approach adopted for the Tribunal was to allow for audit
43 breaks in areas where these water authorities had shown a
44 strong level of compliance over the previous audits.
45 This was after a comprehensive audit in the first year of
46 the new licence.

.5/12/06 9

Transcript produced by ComputerReporters

1 So possible changes to the new licence could be that
2 there is a comprehensive audit in the first year followed
3 by audit breaks, where there is strong compliance in the
4 following years. We had some responses from stakeholders
5 on this. Hunter Water supported the more targeted
6 risk-based audits. It believes that audits should still
7 confirm the basic compliance across the main licence
8 parameters. It considers that risk-based targeted auditing
9 should focus on specific areas of community interest or
10 where there is scope for performance improvement.

11
12 Interestingly, it should be able to move to risk-based
13 audits immediately; that is in the first year of the audit
14 and not have a comprehensive audit in the first year. It
15 believes that the audit should commence no later than 15
16 September and be provided to the Minister no later than 30
17 November each year.

18
19 TEC believes that there is merit in having audit
20 holidays, but the first and final year of each licence
21 should be a comprehensive audit. It will be interesting to
22 hear later as to why we require both of those.

23
24 DNR says that the same audit process should be for
25 Sydney Water and the Catchment Authority, but there should
26 be a full audit every two years with the issue based audits
27 in other years. Once again, it would be good to hear from
28 Salim as to the basis of that argument.

29
30 So in summary the issues for discussion are: given the
31 regulatory framework, what is the role of the operating
32 licence; generally what criteria should the Tribunal use in
33 assessing any changes to the operating licence; what
34 opportunities are there for achieving best practice
35 regulation in the operating licence; and is the current
36 approach to auditing appropriate or how can it be improved
37 on; should Hunter Water be subject to targeted risk-based
38 audits rather than full audits each year; where risk-based
39 audits are used, how frequently should comprehensive audits
40 be undertaken.

41
42 THE CHAIRMAN: Thanks, Michael. Kevin, we might start
43 with you.

44
45 MR YOUNG: Looking back, Hunter Water Corporation was
46 the first organisation to have an operating licence audit,
47 looking back some 15 years ago. The operating licence

.5/12/06 10

Transcript produced by ComputerReporters

1 framework has serviced us very well. It has not only
2 served us well, but also it has served the community and
3 the environment well. So Hunter Water's viewpoint is that
4 we are looking at a process that we have had before of
5 refinement periodically with community input in areas where
6 we need to improve, and the licence needs to improve.

7
8 I will come to the perspective of looking over the
9 last year from a Hunter Water viewpoint. Surveys show that
10 93 per cent of the customers think we are doing a good job.
11 In the last 12 months from a safety viewpoint we had not
12 one lost time injury in the whole organisation. Both of
13 those are records.

14
15 We met all of our operating licence criteria. We also
16 took a proactive approach to recycling with the \$500,000
17 recycling study. The key point is that just because it is
18 not in the operating licence doesn't mean that if you are a
19 proactive organisation you don't go for it. We went ahead
20 with that study, and a number of things have come out of
21 that. My key point is that from a performance viewpoint of
22 Hunter Water and the operating licence, we think they both
23 serve well, but we welcome the discussion today.

24
25 Is the operating licence overarching or is it, from a
26 Hunter Water viewpoint, the key central jigsaw point in a
27 regulatory framework? We think it is the latter. There
28 are discussions about overarching, and that all depends on
29 how we define it. Overarching means that there are
30 elements of duplication. There have been discussions and
31 submissions that duplication is good and what we should do
32 is for Hunter Water to have it regulated by a number of
33 regulators. Hunter Water's viewpoint is that doesn't lead
34 to good regulation. In fact, I can tell you that it makes
35 it easier for Hunter Water because under that topic we can
36 say that we met the regulatory requirements of one
37 regulator but not the other. In fact, it provides a
38 weakness, I think, in Hunter Water not being meeting
39 regulatory requirements by having that duplication across a
40 number of regimes.

41
42 I want to pick up one point of, I think, TEC on
43 contractors. I want to clarify that point, that we do pass
44 those operating licence requirements onto our contractors
45 and we always have done. That is critical for us,
46 otherwise we would not meet our operating licence
47 requirements so well.

1
2 I will not go through best practice principles, but
3 they are things that we believe should be the framework for
4 moving forward on decisions on operating licence changes
5 for the future.

6
7 There are a number of issues coming up in a number of
8 submissions about potential new standards coming in, new
9 targets. There has been a number of proposals that we will
10 talk about today. I think we have challenges from a
11 community viewpoint to look at that target and those
12 proposed standards in a number of submissions, how they
13 match up against the best practice principles. I think a
14 number of the targets and submissions, particularly in the
15 demand management area, are things that are not
16 controllable by Hunter Water. Therefore I'm not sure
17 whether they will lead to an outcome. I put that out
18 there.

19
20 On the audit issue it is interesting that a number of
21 the comments are that we should do full audits every two
22 years and then risk-based in between. Our position is that
23 after 15 years of auditing we think we have built up a fair
24 stock, that we can move in a mature way to risk-based
25 audits. I think risk-based audits in the true sense that
26 we see in the financial area and other areas is simply that
27 auditing is undertaken year by year on a risk-based
28 approach.

29
30 I believe that means that if the audit shows that we
31 are weak in a number of areas, in next year there is a
32 beefed up audit and it can be more comprehensive, but it is
33 all based on risk and the risk is taken into account in a
34 year-by-year proposition. Having said that, we always
35 believe that there should be some review of all the main
36 criteria if it is simply to review the results that Hunter
37 Water comes up with and puts on a web site on a monthly
38 basis.

39
40 THE CHAIRMAN: Thank you.

41
42 MR MARTIN: The Total Environment Centre and the Nature
43 Conservation Council as well are very supportive of the
44 maintenance of the current operating licence model. We
45 believe it has been a very effective instrument. It is
46 important to us that the licence remain a comprehensive
47 overarching instrument. We simply cannot see that any

1 other regulatory instrument provides the same comprehensive
2 picture of performance as we were able to obtain through
3 the operating licence audit process.

4
5 We are cognisant of the fact that there is a need to
6 have regulatory efficiency but we are concerned that some
7 of the arguments that are presented could result in
8 fragmentation of the current regulatory process, and it
9 would be difficult for us and other organisations to obtain
10 the same degree of comprehensiveness in our assessment of
11 other corporation's performance if there was a
12 fragmentation of obligations in a number of other
13 instruments.

14
15 Where other regulators are the primary regulators of
16 Hunter Water, that should be recognised. We don't seek for
17 the operating licence to assert the role of the Department
18 of Health or the Department of Environment and
19 Conservation, but certainly those requirements need to be
20 covered in the audit process and including a reference to
21 those requirements in the licence allows for that to occur.

22
23 We are also concerned about the need to maintain
24 standards by contractors. We certainly recognise that
25 Hunter Water may be doing that at present, but by
26 maintaining a requirement in the licence that contractors
27 must adhere to the same standards, ensures that there can
28 be no areas in which performance is compromised by people
29 employed on behalf of the Hunter Water carrying out
30 activities which the corporation itself could not in fact
31 do.

32
33 We are concerned about the argument that you don't
34 need an excessively prescriptive licence because if
35 something is not in the licence it doesn't mean you don't
36 do it. That certainly can be the case, but there are
37 certain things which are absolutely crucial for the
38 protection of the public interest, for health, and for the
39 protection of the environment and those things need to be
40 encapsulated in the licence. If Hunter Water is able to go
41 beyond the standards in the licence that is fine, but there
42 are certain things that absolutely must be maintained in
43 the licence, and we think it is very important that that be
44 the case.

45
46 In regard to the cost of regulation, we note that as
47 part of the Tribunal's review of the regulatory burden on

1 agencies in NSW there were figures provided that indicated
2 that for the most part those regulatory costs are below
3 2 per cent of total operating costs for utilities in NSW.
4 We don't think that a figure of less than 2 per cent
5 represents an excessive burden. In fact, we would argue
6 that that clearly indicates that the current regulatory
7 model is a good one and is working very well in ensuring
8 protection of the environment and the public interest
9 whilst not placing an excessive burden on the corporation.

10
11 We certainly support the concept of audit breaks. We
12 recognise that there is some merit in that; particularly
13 where there are areas where historically performance has
14 been very good and compliance has been excellent, we see
15 merit in allowing some degree of relaxation of auditing
16 there. But we do think it is important that there be a
17 comprehensive audit at both the start and the finish of the
18 licence.

19
20 The logic for that is the first audit of the licence
21 provides a view to see how performance against the new
22 licence has been going and see if the performance has been
23 adequate or not. So that is the first chance to review
24 performance against the new licence. Obviously at the end
25 of the licence we believe it is very important as well
26 because that very review can then form the next licence
27 review. So it is useful to have a good picture of the
28 organisation's performance immediately prior to a licence
29 review so that we can see where the licence may need to be
30 tightened or where other things can be changed.

31
32 THE CHAIRMAN: Thank you.

33
34 MR WELLSMORE: Briefly, I agree with a lot of what Leigh
35 has said. Our view is that the licence is important to put
36 some flesh on the bones of the other statutory obligations
37 that Hunter Water does have. It is important to translate
38 those responsibilities into more practical obligations to
39 enable the community to understand Hunter Water as a
40 business and how it operates, but also obviously to input
41 their needs and their interests.

42
43 So we think the licence currently is performing well
44 and we think the scope is appropriate. I certainly don't
45 think that it is overly prescriptive in its current
46 approach. There is still a lot of scope within the
47 operating licence for Hunter Water to make day-to-day

1 operational or indeed even strategic decisions about how it
2 manages its business.

3
4 On the other hand, there are some key requirements
5 that I think the community is able to draw some comfort
6 from to know that Hunter Water is performing well and that
7 the performance of the business, as Kevin suggested - I
8 guess we don't have to take Hunter Water's word for it, but
9 it is always nice to have that independent check.

10
11 We don't think that the obligations in the licence are
12 overly burdensome. There is a very low proportion of
13 operating costs involved, and if you look at the overall
14 costs of Hunter Water, the cost of compliance with the
15 operating licence is minuscule.

16
17 I don't know that the community as a whole would
18 support or be happy to accept fewer obligations that are
19 currently in place, and the trade-off in any event for the
20 community is probably a very poor one. I mean, if you look
21 at cost of regulation, and the cost of compliance, if you
22 take that another way and you say let's take away the
23 operating licence, how much would that save, how much
24 impact would that have on a customer's bill, take away the
25 protection and certainty and comfort that things have been
26 done in the public interest, it is a very poor trade-off
27 for the community in the end.

28
29 MR LOUYS: Hunter Region Landcare would be concerned
30 about the licence if the licence focuses only on customer
31 issues. It seems that is what Hunter Water is suggesting, that
32 the focus be on customer service and customer issues. We
33 would definitely disagree with that. The licence has to cover,
34 as you indicated in the slide, environmental issues as much
35 as social issues.

36
37 The recent corporate responsibility standard indicates
38 that in general corporate organisations are moving away
39 from a pure focus on customers and concentrating more on
40 environmental and social responsibilities. So we would
41 take offence if the licence were to be so narrow that it
42 focussed only on customers.

43
44 MR VHORA: In terms of the licence, the operating licence,
45 I think the wording provides the link. It links the
46 different instruments. The reason for that kind of
47 approach is because things which are required under DNR's

1 management licence has some cost implications which have to
2 be considered. So obviously that link is required. I
3 don't think it is one or other, but an operating licence
4 needs to link those different requirements from different
5 regulatory instruments.

6
7 The second point I would like to make is Michael's
8 question about how we achieve those or reduce the
9 duplications. In recent times we have done a number of
10 things with Sydney Catchment's licence, and they have a
11 similar arrangement with their water management licence
12 and operating licence. What we have done is identify the
13 common requirements in terms of consistency and terminology
14 of monitoring requirements or reporting requirements, and
15 we have modified the SCA's licence where we have just
16 reviewed the water licence and it now recognises where a
17 certain requirement needs to be done as a requirement under
18 the water management licence, and there are other
19 requirements which might just need to be reported in the
20 water management rather than undertaken under the licence.

21
22 So things which are done under the operating licence
23 are required to be reported and the licence makes clear
24 reference to those requirements, saying it needs to be
25 reported. It does not state how the data is to be sought
26 and where it comes from. It says it needs to be reported,
27 but there is obviously a requirement to have some sort of
28 standard, where the data is coming from and what quality of
29 data would be acceptable, but we are not definitely
30 required to do that. I can provide more details when we go
31 to the water quality session.

32
33 The last one in terms of the audit proposal, DNR was
34 just suggesting largely that we would support any
35 alternating approach to audit rather than just a simple
36 monitor, an annual audit. I don't think there was any
37 argument behind why we should have a two-year audit. I
38 think the idea was that we would support a bit more
39 meaningful audit process with a complete look to some sort
40 of management actions at the end, because currently the
41 audit outcome does not necessarily get reflected because of
42 the way the operating licence gets modified, and it takes a
43 lot of time. I have not seen any findings of the audit
44 process reflected in that time frame. The point I make is
45 there is no reason why it should be two years or three
46 years or whatever. We support it, but it needs to be a bit
47 more meaningful than just an audit done on paper.

1
2 MR BANYARD: Our organisation has a few problems with
3 the operating licence and its regulation and accountability
4 based on the fact that Hunter Water provides water to
5 consumers under customer contracts. Effectively we see
6 that there are two types of customer contract: one that
7 goes to land owners who are occupiers; and the second type
8 to land owners who are resellers. The reseller group
9 includes the Department of Housing which has around about
10 10,000 properties in this location, about 150,000
11 statewide; big investors who own large numbers of housing
12 units like Meritons and some of the other big ones; these
13 apartment blocks built along the road here, they do not
14 have individual meters; and then you have individual
15 landlords who may have only one house, but effectively all
16 those groups are being supplied with water by Hunter Water
17 under the customer contract and then onselling that water
18 to the people residing in the dwelling.

19
20 That's a big issue, especially with the potential of
21 allowing third parties to be selling water. What is the
22 relationship going to be under Hunter Water's operating
23 licence to people who are reselling the water? That's the
24 guts of it. This issue flows over into a whole lot of the
25 other audit arrangements. I just pick one example, only
26 because my friend sitting next to me is from EWON, but the
27 figures of the complaints to EWON are often quoted as an
28 issue, but quite a few of those people who lodge complaints
29 with EWON are not customers of Hunter Water; they are
30 customers of one of the groups of people I classify as
31 resellers. The issue of resellers not only flows over to
32 property owners in terms of residential property owners
33 that our organisation represents, but it flows through to
34 factories, shopping complexes and other places where the
35 cost of water is passed on to the occupiers.

36
37 MR BYLEVELD: Just briefly from the New South Wales Health
38 perspective, we will reserve most of our comments for the
39 water quality, but in terms of audit we strongly support
40 the principle of targeted risk-based auditing. It seems
41 to make sense to take that approach and to identify those
42 areas of greatest risk for the audit to focus on.

43
44 THE CHAIRMAN: Does anyone else at the table want to
45 have another go?

46
47 MR WARNER: Just a point of clarification on something TEC

1 said, you are proposing audits in the last year of the
2 licence and in the first year of the next licence.

3
4 MR MARTIN: That's correct.

5
6 MR WARNER: So two audits together, one after the other,
7 and then a three-year holiday.

8
9 MR MARTIN: That's right.

10
11 MR WARNER: Wouldn't it be better to have an audit in the
12 middle of that, particularly where they have new
13 requirements placed on them, to give them a better chance
14 to actually put systems in place to do something - audit
15 them in the middle and then one at the end?

16
17 MR MARTIN: There may be some merit in that. I would
18 have thought that would more be the case if we still had
19 mid-term reviews, and that's an argument that we lost some
20 time ago. I would have thought, if there were mid-term
21 reviews, it would be quite logical to have the new audit
22 then. I could accept that perhaps it might be more logical
23 in the second year of the licence to have a comprehensive
24 review, but we certainly think it's important to have an
25 initial assessment of how performance is going against a
26 new licence. Whether that's in the first year or the
27 second year is probably not here or there, but we think it
28 is important to have a review of performance against the
29 new licence, but we think it is especially important to
30 have that audit at the end of the licence to inform the
31 next licence review.

32
33 THE CHAIRMAN: I might just make a couple of observations
34 so I can be corrected if I've got it wrong. Kevin, you
35 invited us to contrast an overarching document with the
36 document that's a sort of keystone in the jigsaw puzzle.
37 I'm not sure how far that takes us at a philosophical
38 level. But the sense I have is that the Tribunal when it
39 put out its issues paper identified a number of issues
40 under the heading of best practice regulation where there
41 might be some changes. I guess some of those will come up
42 later in the day again under particular topics, but the
43 sense I've got is that, if we implemented those and that's
44 all we did, it would be a tidying-up exercise; it wouldn't
45 be a revolution. I would be interested if people feel that
46 even that was going too far.

47

1 I picked up a couple of specific things in that list.
2 The last one was to introduce a risk-based auditing regime
3 and there seemed to be something of a consensus around
4 that, possibly not least because the risk-based auditing
5 regime would be more intensive than a comprehensive regime
6 because it is better targeted. You spend the same amount
7 of resources; it's targeted better. I don't get a sense
8 of disagreement with a risk-based auditing regime.
9 Removing the requirements from the memorandum of
10 understanding with the Department of Environment and
11 Conservation and DNR, I don't get a sense of disagreement
12 with that.

13
14 There may be some that will come up later in the day,
15 but I would be interested if there was a feeling that the
16 suggestions that the Tribunal put forward for what I will
17 call tidying up, whether they are going too far on the one
18 hand or not going far enough on the other hand, but at the
19 moment the Tribunal, in terms of its issues paper, wasn't
20 describing a revolution, I don't think; it was describing a
21 tidying up.

22
23 MR YOUNG: To clarify, from a Hunter Water viewpoint we
24 believe the operating licence is pretty right too and I
25 think with suggestions of some areas of tidy-up, we think
26 it serves the community and the environment and Hunter
27 Water well and will continue to do so. We are strong
28 supporters of the operating licences and the process we go
29 through.

30
31 THE CHAIRMAN: Thank you, Kevin. Are there other
32 people here at the table who would like to make any further
33 comment?

34
35 MR YOUNG: Just one additional comment, Mr Chairman, on
36 the risk-based auditing. From the financial auditing that
37 we do, often the audit looks at some areas and decides that
38 they are going to audit them every year. I think that is
39 risk-based auditing; but some of them they say: we will
40 look at this every second year or third year. I just
41 wanted to clarify that I guess the proposition put forward
42 on risk-based auditing can mean you do some things every
43 year, it's just that you assess on a year-by-year basis
44 from the results over a long period of time. I agree that,
45 particularly when looking at risk-based auditing, it can be
46 more intrusive in certain areas and maybe we will get more
47 benefit from that too.

1
2 MR LOUYS: Can I make a quick comment on what you said
3 about going too far or not far enough? Has the Tribunal
4 investigated a comparison between this particular licence
5 review and other licence reviews that have been performed
6 earlier?

7
8 THE CHAIRMAN: Yes. The obvious comparisons are with
9 Sydney Water and Sydney Catchment Authority. There are
10 some suggestions, when we get into the detail which we'll
11 come to later on, where the idea has been floated and
12 whether we should move to incorporate things that have
13 already been built into the recent reviews of Sydney Water
14 and Sydney Catchment Authority. It needs to be recognised,
15 however, that Hunter is different from both of those
16 because it covers both of them for starters.

17
18 Is there anybody else in the room who would like to
19 comment on this fairly general discussion we have started
20 off with?

21
22 In that case, I think we might move to the next topic
23 and I'll call on Nigel Rajaratnam to introduce supply and
24 demand.

25
26 MR RAJARATNAM: I'm Nigel Rajaratnam from the Tribunal.
27 This presentation examines Hunter Water's responsibilities
28 in managing the supply and demand for water. First, I'll
29 look at the demand and supply requirements in the operating
30 licence, then outline some of the views raised in
31 submissions to the Tribunal's issue paper, then highlight
32 some areas where there is not unanimous agreement and where
33 we can seek further comment from you today.

34
35 At the end of the session we hope to have gained a
36 clearer understanding of all stakeholders' views and to
37 gain some agreement on the way forward and any potential
38 amendments to the licence.

39
40 If you look at the existing licence conditions, Hunter Water
41 currently has the following obligations in relation to managing
42 the demand and supply for water. It is required to
43 prepare an integrated water resource management plan
44 and manage demand and supply for water. Hunter Water
45 developed this plan in 2002 and this is the principal
46 vehicle for managing supply and demand.

47

1 The licence also specifies some of the content of the
2 plan and the methodology that's required to be used to
3 assess the different demand and supply options. The
4 licence also incorporates a water conservation target and
5 requires Hunter Water to hold average water consumption by
6 residential properties at or below 215 kilolitres per
7 annum, calculated on the basis of a five-year rolling
8 average.

9
10 If we focus on the integrated resource management
11 plan, the plan aims to find the best solutions to meet the
12 future water demands after appropriate consideration of
13 social, economic and environmental factors. It treats both
14 the demand, management and supply options equally, so the
15 optimal sequencing of supply and demand is identified.
16 Some of the features of the plan incorporate some voluntary
17 targets. There are demand management targets to achieve
18 ongoing water savings of 1,000 megalitres; targets to
19 increase the level of recycling to 13 per cent of dry
20 weather flows by 2007. It also proposes that restrictions
21 occur only once every 10 years on average with a maximum
22 duration of six months over a 10-year period on average.

23
24 In the issues paper the Tribunal sought comments on
25 the effectiveness of the plan and the outcomes it has
26 achieved. Hunter Water's views were that it supported the
27 continued use of the plan as the key tool to manage supply
28 and demand, but it recommended some changes to take into
29 account new factors such as revised forecast of population
30 and new supply augmentation with the central coast region,
31 and new recycling opportunities.

32
33 Hunter Water also believes that the licence is too
34 prescriptive in terms of the input for the plan and it
35 proposed amendments to the licence to provide it with
36 greater flexibility to develop the plan, to take account of
37 the longer term plan arising from support of the use of
38 multicriteria analysis to evaluate the social and
39 environmental costs and benefits.

40
41 Other stakeholders' views on the plan - generally there
42 was support for the continued use of the plan as the
43 principal vehicle for managing supply and demand. DNR
44 said that the plan needs to be peer reviewed and ratified by
45 IPART and DNR before being used as a management tool. Some
46 groups felt that the plan doesn't adequately incorporate
47 the social and environmental costs and benefits, but they

1 didn't support Hunter Water's proposal to use the
2 multicriteria analysis to take into account these factors.

3
4 Other stakeholders felt that the plan did not
5 adequately take into account the possibility of a reduction
6 in system yields as a result of either new environmental
7 requirements or changing global conditions, and there was
8 general support for extending the planning horizon to 25
9 years.

10
11 So the other element where the Tribunal sought comment
12 in the issues paper was the use of targets and other
13 incentive mechanisms that could be included in Hunter
14 Water's licence. In the issues paper the Tribunal sought
15 comment on whether Hunter Water's existing water
16 conservation targets should be enhanced and if additional
17 requirements covering leakage, recycling, security of
18 supply and incentive for demand management are cost
19 effective.

20
21 Hunter Water's views and responses to these questions were
22 that it believed that the planned processes are preferable
23 to setting individual targets by way of regulation;
24 it supported maintaining the current water conservation
25 targets in the licence; and it support the continued use
26 of some voluntary demand management targets
27 in the plan.

28
29 Other stakeholders supported the use of targets in the
30 area of water conservation targets, recycling and leakage.
31 There was support for voluntary targets in the plan, but
32 they felt they should be adopted as mandatory targets into
33 the licence and potentially more stringent levels adopted
34 in the licence. While they actually supported the targets,
35 there was some concern over whether consumption targets
36 could be set for the non-residential sector, given that
37 Hunter Water probably has less control over that sector in
38 terms of managing their demand. Another group said that
39 they felt that targets are meaningful only if they are
40 enforced.

41
42 These are the areas where I think there's probably
43 less agreement on. We'd like these areas to be there as
44 your focus in your discussion today. In regards to the
45 plan, is the plan a useful tool to manage supply and
46 demand; should the licence allow Hunter Water to use
47 multicriteria analysis to evaluate the social and

1 environmental costs as part of the plan; should the plan be
2 reviewed by an independent expert and amended where
3 necessary prior to being adopted as a management tool; and,
4 in regards to the other options, is it sufficient to rely
5 purely on the plan without the use of mandatory targets for
6 water conservation, or should there be additional mandatory
7 targets in the licence for leakage and recycling. If there
8 should be targets, what form should the targets take and at
9 what levels should they be set?

10
11 I will hand over to you, Mr Chairman.

12
13 THE CHAIRMAN: Thank you. I might start again with you,
14 Kevin.

15
16 MR YOUNG: Thank you, Mr Chairman. Some comments
17 from Hunter Water would be, I think the integrated water
18 resource planning process is a useful tool for us in
19 balancing supply and demand and has worked well for us.
20 But the point that Nigel made is that it's become dated in
21 the last 12 or 18 months with a number of major changes,
22 including the drought and high population figures and
23 connection to the central coast.

24
25 I wanted to add some other points. Recently I went to
26 a meeting of the Water Services Association where all the
27 major water utilities management talked about their current
28 position with respect to the drought. Each of those, I
29 guarantee, had an integrated water resource plan where they
30 said that their supply position was ahead of their demand
31 position, yet a lot of them are in dire straits with the
32 prospect of running out of water. We may ask ourselves the
33 question: how is that possible?

34
35 I think from a Hunter Water viewpoint, if there's been
36 any failing in our water resource planning in the past,
37 it's been a focus on what I think used to be called in
38 engineering safe yield, which is not that safe, then it
39 went to sustainable yield and system yield. That's based
40 on supply and demand in near normal conditions.

41
42 There are two extra factors in the process that I
43 think need to be taken into account. One is the ability of
44 utilities to have adequate drought management planning in
45 place. So to say under a drought of a one in a 500 year or
46 one in 1,000 drought, which some organisations are facing,
47 do you have a capability to continue to supply water to

1 your community, and what is your drought readiness - I
2 think there's been a lot of exposure around Australia for
3 utilities that have said: we haven't got time to put in
4 place drought response measures. I think that's been a
5 major exposure that needs to be looked at.

6
7 The second interesting thing from our viewpoint is in
8 the last two or three years a number of communities have
9 been in restrictions for some three or four years and the
10 levels of restrictions have become more punitive to the
11 point of banning all external use and that's gone on for a
12 year or more. I know the licence at the moment says to us
13 that we introduce restrictions a maximum once in every 10
14 years, but it doesn't tackle this issue of the high
15 severity restrictions and the frequency, so it's a bit more
16 complex than what we have looked at in the past. We need
17 to ask the question in discussions with our customers:
18 what are the relative costs for the chance of entering into
19 these punitive restrictions and is an organisation ready in
20 terms of drought readiness.

21
22 Moving forward with our next IWRP is the decision by
23 the government to announce that Tillegra Dam will be built
24 and that has to be factored into our new IWRP coming up.
25 From Hunter Water's viewpoint, our focus will be to ensure
26 that the low residential consumption that we have in Hunter
27 households is maintained. I think the Hunter community has
28 a record second to none in that area. In the last survey,
29 the only two areas that had a lower residential consumption
30 per household were Gosford with full external backing, and
31 Melbourne which is also in severe restrictions. So that's
32 something that we are very proud of it.

33
34 We want to hit recycling hard, we want to be proactive
35 in that area and do things that make sense, which we are
36 doing with third pipe solutions and industrial recycling.
37 We need to do a lot better on leakage management. We are
38 in the excellent range with our results and we want to stay
39 in that range.

40
41 I want to cover a couple of other issues just quickly.
42 This question of balancing an IWRP, looking at not just
43 financial but social and environmental issues, the licence
44 prescriptively said to us that Hunter Water must do this by
45 measuring environmental and social issues in dollar costs.
46 So in our discussions with the community we say to the
47 community: we want to take this into account, but you must

1 put a dollar value on this social and environmental. This
2 is a prescription of the licence. What we have done is we
3 visited a number utilities who have revised IWRPs - Gold
4 Coast, Brisbane and others - and they said it is really
5 difficult to sit down. If you want to have true
6 stakeholder discussions and say to the community we want to
7 put a dollar value - if we are asked to do it, we will do
8 it, but they told us that multicriteria analysis of
9 weighting in social and environmental was a more acceptable
10 way to get the general community and stakeholders involved
11 in this process.

12
13 In some sense we are probably falling into our own
14 trap. I suspect what we are looking for from the Tribunal
15 is for the Tribunal to say to the corporation: you must
16 take into account social, financial, environmental, and you
17 must use best practice principles in doing it. There's a
18 question of whether you want to prescribe what is best
19 practice principles at the time that you set the licence.
20 I think that's the issue.

21
22 One last comment is on the issue of targets. There's
23 been a lot of debate about targets and questions: should
24 Hunter Water have a litres per capita cap and targets. We
25 go back to the best practice principles which is something
26 that's measurable, that will result in a good outcome for
27 the community and that is controllable.

28
29 I can say that when you do comparisons of litres per
30 capita between Sydney and ourselves and Sydney looks so
31 much better, it is simply the fact that we have got huge
32 industry in the Hunter, and to me that measure is a
33 comparison perhaps of an apple and a banana, and is it
34 controllable? We look back over the last 15 years and we
35 have done fantastically well against that measure because
36 BHP has left town, Pasminco has left town, National
37 Textiles has left town, and we are exposed to a global
38 market which will shut down industry. We don't want to be
39 in a position where we rejoice the shutting down of major
40 industry to meet a litre per capita target.

41
42 What we say to the Tribunal is pick some measures that you
43 think are meaningful in demand management, look at the
44 national water issues. We have decided that using the
45 amounts of water used per household in the Hunter per year
46 is a meaningful comparison that is used across all major
47 industries, and we are proud of our record in that area.

.5/12/06 25

Transcript produced by ComputerReporters

1
2 When we talk to industries and we talk about caps,
3 they simply say to us, "Water is just an input into our
4 business." If we talk to Coca-Cola and say, "Can you cut
5 water consumption by 20 per cent", they say, "Does that
6 mean that you want us to produce 20 per cent less
7 Coca-Cola?" It can be a chemical equation into the amount
8 of product that is produced. There needs to be an
9 application of the best practice principles in this
10 discussion of targets in the demand management area.

11
12 THE CHAIRMAN: Thank you.

13
14 MR MARTIN: For both TEC and NCC demand management is
15 one of the key operating licence priorities. I should say at
16 the outset that we strongly reject the need for the
17 Tillegra Dam in the Upper Hunter, on the upper Williams
18 River, and we will be vigorously opposing that dam. We
19 believe that both recycling and better demand management
20 are the key answers for both the Hunter and the Central
21 Coast in terms of future management of water resources.

22
23 It is in that context that everything that we say
24 about demand management and recycling should be
25 interpreted. We see it as certainly as the more
26 sustainable long term approach.

27
28 We certainly recognise that historically consumption
29 patterns in the Hunter are much lower than in some other
30 areas, and I think it is generally recognised that that is
31 a result of the early introduction of user pays pricing and
32 the fact that the introduction of using pays pricing
33 coincided with a period of sustainable water restrictions
34 which resulted in some better water use practices being
35 entrenched in the community.

36
37 However, we are concerned that that historic
38 performance has bred a degree of complacency in terms of
39 assumptions about water efficiency in the Hunter. With the
40 rapid population growth that this area is experiencing,
41 there are large numbers of people moving into the area who
42 have not previously been exposed to those historic factors
43 which have made residential customers in the Hunter
44 relatively efficient water users, so we don't believe that
45 it should be assumed that those patterns of water use will
46 remain. We think there is a need for a renewed emphasis on
47 water conservation to reflect the fact that there will be

.5/12/06 26

Transcript produced by ComputerReporters

1 challenges with the population growth in this area.
2
3 We certainly believe that it is very important to set
4 a strict water conservation target. Whether that be litres
5 per capita per day or some other form is difficult to say.
6 It may be that a cap on extractions is a better approach.
7 I don't necessarily accept the argument that a cap on water
8 use is a cap on production, or that for instance asking
9 Coca-Cola if they can save 20 per cent of their water means
10 that you are asking them to produce 20 per cent less
11 Coca-Cola. That is a somewhat facile argument. It is
12 certainly possible to ask Coca-Cola if there are ways that
13 they can produce the same amount of Coca-Cola with a less
14 amount of water by identifying inefficiencies in their
15 production.
16
17 It is also possible to identify within industry where
18 there may be opportunities for them to switch to
19 alternative sources, such as recycling, or to become more
20 efficient in their water use. I think the water savings
21 fund, what the NSW government introduced, is part of that
22 process as is the requirement for businesses to produce
23 water efficiency plans.
24
25 So I don't think it is necessarily a case of asking
26 industry, or seeking to find ways in which industry's
27 demand for current drinking water supply can be reduced is
28 in any way seeking to constrain the productivity of
29 industry or business. I don't see that as a mutually
30 exclusive situation.
31
32 We think that the current per capita target in the
33 licence is inadequate because it only takes into account
34 the residential sector. Certainly it is argued that
35 industry and commerce are major consumers of water in the
36 Hunter. We would say that is why it is particularly
37 important that there be some form of demand management
38 target for those sectors given the major role that they can
39 play in more efficient water use in the Hunter if water
40 efficiencies are introduced.
41
42 We have strongly supported for some time the
43 introduction of permanent water conservation measures or
44 low level restrictions as have been adopted, for instance,
45 in Melbourne and also in Adelaide. We think that it is
46 simply a necessary step to sustainable water management to
47 ensure that wasteful water practices are not encouraged and

1 in fact are prevented.
2
3 We need to view the use of a scarce resource such as
4 water in terms of what is the greatest return in the public
5 benefit. Is it in the greater public interest that people
6 be able to use a value commodity such as water to hose down
7 their driveways or to hose down the walls of their house,
8 or is it of greater use to the community and greater value
9 to the community that water be retained for other more
10 important purposes and also for the protection of
11 environmental values through environmental flows and
12 prevention of an environmental damaging supply augmentation
13 options. I don't think that is a particular difficult
14 question to answer. It is not too much to ask the
15 community to forgo non-essential water use such as hosing
16 down driveways or other hard surfaces.
17
18 So we strongly support the introduction of some form
19 of permanent water restrictions, and we note that some
20 research that was cited in the Tribunal's issues paper for
21 this review conducted by Hunter Water showed something in
22 the order of 61 per cent support for some form of permanent
23 restrictions. So we think there is strong community
24 support for permanent water conservation measures, and we
25 think that should be introduced in the licence.
26
27 We also think that there is a very strong argument for
28 relaxing security of supply criteria so that restrictions
29 can be introduced at an earlier point in time and the
30 restrictions would be more frequent. We think that that is
31 an important part of managing our scarce water supply
32 sustainably and preventing unsustainable options such as
33 new dams and desalination.
34
35 We haven't really seen enough detail on Hunter Water's
36 proposed multicriteria analysis to have any confidence in
37 it. We are not certain that that will deliver what Hunter
38 Water is arguing that it will. So we have some
39 reservations about the use of the multicriteria analysis
40 approach at this point in time.
41
42 We also think that there needs to be a sustained push
43 in terms of leakage reduction. We would like to see some
44 tightening up of the operating licence, introducing some
45 strict requirements on Hunter Water to improve their
46 leakage reduction. I can't give you an exact figure on
47 what that should be, but we would ask the Tribunal to look

1 at what is a reasonable level of leakage reduction that
2 Hunter Water could achieve.
3
4 We certainly recognise that no water utility will ever
5 achieve a situation of no leakages, but where opportunities
6 for improvement can be identified we would like to see that
7 codified in the operating licence.
8
9 We would also like to see the current integrated water
10 resources program target for demand management codified
11 in
12 the licence. We note that that is currently a voluntary
13 licence and that performance has in fact exceeded that
14 target, and that savings, approximately doubled, in the
15 current target have been identified.
16 We think that certainly a strong target should be
17 mandated in the licence because we view the operating
18 licence as a key driver of performance, and with water
19 conservation being such an important priority for all water
20 utilities, we think it is absolutely essential that there
21 be strict demand management targets in the licence.
22
23 We would also like to see the current voluntary target
24 on recycling in the integrated water resources plan
25 incorporated into the licence as a means of ensuring that
26 there is an ongoing push towards increased recycling.
27
28 MR WELLSMORE: We do support firm targets for demand
29 management. I think we have got a particular view about
30 which way that should be done. There are a few options.
31 To be honest, the litres per person per day is a measure that
32 I think is readily understood by a community. So I certainly
33 have some leanings in that direction, but certainly there's
34 other ways of measuring demand management
35 performance.
36
37 Our view is really formed on two points. We are
38 trying to be future looking with this. We are trying to
39 consider the possibilities that might arise in the future,
40 not just in the next five years but much further down the
41 track than that. Having said that, in the shorter term
42 there is an expectation on our part that the Central Coast
43 will need to draw more water from the Hunter region, and at
44 some point in time you can see a tension there between how
45 much water needs to be retained in this area versus the
46 needs of the community just to the south that is clearly
47 suffering some significant supply demand balance problems.

.5/12/06 29

Transcript produced by ComputerReporters

1
2 The other point for us is the one about deferral of
3 capital expenditure. From our perspective we would think
4 that it was an appropriate and sensible approach to defer
5 augmentation or defer new dams for as long as possible for
6 a community benefit as much as an environmental benefit,
7 but both of those pertain to that question. One of the
8 clearest way of achieving that deferral is through good
9 demand management practices.
10
11 I would be surprised if the bulk of the community did
12 not support tougher demand management obligations given
13 what is happening in most of the other parts of the state
14 at the moment. I stand to be corrected on that, but I'm
15 not sure that people in the Hunter necessarily want to keep
16 living like princes as far as their water consumption is
17 concerned, but as I say I would be happy to corrected if
18 people can prove me wrong.
19
20 I don't want to pick on particular businesses and say
21 "You have got to use less water and find some ways of doing
22 it. It's your problem." However, overall the residential
23 sector can make a contribution, and certainly in other
24 areas they have made a contribution and we think that is
25 important.
26
27 We are certainly interested in the multicriteria
28 question, if it is able to deliver a more sophisticated
29 approach to planning and to weigh up various options, but
30 we would want to know a bit more about how they would
31 actually function.
32
33 MR LOUYS: Kevin mentioned four points - drought
34 readiness, restriction, dam and targets. In regard to dams
35 we certainly support the view of TEC, and we see dam
36 construction as a failure of demand management, and
37 certainly a failure of the government policy to look into
38 drought readiness earlier in the piece.
39
40 In regard to drought readiness we see, unfortunately,
41 therefore a strong cooperation between DNR and Hunter
42 Water
43 in addressing this particular issue, and we see obviously
44 that unfortunately being replicated for any enterprise or
45 organisation in dealing with natural resources management
46 in this country. I don't think anybody can ignore drought
47 anymore, thinking it will only happen only once in a while.
48 We are dealing with a variable climate here and drought has

.5/12/06 30

Transcript produced by ComputerReporters

1 to be part of the risk management of any organisation.
2
3 In terms of the restriction being applied to
4 consumers, and the failure of the demand management policy,
5 we would not recommend any sort of ongoing restriction, and
6 we see that the number of restrictions imposed, as it is at
7 the moment in the licence, as a condition of the renewal of
8 that licence.

9
10 Finally, in looking at the targets, we definitely want to see
11 targets in the licence, and firm targets to be imposed
12 at different levels. How those targets could be enforced
13 by Hunter Water would be through contractual conditions
14 with the consumer or customer. Obviously for large
15 customers contractual conditions would be different to
16 those of the normal user. So that's basically what I have
17 to say on general supply and demand management at this
18 stage.

19
20 MR BANYARD: First, the target of 215 kilolitres per
21 property is commonly quoted. I believe the number of
22 kilolitres per household should be the measure. I don't
23 believe that reflects the right thing. Programs that
24 include refit, water tanks, et cetera, are not relevant to
25 about 35 per cent of users, because they are not considered
26 to be customers of Hunter Water. If they are not customers
27 they are not eligible for those programs, but I do realise
28 that you have put some refit programs into Department of
29 Housing places, but officially they should be for
30 customers --

31 MR YOUNG: They are. The tenants are, too.

32
33 MR BANYARD: -- the customer should only be entitled to
34 one unit. I will quickly make these points. There has been a
35 movement away from the user pay principle. As the demand
36 has been dropping and householders have been doing the right
37 thing, they are cutting back on the amount of water they
38 are using, the proportion of fixed charge increases. There
39 are no individual water metres in about 40 per cent of
40 households. We believe that is unacceptable.

41
42
43 We think that products like bananas, petrol and water
44 should all be considered as similar products, and petrol
45 and bananas, as we all know, is regulated, the supply and
46 demand is regulated very effectively.

47

1 The dam seems to be a misguided expense because much
2 more can be achieved with user pays, recycling and
3 harvesting stormwater. For example, in Newcastle we have
4 Newcastle City Council looking at ways of preventing
5 flooding in the Wallsend area and there is no thought given
6 to harvesting that water.

7
8 We believe that the target should include 100 per cent
9 individual water metres, 100 per cent supply agreements
10 with consumers, and 100 per cent volumetric user pays
11 pricing.

12
13 MR VHORA: A couple of points. DNR's interest is to look
14 after the water courses and the aquifer system where the
15 water is extracted. So from that perspective, our interest
16 is definitely on the water efficiency drive. I'm not using
17 demand management, but more of a water efficiency drive
18 just to reduce the overall supply side. That is just in
19 general.

20
21 I take the opinion about the new dam, but if that is
22 to go ahead we have taken care of the supply side in a
23 sense, so if that is the way it is going, there has to be
24 renewed emphasis on the water efficiency in that case
25 because you have taken off the supply side in that case.
26 So I would like to emphasise that, yes, the demand side
27 needs to be taken care of.

28
29 The other point I would like to raise is there is a
30 significant amount of water now being supplied or is
31 proposed to be supplied to the Central Coast. I'm not sure
32 how or what obligations Hunter Water would have to control
33 the water efficiency drive on the other side of the pipe
34 there. So I'm not sure whether the operating licence can
35 require Hunter to consider the large supply on the other
36 side and how those demands will be met. Thank you.

37
38 MR YOUNG: Just to clarify a couple of points that have
39 been raised, Hunter Water did an omnibus survey with our
40 customers where we asked them a question - during a period
41 of drought would you accept restrictions imposed by Hunter
42 Water on your supply of water - and 61 per cent of our
43 customers said that during a period of drought they would
44 accept that we could restrict the supply. It also says
45 that 39 per cent of customers said that even during a
46 period of drought they would not accept any form of
47 restrictions.

.5/12/06 32

Transcript produced by ComputerReporters

.5/12/06 31

Transcript produced by ComputerReporters

1
2 So I think it is a bit of a long bow to say that that
3 means that 61 per cent of customers are happy with
4 permanent restrictions which have been proposed or that
5 61 per cent of customers are happy with restriction of a
6 severe nature. We have been fortunate in the Hunter. I
7 think the last restrictions we were in was 12 years ago for
8 a period of two weeks, but I don't think that you can use
9 that research to draw a bow to either permanent
10 restrictions or a happiness for extreme or severe
11 restrictions.
12
13 The bananas and the water and oil - I appreciate what
14 you are saying. I think when bananas are expensive my wife
15 buys apples or a different fruit. Water is the product.
16 So from a Hunter Water viewpoint, we are not happy with a
17 pricing structure which is a probably a different forum, if
18 the price goes up the debt increases.
19
20 The water efficiency and frequency - I want to clarify
21 that we do make it available to consumers. People from
22 units come in and they do buy their kit and they are
23 supplied. The difficulty we are facing recently is that we
24 are being overtaken in our drive. We have had 10,000 refit
25 kits - \$39 of value for \$140 cost, you get \$150 off your
26 energy and water bills, but we are being overtaken by
27 suppliers in the market who are giving away do it yourself
28 kits for nothing, on the basis that they can get the
29 credits from the greenhouse gas offset, and they think it
30 is best to give the kits away for nothing. We rely on
31 customers doing it themselves, and not taking the light
32 bulbs out and throwing the rest in the bin, but we are
33 finding the market quite hard at the moment with other
34 people coming in, competing with us on the refit market.
35
36 MR COX: Kevin, I wanted to raise an issue with you, if I
37 could. We have heard from various community groups the
38 various support for Hunter having targets for leakage and
39 for recycling. As you know, there is a target for leakage
40 for Sydney. I would be grateful for your view on whether
41 these are or are not desirable for Hunter, and if so why.
42
43 MR YOUNG: Our view on individual targets across the
44 different areas, for recycling and demand management and
45 leakage is that they should be undertaken in a purely
46 economic sense, in a balance of trying to achieve the right
47 community outcome and supply demand balance.

.5/12/06 33

Transcript produced by ComputerReporters

1
2 Having said that, I think there is a clear case that
3 can be made. If you look at the UK legislation, they talk
4 about achieving a leakage which is based on an economic
5 level of leakage, economic and financial. I think that is
6 a sound basis. So the question of setting a target against
7 that goes to the heart of us having enough information to
8 be able to set that economic level of leakage.
9
10 We are collecting good data, but that is quite a
11 difficult exercise. What we have said at the moment is
12 what we would like to target is that we are in the
13 excellent range for utilities around the world in terms of
14 leakage management set by the International Water
15 Association. I think that is an area that we would be
16 happy to come back and provide more information on over
17 time.
18
19 THE CHAIRMAN: I might make a few observations on the
20 issues that are in front us, but we have a degree of
21 disagreement around the table on these issues. I will
22 start with the last one, leakage. What I have understood
23 you to say, Kevin, is that where you have sufficient
24 information to make an estimate of the benefit and costs,
25 then there might a case for a target, and leakage could
26 come under that heading. We can work out roughly with a
27 degree of confidence what would be a leakage target that
28 would reduce leakage and the cost of doing so and the
29 benefits.
30
31 If I were to extend it a little bit further to
32 recycled, then you might say yes, we want to have recycled
33 as an option, but we want to consider the recycling in the
34 context of our integrated water planning and we are not
35 sufficiently confident, as I understand it, to say yes,
36 that should be a target outside of doing your whole
37 integrated water planning exercise.
38
39 If I were to go further to setting a consumption
40 target, I think there I gather a sense there is even more
41 disagreement, if I can put it that way. On the one hand
42 there is the view that if we get the price right, so, for
43 example, we set the price so that it encourages the supply
44 of other sources of water - it could be recycled water and
45 so on - and we can make as much as we need at that price
46 and people are prepared to pay that price, why shouldn't
47 they wash down their drives with recycled water if they

.5/12/06 34

Transcript produced by ComputerReporters

1 want to do it. They are paying for it and that is a view.
2 It is a view that has been put very forcefully by Malcolm
3 Turnbull, for example. So that is a view that is quite
4 strongly held.
5
6 This is a view that's quite strongly held and I think
7 I heard at this table today, not quite in those terms, but
8 we were told today restrictions are a failure of policy,
9 and I understand that point of view, quite frankly. Also,
10 I think from the point of view of good regulatory practice,
11 if we go to regulatory practice, which we considered in our
12 other report, we took the view that you shouldn't try and
13 hold a utility, in this case, accountable for something
14 that they can't actually control. I do raise this as a
15 question, whether at the end of the day Hunter Water
16 Corporation can control how much water a household
17 decides to use. There are various considerations. What are
18 they going to do about it if you or I turn on our tap for a bit
19 longer, have a longer shower or whatever?
20
21 We know from experience with Sydney Water where we had
22 a higher charge for people who used excess amounts of water
23 - and I am not backing away from that - we then had to
24 define that big households should not be subject to it
25 because people would make the obvious point that a
26 household of 10 will use more water than a household of
27 two. You need to bear that in mind, just how you would
28 hold Hunter Water accountable if you wanted to put into
29 this licence a consumption charge.
30
31 Kevin has already addressed the issue of restrictions.
32 I just observe that, if we look at situations in other
33 cities, support for restrictions attenuates over time.
34 When the drought is very severe, people by and large - and
35 we are very heavily reliant on public compliance and not on
36 policing restrictions, and that means in a sense voluntary
37 compliance and that voluntary compliance tends to dissipate
38 over time.
39
40 The other issue I want to address is this issue of
41 multicriteria analysis. I got the sense that people were
42 not necessarily ruling it out. They didn't want to buy a
43 pig in a poke and I am sympathetic to that: I wouldn't
44 either. If that's to be seriously pursued, Kevin, I think
45 there's an obligation to --
46
47 MR YOUNG: To define it more and send it out.

1
2 THE CHAIRMAN: Yes, and perhaps offer stakeholders
3 represented here another chance to comment on it because I
4 can understand their reluctance.
5
6 MR YOUNG: I agree.
7
8 THE CHAIRMAN: I want to give the rest of room a chance.
9
10 MR FANE: Simon Fane, I work with the Institute for
11 Sustainable Futures. I have a couple of comments. First,
12 on the importance of retaining integrated resource planning
13 principles within the licence, including the equivalence of
14 the demand and supply options, and retaining at least an
15 evaluation of what is the least cost sequence within any
16 valuation so that you can see, if a multicriteria analysis
17 process is used, what is the actual cost of moving away
18 from the least cost or the benefit, because there is a
19 danger within a multicriteria process that you can lose
20 that. Also, I just wanted to note that if the social and
21 environmental costs were included, then demand and
22 management and conservation options would look even
23 better than they currently do.
24
25 Hunter Water's current licence notes that there were
26 significant conservation options that were more
27 cost-effective than the proposed dam. On the question of
28 whether there should be a managed conservation target, I
29 think a minimum conservation target is still consistent at
30 least with cost planning principles and if Hunter Water
31 finds they can do more above that then they should. I
32 guess Hunter Water does have opportunities to do
33 significant demand management more in line with what has
34 happened in Sydney with the retrofit program with actually
35 sending plumbers into houses to change shower heads and
36 look for leaks, which is beyond the retrofit kits. I guess
37 if you are being active in the market you can also get some
38 of the action for yourself. There's no-one stopping Hunter
39 Water getting the money for that, so you have the advantage
40 of going beyond what a private operator does, and to
41 subsidise that.
42
43 I guess I just wanted to note that, given the
44 announcement of the dam outside of integrated resource
45 planning process, any changes to that are likely to be seen
46 in the light of this announcement, so I just wanted to note
47 that.

1
2 MR MARTIN: Can I make one comment before we break?
3
4 THE CHAIRMAN: Yes.
5
6 MR MARTIN: Mr Chairman, I wanted to make one comment
7 in relation to the argument of pricing versus demand
8 management restrictions in terms of water conservation. We
9 don't see them as being mutually exclusive. In fact, we
10 think they are both very important and they should
11 complement each other. We strongly support price reform to
12 provide more appropriate water conservation. We think
13 there's been a lot of progress in that area in recent
14 years, but there remains quite a deal of work to be done.
15 But to rely entirely on pricing is to limit what can be
16 achieved with water conservation.
17
18 There is only so much that can be achieved with
19 pricing reform. But, most seriously, to rely entirely on
20 pricing as a water conservation trigger is to ensure that
21 the burden of water conservation is borne
22 disproportionately by the less well off in the community.
23 It would be very undesirable to have a situation where
24 people could effectively buy their way out of the
25 obligations to conserve water simply by being able to
26 afford ever higher priced water.
27
28 I reject the argument that you should be able to use
29 as much water as you want if you're prepared to continue
30 paying an increasing price, because that ensures that the
31 burden of water conservation is borne disproportionately by
32 those most vulnerable in the community.
33
34 THE CHAIRMAN: I think you need to think in that case
35 about how much the price needs to go up to increase the
36 supply. If the price doesn't need to go up very much to
37 make recycled water profitable, then your argument is less
38 strong. We might take a quiet lunch, and, dare I say it, a
39 glass of water.
40
41 LUNCHEON ADJOURNMENT
42
43
44
45
46
47

1 UPON RESUMPTION:
2
3 THE CHAIRMAN: This session is on water quality,
4 catchment management and system performance. Bob
5 Burford will introduce it.
6
7 MR BURFORD: Good afternoon everybody. This afternoon I
8 wanted to focus on three areas: water quality; catchment
9 management; systems performance and asset management.
10
11 I would like to outline, firstly, some finetuning
12 measures associated with water quality. The Act requires
13 that the operating licence includes water quality
14 obligations. The current Australian water quality standard
15 for 2004, Australian Drinking Water Guidelines, uses a
16 risk-based approach and includes guideline values for
17 chemical, microbiological and radiological water
18 parameters.
19
20 Hunter Water and New South Wales Health have already
21 agreed to adopt those standards. The secretariat's
22 suggestion is that the operating licence should seek to
23 reflect this current practice and require compliance with
24 water quality requirements selected from the 2004
25 guidelines that are relevant to the water quality risks in
26 Hunter Water sources of water supply.
27
28 Monitoring and reporting obligations are designed to
29 maintain Hunter Water's focus on water quality and they
30 should be targeted to provide transparency. Hunter Water
31 already monitors water quality, as agreed with New South
32 Wales Health and DNR. The secretariat suggests the results
33 of these monitoring requirements should be made public
34 through the operating licence audit report.
35
36 The secretariat recommends that the licence continues
37 to require Hunter Water to prepare contingency plans for
38 adverse water quality events and supply continuity. The
39 existing licence requirements for raw and recycled water
40 duplicate other requirements or are covered in the terms of
41 the ordinary supply contracts. New national guidelines for
42 recycled water are being developed - in fact, quite
43 recently they were released, being the federal guidelines.
44 The secretariat recommends that requirements for raw and
45 recycled water be updated.
46
47 In summary, the secretariat recommends that the

1 operating licence should formalise the 2004 guidelines and
2 use those to specify water quality parameters; align
3 monitoring and reporting with New South Wales Health and
4 DNR requirements; and maintain supply and contingency
5 planning.
6

7 Looking at the views of stakeholders, on the question
8 of the 2004 guidelines as licence requirements, Hunter
9 Water said that they were not necessary as licence
10 requirements. New South Wales Health, DNR, TEC and
11 Landcare all suggested that they should be licence
12 requirements.
13

14 In terms of our proposal for the risk-based water quality
15 parameters, which are very similar to the parameters
16 of the licences of Sydney Water and the Catchment
17 Managing Authority, nobody had any issue with those.
18 Looking at monitoring and reporting being aligned with
19 with New South Wales Health and DNR, DNR, Landcare and
20 PIAC all agreed with that suggestion. In looking at the
21 proposal to rationalise requirements for raw and recycled
22 water, TEC said the contract should be audited, and Hunter
23 Water and DNR both agreed with that proposition.
24

25 I would like now to turn to the catchment management
26 proposals. While Hunter Water undertakes a number of
27 important catchment management activities, it must be
28 recognised that Hunter Water does not control its water
29 supply catchments. Under the Hunter Water Act the director
30 of DNR has responsibilities for the special areas within
31 the water supplies catchment. Michael Seery covered the
32 role of the Hunter Central Rivers Catchment Management
33 Authority earlier on, when looking at other regulators.
34 Hunter Water works closely with the CMA to ensure that
35 catchments are effectively managed. The existing licence
36 needs to reflect the current administrative arrangements in
37 the region, especially the role of the CMA.
38

39 The secretariat suggests that the licence should also
40 be more outcomes focused. For the catchment management
41 activities that Hunter Water undertakes, the licence should
42 require that the catchment report, which includes a
43 discussion of the outcomes of previously planned catchment
44 activities and the associated expenditure budgets, should
45 include a discussion of previously planned activities and
46 the associated expenditure budgets.
47

.5/12/06 39

Transcript produced by ComputerReporters

1 The stakeholder views on that area were that Hunter
2 Water doesn't agree with the proposal to update the
3 monitoring and reporting requirements in catchment
4 management. Landcare prefers a more comprehensive but less
5 complex reporting format. DNR and TEC agree with the
6 proposed update of the monitoring and reporting
7 requirements in catchment management.
8

9 I would like to now turn to the matter of system
10 performance measures. The Tribunal engaged some
11 consultants, GHD, to undertake a review of Hunter Water's
12 system performance standards as part of its end of term
13 review. The review also covered some system performance
14 standards for Sydney Water. GHD consulted closely with
15 Hunter and the secretariat to review the standards for
16 water continuity, water pressure, sewer overflows, in a
17 process that sought to maximise value to customers.
18

19 The review proposed the form of the standards, but,
20 recognising that these standards may be major drivers of
21 capital expenditure, recommended that the targets be set
22 only after a period of study by Hunter Water in which costs
23 and benefits of targets could be accurately evaluated.
24

25 The review envisaged that targets should be developed
26 in conjunction with the review of the pricing process, thus
27 meshing the standard-setting process with the funding
28 process. Hunter Water has indicated that it would prefer
29 immediate implementation of the new standards.
30

31 Looking at the measures in detail, the first measure
32 we looked at is the water continuity standard. The
33 existing continuity standard is that the number of
34 properties with cumulative interruptions of more than five
35 hours shall not exceed 14,000 properties in a year. GHD
36 cited research that indicated customers were most concerned
37 with multiple interruptions, so they proposed two water
38 continuity standards: one, the number of properties
39 experiencing three or more unplanned interruptions in a
40 year - that's the multiple interruption issue; and, two,
41 the number of properties that experienced more than five
42 hours of unplanned interruptions in a year - that's a
43 cumulative measure, similar to the existing standard, but
44 considering only unplanned interruptions.
45

46 You can see that one of the key differences between
47 the existing and the proposed is the existing includes

.5/12/06 40

Transcript produced by ComputerReporters

1 planned interruptions, whereas the proposed are both on
2 unplanned interruptions.
3
4 Looking at the issue of water pressure, GHD proposed
5 that the existing water pressure standard be unchanged.
6 The existing standard is no more than 4,800 properties will
7 experience one or more instances where the water pressure
8 falls below 20 metres for more than 30 minutes in a year.
9 In this case the target of 4,800 properties will need to be
10 re-evaluated as part of this process.
11
12 Looking at waste water standards, the existing
13 standard is that no more than 6,500 properties have
14 uncontrolled sewer overflows in a financial year, other
15 than on public land. They are dry weather overflows. GHD
16 proposed two waste water standards: one is the number of
17 properties experiencing dry weather overflows in a
18 financial year - that's a straight-out number; and,
19 secondly, the number of properties that experience dry
20 weather overflows three or more times in a year - that's
21 the multiple event standard coming in again.
22
23 Some further issues considered by GHD in its review
24 were an appropriate confidence grading of the system that
25 quantified efforts of accuracy should be incorporated for
26 quality assurance; a monitoring and reporting protocol
27 should be developed; and relevant initiatives from the
28 national water initiative benchmarking process should be
29 called up by the licence and, where appropriate, these
30 national water indicators should replace existing
31 indicators.
32
33 Looking at what the stakeholders had to say about
34 this, Hunter Water supports the IPART standard-setting
35 process. TEC made the point they wish to maintain service
36 levels and believe that current indicators are appropriate.
37 Hunter Water and DNR believe that the indicators should be
38 rationalised. PIAC supports postcode analysis for system
39 performance aimed at investigating whether overall
40 compliance masks localised non-compliance.
41
42 Finally, the last topic I had was asset management.
43 Water utilities such as Hunter Water have extensive,
44 infrastructure, typically composed of long-lived assets.
45 Hunter Water has infrastructure which is currently valued
46 at \$1.9bn. The Act requires that the operating licence
47 includes the terms and conditions which require Hunter

1 Water to ensure that its systems and services meet honesty
2 and performance standards specified in the licence in
3 relation to water quality, service interruptions, price
4 level, and other matters determined by the governor.
5
6 Asset management considers the whole life cycle of
7 assets from conception to disposal. It incorporates
8 planning processes to identify required service levels in
9 both the short and long-term, and ensures that the entire
10 asset portfolio is adequate to meet these service levels.
11 It also includes a risk assessment process to ensure that
12 the current and future asset portfolio is commercially
13 viable and adequate to prevent system failure. Processes
14 cover procurement, operation, maintenance and disposal to
15 ensure that the assets are provided efficiently at a
16 sustainable and affordable cost, and review and reporting
17 processes to ensure that the agency is accountable for its
18 actions and its resources.
19
20 New South Wales government policy requires agencies to
21 develop a strategic asset management framework. Hunter
22 Water already manages its assets consistent with this
23 government policy. An asset management obligation in the
24 licence provides transparency in establishing that present
25 and future service levels form the basis of asset planning;
26 public confidence that the asset management process
27 includes a comprehensive analysis of risks in meeting these
28 service levels; and continuous asset management improvement
29 driven by the board and the senior management team, based
30 on formal feedback from regular review and reporting.
31
32 The secretariat proposes that an asset management
33 obligation be included in the licence consistent with the
34 provisions of other water utility licences. It believe
35 that the asset management obligation should have two
36 components: an annual high-level state of the assets
37 report; and, two, a full audit of the asset management
38 system undertaken once in the life of the licence, that is,
39 about once every five years, reflecting the long-lived
40 nature of Hunter Water's asset base.
41
42 As you know, the Tribunal determines Hunter Water's
43 prices typically as a multiyear price path. In doing so,
44 the Tribunal needs to become acquainted with many of the
45 issues that form part of an asset management review. The
46 full asset management audit, therefore, should be
47 coordinated with the Tribunal's pricing review to reduce

1 duplication between these pricing and regulatory roles.
2
3 Stakeholders views on this matter are that Hunter
4 Water recognised the benefit of an asset management
5 framework, but suggested that inclusion in the licence is
6 unduly prescriptive. TEC supports the inclusion of asset
7 management requirements in the licence.
8
9 So looking at the issues that I believe are important
10 issues in this areas are: first, looking at the water
11 quality and catchment management, is the finetuning of the
12 licence requirement satisfactory? Does the process for
13 system performance and standards indicators represent
14 improved regulation? Is a formal management proposal
15 required in the licence? Thank you.
16
17 THE CHAIRMAN: Thanks, Bob. We might kick off with
18 you PIAC again, Kevin.
19
20 MR YOUNG: There are a lot of topics there to cover. With
21 the first one, water quality, from the Hunter Water
22 viewpoint that's our number one issue from the customers.
23 Whenever we look at customers, they say water quality is a
24 key issue. My view on the Department of Health - they can
25 talk for themselves - is that we have a very good
26 relationship with Health in covering water quality through
27 a memorandum of understanding.
28
29 The fact that the operating licence occurs once every
30 five years and prescribes something, such as the adoption
31 of the 2004 water quality standards, we support that. But
32 I think the point to be made is that when new licence
33 standards come out, we are bound to move in between the
34 five years and adopt them through our relationship with
35 Health. That's been our practice in the last decade and
36 will continue in the future.
37
38 The new issue coming forward is to go to the new risk
39 assessment framework. Again, we are going to go for the
40 catchment to tap approach. We are starting in the
41 Chichester catchment and we'll follow that through to other
42 areas. I will leave that to my colleagues from Health to
43 comment further.
44
45 Catchment management and protection - I think Hunter
46 Water has an enviable record in transferring any of our
47 lands to Department of Environmental and Conservation to

.5/12/06 43

Transcript produced by ComputerReporters

1 create new national parks or new wilderness areas. If you
2 look at Barrington Tops wilderness area, they have Hunter
3 Water land around Chichester. If you look at Tomaree
4 National Park, that is a water reserve in the Tomaree area.
5 If you look at our negotiations this year, we are going to
6 transfer the North Stockton water reserves to North
7 Stockton National Park. The Tomago reserves are to go the
8 Tomago Conservation Area.
9
10 Across all the areas that we have direct influence on
11 on our own land, we have a strong record of looking after
12 water quality but also conservation. They become excellent
13 national parks because the conservation quality of the land
14 is so high.
15
16 That probably takes us to the Williams catchment. A
17 number of reports have come in about the different
18 qualities of the catchment, some of them quite pessimistic.
19 My view is that I go back to the 1997 report by Peter
20 Crawford looking at the Williams catchment and the Healthy
21 Rivers Commission. I think he comments there that there is
22 no doubt that the Williams River, in comparison with many
23 of the rivers of New South Wales, is relatively healthy. I
24 certainly get a different view from Peter Crawford when I
25 look at the Hawkesbury/Nepean report and his examination
26 of those issues.
27
28 We have done substantial monitoring of the Williams River
29 and the water quality and we have found it to be good to fair.
30 The dominance of data is at the medium levels. We have
31 done intensive monitoring and it shows significant
32 improvements in a number of key parameters and we
33 provide that annually to IPART. I think that the news of the
34 death of the Williams River is, like Mark Twain said,
35 probably a bit exaggerated. We think it is in a relatively good
36 position.
37
38 There's a general question about whether we should have
39 transposed the Sydney Catchment Authority requirements
40 on to the Hunter as a manager. Apart from the submissions,
41 I guess, from the Tribunal, my belief is they're different
42 catchments. Sydney Catchment Authority was set up for
43 different reasons. They have different regulatory powers
44 given to them. It's just the nature of the catchments is
45 different.
46
47 For the Williams catchment - and I do think it's in

.5/12/06 44

Transcript produced by ComputerReporters

1 good condition - it's generally the parts that are not
2 national parks or wilderness parks, it's generally farmland
3 throughout the catchment. We've done a lot of work - I will
4 not go over the work set out in our submission - with the
5 the community on that, but I will give one example. A
6 Healthy Rivers recommendation asked Hunter Water to
7 provide assistance for riparian landholders between Clarence
8 Town and Seaham Weir. We worked with the Department of
9 Resources and provided at no cost the supply of fences,
10 Natural replanting riverbanks and livestock water supply,
11 and the Department of Natural Resources provided free
12 design services. It was an abject failure. We could not get the
13 farmers to come in on that process.

14
15 After five years, in consultation with the Department
16 of Natural Resources, we abandoned that and we put in a
17 best practice demonstration farming project where the
18 farmers ran open days and talked to other farmers about the
19 way forward. We are getting great success from that with
20 farmers talking to farmers, rather than regulators telling
21 farmers what to do. We have seen that as a great success
22 moving forward.

23
24 On the system indicators, there are major changes
25 proposed by IPART to our standards, I guess with a light on
26 the hill of seeing some consistency between us and Sydney
27 Water, and I think that's something that we support. We
28 also note that the national water initiative has new
29 indicators coming in and I think IPART and the consultants
30 said, as a light on the hill: we want to see some
31 consistency there across Australia.

32
33 I think the consultant has done a very detailed job in
34 looking at what is important to customers. I guess that's
35 the consultant's role. I can't really argue with any of
36 the recommendations that have come out. It is true, for
37 example, in outages for customers, that they are seen as
38 very important, the frequency and duration of
39 interruptions. That comes out of all the research and the
40 measures have covered those areas - sewer overflows, I
41 think the same. So you will get general support from
42 Hunter Water for the measures that have been outlined.

43
44 With implementation, our only issue is we would like
45 to implement them as early as possible. With new measures
46 we have to make sure that we have adequate data that the
47 Tribunal can set targets which will not result in being too

1 costly to the community on the basis of not having perfect
2 information. They are areas I think we need to discuss
3 further.

4
5 On asset management, I will clarify our position. We
6 see ourselves as a strong asset management company and we
7 would be prepared to have something on asset management in
8 the operating licence. It's our business. We have
9 utilities from all around the world come to visit Hunter
10 Water to discover what we are doing in asset management, so
11 it's something that we want to keep ahead of the game on.
12 Our proposal I think is that the Water Services Association
13 of Australia have developed an asset management
14 benchmarking framework which they are proposing that we
15 all take part in, all major water utilities, once every five
16 years as a comprehensive, independent, external review. We
17 are happy within a licence time period of five years to
18 have that undertaken and to make the results public. If
19 that requires us every five years to also produce an asset
20 management improvement plan, we would do that as well.

21
22 I think that's probably more than my three minutes. I
23 thank you for your relaxing of the rules.

24
25 THE CHAIRMAN: Thank you. We'll go to Health.

26
27 MR BYLEVELD: First of all, New South Wales Health
28 acknowledges the efforts of Hunter Water Corporation with
29 maintaining the memorandum of understanding with New
30 South Wales Health. That really is the basis for our
31 cooperative relationship. Also, we are pleased to see the
32 efforts to implement the risk-based framework for drinking
33 water quality.

34
35 Last year the New South Wales government endorsed the
36 Australian drinking water guidelines which were published
37 in 2004 by the National Health and Medical Research Council
38 and the National Resource Management Ministerial Council.
39 I brought a copy to wave around: it's a rather intimidating
40 document. In essence it represents the world's best
41 practice - in fact, the World Health Organization followed
42 the Australian lead in developing its latest drinking water
43 guidelines.

44
45 What it does is that it moves the focus of quality
46 away from the end measures, away from the testing
47 laboratory to how the system is run, from the source, the

1 catchment, right through to the consumer; carrying out a
2 thorough review to identify potential hazards, whether
3 that's blue-green algae causing problems, whether it's a
4 microbial contamination that might make people ill. Once
5 those hazards are identified, the risks associated with
6 those hazards is assessed and checks made to make sure
7 those risks are appropriately managed.

8
9 There's still a place for water quality testing, but
10 it's in the context of a framework where the risks are
11 thoroughly reviewed and a management plan is developed.
12 This is the approach New South Wales Health would like to
13 see incorporated in the operating licence, that Hunter
14 Water would employ this framework for drinking water
15 quality which forms part of the guidelines.

16
17 That framework should extend to waste water and water
18 recycling operations so the same preventative principles
19 apply. We can then look at water testing and say, yes, all
20 the criteria are met; we have certain mandatory
21 characteristics and, yes, they meet that. But equally we
22 should ask, if NH&MRC set the target at 98 per cent of
23 samples within guidelines or 95 per cent of samples are
24 within guidelines, what is done about the 5 per cent or the
25 2 per cent of samples that fall outside the guidelines? It
26 could be those rare occasions when a problem exists for the
27 community. That has been an example in other parts of
28 Australia and overseas. I'm not saying it would be for the
29 Hunter. That is, I suppose, a brief summary of NSW Health's
30 position. I'm conscious of the time. Thank you,
31 Mr Chairman.

32
33 MR BANYARD: I would like to make comments on the
34 standards, and the standards are based on the impact on
35 properties. Given that a considerable number of properties
36 can have a number of occupants within that property, I
37 believe the standard should be based on households, if you
38 can understand the difference.

39
40 MR YOUNG: I think someone might clarify this, but I think
41 the new proposal by IPART is to move towards, for example,
42 adages in a block of flats. Hunter Water would be
43 requested to count each of the block of flats as an adage -
44 each of the units.

45
46 MR BANYARD: I believe that is what should happen, and that
47 needs to be clarified, what should happen, but the results

1 in that consultant survey indicate it is listed as per
2 property, so we need to have a definition, if you like. If
3 you are going to use another definition of property, that
4 means you need to define what it is. But it should
5 definitely count all of the people who are affected,
6 because clearly if you affect the people in a little single
7 dwelling in Wickham here or you affect a whole block of
8 units in one of these big towers we have alongside us here,
9 there is a significant impact.

10
11 Tenants have rights and can spend landlord's money to
12 resolve emergency water supply and drainage issues. As far
13 as I'm aware, landlords have no way of claiming those costs
14 back from Hunter Water if there is an error or a problem,
15 because the tenant sees the landlord as the method of
16 resolving the dispute. So if there is an interruption to
17 the water supply to the house, the tenant calls and the
18 landlord would have to pay for it.

19
20 MR LOUYS: Hunter Region Land Care has a particular issue
21 in relation to asset management. We view the asset as the
22 catchment itself. You indicated earlier that Hunter Water
23 is slowly giving that asset away to other departments.
24 Obviously by giving that asset away you are losing control
25 of that asset, and that is the major concern that we have.

26
27 MR YOUNG: By way of clarification, we are transferring
28 the land that we have responsibility to to the Department
29 of Environment and Conservation, but there will be a plan
30 of management with a focus on conservation of the land, and
31 that will be a joint management with ourselves and the
32 Department of Environment and Conservation looking at the
33 key conservation areas and looking at improvement programs
34 over time. So you will see it is a much more robust
35 process than there ever has been, and also making something
36 of a wilderness area or a national park, I think for all
37 times sets it, so that it can't be developed previously.
38 There will be very big risks of it being developed, but if
39 we make it a wilderness area or park it preserves it for
40 the community. So we have conferred your concerns and
41 there will be a joint plan of management where there will
42 be community input into that as well.

43
44 MR VHORA: By way of comment in terms of water quality,
45 requirements and duplication thereof, I want to make a point
46 that any requirement under a water management licence
47 for water quality would only be focussing on the impact of

1 Hunter Water's actions on the water sources, or the other
2 component might be that you might acquire some sort of
3 water quality monitoring as a resource management issue.
4
5 So when we are looking at the water duplication issues
6 between different regulatory instruments, that is the
7 focus. We will not be seeking anything other than
8 assessing the impact of Hunter Water's activity on the
9 water course.
10
11 I just noticed in the discussion paper, or the
12 information document, as part of this workshop, that there
13 was a proposition to include bulk water quality for the
14 Seaham Weir and links to the water management licence. We
15 are currently looking at the operations of the Seaham Weir.
16 In terms of management of the weir, the focus should be how
17 it impacts downstream, and how it is managed in terms of
18 the extraction activity.
19
20 We don't think the landholders on the banks of the
21 weir and the impact of Hunter Water's operations on their
22 land is a natural resource function per se, so we will be
23 reviewing the current licence does include those conditions
24 but we are in the process of reassessing what a licence, a
25 water management licence will contain in terms of the weir
26 and the water quality monitoring for that section would
27 need to be reassessed as well.
28
29 MR MARTIN: Certainly in relation to water quality we
30 think it is appropriate that the licence have the most
31 up-to-date standards in place. We certainly think the 2004
32 guidelines need to be included in the licence. I don't get
33 a sense that there is any disagreement on that score.
34
35 In relation to recycled water, we don't think it is
36 possible to have one particular standard of recycled water
37 stipulated because it simply needs to be fit for the
38 purpose for which it is supplied, and the actual standards
39 required will vary from application to application. So it
40 is simply more appropriate in that case that the contracts
41 be audited and that Hunter Water be required to ensure that
42 the recycled water they provide to each customer is fit for
43 the purpose for which it is provided.
44
45 In relation to catchment management, we support the
46 retention of the current requirement to report the activity
47 that Hunter Water undertakes in compliance with other

1 regulatory instruments. We note the Tribunal's point that
2 that actually places no compliance costs on the corporation
3 in itself, but we think it is important to have that
4 reporting in order to ensure that there is a comprehensive
5 picture of the corporation's performance as part of the
6 operational audit process.
7
8 On the subject of system performance, I think a very
9 important principle is that there should be no diminishment
10 in current performance. There are many areas in which
11 Hunter Water has historically performed quite well against
12 its operating licence standards and has in fact exceeded
13 them.
14
15 There is always the issue of the appropriate degree of
16 head room in performance standards between what is the
17 historic level of performance and what the actual operating
18 licence standard should be. We think that while there
19 needs to be some head room, it is important that that not
20 be excessive because the underlying principle should be
21 that there should be no diminishing in performance that
22 would still allow Hunter Water to appear to be in
23 compliance with its licence.
24
25 The first impressions that we would have on the GHD
26 report on standards is positive, but we haven't had the
27 opportunity to examine it in detail, but we certainly
28 support the moves towards indicators and standards for
29 multiple events. We think that is a very important step
30 forward.
31
32 In regards to asset management we agree with the point
33 the Tribunal made in the discussion paper that whilst
34 system performance standards and indicators can give you a
35 picture of current performance, they may not readily make
36 apparent the possibility of underinvestment in asset
37 management producing failures in the future, so we think it
38 is important that given the importance of some of the
39 assets that Hunter Water has and the consequences of
40 failure of those assets, we think it is important that
41 there be a requirement to maintain an asset management
42 strategy in the licence and that those requirements should
43 be similar to those applying to other utilities.
44
45 THE CHAIRMAN: I might just ask you for your reaction to
46 the proposition that was put forward by Hunter Water which
47 was essentially that they be part of an asset management

1 audit carried out by all utilities.

2
3 MR MARTIN: I would need to know more about the actual
4 nature of that process and how that would fit in with
5 operating licence audits, whether it would be a separate
6 process or whether the operational audit would be able to
7 incorporate the findings of that and reflect on those as
8 well. So we probably would need to see some more detail on
9 that before we could comment fully.

10
11 THE CHAIRMAN: I will come back to you, Kevin, to clarify
12 that.

13
14 MR WELLSMORE: We would want to give support to the
15 inclusion of the 2004 guidelines in the licence, I suppose
16 for consistency, part assurance for the community that all
17 necessary measures have been taken. Again, Hunter Water
18 and NSW Health have worked well together, and I'm not
19 aware of any particular issues that have arisen about water
20 quality.

21
22 Having said that there are a couple of instances in
23 other parts of the state where water quality is an issue
24 for communities, so we are keen to see the good practice
25 and the very good performance achieved in the Hunter
26 continue. We are perhaps a little bit agnostic about the
27 level of detailed reporting between Hunter Water and NSW
28 Health. That might be something that is best left to be
29 resolved through the MOU.

30
31 On the performance standards, we would actually agree with
32 the consultants in the proposed change to the way that
33 performance standards, incidents or performance was counted
34 or measured. The idea of counting the total number of
35 times where a standard of service is not met, sort of a
36 gross number of properties that don't get a particular
37 standard, is probably a more accurate way of tracking what
38 is happening, although I gather that one of the changes
39 that is proposed is that we count different things now, so
40 that rather than counting one more interruption, it would
41 be three or more interruptions. I think for us, we would
42 question whether that issue in the end promises a reduced
43 level of performance for customers.

44
45 Certainly it is important that Hunter Water and the
46 Tribunal and customers are able to understand the
47 difference between a general or average performance and the

1 performance that residents in particular pockets of Hunter
2 Water's area might be experiencing. That is certainly an
3 issue that members of the community have raised when the
4 operating licence has been reviewed in the past.

5
6 Just to conclude, again like Leigh, I'm short on ideas
7 for how asset management plans would be put together, but
8 given that the Hunter Water, I assume, has a very
9 sophisticated and detailed form of planning around its
10 asset management, I would have thought it was reasonable to
11 amend the licence to reflect that current practice and to
12 include asset management plans in the licence.

13
14 THE CHAIRMAN: I want to pick up something you passed
15 over quickly which is the performance in particular pockets.
16 I think in your submission you wanted post code analysis.

17
18 MR WELLSMORE: We are not necessarily arguing for
19 post code analysis. It is more a sense of a level of
20 reporting which comes down to a fine enough level without
21 being individual streets perhaps, but a level of reporting
22 which is fine enough to be able to show up the areas where
23 there is particular chronic problems.

24
25 THE CHAIRMAN: Yes, I was wondering in my own mind
26 whether post codes would do that. You can live a long way
27 from my place and be in the same post code area. We might
28 ask Kevin how onerous it is. I can see some benefits. There
29 was one other thing I asked you to clarify.

30
31 MR YOUNG: The post code analysis, suburb analysis, is
32 something that is prescriptive in the licence that we must
33 do. I think we call that the tablecloth diagram in the
34 organisation we have to prepare. I brought an example.
35 This is one of a number that we do across different
36 complaints. It is our post code analysis that we prepare
37 and have to give to IPART on a regular basis of individual
38 post codes or suburbs going down by month and by category
39 and by frequency and number.

40
41 This is sewer overflows. We should probably print
42 this out on a better font so people can read it, but it
43 becomes much bigger. The reality is that it is a report
44 that we prepare and we print out and we sticky tape
45 together and send down, but it is not something that we
46 actually use in the organisation. I'm not even sure, if it
47 is available, who uses it.

1
2 On sewer overflows we have a requirement on a global
3 number of sewer overflows. With the new licence criteria
4 we have a frequency of overflows for the individual. Then
5 we have a rebate on an individual. If we go beyond a
6 certain number of sewer overflows we give a rebate on the
7 bill. So we have got from the individual to the global,
8 but you have also got, I think if we all agree that asset
9 management comes in, that part of the asset management will
10 be looking at the processes, looking at the assets and the
11 failures, drawing a link between the decisions made to take
12 action.

13
14 So our belief is we can slice and dice the data as
15 required, but post code analysis does not provide anything
16 that we find useful in our organisation. That is not to
17 say that because we are regulated we produce it. We just
18 don't see a need compared to our asset management where
19 our global and individual and our rebates is critically
20 comprehensive.

21
22 On the asset management, it always sounds like if you
23 are a water utility you are proposing not just to adopt the
24 Sydney Water that we are trying to shirk it and we are
25 playing a thimble game here to move away. We are saying
26 that since the Sydney Water requirements went in there are
27 better practices in the industry and we would like to move
28 towards that, so what we are proposing in our licence will
29 be something that we hope will go into Sydney Water
30 Corporation's next review.

31
32 What happened is that the industry from the early days
33 looking at asset management when it went into the operating
34 licence said "This is the way of the future and it is
35 important and we need something really comprehensive", so
36 we got the best people in the industry and they developed
37 an asset management benchmarking framework covering 960
38 specific asset management activities across seven
39 functional areas of business planning, asset management,
40 asset capability, asset acquisition, asset operations,
41 maintenance of assets, disposal and renewal processes, and
42 information systems, drainage, pool asset management. They
43 set it up as a sort of computerised interactive framework
44 with independent certifiers that have to go through a
45 training course.

46
47 It is also benchmarking that has been undertaken that

1 involves not just the major water utilities in Australia
2 but internationally. There is work involved in the UK and
3 also a number of American and Canadian utilities involved
4 in the international benchmarking. The Water Services
5 Association got an independent international consultant, WS
6 Atkins, who the Tribunal have used before. They gave an
7 independent review of the framework and an international
8 viewpoint, and their comments are that it is robust,
9 comprehensive and it is fit for purpose.

10
11 So we have a peer review, independent, most
12 comprehensive benchmarking in asset management available,
13 decided to put into action part of that process, and this
14 is a commitment that that independent report will be
15 produced once every five years, mandatory, and that will be
16 a transparent, comprehensive, independent review of asset
17 management processes that will be available for public
18 scrutiny. It will note in each of those areas where we sit
19 with the rest of the water industry, not just in Australia
20 but internationally, and where are the areas that we need
21 to improve our game. I think flowing on from that report
22 we will do an asset management improvement program.

23
24 The only other issue that has been raised is should we
25 do could that every year. It is just a regulatory burden.
26 What I do know from being in the water industry is that the
27 assets have long lives. They are 100-year, 110-year live
28 assets, and it doesn't all of a sudden go skew-whiff in one
29 year. You pick five years as a reasonable time to look at
30 the processes, drive improvement and then reassess it, and
31 it also coincidentally matches the time period for an
32 operating licence review. Does that clarify the issue
33 Chairman?

34
35 THE CHAIRMAN: It does for me.

36
37 MR MARTIN: I would keep an open mind on that. I would
38 certainly be pleased to see any more information you can
39 provide us with on that. If you could do that at the same
40 time as the information on multicriteria analysis, that
41 would be helpful.

42
43 MR YOUNG: We will merge them together.

44
45 MR MARTIN: That would be in the interests of regulatory
46 efficiency. The important thing for us is that there be an
47 asset management strategy, whether that takes the form of

1 the current requirements for Sydney Water or what you are
2 proposing, it ultimately would depend on us forming a view
3 as to which is the better. If your model is better, then
4 we would support that for Sydney Water and the catchment
5 authority as well, but we would like to see more detail on
6 that.

7
8 MR COX: I want to raise one issue about system
9 performance standards. I do personally have some anxiety
10 about moving from where we are now to a new system of
11 performance standards. Those standards are ones that Hunter
12 Water required to achieve the condition of their licence.
13 They can have major implications for the asset management
14 strategies and expenditures of Hunter Water. If we set the
15 system performance standards too low, customers do not get
16 the protection they need. If we set them too stringently
17 customers will be paying for things they don't necessarily
18 value.

19
20 That being the case, I think we should proceed with
21 some caution about moving from where we are now to some
22 completely new system of performance standards, because it
23 will be very difficult to set them appropriately without
24 the benefits, I would have thought, of several years at
25 least of data. So I have that anxiety which I would like
26 to record here in case people want to persuade me not to
27 have this view.

28
29 THE CHAIRMAN: No doubt we will discuss this in the
30 Tribunal. An issue is how radically different they are.
31 If they were radically different your case is much
32 stronger.

33
34 MR YOUNG: I think we can provide more information on
35 that. If we see this measure as being a light on the hill
36 to allowing national indicators, national audit initiative
37 indicators, and also a light on the hill in terms of
38 similar indicators for us and Sydney Water, then we would
39 like to start as soon as possible. That is our belief.

40
41 I point out that the difficulty is if we decide the
42 measure is right, then you decide what target do we set.
43 That is the question. If you set the target too tight, our
44 board will say meet it at all costs and we will spend any
45 sort of money. So that is the risk you face.

46
47 I think we can provide more information. We do have

.5/12/06 55

Transcript produced by ComputerReporters

1 excellent data for those indicators, I believe the vast
2 majority of them, and we should be able to go back for some
3 time and replicate what our performance would have been for
4 that new measure going back in time and maybe that is the
5 way that we move forward as well. If we can provide you
6 with back data for a significant period you can look at the
7 trend and use that as a mechanism. We need to provide that
8 data to you. I appreciate that.

9
10 MR COX: And also some indication of how accurate it is.

11
12 MR YOUNG: Yes.

13
14 THE CHAIRMAN: Is there anybody in the rest of the room?

15
16 MR MEADOWS: I want to draw your attention to the after
17 market water in the reuse of water. Deciding to say fit for
18 purpose might be fine for the immediate issues at hand, but if
19 the reuse market is to be used more in the future, trying
20 to move so that there could be interconnection of pipes or
21 considering those possibilities would be an advantage to
22 consider, to move towards setting a common standard,
23 maybe allow those who do need a common standard
24 to have a special arrangement. We see in the future that
25 rather than relying constantly going to the environment to
26 take more and more water, that the reuse market is
27 something you could put in a closed system, a loop system
28 and add value to that water significantly over time. So
29 moving towards a single standard for the majority of uses
30 is useful in facilitating that process .

31
32 The second thing I point out is system failures. If I
33 am the person who has the sewage overflow in my place, I
34 take no comfort in being one of those people who falls
35 below the cut-off standard. So one thing that was actually
36 put in our submission was that we should be look towards
37 continuous improvement along the lines of how many
38 accidents within Hunter Water are considered adequate
39 before we say there is an unsafe work environment. I know
40 we are not talking about deaths here, but we are talking
41 about water quality and health related issues, so some sort
42 of encouragement for continuous improvement over time is
43 of more value to people than saying they compare well to
44 Sydney Water or some other arbitrary standard.

45
46 Finally, in regard to the catchment of the Williams
47 River, we acknowledge that this is probably the best

.5/12/06 56

Transcript produced by ComputerReporters

1 subcatchment in the Hunter. We acknowledge there has been
2 a lot of work done, but as we said in our submission, the
3 catchment is far from what we consider stable and robust
4 enough to be able to deal with the emerging issues such as
5 climate change, vermin encroachment, and other issues. If
6 we look at the last catchment management plan for the whole
7 of the Hunter there is no light at the end of the tunnel
8 that actually says that the environment of the Hunter can
9 be robust enough to deal with all issues.

10
11 Now, given that that Williams River is a source of
12 virtually all of the water that we choose to rely on, that
13 is an asset worth protecting and enhancing and not just
14 accepting what the catchment management authority thinks
15 is a fair standard. The Williams River is a special
16 subcatchment that requires a standard far above the rest of
17 the rest of the catchment area, so we would be looking
18 towards some sort of encouragement within the operating
19 licence to set environmental benchmarks to ensure that
20 robustness over time with growth on demand.

21
22 THE CHAIRMAN: Thank you. I think we might move to
23 the next topic. My sense is that there was a fair amount of
24 agreement in this session that we are just concluding, some
25 people reserving their positions so that they can get more
26 information, including the Tribunal. I think there was a
27 fair amount of agreement in that session. Back to you,
28 Nigel.

29
30 MR RAJARATNAM: This presentation examines Hunter
31 Water's environmental protection responsibilities in the
32 operating licence. First of all, I want to give you an overview
33 of the current licence obligations, and then summarise some
34 of the views put to the Tribunal in the submissions, and then
35 outline some of the areas where we hope to seek further
36 comment from you today.

37
38 The existing licence conditions fall into three areas:
39 first, Hunter Water is required to prepare a five-year
40 environmental management plan which incorporates some
41 environmental indicators and targets; secondly, they are
42 required to measure and report against environmental and
43 ecologically sustainable development indicators which
44 reflect Hunter Water's impact on the environment; and,
45 thirdly, they are required to work towards improved energy
46 efficiency and reduced greenhouse gas emissions through
47 participation in the New South Wales Government's energy

.5/12/06 57

Transcript produced by ComputerReporters

1 smart business program.

2
3 So, looking at the first obligation, the environmental
4 management plan, the aim of the plan is to demonstrate
5 Hunter Water's commitment to conduct its operations in an
6 environmentally sustainable fashion and to implement the
7 strategies and show progress towards meeting the ultimate
8 objective. One of the options that we put in the issues
9 paper was for Hunter Water to continue to prepare the plan,
10 but to have the environmental management system, the
11 overall framework, certified to the relevant Australian
12 standard.

13
14 What were people's views on this? Hunter Water,
15 firstly, proposed that it should change the first term of
16 the plan to run for six years instead of five years, and
17 then after that to go on for five years, but the first year
18 to be extended to a six-year period. Hunter Water didn't
19 support the certification to the relevant Australian
20 standards. Other stakeholders, however, supported that
21 certification. The other issue raised was the Hunter
22 Region Landcare Network also proposed the plan should be
23 rebalanced towards cheaper forms of renewable energy.

24
25 So the second element, the obligation of the licence
26 to follow the environmental indicators, Hunter Water
27 currently reports on 41 environmental and ESD indicators in
28 its plans. It publishes performance against these
29 indicators in the annual environmental and ESD indicators
30 report. Some of these indicators are descriptive in nature
31 and not quantitative, so one of the options put forward in
32 the issues paper was for Hunter Water to report against the
33 same indicators that form part of Sydney Water's operating
34 licence.

35
36 What was everyone's view on that? Hunter Water didn't
37 support the adoption of the ESD indicators in Sydney
38 Water's licence. Instead, it proposed a review of the
39 indicators in line with the national water initiative
40 measures, but some refinement of those for consistency with
41 Sydney Water's indicators and also to take into account
42 local conditions. It also cautioned against regular
43 changing of the indicators because once you build up a time
44 series of indicators, if you keep changing them, you have
45 lost that time series.

46
47 Other stakeholders did support aligning the indicators

.5/12/06 58

Transcript produced by ComputerReporters

1 with the national water initiative indicators, but some
2 supported some level of additional reporting to take into
3 account local issues as well.
4
5 The final obligation is on the energy management side.
6 The government requires a lot of New South Wales government
7 businesses to develop these energy savings action plans and
8 Hunter Water has prepared one. The licence requires Hunter
9 Water to participate in the energy smart business program
10 which I think is a program that is no longer around.
11
12 In the issues paper one option that the Tribunal put
13 forward was for Hunter Water to simply report on the
14 progress against reducing energy consumption and
15 increasing renewable energy, supported through a range of
16 potential indicators as well.
17
18 Stakeholders views? Hunter Water didn't support
19 additional requirements in the licence, although it did
20 support some level of possible indicator reporting. Other
21 stakeholders appeared to support some formal indicator
22 reporting in the licence. I think it was the Hunter
23 Regional Landcare Network which suggested a couple of
24 indicators, one being the total volume of greenhouse gases
25 that Hunter Water generates from its operations in a year,
26 and the second one being the net volume of greenhouse gases
27 it removes from the atmosphere. Hunter Water Landcare
28 also recommended that Hunter Water Corporation nominate
29 a greenhouse target which would be incorporated into the
30 licence, but it's a long-term target, and to be able to
31 show every year its progress towards meeting that long-term
32 target.
33
34 Essentially this is a summary of the issues we would
35 like you to focus on in the debate today. I will just
36 quickly go through them. Firstly, whether the
37 environmental management plan should be allowed to run
38 for six years from 2007; should the plan be certified to the
39 relevant Australian standard and, if not, what alternative
40 mechanisms are there to ensure it reflects best practice;
41 should there be a requirement in the licence to rebalance
42 the plan towards cheaper forms of renewable energy.
43
44 In regards to the indicators: should Hunter Water be
45 required to report the ESD indicators as proposed in the
46 national water initiative, but with some focus on
47 additional reporting to take into account local issues. On

.5/12/06 59

Transcript produced by ComputerReporters

1 energy management: should Hunter Water be required to
2 report on those two long names there, two different
3 indicators, on greenhouse gas emissions and greenhouse gas
4 abatement. Then, should there be greenhouse targets in the
5 licence and should Hunter Water be required to show
6 progress towards those targets on an annual basis.
7

8 THE CHAIRMAN: Thank you. In order to vary the
9 discussion, I propose to start from this side of table.

10
11 MR MARTIN: Certainly, in relation to the environmental
12 management plan, we support a retention of that plan. We
13 think it's quite important that the requirement should be
14 retained. We believe that requiring the environmental
15 management strategy to be certified to the relevant
16 Australian Standard is a worthwhile initiative and we are
17 very supportive of that.
18

19 In relation to the environment and the ESD indicators, where
20 it is possible to align those indicators with both Sydney
21 Water Corporation and Sydney Catchment Authority and
22 the national water initiative, that should be done in order
23 to allow benchmarking of performance. However, we need
24 to bear in mind there will be some circumstances that are
25 specific to Hunter Water and there will certainly need to
26 be some indicators that are Hunter Water specific, and we
27 should not sacrifice those just in the name of having
28 complete commonality with other utilities. Where it can be
29 achieved, that's a very important objective, but we need to
30 bear in mind the local situation as well.
31

32 The other point of energy management, I think it's
33 important to recognise that water utilities are necessarily
34 major energy consumers. Just in the nature of pumping
35 operations and sewage treatment operations, it is
36 inevitable that they will be major energy consumers. In
37 that respect, energy management is a key area of
38 environmental performance that should be addressed in the
39 operating licence. We think that it is very important that
40 the energy saving plans requirements be reflected in the
41 licence and that that licence act as a tool towards
42 reducing the environmental impact of the corporation by
43 encouraging it to minimise both its energy consumption but
44 also to move towards more sustainable energy sources to the
45 extent possible.
46

47 THE CHAIRMAN: Thank you.

.5/12/06 60

Transcript produced by ComputerReporters

1
2 MR LOUYS: Obviously we have stated a number of
3 recommendations in our submission in relation to
4 environmental issues and environmental management. We
5 reiterate our support for certification of an environmental
6 management system. However, we acknowledge that also in
7 various industries there are trends whereby a group of
8 industries eventually perform their own certification
9 outside the international standard. We recognise that this
10 is a form of certification which is absolutely acceptable.
11 If that would happen within Hunter Water and Sydney Water
12 and other water utilities, we would be happy with that form
13 of certification.

14
15 MR VHORA: I would like to make a comment about this.
16 DNR does not have much involvement in these issues. I was
17 just wondering why you want to isolate energy management
18 outside the realm of the EMP, because where do you join a
19 line otherwise? There are other similar issues, such as waste
20 management, similar kinds of issues which I thought could
21 be covered probably under the billing of environmental
22 management and not really requiring a separate requirement.

23
24 MR BYLEVELD: Perhaps a simple reflection on the
25 environmental management plan, New South Wales Health
26 would support the plan being in accordance with the
27 available national standards.

28
29 THE CHAIRMAN: Unless anybody else at the table has a
30 comment, it's up to you, Kevin.

31
32 MR YOUNG: Thank you, Chairman. There are some good
33 comments there. Just clarification on this first point,
34 probably everyone understands why we are asking for the
35 next EMP to run for six years rather than five. It's just
36 we want alignment. We believe it is important to have the
37 EMP to happen after the operating licence. We make a clear
38 platform, and then we can incorporate that in our EMP
39 moving forward. We just think that would be a lot more
40 rational.

41
42 The question of certification - at the end of the day,
43 we are regulated; we are not the regulator. Our only
44 experience is that with certification, with the people that
45 come through to certify you, often they certify that you're
46 good at filling in forms, not necessarily that you're good
47 at doing environmental management plans or that your

1 objectives are okay.

2
3 I want to make a comment that we are committed that we
4 meeting the standards. What we are proposing and what's
5 suggested is what we would like to get a peer review, third
6 party review, from experts in the area, in EMS from, say,
7 an independent or external utility that would come through
8 and say not only comments on the system and process, but
9 areas where we could improve. We say see that as an
10 alternative that could be considered by the Tribunal. I
11 think we'd get better value out of it because from a water
12 industry perspective we see some very good things being
13 done by other utilities.

14
15 The ESD indicators, I think Sydney has what they call
16 the environmental indicators, and we've replaced them with
17 sustainable development - ESD indicators. Interestingly,
18 when we did that we did that, I think, promoted by the
19 Tribunal, based on the national state of the environment,
20 so we did that with community consultation. We do
21 understand that the world changes and now we have national
22 water initiative indicators which are different. You have
23 the Sydney ones, you have the Environment Australia
24 indicators.

25
26 I guess what Hunter Water is saying is that we
27 appreciate that the world is changing, but we're looking
28 for longer term trends too. Every five years, if we keep
29 changing indicators, we lose the trends and some of the
30 value that we can get from that. But we are happy to move
31 ahead with a robust set of indicators that people are happy
32 with that will measure and help to get trends out of it.

33
34 On energy, we see it as a critical part of the EMP,
35 and has been in that area a strong component of it. We are
36 aligned with your concerns, Salim, on that issue.

37
38 The question of should we be requested or required to
39 report greenhouse gas, there's confusion on that. It is
40 one of our indicators and we do report on it. It's one of
41 the things that doesn't have to be in our EMP or a
42 requirement for us to change. For example, this year I
43 think the Australian Greenhouse Office changed the way
44 water utilities should measure greenhouse gases, including
45 gases from waste water treatment processes, so we decided
46 as an organisation that we'd change to the most robust
47 standard. That's the way forward. If you see things

1 change, you don't necessarily wait for an operating licence
2 or an EMP requirement. You just move ahead with the time.
3

4 There have been interesting points made, I think
5 really critical points, on climate warming and greenhouse
6 gas and what targets we are going to set for the future. I
7 think that's the real big issue facing industry. For the
8 last 12 months there's been a lot of discussion on that.
9 We don't have all the answers on that. It's partly a case,
10 if you want to set a target without the facts, IPART are in
11 a position where they'll transfer that costs on to
12 customers through higher prices.
13

14 I think that initiative, we want to do some good work
15 on that and take that to our next pricing submission. We
16 want to do some customer willingness to pay. We have a new
17 state plan, announced recently, which has a focus on the
18 percentage of energy that will be renewable or recyclable,
19 so that will be a focus. Hunter Water has made the
20 commitment with the dam project, that we will have I think
21 1.5 billion trees in the ground as a carbon sink, as a line
22 in the sand for the energy greenhouse gases that would be
23 produced from now with the growth in our area, say, over 40
24 or 50 years. But there are other things that we can do
25 that we want to look at.
26

27 For this year Hunter Water has proposed a national
28 project to the Water Services Association to say nationally
29 water utilities need to pick the ball up here and look at
30 addressing global warming impacts from our activities, and
31 what is the spectrum and the range of options that we can
32 look at - not just forest sequestration or hydrogeneration;
33 there's a range of other things that we can do as an
34 industry, smart ideas. We'd like to tackle that on a
35 national objective in the next 12 months and come back with
36 some real ideas of costs and dollars and then I think we
37 can have a rational debate about prices as well and what
38 customers would pay for that.
39

40 The only other comment I'd make is ESD indicators, we
41 have compiled this year's results and there's a copy
42 available at the door for people interested in looking at
43 our ESD indicator results.
44

45 THE CHAIRMAN: Thanks very much. Does anyone else in
46 the room want to make a comment?
47

1 MR MEADOWS: Steve Meadows, Landcare. I would like to
2 go over the carbon dioxide emissions. We don't believe that
3 they have been fully taken into account. The indicators
4 currently produced tend to be more pessimistic than the
5 real world. Hunter Water actually owns a substantial
6 amount of property that has trees growing on it and, as far
7 as I can see, is not taking into account that they are
8 actually locking up carbon at the same time. That's why we
9 started to explore the relationship between the essence of
10 what energy they use and, therefore, carbon dioxide that is
11 being released. That's fine, but stand back and look at
12 the bigger picture.
13

14 We are looking in our submission for a way of focusing
15 management attention and the operating licence attention on
16 the balance. The balance I suppose as an end goal would be
17 zero net carbon emissions from the operations. We actually
18 believe that is extremely achievable with Hunter Water.
19 They may find when they investigate that they are already
20 achieving it, but we believe as a good corporate citizen it
21 would be reasonable to start going down that path and, even
22 if there are costs, we actually believe that they won't
23 have far to stretch to achieve those goals.
24

25 THE CHAIRMAN: I think we'll move to the next session.
26 Lil Cullen will introduce customer service and consumer
27 protection issues.
28

29 MS CULLEN: Thank you. In this session I am going to
30 briefly outline the various customer service and consumer
31 protection issues under consideration in this licence
32 review, which were outlined in the issues paper and the
33 workshop materials.
34

35 I will start by briefly providing the context for the
36 regulation of these issues and the operating licence. A
37 key aspect of the operating licence and the customer
38 contract is to protect the rights of customers who rely on
39 the essential services provided by Hunter Water. As Hunter
40 Water is a monopoly service provider, customers cannot
41 switch to an alternative provider if they have unhappy with
42 the service provided. The operating licence and the
43 customer contract provide a substitute for market forces by
44 mandating minimum levels of customer service and ensuring
45 that Hunter Water takes the views of its customers and the
46 community into account in its decision making and service
47 provision.

1
2 At present the operating licence contains obligations
3 governing Hunter Water's interactions with its customers
4 relating to five key areas: first, monitoring and reporting
5 against customer service indicators; second, providing
6 flexible payment options and hardship policies via a code
7 of practice and procedure on debt and disconnection; third,
8 developing a new customer contract, and a new contract was
9 put in place in 2003; fourth, establishing internal
10 complaints handling procedures and an external dispute
11 resolution scheme to ensure customers grievances are
12 addressed; last, establishing a customer forum for
13 facilitating regular community involvement in Hunter
14 Water's operations and service provision.

15
16 A number of issues and options have been put forward
17 in relation to those five key areas and I'll now discuss
18 each of those in turn.

19
20 Starting with the customer service indicators, since
21 2002 Hunter Water has been required to report annually
22 against indicators set by the Minister and these are
23 subject to the licence audits. More recently, under the
24 national water initiative, Hunter Water will be reporting
25 against a suite of indicators agreed to by all states.
26 They will be collected for all water utilities in Australia
27 and publicly reported. This is not an obligation under the
28 licence.

29
30 There are a number of stakeholder views put forward in
31 submissions to the Tribunal on the customer service
32 indicators. Hunter Water believes that the coverage of the
33 national water initiative indicators is sufficient to
34 measure customer performance and that the national water
35 initiative indicators should simply be referenced to the
36 operating licence.

37
38 Both EWON and the DNR support the use of the national
39 water initiative indicators as Hunter Water's primary
40 indicator. However, as noted in page 20 of your workshop
41 materials, not all these ministerially imposed indicators
42 have an equivalent or similar national water initiative
43 indicator. So that leaves us with a number of options
44 available for the customer service indicators under the
45 licence.

46
47 The first option could be that there are no customer

1 service indicators in the licence and you rely on reporting
2 by the national water initiative indicators. A second
3 option is to reference the national water initiative
4 indicators in the licence and require reporting and/or
5 auditing against these indicators under the licence. A
6 third option is the same as the second option, but also to
7 include additional indicators specific to Hunter Water
8 operations which are not covered by the national water
9 initiative indicators.

10
11 So the key issues for discussion in this area are:
12 what approach should the Tribunal take to the customer
13 service indicators; should the customer service indicators
14 be retained in the operating licence; should Hunter Water
15 only report against or be audited against the national
16 water initiative indicators, or should there also be
17 additional customer service indicators in the licence; and,
18 if additional indicators are necessary in the new licence,
19 what additional indicators are needed.

20
21 I will move on now to the debt and disconnection
22 provisions of the licence. The operating licence currently
23 requires Hunter Water to develop and incorporate into the
24 customer contract a code of practice and procedure on debt
25 and disconnection. The code provides for deferred or
26 instalment payment options for consumption bills and for
27 these payment options to be advised in bills.

28
29 The Tribunal heard from a number of stakeholders on
30 this issue. Firstly, Hunter Water proposed a review of the
31 code within six months of the commencement of the new
32 operating licence and for this to be incorporated in the
33 new customer contract in due course. Hunter Water is also
34 currently trialling hand-delivered notification to
35 customers warning of impending restriction action.

36
37 PIAC and EWON noted a significant increase in rates of
38 restrictions and disconnections for non-payment by Hunter
39 Water in recent years. They believe that Hunter Water
40 should consider offering retrofitting programs to customers
41 experiencing hardship, participating in Centrepay to allow
42 customers to pay bills by having a regular amount deducted
43 via their Centrelink payments, thereby avoiding direct
44 debit fees and preventing problems in having to pay a lump
45 sum. Lastly, they felt Hunter Water should consider giving
46 notification to tenants of restrictions and disconnection
47 action as well as owners of properties, and notification to

1 customers via telephone, not just by mail or by business at
2 the time of taking the restriction or disconnection action.
3
4 So the key issues for discussion in this area are
5 should the new licence require a review of the code within
6 six months of the commencement of the new licence. Should
7 the new licence expressly require Hunter Water to consider
8 the issues raised by the stakeholders, for example, the
9 retrofitting programs, Centrepay and improved notification
10 when reviewing the code, and are there any other issues or
11 options that should be considered in relation to the debt
12 and disconnection licence requirements.
13
14 Moving on to the customer contract, the current
15 licence requires Hunter Water to review the customer
16 contract and they introduced a new contract in 2003. The
17 Tribunal is not proposing to review the customer contract
18 as part of the current licence review. However, Hunter
19 Water proposes a review of the customer contract to be
20 initiated within 12 months of the new licence commencing.
21
22 PIAC and EWON suggest the customer contract needs to
23 be amended to address a number of perceived shortcomings -
24 to shield customers from interest charges when making
25 payments according to mutually agreed schedule of
26 instalment plan, for Hunter Water to be required to pay
27 interest to customers on any overcharge, and where an
28 unresolved dispute is being investigated by EWON that the
29 contract should expressly require suspension of any
30 restriction or disconnection action.
31
32 So the key issues for discussion here are should the
33 new licence require a review of the customer contract to be
34 initiated within 12 months of the commencement of the new
35 licence, and are there any other issues or options that
36 should be considered in relation to the customer contract
37 licence requirements.
38
39 I think this has been discussed to some extent in the
40 earlier session, but in relation to complaint handling,
41 currently Hunter Water is required to have both internal
42 complaint handling procedures and also an external dispute
43 resolution scheme in relation to reporting.
44
45 There are a couple of issues raised by stakeholders.
46 Hunter Water believes the reporting complaints by type and
47 suburb should be discontinued and reporting via the NWI

.5/12/06 67

Transcript produced by ComputerReporters

1 indicators and by routine operational reporting processes
2 is sufficient to identify any recurrent problems.
3
4 However, PIAC recommends against removing reporting by
5 suburb for sewerage overflows and low pressure complaints
6 only, and that was due to the history of ongoing concern
7 with both those issues.
8
9 So there are two key issues for discussion here.
10 Firstly, is it necessary for Hunter Water to publicly
11 report on whether particular locations are experiencing
12 repetitive low pressure or sewerage overflow problems or
13 are the NWI indicators sufficient, and how should the
14 overlap in the current licence between complaints reporting
15 requirements, system performance indicators and the new
16 PWI indicators be resolved.
17
18 That brings us to the last issue under consideration,
19 the consultative forum. Hunter Water is required to
20 regularly consult with its customers. The operating
21 licence requires a consultive forum made up of
22 representatives from the community and specific interest
23 groups to be established, and the operation of the
24 consultive forum must be governed by a charter.
25
26 Hunter Water believes the existing consultative forum
27 is effective. However, other stakeholders believe that
28 visibility of the forum needs to be improved. They
29 suggested some kind of annual reporting on the activities
30 and achievements of the forum is necessary. They pointed
31 to a similar requirement in Sydney Water's operating
32 licence.
33
34 Currently, on the Hunter Water web site you can find a
35 copy of the consultative forum charter, but no other
36 information on the activities or membership or achievements
37 of that forum.
38
39 Lastly, the Hunter region land care network believe
40 the forum is not adequately representative of the community
41 and special interest groups.
42
43 So the key issues for discussion concerning the forum
44 are should the new licence require Hunter Water to report
45 annually on the issues considered by and achievements of
46 its consultative forum and to post a copy of this report on
47 its web site, and does the membership of the forum need to

.5/12/06 68

Transcript produced by ComputerReporters

1 be amended to better represent customers and the community.
2
3 That concludes my presentation on the various customer
4 services and protection issues. I will leave you now with
5 a slide that summarises the various issues for discussion
6 and hand you back to the Chairman. Thank you.
7

8 MR WELLSMORE: I will try to keep it brief given where we
9 are up to in the day. In relation to the indicators, we
10 support the third of the options that have been proposed
11 which is to say largely relying on the indicators provided
12 by the National Water Initiative, but supplementing those
13 were a couple of extra indicators which we think is
14 important, and one certainly would be looking at the number
15 of customers that have been given some sort of payment
16 assistance by Hunter Water.
17

18 For us that is a very important number in gross terms,
19 but also we are very interested in what the trends would be
20 over a period of time in relation to that area. It is not
21 even so much an issue of what Hunter Water is or is not
22 doing, but for us there are a number of issues about
23 financial stress on households and affordability for
24 utilities and essential services generally that we think
25 those sorts of indicators are very important sources of
26 information which certainly we would seek to use in a
27 systemic way.
28

29 For us the critical issue that stood out is the
30 increase in the rate of restrictions and disconnections for
31 nonpayment. Any increase in that area we think is a
32 problem. We are not clear why that increase has taken
33 place, and it may well be that there are sound reasons.
34 Nevertheless, it is a concern for us if, as it appears,
35 that restriction and disconnection action has been resorted
36 to more than in the past as a debt recovery or a credit
37 management type approach.
38

39 This is an issue that comes up across pretty much all
40 the water and energy businesses, and we have the same
41 concerns in each of those cases. Our view is that
42 restriction and/or disconnection ought to be a last resort
43 measure. So we would say that although the customer
44 contract itself perhaps may not need to be reviewed, we
45 would certainly encourage a review of the code, the code
46 relating to debt and disconnection under the contract.
47

.5/12/06 69

Transcript produced by ComputerReporters

1 If I might briefly give you some indication of why we
2 think that is so very important. Research a couple of
3 years ago on water businesses and their customers and
4 disconnection and restriction, unfortunately Hunter Water
5 was not able to participate in that research, but what the
6 research tells us is that the majority of households that
7 are in financial difficulties and facing restrictions or
8 disconnection have young families, so small children.
9 Their main source of income is employment, so it is not
10 people on welfare or Commonwealth benefits, and what have
11 you, and not surprising a significant number of those
12 families are dealing with mortgages.
13

14 So again, from our perspective we would rather see a
15 number of other steps taken to assist people rather than
16 restriction and disconnections being used perhaps either as
17 a first step or as an early step towards dealing with
18 issues about people being able to pay their bills. I think
19 that pretty much covers it for me.
20

21 MR SAMS: We see the tip of the iceberg of complaints - I
22 think on average 20 to 30 complaints per quarter. It is a
23 relatively low number compared to other members of the
24 scheme, but I would support Jim's views about the concerns
25 about the increase in disconnections and restrictions over
26 the last couple of years.
27

28 We would obviously prefer to see some similar
29 requirements in place to the electricity supply regulation
30 whereby the supplier is required to make some final attempt
31 to contact the occupant of the premises, either in person
32 or by telephone prior to actually disconnecting or
33 restricting supply. Whether that is through an additional
34 licence requirement or when the customer contract is
35 amended, or updated, we don't actually have a strong view
36 at this stage, but we have Hunter Water's willingness to
37 consider Centrepay as a method of payment for customers in
38 need, and just on the issue of customers I would like to
39 point out that it is not just account holders of Hunter
40 Water who approach our office for assistance, it is also
41 occupants of premises where the water account is held by
42 the landlord. So in some of the examples of cases where a
43 non-account holder comes, would include obviously
44 restricted or disconnected occupants or people who have
45 been affected by a flooding incident or a sewer surcharge,
46 or sewer overflow. So our interest group really extends
47 beyond just the people, the subject of the contract. I

.5/12/06 70

Transcript produced by ComputerReporters

1 might leave it there, but we have included a couple of case
2 studies in our submission which illustrates some of the
3 more extreme cases that can be brought to our office,
4 illustrating that weakness in the current customer
5 contract.
6
7 MR BANYARD: Customers under the water regime are quite
8 different to customers under any other regime. A customer
9 belonging to Hunter Water is totally different to a
10 customer belonging to Energy Australia or the electricity
11 mob. A customer is a person who is defined under the
12 customer contract and under the water regulations as being
13 the owner of a parcel the land, and unless you own a parcel
14 of land you cannot have a customer contract.
15
16 So when we are talking about customers around the
17 table, we should immediately exclude all of those people
18 who do not own the parcel of land. They are not customers
19 in this definition. That excludes about 40 per cent of
20 households. That is a situation I don't believe should
21 continue. That follows on to a whole lot of things because
22 why do customer service indicators include non-customers?
23 If we do a customer satisfaction survey, does that only
24 count customers according to the customer contract? Why
25 are there special provisions for non-customers and, for
26 example, the disconnection of the water which is used as a
27 method of forcing payment, there are different provisions
28 under Hunter Water's procedures if it is for a landlord or
29 if it is for an owner occupier.
30
31 Now, a tenant has adequate redress under the
32 Residential Tenancies Act if there is a problem with the
33 landlord not paying for the water. Hunter Water and the
34 landlord have restrictions, different procedures that apply
35 for the restricting or cutting off of the water.
36
37 Why do 60 per cent of the customers of Hunter Water
38 pay for the provision of goods and services to the
39 non-customers? I mean, 60 per cent of the water users pay
40 for the provision of goods and services to non-customers.
41 That does not seem to be right to me. Why does Hunter
42 Water not have a non-customer support service. If you ring
43 up there is a customer help line. Where is the
44 non-customer help line?
45
46 Non-customers are excluded from any benefits offered
47 by Hunter Water and by other government departments and

.5/12/06 71

Transcript produced by ComputerReporters

1 whatever, and the pensioner rebates and discounts is one
2 example, simply because the people are not classified as
3 customers, even though they might be a very poor and
4 disadvantaged pensioner living in a landlord's house, they
5 do not qualify, and that is a situation that I don't
6 believe can continue either. There are a whole lot of
7 issues lying around that.
8
9 Moving to the complaints handling procedures, I don't
10 believe the complaints handling procedures is satisfactory
11 and works well at all, and there are supporting documents
12 in my submission to provide one example for that, and I can
13 elaborate on that if somebody wants me to.
14
15 I don't believe the forum performs satisfactory at
16 all. There is very little information about it. I did a
17 search on Hunter Water's website to find out who the
18 participants and members of the forum are. I couldn't find
19 it. If you can't find who they are, how can the community
20 members or interested people contact their so-called
21 representatives. I also am interested to know, if the
22 forum is made up of members of interested parties,
23 community groups and whatever, how come none of them
24 have made any submissions to this inquiry.
25
26 Under the customer contract there's a section 2.3 and
27 section 2.3 should be allowed and make Hunter Water
28 actually provide non-standard agreement to the supply of
29 water to non-customers. I believe that should be done.
30
31 The issue of Centrepay - Centrepay is an issue that is
32 a bit of a joke in some ways, because the 40 per cent of
33 people who are not customers of Hunter Water and are
34 basically customers of landlords or building owners who are
35 reselling the water, most of those people then wouldn't be
36 eligible for that arrangement at all, and generally
37 speaking those people who would be looking to be pushed
38 through Centrepay would be the type of person who is the
39 lower income person and whatever, so that is going to be an
40 issue. For a landlord or for a property owner to be a user
41 of Centrepay you have to go through a full set of Centrepay
42 procedures to actually be acknowledged and registered as a
43 Centrepay person, and then on top of that the costs of
44 operating Centrepay have to be absorbed by the landlord or
45 the property owner. In the landlord's case it is not
46 possible to pass that cost under the Residential Tenancies
47 Act onto the tenant.

.5/12/06 72

Transcript produced by ComputerReporters

1
2 The other thing is the notification to the tenants
3 under certain circumstances such as for the disconnection
4 of water, Hunter Water provides notification to the
5 tenants. Our association believes that is definitely a
6 breach of the privacy Act because what you are doing is
7 telling tenants about the financial arrangements of the
8 landlord and surely that is not reasonable. There may be a
9 whole host of reasons why that account has not been paid -
10 a dispute with Hunter Water or whatever - and yet Hunter
11 Water can and is required to provide information to the
12 tenants. We don't believe that is a good thing at all.
13
14 The final comment I make is that because the landlords
15 have to pay and building owners have to pay the water
16 accounts to Hunter Water, that therefore removes the
17 potential for very significant quantities of bad debts to
18 be paid for and absorbed by Hunter Water or the water
19 authorities, and in, say, a landlord's case, if a tenant
20 shoots through and leaves a large amount of water owing as
21 can happen on considerable occasions, and I personally have
22 had water owing for \$1,700 or \$1,800 and I ended up wearing
23 that bill totally, and that is not reasonable, especially
24 considering we are not getting any discount or concession.
25
26 If Hunter Water was, for example, to be selling
27 landlord's or property owner's water, say at 80 per cent of
28 the price and saying that you wear the bad debt cost and
29 those other things, it would be some reasonable thing,
30 because that would be a factor. In the way it is with
31 tenants in particular, and building owners under strata
32 schemes do have some ways of passing some extra costs on to
33 their owners or their unit dwellers, but in the case of a
34 tenant, the Residential Tenancy Act prevents the passing of
35 any costs on to the tenant, and that is a totally
36 unsatisfactory situation. I think that in the review of
37 the licence those aspects need to be taken into account.
38
39 THE CHAIRMAN: I draw to your attention that a number of
40 issues you have raised cannot be fixed in the licence, it
41 is to do with the Act.
42
43 MR BANYARD: I appreciate what you are saying and I have
44 had discussions with various people about this issue, but
45 it is an issue that needs to be taken on board big time,
46 but also, for example, the use of clause 2.3 and for Hunter
47 Water to actually take on board agreements --

.5/12/06 73

Transcript produced by ComputerReporters

1
2 THE CHAIRMAN: I will say, because you have had a lot over
3 3 minutes, that we have listened to what you have had to
4 say, and we have registered the points. A number of issues
5 will not be fixed in the licence because they can't be.
6 However, we will be prepared to consider what we might then
7 draw to the attention of the government, but it won't be
8 fixed in the licence.
9
10 MR BANYARD: I hear what you say.
11
12 MR LOUYS: Land Care would obviously support the
13 reporting on National Water Initiative indicators, and also
14 reporting on local indicators as previously indicated by other
15 speakers here. There is an importance to retain some of
16 the local indicators in the reports. We strongly support
17 that.
18
19 In terms of consultive forum, obviously as indicated
20 in our submission, we feel that the representation is not
21 adequate, but also the activities of that forum are not
22 well reported and displayed which reduced the credibility
23 of that forum.
24
25 The third point which we would like to comment on is
26 the customer contract. There has been indication in this
27 debate that bad customers have to be tracked down and dealt
28 with. However, we would like to see in that contract also
29 an indication that good customers have to be tracked down
30 and rewarded. Particularly in relation to what I indicated
31 earlier in the piece, that if Hunter Water has to achieve
32 some target, those targets could easily be translated in
33 the contractual condition, and customers could then
34 contribute to that target in some way and by contributing
35 to that target be rewarded in the process. That is what I
36 have to say.
37
38 THE CHAIRMAN: Can you elucidate a little further what
39 you mean by a "good contribution"?
40
41 MR LOUYS: I discussed that at lunch time, and I would like
42 to see a similar scheme as was implemented in insurance
43 companies, whereby if you have a good record your bonus is
44 increasing and your premium is decreased. A similar
45 arrangement could be done with the contract with water.
46
47 THE CHAIRMAN: You mean with respect to time of payment
or

.5/12/06 74

Transcript produced by ComputerReporters

1 more broadly, consumption --
2
3 MR LOUYS: Obviously there would be room there for
4 considering time of payment and also water consumption or
5 water saving, or even just switching from potable water to
6 recycled water.

7
8 THE CHAIRMAN: I just wanted to be clear on that.

9
10 MR BYLEVELD: With respect to debt and disconnection
11 NSW Health would support a review of the code after the
12 implementation of the new operating licence. The
13 disconnection issue is critical to the public health and
14 would be a last resort.

15
16 Also NSW Health has an interest in the complaint
17 handling procedures. It has eventuated in other areas that
18 the complaints could be the first warning of a
19 deterioration in water quality, not only complaints
20 relating to sewer overflows or low pressure but sometimes
21 water quality can be an early warning.

22
23 THE CHAIRMAN: Kevin, you might want to respond.

24
25 MR YOUNG: I think there has been a number of really good
26 issues and I don't think we have too much disagreement.
27 There are a number of issues raised where we can pick them
28 up and move forward.

29
30 The general principle of looking at the National Water
31 Initiative indicators and then adding some local, I think
32 that I fair enough. The point made about the number of
33 customers is a local issue, but it is important. So we
34 will just pick that up, I think, and move ahead on that.

35
36 The debt and disconnection - I agree with the point
37 that Paul is making about disconnection from a public
38 health viewpoint. I suspect that is why, because of that
39 public health aspect, the government legislated in the Act
40 to drive the issue of the customer being the owner of the
41 land, because dealing with customers who come in and who
42 don't necessarily pay their bill, I say "Do you pay your
43 electricity bill? Do you pay your energy bill?" "Well,
44 why don't you pay your water bill?" They say, "The other
45 organisations are absolutely ruthless. They cut us off
46 very quickly, but with water we get a long time period and
47 many steps. I confer with what the Chairman is saying as

1 well, they go back to the Act rather than the operating
2 licence, and I think the Chairman said there are a number
3 of things that can be picked up by the government.

4
5 I want to clarify debt and disconnection. If you look
6 at the disconnection record in the last 12 months and the
7 time before, maybe this is a clarification, but in the last
8 12 months we have disconnected two properties. When we
9 look at the records those two properties were vacant
10 blocks. We have never differentiated the fact of a
11 disconnection of a block where someone is living on it and
12 a disconnection of a vacant block. If you go back in time
13 maybe that is a clarification we can make.

14
15 We have reached the end of the line with some
16 customers on vacant blocks. They say, "We don't want to
17 pay the bill anymore. We are not using any water. We
18 don't want to pay a fixed charge." "We can disconnect
19 you." It hasn't got the health aspect because there is
20 no-one living on the block. It hasn't got hardship. If we
21 look at the records we have not differentiated and that is
22 something that we should consider.

23
24 On the level of restrictions, I think some good points
25 have been made on that. Rather than just wait for the new
26 licence to come in, we have been trying for some time now
27 an extra step, which is the personal contact and the hand
28 delivery to the address. We found that that has been very
29 successful in that personal contact, discussing it with
30 customers. I think you will see the numbers are dropping
31 for putting that extra step in. We have done that before.
32 It has become a requirement, but the operating requirements
33 can pick a number of those measures up.

34
35 On the issue of the Department of Housing, the
36 submission is there. We have run a number of refit kits in
37 areas and that has been successful, and we want to talk to
38 the Department of Housing about doing that again, hopefully
39 on the basis that if we invest in an area that the savings
40 that they make could be steamrolled into going into other
41 areas so they could see that as a program of benefit.

42
43 There's a number of suggestions that we are looking
44 at. On the question of waiving interest on debts, with the
45 new information system we have put in we are committed to
46 waiving interest charges on a customer's debts where they
47 have been recognised by an agency as being in need or they

1 have vouchers and we will waive their interest. We not
2 proposing to waive interest generally on people on payment
3 plans because there are also people in the community that
4 are not in need that play the system, and our view is that
5 if they don't qualify to be seen as in need, they shouldn't
6 get the benefit of waiving the interest. That is something
7 we can have a look at.
8
9 The suggestion that we should pay interest to
10 customers on any overcharge, I can confirm, yes, that
11 happens. It isn't in our customer contract at the present
12 time, but it is something we have decided we are doing. I
13 think the customer contract will pick up a number of areas
14 where practice has said we should do it.
15
16 We request that we should expressly desire to suspend
17 restriction and disconnection action where there is an
18 unresolved dispute between the customer and Hunter Water
19 Corporation involving EWON. I can confirm that is in
20 place. That has become part of our practice now. I think
21 the next provision should pick up some additions. We are
22 not required to do it, but we just do it.
23
24 I think we have covered complaint handling in a bit of
25 detail previously. Chairman, one other thing. On the
26 issue of the customer versus the consumer, the issue of
27 consumers ringing up and saying "I'm out of water", our
28 call centre treats those people as if they are customers.
29 A tenant out of water is given the same priority as an
30 owner of a property out of water. It is customers out of
31 water, so we don't have any differentiation of that
32 process. We emphasise with people ringing up saying that
33 we've got problems and we've got needs, and we react to it.
34
35 If a tenant is out of water and we say, look, we can't
36 get to you within a certain time period, and we organise
37 tankers, as you say, or drop water off, I can definitely
38 confirm that we don't say, well, it's a tenant problem, and
39 we're sending the bill to the landlord. In my history in
40 the organisation I have not known of a case where we have
41 helped a customer out with a need and we've sent the bill
42 to the landlord. We just believe that we have a customer
43 out of water and we have obligations that we provide, no
44 matter whether you are an owner or a consumer. We believe
45 we need to respond. I wanted to clarify that.
46
47 With the consultive forum, I do agree with the number

.5/12/06 77

Transcript produced by ComputerReporters

1 of comments that some visibility is needed. We do produce
2 - and I was looking at it before coming in today - an
3 annual report on the consultative forum which we are
4 requested under the licence to send to IPART. That would
5 be a fair requirement for us to have that available on our
6 web site as well as the other requirements on us. We
7 publicly put out the minutes of the meeting of the
8 consultative forum. That goes to the media as part of our
9 open board process on a regular basis and questions can be
10 asked by the media at that time. You can look at the
11 reports of IPART for all the matters that have been dealt
12 with by the consultative forum. Clare Petrie came to one
13 of the consultative forum meeting and at the end of it she
14 said: I go to a lot of meetings and I can say that this is
15 one of the best consultative forums I have been to and it's
16 a pleasure to be at the meeting.
17

18 There was a question asked that the consultative forum
19 was absent in that they didn't put major submissions to
20 this inquiry. I can tell you the reason for that: we
21 discussed these issues at the consultative forum and the
22 position Hunter Water put up was put up on the basis that
23 it was backed by our consultative forum. So it would be a
24 bit unusual to go through a dialogue and process of
25 discussion with the consultative forum, to put a Hunter
26 Water Corporation submission in, and then to have the
27 consultative forum put their own submission in saying: we
28 concur with this. I wanted to clarify that role.
29

30 THE CHAIRMAN: Thank you, Kevin. If the minutes were on
31 the web site, we all would have known that, wouldn't we?

32
33 MR YOUNG: Yes, I agree.
34

35 THE CHAIRMAN: Are there any comments from around
36 the room?
37

38 MR MEADOWS: Steve Meadows. Landcare has had a
39 discussion with Hunter Water management and they proposed
40 that we make suggestions on which groups might be interested
41 on coming on to the panel. There have already been some
42 very keen responses, so they might have to sort out who they
43 are going to accept and knock back.
44

45 The comment was made that a substantial number of
46 members are actually from councils. Landcare doesn't
47 believe that having so many people from councils is

.5/12/06 78

Transcript produced by ComputerReporters

1 necessarily a reflection of customer needs and
2 expectations, so some potential cut-back along those lines
3 was being suggested and the discussions were continuing.
4
5 What I did find when I started to contact some of these
6 other groups was there's an opportunity for maybe suppliers
7 and consultants for new products that come on to the market,
8 and new technologies, and that they may be interested in
9 actually putting someone forward so there would be a way
10 of actually stimulating discussion within the panel and to
11 Hunter Water on new opportunities that may arise that
12 somehow may have escaped the normal management
13 process. So the actual panel could show wider interests.
14 There are people out there who are very willing and,
15 apparently, when I contacted them, very vocal about the
16 specific issues they wanted to contribute, but also there
17 are opportunities for actually taking up new technologies
18 or even new attitudes.
19
20 This discussion about residents, what's a resident and
21 non-resident, what was also put in the submission was
22 people like me who actually don't have a connection through
23 a pipe, we're still actually customers of Hunter Water. We
24 get our water via a water carter. We consume 100,000
25 litres a year of which 40,000 might come from Hunter Water
26 and we really rely on that 40,000 and we need to be taken
27 into account, though we may only make up a small
28 percentage of the total number of residents in the area. On
29 the other matter, this --
30
31 THE CHAIRMAN: You have about one minute.
32
33 MR MEADOWS: I was fascinated by the term of what is a
34 customer. I find that really interesting, that Hunter
35 Water has evolved. It used to charge according to who
36 owned the piece of land and it would be a set fee. Over
37 time we have been progressively moving towards user pays,
38 to the point where there's now discussion about getting rid
39 of the fixed base fee. I think that's great. Why don't we
40 actually look at saying the wording of the Act is starting
41 to get out of date and why can't it be re-aligned to
42 reflect the users of the water?
43
44 THE CHAIRMAN: I won't comment on the merits of democratic
45 elections and other methods of selecting representatives.
46
47 In winding up the discussion today, I guess what

.5/12/06 79

Transcript produced by ComputerReporters

1 struck me is that there is a considerable measure of agreement
2 about the licence and perhaps even more agreement
3 about what Hunter Water should be doing, because where
4 there's disagreement it's often in terms of whether it
5 should be in the licence or somewhere else. So it's not
6 actually disagreement on what they should be doing, but
7 whether it should be in the licence.
8
9 I think what we need to consider as a Tribunal and in
10 terms of our recommendations to the Minister is the degree
11 of flexibility on the one hand by not having it in the
12 licence, and I guess in that context also how prescriptive
13 it should be that's relevant to the integrated water plan,
14 for example, just how prescriptive the licence should be.
15 It's clearly a very important document and it's clearly
16 going to be part of the licence, but it's a question of how
17 prescriptive it should be.
18
19 On the other hand, where it's not in the licence, if
20 we didn't put it in the licence but you're going to do it
21 anyway, how onerous is it to have it in the licence if
22 you're going to report it anyway? They are some of the
23 judgments we need to make. I think also, in fairness, in
24 that context there are things like an environmental
25 management plan. I think Hunter Water is content that
26 getting it peer reviewed by other people may well produce a
27 superior result to getting it reviewed by IPART, and I
28 don't disagree with that. I don't pretend for a minute
29 that we would be as well equipped to review an
30 environmental management plan as some other peer review
31 organisations, and that could be extended to things like an
32 asset management plan too, for example, especially the
33 integrated water plan.
34
35 Some of the other issues I think come down to when and
36 how to report. I am thinking of system performance. There
37 is not in one sense huge change, but I know that quite a
38 lot of the burden of regulation is often just the timing of
39 the report and having to report to two or three different
40 organisations at slightly different times and in slightly
41 different ways. That's what adds to the burden of
42 regulation without actually improving the result.
43
44 Finally, there are a couple of items I will just
45 record again, that is, Kevin, that you have agreed you
46 would come back to stakeholders on. From memory, they are
47 multicriteria analysis and your suggestion about asset

.5/12/06 80

Transcript produced by ComputerReporters

1 management.

2
3 MR YOUNG: Yes.

4
5 THE CHAIRMAN: I want them recorded because I think, if
6 we are to look favourably at suggestions, it would be useful
7 if we had a sense of what stakeholders thought about it,
8 having had a chance to look at it.

9
10 Finally, I thank you all for our participation today.

11 While we debate the degree of burden of regulation on an
12 organisation, this session involves major input of the time
13 of the chief executive officer of Hunter Water today, and
14 no doubt on other occasions, in preparing submissions and
15 so on. But equally it's also quite a big ask on a number
16 of pretty small organisations like Landcare, the Total
17 Environmental Centre and so on. To put together
18 submissions is quite an ask, but you do that on behalf of
19 the public interest generally to put together a well
20 thought out submission and to provide your time today, so
21 we do appreciate that.

22
23 At the end of the day what we recommend is very
24 dependent on the quality of advice we receive from both the
25 utilities and the stakeholders. I thank you for today.
26 Hopefully we will justify your faith in us in due course.
27 Thank you. The proceedings are closed.

28
29 AT 3.23PM THE WORKSHOP CONCLUDED ACCORDINGLY

30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47