

2006/07 Report to IPART under the Operating Licence – Supplementary Information

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On 31 August 2007, State Water submitted its report to IPART on compliance with the relevant sections of the Operating Licence during 2006/07.

This subsequent report addresses a number of issues raised by IPART in its letter dated 19 October 2007 and, where necessary, provides additional information.

Memorandum of Understanding

Licence Clause 2.3.5 states that "*State Water must, by no later than 1 September each year, for the preceding financial year, report to IPART on its performance against and compliance with the MoUs referred to in Clause 2.3.1 including such relevant information as may be required by IPART to be included in the report*".

The MoUs were intended to capture current areas of interaction, as well as future potential relationships, which may not currently exist. For this reason, the MoUs contain a number of non-discretionary requirements, such as information sharing, as well as discretionary requirements. The discretionary requirements recognise the broader role of each MoU partner and provide the basis for a co-operative relationship in the event that those roles become relevant to the interactions between State Water and its MoU partners.

IPART noted a number of outstanding matters relating to MoU requirements which State Water did include in its report. State Water believes that it is required to report under the discretionary requirements of the MoU only if those interactions occur during the reporting year. As a result, State Water did not report on a number of the discretionary MoU requirements in the 2006/07 report. IPART has noted these as outstanding matters. For clarification, State Water has addressed each requirement below.

MoU with the Department of Environment and Climate Change (formerly the Department of Environment and Conservation)

IPART noted that the report does not address the environmental obligations with respect to noise management or flood plain management and harvesting.

The MoU states "*the parties agree to cooperate to work towards achievement of agreed environmental objectives such as.....other environmental objectives as agreed between the parties or by Government. These may include objectives for.....noise management*". Noise management is not currently an issue of concern between State Water and the Department of Environment and Climate Change (DECC). State Water's operations are not generally associated the generation of excessive levels of noise. State Water's operations do not currently produce noise pollution, as defined under the *Protection of the Environment Operations Act 1997* and administered by DECC. For this reason, State Water did not have any interactions with DECC pursuant to this section of the MoU.

With respect to flood plain management and harvesting, the MoU states "*the parties will cooperate, as needed, in developing and implementing agreed positions on environmental issues relevant to their functions.....these may include floodplain management and harvesting*." Floodplain management is the joint responsibility of DECC and DWE. State Water understands floodplain harvesting is yet to occur under the *Water Management Act 2000*. Furthermore, State Water does not have any responsibilities relating to floodplain management or harvesting and does not have any control over construction and other activities on floodplains. For this reason, floodplain management and harvesting is not currently an area of interaction between State Water and DECC. Accordingly, State Water did not report on this section of the MoU in the report to IPART.

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Department of Primary Industries (DPI)

IPART noted that State Water's report does not address the standards and targets developed by the Natural Resource Commission (with respect to the environmental obligations) and other environmental objectives as agreed between State Water and DPI or by government.

The MoU states *"the parties agree to cooperate to work towards achievement of agreed water management objectives, such as.....the standards and targets developed by the Natural Resources Commission (NRC), and any other environmental objectives, as agreed between State Water and DPI or by government."*

In New South Wales, the Monitoring, Reporting and Evaluation Strategy prepared by the NRC outlines agency roles and responsibilities for the standards and targets developed by the NRC. Currently, State Water does not have any direct responsibilities in the Strategy.

State Water does contribute to *"Priority E4: Better outcomes for native vegetation, biodiversity, land, rivers and coastal waterways"*, for which DPI shares responsibility with other government natural resource agencies. Target 5 under this priority is: *"By 2015, there is an improvement in the condition of riverine ecosystems."* State Water contributes indirectly to this target by improving fish passage in its regulated rivers, which is reflected in Objective 4 of State Water's Environmental Management Plan: *"improve fish passage at weirs"*. State Water's report to IPART contained details on the partnership between DPI and State Water to achieve these improvements, including a number of fish passage initiatives which are currently underway. Therefore the report did not include any separate reference to NRC standards and targets.

With respect to the MoU's reference to *"any other environmental objectives agreed to by.....government"*, State Water and DPI both participate in the Cold Water Pollution Interagency Group which is charged with overseeing the implementation of the Government's Cold Water Pollution Strategy. Details of this interaction were included in State Water's report to IPART.

Department of Water and Energy (formerly the Department of Natural Resources)

IPART noted that State Water's report does not address the standards and targets developed by the NRC (with respect to the environmental obligations) and other environmental objectives as agreed between State Water and DNR or by government.

The MoU states *"the parties agree to cooperate to work towards achievement of agreed water management objectives, such as.....the standards and targets developed by the NRC, and any other environmental objectives, as agreed...."*

As outlined above, State Water does not have any direct responsibilities in the Monitoring, Reporting and Evaluation Strategy which outlines the roles and responsibilities for the standards and targets developed by the NRC.

State Water does contribute indirectly to *Priority E1: A secure and sustainable water supply for all users*, for which DWE has primary responsibility. Target E(f) under this priority states: *across NSW meet the commitments under the National Water Initiative to restore water extraction from rivers to sustainable levels*. The mechanism for this is the Water Sharing Plans (WSPs). State Water delivers water which is allocated in accordance with the WSPs and therefore contributes indirectly to this target.

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With respect to the MoU's reference to "*any other environmental objectives agreed to by DWE and State Water*", State Water's formal environmental obligations to DWE will be included in the Works Approvals. State Water is currently assisting DWE in developing the Works Approvals.

With respect to the MoU's reference to "*any other environmental objectives agreed to by.....government*", State Water and DWE both participate in the Cold Water Pollution Interagency Group, for which details were included in State Water's report to IPART.

In its report to IPART, State Water provided details of how it worked with DWE to achieve Water Sharing Plan objectives. Therefore the report did not include any separate reference to NRC standards and targets.

IPART also noted that the report does not address the sharing of information relevant to measuring State Water's environmental performance and progress towards agreed objectives. The MoU requirements with respect to information sharing require State Water and DWE to provide information "free of charge, on request by the other party, subject to relevant statutes". State Water has already reported on how it fulfilled this obligation in the report to IPART in the DWE MoU section.

Customers and Community Engagement

IPART raised four concerns in relation to this clause, which will be addressed separately below.

1. *The report does not contain information on performance against obligations in relation to each valley.*

Clause 4.3.5 of the Operating Licence states "*State Water must by no later than 1 September each year, for the preceding financial year, report to IPART on its overall performance against its obligations under the Charter and where appropriate State Water is also to report on its performance against its obligations under the Charter in relation to each valley.*" Therefore, State Water is only required to report on performance against obligations in relation to each valley for those obligations which it deems appropriate to do so.

Many of State Water's obligations under the Charter are centralised corporate activities which apply uniformly to all valleys. This allows State Water to deliver consistent and cost effective services such as billing, debt management, information management systems, asset management policies, metering standards and communications. Accordingly, State Water reported on the following obligations which are related to activities which occur either at a corporate level or are conducted consistently across valleys:

- State Water will be readily contactable by customers. We will be available during standard working hours 8.30am to 4.30pm at our offices or on our mobile phones. We will acknowledge within one working day any telephone messages, faxes, emails or voicemails. On weekends and public holidays, the duty operations officer or Operations Manager will respond to any problem or urgent issues with water delivery.
- State Water will communicate with customers effectively and equitably, publishing relevant information on the Internet for access by customers.
- State Water will develop and continuously improve electronic systems to handle all standard water ordering, billing, trading and account management tasks on a continuous basis.
- State Water will provide a customer account queries hotline.

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- State Water will develop and publish compliance, debt management, water trading and water restriction processes to inform the customer of transparent decision making and demonstrate procedural justice.
- State Water will treat customer information with privacy and confidentiality in accordance with Freedom of Information legislation.
- State Water will provide a complaint handling process.
- State Water will provide a dispute resolution process and advice for customers and suppliers on handling disputes.
- State Water will develop and publish a Code of Practice and Procedures on Debt Management. The Procedures will include 'How to pay' and 'Where to pay' information.
- State Water will develop protocols for adopting Best Management Practice and work with customers to ensure that when entering properties to read and inspect meters, our staff do so with minimal disruption and impact.
- State Water will comply with requirements under various Acts including State Owned Corporations Act 1989, State Water Corporation Act 2004, Water Management Act 2000, Water Act 1912, Occupational, Health and Safety Act 2000, and the Dams Safety Act 1989.
- State Water will credit AWD water into customer accounts within one day of being advised of a determination and will provide access to this information to all customers through the internet within the same timeframe.
- State Water will reschedule orders in consultation with customers within one day of a known shortage.
- State Water will investigate climatic modelling to improve predictive capability of daily demand to supplement water orders.
- State Water will continue to develop national standards for meters to ensure that our customers and business needs are best met.
- State Water will enforce compliance with National Metering Standards.
- State Water will process complying intra-valley water trades within four working days.
- Any water going through a licensed work meter will be charged regardless of the nature/purpose of use, unless State Emergency Provisions are triggered.
- State Water will provide asset management services at efficient cost as defined by inter-valley and industry benchmarks.
- State Water will manage asset maintenance and renewal to provide assets in a state that is 'fit for purpose'.
- State Water will demonstrate compliance with best (asset) management standards.
- State Water will identify beneficiaries in cost sharing arrangements.
- State Water will comply with the Operating Licence.
- State Water will run a cost efficient and effective business, benchmarked against similar industries and will report transparently to CSCs.
- State Water will regularly provide CSCs with financial and other information relevant to each valley and of state significance.
- State Water will develop communication protocols between the Board and CSCs.
- State Water will ensure it is staffed to provide adequate service levels throughout the year and provide a review that caters for the long-term needs of the business.
- State Water will ensure that its staff are adequately trained in safe and effective operations and customer service.

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State Water reported a number of Customer Service Charter obligations on a valley basis, where the activities relating to these obligations varied by valley. These obligations include:

- State Water will commence bulk water billing within eight weeks of the end of the period and will provide at least three options for payment.
- State Water will provide all information needed for quality customer service and staff will respond promptly, efficiently and courteously at all times.
- State Water will be vigilant in continually reviewing and increasing operational efficiencies to maximise the delivery of available water to customers consistent with Water Sharing Plans.
- State Water will report on extraction performance against water ordering to customers.
- Supplementary water announcements will be made available to customers within two hours of the event determination by DWE.
- State Water will develop a compliance and penalties regime in conjunction with CSCs.
- State Water will ensure continuing involvement of CSCs in the Total Asset Management Planning (TAMP) process.

State Water also reported on the following indicators on a valley basis: *“State Water will develop a checklist process for determining supplementary events and advising customers.”* Although State Water provided information on checklists for the South Area (comprising the Murray and Murrumbidgee valley), the Coastal Area (comprising the Hunter, North and South Coast valleys), the Gwydir and the Namoi valleys, information on the Central Area valleys of Lachlan and Macquarie was omitted.

Under the Water Sharing Plan for the Lachlan Valley, there are no supplementary events and therefore a checklist is not required. A checklist for the Macquarie Valley exists in the format of Supplementary Event Procedures which must be followed for every event. In 2006/07, State Water managed only one supplementary event. The event occurred in June 2006 and the procedures were followed.

2. A single point of first contact has not been identified regarding compliant handling processes.

State Water acknowledges that reporting against this obligation was inadvertently omitted from the report to IPART.

State Water endeavours to address any customer concerns at the local level so they can be resolved as soon as possible. As outlined in the “Customer Concerns” brochure, the Customer Service Manager of each geographically based Area is the point of contact for customer complaints.

3. The report does not contain an update on progress on work with the National Water Commission to develop national metering standards, which IPART understands that State Water and the NWC are working towards.

State Water acknowledges that it did not provide detailed information on work with the National Water Commission (NWC) to develop national metering standards. Additional information is provided below.

State Water’s Manager Information and Operations (MIO) attended the NWC’s Metering Expert Group (MEG) meetings on 24 August 2006, 26 October 2006, 4 April 2007 and 14 June 2007. The MIO provided comments on the proposals at each meeting.

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The MIO and State Water's metering Project Manager also attended the National Water Initiative metering workshop on 6 and 7 November 2006.

State Water also met with the NWC consultant on In-situ Verifications on 30 November 2006, in Dubbo. State Water took the consultant on a field inspection of various metering sites and to an in-situ verification demonstration.

State Water no longer attends the MEG meetings. The cost of attending the numerous meetings around Australia cannot be justified given current operating expenditure constraints and the fact that State Water is unable to enforce metering standards until they are included as Works Approvals conditions. Instead, the MIO provides comments to the DWE representative who still represents NSW at the meetings.

4. Limited information on difficulties in providing CSCs with financial information has been provided.

State Water acknowledges that the report to IPART contained only limited information on the difficulties experienced in providing CSCs with financial information.

Since corporatisation, State Water has experienced ongoing financial reporting difficulties which have not only impacted its ability to provide information to CSCs, but has also resulted in the 2004/05 and 2005/06 accounts failing to meet their statutory deadline for audit sign off. The failure to meet these requirements was due to difficulties associated with the implementation of a new financial system for the corporation, following its corporatisation on 1 July 2004.

State Water was one of the few state owned corporations created from a departmental structure rather than from a previous history as a PTW or public authority. On corporatisation, State Water had virtually no commercial systems: account, purchasing, payroll, billing and many vital records were all intertwined with those of its parent departments (the former Department of Land and Water Conservation/Department of Infrastructure Planning and Natural Resources). Early withdrawal from some systems was forced but the disengagement of other activities is still being completed.

While new systems were being developed over the last two years, State Water has had to rely upon manual preparation and adjustments. As with most new systems, some teething troubles have arisen and are gradually being overcome.

State Water acknowledges that these problems were not immediately identified. This was due in part to a number of factors, namely State Water's start up period co-incided with not only the worst drought in history and the introduction of the Water Sharing Plans, but also the 2005 and 2006 IPART bulk water pricing reviews. All of these factors impacted markedly on the State Water's resources and diverted valuable commercial resources away from the emerging problems with the financial management system.

Shortages in the State Water financial team in turn resulted in system design specifications not appropriate to the requirements of a state owned corporation. State Water has reviewed the number and skills mix of staff in the Finance team to provide adequate resourcing to meet financial reporting and audit requirements. In addition, an IFMS Improvement Project was established to address the complexity of the current financial system, use the software in a more conventional and easily understood manner, document the structure and configuration of the software, reduce the number of reporting categories and improve the management of overhead allocations. Accounting procedures are being established to improve understanding and ensure adequate controls exist to ensure accuracy in financial data.

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As a result of these improvements, State Water has completed its 2006/07 financial accounts within the statutory deadline. Once State Water's 2006/07 Annual Report has been tabled in Parliament, State Water will provide IPART and the CSCs the information required in Appendix 8 of the 2006 Determination.

Water Delivery

IPART raised three outstanding matters relating to the Part 7 of the Operating Licence.

1. There are a number of issues outstanding including uncertainties with respect to the roles and responsibility of State Water with regard to metering. This will be addressed in the end of term licence review.

IPART raised this issue in relation to Clause 7.4.1 of the Operating Licence: *"State Water must report to IPART by no later than 1 September each year on what action it has taken over the preceding financial year to address the issue of metering accuracy (for example, the number or percentage of customer meters State Water has audited or calibrated) and its findings in carrying out this action".*

State Water understands that the purpose of IPART's comment was to acknowledge that the uncertainties over metering roles and responsibilities will be addressed in the end of licence review. Therefore, State Water has not addressed these issues in the supplementary response.

2. IPART has not received access to physical or electronic records.

Clause 7.4.5 of the Operating Licence states: *"As part of its report State Water must provide IPART with physical and electronic access to the records kept by State Water it enable it to prepare the report under clause 7.4.4."*

State Water acknowledges IPART's need to obtain access to records as a fundamental part of ensuring State Water's compliance with the Operating Licence.

IPART has not requested access to physical or electronic records. State Water would be happy to provide such access if requested.

3. Water Balances

Clause 7.5.1 requires State Water to prepare water balances by no later than 1 September each year. As documented in the audit of State Water's Operational Audit 2005/06, State Water is unable to meet this deadline. The Audit recommended that State Water investigate alternative methods for timely delivery of the information by 1 September 2007. State Water will be addressing this issue in its submission to the end of licence review.

In the interim, State Water included the draft Water Balances in the report to IPART, as suggested by the Operating Licence auditors. State Water anticipates the finalised Water Balances will be available by the end of December.

IPART stated in its letter that State Water should provide the Water Balances direct to them. State Water notes that the Operating Licence requirement is for the Water Balances to be made publicly available. Therefore, the final Water Balances will be on State Water's website by the end of December 2007. State Water will also provide copies to IPART as requested.

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Performance Indicators

IPART noted two outstanding matters relating to Part 9 of the Operating Licence.

1. For the performance indicator – “volume of water taken in excess of access licence conditions under the Water Management Act 2000 (ML), and number of licences and licence breaches involved,” State Water has not provided the number of licence breaches for 2006/07 financial year. Only the June 2006 result was included.

State Water incorrectly stated that “*there were 162 licences that had taken in excess of licence conditions as at 30 June 2006*”. This statement should have read: “*there were 162 licences that had taken in excess of licence conditions as at 30 June 2007*”.

2. IPART has not received access to physical or electronic records.

Clause 9.3 of the Operating Licence states: *As part of its report. State Water must provide IPART with physical and electronic access to the records kept by State Water that enable it to prepare the report under Clause 9.2.*

State Water’s response in relation to Clause 7.4.5 above also applies here.

Inconsistency in Clause Referencing

IPART identified inconsistencies in the report relating to the referencing of licence clauses. State Water has reviewed the report and found a number of incorrect clause references in the sections relating to the Customer Service Charter and the Water Balances.

On page 22 of the report, the following clauses were incorrectly referenced:

- The requirement for State Water to have a customer service charter is Clause 4.3.1, not Clause 4.1;
- The requirement for the Charter to set out mutual responsibilities is Clause 4.3.2, not Clause 4.2;
- The requirement for State Water to review and update the Charter by not later than 1 July 2007 is Clause 4.3.4, not Clause 4.4; and
- The requirement for State Water to report on performance against the obligations in the Charter is Clause 4.3.5, and Clause 4.5.

On page 43 of the report, the following clauses were incorrectly referenced:

- The requirement for State Water to prepare water balances by 1 September each year is Clause 7.5.1, not 7.6.1; and
- The requirement for State Water to prepare an annual water balance for the Fish River Scheme by 1 September each year is Clause 7.6.1 (a), not Clause 7.6.2.

State Water acknowledges that these inconsistencies could create some confusion and apologises for the inconvenience.