



Independent Pricing and Regulatory Tribunal

State Water Corporation Operational Audit 2009/2010

Report to the Minister

Water — Compliance Report

November 2010



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Contents

Executive Summary	1
Overview of Audit Findings	1
IPART's Recommendations	2
1 Introduction and scope	4
1.1 Structure of Report	4
1.2 Scope	5
1.3 Process	5
2 Memoranda of Understanding	7
2.1 Overview	7
2.2 Audit Findings	7
2.3 IPART's Recommendations	8
3 Asset Management	9
3.1 Overview	9
3.2 Audit Findings	9
3.3 IPART's Recommendations	9
4 Customers' Rights and Consultation	10
4.1 Overview	10
4.2 Audit Findings	10
4.3 IPART's Recommendations	12
5 Complaint and Dispute Resolution	13
5.1 Overview	13
5.2 Audit Findings	13
5.3 IPART's Recommendations	14
6 Water Delivery Operations	15
6.1 Overview	15
6.2 Audit Findings	15
6.3 IPART's Recommendations	17
7 The Environment	18
7.1 Overview	18
7.2 Audit Findings	18
7.3 IPART's Recommendations	19

8	Performance Indicators	20
8.1	Overview	20
8.2	Audit Findings	20
8.3	IPART's Recommendations	21
9	Pricing	22
9.1	Overview	22
9.2	Audit Findings	22
9.3	IPART's Recommendations	22
10	Response to previous audit recommendations and compliance history	23
10.1	Follow-up on the 2008/09 recommendations	23
10.2	Compliance history	25
	Appendices	28
A	Final Audit Report – Halcrow Pacific Pty Ltd	
B	State Water Corporation 2010 Audit Scope	

Executive Summary

The Independent Pricing and Regulatory Tribunal (IPART) of New South Wales (NSW) has completed its audit of State Water Corporation's (State Water) compliance with the requirements of its Operating Licence (the licence). This audit covers the period from 1 July 2009 to 30 June 2010 (audit period). We engaged Halcrow Pacific Pty Ltd (Halcrow) as the consultant to assist with the 2009/10 Operational Audit (the audit) of State Water.

Overview of Audit Findings

State Water's level of compliance has improved since the previous audit of performance against the licence. This is attributed to the implementation of new business systems which have improved its ability to report more fully and accurately against the requirements of the licence. In addition, there appears to have been some improvement in processes to verify data prior to it being reported to IPART. However, less than full compliance has been assessed in several areas where quality assurance processes for reported data need to be improved. Where lower compliance has been reported, it was generally in areas that do not impact State Water's attention to its customers or its core responsibilities.

As in previous audits, the area with most scope for improvement by State Water is Part 8 of the licence – Performance Indicators, which attracted 1 **Low**, 4 **Moderate** and 1 **High** compliance gradings. Whilst this is an improvement on previous years, there is a need for State Water to consolidate and implement its recently developed reporting systems and clarify some of its obligations.

State Water's compliance in respect to Water Metering has improved, principally through the implementation of a program of activities that will provide the basis for understanding, improving and monitoring the accuracy of its meter fleet into the future. There is, however, a need to commence auditing the meter fleet for compliance with the requirements of the NSW Interim Water Meter Standards that were formally issued during the audit period.

State Water has implemented the majority of recommendations arising from the previous audit. However, some recommendations have not been actioned or fully implemented. Implementation of the outstanding recommendations, together with those presented in this report, will lead to further improvement of State Water's performance.

State Water's compliance for the audit period is illustrated in the following table. A comparison of its compliance for the years 2005/06 to 2009/10 is summarised in Chapter 10.

Table 1 Summary of State Water's 2009/10 Compliance

Licence Part	No. of Auditable Clauses	Compliance Grade Awarded			
		Full	High	Mod	Low
Part 2.3 – Memoranda of Understanding	11	9	2	-	-
Part 3 – Asset Management	5	5	-	-	-
Part 4 – Customers Rights and Consultation	22	21	-	1	-
Part 5 – Complaint and Dispute Resolution	15	14	1	-	-
Part 6 – Water Delivery Operations	17	14	3	-	-
Part 7 – The Environment	5	4	1	-	-
Part 8 – Performance Indicators	21	15	1	4	1
Part 9 - Pricing	1	1	-	-	-
Total	97	83	8	5	1

State Water's compliance with each section of the licence is discussed further in subsequent sections of this report.

IPART's Recommendations

We have seen a steady improvement in State Water's performance against the requirements of the licence. However, a number of opportunities for improved compliance were identified during the audit. These are aimed at materially improving compliance with the operating licence, as well as providing suggestions to improve State Water's practices and procedures.

We support all of the recommendations in the auditor's report and recommend that State Water proactively undertake actions to address the main issues central to these recommendations, which are encapsulated in the recommendations below.

We recommend that State Water:

- 1 Ensure that the 'Minor Consumer Agreement – Conditions of Supply', which is in place for 600 minor customers of the Fish River scheme makes an explicit reference to the quality of water to be supplied.
- 2 Update the format of the 1 September 2010 report to IPART to provide further information in relation to its complaints resolution process, specifically a discussion on how complaints were resolved, a description of the success of the complaint resolution process and reasons where resolution was not possible.
- 3 Clarify with IPART the definition of a supply interruption as it applies to the Fish River Scheme.

- 4 Clarify the rules relating to daily minimum flow targets; and obtain evidence of NOW's approval of the rules used for reporting performance against daily minimum flow targets.
- 5 Provide a report to IPART before 31 March 2011 which provides process and timeframes to address recommendations which follow-up on the outstanding matters arising from the 2008/09 audit.

The audit report identifies a number of opportunities where compliance with the licence could be enhanced or where State Water's practices and procedures could be improved. We support the matters raised as recommendations in the auditor's report and recommend that State Water provide us with a report before 31 March 2011 that sets out actions to address these recommendations. We will follow-up on State Water's progress in addressing these matters and we will review the implementation of these recommendations as part of the 2010/11 operational audit.

We have discussed these recommendations with State Water. State Water has accepted them and has agreed to address these issues.

We do not recommend that additional requirements be imposed on State Water by the Minister.

1 Introduction and scope

The Independent Pricing and Regulatory Tribunal (IPART) of New South Wales (NSW) has completed its audit of State Water Corporation's (State Water) compliance with the requirements of its Operating Licence (the licence). This audit covers the period from 1 July 2009 to 30 June 2010 (audit period). We engaged Halcrow Pacific Pty Ltd (Halcrow) as the consultant to assist with the 2009/10 Operational Audit (the audit) of State Water.

The purpose of this report is to inform the Minister for Water of our findings in relation to State Water's performance against its licence obligations for the audit period and set out our recommendations in response to these findings.

State Water was established on 1 July 2004 as a State Owned Corporation which delivers bulk water to rural and regional NSW. State Water's current licence was granted on 24 June 2008 for a period of 5 years. This licence provides at clause 11.1.1 that IPART must initiate an audit of State Water's operations as soon as practicable after 30 June each year.

The 2009/10 audit is the second audit of compliance with State Water's current licence. IPART has again undertaken a comprehensive audit (including low risk clauses) to provide a foundation for our review of performance against these clauses in later audits. As such, not all lower compliance ratings should be given equal weight. It is anticipated that a risk-based approach similar to that which applies to other major public water utilities will be adopted for State Water once its new business systems are fully operational and its level of licence compliance has further improved.

1.1 Structure of Report

The following chapters explain the audit findings and recommendations in more detail. They also include IPART's comments in response to these findings, based on our understanding of the issues, our ongoing compliance monitoring and observations during the audit process.

This chapter explains the basis for, and scope of, the audit review and the process followed in undertaking it.

Chapters 2 to 9 outline our assessment of State Water's compliance with the requirements of each part of its licence and our recommendations for State Water.

Chapter 10 reviews State Water's progress in addressing the audit recommendations for improved compliance arising from the prior audit (2008/09).

A copy of the consultant's report is provided at Appendix A.

1.2 Scope

We have determined that State Water audits should be full audits for the term of the current licence. This means that all licence clauses are examined. The conduct and scope of audits are specified in part 11 of the licence, including a requirement to receive submissions from the public.

1.3 Process

We engaged Halcrow to assist with the audit of State Water's performance against the requirements of its licence. As a part of the audit process, State Water's key stakeholders, including Government agencies and its customers, were consulted. In addition, we invited members from the public to make submissions to this review by placing notices on our website and in "The Land" newspaper on 9 September 2010. No public submissions were received for this review.

The consultant adopted a methodology consistent with *ISO 14011 - Guidelines for Environmental Auditing*. These guidelines set out a systematic approach to defining the requirements of the audit, which ensure that it is conducted in accordance with an established and recognised audit protocol.

We held an inception meeting with our consultant and State Water on 20 September 2010. This meeting developed the protocol for the conduct of the audit. All parties adhered to the agreed protocols throughout the audit. State Water fully cooperated with the audit.

State Water was provided with drafts of the consultant's audit report for comment. We have considered State Water's comments before finalising this report. The consultant's audit report is attached at Appendix A.

State Water's compliance with the requirements of the licence were assessed and rated according to the compliance schedule on the following page.

IPART Compliance Gradings

Compliance Grade	Description detail
Full Compliance	All requirements of the condition have been met.
High Compliance	Most requirements of the condition have been met with some minor technical failures or breaches.
Moderate Compliance	The major requirements of the condition have been met.
Low Compliance	Key requirements of the condition have not been met but minor achievements regarding compliance have been demonstrated.
Non Compliance	The requirements of the condition have not been met.
Insufficient Information	Relevant, suitable or adequate information to make an objective determination regarding compliance was not available to the auditor.
No Requirement	The requirement to comply with the condition does not occur within this audit period or there is no requirement for the utility to meet.

2 Memoranda of Understanding

State Water is required to enter into Memoranda of Understanding (MoU) with the Directors-General of the following agencies:

- ▼ The Department of Water and Energy, now the NSW Office of Water (NOW)
- ▼ The Department of Primary Industries, now the Department of Industry and Investment (DII) and
- ▼ The Department of Environment and Climate Change now the Department of Environment, Climate Change and Water (DECCW).

2.1 Overview

Overall, we are satisfied that State Water has endeavoured to maintain a cooperative working relationship with each of the parties specified above during 2009/10. The MoUs with DECCW and DII include provisions that these MoUs should be reviewed every 3 years. There have been delays in finalising these reviews.

With respect to the MoU with DECCW, we understand that the delay in reviewing the MoU has resulted from differing expectations on the part of DECCW and NOW. DECCW preferred a single MoU with both NOW and DECCW following the incorporation of NOW into DECCW. On the other hand, NOW sought to maintain a separate MoU which better reflected the allocations of functions and relationship between State Water and NOW. After further consultation with DECCW, State Water understands that DECCW now favour an MoU that is more comprehensive than the current document.

State Water has indicated that as both it and DII are satisfied with the general intent of the existing MoU. Only minor amendments will be required in any revision. Given these expectations, it is expected that State Water and DII will soon agree on a revised MoU.

State Water's performance in relation to the MoUs is generally consistent with that of the previous audit.

2.2 Audit Findings

State Water has achieved **Full compliance** with 9 out of 11 clauses in this section of the licence. **High compliance** has been assessed for 2 clauses, both of which relate to

the delays in reviewing the MoUs with DECCW and DII. The auditor noted that despite the terms of each MoU stating that they are to be reviewed at intervals not greater than 3 years; both reviews were more than twelve months overdue.

2.3 IPART's Recommendations

We do not have any specific recommendations for this part of the licence.

3 Asset Management

The licence requires State Water to ensure that its assets are managed:

- ▼ in a manner consistent with relevant laws, policies, principles and guidelines
- ▼ to achieve the lowest service delivery cost across the whole life of the assets, and
- ▼ to reduce business risks to a commercially acceptable level.

Additionally, when considering any augmentation of water management works, State Water must consider any scope for cost effective demand management strategies proposed by customers.

The licence also contains provisions which require State Water to report on the asset management system and an option for IPART to undertake an audit of State Water's asset management system. We completed a separate audit of State Water's Asset Management System in early 2009. This was done in conjunction with our review of State Water's prices.

3.1 Overview

During the audit, State Water demonstrated that it has operated its assets effectively and efficiently, satisfying the licence requirements in this area. State Water has undertaken additional work since the 2008/09 audit, including revisions to Dam Safety Emergency Plans, the development of an Asset Service Potential and Criticality Assessment Manual, and the establishment of a Business Expenditure Review Panel.

3.2 Audit Findings

State Water has achieved **Full compliance** with each of the auditable asset management clauses. This is consistent with the compliance assessed during the previous audit. It is noted that State Water's asset management system was audited internally in October/November 2009 with a number of recommendations made, all of which have been developed into action plans for implementation.

3.3 IPART's Recommendations

We do not have any specific recommendations for this part of the licence.

4 Customers' Rights and Consultation

State Water's core business includes providing services to 'regulated river' customers. These services include providing water allocations from dams, billing and metering. Part 4 of the licence requires State Water to:

- ▼ consult regularly with the state-wide Community Consultative Committee (CCC), the valley based Customer Service Committees (CSCs), and the Fish River Customer Councils
- ▼ in consultation with the CSCs, continue to have in place a Customer Service Charter
- ▼ use its best endeavours to enter into agreements with its Fish River Customers, and
- ▼ maintain a code of practice and procedure on debt management.

4.1 Overview

State Water has maintained a high level of compliance during 2009/10 with respect to customers' rights and consultation, including all clauses relating to the CCC, the valley based CSCs, the Customer Service Charter, the Fish River Customer Council, and Customer Contracts. Feedback received during the audit was positive indicating that the information provided by State Water continued to improve and that State Water was open and transparent in its dealings with CSCs.

The main area identified for improved compliance during 2009/10 concerned State Water's failure to provide reports required under the licence to both the Minister for Water and IPART. It is therefore prudent that State Water implement procedures to ensure that such problems do not recur in the future.

4.2 Audit Findings

State Water has achieved **Full Compliance** with all but one requirement of Customers' Rights and Consultation. A **Moderate Compliance** was assessed for the clause relating to the code of practice and procedure on debt management where State Water was late in providing the Minister for Water with a report on the number of requests for assistance and also failed to provide IPART with any of the required quarterly reports throughout 2009. This is discussed below. IPART is currently

developing a database to track workflow requirements to improve regulatory oversight of licence requirements

Community Consultative Committee (CCC)

State Water achieved **Full Compliance** for all requirements relating to consultation with the CCC, appointment and membership, and providing information to enable the CCC to discharge the tasks assigned to it. State Water has indicated that it intends to review the terms of reference of the CCC with the possibility of moving to a single annual meeting.

Valley Based Customer Service Committees (excluding Fish River Customers)

State Water achieved **Full Compliance** for all requirements relating to its Valley Based Customer Service Committees (CSCs), comprising of regular consultation with, and information provision to, the CSCs. Generally, the feedback from the CSCs was that the information provided by State Water was both satisfactory and had improved over recent years, that the meetings are run well, and that State Water's dealings with CSCs was clear.

Customer Service Charter (excluding Fish River)

State Water achieved **Full compliance** with the requirement to have a Customer Service Charter available to the public. The Charter was reviewed in 2010 and now incorporates recommendations made by the CSCs throughout the revision process.

Fish River Customer Council

State Water achieved **Full Compliance** for all clauses of this section. State Water has established and regularly consults with a Fish River Customer Council. Feedback from the Fish River Customer Council indicated satisfaction with State Water's information provision and consultation.

Customer Contracts (Fish River customers only)

State Water achieved **Full Compliance** with the requirement to use its best endeavours to enter into agreements with its Fish River customers during the audit period. However, the conditions of supply in the consumer agreements for approximately 245 minor customers make no explicit reference to the standard of the quality of water to be supplied (unlike the agreements entered into with its major Fish River Customers). The other requirements for customer contracts were met in contracts with these minor customers.

These minor customer agreements have been in place since August 2000 (prior to the term of the current licence). The auditor recognised some ambiguity as to whether the requirement to "enter" contracts should apply to these existing customers (clause 4.2.2). We have provided comment and a recommendation about this matter below.

Code of Practice and Procedure on Debt Management (Code)

In past audits, State Water has demonstrated improving compliance with the requirements of the licence in respect to the code. However, **Moderate** compliance was assessed in this audit in relation to the requirement to report to the Minister and IPART about customers seeking assistance with paying bulk bills. State Water was late in reporting to the Minister in the second quarter, and failed to provide IPART with any of the required quarterly reports throughout 2009/10. The quarterly reports provided a breakdown of the types of assistance provided to customers.

4.3 IPART's Recommendations

We recognise the efforts that State Water has made to improve its performance in this important area of the licence. We will follow up with State Water on the matter of reporting to the Minister and IPART concerning the code.

Regarding the contracts with minor customers, we consider that State Water did not fully meet the customer contract requirements for small customers. However, we accept the auditor's view that there was no intention to breach the licence.

That said, we intend to follow up with State Water to ensure that the small customer contracts fully comply with the requirements of the licence and that the contracts with these small customers include an explicit reference to water quality.

5 Complaint and Dispute Resolution

Part 5 of the licence requires State Water to:

- ▼ have in place internal complaints handling procedures based on the Australian Standard AS ISO 10002-2006 Customer satisfaction – Guidelines for complaints handling in organisations
- ▼ maintain a dispute resolution scheme or other arrangements for the external resolution of disputes between State Water and its customers, and
- ▼ report on complaints made against it to other bodies.

5.1 Overview

Overall, compliance with this part of the licence has improved since the last audit. This is primarily a result of improved internal complaints handling procedures and improved reporting on its External Dispute Resolution Scheme in 2009/10.

5.2 Audit Findings

State Water has generally achieved **Full compliance** with the requirements of the licence in respect to complaint and dispute handling. **High Compliance** has been assessed for one clause because insufficient detail was provided in a report to analyse complaint handling performance. We have set out a recommendation to address this issue.

Internal Complaints Handling Procedure

State Water has achieved **Full compliance** with 4 out of 5 clauses in relation to maintaining internal complaints handling procedures and making this information and the internal complaints report available to the public. **High compliance** was assessed for the requirement to provide IPART with an analysis of complaint handling performance. A recommendation has been made requesting that State Water updates the format of its 1 September report to IPART to provide further information and detail in relation to its complaints resolution process.

External Dispute Resolution Scheme

Full Compliance was assessed for all 8 clauses in this section of the licence. State Water has maintained its membership with the Energy and Water Ombudsman NSW Scheme (EWON) since 1 January 2006. State Water also reported on its external dispute resolution scheme and provided information about the scheme to its customers and the public as required by the licence.

Complaints to other bodies

State Water has achieved **Full compliance** with this section of the licence. State Water is not aware of any complaints or civil actions against it during the 2009/10 year.

5.3 IPART's Recommendations

To address the reporting issue described above, we recommend that State Water updates the information on complaint handling in its Annual Compliance Report to IPART.

Specifically, State Water's September 1 Report is required to provide details on how complaints were resolved, commentary on the success of this process and analysis where complaints were not resolved.

6 Water Delivery Operations

Part 6 of the licence requires State Water to maintain its assets and undertake water infrastructure operations, manage delivery of water allocations and develop plans to conserve water. Additionally, the licence imposes obligations on State Water to manage its water release functions taking into account physical supply constraints, to ensure metering accuracy, and to prepare water (supply and demand) balances for each valley and to calculate and report water balance and system yield for the Fish River Scheme.

These provisions require State Water to have a high degree of understanding of the water cycle and river systems and to develop and maintain appropriate plans to manage the system in times of drought.

6.1 Overview

In general, State Water has performed well with respect to its water infrastructure operations, the management of allocated water, water conservation, supply constraints, and Fish River water balance and system yield. State Water has adopted a more positive approach and has embarked on a number of actions during the 2009/10 financial year that are expected to improve performance with respect to the preparation of water balances.

While State Water has made progress in metering, lack of clarity on both the national water metering standards and meter auditing in water users' Works Approvals have prevented State Water from completely fulfilling all licence requirements in this area. We expect these difficulties (which are outside of their control) to be resolved in the near future.

6.2 Audit Findings

State Water's compliance with Part 6 of its licence has improved since last year. It has achieved **Full compliance** with respect to its water infrastructure operations, the management of allocated water, water conservation, supply constraints, water balances, and Fish River water balance and system yield.

High compliance was assessed with respect to 3 clauses relating to the preparation of water balances, the auditing of compliance with water metering standards, and the late submission of proposed performance measures to IPART. For 3 clauses, the

auditor assessed that there was **No Requirement** to comply with the condition during the 2009/10 year.

Water Infrastructure Operations

State Water achieved **Full compliance** with this section of the licence, by operating its assets in accordance with the requirements of relevant Water Management Works Approvals and Water Sharing Plans. The implementation of these instruments is regulated by NOW which indicated its satisfaction with State Water's Annual Compliance Reports detailing compliance against each Works Approval condition.

Similarly, the implementation of flood planning and other dam safety matters is regulated by the Dam Safety Committee (DSC). The DSC indicated that it was satisfied with State Water's performance in relation to this aspect of its operations.

Management of Allocated Water

State Water achieved **Full compliance** with respect to the management and delivery of water allocated to customers. It uses the Water Accounting System (WAS) to manage customer accounts and water allocations. Water orders are placed in WAS and then fed into the Computer Aided Improved River Operations (CAIRO) decision support system to ensure the release and delivery of allocated water to customers. Customers are now able to also place water orders over the internet using the iWAS system that was introduced by State Water in 2009/10.

Supply Constraints

State Water achieved **Full compliance** with this requirement. Supply constraints refers to the inability to meet orders for water because of the limited capacity of rivers and other water channels to carry the volumes required. With the continuing drought during the audit period, water allocations have been very low. In these circumstances, the issue of supply constraint does not arise. State Water indicated that it has modified some procedures to improve the timely delivery of water when more water is available for release.

Water Metering

In general, State Water has achieved **Full to High compliance** with the requirements of the licence in respect to water metering.

State Water has undertaken some activity in preparation for reading customer meters and auditing the compliance of meters against Commonwealth or State metering standards. However **High Compliance** was awarded because it had not yet completed any audits of compliance against the NSW Interim Water Meter Standards. State Water was also late in submitting the proposed metering performance indicators that it had developed prior to the current audit period and which were agreed to by IPART during the audit period.

State Water is undertaking a program of activities that will provide the basis for understanding, improving and monitoring the accuracy of its meter fleet into the future. It is recognised that the work undertaken since the 2008/09 audit provides a positive basis for ensuring metering accuracy into the future.

Water Balances

State Water achieved **Full to High Compliance** with the licence requirements relating to the preparation and reporting of water balances for valley based customers and water balance for the Fish River Scheme. The **High Compliance** resulted from State Water not submitting to IPART the water balance for the Lachlan Valley by the due date.

6.3 IPART's Recommendations

State Water demonstrated a very high level of compliance with the water delivery section of the licence. We do not have any specific recommendations for this part of the licence.

7 | The Environment

State Water's core functions of capture, storage and release of water have the potential to significantly impact on the environment. Its dams, weirs and other storages can have detrimental effects on river health and biodiversity. These structures change the natural flow of rivers, impede the passage of fish and interfere with ecological processes. The quality and temperature of water released from these storages can also affect river health. The licence, therefore, imposes obligations on State Water to undertake its operations so as to minimise the impact on the environment.

7.1 Overview

State Water has addressed the internal resourcing problems it encountered last year which has resulted in an improvement in performance relative to last year.

State Water has prepared a revised draft Environment Management Plan (EMP). However, this draft needs to be expanded to include additional references to algal management and a summary of the management plans, programs and procedures that are already in place.

Following last year's audit recommendations, State Water has done considerable work on an overarching environmental framework. However, it is not clear how the framework will facilitate meeting State Water's environmental objectives. Further, State Water will need to ensure consistency between the EMP and the proposed frameworks.

State Water has prepared a draft Monitoring Evaluation Audit and Reporting (MEAR) framework which is intended to be used as the basis for reporting its performance against all objectives and targets included in the EMP document. The MEAR Framework developed does not currently contain a list of specific targets or timetables on which the EMP will be assessed, but sets the framework for how these specific reports will be produced.

7.2 Audit Findings

State Water has generally achieved **Full compliance**, with this section of the licence. However, since State Water has not updated its Environmental Management Plan since 2007/08 and, does not have a clear and consistent algal management strategy in

place, **High compliance** was assigned for this part of the clause. For a number of clauses, there was 'No Requirement' to comply with the condition during the 2009/10 year. Overall, compliance with this section of the licence has improved relative to that of the last audit.

Environment Management Plan (EMP)

State Water achieved **Full compliance** with the requirement to develop an EMP for all of its operations, and to provide the EMP to IPART and the public.

Several clauses were assessed as **no requirement** - these relate to reviewing and updating the EMP prior to 30 November 2010, and engaging stakeholders and the public in consultation when conducting the review. At the audit interview, State Water indicated that the review will be completed ahead of the 30 November 2010 deadline.

The one **High Compliance** grading relates to the lack of a clear and consistent algal management strategy in the draft EMP. This shortcoming was observed during the 2007/08 audit and still applies, because the EMP has not been updated since 2007/08. This update is currently underway and due for completion by 30 November 2010.

7.3 IPART's Recommendations

We do not have any specific recommendations for this part of the licence. We intend to monitor State Water's progress on an algal management strategy.

8 Performance Indicators

Under the provisions of Part 8 of the licence, State Water must maintain adequate recording systems to collect and report performance indicator data relating to asset management, water delivery, water quality and policing functions.

8.1 Overview

During the 2009/10, State Water implemented a number of data quality assurance projects which have improved State Water's ability to report against the performance indicators included within its licence. This is reflected in an improvement in its performance against this part of the licence. Full implementation of these data quality assurance projects, across all of the valleys, and not just selected ones, should result in further improvements to compliance ratings.

State Water's difficulties in this section of the licence were mainly due to:

- ▼ the provision of conflicting supporting information
- ▼ errors in the calculation and reporting of performance data and
- ▼ quality control and checking of data within State Water.

We have therefore made a recommendation to address these problems. We note that most of the shortcomings relate to clauses that present a low operational risk associated with non-compliance.

8.2 Audit Findings

State Water achieved **Low to Full compliance** with this part of the licence in relation to Performance Indicators. There is one **High**, four **Moderate** and one **Low** compliance assessment for specific requirements. The lower assessments of compliance primarily relate to clauses where State Water has provided conflicting supporting information, or made errors in the reporting of performance information.

8.3 IPART's Recommendations

We believe that full implementation of the data quality assurance projects will provide a more robust framework from which State Water can accurately report performance, thereby improving compliance with many of the indicators in this section of the licence.

Our recommendations seek to resolve two issues that go beyond data quality issues:

- ▼ State Water was unable to demonstrate NOW's approval of daily minimum flow target definitions. The licence notes that these parameters are specified in Water Management Plans, or by the Minister, or by the Ministerial Corporation. For future compliance, State Water should be able to demonstrate this approval.
- ▼ The auditor notes that State Water has reported unplanned water supply related incidents (in which supply is not interrupted) as supply interruptions. Such reporting inconsistencies need to be clarified with IPART.

To address these matters, we recommend that State Water

- demonstrates NOW's approval where State Water has applied specific rules (which are not specified in Work Approvals) relating to the assessment of compliance with flow targets, and
- clarifies with IPART the definition of a supply interruption (as it applies to the Fish River Scheme).

9 Pricing

State Water is required to apply fees and charges and other amounts payable for its services subject to the terms of the licence, relevant legislation and the maximum prices and methodologies for State Water's monopoly services in accordance with IPART determinations or any other pricing authority vested with the power to determine water prices.

9.1 Overview

We note that State Water has fully complied with this part of the licence and no issues have been identified. This is consistent with the assessed compliance during the 2009/10 audit.

9.2 Audit Findings

State Water achieved **Full compliance** with this Part 9 of the licence concerning pricing. State Water operates under the IPART Bulk Water Pricing Determination which sets the maximum fees and charges payable for all services.

9.3 IPART's Recommendations

We do not have any specific recommendations for this part of the licence.

10 Response to previous audit recommendations and compliance history

This section of our report presents the outcomes of our follow up on recommendations in the 2008/09 audit report and summarises State Water’s historical compliance with licence requirements.

10.1 Follow-up on the 2008/09 recommendations

The 2008/09 audit report identified licence areas where State Water’s performance was assessed as less than high compliance. It also located areas where performance could be improved, even though high grades of compliance were awarded. We made recommendations to address these issues.

State Water has cooperated in this work and has considered and responded to these recommendations. During 2009/10, we reviewed State Water’s responses and monitored progress in addressing these matters. The following section is a report on the status of these investigations.

Some of the compliance matters are simply resolved. Others relate to more complex issues that can only be resolved over time. In the case of improvement suggestions where compliance was not the central issue, State Water considered these and responded to us. We will continue to work towards settling all outstanding or partly resolved matters.

We have reviewed State Water’s progress in addressing these recommendations. Table 10.1 details the progress that we have made in resolving these with State Water.

Table 10.1 Follow up on 2008/09 audit recommendations

Customer Rights and Consultation	
R5.1 Demonstrate consultation with all Customer Service Committees (CSC) prior to 30 June 2010 to review, and if necessary update, its Customer Service Charter.	Resolved - State Water reviewed the Charter between February and April 2010. At the 2009/10 audit, all eight CSCs were consulted on the issue of the Charter and proposed changes. Three CSCs provided minor recommendations and these were agreed and incorporated into the Charter.

Complaint and Dispute Resolution	
R6.1 Undertake a detailed review of AS ISO 10002-2006 Customer Satisfaction – Guidelines for complaints handling to ensure that internal complaint handling procedures are consistent with the current standard.	Resolved - during 2009/10, State Water reviewed and updated its complaints handling guidelines. The key elements of AS ISO 10002:2006 have been addressed.
Water Delivery Operations	
R7.1 Develop and document a set of procedures for preparing the water balances to ensure year on year consistency, and consistency between valleys.	Partly resolved - During 2009/10, State Water prepared a high level outline of the steps involved in developing the water balances but only limited detail was provided. We are working with State Water to further develop the procedures for developing water balances to include more details.
The Environment	
R8.1 Develop a project plan, detailing the timeline for the review of the Environmental Management Plan (EMP), incorporating agency consultation periods, to ensure that the 30 November 2010 deadline is met.	Resolved - State Water is currently undertaking a review of the EMP and has engaged an external consultant to manage the process. The consultant’s draft final report, including agency consultation, will meet the 30 November 2010 deadline.
R8.2 Develop an overarching environmental framework, detailing the various policies, procedures and documents which sit below the EMP State Water is yet to develop an overarching environmental framework, detailing the various policies, procedures and documents which sit below the EMP.	Partly resolved - State Water has developed a separate environmental framework which includes another framework, based on an Environmental Management System (EMS), in the initial draft EMP. The EMS framework shows a number of key tasks/processes and a number of inputs and outputs that relate to the EMP. It is not clear, how the framework will meet State Water’s environmental objectives or be consistent with the State Water’s other environmental frameworks. We will follow up on this matter.
R8.3 Finalise development of the Monitoring Evaluation Audit and Reporting (MEAR) framework and use this as the basis for reporting its performance against all objectives and targets included in the EMP document.	Partly resolved - State Water has provided a draft, internal copy of the MEAR Framework. This does not contain a list of specific targets or timetables on which the EMP will be assessed but sets the framework for how these specific reports will be produced. We will follow up on this matter.

Performance Indicators	
R9.1 Implement a set of procedures for quality assurance of data supplied to IPART.	Resolved - State Water has developed appropriate procedures and processes.
R9.2 Define indicator 1(c) (number of unplanned water supply interruptions) under Schedule 1, Part B of the licence as "the number of unplanned water supply incidents that have led to actual supply interruption (downtime)".	Unresolved - There remains a range of inconsistencies between the supporting information on water supply interruptions provided by State Water in the Incident Response Forms and summary spreadsheets. We will follow up on this matter.

10.2 Compliance history

Table 10.2 displays State Water’s performance in audits since the commencement of the current licence. In this table definitional clauses and asset management audit requirements are not included. Asset Management is subject to a separate audit.

Table 10.2 Historical performance of State Water

In this table Full indicates Full Compliance; High indicates High Compliance; Mod indicates Moderate Compliance; Low indicates Low Compliance; NC indicates Non Compliance; Insuff indicates Insufficient Information, - indicates no requirement)

Clause	Summary of Requirement	Compliance Grading				
		2005/06	2006/07	2007/08	2008/09	2009/10
2.3	Memoranda of Understanding	Low-Full	High-Full	High-Full	High-Full	High-Full
3	Asset Management					
3.1	Asset Management Obligation	-	Full	Full	Full	Full
3.4	Augmentation of Water Management Works	-	Full	Full	Full	Full
4	Customers’ Rights and Consultation					
4.1	Community Consultative Committee	Full	Full	Full	Full	Full
4.2	Valley based Customer Service Committees (excluding Fish River customers)	High-Full	High-Full	High-Full	Full	Full
4.3	Customer Service Charter	Full	Full	Full	Mod-Full	Full
4.4	Fish River Customer Council	Full	Full	Full	Full	Full
4.5	Customer Contracts (Fish River Customers only)	-	-	Full	Full	Full

10 Response to previous audit recommendations and compliance history

Clause	Summary of Requirement	Compliance Grading				
		2005/06	2006/07	2007/08	2008/09	2009/10
4.6	Code of Practice on Debt Management	High-Full	High-Full	High-Full	Full	Mod-High
5	Complaint and Dispute Resolution					
5.1	Internal Complaints and Dispute Handling procedure	Low-Full	High-Full	High-Full	Mod-Full	High-Full
5.2	External Dispute resolution procedure	High-Full	Full	Full	High-Full	Full
5.3	Complaints to other bodies	Full	Full	Full	High-Full	Full
6	Water Delivery Operations					
6.1	Water Infrastructure Operations	-	-	-	Full	Full
6.2	Management of Allocated Water	-	-	-	Full	Full
6.3	Water Conservation	Full	Full	Full	Full	Full
6.4	Supply Constraints	Full	Full	Full	Full	Full
6.5	Water Metering	Mod-Full	Mod-High	Mod-High	Mod-Full	High-Full
6.6	Water Balances	Mod	High	High	Full	High-Full
6.7	Fish River Water Balance and System Yield	Full	Full	Full	Full	High-Full
7	The Environment					
7.1	Environment Management Plan	Full	High-Full	High-Full	High-Full	High-Full
8	Performance Indicators					
8.1	Performance Indicators – Record systems	Low-Full	Low-Full	Low-Full	Low-Full	Low-Full
8.2	Performance Indicators – Reporting	Full	Full	Full	Full	Full
8.3	Performance Indicators – Provide IPART with physical and electronic access to records	Full	Full	Full	Full	Full
8.4	Performance Indicators – Make report available to the public	Full	Full	Full	Full	Full
9	Pricing					
	Fees and charges applied in accordance with the maximum prices and methodologies determined by IPART	Full	Full	Full	Full	Full



Appendices

A | Final Audit Report – Halcrow Pacific Pty Ltd

Independent Pricing and Regulatory Tribunal (IPART)



2010 Operational Audit of
State Water Corporation

Audit Report

November 2010

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Halcrow Pacific Pty Ltd

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Independent Pricing and Regulatory Tribunal (IPART)

2010 Operational Audit of
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Independent Pricing and Regulatory Tribunal (IPART)

2010 Operational Audit of State Water Corporation

Audit Report

November 2010

Contents Amendment Record

This report has been issued and amended as follows:

Issue	Revision	Description	Date	Prepared by	Checked by	Authorised by
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2	1	Second Draft	27/10/10	DF/AMD	AMD/JOS	JOS
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Contents

Executive Summary	i
<i>Background</i>	<i>i</i>
<i>Summary of Key Findings</i>	<i>i</i>
<i>Concluding Remarks</i>	<i>iii</i>
1 Introduction	1-1
1.1 <i>Background</i>	1-1
1.2 <i>Operating Licence</i>	1-1
1.3 <i>Scope of Work</i>	1-1
1.4 <i>Audit Standard Applied</i>	1-1
1.5 <i>Key Findings and Recommendations</i>	1-2
2 Audit Methodology	2-1
2.1 <i>Audit Questionnaire</i>	2-1
2.2 <i>Inception Meeting</i>	2-1
2.3 <i>Conduct of the Audit</i>	2-1
2.4 <i>Audit Interviews</i>	2-1
2.5 <i>Audit Team</i>	2-2
2.6 <i>Audit Report</i>	2-2
3 Licence Part 2 – State Water’s Responsibilities	3-1
3.1 <i>Overview of Requirements</i>	3-1
3.2 <i>State Water’s Responsibilities – Compliance</i>	3-1
3.3 <i>Discussion</i>	3-11
3.4 <i>Stakeholder Consultation</i>	3-11
3.5 <i>Progress in Responding to Previous Audit Recommendations</i>	3-12
3.6 <i>Recommendations</i>	3-12
4 Licence Part 3 – Asset Management	4-1
4.1 <i>Overview of Requirements</i>	4-1
4.2 <i>Asset Management – Compliance</i>	4-1
4.3 <i>Discussion</i>	4-7
4.4 <i>Progress in Responding to Previous Audit Recommendations</i>	4-7
4.5 <i>Recommendations</i>	4-7
5 Licence Part 4 – Customers’ Rights and Consultation	5-1
5.1 <i>Overview of Requirements</i>	5-1
5.2 <i>Customer’s Rights and Consultation – Compliance</i>	5-1
5.3 <i>Discussion</i>	5-18
5.4 <i>Stakeholder Consultation</i>	5-18
5.5 <i>Progress in Responding to Previous Audit Recommendations</i>	5-19
5.6 <i>Recommendations</i>	5-19

6	Licence Part 5 – Complaint and Dispute Resolution	6-1
6.1	<i>Overview of Requirements</i>	6-1
6.2	<i>Complaints and Dispute Resolution – Compliance</i>	6-1
6.3	<i>Discussion</i>	6-14
6.4	<i>Progress in Responding to Previous Audit Recommendations</i>	6-14
6.5	<i>Recommendations</i>	6-15
7	Licence Part 6 – Water Delivery Operations	7-1
7.1	<i>Overview of Requirements</i>	7-1
7.2	<i>Water Delivery Operations – Compliance</i>	7-1
7.3	<i>Discussion</i>	7-21
7.4	<i>Progress in Responding to Previous Audit Recommendations</i>	7-21
7.5	<i>Recommendations</i>	7-22
8	Licence Part 7 – The Environment	8-1
8.1	<i>Overview of Requirements</i>	8-1
8.2	<i>The Environment – Compliance</i>	8-1
8.3	<i>Discussion</i>	8-17
8.4	<i>Progress in Responding to Previous Audit Recommendations</i>	8-17
8.5	<i>Recommendations</i>	8-18
9	Licence Part 8 – Performance Indicators	9-1
9.1	<i>Overview of Requirements</i>	9-1
9.2	<i>Performance Indicators – Compliance</i>	9-1
9.3	<i>Discussion</i>	9-17
9.4	<i>Progress in Responding to Previous Audit Recommendations</i>	9-18
9.5	<i>Recommendations</i>	9-19
10	Licence Part 9 – Pricing	10-1
10.1	<i>Overview of Requirements</i>	10-1
10.2	<i>Pricing – Compliance</i>	10-1
10.3	<i>Discussion</i>	10-3
10.4	<i>Progress in Responding to Previous Audit Recommendations</i>	10-3
10.5	<i>Recommendations</i>	10-3
11	Concluding Remarks	11-1
Appendix A	Comparison of Compliance	A-1
Appendix B	Stakeholder Consultation	B-1

Index of Tables

Table 1.1	Summary of Compliance	1-3
Table 2.1	Scope of Operational Audit	2-3
Table 3.1	Part 2: Memorandum of Understanding – Compliance Assessment	3-2
Table 4.1	Part 3: Asset Management – Compliance Assessment	4-2
Table 5.1	Part 4: Customer’s Rights and Consultation – Compliance Assessment	5-2
Table 6.1	Part 5: Complaint and Dispute Resolution – Compliance Assessment	6-2
Table 7.1	Part 6: Water Delivery Operations – Compliance Assessment	7-2
Table 8.1	Part 7: The Environment – Compliance Assessment	8-2
Table 9.1	Part 8: Performance Indicators – Compliance Assessment	9-2
Table 10.1	Part 9: Pricing – Compliance Assessment	10-2

Index of Figures

Figure 2.1	Audit Team Structure	2-2
Figure 11.1	Comparison of Compliance	11-1

Abbreviations

Acronym	Description
ANBF	Alleged Breach Notification Form
ADWG	Australian Drinking Water Guidelines
AEW	Adaptive Environmental Water
ANCOLD	Australian National Committee on Large Dams
BERP	Business Expenditure Review Panel
CAIRO	Computer Aided Improved River Operations
CCC	Community Consultative Committee
CMA	Catchment Management Authorities
COAG	Council of Australian Governments
COR	Computer Operated River
CSC	Customer Service Committee
CWP	Cold Water Pollution
DECC [DECCW]	Department of Environment and Climate Change, now the Department of Environment, Climate Change and Water
DPI [DII]	Department of Primary Industries, now the Department of Industry and Investment
DMP	Drought Management Plan
DSC	NSW Dams Safety Committee
DWE [NOW]	Department of Water and Energy, now the NSW Office of Water
EMP	Environment Management Plan
EMS	Environmental Management System
EWON	Energy and Water Ombudsman NSW
FMMS	Facilities Maintenance and Management Systems
FRWS	Fish River Water Supply
Halcrow	Halcrow Pacific Pty Ltd
IFMS	Integrated Financial Management System
IPART	Independent Pricing and Regulatory Tribunal
iWAS	internet Water Accounting System
KPI	Key Performance Indicator
MEAR	Monitoring Evaluation Audit and Reporting
MoU	Memorandum of Understanding
NOW	NSW Office of Water
NWI	National Water Initiative

Acronym	Description
RACP	Regional Algal Contingency Plans
REF	Review of Environmental Factors
RERP	Rivers Environmental Restoration Program
SCA	Sydney Catchment Authority
SCADA	Supervisory Control and Data Acquisition
SLA	Service Level Agreement
State Water	State Water Corporation
TAM Guidelines	Total Asset Management Guidelines
TAMP	Total Asset Management Plan
TOR	Terms of Reference
TRC	Tamworth Regional Council
WAS	Water Accounting System
WIX	Water Information Exchange
WSP	Water Sharing Plan

Glossary/Definitions

Term	Meaning
Audit Period	1 July 2009 to 30 June 2010
Bulk Water	Water delivered to meet the needs of the environment and authorised users
End of Term Review	A review of the Operating Licence to be commenced on a date specified in the Licence
Function	Means a power, authority or duty
Minister	The Minister responsible for administering the provisions of the Utility's Act
Operating Licence	The Licence between 24 June 2008 and 30 June 2013

Compliance Assessment Guide

Compliance ratings have been used to grade achievement of compliance with each Licence condition. The ratings used were:

- **Full compliance** All requirements of the condition have been met.
- **High compliance** Most requirements have been met with some minor technical failures or breaches.
- **Moderate compliance** The major requirements of the condition have been met.
- **Low compliance** Key requirements of the condition have not been met but minor achievements regarding compliance have been demonstrated.
- **Non compliance (NC)** The requirements of the condition have not been met.
- **Insufficient Information** Relevant, suitable or adequate information to make an objective determination regarding compliance was not available to the auditor.
- **No Requirement** The requirement to comply with this condition does not occur within the audit period or there is no requirement for the utility to meet, such as a definition, a requirement placed upon another agency or the requirement was met in an earlier audit period.

Executive Summary

Background

Halcrow Pacific Pty Ltd (Halcrow) was engaged by the Independent Pricing and Regulatory Tribunal (IPART) to undertake the 2010 Operational Audit of the State Water Corporation (State Water).

The requirement to undertake an operational audit is specifically contained within clause 11.1 of the State Water *Operating Licence* which commenced on 24 June 2008.

This 2010 Operational Audit covers the operational period from 1 July 2009 to 30 June 2010 (audit period) and is the fifth audit of the State Water since it commenced operation on 1 July 2004.

Summary of Key Findings

This section collates the key findings made after reviewing State Water's compliance with the requirements of the *Operating Licence*.

Licence Part 2.3 – Memoranda of Understanding

State Water demonstrated 'Full' compliance with most clauses of this part of the *Operating Licence*. Due to the delays in reviewing the MoUs with DECCW and DII, 'High' compliance was assessed for two of the clauses audited.

Licence Part 3 – Asset Management

State Water achieved 'Full' compliance with respect to its Asset Management Obligation and the Augmentation of Water Management Works. State Water was able to demonstrate that its assets are managed in a manner consistent with relevant laws, policies, principles and guidelines. Additional work has been done since the 2008/09 Audit including revisions to the Dam Safety Emergency Plans, the development of the Asset Service Potential and Criticality Assessment Manual, and the implementation of the Business Expenditure Review Panel.

Licence Part 4 – Customers' Rights and Consultation

'Full' compliance has been assessed for the requirements of Customers' Rights and Consultation including all clauses relating to the Community Consultative Committee, the Valley based Customer Service Committees, the Customer Service Charter, the Fish River Customer Council; and Customer Contracts. 'Moderate'

compliance has been assessed for one of the clauses relating to the code of Practice and Procedure on Debt Management.

Licence Part 5 – Complaint and Dispute Resolution

State Water achieved ‘Full’ compliance with respect to most of the requirements in respect to Complaint and Dispute Resolution. ‘High’ compliance was assessed with respect to the lack of sufficient detail provided in the 1 September report to IPART on the number and types of complaints received, and their resolution.

Licence Part 6 – Water Delivery Operations

State Water has achieved ‘Full’ compliance with respect to its water infrastructure operations, the management of allocated water, water conservation, supply constraints, and Fish River water balance and system yield. ‘High’ compliance was assessed with respect to preparation of water balances, the auditing of meter compliance with metering standards, and the submission of proposed performance measures. For three clauses, there was ‘No Requirement’ to comply with the condition during the 2009/10 year.

Licence Part 7 – The Environment

State Water has generally achieved ‘Full’ compliance with the requirements of its *Operating Licence* in respect to The Environment. It received one ‘High’ compliance rating in respect of the lack of a clear and consistent algal management strategy in the EMP (notwithstanding that State Water is undertaking some positive action with respect to algal management). For a number of clauses, there was ‘No Requirement’ to comply with the condition during the 2009/10 year.

Licence Part 8 – Performance Indicators

State Water’s compliance with Part 8 of its *Operating Licence* has been assessed as between ‘Low’ and ‘Full’. Assessments of less than ‘Full’ compliance are primarily the result of insufficient recording systems to specifically measure performance against the identified indicators and also errors in the calculation and reporting of performance data. During the 2009/10 there were a number of business system enhancement projects which have improved State Water’s ability to report against the performance indicators included within its *Operating Licence*. This is reflected in an improvement in its performance against this part of the *Operating Licence*. Full implementation of these business systems, across all of the valleys, should result in further improvements to compliance ratings.

Licence Part 9 – Pricing

State Water has achieved ‘Full’ compliance with this part of its *Operating Licence*. It operates under the IPART Bulk Water Pricing Determination which sets the maximum fees and charges payable for all services.

Concluding Remarks

State Water’s level of compliance has improved since the previous audit of performance against its *Operating Licence*. This is attributed to the implementation of new business systems which have improved its ability to report more fully and accurately its performance against the requirements of the *Operating Licence*. In addition, there appears to have been some improvement in processes to check the data prior to it being reported to IPART. However, less than full compliance has been assessed in several areas where there remains an absence of appropriate quality checks of data prior to its reporting.

As in previous audits, the area with most scope for improvement by State Water is again Part 8 – Performance Indicators, which attracted a ‘Low’, four ‘Moderate’ and a ‘High’ compliance gradings. Whilst this is an improvement on previous years, there is a clear need for clarification of the definition of the Fish River performance indicators. Continued implementation of recently developed reporting systems will also lead to improved compliance.

State Water’s compliance in respect to Water Metering has improved, principally through the implementation of a program of activities that will provide the basis for understanding, improving and monitoring the accuracy of its meter fleet into the future. There is, however, a need to commence auditing the meter fleet for compliance with the requirements of the NSW Interim Water Meter Standards that were formally issued during the audit period.

Halcrow found evidence that State Water has implemented the majority of recommendations arising from the previous audit, however, there are some recommendations that have not been actioned or fully implemented. Implementation of the outstanding recommendations, together with those presented in this report, will lead to further improvement of State Water’s performance.

Overall, State Water has achieved a high level of compliance with the requirements of its *Operating Licence*. The assessment of compliance and the recommendations presented in this report are made in the spirit of supporting and encouraging ongoing improvement in State Water’s operational performance.

1 Introduction

1.1 *Background*

Halcrow Pacific Pty Ltd (Halcrow) was engaged by the Independent Pricing and Regulatory Tribunal (IPART) to undertake the 2010 Operational Audit of the State Water Corporation (State Water). This 2010 Operational Audit covers the operational period from 1 July 2009 to 30 June 2010 (audit period) and is the fifth audit of State Water since it commenced operation on 1 July 2004. The requirement to undertake an operational audit is specifically contained within clause 11.1 of the State Water *Operating Licence* which commenced on 24 June 2008.

State Water is a State Owned Corporation which delivers bulk water to rural and regional New South Wales. State Water's core business is providing services to about 6,200 customers who purchase water sourced from 'regulated rivers'. These services include providing water allocations from dams, billing and metering. The NSW Office of Water (NOW) is responsible for managing unregulated rivers and groundwater systems.

1.2 *Operating Licence*

The performance of State Water was assessed against the requirements of its 2008-2013 *Operating Licence*. A copy of the *Operating Licence* is available from State Water's website:

<http://www.statewater.com.au/Documents/Library/Operating%20Licence%2008-13.pdf>

1.3 *Scope of Work*

The scope of work for the Operational Audit of State Water's *Operating Licence* is available on IPART's website: <http://www.ipart.nsw.gov.au>.

1.4 *Audit Standard Applied*

To meet the specific requirements of IPART, the operational audit was undertaken adopting a methodology consistent with ISO 14011 *Guidelines for Environmental Auditing*. This guideline provides a systematic approach to defining the requirements of the audit, planning, interpreting Licence conditions, collecting audit evidence, objectively assessing the evidence and reporting in a clear and

accurate manner. It also ensures that the audit has been conducted in accordance with an established and recognised audit protocol.

1.5

Key Findings and Recommendations

In general, Halcrow found that State Water performed well against the audited clauses of the *Operating Licence*, however, there are a number of areas where performance can be improved. A summary of compliance is presented in **Table 1.1**, together with a number of recommendations which have been made after reviewing State Water's compliance with the requirements of the *Operating Licence*. These recommendations are made to assist State Water in improving its performance and increasing its level of compliance in future audits.

A comparison of State Water's compliance with previous audits is provided in **Appendix A**.

Table 1.1 Summary of Compliance

Licence Part	Compliance - Overall	Recommendations/Comment
Part 2.3 – Memoranda of Understanding (MoU)	High - Full	State Water demonstrated ‘Full’ compliance with most clauses of this Part of the <i>Operating Licence</i> . Due to the delays in reviewing the MoUs with DECCW and DII, ‘High’ compliance was assessed for two of the clauses audited. State Water’s performance in relation to the MoUs is generally consistent with that of the previous audit.
Part 3 – Asset Management	Full	State Water has achieved ‘Full’ compliance with respect to its Asset Management Obligation and the Augmentation of Water Management Works. This is consistent with its performance in the 2008/09 audit.
Part 4 – Customers’ Rights and Consultation	Moderate - Full	<p>With the exception of one ‘Moderate’ compliance grading in respect of the Code of Practice and Procedure on Debt Management, State Water has achieved ‘Full’ compliance with the requirements of the <i>Operating Licence</i> related to Customers’ Rights and Consultation. Overall, State Water’s compliance with this Part of the <i>Operating Licence</i> is in line with that of the previous audit.</p> <p>R5.1 – Clauses 4.5.1 & 4.5.2 of the <i>Operating Licence</i> require State Water to enter into agreements with its Fish River Customers during the term of the <i>Operating Licence</i>, and specify the minimum requirements for the terms of agreement. The ‘<i>Minor Consumer Agreement – Conditions of Supply</i>’, which are in place for 600 minor customers of the Fish River, makes no explicit reference to the quality of water to be supplied. Given that the minor customer agreements have been in place since August 2000, ie. prior to the term of the current <i>Operating Licence</i>, it is unclear whether the <i>Operating Licence</i> requires these agreements to be consistent with the requirements of clause 4.2.2. Halcrow recommends that State Water clarify the intent of clause 4.2.2 of the <i>Operating Licence</i> with IPART.</p>
Part 5 – Complaint and Dispute Resolution	High - Full	<p>State Water’s compliance has improved since the previous audit; it has achieved ‘Full’ compliance with respect to all but one the requirements in respect to Complaint and Dispute Resolution. ‘High’ compliance was assessed due to the lack of sufficient detail provided in the 1 September report to IPART in respect to the number and types of complaints received, and their resolution.</p> <p>R6.1 – It is recommended that State Water update the format of its 1 September report to IPART, to provide further information in relation to its complaints resolution process, so as to provide sufficient detail to IPART to gain an understanding of how and how well those complaints were resolved, or why the complaint was not resolved (as the case may be).</p>
Part 6 – Water Delivery Operations	High - Full	State Water’s compliance with Part 6 of its <i>Operating Licence</i> has improved since last year. Compliance has been assessed as ‘Full’ for all except six clauses. Compliance for three clauses has been assessed as ‘High’, while there was No Requirement during the audit period to comply with the remaining three clauses.

Licence Part	Compliance - Overall	Recommendations/Comment
Part 7 – The Environment	High – Full	State Water achieved ‘Full’ compliance with the requirements of most clauses its <i>Operating Licence</i> with respect to the Environment. The only exception was one ‘High’ compliance rating relating to the lack of a clear and consistent algal management strategy in the EMP, which is consistent with the assessment of compliance in previous years. Performance has improved marginally when compared to the previous audit.
Part 8 – Performance Indicators	Low - Full	<p>Compliance with the clauses of the <i>Operating Licence</i> relating to Performance Indicators has improved since the previous audit. This is principally due to the implementation of new business systems to improve the accuracy or information reporting. Further improvements to compliance assessments should be achieved as these business systems continue to be rolled out across all of the valleys. Less than ‘Full’ compliance has been assessed due to some errors in the reporting of performance data, and due to the reliance on manual reporting in some valleys.</p> <p>R9.1 – In reporting the percentage of time that daily minimum flow targets were met during 2009/10, State Water has reported its performance against the flow targets in the Works Approvals, rather than the Water Sharing Plans as specified in the <i>Operating Licence</i>. It indicated that it has adopted this approach in consultation with NOW. It is recommended that State Water seeks to modify the definition of this indicator when the <i>Operating Licence</i> is reviewed. In addition, where State Water has applied specific rules (which are not specified in Work Approvals) in relation to the assessment of whether flow targets have been met (such as in the Namoi), it is recommended that evidence be sought to demonstrate NOW’s approval of these rules.</p> <p>R9.2 – It is recommended that State Water clarifies with IPART the definition of a supply interruption (as it applies to the Fish River Scheme). In Halcrow’s opinion, State Water has reported unplanned water supply related incidents (in which supply is not interrupted) as supply interruptions. As such, there are a range of reporting inconsistencies that need to be addressed as a matter of priority.</p>
Part 9 – Pricing	Full	State Water has achieved ‘Full’ compliance with this part of its <i>Operating Licence</i> . It operates under the IPART Bulk Water Pricing Determination which sets the maximum fees and charges payable for all services. Its performance is consistent with the previous audit.

2 Audit Methodology

2.1 *Audit Questionnaire*

To ensure that the audit requirements outlined in the *Operating Licence* and the brief were addressed, the scope of the audit was confirmed with IPART and a draft audit questionnaire was prepared and issued to IPART.

The audit questionnaire was designed to enable the assessment of substantive compliance with the *Operating Licence*, and to identify factors that have had an impact of State Water's performance during the 2009/2010 year. It included questions to enable the assessment of management processes within State Water.

The audit questionnaire was provided to State Water prior to the face-to-face interviews to allow State Water to prepare responses and supporting documentation.

2.2 *Inception Meeting*

An inception meeting with IPART and State Water, to review and confirm the requirements of the Operational Audit, was conducted immediately prior to the commencement of interviews on the 20th September 2010.

2.3 *Conduct of the Audit*

Audit protocols were established at the inception meeting between the auditor and State Water representatives to ensure efficient and transparent information transfer, and to foster an open and professional working relationship between all parties. State Water and the auditor adhered to the agreed protocols throughout the audit process.

2.4 *Audit Interviews*

Interviews were held with State Water at State Water's Sydney office from Monday, 20th September 2010 until Wednesday, 22nd September 2010, to assess, in detail, State Water's compliance against the requirements of the *Operating Licence*. The pre-prepared audit questionnaire was used as a guide, and State Water was provided with the opportunity to present evidence towards demonstrating compliance with the requirements of its *Operating Licence*. Representatives of IPART attended all interview sessions.

2.5

Audit Team

The Audit Team for this project was made up of a team of experienced water consultants coordinated by the Team Leader. The Audit Team is shown in **Figure 2.1**.

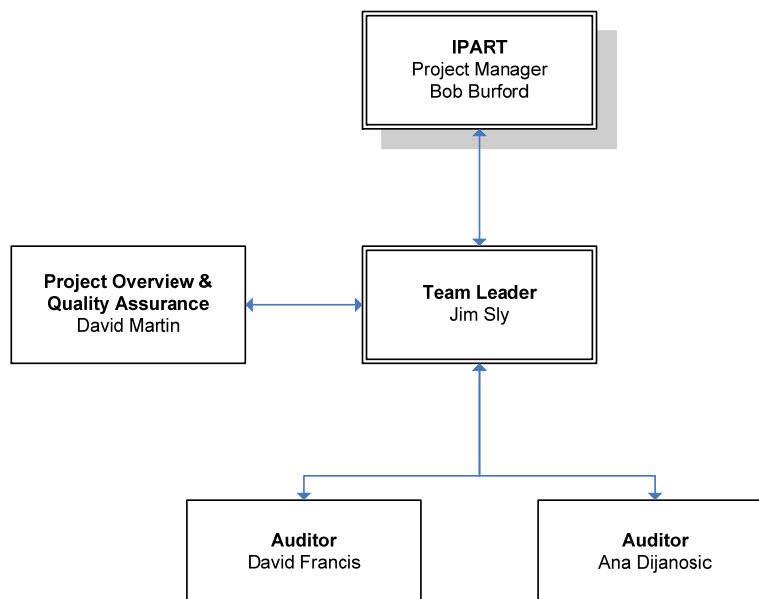


Figure 2.1 Audit Team Structure

2.6

Audit Report

The Audit Report has been developed with a relatively simple structure and is written in Plain English (where possible) with the balance of including sufficiently detailed information on State Water's compliance with its requirements to gain a full understanding of compliance assessment process. The Audit Report has been structured so as to address each aspect of the audit scope, and also to mimic the order in which the various requirements are presented in the *Operating Licence*. This is shown in **Table 2.1**.

Table 2.1 Scope of Operational Audit

Licence Part	Requirements	Report Section
Part 2.3 – Memoranda of Understanding (MoU)	MoU with DECCW, DII and NOW	Section 3
Part 3 – Asset Management	Asset Management Obligation, Augmentation of Water Management Works	Section 4
Part 4 – Customers’ Rights and Consultation	Community Consultative Committee, Valley based Customer Service Committees (excluding Fish River customers), Customer Service Charter (excluding Fish River), Fish River Customer Council, Customer Contracts (Fish River customers only), Code of Practice and Procedure for Debt Management	Section 5
Part 5 – Complaint and Dispute Resolution	Internal Dispute Resolution Process, External Dispute Resolution Scheme, Complaints to other bodies	Section 6
Part 6 – Water Delivery Operations	Water Infrastructure Operations, Management of Allocated Water, Water conservation, Supply constraints, Water metering, Water balances, Fish River water balance and system yield	Section 7
Part 7 – The Environment	Environment Management Plan	Section 8
Part 8 – Performance Indicators	State Water performance against specific indicators	Section 9
Part 9 – Pricing	Fees and charges for services provided by State Water	Section 10

For each Part of the *Operating Licence*, the Report includes:

- Overview of requirements – summary of requirements listed in the *Operating Licence*.
- Details of compliance – detailed notes on each requirement in the *Operating Licence* and an assessment of compliance.
- Discussion – key areas of concern in the compliance assessment; factors affecting compliance; comments from key stakeholders.
- Recommendations – key recommendations.

3 Licence Part 2 – State Water’s Responsibilities

3.1 *Overview of Requirements*

Clause 2.3 of the *Operating Licence* was subject to a detailed audit. The remaining clauses of Part 2 of the Licence were not included within the scope of this audit.

Under the provisions of clause 2.3 of the *Operating Licence*, State Water is required to use its best endeavours to maintain a Memorandum of Understanding with each of the Directors-General of:

- the Department of Water and Energy (DWE) [now the NSW Office of Water (NOW)];
- the Department of Primary Industries (DPI) [now the Department of Industry and Investment (DII)]; and
- the Department of Environment and Climate Change (DECC) [now the Department of Environment, Climate Change and Water (DECCW)].

The requirements in respect to each Memorandum of Understanding are set out in clause 2.3.2 of the *Operating Licence*.

3.2 *State Water’s Responsibilities – Compliance*

Compliance against clause 2.3 of the *Operating Licence* is outlined in **Table 3.1**. Compliance ranges from ‘High’ to ‘Full’ for the clauses that have been audited. This is consistent with the compliance assessed during the previous audit of State Water.

Table 3.1 Part 2: Memorandum of Understanding – Compliance Assessment

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
2.3	Memorandum of Understanding				
2.3.1	State Water must use its best endeavours to maintain a Memoranda of Understanding (MoU) with each of the Directors-General of DWE, DPI and DECC for the term of the Licence.				In its 2009/10 1 September report to IPART, State Water has indicated that Memoranda of Understanding (MoU) remained in place with NOW, DII and the DECCW.
	(a) MoU with DECC [DECCW];	This requirement presents a moderate environmental risk which is generally managed by maintaining a suitable framework to support cooperation between State Water and DECCW. The previous audit shows High compliance with this clause.	High	Finalise the review of the MoU with DECCW.	<p>The MoU between State Water and DECCW was signed on 2 November 2005. In accordance with Clause 9 of the MoU with DECCW, unless changes are made and agreed to, the existing MoU will be “rolled over”. The MoU remained in place during 2009/10 and no changes have been made since it was first entered into.</p> <p>The MoU document agreed between State Water and DECCW states that ‘the MoU should be reviewed at intervals not greater than three years, or sooner if either party requests, in writing, a review from the other party’. It was noted during the 2008/09 audit of State Water that a review of the MoU with DECCW commenced on 1 July 2009, seven months after it was required.</p> <p>State Water provided minutes from the DECCW and State Water Quarterly Meeting (19 November 2009), where the issue of the revised MoU was raised. DECCW had requested that following the amalgamation of NOW into DECCW, one MoU should be agreed. However, based on discussions with State Water at the audit interviews, it is understood that as NOW wishes to maintain a separate MoU with State Water, a separate MoU with DECCW will also be maintained.</p> <p>State Water provided a copy of an email to DECCW, dated 10 March 2010, with a “<i>rough draft on the MoU, based on the NOW model, as the starting point for discussion.</i>” In feedback provided to Halcrow as</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>part of the audit process, DECCW confirmed that it has been consulted regarding the review of the MoU and that it understands that the new MoU will be more comprehensive than the current MoU. Full details of the feedback from DECCW are provided in Appendix B.</p> <p>As at 30 June 2010, a revised MoU had yet been agreed. It is noted that, as of June 2010, review of the MoU was 19 months overdue.</p>
	(b) MoU with DPI [DII];	<p>This presents a moderate environmental risk which is generally managed by developing and maintaining a suitable framework to support cooperation between State Water and DII. The previous audit shows Full compliance with this clause.</p>	High	<p>Finalise the review of the MoU with DII.</p>	<p>The MoU between State Water and DII was signed on 23 June 2006. The MoU remained in place during 2009/10 without change. In addition to the MoU, DII and State Water have in place a Service Level Agreement (SLA) which identifies cooperative arrangements between State Water and DII for exchange of specified services and the cost of those services related to aquatic ecosystem management. The SLA commenced on 1 May 2006, and remains valid for three years.</p> <p>In its 2009/10 1 September report to IPART, State Water confirmed that it is currently reviewing the MoU with DII, with the MoU in final draft form. State Water also indicated that the revised SLA is also in final draft form.</p> <p>As part of the existing MoU, State Water and DII agreed that the MoU would be reviewed at intervals not greater than three years. In accordance with this requirement, State Water sought to commence the review in March 2009. As noted in the previous audit, copies of correspondence between State Water and DII in relation to the review of the MoU were sighted. At the time, State Water indicated that both it and DII were satisfied with the general intent of the existing MoU and hence, only minor amendments were to be made in the update.</p> <p>In explaining the reasons why it was unable to agree a revised MoU with DII during 2009/10, State Water stated that delays were experienced due to the MOU being altered to be consistent with DECCW and NOW's MOU templates. It noted that incorporation of</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					relevant SLA information into the MOU was also undertaken. State Water provided a draft copy of the revised MoU. The revised MoU recognises DII's role as the agency responsible for managing aquatic habitat and fisheries in NSW with a major role in promoting profitable and sustainable primary industries. The revised MoU also includes changes to pricing schedules.
	(c) MoU with DWE [NOW].	This presents a moderate operational risk which is generally managed by developing and maintaining a suitable framework to support cooperation between State Water and NOW. The previous audit shows Full compliance with this clause.	Full	-	The current MoU with NOW was agreed and signed on 30 June 2009. Although signed at the end of the 2008/09 year, the MoU was deemed to commence on 1 July 2008. As part of the 2009/10 audit, State Water has indicated that no changes have been made to the MoU agreed to by State Water and NOW. Under the terms of the MoU with NOW, the next review of the MoU is required to be conducted prior to June 2012.
2.3.2	The purpose of the MoUs is to form the basis for cooperative relationships between the parties to the MoU, in particular:				
2.3.2 (a)	the MoU with DWE is to: (i) recognise the roles of DWE in regulating water access, use and management and State Water in releasing water and managing	This presents a moderate operational risk which is generally managed by	Full	-	Section 4 and Schedule 1 of the current MoU between NOW and State Water recognises the roles of NOW and State Water, and their respective functions and responsibilities. Information sharing arrangements are covered in Section 11 of the MoU. Schedule 1 of the MoU clearly identifies a range of functions requiring

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	assets; and (ii) address the co-ordination of Functions and associated responsibilities between DWE and State Water in undertaking their respective roles;	ensuring that all areas of coordination of Functions and associated responsibilities are included within the MoU. The previous audit shows Full compliance with this clause.			a cooperative relationship, the role of State Water and of NOW, and the nature of the relationship (whether it be regulatory, co-dependent, commercial etc). State Water has provided examples of its interactions with NOW under the MoU during 2009/10 in its 1 September report to IPART. State Water provided evidence of these interactions in the form of various meeting minutes, agendas and reports. Interaction with NOW has been across a broad range of issues and areas throughout the audit period. Examples of the interaction with NOW include: <ul style="list-style-type: none"> • Implementation of the Section 91I procedures, including managing applications forms and clarifying authorisation. Note; Section 91I of the Water Management Act 2000 makes it an offence to take water from a water source by means of a metered work while its metering equipment is not operating properly or is not operating. Meeting minutes relating to s91I application forms, authorisation and training were sighted. • Training of State Water's Customer Service Officers in compliance issues in Narrabri, Dubbo and Leeton. In correspondence sighted, the CEO of State Water noted that the compliance relationship between NOW and State Water has been significantly advanced as a result. • Joint co-operation between State Water, NOW and DECCW in the ordering, measurement and accounting of AEW Supplementary Water in the Macquarie and Cudgegong Water Source. • The provision of Hydrometric Data Management services by NOW to State Water to allow State Water to management and deliver the water it is responsible for in an effective and efficient manner. The Hydrometric SLA between State Water and NOW was sighted. • Ongoing drafting of a Heads of agreement between NOW and State Water on IT matters. State Water provided

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>correspondence with NOW in relation to the agreement, and the current draft of the agreement, which is in the final stages of being agreed. The Heads of Agreement will recognise that water accounting and data management systems developed and currently shared between State Water and NOW do not allow the requirements of the NWI and the Commonwealth's Water Act 2007 to be met efficiently. The agreement will document actions that State Water and NOW have agreed to implement in relation to the development and implementation of their data dependent water accounting systems.</p> <ul style="list-style-type: none"> In February 2010, State Water and NOW signed a protocol for managing compliance. The protocol details the role of State Water in relation to the reporting of potential breaches, and of NOW in risk assessing and investigating potential breaches. <p>In feedback provided to Halcrow as part of the audit process, NOW stated that the current MoU, <i>“better reflects the allocations of functions and relationship between SWC and the Office.”</i> It also stated that, <i>“over the last 12 month period the Office is satisfied with SWC's intent and performance in meeting the requirements of the MoU.”</i> NOW also noted that the Strategic Liaison Group, which was one of the outcomes of the current MoU, <i>“has been effective in raising and resolving key issues. However, there is some room for improvement in recording and tracking of the decisions and outcomes from these meetings.”</i></p> <p>Full details of the feedback from NOW are provided in Appendix B.</p>
2.3.2 (b)	(i) recognise the role of DPI as the agency responsible for fisheries management in the State; and (ii) address the impact of State Water's operations and information sharing arrangements on the aquatic	This presents a moderate environmental risk which is generally managed by ensuring that all areas of coordination of	Full	-	<p>Section 1 of the MoU recognises the role of DII, while Section 5 details State Water's environmental obligations including its responsibilities to address aquatic habitat and fish passage impacts of State Water's operations.</p> <p>State Water provided evidence of interaction between itself and DII throughout 2009/10. Examples of interactions include:</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	habitat and fish passage;	Functions and associated responsibilities are included within the MoU. The previous audit shows Full compliance with this clause.			<ul style="list-style-type: none"> Finalisation of a 10 year Fish Passage Program in July 2010. It aims to strategise State Water’s fish passage related activities for the period 2008/09 to 2019/2020. A copy of the report was provided at audit. Maintenance and future ownership of the Balranald Weir Fishway. The fishway was designed and constructed by DII, however, DII has recently expressed an opinion that it may formally request State Water to fix the fishway and take ownership of it. A record of a telephone conversation between DII and State Water was provided as part of the 2009/10 audit. State Water worked with DII in relation to the vertical-slot fishways at Stevens Weir and the Edward River Offtake Regulator. State Water is managing the construction of the fishways, while DII provided significant input in relation to the design and construction phases. A summary of activities undertaken under the MoU between State Water and DII was sighted during the 2009/10 audit. Construction of the Yanco Creek Regulator, which involved State Water investigating a suite of works to environmental outcomes and water savings, and DII providing technical input regarding fish passage and proposed regulators. <p>State Water also provided a copy of its Annual Report 2009/10 on the MoU with DII, which details the activities undertaken in accordance with the MoU. It includes an overview of the general activities conducted under the MoU, together with specific projects, the Fishway Monitoring Program, and the performance against the reportable performance indicators. These indicators include the length of river opened to the free passage of native fish, the length of riparian habitat restored, and the area of aquatic habitat managed for protection during State Water works.</p> <p>In feedback provided to Halcrow as part of the audit process, DII noted that, <i>“outcomes under the MoU have made a sustained and profound</i></p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p><i>impact on the health of our rivers.</i>"</p> <p>Full details of the feedback from DII are provided in Appendix B.</p>
2.3.2 (c)	<p>(i) recognise the role of DECC [DECCW] as the agency responsible for environmental protection and conservation of natural and cultural heritage; and</p> <p>(ii) address the impact of State Waters operations and information sharing arrangements on river health and water quality</p>	<p>This presents a moderate environmental risk which is generally managed by ensuring that all areas of coordination of Functions and associated responsibilities are included within the MoU. The previous audit shows Full compliance with this clause.</p>	Full	-	<p>Section 1 of the MoU recognises the roles of DECCW and State Water. Section 5 outlines State Water's environmental obligations including addressing the river health and water quality impacts of its operations. Section 6 outlines the information sharing arrangements in place between DECCW and State Water.</p> <p>State Water provided evidence of its continuing interaction between itself and DECCW throughout 2009/10. Some examples of the interaction include:</p> <ul style="list-style-type: none"> • Minutes of the quarterly meeting between DECCW and State Water in November 2009. Issues discussed included the water delivery in each valley, the management of Commonwealth licences, and the MoU between State Water and DECCW. • Joint co-operation between State Water, NOW and DECCW in the ordering, measurement and accounting of AEW Supplementary Water in the Macquarie and Cudgong Water Source. • The Cold Water Pollution Interagency Group (CWPIAG), chaired by NOW, of which State Water and DECCW are members. The group aims to minimise the impact of cold water pollution from bulk water supplies, including State Water's storages. State Water provided minutes of a meeting held on 31 March 2010, ie. within the 2009/10 year. • DECCW involvement in the consultation process during the environmental assessment of the Keepit Dam Safety Upgrade Project. State Water provided a copy of a letter from DECCW (dated 21 September 2010), detailing notifications to DECCW by the contractor working on behalf of State Water to upgrade the dam. It also provided a copy of the Keepit Dam Upgrade

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					Biodiversity offsets report, demonstrating DECCW involvement in the consultation process.
2.3.4	State Water must make available to the public the MoUs referred to in clause 2.3.1.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	The MoUs are available on State Water's website by following the 'About Us' link, and then selecting the 'Publications' link. The MoUs are available as PDF documents that can be downloaded free of charge.
2.3.5	State Water must, by no later than 1 September each year, report to IPART on its performance against, and compliance with, the MoUs referred to in clause 2.3.1 for the preceding financial year, including such relevant information as may be required by IPART to be included in the report.				State Water reported on its compliance to IPART under the <i>Operating Licence</i> for the 2009/10 year in its 1 September report to IPART. The report is structured in tabular form to show each MOU requirement, together with an explanation of how State Water has complied during the reporting year. As part of the audit, State Water provided documentation to evidence its compliance with the MoUs.
	(a) Reporting on MoU with DECC [now DECCW];	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	In its 1 September report to IPART, State Water has reported its compliance against all requirements in the MoU.
	(b) Reporting on MoU with DPI [now DII];	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	In its 1 September report to IPART, State Water has reported its compliance against all requirements in the MoU.
	(c) Reporting on MoU with DWE [now NOW].	This represents a low risk. The	Full	-	In its 1 September report to IPART, State Water has reported its compliance against all requirements in the MoU.

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
		previous audit shows High compliance with this clause.			The previous audit assessed State Water's compliance against this clause as 'High'. Compliance has been assessed as a 'Full' for 2009/10, reflecting State Water's improved reporting on the MoU with NOW.
2.3.6	State Water must make available to the public the report referred to in clause 2.3.5.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	The 2009/10 1 September report to IPART on State Water's compliance against its <i>Operating Licence</i> is available on State Water's website by following the 'About Us' link, and then the 'Publications' link. The report is available for download from State Water's Internet website free of charge.

3.3 Discussion

3.3.1 Compliance Summary

State Water has achieved ‘Full’ compliance with the requirements of the *Operating Licence* in respect to Memoranda of Understanding with the exception of two ‘High’ compliance ratings. These are discussed in the following paragraph.

3.3.2 Clause 2.3.1(a) & Clause 2.3.1(b) – High Compliance

Compliance with these clauses has been assessed as ‘High’ as the review of each MoU is greater than twelve months overdue. The terms of each MoU state that they are to be reviewed at intervals not greater than three years.

3.4 Stakeholder Consultation

3.4.1 Overview

As part of the audit Halcrow contacted the Directors General of DECCW, DII and NOW to seek comment from each agency on State Water’s performance in regards to the requirements of the relevant MoU, and the level of consultation and interaction with State Water with respect to relevant sections of the *Operating Licence*. Each organisation provided written feedback, a summary of which is provided in the paragraphs below. The feedback provided by these stakeholders was considered when assessing the compliance rating in respect to the relevant clauses of the *Operating Licence*.

The letters sent to these stakeholders, together with the responses received are included in **Appendix B**.

3.4.2 NOW

The feedback provided by NOW indicates that it is satisfied with State Water’s operation in relation to the MoU. It stated that, “*over the last 12 month period the Office is satisfied with SWC’s intent and performance in meeting the requirements of the MoU.*” NOW noted that, “*the revised MoU better reflects the allocations of functions and relationship between SWC and the Office,*” but further stated that, “*it may still be too early to conclude that the revised MoU fully addresses all response and accountability scenarios, as both agencies are still in the process of adjusting expertise and resources to give full effect to the MoU.*”

NOW noted that the Strategic Liaison Group, which was one of the outcomes of the current MoU, “*has been effective in raising and resolving key issues. However, there is some room for improvement in recording and tracking of the decisions and outcomes from these meetings.*”

3.4.3

DECCW

The feedback provided by DECCW indicates that DECCW has been consulted regarding the review of the MoU and that it understands that the new MoU will be more comprehensive than the current MoU. DECCW notes that it has become a significant customer of State Water in its role as NSW Environmental Water Manager, and that the increased interaction with State Water that has resulted has been largely positive. In particular, DECCW noted, “*of particular note is the high standard of service experienced by DECCW in the management of environmental water in the Lower Murrumbidgee.*”

DECCW also confirmed that State Water has offered membership to DECCW for each of the valley based CSC’s. It confirmed that there is generally good communication between CSC’s and Environmental Water Advisory Groups on matters of mutual interest such as the management of environmental water.

3.4.4

DII

The feedback provided by DII provides an overview of the key outcomes achieved under the MoU during the audit period. The achievements include construction of new fishways at a number of sites, and the management of aquatic habitat during State Water works. DII has noted that, “*outcomes under the MoU have made a sustained and profound impact on the health of our rivers.*” DII also noted that it believes the development and implementation of the MoU with State Water “*is evidence of State Water’s commitment to improved water resource management.*”

3.5

Progress in Responding to Previous Audit Recommendations

The report on the 2009 Operational Audit of State Water did not identify any recommendations in relation to the Memoranda of Understanding.

3.6

Recommendations

There are no recommendations in relation to this section of the *Operating Licence*.

4 Licence Part 3 – Asset Management

4.1 *Overview of Requirements*

Part 3 of the *Operating Licence* outlines State Water's obligations in relation to Management of its Assets, Reporting and Auditing of State Water's Asset Management Systems and the Augmentation of Water Management Works.

Under the provisions of Part 3 of the *Operating Licence*, State Water must:

- ensure that its assets are managed in a manner consistent with relevant laws, policies, principles and guidelines;
- report to IPART on the state of each group of assets it manages;
- participate in an audit of its asset management system as determined by IPART; and
- consider any additional scope for cost effective demand management strategies by customers when considering any augmentation of Water Management Works.

4.2 *Asset Management – Compliance*

Clauses 3.2 and 3.3 of the *Operating Licence* have been excluded from the scope of the audit. Compliance with the remaining clauses of Part 3 – Asset Management, is outlined in **Table 4.1**. Compliance has been assessed as 'Full' for each of the clauses that have been audited. This is consistent with the compliance assessed during the previous audit of State Water.

Table 4.1 Part 3: Asset Management – Compliance Assessment

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
3.1	Asset Management Obligation				
3.1.1	State Water must ensure that its Assets are managed in a manner consistent with:				<p>The main documents which outline State Water’s obligations in relation to asset management are:</p> <ul style="list-style-type: none"> • Asset Management Framework; • Total Asset Management Plan (TAMP) (2009); • Capital Investment Strategy (2009); • Risk Management Framework; and • TAMP for Unregulated River Structures (2008). <p>State Water’s asset management system was audited internally in October/November 2009 with a number of recommendations made, all of which have been developed into action plans for implementation.</p>
	(a) its obligations in this Licence, and all applicable laws, policies and guidelines with which State Water must comply, including the requirements of the NSW Dams Safety Committee;	This presents a high operational risk. The risk is generally managed by an asset management framework that is compliant with all relevant laws, policies and guidelines. The previous audit shows Full compliance with this clause.	Full	-	<p>Section 2 of the TAMP 2009 outlines all of the various obligations of State Water including relevant laws, policies and guidelines with which it must comply.</p> <p>State Water develops maintenance and surveillance programs and undertakes inspections and audits and five-yearly safety reviews to ensure compliance with established procedures, including the requirements of the NSW Dams Safety Committee (DSC) (<i>Dams Safety Act 1978</i>) and NSW Treasury Government Asset Management Committee guidelines.</p> <p>Dam safety management, maintenance audits, emergency planning and critical infrastructure management within State Water is the responsibility of the Strategic Assets business unit. The Dam Safety Group also assesses compliance with NSW DSC requirements and Australian National Committee on Large Dams (ANCOLD) by undertaking audits against technical and safety standards and</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>inspection and reporting frequency.</p> <p>The Dam Safety Group undertakes surveillance inspections and monitors dam instrumentation and behaviour. Dam and river structure deformation surveys are undertaken by the Survey Services Unit. Programmed five-yearly inspections for 2009/10 were carried out at Split Rock, Chaffey and Wyangala Dams with the programmed inspection for Keepit Dam postponed until after the current upgrade works are completed. Maintenance audits were also undertaken during 2009/10 at Blowering, Brogo, Burrendong, Burrunjuck, Carcoar, Chaffey, Lostock, Oberon, Rydal, Split Rock, Toonumbar, Windamere and Wyangala Dams. State Water also provided a program timetable for surveillance audits over 2009/10.</p> <p>State Water's dam safety upgrade program continued through 2009/10 while a comprehensive review of Dam Safety Emergency Plan design, protocols, content and approvals was undertaken in 2009/10.</p> <p>The Dam Safety Committee was contacted to comment on State Water's compliance with this clause. It provided feedback, included in Appendix B, indicating that it was satisfied with State Water's performance in relation to the requirements of this clause.</p>
	(b) the principles of the NSW Government's Strategic Management Framework and the NSW Government's Total Asset Management (TAM) Policy and Guidelines;	This presents a high operational risk. The risk is generally managed by an asset management framework that is consistent with all relevant principles, policies and guidelines. The previous audit	Full	-	The TAMP 2009 report states that it is produced in line with NSW Government Treasury Total Asset Management (TAM) guidelines (June 2006) and a review of the TAM guidelines supports this statement.

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
		shows Full compliance with this clause.			
	(c) achieving the lowest cost of service delivery across the whole life of the Assets; and	This presents a high operational risk. It is generally managed by an asset management framework that includes appropriate consideration of risk, life cycle cost and the whole of life of Assets. The previous audit shows Full compliance with this clause.	Full	-	<p>TAMP 2009 covers the various stages of the asset life cycle including asset strategy, planning, capital investment, maintenance, optimisation and disposal.</p> <p>The Asset Planning Group produces detailed life-cycle asset plans for major assets and asset groups such as the valleys. An asset plan identifies applicable business drivers, impacts from theme policies and plans, needs for asset works and life cycle options to meet needs. It includes budgets, forecasts and plan approvals with performance management and allocation of asset management responsibilities to internal units. Lifecycle Management Plans are being developed as historical maintenance costs become available from the Facilities Maintenance Management System.</p> <p>State Water recently established a Business Expenditure Review Panel (BERP) to review proposed operational and capital expenditure programs. The BERP reports to the Board on the progress of expenditure and implementation every quarter. The first meeting of the BERP was held on August 2009. Two examples of project reviews by the BERP were provided by State Water for Mollee Weir Gate Repainting and Glenbawn Spillway Tree Clearing projects.</p>
	(d) identifying business risks related to the Assets and managing them to a commercially acceptable level.	This presents a high operational risk. It is generally managed by appropriate processes and systems to identify and mitigate and manage risks. The previous audit	Full	-	<p>State Water has a Board endorsed Risk Management Framework which identifies business risks, management processes, controls, and processes for monitoring and review. This policy is managed by the Strategic Policy and Compliance Group. The Risk Management Framework applies to all aspects of State Water's business, and is based on the Australian Standards AS/NZS 4360:2004.</p> <p>The Framework provides the policy and high level process for risk management by:</p> <ul style="list-style-type: none"> • Specifying State Water's risk management policy;

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
		shows Full compliance with this clause.			<ul style="list-style-type: none"> • Establishing clear accountabilities for the management of risk; • Directing the process and providing a structure for the identification, assessment and evaluation of risks which impact on the business (including business risks related to assets); • Specifying procedures for monitoring and reviewing the management of risk; and • Specifying the integration of the risk management processes with other management processes such as corporate plans and performance plans. <p>In relation to asset related risks, the Projects and Contracts Risk Management Group, within the Strategic Assets Group, manages the provision and oversight of policies/procedures for contract procurement, contract management and project management. This ensures legislative and policy compliance, effective risk management, technical 'best appropriate practice' and the meeting of business unit objectives within State Water. Improvements to date include:</p> <ul style="list-style-type: none"> • Implementation of electronic tendering practices that provide process efficiency gains and legislative compliance; • Production of construction contract management OHS procedures to improve the safety management of construction contractors and ensure State Water compliance with the OHS Act 2000; and • Revised contract documentation to meet best practice standards. <p>Business risks are also assessed through the various dam safety programs discussed above, as managed by the Emergency and Security Planning Group within Strategic Assets.</p> <p>State Water previously provided documentation outlining its Risk Management Framework, as well as a copy of its Strategic Risk Register for review. State Water recently (in March 2010) completed preparation of an 'Asset Service Potential and Criticality Assessment</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					Manual' which provides a guideline for determining remaining asset lives, thereby providing State Water with an understanding of, and a process for managing, critical asset risks.
3.2	Reporting on Asset Management Systems		Not Audited	-	This clause was excluded from the scope of the audit.
3.3	Auditing the Asset Management System		Not Audited	-	This clause was excluded from the scope of the audit.
3.4	Augmentation of Water Management Works				
	When considering any augmentation of a Water Management Work, State Water must consider any additional scope for cost effective demand management strategies by Customers.	This presents a high operational risk. It is generally managed by appropriate consideration of cost-effective demand management strategies prior to augmenting any water management works. The previous audit shows Full compliance with this clause.	Full	-	State Water did not augment or pro-actively seek to augment any works during the period 2009/10 that could be offset by demand management strategies.

4.3 *Discussion*

State Water has achieved 'Full' compliance with each of the *Operating Licence* clauses audited in respect to Asset Management. During the audit, State Water was able to demonstrate that its assets are managed in a manner consistent with relevant laws, policies, principles and guidelines. Additional work has been done since the 2008/09 Audit including revisions to the Dam Safety Emergency Plans, the development of the Asset Service Potential and Criticality Assessment Manual, and the implementation of the Business Expenditure Review Panel.

4.4 *Progress in Responding to Previous Audit Recommendations*

No recommendations were made in relation to this Part of the *Operating Licence* as a result of the 2009 Operational Audit.

4.5 *Recommendations*

There are no recommendations in relation to this Part of the *Operating Licence*.

5 Licence Part 4 – Customers’ Rights and Consultation

5.1 *Overview of Requirements*

Under the provisions of Part 4 of the *Operating Licence*, State Water is required to:

- continue to consult regularly with the state-wide Community Consultative Committee (CCC);
- continue to consult regularly with the valley based Customer Service Committees (CSCs), excluding Fish River Customers;
- in consultation with the CSCs, continue to have in place a Customer Service Charter;
- regularly consult with the Fish River Customer Council;
- use its best endeavours to enter into agreements with its Fish River customers; and
- maintain a code of practice and procedure on debt management.

Details in respect to each of these requirements are set out in clauses 4.1 to 4.6 of the *Operating Licence*.

5.2 *Customer’s Rights and Consultation – Compliance*

Compliance with Part 4 – Customer’s Rights and Consultation, is outlined in **Table 5.1**. Overall, compliance with Part 4 of the *Operating Licence* has remained consistent with that of the last audit. ‘Full’ compliance has been assessed for most clauses, with one ‘Moderate’ assessment of compliance.

Table 5.1 Part 4: Customer’s Rights and Consultation – Compliance Assessment

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
4.1	Community Consultative Committee				
4.1.1	State Water must continue to consult regularly consult with the state-wide community consultative committee established under clause 4.1.1 of the Previous Licence (the CCC) to enable community involvement in issues relevant to the performance of State Water’s obligations under the Licence, except in relation to the Fish River Scheme.	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	<p>State Water established a State wide Community Consultative Committee (CCC) in 2005/06. Membership of the CCC was updated in 2008/09, and the CCC remained in place during 2009/10.</p> <p>The Terms of Reference (TOR) for the CCC were reviewed and revised at the 9 May 2009 meeting of the CCC. The TOR of the CCC identify the objectives of the CCC as being:</p> <ul style="list-style-type: none"> To provide strategic advice to State Water Corporation on issues that impact on service delivery for customers, the environment, basic water right holders, regional business, consumer groups, Catchment Management Authorities, indigenous people and local government. To provide a platform for consultation on community issues. <p>As noted in previous audits of State Water, this scope is worded differently and may have a slightly different meaning than that envisaged in the <i>Operating Licence</i> which states that the CCC “enable community involvement in issues relevant to the performance of State Water’s obligations under this Licence, except in relation to the Fish River Scheme.”</p> <p>The purpose of this Committee is to provide communication with and feedback from the peak representative organisations comprising the membership of the committee. The terms of reference state that the CCC will meet twice per year.</p> <p>In 2009/10, the CCC met twice with meetings on 29 October 2009 and 28 April 2010. Minutes for the meeting on 29 October 2009, and a draft version of the minutes from the meeting on 28 April 2010 were provided to the auditors. While the 28 April 2010 meeting was well attended, only one member of the CCC, and two alternate members,</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>attended the meeting on 29 October 2009.</p> <p>The minutes from the two meetings indicate that the CCC discussed a number issues including:</p> <ul style="list-style-type: none"> • Metering project update; • Water efficiency projects update • Environment Management Plan update; • Improving customer service update; • iSMART project; • IPART Audit of Operating Performance Report; • IPART Draft 2010 Pricing Determination; and • Dam Safety Upgrade Program update. <p>During the audit interviews, State Water indicated that it will review the terms of reference of the CCC with the possibility of moving to a single annual meeting. This will be discussed at the October 2010 meeting.</p> <p>The items discussed at the two meetings held during 2009/10 appear relevant to most aspects of State Water's obligations under its <i>Operating Licence</i>.</p>
4.1.2	<p>State Water must appoint the members of the CCC consistently with the Licence. The membership of the CCC must include a representative from at least each of the following:</p> <ul style="list-style-type: none"> (a) Customers (excluding Fish River customers); (b) environment groups; (c) basic water right holders; (d) regional business and 	<p>This represents a low operational risk. The previous audit shows Full compliance with this clause.</p>	Full	-	<p>The TOR outlines the appointment of members to the CCC. State Water approaches the Peak Representative Groups to provide representatives of the community groups specified in the <i>Operating Licence</i>. The Peak Representative Groups are:</p> <ul style="list-style-type: none"> • Customers – NSW Irrigators Council; • Environment groups – Nature Conservation Council; • Basic water right holders – NSW Farmers Association; • Regional Business – NSW Business Chamber; • Consumer Groups – Australian Consumers Association; • Catchment Management Authorities – Chair of CMA Chairs Committee; • Indigenous People – NSW Aboriginal Land Council;

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	consumer groups; (e) Catchment Management Authorities; and (f) local government.				<ul style="list-style-type: none"> • Local Government – Local Government and Shires Association; • Environment and a customer – DECCW; and • Resource Manager – NOW. The CCC is presently comprised of the following representatives: <ul style="list-style-type: none"> • NSW Irrigators’ Council – Mr Col Thomson; • Nature Conservation Council – Prof Don White; • NSW Farmers Association – Mr Malcolm Holm; • NSW Business Chamber – Mr Paul Orton; • Australian Consumers’ Association – None; • Chair of CMA Chairs Committee – Mr Tom Gavel; • NSW Aboriginal Land Council – None; and • Local Government and Shires Association of NSW - Cr Janet Hayes. State Water advised that the NSW Aboriginal Land Council representative has stopped attending the CCC. During the audit interviews, State Water indicated that the limitation on members serving no more than two consecutive two year terms may limit its ability to secure membership from the required representative groups. State Water has indicated that it may need to review this condition in consultation with IPART, to remove the two year term limitation.
4.1.3	The term of a member of the CCC will expire two years after his or her appointment. A member will be eligible for re-appointment for one further consecutive term.	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	The TOR for the CCC includes this <i>Operating Licence</i> requirement. The two year term for the first CCC expired on 27 July 2008 (two years after the first meeting of the CCC). A number of CCC members were reappointed to the CCC and are now in their second consecutive term. All current CCC members are serving in accordance with the eligibility terms.
4.1.4	State Water must provide the CCC with information within its possession or under its control	This represents a low operational risk. The previous	Full	-	The TOR states that the CCC “ <i>will be supplied with comprehensive and relevant information to allow informed decisions to be made.</i> ”

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	necessary to enable the CCC to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege.	audit shows Full compliance with this clause.			<p>State Water provided copies of all the papers provided to CCC members for the two meetings during 2009/10. The information provided covers the full range of topics and items making up the agendas of the meeting.</p> <p>Action tracking sheets were provided for both of the meetings. The action tracking sheet for the 29 October 2009 meeting indicates that although the due date for some of the actions were delayed, progress updates on the actions were provided. No record of complaint from any CCC member regarding the availability of information was recorded in the minutes of the 29 October 2009 meeting, or the draft minutes from the meeting of the 28 April 2010.</p> <p>As part of the audit, Halcrow contacted each member of the CCC seeking comment on State Water's discharge of its obligations under this clause, however, none of the members responded to the request.</p>
4.2	Valley Based Customer Service Committees (excluding Fish River customers)				
4.2.1	State Water must continue to consult regularly with valley based customer service committees established under clause 4.2.1 of the Previous Licence (together the CSCs) to enable Customer involvement in issues relevant to the performance of State Water's obligations to Customers under the Licence or the customer service charter referred to in clause 4.3. For the purposes of this clause 4.2, Customer does not include a Fish River Customer. The membership of the CSCs must also include representative of DECC	This represents a moderate operational risk. The risk is managed by appropriate levels of consultation with valley based CSCs. The previous audit shows Full compliance with this clause.	Full	-	<p>State Water continues to have in place eight (8) CSCs, one for each valley except the three coastal valleys which are combined under the one (1) CSC, and a combined CSC for the Namoi and Peel valleys. The list of CSCs is as follows:</p> <ul style="list-style-type: none"> • Border Rivers; • Gwydir; • Namoi-Peel; • Macquarie-Cudgegong; • Lachlan; • Murrumbidgee; • Murray-Lower Darling; and • Coastal Valleys (consisting of three separate regions, ie. North Coast, South Coast and Hunter Valley).

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<p>[now DECCW] or its nominee to represent the public interest in the provision of water for environmental purposes and representatives from Unregulated River water users, Ground Water users and the relevant Catchment Management Authority.</p>				<p>CSCs must meet no less than twice per year, as per the Terms of Reference and Operation Guidelines. Sub-committees are also convened when necessary/appropriate. State Water provided agendas and minutes for meetings held during 2009/10:</p> <ul style="list-style-type: none"> • Border Rivers: 12-Aug-09, 19-Nov-09, 18-Feb-10, 27-May-10. • Gwydir: 13-Aug-09, 27-Nov-09, 31-Mar-10. • Namoi-Peel: 11-Aug-09, 18-Nov-09, 10-Feb-10, 12-May-10. • Macquarie-Cudgegong: 9-Sep-09, 9-Dec-09, 10-Mar-10, 9-Jun-10. • Lachlan: 3-Aug-09, 9-Nov-09, 8-Mar-10, 3-May-10 • Murrumbidgee: 5-Aug-09, 22-Oct-09, 14-Apr-10, 30-Jun-10. • Murray-Lower Darling: 7-Aug-09, 22-Oct-09, 14-Apr-10, 30-Jun-10. • Coastal Valleys: 4-Aug-09, 8-Dec-09, 9-Mar-10, 22-Jun-10. <p>Although a significantly revised Customer Service Charter was used from 1 July 2007, the CSC meetings continue to follow a format based on the original Charter, with the following sections as part of the agenda:</p> <ul style="list-style-type: none"> • Actions arising from previous meeting minutes; • Correspondence; • Customer Service; • Water Delivery; • Asset management; • Business Development; • Our People; and • General Business. <p>The <i>Operating Licence</i> requires that membership of the CSCs must include representatives from Unregulated River water users, Groundwater users and the relevant Catchment Management Authority. In addition, a representative from DECCW or its nominee must also be included within membership to represent public interest</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>in the provision of water for environmental purposes.</p> <p>In most instances, these obligations have been met. All of the CSCs include representatives from DECCW and the relevant CMAs. However, not all CSCs include representatives from Unregulated River water users (Gwydir CSC) or Groundwater users (Coastal Valleys CSC). In relation to the Coastal Valleys CSC, it is noted that no nominations were received for a Groundwater representative, however, three representative members hold groundwater licences.</p> <p>State Water indicated that not all valleys have ground water, and hence there is no representation. Furthermore, as the CSCs are mainly focused on regulated water (State Water's core business), members with a variety of licences are more likely to choose to represent their regulated water licence interests in this forum.</p> <p>Members of the CSCs are nominated by relevant stakeholder groups with the valley(s), and not by individual application. State Water's CEO determines the appointments after consultant with the Manager Water Delivery. Members are elected for four-year terms and may service an unlimited number of terms.</p>
4.2.2	State Water must provide the CSCs with information within its possession or under its control to enable the CSC to discharge the tasks assigned to that CSC, other than information or documents over which State Water or another person claims confidentiality or privilege.	This represents a low operational risk. The previous audit shows High compliance with this clause.	Full	-	<p>The minutes of CSC meetings provide evidence of State Water's endeavours to fulfil all CSC information requests. Information requests by CSCs during meetings are noted on action sheets which are distributed to CSC members following each meeting. These action sheets are attached to the meeting minutes.</p> <p>A review of the CSC minutes and action sheets indicates that State Water has provided CSCs with information covering a broad range of issues. The issues include: water delivery, clarification of costings, maintenance, project-specific queries, compliance, water quality and financial information.</p> <p>As part of the audit, Halcrow contacted the Chair of each CSC seeking comments as to the discharge of State Water's obligations in relation to the CSCs. Of the eight CSCs, two CSCs had provided feedback on</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					State Water's performance at the time of writing this report. The Chair from a third CSC indicated that at a meeting of the CSC, members decided that they did not wish to submit any information to the audit. The Chairs of both CSCs that chose to provide feedback expressed satisfaction with State Water's performance in relation to its <i>Operating Licence</i> . Additional details of the feedback provided by the CSC Chairpersons are provided in Section 5.4.2 .
4.3	Customer Service Charter (excluding Fish River)				
4.3.1	State Water must, in consultation with the CSCs, continue to have in place a customer service charter ("Charter").	This represents a moderate operational risk. The previous audit shows Full compliance with this clause.	Full	-	State Water continues to have in place a Customer Service Charter (the Charter). The Charter was established on 28 January 2005; it was reviewed and revised during 2009/10. The Charter remained in place throughout 2009/10.
4.3.2	The Charter must set out the mutual responsibilities or obligations of State Water and its Customers (excluding Fish River customers) consistently with the Licence, the Act, the <i>Water Management Act 2000</i> and the <i>Water Act 1912</i> .	This represents a moderate operational risk. The previous audit shows Full compliance with this clause.	Full	-	The current Charter, effective from 1 July 2010, states that State Water will operate in accordance with its legislative requirements, including its <i>Operating Licence</i> , Water Sharing Plans, <i>Water Management Act 2000</i> and <i>Water Act 1912</i> . It sets out both State Water's and the customers' obligations under three sections: <ul style="list-style-type: none"> • Water Ordering and Delivery; • Customer Contact; and • Information and Communication. Within these sections are listed specific obligations for both State Water and the customer.
4.3.3	State Water must make the Charter available to the public.	This represents a low risk. The previous audit shows Full compliance with	Full	-	The Charter is available to the public, free of charge, on State Water's website by following the 'Customer Service' link from the Home Page.

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
		this clause.			
4.3.4	Following the release of the Annual Audit Report, State Water must, in consultation with the members of the CSCs, review, and if necessary update, the Charter in light of the Annual Audit Report.	This represents a low operational risk. The previous audit shows Moderate compliance with this clause.	Full	-	<p>State Water undertook a review of the Charter between February and April 2010.</p> <p>As part of the review, State Water recommended making two minor changes to the Charter:</p> <ul style="list-style-type: none"> • Amending reference to Customer Service Officers to Customer Field Officers; and • Amending contact details to include a 1300 number and relevant internet details. <p>State Water also proposed to amend the biennial review of the Charter to occur annually, in line with the <i>Operating Licence</i>. During the audit, State Water indicated that it consulted with each of the member CSCs during this period.</p> <p>A review of minutes from CSC meetings provided by State Water indicates that consultation with the CSCs occurred in between February and April 2010. Meeting minutes confirm that the proposed changes to the Charter, as recommended by State Water, were discussed by each of the CSCs at the following meetings:</p> <ul style="list-style-type: none"> • Border Rivers (18 February 2010); • Coastal Valleys (9 March 2010); • Gwydir (31 March 2010); • Lachlan (8 March 2010); • Macquarie-Cudgegong (10 March 2010); • Murray-Lower Darling (5 February 2010); • Murrumbidgee (14 April 2010); and • Namoi-Peel (10 February 2010). <p>The meeting minutes from the above CSC meetings provide evidence that all eight CSCs were consulted on the issue of the Charter and the proposed changes by State Water. Furthermore, each of the meeting minutes explicitly indicates either full agreement with no</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>recommended changes to, or full agreement with minor recommended changes to, the proposed Charter. Three CSCs (Gwydir, Lachlan, and Macquarie-Cudgegong CSCs) provided minor recommended changes to be made to the proposed Charter. These minor recommendations were subsequently agreed to and incorporated into the revised Charter by State Water.</p> <p>A review of the current Charter indicates that State Water has incorporated the recommendations made by the CSCs. Based on a review of the relevant CSC meeting minutes and the revised Charter, it is the view of this audit that State Water is fully compliant with the requirements of this clause.</p> <p>As part of this audit, feedback was sought from CSC Chairpersons in relation to the level of consultation State Water had with CSCs in respect of this clause of the <i>Operating Licence</i>. Of the eight CSCs, two provided feedback. Of these, one recalled discussions with State Water in relation to the review of the Customer Charter. More information in respect to the feedback received from the CSCs is reported in Section 5.4.2.</p>
4.3.5	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.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	State Water reported on its performance against the current Customer Service Charter as part of its 2009/10 1 September report to IPART. Each of State Water's obligations is listed in a table. Compliance with each obligation is reported in general terms, as the issues are not valley based. Specific mention of valleys is made where appropriate.
4.3.6	State Water must make available to the public a copy of the report referred to in clause 4.3.5.	This represents a low risk. The previous audit shows Full	Full	-	State Water's 1 September report for 2009/10 is available on its website by following the 'Corporate Publications' link. The report is available as a PDF document that can be downloaded free of charge.

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
		compliance with this clause.			
4.4	Fish River Customer Council				
4.4.1	State Water must regularly consult with the Fish River Customer Council to enable Fish River Customer involvement in issues relevant to the performance of State Water of its obligations to Fish River customers under this Licence and any Customer Contract.	This represents a moderate operational risk. This is generally managed by regular consultation with the Fish River Customer Council on relevant matters of State Water's performance and obligations. The previous audit shows Full compliance with this clause.	Full	-	The Fish River Customer Council was established on 1 January 2006. State Water has indicated that the Customer Council meets every quarter, however, during the drought additional drought management strategy meetings have been held (on an as needed basis) between regular Customer Council meetings. The following meetings were held during the audit period: <ul style="list-style-type: none"> • 17 August 2009; • 13 October 2009; • 8 December 2009; • 28 January 2010; • 2 March 2010; • 13 April 2010; and • 8 June 2010.
4.4.2	State Water must appoint the members of the Fish River Customer Council consistently with the Licence. The membership of the Fish River Customer Council must include one representative from each of the following: <ul style="list-style-type: none"> (a) Lithgow City Council; (b) Oberon Council; (c) Delta Electricity; and 	This represents a moderate operational risk. This is managed by ensuring all representatives identified in the <i>Operating Licence</i> are included on the Fish River Customer Council. The previous audit	Full	-	Membership of the Fish River Customer Council consists of representatives of Lithgow City Council, Oberon Council, Delta Electricity and the Sydney Catchment Authority (SCA). The representatives were as follows: <ul style="list-style-type: none"> • Lithgow City Council: <ul style="list-style-type: none"> ◦ Andrew Muir (Group Manager, Regional Services); ◦ Roger Bailey (General Manager) ◦ Chris Lane (Manager Water); • Oberon Council: <ul style="list-style-type: none"> ◦ Bruce Fitzpatrick (General Manager); ◦ Leigh Robins (Director of Engineering);

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	(d) Sydney Catchment Authority	shows Full compliance with this clause.			<ul style="list-style-type: none"> • Delta Electricity: <ul style="list-style-type: none"> ○ Peter Gray (Regional Production Manager); ○ Andrew Davies (Manager Strategy and Development); ○ Nino Di Falco (Environmental Manager); • SCA: <ul style="list-style-type: none"> ○ Ramen Charan (Stakeholder Relations Manager, Bulk Water); ○ Graham Attenborough (Operations & Maintenance Manager). <p>In general, the meetings were attended by at least one representative of each member organisation, apart from the meeting on 2 March 2010 when the SCA was not represented.</p>
4.4.3	State Water must provide the Fish River Customer Council with information within its possession or under its control necessary to enable the Fish River Customer Council to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege.	This represents a moderate operational risk. This is generally managed by providing sufficient information to the Fish River Customer Council on relevant matters. The previous audit shows Full compliance with this clause.	Full	-	<p>During the audit, State Water indicated that all relevant reports on investigations, reviews and water use have been provided to the Fish River Customer Council. All information requests are recorded on action sheets which are attached to the minutes of the meetings.</p> <p>A review of the minutes indicates that any requests for information not immediately available were marked for action in the minutes and a State Water staff member named as responsible. Progress was noted in the following meetings, typically with the request fulfilled. Minutes do not record any instances where the requested information could not be reported.</p> <p>As part of the audit, feedback was sought from members of the Fish River Customer Council in relation to the provision of information by State Water. At the time of writing this report, feedback was received from one member of the Fish River Customer Council. The feedback confirms that State Water provided all relevant information in a timely manner. More detailed information about the feedback is provided in Section 5.4.3.</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
4.5	Customer Contracts (Fish River customers only)				
4.5.1	State Water must use its best endeavours to enter into agreements with its Fish River Customers during the term of the Licence, in relation to the arrangements to apply to the supply of water by the operation of the Fish River Scheme.	This represents a moderate operational risk. This is managed by entering into water supply agreements with Fish River customers. The previous audit assessed Full compliance with this clause.	Full	-	<p>State Water has advised that all customer contracts that were finalised and signed during prior audit periods remain in place, as follows:</p> <ul style="list-style-type: none"> • Delta Electricity – 29 November 2008; • Lithgow City Council – 29 August 2008; • Oberon Council – 20 June 2008; and • Sydney Catchment Authority – 31 December 2007. <p>Signed versions of the customer contracts with Delta Electricity, Lithgow City Council, Oberon Council and Sydney Catchment Authority were sighted by the auditors.</p> <p>In addition to the above bulk supply agreements, State Water also provides water to approximately 600 customers from the Fish River Supply System. State Water has indicated that no new connections for minor customers have been established since August 2000. State Water further indicated that all existing minor consumers have a signed contract.</p>
4.5.2	<p>The terms of the arrangements must, as a minimum, include:</p> <p>(a) the standard of the quality of water supplied;</p> <p>(b) the continuity of water supplied (i.e. interruption, disconnection and reconnection to supply);</p> <p>(c) the metering arrangements;</p> <p>(d) the costs to be paid by Fish River customers for the supply of water and other services to them; and</p>	This represents a moderate operational risk. This is managed by ensuring that the Fish River water supply agreements address each of the stated requirements. The previous assessed Full compliance with this clause.	Full	-	<p>The terms of agreement by which the SCA and Oberon City Council are supplied water were reviewed in the previous audit and cover the following areas:</p> <ul style="list-style-type: none"> • Water quality: <ul style="list-style-type: none"> ◦ Section 8: Water Quality; ◦ Section 9: Water Quality Testing Regime. • Continuity of water supply: <ul style="list-style-type: none"> ◦ Section 7: Annual and Daily Quantities; ◦ Section 10: Disconnection from Supply of Water, Failure of Supply; ◦ Section 11: Planned maintenance; ◦ Section 13: Drought management.

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	(e) any other terms agreed between State Water and its Fish River customers.				<ul style="list-style-type: none"> • Metering arrangements: <ul style="list-style-type: none"> ◦ Section 12: Flow Management. • Cost to be paid by customers: <ul style="list-style-type: none"> ◦ Section 15: Charges for Water Supplied; ◦ Section 16: Payment of Accounts for Water Supplied; ◦ Section 21: Variation; ◦ Section 23: Costs, Stamp Duty, etc. • Other specific terms: <ul style="list-style-type: none"> ◦ Section 14: Dispute Resolution; ◦ Section 18: Trading of Water. <p>The agreement for Lithgow Council follows the same format. The format of the agreement with Delta Electricity varies slightly to the above, although the terms of all required arrangements are addressed and are specifically correlated with the <i>Operating Licence</i> requirements within the clauses of the agreement.</p> <p>In addition to the above agreements, the ‘Minor Consumer Agreement – Conditions of Supply’ template was also reviewed. There are approximately 600 minor customers in the Fish River Supply Scheme that are supplied in accordance with the conditions of the Minor Customer Agreement. State Water further indicated that all existing minor consumers have a signed contract.</p> <p>This template includes terms of arrangements covering:</p> <ul style="list-style-type: none"> • the continuity of water supplied; • the metering arrangements; • the costs to be paid by customers for the supply of water and other services to them; and • other terms and agreements between State Water and its customers. <p>However, unlike the major customer agreements, the ‘Minor Consumer Agreement – Conditions of Supply’ makes no explicit reference to the quality of the water to be supplied to customers.</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					Given that the agreements have been in place since August 2000, ie. prior to the term of the current <i>Operating Licence</i> , it is unclear whether the terms of agreement for these customers should be consistent with the requirement of this clause. Halcrow has interpreted that this clause relates only to new licences entered into during the term of the <i>Operating Licence</i> , and have assessed compliance on that basis. Halcrow recommends that State Water clarify the intent of the <i>Operating Licence</i> is clarified with IPART.
4.6	Code of Practice and Procedure on Debt Management				
4.6.1	State Water must maintain a code of practice and procedure on debt management (“Code”).	This presents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	State Water’s current debt management policy (SW2007-P0121) was approved by State Water’s Board on 27 March 2009. A copy of the policy was provided during the 2008/09 audit. The policy outlines State Water’s debt recovery approach and its management of outstanding debt. State Water continues to have a code of practice and procedure on debt management in place. State Water has indicated that no changes have been made since the last audit.
4.6.2	The Code must: (a) provide for deferred payment or payment by instalment options; and (b) require that State Water provide a point of contact, notified on bills, for customers in financial hardship.	This presents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	Under the terms of the debt management policy (SW2007-P0121), State Water has made provision for deferred payment should the customer experience difficulty in paying. If the customer seeks a deferment of less than three months, the Credit Supervisor must be satisfied of the need for deferring the debt. To be eligible for a deferred payment plan longer than three months, State Water must be satisfied that one or more of the following conditions apply: <ul style="list-style-type: none"> • Receipt of direct benefits from the Commonwealth Exceptional Circumstances Scheme. • Receipt of benefits under a State operated drought or other natural disaster relief scheme.

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<ul style="list-style-type: none"> Suffering conditions arising from a drought of record and have no carryover water or access to other water. Experiencing conditions that create a direct and significant impact on his/her ability to pay water charges. <p>Requests for payment plans of more than three months can only be approved by the Manager Commercial Accounting or the General Manager Finance.</p> <p>State Water provides a point of contact, notified on bills, for customers in financial hardship. The following wording is provided on all bills:</p> <p><i>“Customer assistance: If you are experiencing difficulties paying this account, talk to the Billing Team on 1800 353 091. You may also be eligible for support in paying fixed water charges. Details are available at: www.centrelink.gov.au”</i></p>
4.6.3	A copy of the Code must be made available to the public.	This presents a low risk. The previous audit shows Full compliance with this clause.	Full	-	State Water does not make a full version of the Policy available to the public, however, its website does inform the public that payment plans can be negotiated in cases of genuine hardship. The website outlines the criteria that must be satisfied to be eligible for deferred payment plans. Omissions on the website from the Policy relate to internal billing procedure rather than debt management.
4.6.4	State Water must report to IPART and the Minister quarterly, no later than one month following the end of each quarter, commencing 1 July 2008, on: <ul style="list-style-type: none"> (e) the number of requests by Customers for assistance with paying Bulk Water bills under the Code, including which valleys they are located in; and (f) the number of Customers in 	This presents a low risk. The previous audit shows Full compliance with this clause.	Moderate	Submission of required quarterly reports to IPART within specified timeframes.	<p>During 2009/10 State Water reported on a quarterly basis to the Minister for Water on the number of requests for assistance and the number of customers in receipt of assistance with paying Bulk Water bills under the Code, including which valleys they are located in.</p> <p>The list of letters, together with the dates of reporting are listed below:</p> <ul style="list-style-type: none"> 30 September 2009 (for 1 July 2009 to 30 September 2009); 18 February 2010 (for 1 October 2009 to 31 December 2009); 13 April 2010 (for 1 January 2010 to 31 March 2010); and 1 July 2010 (for 1 April 2010 to 30 June 2010). <p>It is noted that State Water was late in reporting the data in the second</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	receipt of assistance with paying Bulk Water bills under the Code, including which valleys they are located in.				<p>quarter of the 2009/10 year.</p> <p>Copies of all the quarterly letters to the Minister for Water were sighted as part of the audit. In addition, a download from the Proclaim (billing) database for June 2010 was provided, detailing the payment plans in place. A minor discrepancy between the letter to the Minister and the download from the Proclaim database was noted in that a total of 58 payment plans were in place (including Fish River).</p> <p>As part of the audit, confirmation was sought from IPART that State Water had provided it with the required quarterly reports within the required time periods. IPART has indicated to the auditors that it did not receive any of the required quarterly reports from State Water during the 2009/10 year.</p> <p>On the basis that State Water was late in reporting to the Minister in the second quarter, and as it did not provide IPART with any of the required quarterly reports throughout 2009/10, compliance with this clause has been assessed as 'Moderate'.</p>
4.6.5	The report referred to in clause 4.6.4 must detail the types of assistance under the Code that have been requested by, and provided to, Customers.	This presents a low risk. The previous audit shows Full compliance with this clause.	Full	-	The quarterly reports prepared provided a breakdown of the types of assistance provided to customers, namely deferrals of less than three months, and deferrals of more than three months.

5.3 Discussion

5.3.1 Compliance Summary

State Water has generally achieved 'Full' compliance with the requirements of the *Operating Licence* in respect to Customers and Community Engagement. It received 'Moderate' compliance for one clause, which is discussed below.

5.3.2 Clause 4.6.4 Reporting of customers seeking assistance – Moderate compliance

Compliance with this clause has been assessed as 'Moderate' as, although State Water did report quarterly to the Minister on the number of requests by Customers for assistance with paying Bulk Water bills under the Code, it was late in reporting the data in the second quarter of the 2009/10 year. In addition, it did not provide IPART with any of the required quarterly reports throughout 2009/10.

5.4 Stakeholder Consultation

5.4.1 Community Consultative Committee

State Water provided the names of each member of the Community Consultative Committee (CCC). As part of the audit Halcrow contacted each member of the CCC, seeking comment on State Water's discharge of its obligations under clause 4.1 of its *Operating Licence*, however, no feedback was received from any members of the CCC.

5.4.2 Customer Service Committees

Each Customer Service Committee (CSC) Chairperson was contacted as part of the audit and comments were sought as to the discharge of State Water's obligations in relation to clause 4.2.2 and clause 4.3.4 of the *Operating Licence*. Feedback has been received from two CSC Chairpersons, and a third CSC indicated that it did not wish to provide feedback to the audit.

In general, the feedback from the CSCs was positive, and both were satisfied that the information provided by State Water to the CSCs has improved over recent years. One noted that the meetings are run well, and that State Water is open and transparent in its dealings with CSCs.

Of the two CSC Chairpersons that provided feedback, one noted that State Water did raise the review of the Customer Charter subsequent to the release of last years' audit report.

Appendix B includes a copy of the email sent to each CSC Chairperson together with a full breakdown of the feedback received.

5.4.3

Fish River Customer Council

Consultation with members of the Fish River Customer Council was undertaken to assist the assessment of State Water's performance in relation to clause 4.4 of its *Operating Licence*. One of the four members of the Fish River Customer Council provided feedback. The member was satisfied with the information provided by State Water, and the level of consultation in relation to the Fish River System Yield. A full breakdown of the feedback is provided in **Appendix B**.

5.5

Progress in Responding to Previous Audit Recommendations

The report on the 2009 Operational Audit of State Water identified one recommendation in relation to State Water's level of consultation with the CSCs in reviewing and updating the Customer Service Charter. The recommendation, together with State Water's progress in addressing it, is discussed below:

R5.1 – State Water maintain evidence of consultation with all CSCs in relation to the need to review, and if necessary update, its Customer Charter following issue of the Annual Audit Report.

State Water undertook a review of the Charter between February and April 2010. As part of the 2009/10 audit, State Water provided sufficient evidence to demonstrate that all eight CSCs were consulted on the issue of the Charter and the proposed changes. Furthermore, each of the meeting minutes explicitly indicates either full agreement with no recommended changes to, or full agreement with minor recommended changes to, the proposed Charter. Three CSCs (Gwydir, Lachlan, and Macquarie-Cudgegong CSCs) provided minor recommended changes to be made to the Charter. These minor recommendations were subsequently agreed to and incorporated into the revised Charter by State Water.

A review of the current Charter indicates that State Water has incorporated the recommendations made by the CSCs.

5.6

Recommendations

R5.1 – Clauses 4.5.1 & 4.5.2 of the *Operating Licence* require State Water to enter into agreements with its Fish River Customers during the term of the *Operating Licence*, and specify the minimum requirements for the terms of agreement. The '*Minor Consumer Agreement – Conditions of Supply*', which is in place for 600 minor customers of the Fish River, makes no explicit reference to the quality of water to be supplied. Given that the agreements have been in place since August 2000, ie. prior to the term of the current *Operating Licence*, it is unclear whether these agreements are required to be consistent with the requirements of clause 4.2.2. Halcrow recommends that State Water clarify the intent of clause 4.5.2 of the *Operating Licence* with IPART.

6 Licence Part 5 – Complaint and Dispute Resolution

6.1 *Overview of Requirements*

Under the provisions of Part 5 of the *Operating Licence*, State Water must:

- have in place internal complaints handling procedures for receiving, responding to and resolving complaints from Customers and the community against State Water;
- continue to have in place a dispute resolution scheme or other arrangements for the external resolution of disputes between State Water and its Customers; and
- report on complaints made against it to other bodies.

Details in respect to each of these requirements are set out in clauses 5.1 to 5.3 of the *Operating Licence*.

6.2 *Complaints and Dispute Resolution – Compliance*

Compliance with Part 5 – Complaint and Dispute Handling, is outlined in **Table 6.1**. State Water has generally achieved ‘Full’ compliance, although for one clause, compliance has been assessed as ‘High’.

Overall, compliance with this Part of the *Operating Licence* has increased slightly since the last audit. This is primarily a result of State Water’s improved internal complaints handling procedures and improved reporting on its External Dispute Resolution Scheme in the 2009/10.

Table 6.1 Part 5: Complaint and Dispute Resolution – Compliance Assessment

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
5.1	Internal Complaints Resolution Process				
5.1.1	State Water must have in place internal complaints handling procedures for receiving, responding to and resolving complaints by Customers and the community against State Water.	This presents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	<p>State Water has in place an internal <i>Customer Feedback and Complaint Handling Procedures</i> to ensure that customer complaints are recorded, responded to and resolved. A copy of the <i>Customer Feedback and Complaint Handling Procedures</i> has been provided by State Water as part of the audit process.</p> <p>As reported during the 2008/09 audit, State Water undertook a review of its then complaint handling process which resulted in the development of a new set of procedures, the '<i>Customer Feedback and Complaint Handling Procedures</i>'. State Water has indicated that this document has been reviewed during 2009/10 to ensure it is in line with the Australian Standard ISO 10002-2006. As part of the audit, State Water provided a copy of the gap analysis undertaken to identify the changes required to the procedure in order to ensure compliance with Australian Standard ISO 10002-2006.</p> <p>The <i>Customer Feedback and Complaint Handling Procedures</i> outline the types of feedback, the procedures to be followed, relevant responsibilities with State Water, and the reporting of complaints and feedback. The procedures incorporate changes resulting from the implementation of State Water's complaints tracking system.</p> <p>The <i>Customer Feedback and Complaint Handling Procedures</i> include a standard definition of what constitutes a complaint. The procedures define a complaint as:</p> <p><i>"An expression of dissatisfaction made to State Water regarding our product, levels of service or employee performance, where this is a direct or implied expectation for a response or resolution."</i></p> <p>This is generally in line with the definition in AS ISO 10002-2006 <i>Customer satisfaction – Guidelines for complaints handling in organisations</i>,</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>which defines a complaint as “<i>an expression of dissatisfaction made to an organisation, related to its products, or the complaints-handling process itself, where a response or resolution is explicitly or implicitly expected.</i>”</p> <p>State Water provided a copy of the <i>Complaint Handling – CIO Guide</i>, which has been prepared for its Customer Information Officers. It details the procedures to follow when a complaint is received, including how to report the complaint in the Customer Relationship Management (ticketing) system. In addition, a flow chart which provides an overview of the key activities when recording and responding to complaints was also provided.</p> <p>State Water’s <i>Customer Feedback and Complaint Handling Procedures</i> do not set timelines for responding to complaints; nor does the <i>Complaint Handling – CIO Guide</i>. However, during the audit interviews, State Water indicated that the target for responding to written complaints was five days, and for verbal complaints (phone calls), the target was one day. The exception to this is Ministerial complaints, which have a four (4) week deadline. State Water provided a copy of the template letter sent to customers when acknowledging receipt of a complaint, which includes a statement that, “<i>We will endeavour to address your issue, to your satisfaction, within the next 5 working days.</i>”</p> <p>State Water has twelve (12) complaint categories, including ten (10) general categories and two (2) categories specific to the Fish River Water Supply Scheme. The complaint categories are:</p> <ol style="list-style-type: none"> 1. Dam Upgrades. 2. Asset Management. 3. Water release/ river operations. 4. Water metering (including metering accuracy). 5. Annual water balances. 6. Environmental management. 7. Billing (including accuracy). 8. Customer Service Charter. 9. Performance of employees.

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>10. General – complaints about matters not specifically categorised above.</p> <p>For the Fish River Water Supply, the two additional categories are:</p> <p>11. Standard quality of water delivered.</p> <p>12. Continuity of water supplied.</p>
5.1.2	The internal Complaints handling procedures of State Water must be based on the Australian Standard <i>AS ISO 10002-2006 Customer satisfaction – Guidelines for complaints handling in organisations</i>	This presents a low risk. The previous audit shows Moderate compliance with this clause.	Full	-	<p>State Water indicated, and provided supporting evidence, that its internal complaints handling procedures document has been reviewed during 2009-10 to ensure it is in line with the Australian Standard ISO 10002-2006.</p> <p>A review of State Water’s complaints handling procedures and AS ISO 10002:2006 indicates that the internal complaints handling procedures satisfy the requirements of the standard.</p> <p>Consequently, State Water’s compliance with clause 5.1.2 of the <i>Operating Licence</i> has been categorised as ‘Full’.</p>
5.1.3	State Water must make information concerning its internal complaint handling procedures available to the public.	This presents a low risk. The previous audit shows Full compliance with this clause.	Full	-	<p>State Water’s <i>Customer Feedback and Complaint Handling Procedures</i> are not available on State Water’s website as these detail the internal procedures to be followed upon receipt of a complaint (that is, the procedure is for internal use only).</p> <p>However, State Water’s website contains a link to a ‘Feedback’ page which is found by following a link on the ‘Customer Service’ page. The ‘Feedback’ page states that “<i>State Water is committed to providing our customers with exceptional service and outcomes. If you are unhappy with our services, we would like you to tell us where we have let you down and how you think we could fix it or even if you have experienced exceptional service, why not tell us?</i>” and that “<i>State Water has a dedicated feedback handling team within the Customer Support Services unit. All feedback, relating to our business, is confidential in accordance with our Privacy Statement, which is located on our website.</i>”</p> <p>The ‘Feedback’ page also provides contact details of the Energy and</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					Water Ombudsman NSW (EWON). Information concerning State Water's complaints handling system is also available at State Water offices.
5.1.4	By no later than 1 September each year, State Water must report to IPART on an exception basis, for the immediately preceding financial year on the following details concerning Complaints made against State Water which are handled by its internal complaints handling procedures: (a) the total number of Complaints; (b) the number of Complaints received by the category of Complaint; (c) the number and type of Complaints resolved or not resolved in sufficient detail and using sufficient classifications to enable IPART to gain a reasonable understanding of how and how well those Complaints were resolved, or why the Complaint was not resolved, as the case may be; and (d) any problems of a systemic nature arising from Complaints.	This presents a low risk. The previous audit shows High compliance with this clause.	High	When reporting complaints, provide sufficient detail to gain a reasonable understanding of how and how well the complaints were resolved.	State Water's 1 September report to IPART for 2009/10 provides information relating to: <ul style="list-style-type: none"> • Total number of complaints received for the year; • Number of complaints by category; • Number and type of complaint resolved and not resolved; and • Systemic problems. In 2009/10, State Water reported that a total of 184 complaints were received during the year, compared with 52 complaints during 2008/09. Of the 184 complaints received in 2009/10, 36 were ministerial and 10 were received through the Energy and Water Ombudsman of NSW. This significant increase is consistent with State Water's 2008/09 report to IPART which indicated that it anticipated the new complaints tracking system to result in better capture of complaints, and hence an increase in the number of complaints recorded. The increase is due to the fact that State Water did not previously track complaints that were raised verbally and which could be resolved or referred without having to complete a 'Feedback' form. For example, a customer complaint reported locally to a State Water Customer Representative previously went unreported if resolved at a local level. These complaints are now tracked and monitored in the new tracking system (Customer Relationship Management system). As noted in the previous audit, this new system is an improvement over the previous method used to record and track complaints, and will help State Water to identify early trends in issues identified by Customers via complaints. As part of the audit, Halcrow viewed the Customer Relationship Management system on screen, and reviewed a sample of the

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>complaints received during 2009/10. Details of how the complaints were recorded and responded to were reviewed, together with the time taken to respond and resolve the complaints. A ‘dummy’ complaint was also generated, to review the process for generating a complaint, and to confirm the time and date stamp process within the Customer Relationship Management system.</p> <p>Of the 184 complaints received in 2009/10, 66 were in relation to issues with the NSW Office of Water, 40 related to State Water billing, and 34 related to asset management.</p> <p>The <i>Operating Licence</i> requires State Water to provide information relating to the number and type of complaints resolved or not resolved in sufficient detail and using sufficient classifications to enable IPART to gain a reasonable understanding of how and how well those complaints were resolved. While State Water’s 1 September report to IPART for 2009/10 includes details on the number and types of complaints, it does not include sufficient detail to gain a reasonable understanding of how and how well the complaints were resolved. Additionally, State Water’s report does not provide sufficient information as to the number of complaints resolved, the number referred, and the number unresolved.</p> <p>State Water now provides reports on the complaints received to its CSCs. These reports are provided at each meeting of the respective CSC. An example of a report provided to the CSC was provided for August 2010. It detailed the complaints received during the 2009/10 year, in the complaint categories identified in the discussion under clause 5.1.1. It was noted that the complaints reported in the August 2010 report do not tie to the complaints reported in State Water’s 1 September report to IPART. State Water indicated that the report to the CSC did not include billing complaints which had been recorded in Proclaim, State Water’s billing system. State Water noted its intention to start using the CRM system for the recording of all complaints in the 2010/11 year.</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>In its 1 September Report to IPART, State Water noted that a few systemic problems were identified through an investigation of complaints received. These related to the clarity of information provided on invoices, changes to ownership and the drought.</p> <p>This clause has been assessed as a 'High' compliance rating for 2009/10 reflecting that the 1 September report to IPART does not include sufficient detail to gain a reasonable understanding of how and how well State Water manages and resolves complaints.</p>
5.1.5	State Water must make a copy of the report referred to in clause 5.1.4 available to the public within one month of providing it to IPART	This presents a low risk. The previous audit assessed Full compliance with this clause.	Full	-	The 1 September report to IPART for 2009/10 is published on State Water's Internet website. The report is easily found and can be accessed by following the 'About Us' link, selecting 'Publications' and going to the 'Corporate Publications' page. The report was accessed by the auditors on the 28 September 2010, which was within the one month deadline stipulated in the <i>Operating Licence</i> .
5.2	External Dispute Resolution Scheme				
5.2.1	<p>State Water must continue to have in place a dispute resolution scheme (the Scheme) incorporating a Dispute Resolution Body or be a member of an industry based dispute resolution scheme incorporating a Dispute Resolution Body (an Industry Scheme) to resolve disputes between State Water and its Customers.</p> <p><i>NOTE: The Dispute Resolution Body that forms part of the Industry Scheme of which State Water is a member at the Commencement Date of the Licence is</i></p>	This presents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	State Water has been a member of the Energy and Water Ombudsmen NSW (EWON) since 1 January 2006.

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<i>EWON – the Energy and Water Industry Ombudsman of New South Wales.</i>				
5.2.2	The Scheme established by State Water or an Industry Scheme of which State Water is a member is subject to the Minister's approval.	This presents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	In its 1 September report to IPART, State Water has indicated that the Scheme does not require the Minister's approval as it is industry based. However, the terms of the <i>Operating Licence</i> stated that Industry Schemes are subject to the Minister's approval. In any case, in the previous 2008/09 audit State Water provided a copy of an email from EWON, dated 21 September 2009, confirming that it is the Ministerially approved Industry Dispute Resolution Body.
5.2.3	The Dispute Resolution Body (whether under the Scheme or an Industry Scheme) is to hear disputes and Complaints made by Customers in relation to: (a) Water Delivery; (b) Customer Accounts; (c) State Water's responsibilities in relation to the communication of water availability and access notifications; and (d) the exercise by State Water of the Functions conferred under clause 2.4 of the Licence.	This presents a low operational risk. The previous audit shows Full compliance.	Full	-	On its website, EWON states that it can investigate issues such as disputed accounts, high bills, disconnection or restriction of supply, actions of a supplier which affect the complainant's property, quality of supply and connection or transfer issues. The website also lists the types of complaints which it cannot investigate. These are listed as private contractors (electricians, plumbers and gas fitters) including contracting arms of water suppliers where the work is open to competitive quotation; tariff or price increases; or the complainant's landlord.
5.2.4	The Scheme or Industry Scheme must comply with the minimum standards, so far as applicable, specified in <i>AS4608-2004 – Dispute management systems</i>	This presents a low operational risk. The previous audit shows Full compliance.	Full	-	EWON is a well recognised dispute resolution scheme of which a number of water agencies are members. As noted in the previous audit, State Water provided a copy of an email from EWON, dated 21 September 2009, confirming that it is the Ministerially approved Industry Dispute Resolution Body. In that same email, EWON notes that AS4608 applies to business and is not specific to Ombudsman schemes, however, it confirms that it does

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>comply with the key elements as set out in the standard.</p> <p>EWON suggested that State Water may wish to consider approaching IPART to have this section of the <i>Operating Licence</i> revised, as has already been done to both Hunter Water's Operating Licence and Sydney Water's Operating Licence, both of which are members of EWON.</p>
5.2.5	<p>The Scheme must have the following features:</p> <ul style="list-style-type: none"> (a) the decision-making process of the Dispute Resolution Body and administration of the Scheme is to be independent from State Water; (b) State Water agrees to abide by the decisions of the Dispute Resolution Body in relation to disputes referred to it for resolution; (c) the Scheme must adopt informal proceedings which discourage an adversarial approach; (d) decisions of the Dispute Resolution Body should observe the principles of procedural fairness, be based upon the information before it, and apply that information to specific criteria; (e) the Scheme is to operate efficiently by: <ul style="list-style-type: none"> (i) keeping track of disputes 	<p>This presents a low operational risk. The previous audit shows Full compliance.</p>	<p>Full</p>	<p>-</p>	<p>EWON is independent of State Water, and is a specialist dispute investigation and resolution body within the NSW Water and Energy industries. The administration of the scheme, the decision-making process and the reporting of complaints is independent of State Water and it is a condition of participation in EWON that its members comply with its determinations. The scheme is free of charge to State Water's customers.</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<p>referred to it,</p> <p>(ii) ensuring complaints are dealt with by the appropriate process,</p> <p>(iii) the Dispute Resolution Body regularly reviewing the operation of the Scheme; and</p> <p>(f) the Scheme is to be provided by State Water to Customers free of charge.</p>				
5.2.6	State Water must prepare a pamphlet that explains how the Scheme or Industry Scheme operates and how it can be accessed. State Water must make this pamphlet available to the public.	This presents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	<p>State Water's website contains a 'Feedback' page which provides guidance on "<i>What if we cannot resolve your concern or issue?</i>" and outlines the opportunity to contact the Energy and Water Ombudsman of NSW (EWON). The page provides a brief description, and contact details, of EWON.</p> <p>A pamphlet on 'Customer Feedback' is available on the State Water webpage. In addition, in its 1 September report to IPART, State Water has noted that a draft brochure on complaint handling, a copy of which was provided to the auditors, has been developed and will be finalised by the end of the first quarter of 2010/11.</p>
5.2.7	State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on the Scheme or Industry Scheme based on information available to State Water and information reasonably able to be obtained from the Dispute Resolution Body. Where considered appropriate by State Water and the Dispute Resolution Body, confidentiality arrangements are to be made so as	This presents a low risk. The previous audit shows High compliance with this clause.	Full	-	<p>State Water reported on its External Dispute Resolution Scheme in the 2009/10 1 September report to IPART. The report provided information in relation to the number and type of complaints received by EWON; information on any determinations; and any other relevant information.</p> <p>EWON has received 11 complaints in relation to State Water for the period 1 July 2009 to 30 June 2010. Of these, EWON has finalised 10 complaints for the period. Of the 11 complaints received by EWON in the 2009/10 year, State Water has indicated that five were categorised as enquiries, five complaints were categorised as 'Refer to Higher Level' (RHL), and one complaint is yet to be classified. Of the</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<p>not to disclose the Customer's identity in such reports. The report must take into account any issues raised by the Dispute Resolution Body and must contain the following information:</p> <p>(a) the number and types of Complaints received by the Dispute Resolution Body, classified in accordance with the Dispute Resolution Body's reporting arrangements;</p> <p>(b) information on any determinations made by the Dispute Resolution Body; and</p> <p>(c) any other relevant information required by IPART to be included in the report</p>				<p>five RHL complaints, State Water has indicated that two were escalated to Level 1 investigation. The Level 1 issues related to a disputed excess water charge in the Fish River Water supply Scheme, and an access problem in the Border Rivers valley.</p> <p>EWON was contacted during the audit to verify the information reported by State Water and confirmed that a total of 11 complaints were raised with EWON in relation to State Water. Of the 11 matters raised with EWON, EWON confirmed that five were classified as enquires, five were referred to a higher level, and one was yet to be classified. The 10 finalised complaints resulted in a total number of 13 issues.</p> <p>EWON has provided a breakdown of the primary issues from the complaints; they are:</p> <ul style="list-style-type: none"> • Billing – 6 complaints; • Customer service – 4 complaints; • Land – 2 complaints; and • Provision – 1 complaint. <p>State Water has indicated that no determinations were made by EWON in relation to complaints against State Water during 2009/10. This is consistent with the information provided by EWON.</p>
5.2.8	State Water must make the report referred to in clause 5.2.7 available to the public.	This presents a low risk. The previous audit shows Full compliance with this clause.	Full	-	The information reported under this clause is contained in the 1 September reports to IPART. The report for 2009/10 is available on State Water's website and can be easily found and accessed by following the 'About Us' link, selecting 'Publications' and going to the 'Corporate Publications' page. The report is available as a PDF document and can be downloaded free of charge.
5.3	Complaints to other bodies				
5.3.1	State Water must report to IPART by no later than 1 September each year, for the preceding financial year,	This presents a low operational risk. The previous	Full	-	In its 2009/10 1 September report to IPART, State Water indicated that it is not aware of any complaints made under clause 5.3.1 of its

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<p>on complaints made against State Water to a court or tribunal such as the Land and Environment Court or Consumer Trader and Tenancy Tribunal (based on information reasonably obtained from these bodies and State Water itself as a party to the complaint), and the report to IPART shall contain the following information:</p> <p>(a) the number and types of complaints received by such other bodies;</p> <p>(b) the outcome of the complaints;</p> <p>(c) how the complaints were resolved;</p> <p>(d) any problems of a systemic nature arising from the complaints; and</p> <p>(e) any other relevant information required by IPART to be included in the report.</p>	<p>audit shows High compliance with this clause.</p>			<p><i>Operating Licence</i> for the 2009/10 reporting year.</p> <p>State Water's CEO has provided Halcrow with a letter of attestation, dated 1 September 2010, in relation to clauses 5.3.1 and 5.3.2. The letter states that no complaints were made against State Water Corporation to a court or tribunal such as the Land and Environment Court or Consumer Trader and Tenancy Tribunal in 2009/10.</p>
5.3.2	<p>State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on any civil actions brought against State Water in a court (based on information available from the courts and State Water itself as a party to the civil action) where the civil action claims loss, damage or other relief against State Water, and the report to IPART shall contain</p>	<p>This presents a low risk. The previous audit shows Full compliance with this clause.</p>	Full	-	<p>As for clause 5.3.1, State Water has reported that it is not aware of any civil actions against it during the 2009/109 year. This has been confirmed by the CEO in a letter of attestation, dated 1 September 2010.</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	the following information: (a) the number and types of civil actions commenced; (b) the outcome of the civil actions; (c) how the civil actions were resolved; (d) any problems of a systemic nature arising from the civil actions; and (e) any other relevant information required by IPART to be included in the report.				

6.3 Discussion

6.3.1 Compliance Summary

State Water has generally achieved 'Full' compliance with the requirements of the *Operating Licence* in respect to Complaint and Dispute Handling. One rating of 'High' compliance was assessed, as discussed below.

6.3.2 Clause 5.1.4 Reporting on Complaints – High compliance

Clause 5.1.4(c) of the *Operating Licence* requires that, in its reporting, State Water provides sufficient detail for IPART to gain an understanding of how and how well those Complaints were resolved, or why the Complaint was not resolved (as the case may be). While the 1 September report to IPART includes details on the number and types of complaints, it does not include sufficient detail to gain a reasonable understanding of how and how well the complaints were resolved. Furthermore, State Water's report does not provide sufficient information as to the number of complaints resolved, the number referred, and the number unresolved. For example, the report states that "60% of the 184 complaints were resolved in one day." No indication is provided as to how those complaints were handled, or how well they were handled.

While the report states that "13 of the complaints were not resolved satisfactorily", it is unclear whether this feedback was received as part of State Water routinely contacting customers that made a complaint in the 2009/10 year in order to assess whether they were satisfied with the resolution of the complaint, or whether this feedback was received from customers contacting State Water of their own volition.

On the basis that insufficient detail of complaint resolution has been provided, the compliance rating for this clause has been assessed as 'High'.

6.4 Progress in Responding to Previous Audit Recommendations

The report on the 2009 Operational Audit of State Water identified one recommendation in relation to Complaint and Dispute Handling. The recommendation, together with State Water's progress in addressing it, is discussed below:

R6.1 – State Water undertakes a detailed review of AS ISO 10002-2006 Customer Satisfaction – Guidelines for complaints handling in organisations to ensure that its' internal complaint handling procedures are consistent with the current standard.

During 2009/10, State Water reviewed and updated its complaints handling guidelines in accordance with the requirements of Australian Standard ISO 10002-2006. Based on a review of State Water's current complaints handling procedures, Halcrow is satisfied that the key elements of AS ISO 10002:2006 have been addressed.

6.5

Recommendations

R6.1 – It is recommended that State Water update the format of its 1 September report to IPART to provide further information in relation to its complaints resolution process, so as to provide sufficient detail to IPART to gain an understanding of how and how well those complaints were resolved, or why the complaint was not resolved (as the case may be).

7 Licence Part 6 – Water Delivery Operations

7.1 *Overview of Requirements*

Under the provisions of Part 6 of the *Operating Licence*, State Water:

- must operate its Assets in accordance with any relevant Water Management Work Approval or Water Sharing Plan that may be issued by NOW;
- is accountable for the management and delivery of allocated water;
- must take such steps as are reasonably practicable to conserve water and minimise losses;
- must manage water release functions and operations to ensure timely delivery of water taking into account physical supply constraints;
- must read meters, audit compliance of meters and report on performance in respect to ensuring water metering accuracy;
- must prepare annual water balances; and
- must prepare an annual water balance and report on system yield in respect to the Fish River Scheme.

Details in respect to each of these requirements are set out in clauses 6.1 to 6.7 of the *Operating Licence*.

7.2 *Water Delivery Operations – Compliance*

Compliance with Part 6 – Water Delivery Operations, is outlined in **Table 7.1**. Compliance has been assessed as ‘Full’ for all except six clauses in this Part of the *Operating Licence*. Compliance for three clauses has been assessed as ‘High’, while there was No Requirement during the audit period to comply with the remaining three clauses.

Table 7.1 Part 6: Water Delivery Operations – Compliance Assessment

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
6.1	Water Infrastructure Operations				
6.1.1	State Water must operate its Assets in accordance with any relevant Water Management Work Approval or Water Sharing Plan that may be issued by DWE [NOW].	This presents a high operational risk. It is generally managed by appropriate steps to ensure that water delivery and operation of assets is consistent with Water Management Work Approvals or Water Sharing Plans. This is a new clause <i>Operating Licence</i> clause.	Full	-	<p>Assessment of compliance with the requirements of this clause has been based on consideration as to whether State Water has been operating its Assets generally in accordance with the requirements of the relevant Water Management Works Approvals and Water Sharing Plans that may be issued by NOW. This assessment does not include a detailed review of implementation of such Water Management Works Approvals and Water Sharing Plans as this aspect is regulated by NOW.</p> <p>Water Management Works Approvals were in place for the Namoi, Hunter, Paterson, and Gwydir prior to the 2009/10 audit period. Works Approvals for the Lachlan and Macquarie valleys were gazetted on 13 July 2009 and 15 March 2010 respectively.</p> <p>Works Approvals requirements relating to water orders, transfers, losses, and supply constraints are built into State Water’s Computer Aided Improved River Operations (CAIRO) system, which is the day-to-day management tool for water delivery operations.</p> <p>In accordance with the Works Approvals, State Water prepares Annual Compliance Reports to NOW on 30 September each year, for each of these valleys. These reports detail State Water’s compliance against each Approval Condition in the relevant Works Approval. A copy of the 30 September 2009 reports for Namoi, Hunter, Paterson and Gwydir valleys was provided to the auditors. State Water provided a response from NOW indicating its satisfaction with the compliance reports submitted.</p> <p>As part of the audit feedback was sought from NOW in relation to State Water’s performance under this clause of the <i>Operating Licence</i>. In its feedback, NOW confirmed that State Water provided annual compliance reports for 2009/10 for the Namoi, Hunter, Paterson,</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>Gwydir and Lachlan by the due date of 30 September 2010. It noted that it had exempted State Water from preparing a report for the Macquarie-Cudgegong as the Works Approval was issued in March 2010, and the Water Sharing Plan has remained suspended. NOW noted a general improvement in the standard of the annual compliance reports as compared to the previous year. It further stated that due to time constraints, it has not yet had sufficient time to review the reports submitted for 2009/10, but noted that it is “fairly confident that State Water has performed adequately against clause 6.1.1 of the Operating Licence for the year 2009-2010.”</p> <p>In addition to the above, NOW noted that Section 51 of the Water Management Act 2000 requires it to meet milestones driven by Implementation Programs and that NOW requires input from State Water for this activity to be undertaken. NOW stated that, “NOW requires SWC to place a higher priority on the timeliness and resources needed for this activity.” NOW goes further to note that it has been developing a series of Implementation Manuals which contain detailed instructions to assist in the performance of the Water Sharing Plans. NOW requires cooperation of State Water in developing these manuals as most of the technical information and operational knowledge for dam operations sits with State Water. NOW has stated that it has requested State Water, via the Strategic Liaison Group, “to be more forthcoming with information and resourcing activities associated with the preparation of the Implementation Manuals.” The feedback provided by NOW in relation to State Water’s compliance is included in Appendix B.</p> <p>State Water also provided a specific incident report detailing an incident under Section 29 of the Namoi Works Approval where there was an unauthorised entry and discharge made from a weir. This incident was reported to NOW in accordance with the Works Approval.</p>
6.1.2	When operating its Assets State Water must:	This presents a high operational	Full	-	Part (a) of this clause is regulated by NOW and part (e) is regulated by the Dam Safety Committee. Consequently, these parts have been

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	(a) ensure that releases of water are consistent with any Works Approval; (b) operate its Assets efficiently and effectively; (c) undertake periodic maintenance rehabilitation and replacement work; (d) undertake enhancement and development projects; and (e) implement flood planning and other operations instigated by the Dam Safety Committee.	risk. It is generally managed by appropriate steps to ensure that assets are operated efficiently and effectively and in accordance with regulatory requirements.			assessed for general compliance only. Compliance with respect to parts (b), (c), and (d) of this clause have been assessed in detail. (a) Works Approvals: State Water has in place a number of systems and processes to enable it to operate its assets in accordance with the requirements of its <i>Operating Licence</i> . Releases of water are primarily managed using State Water's CAIRO system. CAIRO is a tool used by State Water to forecast the volume of water that has to be released to meet operational and environmental requirements, whilst also taking into account system losses. Works Approval conditions relating to flows, transfers, and supply constraints are built into CAIRO to help ensure releases of water are consistent with Works Approvals. CAIRO also utilises data from SCADA, State Water's Water Accounting System (WAS), and NOW's Hydstra system. It is noted that State Water is currently developing and implementing a replacement for CAIRO; the Computer Operated River. Compliance with the Works Approval requirements is assessed through an annual compliance report submitted to NOW (refer response to clause 6.1.1 above for further details). As part of the audit process, State Water provided the auditors with a demonstration of CAIRO for the Gwydir system. (b) Efficient and effective operations: The efficient and effective operation of assets is primarily achieved via CAIRO, together with supporting systems such as the WAS, SCADA, the Facilities Maintenance and Management System (FMMS), and Hydstra (which is operated and maintained by NOW). During 2008/09, State Water commenced a series of strategic improvement projects to centralise the control of its systems, and reduce dependencies on third parties. These have

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>included centralising control of CAIRO, and moving core IT systems (such as WAS and FMMS) into the State Water IT environment. State Water indicated additional operational efficiencies should also be achieved by improvements to CAIRO, which will seek to better model system losses (eg. riparian flows, evaporation and groundwater losses). The improvement projects are to be implemented over the period to 2013/14. In addition, as noted above, State Water is currently developing a replacement for CAIRO which is expected to improve the efficiency and effectiveness of water delivery operations.</p> <p>State Water demonstrates compliance with efficient and effective operation through its compliance reporting process and through its ability to meet scheduled water allocations and end of system flow targets.</p> <p>State Water also provides quarterly reporting against a defined set of key performance indicators to the Customer Service Committees.</p> <p>(c) periodic maintenance, rehabilitation and replacement works:</p> <p>Periodic maintenance rehabilitation and replacement of State Water's assets was centralised during 2008/09, and is now overseen by its Maintenance and Services Branch. State Water operates the Facilities Maintenance Management System (FMMS) which details all maintenance activities related to existing assets. As part of the audit, State Water provided evidence including:</p> <ul style="list-style-type: none"> • Maintenance Audit of Blowering Dam 22-24 February 2010 (file 0122109) – to validate and verify the extent of maintenance activities undertaken on site and level of compliance with statutory requirements. • Annual Surveillance Program 2009/2010 for key structures

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>(dams, weirs, locks).</p> <ul style="list-style-type: none"> • High level details of annual maintenance expenditure in each valley. • FMMS asset register for Windamere Dam showing existing and proposed maintenance jobs and frequencies. • Listing of FMMS jobs completed for Toonumbar Dam between 12 February 2009 and 12 August 2010. <p>State Water continued its Dam Safety Upgrade program throughout 2009/10.</p> <p>(d) Development and enhancement projects:</p> <p>State Water provided details of its major projects program for 2009/10 outlining expenditure on Dam Safety Upgrade Program, Environmental Compliance, Asset Renewal and Maintenance, Operating and Water Efficiency and Miscellaneous Funding Arrangements. The proposed works for 2009/10 totalled approximately \$63 million, and include:</p> <ul style="list-style-type: none"> • Blowering Dam Upgrade (No. 1331); • Lake Cargelligo Fishway (No. 1030); • Berembled Canal Bridge No. 1 Refurbishment (No. 1522); • Darling River Water Savings Project (No. 1944); and • Lake Brewster Wetlands, Regulator, Embankment (No. 1904). <p>(e) Flood planning and other operations requirements of DSC:</p> <p>State Water has stated that the Dam Safety Committee's role in flood planning is to require the production of Dam Safety Emergency Plans, develop appropriate dam safety guidelines, and to require that flood operation training occurs. State Water has previously provided details on its dam safety program and, for this audit, has provided details of the flood operation training program for staff. The program indicates that emergency</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>procedure training and forecast procedure training was carried out at Copeton, Keepit, Burrendong, Wyangala, Burrinjuck Dams during 2009/10. State Water indicated that flood operations training had been provided to storage staff at all gated storages.</p> <p>As part of the audit Halcrow sought feedback from the Dam Safety Committee in relation to State Water's compliance with clause 6.1.2 (e) of the Operating Licence. It provided feedback, included in Appendix B, indicating that it was satisfied with State Water's performance in relation to the requirements of this clause.</p>
6.2	Management of Allocated Water				
6.2	<p>State Water:</p> <ul style="list-style-type: none"> (a) is accountable for the management and delivery of water allocated to Customers; (b) must manage water orders with a view to ensuring Customer access to water and the equitable delivery of water when physical supply constraints occur, or are likely to occur; (c) must process Temporary Water Transfers within a Valley promptly and efficiently; and (d) must monitor and maintain a water allocation account for each Water Licence issued to each Customer. 	<p>This presents a high operational risk. It is generally managed by the implementation of processes and systems that enable appropriate management of allocated water.</p>	Full	-	<p>(a) Management and delivery of allocated water:</p> <p>State Water's has in place two key systems for the management and delivery of water allocated to customers; namely, Water Accounting System (WAS) (under the Water Management Act 2000) and CAIRO. WAS is used to manage customer accounts and water allocations, and CAIRO is used to ensure the release and delivery of allocated water to Customers.</p> <p>Available Water Determinations made by NOW are made available to customers via credits to their accounts, which are attached to their Water Access Licences. These customer accounts are maintained within WAS. WAS is used to monitor water allocations, and to ensure that customers have placed water orders according to the conditions of their water access licence conditions. Orders placed in WAS are fed into CAIRO, which is used by State Water's Water Delivery unit to calculate day to day water delivery requirements. Daily flow requirements estimated using CAIRO take into account a number of factors including physical supply constraints, travel times, transmission losses, evaporation losses, weather forecasts and water orders.</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>State Water indicated during the audit interviews that procedures had been prepared to describe the management process for allocated water. It provided copies of each of the procedures which cover, meter reading, allocation management for licences with a negative balance, water ordering (discussed below under (c)), and allocation assignment processing (discussed below under (d)). The procedures outline the processes and responsibilities of those State Water employees involved in the management of allocated water.</p> <p>(b) Management of water orders:</p> <p>Historically, the processes for water ordering have varied across valleys and customers have been able to extract water without prior placement of a complying water order. However, State Water has centralised the management and monitoring of its water ordering and all customers are now required to place orders in advance. The centralised processing of water orders helps to ensure that water orders are managed in an equitable manner. The water ordering system enables customers to order water over the internet (using iWAS which was rolled out during 2009/10), by phone, email or fax. All orders are entered into WAS before being fed into CAIRO to determine daily flow requirements.</p> <p>State Water provided a copy (undated) of its water ordering procedure. The procedure establishes requirements for receiving and processing customer water orders, including orders received by email, fax, iWAS and by phone.</p> <p>State Water indicated that there have been no physical supply constraint issues due to the low volume of water supplied during the long term drought. State Water's standard practice to ensure equitable delivery of water, should there be a supply constraint, is to allocate available water based on a percentage of the number of unit shares owned by each customer in the affected river</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>section.</p> <p>Performance in the management of water orders is measured using a number of key performance indicators (refer Section 9.2 of this report) including customer complaints. Performance is reported regularly to the Customer Service Committees and customer satisfaction surveys distributed annually include specific questions on water delivery.</p> <p>(c) Temporary Transfers:</p> <p>A standard allocation assignment form is available from State Water’s web site or the Customer Information Centre. Completed transfer forms are lodged via email or facsimile with all transfers processed in State Water’s Deniliquin office to ensure consistency and standardisation of approach. State Water has in place a series of Allocation Assignment Processing procedures which include processing of interstate, inter-valley and intra-valley transfers, copies of which were provided to the auditors.</p> <p>Performance in processing temporary transfer forms is reported monthly using COAG standards – 90 percent of intra valley trades processed within five (5) business days, 90 percent of interstate trades for Victoria within 10 business days and for South Australia within 20 business days.</p> <p>State Water reports water trading statistics on its website detailing year to date, monthly and previous financial year (2009/10) performance. In addition, trading indicators are included in State Water’s performance indicators for water delivery. It is noted, however, that the target listed in the performance indicators is for intra-valley trades to be processed within four (4) working days.</p> <p>(d) Monitoring and maintaining of water allocation accounts:</p> <p>As noted above, State Water uses WAS to monitor and maintain</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>water allocation accounts for each Water Licence issued. A number of items are recorded within WAS including the water source, licence number, licence category (eg. domestic and stock, regulated river), and account balances. These items are available for the customer and State Water customer operations staff to view using the iWAS.</p> <p>Customer water accounts are debited on the day the water leaves the dam. Water accounts are reconciled after the water has been delivered and the customers' meter read. If the order was greater than the amount metered, the ordered amount is debited from the account. If the metered amount is greater than the order, the metered amount is debited.</p> <p>Water account balances are monitored on a monthly basis by State Water's customer support staff. These staff are required to investigate each account balance and assess, against defined guidelines, whether any overuse must be reported to NOW.</p> <p>State Water provided a number of reports related to water allocation accounts including:</p> <ul style="list-style-type: none"> • Water order count 2009-2010 – number and volume of orders in each valley. • 1912 Act Trades 2009-10 – NOW licence transfer report showing transfers between licences not yet covered by the Water Management Act 2000. • Regulated Water Balances 2009-2010 IPART – water balance export report for each valley showing licence holder, share component, account balance, and any overuse of allocation.
6.3	Water Conservation				
6.3	State Water must take such steps as are reasonably practicable to	This presents a high operational	Full	-	State Water undertakes a number of general measures to conserve water and minimise losses. In conservation of water, losses are

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<p>conserve water and to minimise losses that result from its operations.</p>	<p>risk. It is generally managed by appropriate steps to conserve water. The previous audit assessed Full compliance with this clause.</p>			<p>categorised as storage losses, transmission losses and operational losses, as follows:</p> <ul style="list-style-type: none"> • Storage Losses: State Water is limited in options with which to minimise these losses, however, it operates a standard procedure by releasing water from high evaporation large surface area storages first to conserve water and minimise losses. • Transmission Losses: Transmission losses have been reduced during the current drought conditions by the use of block releases and ceasing to supply parts of the river and creek system where high losses occur. However, this is only possible where Water Sharing Plans, Works Approvals or the Drought Contingency Plans allow this practice. Block releases can help to conserve water in the system by reducing the number of releases required and consequently the transmission and operational losses associated with each release. • Operational Losses: State Water now refers to operational losses as operational surpluses as the water is not lost in most systems. This is the excess water that flows from the end of the regulated river to the next river system, so even though the water is lost to that regulated river it may not be lost to the environment or customers in the next system. State Water has significant control over operational surpluses via the scheduling of releases. This activity is controlled by water delivery staff using State Water's CAIRO decision support system. <p>State Water provided a list of projects/actions by valley as evidence of water conservation measures undertaken during 2009/10. These were:</p> <ul style="list-style-type: none"> • Planning for replacement of CAIRO system with Computer Operated River (COR) and related consultants report identifying benefits of technological improvements to river operations. • Investigations and feasibility studies for projects in Murrumbidgee valley. • Funding sought for trial metering project to identify water

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>savings.</p> <ul style="list-style-type: none"> Macquarie Valley – minimised operational surpluses by efficient water delivery operations; water efficiency project in Crooked Creek to save water by piping stock and domestic supplies. Lachlan – took Lake Cargelligo off-line to conserve water and actively re-regulated water in weir pools. Fish River – actively taken water from Duckmaloi, as allowed, to meet demand and to conserve water in Oberon Dam.
6.4	Supply Constraints				
6.4	State Water must endeavour to manage its water release Functions under clause 1.1(b) and other operations to ensure the timely availability of water taking into account physical supply constraints.	This represents a medium operational risk. The previous audit assessed Full compliance with this clause	Full	-	<p>State Water has stated that, given the continuing drought during the audit period, the availability of flows has also been low, thereby avoiding any supply constraints.</p> <p>State Water indicated that it has modified some procedures to improve the timely delivery of water. In the Macquarie Valley, flow travel times were modified and incorporated back into the WAS to improve the efficiency of future water releases.</p> <p>At Fish River, pumps were installed at Oberon Dam to make use of the bottom five percent of previously ‘dead water’ storage.</p>
6.5	Water Metering				
6.5.1	State Water must read Customer meters and audit the compliance of meters against Commonwealth or State metering standard adopted by the Government.	This presents a moderate operational risk. The risk is generally managed by the conduct of appropriate activities to read meters and audit compliance of	High	Undertake audits of meter compliance in accordance with the prevailing metering standard.	<p>State Water has a regular meter reading program in place with most customers operating on a quarterly reading cycle. Some of State Water’s major customers still read their own meters and provide results back to State Water (eg. Macquarie Generation and the irrigation corporations). However, State Water indicated that in such cases it does at least one meter read each year to confirm the readings provided by its major customers.</p> <p>It is noted that the Commonwealth metering standards are yet to be finalised. However, on 2 October 2009, NOW issued the NSW</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
		meters against the standard adopted by the Government.			Interim Water Meter Standards. Whilst State Water has undertaken some activity in preparation for doing so (refer clause 6.5.2), it has not yet completed any audits of compliance against the standard. On this basis, compliance with this clause has been assessed as 'High'
6.5.2	State Water must report to IPART by no later than 1 September each year on what action it has undertaken 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.	This presents a moderate operational risk. The risk is generally managed by the conduct of appropriate activities to address the issue of metering accuracy. The previous audit shows Moderate compliance with this clause.	Full	-	<p>State Water has reported on its actions in relation to metering accuracy in its 1 September report.</p> <p>State Water again indicated that the conditions in Works Approvals related to water metering are still currently inadequate for the enforcement of accurate measurement of water extraction. State Water has indicated that it is seeking action by NOW to resolve the inadequacy in Works Approval conditions, however, it recognises that this situation is unlikely to be resolved until the National Metering Standards have been finalised and the implications for the Works Approvals determined.</p> <p>State Water sought, and was granted, funding for a river meter replacement trial in the Murray Valley. The meters to be installed under this trial project will be compliant with the new national standards and, until these national standards are implemented, will comply with the NSW Interim Standards. The meters to be installed will be connected to a telemetry network that allows real-time monitoring.</p> <p>On a broader scale, State Water is undertaking a program of activities that will provide the basis for understanding, improving and monitoring the accuracy of its meter fleet into the future. These activities, which are the subject of performance measures developed in response to the requirements of clause 6.5.3, include:</p> <ul style="list-style-type: none"> • Undertaking a comprehensive stock-take of existing meter fleet; • Completing a data base to record meter information; • Conducting audits of the entire meter fleet during the life of the <i>Operating Licence</i>; • Communicating to Customer Service Committees information

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>on meters that do not comply with the relevant standards.</p> <p>It is recognised that the work undertaken since the 2008/09 audit provides a positive basis for ensuring metering accuracy into the future; on this basis, a 'Full' compliance rating has been assigned.</p>
6.5.3	State Water will, by no later than 31 March 2009, submit to IPART, for IPART's approval, proposed performance measures with respect to State Water's performance in ensuring compliance with metering conditions as imposed by Water Management Works Approvals.	This presents a moderate operational risk. The risk is generally managed by the conduct and tracking of appropriate activities to address the issue of metering accuracy. The previous audit did not assess compliance with this clause.	High	Completion of requirements in accordance with nominated timelines.	<p>The Water Management Works Approvals reviewed by Halcrow do not explicitly contain metering conditions; they simply refer to national standards or other requirements of the Minister.</p> <p>Notwithstanding this, in April 2009 (ie. prior to the audit period) State Water developed and submitted a set of metering performance measures; these included:</p> <ul style="list-style-type: none"> • Undertake comprehensive stock-take of existing meter fleet; • Complete a data base to record meter information; • Conduct audits of the entire meter fleet during the life of the <i>Operating Licence</i>; • Communicate to Customer Service Committees information on meters that do not comply with the relevant standards. <p>These performance measures were agreed with IPART on 1 April 2010 (ie. within the audit period).</p> <p>Given that the proposed performance indicators were approved by IPART during the audit period, a compliance rating has been assigned; 'High' compliance has been assessed on the basis that State Water was late in submitting the proposed performance indicators for approval, albeit within the previous audit period.</p>
6.5.4	State Water must comply for the term of the Licence with the performance measures approved by IPART under clause 6.5.3 with respect to State Water's performance	This presents a moderate operational risk. The risk is generally managed by undertaking	Full	-	<p>State Water has reported on its actions against the performance measures in its 1 September report. The actions undertaken during 2009/10 included:</p> <ul style="list-style-type: none"> • Undertake comprehensive stock-take of existing meter fleet – stock-take is being finalised with 67 percent of meters and sites being reviewed. The remaining 33 percent generally represent a

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	in ensuring metering accuracy.	sufficient and appropriate activities to address the issue of metering accuracy, in accordance with the performance measures approved by IPART. The previous audit did not measure compliance with this clause.			<p>high proportion of inactive sites or sites not currently used and it is expected to complete these sites within a number of weeks.</p> <ul style="list-style-type: none"> • Complete a data base to record meter information – State Water reports that the data base is complete and all information collected to date from the stock-take has been entered. • Conduct audits of the entire meter fleet during the life of the <i>Operating Licence</i> – State Water plans to audit 50 percent of the meter fleet by 30 June 2011 with the remaining 50 percent audited in the period to 30 June 2013. It is understood that no meters have been audited during 2009/10. • Communicate to Customer Service Committees information on meters that do not comply with the relevant standards – reporting is expected to commence in 2010/11 once the audit program actually commences.
6.5.5	State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance measures approved under clause 6.5.3.	This presents a moderate operational risk. The risk is generally managed by the conduct and tracking of appropriate activities to address the issue of metering accuracy. The previous audit did not measure compliance with this clause.	Full	-	<p>The relevant performance measures were approved by IPART on 1 April 2010 and State Water has reported against these measures for the remainder of the 2009/10 audit period.</p> <p>State Water provided some evidence of its record systems with a screenshot of the database developed to record meter site details from the stock-take. State Water also provided a System User Guide for the Metering Site Analysis data base, which provides a detailed guide to entering data and producing reports. This document outlines the information collected in the database, including details of the metering site, the flow meter and its installation, waypoints and alternative meter sites.</p> <p>State Water indicated, during the interviews, that the Metering Site Analysis System data base (used to record data from the meter site stock-take) would be used as the primary tool to audit the meter accuracy.</p> <p>The System User Guide for the data base shows data entry screens for the Flowmeter which allow entry of the 'Unobstructed straight</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>Pipe/Conduit adjacent to Meter' giving an upstream and downstream value. These measurements can be used to identify if the flow meter is correctly installed, Unobstructed lengths of uniform conduit upstream and downstream of a flow meter, together with the proximity to a pump, are key compliance requirements specified in the NSW Interim Water Meter Standards. It is also noted that the entry of values in these fields is optional. Whilst collection of this information may require site excavation in the vicinity of the meter, an effective desktop audit of meter installation will be dependent upon this information being available.</p> <p>The database also includes provision for recording other information that will enable assessment of the accuracy of the meter (in accordance with the NSW Interim Water Meter Standards). Characteristics such as factory calibration accuracy will be principally dependent upon the type (and potentially age) of the flow meter, both of which are recorded.</p> <p>The System User Guide for the data base identifies reports that can be generated to report meter information, as well as performance parameters such as the number of field audits completed.</p> <p>State Water's metering database should enable it to adequately record the information necessary to measure accurately its performance against the performance measures approved under clause 6.5.3. Compliance has been assessed as 'Full'.</p>
6.5.6	State Water must report to IPART by no later than 1 September each year on its performance against the performance measures approved under clause 6.5.3 for the preceding financial year, including analysis of any systemic problems.	This represents a low operational risk. The previous audit did not assess compliance with this clause.	Full	-	State Water has reported its performance against the measures approved by IPART on 1 April 2010 in its 1 September report.
6.5.7	As part of its report, State Water must provide IPART with physical	This represents a low operational	Full	-	State Water provided access to its systems during the audit interviews including a demonstration of the database used to store details for the

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	and electronic access to the records kept by State Water that enable it to prepare the report under clause 6.5.6.	risk. The previous audit did not assess compliance with this clause.			meter sites.
6.5.8	State Water must make a copy of the report referred to in clause 6.5.6 available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	State Water's 1 September report to IPART includes a report against clause 6.5.6. The report is available on State Water's website and is available as a PDF document that can be downloaded free of charge.
6.6	Water Balances				
6.6.1	State Water must prepare by no later than 1 September each year, draft annual water balances, and by 1 December each year, final water balances, each in the form of the template at Table 5-1 of the final report by Sinclair Knight Merz "State Water <i>Operating Licence</i> - Water Balance Template" dated 30 March 2005 and in accordance with that report. <i>Note: A copy of this report can be found on IPART's website at www.ipart.nsw.gov.au</i>	This represents a low operational risk. The previous audit shows Full compliance with this clause.	High	Submission of all water balances in accordance with the required timeframe.	For 2008/09, final water balances have been completed for Border Rivers, Gwydir, Hunter Valley, Lachlan, Fish River Water Supply Scheme, Macquarie Valley, Murray Lower Darling, Murrumbidgee Valley, Namoi, North Coast, Paterson River, and South Coast. For 2009/10, draft water balances have been completed for Border Rivers, Gwydir, Namoi, Peel Valley, Macquarie Valley, Fish River Water Supply Scheme, Lachlan, Murrumbidgee Valley, Murray Lower Darling, North Coast, Hunter Valley, Paterson River and South Coast. The current <i>Operating Licence</i> requires State Water to submit draft water balances by 1 September, whilst final water balances are not due until 1 December each year. State Water met this requirement for 2009/10, with the exception of the draft 2009/10 water balance for the Lachlan, which, due to an oversight, was not submitted until late October 2010. Consequently, compliance has been assessed as 'High'. The previous audit recommended that State Water develop a set of procedures for preparing the water balances to ensure year on year consistency, and consistency between valleys. During 2009/10, State Water did develop a set of procedures, a copy of which was

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>provided to the auditors. It is noted that although the procedures provide a high level outline of the steps involved in developing the water balances, only very limited detail is provided, such as the sources of data, or valley specific issues to be considered when preparing the water balances.</p> <p>It is recommended that State Water further develops the procedures for preparing water balances to include more details in relation to the steps involved.</p>
6.6.2	State Water may, in preparing the annual water balances referred to in clause 6.6.1, deviate from this template provided that it has obtained the prior written approval of IPART to do so.	This represents a low risk. The previous audit did not assess compliance with this clause.	No Req	-	State Water has prepared the current water balances in accordance with the template developed by SKM.
6.6.3	State Water must make the annual water balances referred to in clause 6.6.1 available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	<p>The final annual water balances for 2008/09 are available on State Water's website via its 'Water Delivery' page and are published in the 1 September report which is also available on State Water's website. The draft water balances for 2009/10 are also published in State Water's 1 September report to IPART, however, are not directly available on State Water's website.</p> <p>While the draft water balances for 2009/10 are not directly available on State Water's website, the draft water balances can be found in State Water's 2009/10 1 September report to IPART which is available on State Water's website.</p>
6.7	Fish River Water Balance and System Yield				
6.7.1	In relation to the Fish River Scheme, State Water must:				
	(a) prepare by no later than 1 September each year, draft	This represents a low operational	Full	-	State Water provided the final 2008/09 and draft 2009/10 water balances in relation to the Fish River Water Supply Scheme, in the

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<p>annual water balances for the Fish River Scheme, and by 1 December each year, final water balances, each in the form of the template at Table 4-2 of the final report by Sinclair Knight Merz “Outcomes of consultation on performance standards and indicators for the Fish River Water Supply Scheme” dated 11 March 2005 and in accordance with that report; and</p> <p><i>Note: A copy of this report can be found on IPART’s website at www.ipart.nsw.gov.au</i></p>	<p>risk. The previous audit shows Full compliance with this clause.</p>			<p>form of the SKM template, in its 1 September report to IPART for 2009/10.</p>
	<p>(b) report to IPART, at least once during the term of the Licence, on system yield at a specified level of reliability of supply to be determined by State Water in consultation with the Fish River Customer Council. For the purpose of this clause 6.7, “system yield” is the average annual volume of water that can be supplied by the water supply system, subject to system inflows, an adopted set of operational rules (including the release of environmental water) and a typical demand pattern, without violating a given level of service standard.</p>	<p>This represents a moderate operational risk. This risk is generally managed by formulating system yield at a specified level of reliability determined in consultation with the Fish River Customer Council and reporting this to IPART. The previous audit shows Full compliance with</p>	<p>No Req</p>	<p>-</p>	<p>State Water is not required to complete this task until 2013, ie. the end of the term of the current <i>Operating Licence</i> period.</p> <p>During the audit interviews, State Water indicated that, during 2009/10, it had initiated a review of the system yield. Minutes from meetings of the Fish River Customer Council indicate actions to organise a value management study on the various options primarily to restore and possibly increase the secure yield of the FRWS (December 2009, January 2010 and March 2010 meetings). However, plans to undertake a review of the yield were put on hold when, on 20 April 2010, the Minister for Water ordered a review of water sharing arrangements in the Fish River Water Supply Scheme by the Commissioner of Water. State Water provided a copy of the media release from the Minister, dated 20 April 2010, indicating that NOW would be tasked with completing the review of the Fish River Water Supply scheme. One of the critical aspects of this review is to determine the secure yield of the scheme and the reliability of supply</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	“Reliability of supply” is the proportion of time that a supply system is expected to be able to meet demand, often expressed as the probability that restrictions of any given severity will not be imposed in a given year or month.	this clause.			<p>at a given level of service standard as agreed by the major consumers.</p> <p>Current entitlements total 14,876ML and this was previously considered a ‘secure yield’. The current review by the Minister for Water will determine the new secure yield based on the current hydrology and agreed water sharing arrangements.</p> <p>State Water has indicated that its review of the yield will remain on hold, pending the outcomes of the review by NOW. The minutes of the meeting of the Fish River Customer council from the 8 June 2010 indicate that NOW gave a presentation of the proposed review. A copy of the Terms of Reference for the study was provided, and Council members were invited to provide comment on them. The minutes indicate that all customers will be contacted as part of the review of the yield. While the minutes indicate that the report on the yield review would be completed by September 2010, the auditors understand that completion of the report has been delayed.</p>
6.7.2	State Water may, in preparing the annual water balance referred to in clause 6.7.1(a), deviate from the template referred to in that clause provided that State Water has obtained the prior written approval of IPART to do so.	This represents a low operational risk. The previous audit did not assess compliance with this clause.	No Req	-	State Water has prepared the current water balances in accordance with the template developed by SKM.
6.7.3	State Water must make the annual water balance referred to in clause 6.7.1(a) available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	The annual water balances are reported within the 2009/10 1 September report to IPART which is available on State Water’s website and can be downloaded free of charge.

7.3 Discussion

7.3.1 Compliance Summary

In general, State Water has achieved 'Full' compliance with the requirements of the *Operating Licence* in respect to Water Delivery Operations. However, three 'High' compliance ratings were assigned, as discussed briefly in the following sections.

7.3.2 Clause 6.5.1 Reading Customer meters and audit the compliance of meters against Commonwealth or State metering standards – High Compliance

Whilst State Water has undertaken some activity in preparation for doing so, it has not yet completed any audits of compliance against the NSW Interim Water Meter Standards. On this basis, compliance with this clause has been assessed as 'High.'

7.3.3 Clause 6.5.3 Submission of proposed performance measures to IPART – High Compliance

In April 2009 (ie. prior to the audit period) State Water developed and submitted a set of metering performance measures. These performance measures were agreed with IPART on 1 April 2010 (ie. within the audit period). Given that the proposed performance indicators were approved by IPART during the audit period, a compliance rating has been assigned; 'High' compliance has been assessed on the basis that State Water was late in submitting the proposed performance indicators for approval, albeit within the previous audit period.

7.3.4 Clause 6.6.1 Water Balances – High Compliance

Due to an oversight, the draft water balance for the Lachlan Valley was not submitted to IPART until late October 2010. All other water balances were submitted on time, as part of State Water's 1 September 2010 report. On this basis, compliance has been assessed as 'High'.

7.4 Progress in Responding to Previous Audit Recommendations

The report on the 2009 Operational Audit of State Water identified one recommendation in relation to Water Delivery Operations. This recommendation, together with State Water's progress in addressing it, is discussed in the following paragraphs.

R7.1 – It is recommended that State Water develop and document a set of procedures for preparing the water balances. This will ensure year on year consistency, and consistency between valleys.

The previous audit recommended that State Water develop a set of procedures for preparing the water balances to ensure year on year consistency, and consistency between valleys. During 2009/10, State Water did develop a set of procedures, a

copy of which was provided to the auditors. It is noted that, although the procedures provide a high level outline of the steps involved in developing the water balances, only very limited detail is provided, such as the sources of data, or valley specific issues to be considered when preparing the water balances. State Water may wish to consider further developing the procedures for preparing water balances to include more detail in relation to the steps involved.

7.5

Recommendations

No recommendations have been made in relation to this Part of the *Operating Licence*.

8 Licence Part 7 – The Environment

8.1 *Overview of Requirements*

Under the provisions of Part 7 of the *Operating Licence*, State Water must review and update its Environmental Management Plan (EMP) at least once during the term of the Licence. The EMP must include all of State Water's operations (including the Fish River Scheme), or alternatively State Water may develop separate EMPs for the Fish River Scheme and the rest of its operations. State Water must also report on its performance against or compliance with the EMP(s).

8.2 *The Environment – Compliance*

Compliance for Part 8 – The Environment, is outlined in **Table 8.1**. With the exception of one 'High' compliance assessment, compliance has been assessed 'Full' for the clauses in this Part of the *Operating Licence*. For a number of clauses, there was 'No Requirement' to comply with the condition during the 2009/10 year.

Overall, compliance with this Section of the *Operating Licence* has remained consistent with that of the last audit.

Table 8.1 Part 7: The Environment – Compliance Assessment

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
7	The Environment				
	<i>Note: State Water must conduct its operations in compliance with requirements of the Water Management Act 2000, the State Water Management Outcomes Plan and the Water Management Plans established under that Act.</i>				
7.1	Environment Management Plan				
7.1.1	<p>At least once during the term of the Licence, prior to 30 November 2010, State Water must review and update its document entitled <i>Environment Management Plan 2006-2011 (the Environment Management Plan)</i></p> <p><i>Note: The Environment Management Plan was developed during the term of the Previous Licence and remains in force until 2011. The latest version was last updated in June 2007.</i></p>	This represents a moderate environmental risk. The risk is managed by the appropriate review and updating of the EMP.	No Req	-	<p>State Water first produced its EMP in April 2006 and a final version of the EMP was submitted to IPART on 2 May 2006. State Water revised the EMP in June 2007.</p> <p>State Water commenced planning for a review of the EMP on 16 August 2010. A project plan and proposed timeline was developed and submitted to IPART in April 2010, and both of these documents have been sighted. A second draft of the EMP has been completed and a copy has been provided for reference.</p>
7.1.2	<p>In undertaking this review State Water must consult with:</p> <p>(a) DECC;</p> <p>(b) DWE;</p> <p>(c) DPI;</p> <p>(d) IPART; and</p>	This represents a moderate environmental risk. The risk is managed by undertaking appropriate consultation with the identified	No Req	-	As noted above, State Water has commenced a review of its EMP. The proposed timeline, dated 16 September 2010, showed progress in developing a second draft of the revised EMP and in the consultation process which is approximately half way through the designated response period for comments. Consultation will occur at two key stages in the process, the first through a request for information from stakeholders. A letter has been prepared and sent to stakeholders requesting general comments on State Water's obligations under the

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<p>(e) peak environmental non-government organisations;</p> <p>for the purpose of considering the views of those organisations consulted, including whether they seek amendments to the Environment Management Plan.</p>	<p>agencies when updating the EMP.</p>			<p><i>Operating Licence</i> with respect to the EMP.</p> <p>State Water provided various evidence supporting the consultation process including:</p> <ul style="list-style-type: none"> • template consultation letter to key stakeholders; • Distribution List for stakeholders, listing contact details for representatives of CSCs, Government departments, local councils, CMAs, advisory councils, associations, water utilities and selected individual customers. <p>As part of the audit, feedback was sought from DECCW, NOW and DII in relation to State Water’s performance against the obligations in its <i>Operating Licence</i>. Each agency provided feedback. DECCW confirmed that it “<i>has been consulted and provided input into the review of the State Water Environmental Management Plan 2006-2011</i>” whilst NOW noted that it considers the current EMP to be too general and lacking in detail for some of the programs. NOW also raised concerns over the restricted nature of the consultation process for the review of the EMP, but noted that after raising its concerns, it will now be given the opportunity to comment on the revised EMP before its finalisation. NOW stated that it “<i>would like to see a greater priority placed on the timeliness and consultation level afforded to it during the EMP review process.</i>” In its feedback, DII noted that it has discussed the review of the EMP with State Water informally during recent MoU negotiations, but has received no formal approach for consultation. State Water did, however, provide a copy of the letter (dated 6 September 2010) to DII inviting comments from DII to be used in the development of the EMP. It is noted that this falls outside of the audit period. Copies of the letters received from the three agencies are included in Appendix B.</p> <p>Evidence of formal consultation with the nominated organisations in the <i>Operating Licence</i> will need to be viewed for the 2010/11 Operational Audit.</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					The 2008/09 Operational Audit recommended that State Water develop a project plan, detailing the timeline for the review of the EMP, incorporating agency consultation periods, to ensure that the 30 November 2010 deadline is met. In this regard, State Water has engaged an external consultant to manage the review process. A Services Delivery Plan, which has been viewed during the audit, has been prepared by the consultant. The Plan outlines the intended methodology for the review, consultation and reporting phases, an outline of the program, definition of inputs required from State Water, deliverables from the process and the consultants project team.
7.1.3	State Water must engage in Public Consultation when conducting this review.	This represents a moderate environmental risk. The risk is managed by undertaking appropriate consultation with the Public when updating the EMP	No Req	-	As noted above, State Water has commenced the review of its EMP and is undertaking a consultation process as detailed above. The proposed consultation process includes a number of engagement activities that satisfy the definition of Public Consultation outlined in clause 13.2.4 of the Operating Licence, including: <ul style="list-style-type: none"> • communication with government agencies, organisations and persons; • a displayed link to a request for submissions on State Water's website front page; and • issue to the Community Consultative Committee and Customer Service Committees or Council.
7.1.4	The Environment Management Plan may be developed for all of State Water's operations (including the Fish River Scheme) or alternatively State Water may develop separate plans for the Fish River Scheme and the rest of its operations, in which case the provisions of this clause 7 will apply to each Environment Management Plan prepared.	This represents a moderate environmental risk. The risk is managed by ensuring that State Water's EMP is developed for all of its operations (including the Fish River	Full	-	State Water's current EMP has been developed for all of its operations, including the Fish River Scheme.

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
		Scheme).			
7.1.5	<p>The EMP must:</p> <ul style="list-style-type: none"> (a) include details of State Water's program for addressing its environmental impacts and achieving environmental improvements, including (but not limited to): <ul style="list-style-type: none"> (i) management and mitigation of riverbank and bed erosion; (ii) management and mitigation of water quality issues associated with storage and release (including mitigation of thermal impacts); (iii) management and mitigation of barriers to fish passage; (iv) an algal management strategy; (v) energy management and consumption; and (vi) waste management and minimization. (b) adopt Ecologically Sustainable Development principles; (c) be integrated into State Water's business plans; (d) include indicators to measure the environmental impact of State Water's Asset operations and maintenance; and 	<p>This represents a moderate environmental risk. This risk is managed by appropriately addressing within the EMP, all key environmental impacts and improvements. The previous audit shows High compliance with this clause.</p>	High	<p>Inclusion of a clear and consistent algal management strategy, which references management plans, programs and procedures that are already in place, within the EMP.</p>	<p>As observed during the 2007/08 and 2008/09 audits of State Water, a clear and consistent algal management strategy was not identified. As the EMP has not been updated since 2007/08, this observation still applies. State Water previously provided evidence that it continued its interactions with DWE to deliver the NSW Regional Algal Contingency Plans (RACPs). No evidence has been provided for this audit that any further work has been done on these RACPs since the 2008/09 Operational Audit.</p> <p>During 2008/09, State Water commissioned consultants to assist in the development of a strategic water quality program. Once developed, the program was to include the specific monitoring needs for the RACC plans. State Water provided a copy of the report produced by the consultants, and expected to implement the program over the 2009/10 year.</p> <p>For this audit, State Water provided a copy of the <i>Strategic Water Quality Monitoring Program for State Water</i> dated 20 July 2010. A review of this document reveals numerous references to the algal management requirements including outlining a Cyanobacteria Monitoring Program. This program outlines the roles and responsibilities of State Water under the RACPs, details monitoring requirements and responses to monitoring results, and relevant alert levels.</p> <p>The second draft EMP provided by State Water includes only two references to algal management and no specific references to the draft <i>Strategic Water Quality Monitoring Program for State Water</i> or the included Cyanobacteria Monitoring Program. The next version of the EMP would benefit from additional references to algal management and perhaps a summary of the management plans, programs and procedures that are already in place, thereby fulfilling the Operating Licence requirement for the EMP to include an algal management strategy.</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	(e) incorporate environmental improvement targets and timetables for State Water to achieve those targets over the term of the Environment Management Plan.				<p>The 2008/09 Operational Audit recommended that State Water develop an overarching environmental framework that details all the policies, procedures and documents that surround the EMP. State Water has responded to this recommendation by developing a separate Environmental Framework and by including another framework, based on an Environmental Management System (EMS), in the second draft EMP.</p> <p>The Environment Framework, which was last updated on 30 April 2010, is described as defining “<i>the legislative, social and contractual obligations that are the drivers of State Water’s Environmental Management Plan (EMP).</i>” Key headings in the Framework include:</p> <ul style="list-style-type: none"> • Drivers – legislative and regulatory instruments leading to definition of EMP objectives. • Planning – compilation of policy and procedures to input into operational plans such as the Total Asset Management Plan. • Implementation – integration of EMP objectives into normal operations using staff training, the Facilities Maintenance Management System (FMMS), and operating protocols/procedures. • Review – assessment of measurable goals to determine progress in meeting EMP objectives. <p>The environmental management framework within the second draft EMP shows the key environmental management cycle components of <i>Planning, Implementation, Checking and corrective action</i>, and <i>Assess and review effectiveness</i>. It is not clear, however, just how the framework will facilitate meeting State Water’s environmental objectives. Some additional discussion in the EMP on the various management cycle components of the framework presented would be useful in this regard. In addition, the framework in the EMP is different to the separate Environmental Framework developed by State Water. Consistency between the proposed frameworks is required.</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>During the 2008/09 Operational Audit State Water indicated its intent to further develop and finalise a Monitoring Evaluation Audit and Reporting (MEAR) Framework by March 2010. This process was also supported by a recommendation in the 2008/09 Operational Audit report. In response to this, State Water provided a draft, internal copy of the MEAR Framework indicating that it was last updated on 30 April 2010. The MEAR Framework developed does not contain a list of specific targets or timetables on which the EMP will be assessed, but sets the framework for how these specific reports will be produced. While the second draft EMP does list actions, targets, responsibilities and performance measures, the timeframes outlined are very broad (for example, “by 2012”). It is also noted that the second draft EMP does not make any specific mention of the MEAR Framework. Consistency and cross referencing between the EMP and the MEAR Framework is essential to ensure that objectives and targets are met.</p> <p>The second draft EMP does not provide a comparison of the <i>Operating Licence</i> drivers against the EMP objectives and as a result, it is difficult to assess the EMP against the required inclusions. It is noted that the Monitoring Evaluation Audit and Reporting (MEAR) Framework provides such a comparison. It is recommended that State Water consider whether such comparison may be better incorporated in the revised EMP. Alternatively, the EMP should at least reference the MEAR Framework and highlight the comparison.</p>
7.1.6	The Environment Management Plan must be provided to IPART on its completion and made available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	The updated EMP is not yet due for completion, however, the current 2006-2011 EMP is available on State Water’s website and can be downloaded free of charge.
7.1.7	State Water must, by no later than 1 September each year, or an alternative later date specified by	This presents a moderate environmental risk.	Full	-	<p>(a) EMP:</p> <p>State Water reported on its environmental performance in its 1 September to IPART. The report details its environmental</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<p>IPART, for the preceding financial year, report to IPART on its environmental performance including its performance against or compliance with:</p> <p>(a) its Environment Management Plan;</p> <p>(b) any environmental provisions of each Water Management Plan and the State Water Management Outcomes Plan issued under the <i>Water Management Act 2000</i> where applicable to State Water;</p> <p>(c) any environmental regulatory requirements applicable to State Water, including those under the water management work approval(s) issued under the <i>Water Management Act 2000</i> and the <i>Fisheries Management Act 1994</i>; and</p> <p>(d) the environmental provisions of any MoUs referred to in clause 2.3 including any performance standards and indicators established under these MoUs.</p>	<p>This risk is generally managed by actively monitoring and reporting on environmental performance. The previous audit shows High compliance with this clause.</p>			<p>performance in relation to the EMP and key pieces of regulation in accordance with this clause of <i>Operating Licence</i>. State Water has not reported on every target within the EMP as some of these targets have already been met. Performance against the ongoing environmental objectives and targets has, however, been reported.</p> <p>During the audit interviews, State Water indicated that timelines for a number of objectives have been missed due to a lack of internal resources and funding. State Water stated that it is working on the development of realistic timeframes for their implementation and included costs for these activities in the recent IPART pricing submission.</p> <p>State Water sought approval from IPART on 23 March 2009 to revise target dates for actions under the EMP. IPART requested further information in a letter dated 1 May 2009, to which State Water responded on 10 June 2009. IPART gave its approval to the revised target dates in a letter dated 17 July 2009. The revised target dates have been sighted during this review and are identified, where relevant, in the comments below.</p> <p>Some of the activities undertaken in 2009/10 by State Water, related to each objective in the EMP, include:</p> <p><u>Objective 1</u></p> <ul style="list-style-type: none"> • Flow, timing, capacity targets – targets and strategy statement now addressed in Works Approvals issued under the Water Sharing Plans. • Weir pool variability study – funding was sought to scope a method for the study, however, the project did not proceed due to the ongoing drought. • Information to Environmental Flow Reference Groups - State Water is represented on the Environmental Water Advisory Groups facilitated by DECCW for the

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>Macquarie-Cudgegong, Gwydir, Murrumbidgee, and Lachlan rivers. Various minutes of meetings were provided by State Water for the Gwydir, Lachlan and Macquarie-Cudgegong groups.</p> <p><u>Objective 2</u></p> <ul style="list-style-type: none"> • Effective storage water quality monitoring system – the original target date of December 2006 was initially changed to August 2008 but was revised again to June 2009. State Water stated that this storage monitoring program relates to data for the cold water pollution operating protocols involving temperature and algal monitoring. • Continually improve water quality program – State Water released a brief in May 2009 to develop a Strategic Water Quality Monitoring Program (SWQMP) and received the completed report on 20 July 2010. • Real-time water quality data – State Water has installed thermistor chains at Keepit, Chaffey, Blowering, Copeton and Burrendong Dams to provide real time temperature information to dam operators. <p><u>Objective 3</u></p> <ul style="list-style-type: none"> • Mitigate impacts of cold water releases – a consultant was engaged in February 2010 to develop, refine and complete the concept design for a floating curtain to mitigate cold water pollution at Burrendong Dam. The consultant’s Stage 1 investigation report and Stage 2a structural assessment report were provided for reference. State Water also continued investigations at Keepit Dam into an automatic shutter system for the multi-level offtake. A business case for the project was completed in 2009/10 to secure funding for the project. Details of the project were circulated to the Cold Water Pollution Interagency Group at its meeting on 21 July 2009.

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<ul style="list-style-type: none"> • Improve operational protocols for dams with multi-intake towers – refer Keepit Dam multi-level offtake project above. <p><u>Objective 4</u></p> <ul style="list-style-type: none"> • 10 year fish passage program – this program has been developed in conjunction with the Department of Industry and Investment and was originally scheduled to be completed in June 2008. State Water renegotiated the target date to June 2009, however, the latest version of the program provided by State Water was last updated on 28 July 2010 and is still identified as a draft version. The revision history of the document indicates that draft versions were prepared in November 2008 and in December 2009. <p><u>Objective 5</u></p> <ul style="list-style-type: none"> • Address environmental risks – State Water has developed a set of Environmental and Heritage Assessment Procedures which contain templates and processes for identifying environmental risks for projects. A copy of the procedures was provided for reference dated December 2009. The procedures include a project checklist to determine whether a Review of Environmental Factors is required. • Project planning approvals – the Environmental and Heritage Assessment Procedure identified above contains checklists and examples of planning approvals required for different types of State Water works. • Complete staff training – staff training in the Environmental and Heritage Assessment Procedure was due to be completed in June 2008, however, the target date was revised to December 2009. State Water provided a training register listing the staff that had undergone training as at December 2009 (19 staff in total). The majority of

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>staff were from the Major Projects group with the Maintenance and Services group also represented. A further 16 staff expressed an interest in the training or were identified as priority targets for the next round of training in February 2010.</p> <ul style="list-style-type: none"> Minimise environmental impacts during construction – the Environmental and Heritage Assessment Procedures include the requirement to prepare a Construction Environmental Management Plan (CEMP) and provide an outline of what should be included in the CEMP. <p><u>Objective 6</u></p> <ul style="list-style-type: none"> Revised Energy Management Plan – State Water’s Energy Management Plan was adopted on 5 July 2007 and was scheduled for review on 5 July 2009. While this review doesn’t appear to have happened, the Plan remains in place and State Water has allocated a new position in its organisational structure to implement the Plan and activate improvement measures. Benchmark energy consumption – State Water commenced recording energy consumption in 2006/07 and has provided figures for 2008/09 for individual assets. Reduce annual energy consumption by 5% – State Water provides energy consumption data to the NSW Government OSCAR reporting system which then reports emissions. Results from this system show a 27% reduction in 2009/10 emissions compared to 2008/09. An extract from the OSCAR system has been provided for reference. Reduce fuel consumption – State Water updated its Motor Vehicle Usage Policy and Motor Vehicle Selection Policy in February 2010. These policies include provisions to reduce fuel consumption including: <ul style="list-style-type: none"> Compliance with Cleaner NSW Government Fleet

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>Policy;</p> <ul style="list-style-type: none"> o Regular vehicle maintenance and servicing; o Compliance with State Water’s Fleet Improvement Plan; and o Encouraging the selection of smaller vehicles. <p><u>Objective 7</u></p> <ul style="list-style-type: none"> • Develop a WRAPP Plan – the WRAPP Plan was endorsed by the State Water Management Team in July 2007. It appears, from the current WRAPP Report 2009, that the 2007 WRAPP Plan has not been updated. During 2009/10, State Water received reporting guidelines from DECCW for the 2009/11 WRAPP report which is due 31 August 2011. • Establish a waste paper reduction program – this program is incorporated into the WRAPP Plan under Part C Waste Data, however, no waste paper recycling information was reported in the current WRAPP Report 2009. <p><u>Objective 8</u></p> <ul style="list-style-type: none"> • Integrated Land Management Program – State Water initiated a Land Use Options Study in 2009/10 and has developed a Foreshores Management Thematic Plan detailing how State Water would manage land at storages. In addition, foreshores actions plans have been developed for implementation in 2010/11. <p><u>Objective 9</u></p> <ul style="list-style-type: none"> • Heritage Asset Management – State Water completed its Heritage Asset Management Strategy in July 2006 and is now making several amendments suggested by the Department of Planning’s Heritage group. A three year program document covering all heritage compliance requirements was delivered in 2009/10. State Water also

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>prepared a summary of heritage policies and strategies and developed a draft Heritage Management Framework (copy dated September 2009 was provided).</p> <ul style="list-style-type: none"> • Submit s170 Heritage and Conservation Register – State Water completed the Fish River heritage assessment in 2009/10 (evidence of this has not been sighted) which completes all heritage assessments. The s170 data is still to be loaded into the Department of Planning’s Heritage group database and was intended to be done prior to the end of 2009/10. • Indigenous consultation on major projects – this requirement is included in the Environmental and Heritage Assessment Procedures, referred to earlier, as part of a checklist for developing a Review of Environmental Factors. State Water provided a copy of the Review of Environmental Factors for the Chaffey Dam upgrade. The report indicates that in the initial round of consultation, Indigenous Business Australia was invited to raise any concerns or requirements for the preparation of the REF, although no reply was received from the organisation. • Heritage Office guidelines – State Water’s Environmental and Heritage Assessment Procedures include the requirement to determine whether a project is likely to require approval from the Heritage Office. • Complete Conservation Management Plans (CMPs) for structures with State Heritage Significance – this process has been delayed, with the original target date of December 2008 adjusted to the approved date of June 2010. The 2008/09 Audit identified that State Water commissioned consultants to undertake four CMPs, however, this doesn’t appear to have occurred. For this current audit, State Water indicated that a project plan is in place to develop a minimum of three CMPs in the next few

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>years. The project plan was previously developed for the completion of 25 CMPs and money was allowed in the 2010 Pricing Determination over the next four years.</p> <ul style="list-style-type: none"> Consider heritage in Environmental Assessments and Development Applications – State Water’s Environmental and Heritage Assessment Procedures include the requirement to consider heritage issues as detailed above. <p><u>Objective 10</u></p> <ul style="list-style-type: none"> Implement consultation strategies for major projects – State Water’s Environmental and Heritage Assessment Procedures include the requirement to document intended consultation processes under the Review of Environmental Factors and Construction Environment Management Plan checklists. State Water provided a list of projects with brief descriptions of the type of consultation undertaken. An example REF for works at Bulgeraga Creek Fish Passage was provided which identified consultation with two landowners. <p><u>Objective 11</u></p> <ul style="list-style-type: none"> Scope and investigate common environmental projects across NSW – State Water has not specifically reported on progress with this objective. It is noted, however, that IPART was effectively advised of progress in a letter dated 23 March 2009 and subsequent correspondence in respect to the revision of target dates for actions under the EMP and the target related to this objective. <p>(b) Water Management Plans:</p> <p>Water Management Plans are now referred to as Water Sharing Plans. Requirements and provisions under the Water Sharing Plans are detailed in Works Approvals, which have been prepared for most valleys, Works Approvals for the Lachlan</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>River and Macquarie/Cudgegong River were gazetted in 2009/10. State Water submits an annual report to NOW in September each year detailing its compliance with the Works Approvals.</p> <p>Suspensions of the Water Sharing Plans for the Murray, Murrumbidgee, Lachlan and Macquarie Rivers continued in 2009/10 with NOW approved drought management plans in place.</p> <p>(c) Environmental Regulatory Requirements:</p> <p>State Water finalised Environmental and Heritage Assessment Procedures in December 2009 which capture the required processes, consultation and approvals for all State Water activities under State and Commonwealth legislation.</p> <p>State Water provided a list of projects where the relevant environmental assessments and approvals processes have been followed, as follows:</p> <ul style="list-style-type: none"> • Removal of Gulph Creek Weir; • Removal of Mullumbimby Weir; • Refurbishments of Berembed Bridge Canal; • Manyweathers Weir Removal; • Lock 10 Hydraulics Upgrade; • Yanco Weir Upstream works; • Barwon Weirs downstream rock protection; and • Hickey's Creek Weir Removal. <p>(d) MOUs:</p> <p>State Water has a Service Level Agreement with the Department of Industry and Investment that defines a number of key performance indicators. These indicators are used to determine the extent of the positive environmental impacts of State Water's works. The indicators including the following:</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<ul style="list-style-type: none"> • Kilometres of river open to free passage of native fish; • Length of riparian habitat restored; and • Area of aquatic habitat managed for protection. <p>State Water's performance is presented in an annual report prepared by the Department of Industry and Investment.</p> <p>As part of the audit, DII, NOW and DECCW were contacted to provide feedback on State Water's performance in relation to the provisions of the MoUs referred to in clause 2.3, and performance standards and indicators established under these MoUs. Any feedback received from all three agencies will be used to confirm State Water's reported environmental performance during 2009/10.</p> <p>Additional information on State Water's performance in relation to the provisions in the MoU is discussed in greater detail in Section 3.</p>
7.1.8	State Water must make available to the public the report referred to in clause 7.1.7	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	The 1 September reports to IPART are available on State Water's website and can be downloaded free of charge.

8.3 Discussion

8.3.1 Compliance Summary

In general, State Water has achieved 'Full' compliance with the requirements of its *Operating Licence* in respect to The Environment. There is one 'High' compliance rating which is discussed below.

8.3.2 Clause 7.1.5 EMP – High compliance

While State Water's EMP outlines the relevant points of consideration specified in the *Operating Licence*, a clear and consistent algal management strategy has not been identified. It is on this basis that compliance has been assessed at 'High'.

This issue may be addressed by the inclusion of a high level strategy that references management plans, programs and procedures that are already in place within the EMP.

8.4 Progress in Responding to Previous Audit Recommendations

The report on the 2009 Operational Audit of State Water identified three recommendations in relation to Part 7 – The Environment. These recommendations, together with State Water's progress in addressing them, are discussed in the following paragraphs.

R8.1 – It is recommended that State Water develops a project plan, detailing the timeline for the review of the EMP, incorporating agency consultation periods, to ensure that the 30 November 2010 deadline is met.

State Water is currently undertaking a review of the EMP and has engaged an external consultant to manage the process. A project plan and timeline for the review, including agency consultation periods, has been developed. An initial draft of the EMP has been prepared by the consultant and is with State Water for comment. The consultant's project timeline shows that the review will be completed on 27 October 2010, well ahead of the 30 November 2010 deadline.

R8.2 – It is recommended that State Water develop an overarching environmental framework, detailing the various policies, procedures and documents which sit below the EMP. Development of such a framework will provide greater clarity as to how State Water intends to meet its environmental objectives. This recommendation is carried over from the previous audit.

State Water has responded to this recommendation by developing a separate Environmental Framework and by including another framework, based on an Environmental Management System (EMS), in the initial draft EMP.

The Environment Framework, which was last updated on 30 April 2010, is described as defining “*the legislative, social and contractual obligations that are the drivers of State Water’s Environmental Management Plan (EMP).*” Key headings in the Framework include:

- Drivers – legislative and regulatory instruments leading to definition of EMP objectives;
- Planning – compilation of policy and procedures to input into operational plans such as the Total Asset Management Plan;
- Implementation – integration of EMP objectives into normal operations using staff training, the Facilities Maintenance Management System (FMMS), and operating protocols / procedures; and
- Review – assessment of measurable goals to determine progress in meeting EMP objectives.

The EMS framework within the initial draft EMP shows a number of key tasks/processes for the EMP and a number of inputs and outputs from the EMP. It is not clear, however, just how the framework will facilitate meeting State Water’s environmental objectives. In addition, the framework is different to the separate Environmental Framework developed by State Water. A degree of consistency between the proposed frameworks would be beneficial.

R8.3 – It is recommended that State Water finalises development of the Monitoring Evaluation Audit and Reporting (MEAR) Framework and uses this as the basis for reporting its performance against all objectives and target included in the EMP document.

State Water has provided a draft, internal copy of the MEAR Framework indicating that it was last updated on 30 April 2010. The MEAR Framework developed does not contain a list of specific targets or timetables on which the EMP will be assessed but sets the framework for how these specific reports will be produced.

8.5

Recommendations

No recommendations have been made in relation to this Part of the *Operating Licence*.

9 Licence Part 8 – Performance Indicators

9.1 *Overview of Requirements*

Under the provisions of Part 8 of the *Operating Licence*, State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against a number of performance indicators related to:

- State Water (excluding the Fish River Scheme):
 - Water Delivery; and
 - Policing Functions;
- Fish River Scheme:
 - Asset Management;
 - Water Delivery; and
 - Water Quality.

State Water must also report on its performance against its performance indicators.

9.2 *Performance Indicators – Compliance*

Compliance for Part 8 – Performance Indicators, is outlined in **Table 9.1**. Compliance has been assessed as between ‘Low’ and ‘Full’ for the clauses in this Part of the *Operating Licence*. For a number of clauses, there was ‘No Requirement’ to comply with the condition during the audit period.

Overall, compliance with this Part of the *Operating Licence* has remained in line with last year. Lower assessments of compliance primarily relate to clauses where State Water has provided conflicting supporting information, or made errors in the reporting of performance information.

Table 9.1 Part 8: Performance Indicators – Compliance Assessment

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
8.1	<p>State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against:</p> <p>(a) the performance indicators set out in Schedule 1.</p> <p>(b) any system performance indicators specified in any instruments that give effect to the National Water Initiative; and</p> <p>(c) any service quality and system indicators in any other instrument determined by IPART.</p>	<p>This represents a moderate operational risk. This risk is generally managed by maintaining record systems that are sufficient to enable accurate measurement and reporting of performance. The previous audit shows Moderate compliance with this clause.</p>	High	<p>Establish and maintain record systems to enable reporting of performance against all performance indicators set out in Schedule 1.</p>	<p>As noted in previous audits, State Water does not have a dedicated system in place to report against the performance indicators listed in Schedule 1 of the <i>Operating Licence</i>. It uses its corporate information systems to report compliance for most of the indicators. For example, Policing Functions indicators are extracted from State Water’s WAS and Customer Relationship Management system, and flow data is reported from State Water’s CAIRO system.</p> <p>Halcrow notes that State Water has continued to develop and implement new systems to improve its performance in reporting the required indicators. In particular, State Water’s document management system (SWIM) and its Customer Relationship Management System have been used to collect and report information for a number of the indicators. This has resulted in an improved compliance grading. It is noted, however, that data for some indicators data is still manually recorded in some valleys, and it is for this reason that compliance has been assessed as ‘High’.</p>
Schedule 1 Part A	1. Water Delivery				
(a)	<p>percentage of Customers contacted within one working day of a non-complying water order being placed;</p> <p><i>Note: A “non-complying water order” is an order which does not comply with licence conditions or which contains insufficient information for State Water to supply water</i></p>	<p>This represents a low operational risk. The previous audit shows Moderate compliance with this clause.</p>	Full	-	<p>In its 1 September report to IPART, State Water reported that a total of 821 non-complying water orders were placed. Of these, State Water has stated that 769 customers (or 94 percent) were contacted within one working day of the non-complying water order being placed.</p> <p>The information to report this indicator has been extracted from State Water’s Customer Relationship Management database. Water orders may be submitted via email, fax, telephone, or directly using the newly rolled out iWAS. All customer orders that are placed using iWAS are compliant as it has inbuilt checks to prohibit the placement</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>of non complying orders. Consequently, it is only those that are emailed, faxed, or placed via telephone that may be non-compliant. When a water order is assessed as non-compliant, State Water has indicated that it responds immediately by either faxing or calling the customer to inform them that the order is non-compliant. A comment is made in the Customer Relationship Management system, which is time and date stamped. State Water provided a copy of the form which is issued to customers if the submitted order is non-compliant. The form lists all the possible reasons that an order may not be compliant, together with details of where to re-submit the amended order.</p> <p>As part of the audit, State Water provided copies of reports that were downloaded from its Customer Relationship Management system. These reports were 'Non Complying Orders_2009_2010_more than 24 Hours', and 'Non Complying Orders_2009_2010', and 'IPART - Performance Indicators - Customer Operations - 2009-10.' The reports confirm the figures reported by State Water in its 1 September report to IPART.</p>
(b)	<p>percentage of complying water orders identified as being delivered outside of ± 1 day of the scheduled day of delivery, as measured by customer complaints;</p> <p><i>Note: A "complying water order" is an order which complies with the conditions of a water licence and which contains sufficient information for State Water to supply water and "scheduled day of delivery" is per period of the required notice specified in works approvals, licences or entitlements.</i></p>	<p>This represents a medium operational risk. The previous audit shows Full compliance with this clause.</p>	Moderate	<p>Implementation of the Customer Relationship Management database across all valleys to record and manage complaints</p>	<p>It its 1 September report to IPART, State Water has reported that "there were less than one percent of customer notifications from 46,034 orders placed across the state to indicate that the complying orders were delivered outside of ± 1 day of the scheduled day of delivery."</p> <p>State Water provided a spreadsheet with additional detail of the orders delivered outside of ± 1 day. It shows that for 2009/10, there were 23 complying water orders identified as being delivered outside of ± 1 day of the scheduled day of delivery. This represents approximately 0.05 percent out of a total of 46,034 complying orders.</p> <p>The number of compliant water orders was reported from the Customer Relationship Management database, a download of which was provided to the auditors. The download confirms the total number of complying water orders in the audit period as 46,034.</p> <p>State Water relies on complaints from customers to report water orders delivered outside of ± 1 day of the scheduled day of delivery.</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>That is, all orders are assumed to be delivered within the required timeframe unless a complaint is made by a customer indicating that no water has been delivered.</p> <p>The complaints data has been reported from a number of sources including the newly rolled out Customer Relationship Management database (16 complaints), and from records (spreadsheets) kept by Water Delivery Staff in the Northern and Central valleys. State Water provided an extract from its Customer Relationship Management database, and the spreadsheets for the valleys to substantiate the figure reported in its 1 September Report. Whilst it was possible to verify the nature and details of the complaints recorded in the Customer Relationship Management database, the spreadsheets contain little or no information on the complaints recorded.</p> <p>Given that the Customer Relationship Management database was not in use for the full 2009/10 year, across all of the valleys, compliance with this clause has been assessed as 'Moderate'.</p>
(c)	<p>percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay”;</p> <p><i>Note: This indicator should be calculated as a percentage of the total number of water orders rescheduled due to a known shortage or delivery delay</i></p>	<p>This represents a low operational risk. The previous audit shows Low Compliance with this clause.</p>	Moderate	<p>Roll out the Customer Relationship Management system to all valleys.</p>	<p>State Water does not currently have a dedicated system in place to report this indicator across all of its valleys. However, during the 2009/10 year, State Water commenced a trial in the northern valleys whereby the Customer relationship Management database was used for monitoring this indicator.</p> <p>Prior to the electronic system, spreadsheets were used in the northern valleys to monitor performance against this indicator. In the other valleys, local officers record performance in operations diaries. It is also noted that no records at all are kept for Murrumbidgee.</p> <p>In its 2009/10 1 September report to IPART, State Water has reported that results from the electronic reporting system being trialled in the northern valleys indicate that 51 percent of water orders were rescheduled within one working day of the known storage or delivery delay.</p> <p>The 51 percent reported is based on 25 complying orders rescheduled</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>within one day of a shortage, compared to a total of 49 complying orders rescheduled.</p> <p>In relation to the central valleys (Belubula, Lachlan, Macquarie/Cudgegong), State Water noted in its 1 September Report, that due to drought conditions applying for most of the water year, no rescheduling occurred. However, a review of the Water Delivery spreadsheet used for reporting performance indicators shows that 11,735 orders were placed in the Macquarie & Cudgegong, and the Lachlan valleys, and that of these five orders were rescheduled. These figures are reported within the 51 percent reported for this indicator. During the audit interviews it was noted that in the Macquarie, rescheduled orders are recorded in diary notes.</p> <p>For the coastal valleys, State Water has reported that no orders are rescheduled as water is supplied on demand. However, it is noted that during the year, there were times when customers had to wait a few days to get water. State Water noted that this is part of the agreed level of service, and that the performance indicator does not match what occurs in practice.</p> <p>It is noted that State Water does not currently have in place any procedures which require water orders to be rescheduled within one working day or a known delay.</p> <p>While some supporting evidence was provided by State Water in relation to this indicator, due to the lack of a dedicated monitoring and reporting system in place over in all valleys over the full audit period, the audit has been unable to validate the figures reported by State Water in its 1 September report to IPART. It is, however, noted that State Water has improved its reporting of this indicator since 2008/09, by trialling the Customer Relationship Management system in the Northern Valleys. To improve compliance with this clause, it is recommended that this system be rolled out across all valleys.</p>
(d)	percentage of time that daily	This represents a moderate	Full	-	State Water's 1 September report indicates that during 2009/10 the daily flow targets 100 percent of the time in the Namoi, Gwydir,

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<p>minimum flow targets are met;</p> <p><i>Note: "Daily minimum flow targets" are those specified in relevant Water Management Plans or by the Minister for Natural Resources or by the Ministerial Corporation; and</i></p>	<p>environmental risk. The previous audit shows Moderate compliance with this clause.</p>			<p>Hunter and Paterson valleys, 98 percent of the time in Border Rivers and in the Murray, and 93 percent of the time in the Peel valley.</p> <p>In reporting its performance against this indicator, State Water has reported its compliance against the daily minimum flow targets specified in the Work Approvals and the compliance criteria developed by NOW. It indicated that it has adopted this approach in consultation with NOW.</p> <p>Minimum flow targets are recorded within State Water's CAIRO models. Separate CAIRO models are in place for each of the valleys to cater for the different flow rules, which are specific to individual valleys. State Water's operators maintain a daily report of compliance with minimum flow requirements, taking into account travel times, work approval requirements and system losses. In order to report its performance against this indicator, the information is extracted from CAIRO and saved into State Water's document management system.</p> <p>As part of the audit, Halcrow undertook a detailed review of the calculation of the indicator for the Gwydir and the Namoi, including the review of CAIRO.</p> <p>For the Namoi, State Water has reported that during 2009/10 it met flow target 100 percent of the time. The minimum flow target for the Namoi is 15ML/d, which is to be maintained in June, July and August of each calendar year. However, for the 2009/10 year, CAIRO shows that flow targets were missed for at least 10 days. State Water indicated that the Works Approval for the Namoi states that it must use its best endeavours to meet the flow targets. It indicated that as it did use its best endeavours to meet the targets, it reported full compliance. Also, it noted that the Works Approvals agreed more recently (eg. for the Gwydir Valley) provide some flexibility in terms of meeting flow targets. For example, provided the flow meets a number of conditions, such as it is not 25 percent below the target for a period greater than seven consecutive days, then State Water will be deemed to have met the flow target. For the purposes of reporting its</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>performance for the Namoi, State Water and NOW have agreed on compliance criteria which state that the flow target can be missed for up to the first 10 days of the release without compromising its reported performance. State Water indicated that this rule was agreed with NOW a number of years ago, but it was unable to provide any documentation between itself and NOW which confirmed this.</p> <p>Similarly, in the Gwydir, the flow targets were not met on a number of occasions throughout the 2009/10 year. For example, the daily flow targets were not met between 8 January 2010 and 16 January 2010. However, as the total flows over the block release period were greater than the required flow for the period, State Water has reported that flow targets were met 100 percent of the time. Compliance with flow targets has been assessed using the conditions specified in the Works Approval, an excerpt of which was provided.</p> <p>Given that State Water has reported its performance against flow targets in the Works Approvals rather than the Water Sharing Plans, it is recommended that it seek to modify the definition of this indicator when the <i>Operating Licence</i> is reviewed. In addition, where State Water has applied specific rules in relation to the assessment of its flow targets that are not specified in Work Approvals (such as in the Namoi), it is recommended that evidence be sought to demonstrate NOW's approval of these rules.</p>
(e)	<p>percentage of complying inter-valley transfers processed within four working days of State Water's receipt of correctly completed application form and fee.</p> <p><i>Note: "intra-valley transfer" means the transfer of allocated water from one licence to another licence within a Valley and includes transfers under the Water</i></p>	<p>This represents a low operational risk. The previous audit shows Full compliance with this clause.</p>	Full	-	<p>State Water's 1 September report to IPART indicated that there were 2,932 complying intra-valley transfers in 2009/10, and that 91 percent of these trades were processed within four working days. This is a significant increase from the 1,917 intra-valley trades reported in 2008/09.</p> <p>The information for this indicator is reported from State Water's Water Accounting System (WAS), and from the Water Ordering and Usage database (which is maintained by NOW, and tracks transfers for licences issues under the Water Act 1912). State Water provided a download from the WAS during the audit, and copies of reports from</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<i>Management Act 2000 and the Water Act 1912</i>				the Water Ordering and Usage database. The information provided in these reports was consistent with the information reported by State Water. During the audit interviews, one of the transfers was selected at random and trailed back into the WAS. The information in the download was consistent with the information in WAS.
	2. Policing Functions				
(a)	Liaise with DWE to determine the volume of water taken in excess of access licence conditions under the <i>Water Management Act 2000</i> (in mega litres (ML)) and number of licences and licence breaches involved; and report to IPART the data so determined;	This represents a low operational risk. Some changes have been made to the wording of this clause since the previous audit when compliance was assessed as Moderate.	Full	-	<p>In February 2009, State Water and NOW agreed a new protocol for managing compliance. The protocol outlines the roles and responsibilities of each organisation in relation to compliance activities. The protocol requires State Water to provide NOW with a quarterly report on the illegal taking of water, based on quarterly meter readings undertaken.</p> <p>In its 1 September report to IPART State Water indicates that the volume of water taken in excess of licence conditions as at 30 June 2010 was 2,748ML, which represents about 0.16 percent of total 2009/10 diversions, and that as at 30 June 2010, there were 114 licences that had taken in excess of licence conditions. State Water provided a copy of a spreadsheet populated with data generated from the WAS on 30 June 2010. The data in the spreadsheet was consistent with the information reported in the 1 September report to IPART. As part of the audit, Halcrow agreed the details reported on the spreadsheet with the information reported in WAS for one of the negative account balances.</p> <p>State Water also provided copies of the quarterly compliance reports provided to NOW for June 2009, September 2009, January 2010 and June 2010. In the June 2010 report, State Water has reported that 114 Alleged Breach Notification Forms were submitted to NOW during the 2009/10 year. This is consistent with the 114 breaches reported 1 September report to IPART for the 2009/10 year.</p> <p>As part of the audit, feedback was sought from NOW in relation to State Water's compliance with this clause. NOW confirmed that it has received 114 Alleged Breach Notification Forms in the period since</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					1 July 2009. NOW's full response is included within Appendix B .
(b)	value of penalties imposed by State Water for taking of water in excess of licence conditions under the <i>Water Management Act 2000</i> or the <i>Water Act 1912</i> ;	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	In its 1 September report to IPART, State Water reported that it did not impose any monetary penalties for taking water in excess of licence conditions in 2009/10. This is consistent with results from 2008/09, 2007/08 and 2006/07. State Water has previously indicated that volumetric penalties are preferred over monetary penalties as the value of water (when traded) is greater than the financial penalty that State Water can apply.
(c)	volume of penalties imposed by State Water for taking water in excess of access licence conditions under the <i>Water Management Act 2000</i> (ML);	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	State Water reported that in 2009/10 no volumetric penalties were imposed. This is despite State Water reporting that 2,748ML of water was taken in excess of licence conditions as at 30 June 2010. A potentially larger total volume may have been taken for periods during the 2009/10 year. There are significant discrepancies between the volume of water taken in excess of licences at year end, and the volume of penalties applied. These discrepancies arise because State Water does not always impose a penalty for taking water in excess of access licence conditions.
(d)	number of water supply works audited for compliance with metering conditions and the proportion of those works that comply with metering conditions;	This represents a low operational risk. This is a new clause and compliance has not previously been assessed.	Full	-	State Water has reported that it has conducted zero meter audits against the NSW Interim Water Meter Standards. This is consistent with the discussions held with State Water during the audit interviews. As noted in its 2009/10 1 September Report to IPART, State Water has indicated that it has physically inspected approximately 67 percent of the metering sites, and that following completion of this process, the audits of metering compliance will be undertaken. The information gathered as part of the stock-take has been entered into a newly created database, the Metering Site Analysis System. State Water provided the auditors with an overview of the new system, together with a copy of the System User Guide, dated July 2009.
(e)	number of "alleged breach reports" forwarded to the Department of	This represents a low operational	Full	-	In its 1 September report to IPART, State Water reported that it forwarded 73 "Alleged Breach Notification Forms" (ABNF) relating

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	Water and Energy;	risk. This is a new clause and compliance has not previously been assessed.			<p>to regulated water to NOW in 2009/10. State Water also submitted 41 ABNFs to NOW relating groundwater breaches.</p> <p>Of the 114 total ABNFs submitted to NOW, these included:</p> <ul style="list-style-type: none"> • 13 for breaching a condition of the access licence; • 49 for the illegal taking of water; and • 22 for water meters not connected or operating correctly. <p>No explanation was provided in the 1 September report for the remaining 30 forms making up the 114 total forms identified above.</p> <p>The 114 ABNFs reported by State Water for the 2009/10 period is significantly greater than the 8 reported in the previous audit.</p> <p>In February 2009, State Water and NOW agreed a new protocol for managing compliance. The protocol outlines the roles and responsibilities of each organisation in relation to compliance activities. The protocol recognises the role of State Water to report to NOW “any circumstances in which it believes that there might be non-compliance with the NSW Water Legislation.” The protocol indicates that State Water is to report potential breaches to NOW “as soon as possible after being identified and within five working days.”</p> <p>State Water has indicated that it established a new process to track and report alleged breaches during the audit period. State Water further indicated that training for the new process is expected to be rolled out this year.</p> <p>The current process adopted by State Water involves customer field officers filling out an ABNF when an alleged breach is sighted. These ABNFs are then forwarded on to State Water’s compliance officers, who in turn forward the forms on to NOW. State Water maintains a spreadsheet to record all of the ABNFs forwarded to NOW. State Water provided a copy of the spreadsheet was provided to the auditors.</p> <p>During the audit interviews, State Water noted that at the end of each</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>month, a report is run from the WAS system to identify any negative balances. Negative balances are reviewed, and reported to NOW. These 'over extractions' are now reported in bulk to NOW rather than individually.</p> <p>Halcrow noted during a review of the WAS that one account had been in negative balance (of 51.4ML) from the beginning of the 2009/10 year. However, the breach was not reported to NOW until March 2010. State Water indicated that the process for reporting and managing negative balances was implemented at the beginning of 2009 and there were some process issues, mainly relating to communication between the Compliance Officer and Customer Field Officers. This resulted in a delay in dealing with this breach. The Customer Field Officer contacted the customer on 24 February to resolve issue. No response was received and a letter was then sent on 11 March, to which there was also no response. The breach was reported to the NOW on the 30 March. It is noted that with training, the reporting process should reduce the number of cases where reporting is delayed.</p>
(f)	number of licences and entitlements suspended under the <i>Water Management Act 2000</i> or the <i>Water Act 1912</i> ; and	This represents a low operational risk. The previous audit shows Low compliance with this clause.	Full	-	<p>State Water reported in its 1 September report to IPART that there were no licences or entitlements suspended under the <i>Water Management Act 2000</i> or the <i>Water Act 1912</i> for the 2009/10 year. However, State Water reported that 11 licences remain suspended from previous years.</p> <p>State Water provided a report generated from its WAS, showing the number of licences and entitlements suspended under the above Acts. The report "<i>Suspended Licence Regulated Water 2009-10 IPART</i>" outlines the licences that remain suspended. This document confirms that 11 licences remain suspended from previous years.</p>
(g)	number of approvals suspended under the <i>Water Management Act 2000</i> .	This represents a low operational risk. The previous audit shows Low compliance with	Full	-	<p>State Water reported in its 1 September report to IPART that there were no approvals suspended under this Act during 2009/10, however, there were seven approvals that remained suspended from previous years.</p> <p>The supporting information provided by State Water was consistent</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
		this clause.			with the 2009/10 1 September report to IPART. The supporting information, a system WAS generated report outlining the status of various work approvals, confirms that there remain seven suspended work approvals.
Schedule 1 Part B	Fish River Scheme Indicators 1. Asset Management				
(a)	the average response time for unplanned supply interruptions	This represents a medium operational risk. The previous audit shows Full compliance with this clause.	Low	Improve the consistency by which incidents resulting in supply interruptions are reported.	<p>State Water reported in its 1 September report to IPART that the average response time for unplanned supply interruptions in 2009/10 was 38 minutes.</p> <p>Supporting information provided by State Water, in the form of a spreadsheet providing brief details of response times for incidents, indicated consistency with the 38 minute average response time reported.</p> <p>Confirmation of the reported time was also sought through the review of the actual Incident Response Forms. State Water provided all six incident forms. The data included on the forms is consistent with the response times reported.</p> <p>Halcrow notes, however, that there is inconsistency between the supporting Incident Response Forms and the summary spreadsheet in relation to the reporting of a supply interruption. The summary spreadsheet supplied by State Water indicates that none of the incidents resulted in a supply interruption (that is, water could not be supplied to any individual customer). However, the Incident Response Forms indicate that of the six total incidents, four resulted in a supply interruption. It appears that there has been some confusion over what is actually reported under this clause, and State Water has now confirmed that there were no supply interruptions during 2009/10. State Water has indicated that those responsible for filling in the Incident Response Forms were not aware of the difference in definition between a supply interruption and an incident, but noted that the Incident Report Form is to be</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					<p>redesigned to make clear the difference and to avoid confusion.</p> <p>In any case, State Water has calculated the average response time as the average of all six incidents. Given that it has now confirmed that there were no supply interruptions during the year, it should not have reported anything against this performance indicator.</p> <p>Given the incorrect information reported in the 1 September Report, and the inconsistency of the information supplied, compliance against this indicator has been assessed as 'Low'.</p>
(b)	number of planned water supply interruptions	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	-	<p>State Water's 1 September report to IPART indicates that there were no planned water supply interruptions in 2009/10.</p> <p>The supporting information provided by State Water as part of this audit indicated that no planned water supply interruptions had taken place during the 2009/10 period. As such, compliance against this performance indicator has been assessed as 'Full'.</p>
(c)	number of unplanned water supply interruptions	This represents a medium operational risk. The previous audit shows Full compliance with this clause.	Moderate	Improve the consistency by which incidents resulting in supply interruptions are reported.	<p>State Water has reported that there were six (6) unplanned pipeline repairs undertaken during the 2009/10 period. In its 1 September report to IPART, State Water has indicated that none of the pipeline repairs resulted in an interruption to supply, due to the ability to cross connect supply.</p> <p>Supporting information provided by State Water, in the form of a summary spreadsheet providing brief details of response times for incidents, and individual Incident Response Forms, indicated consistency with this number of unplanned incidents. However, the Incident Response Forms indicate that of the six total incidents, four resulted in a supply interruption.</p> <p>As reported above, State Water has confirmed that none of the incidents resulted in a supply interruption. While State Water has correctly reported that there were no unplanned water supply interruptions, given the inconsistent information supplied in the Incident Response Forms, 'Moderate' compliance has been assessed</p>

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
					for this indicator.
(d)	average duration of planned water supply interruptions;	This represents a low operational risk. The previous audit did not assess compliance with this clause.	No Req	-	State Water has reported that there were no planned water supply interruptions in 2009/10. There is no requirement to enter a result for this indicator.
(e)	average duration of unplanned water supply interruptions. <i>Note: An “unplanned water supply interruption” is an interruption to water supply to a Customer where the Customer has not received at least 24 hours notice of the interruption from State Water. It also includes situations where the duration of a planned interruption exceeds that which was originally notified to the Customer – in which circumstances, the length of the entire interruption is counted as an unplanned supply interruption. A “planned water supply interruption” is an interruption to water supply where the Customer has received at least 24 hours notice of the interruption and the duration of the interruption does not exceed that which was originally notified to the Customer.</i>	This represents a medium operational risk. The previous audit did not assess compliance with this clause.	Moderate	Improve the consistency by which incidents resulting in supply interruptions are reported.	In its 1 September report to IPART for the 2009/10 period, State Water reported that no unplanned interruptions occurred to the water supply. State Water provided supporting information relating to the unplanned water supply incidents, however, as previously reported, there remains a degree of uncertainty as to the accuracy of the reporting of those incidents. On the basis of the inconsistent information supplied by State Water in relation to unplanned water supply interruptions, and the uncertainty regarding that information, compliance for this indicator has been assessed as ‘Moderate’.
	2. Water Delivery				
	percentage of time that daily minimum flow targets are met.	This represents a moderate environmental risk. The previous audit did not assess	No Req	-	State Water has reported that the Fish River Water Supply Scheme still does not have minimum daily flow targets. These are normally established by NOW through a Water Sharing Plan, however, no Plan exists for Fish River and State Water is not aware of any intention to

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	<i>Note: "Daily minimum flow targets" are those specified in relevant Water Management Plans or by the Minister or by the Ministerial Corporation or as advised in writing by DWE</i>	compliance with this clause.			develop such a plan. In previous audits State Water reported the average riparian release of 1.9ML/day for this clause.
	3. Water Quality				
	<p>Percentage of treated water samples that comply with <i>Australian Drinking Water Guidelines</i> (2004) at the Fish River Scheme's water sampling locations for e-coli, colour, turbidity, iron, manganese, aluminium and pH.</p> <p><i>Note: The guideline value for turbidity is to be the value for public health rather than the aesthetic value (ie % of samples above 1 Nephelometric Turbidity Unit) and the "Fish River Scheme's water sampling locations" are those identified in the letter from State Water to IPART dated 29 April 2005</i></p>	This represents a high operational risk. The previous audit shows Full compliance with this clause.	Full	-	<p>State Water has reported on the compliance of treated water samples for 2009/10 as follows:</p> <ul style="list-style-type: none"> • E.coli – 97.6 per cent compliance; • Colour – 91.7 percent compliance; • Turbidity – 100 per cent compliance; • Iron – 100 per cent compliance; • Manganese – 66.7 per cent compliance; • Aluminium – 100 per cent compliance; and • pH – 100 per cent compliance. <p>State Water reported that it achieved full compliance for four of the seven water quality parameters.</p> <p>State Water provided supporting information for this indicator in the form of a Report of Analysis from Hunter Water Laboratories detailing sample results.</p> <p>Sampling results were provided for E.coli. These were trailed back and agreed to the spreadsheet used to calculate the percentage of compliant samples. In addition, sampling results from August 2009 were provided for the remaining parameters. The sampling results for August indicate that full compliance was achieved for each of the parameters. On this basis compliance with this clause has been assessed as 'Full'.</p>
8.2	State Water must report to IPART, by no later than 1 September each year on its performance against the	This represents a moderate operational risk.	Full	-	State Water has previously reported that there are no systemic problems raised by the indicators, other than processing time for inter-valley transfers. It has stated that the current level of transfer

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
	performance indicators specified under clauses 8.1(a), (b) and (c) for the preceding financial year, including analysis of any systemic problems.	The previous audit shows Full compliance with this clause.			fees does not fully recover the costs of its management of transfers, and hence State Water finds it difficult to increase service levels in this area.
8.3	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 8.2.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	State Water has committed to providing IPART access to physical and electronic records upon request. During the audit, State Water provided physical and electronic access to all records requested.
8.4	State Water must make a copy of the report referred to in clause 8.2 available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	-	The 1 September report to IPART is available on State Water's website by following the 'Corporate Publications' link. The reports is available as a PDF document that can be downloaded free of charge.

9.3 *Discussion*

9.3.1 *Compliance Summary*

State Water has achieved varying levels of compliance with the requirements of the *Operating Licence* in respect to Performance Indicators. There is one 'High', a number of 'Moderate' and one 'Low' rating for specific requirements. These issues are discussed briefly in the following sections.

9.3.2 *Clause 8.1 Recording Systems – High Compliance*

Under this clause, State Water must maintain record systems that are sufficient to enable it to accurately measure its performance against the performance indicators listed in the *Operating Licence*.

State Water has continued to develop and implement new systems to improve its performance in reporting the required indicators. In particular, State Water's document management system (SWIM), and its Customer Relationship Management System have been used to collect and report information for a number of the indicators. This has resulted in an improved compliance grading. Compliance has been assessed as 'High', as there is still scope to roll out the use of the new recording systems to all of the valleys.

9.3.3 *Clause 8.1 Schedule 1 Part A Section 1 Indicators*

These indicators relate to the performance of State Water in water delivery. State Water achieved the following performance against these indicators:

- *(b) percentage of complying water orders identified as being delivered outside of +/- 1 day of the scheduled day of delivery – Moderate compliance.*
- *(c) "percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay" – Moderate compliance.*

While supporting evidence was provided by State Water in relation to these indicators in the Northern Valleys, due to the lack of a dedicated monitoring and reporting system in place over in all valleys over the full audit period, the audit has been unable to validate the figures reported by State Water in its 1 September report to IPART.

9.3.4 *Clause 8.1 Schedule Part B Section 1 Fish River Water Supply Scheme Indicators*

These indicators relate to the performance of State Water in asset management. State Water achieved the following performance against these indicators:

- *(a) 'the average response time for unplanned water supply interruptions.' – Low compliance.*
- *(c) 'the number of unplanned water supply interruptions.' – Moderate compliance.*
- *(e) 'average duration of unplanned water supply interruptions.' – Moderate compliance.*

Compliance with these indicators has been assessed as 'Low' and 'Moderate' as there are inconsistencies between the supporting Incident Response Forms and the summary spreadsheet in relation to the reporting of supply interruptions. The summary spreadsheet supplied by State Water indicates none of the incidents resulted in a supply interruption (that is, water could not be supplied to any individual customer). However, the Incident Response Forms indicate that of the six total incidents, four resulted in a supply interruption.

State Water has confirmed that none of the incidents resulted in a supply interruption. It indicated that those responsible for filling in the Incident Response Forms were not aware of the difference in definition between a supply interruption and an incident, and that it intends to redesign the Incident Report Form to avoid confusion in the future.

Compliance with indicator (a) *the average response time for unplanned water supply interruptions* has been assessed as 'Low', as the 1 September Report to IPART has incorrectly reported an average response time.

9.4

Progress in Responding to Previous Audit Recommendations

The report on the 2009 Operational Audit of State Water identified two recommendations in relation to Performance Indicators. These recommendations, together with State Water's progress in addressing them, are discussed in the following paragraphs:

R9.1 – It is strongly recommended that State Water implements a set of procedures for the reporting of performance information to IPART. These procedures should involve checking and verifying all calculations used in the reporting of performance data, thereby eliminating errors and helping to ensure year on year consistency in reporting. They should also include procedures for the collation and maintenance of evidence to substantiate the reported performance data, thereby assisting the audit and verification process.

State Water has developed a set of draft performance indicator reporting procedures. The procedures describe the process, and establish responsibility, for the collection, checking, verification and the reporting of data for all IPART performance indicators. The procedures also establish a process for the maintenance and integrity of the performance indicator data. State Water provided a copy of the draft performance indicator reporting procedures as part of this audit.

R9.2 – *It is recommended that State Water clarifies with IPART the definition of a supply interruption. In our opinion, State Water has reported unplanned water supply related incidents (in which supply is not interrupted) as supply interruptions.*

This recommendation has yet to be addressed by State Water, and State Water's decreased compliance in 2009/10 in relation to the reporting of unplanned supply interruptions reflects this.

9.5

Recommendations

R9.1 – In reporting the percentage of time that daily minimum flow targets were met during 2009/10, State Water has reported its performance against the flow targets in the Works Approvals, rather than the Water Sharing Plans as specified in the *Operating Licence*. It indicated that it has adopted this approach in consultation with NOW. It is recommended that State Water seeks to modify the definition of this indicator when the *Operating Licence* is reviewed. In addition, where State Water has applied specific rules (which are not specified in Work Approvals) in relation to the assessment of whether flow targets have been met (such as in the Namoi), it is recommended that evidence be sought to demonstrate NOW's approval of these rules.

R9.2 – It is recommended that State Water clarifies with IPART the definition of a supply interruption (as it applies to the Fish River Scheme). In Halcrow's opinion, State Water has reported unplanned water supply related incidents (in which supply is not interrupted) as supply interruptions. As such, there are a range of reporting inconsistencies that need to be addressed as a matter of priority.

10 Licence Part 9 – Pricing

10.1 *Overview of Requirements*

Under the provisions of Part 9 of the *Operating Licence*, State Water must apply a level of fees, charges and other amounts payable for its services subject to the terms of the *Operating Licence*, the *State Water Corporation Act* and the maximum prices and methodologies for State Water's supply of water determined from time to time by IPART.

10.2 *Pricing – Compliance*

Compliance for Part 9 – Pricing, is outlined in **Table 10.1**. 'Full' compliance has been assessed for this clause. This is consistent with the compliance assessed during the previous audit.

Table 10.1 Part 9: Pricing – Compliance Assessment

Clause	Requirement	Risk	Compliance	Target for Full Compliance	Comments
9	<p>State Water must apply the level of fees, charges and other amounts payable for its services subject to the terms of this Licence, the Act and the maximum prices and methodologies for State Water's monopoly services as determined from time to time by IPART or any other pricing authority vested with the power to determine water process for State Water.</p> <p><i>Note: Part 3 of the Act governs the nature of fees and charges which may be imposed by State Water. Under the terms of the Independent Pricing and Regulatory Tribunal Act 1992, State Water is a government agency for which IPART has standing reference to conduct investigations and report on the determination of pricing for monopoly services supplied and pricing policies.</i></p>	<p>This represents a low operational risk. The previous audit shows Full compliance with this clause.</p>	<p>Full</p>	<p>-</p>	<p>As part of this audit, State Water's 2009/10 Regulated River Prices and Fish River Prices were reviewed against the latest IPART Pricing Determination. State Water correctly applies the fees and charges specified in the latest IPART Pricing Determination.</p>

10.3 ***Discussion***

State Water operates under the IPART Bulk Water Pricing Determination which sets the maximum fees and charges payable for all services.

10.4 ***Progress in Responding to Previous Audit Recommendations***

The previous audit did not make any recommendations in relation to this Part of the *Operating Licence*.

10.5 ***Recommendations***

No recommendations proposed in respect to this section.

11 Concluding Remarks

State Water's level of compliance has improved since the previous audit of performance against its *Operating Licence*. This is attributed to the implementation of new business systems which have improved its ability to report more fully and accurately its performance against the requirements of the *Operating Licence*. In addition, there appears to have been some improvement in processes to check the data prior to it being reported to IPART. However, less than full compliance has been assessed in several areas where there remains an absence of appropriate quality checks of data prior to its reporting.

Figure 11.1 provides a comparison of State Water's compliance with its *Operating Licence* for the 2009 and the 2010 audits.

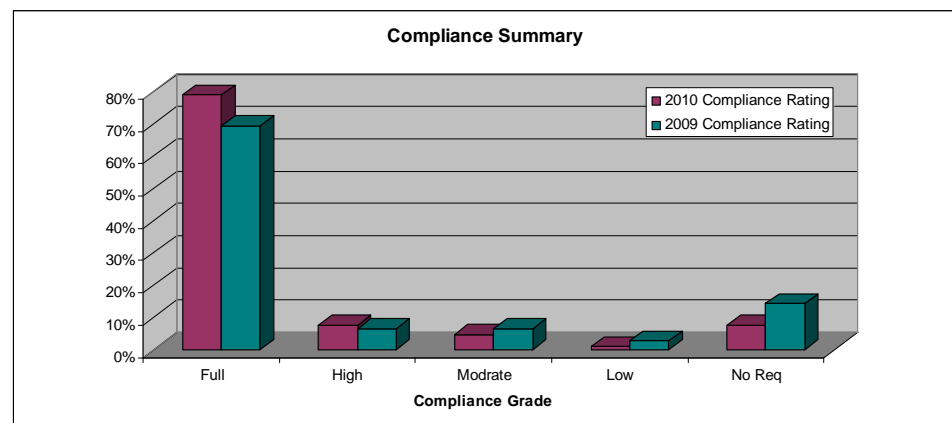


Figure 11.1 Comparison of Compliance

As in previous audits, the area with most scope for improvement by State Water is again Part 8 – Performance Indicators, which attracted a 'Low', four 'Moderate' and a 'High' compliance gradings. Whilst this is an improvement on previous years, there is a clear need for clarification of the definition of the Fish River performance indicators. Continued implementation of recently developed reporting systems will also lead to improved compliance.

State Water's compliance in respect to Water Metering has improved, principally through the implementation of a program of activities that will provide the basis for understanding, improving and monitoring the accuracy of its meter fleet into the future. There is, however, a need to commence auditing the meter fleet for

compliance with the requirements of the NSW Interim Water Meter Standards that were formally issued during the audit period.

Halcrow found evidence that State Water has implemented the majority of recommendations arising from the previous audit, however, there are some recommendations that have not been actioned or fully implemented. Implementation of the outstanding recommendations, together with those presented in this report, will lead to further improvement of State Water's performance.

Overall, State Water has achieved a high level of compliance with the requirements of its *Operating Licence*. The assessment of compliance and the recommendations presented in this report are made in the spirit of supporting and encouraging ongoing improvement in State Water's operational performance.

Appendix A Comparison of Compliance

This Appendix contains a comparison of compliance for the years 2005/06 to 2009/10.

Appendix B Stakeholder Consultation

This Appendix contains the letters sent to stakeholders requesting their comments of State Water's performance against the obligations in its *Operating Licence* and the responses received:

- Consultation with NOW, DECCW, DII and Dam Safety Committee;
- Consultation with Community Consultative Committee;
- Consultation with Customer Service Committees; and
- Consultation with Fish River Customer Council



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B State Water Corporation 2010 Audit Scope

Clause	State Water Corporation Operating licence	2009/10 Audit Scope
2	State Water's Responsibilities	
2.3	Memoranda of Understanding	Audit
3	Asset Management	
3.1	Asset Management Obligation	Audit
3.4	Augmentation of Water Management Works	Audit
4	Customers' Rights and Consultation	
4.1	Community Consultative Committee	Audit
4.2	Valley Based Customer Service Committees (excluding Fish River customers)	Audit
4.3	Customer Service Charter (excluding Fish River)	Audit
4.4	Fish River Customer Council	Audit
4.5	Customer Contracts (Fish River customers only)	Audit
4.6	Code of Practice and Procedure on Debt Management	Audit
5	Complaint and Dispute Resolution	
5.1	Internal Dispute Resolution Process	Audit
5.2	External Dispute Resolution Scheme	Audit
5.3	Complaints to Other Bodies	Audit
6	Water Delivery Operations	
6.1	Water Infrastructure Operations	Audit
6.2	Management of Allocated Water	Audit
6.3	Water Conservation	Audit
6.4	Supply Constraints	Audit
6.5	Water Metering	Audit
6.6	Water Balances	Audit
6.7	Fish River Water Balance and System Yield	Audit
7	The Environment	
7.1	Environment Management Plan	Audit
8	Performance Indicators	
8.1	Performance Indicators – Record systems	Audit
8.2	Performance Indicators – Reporting	Audit
8.3	Performance Indicators – Provide IPART with physical and electronic access to records	Audit
8.4	Performance Indicators – Report made available to the public	Audit
9	Pricing	
	Fees and charges applied in accordance with the maximum prices and methodologies as determined by IPART for the current price path period.	Audit