

# Independent Pricing and Regulatory Tribunal



Provision of Advice on Recommended Capital  
and Operating Expenditure for the 2006 Bulk  
Water Price Review of State Water Corporation  
and the Department of Natural Resources

## **Final Report on SWC Response to Draft Determination**

August 2006

***Halcrow***  
Halcrow Pacific Pty Ltd



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## Contents

<b>1</b>	<b>Introduction</b>	<b>1</b>
1.1	<i>Background</i>	1
1.2	<i>Reference Material</i>	1
1.3	<i>Structure of Report</i>	2
<b>2</b>	<b>Concerns Raised by SWC in respect to Operating Expenditure</b>	<b>4</b>
2.1	<i>SWC Proposed Adjusted Opex</i>	4
2.2	<i>Adjustment for Fish River Water Supply Scheme (FRWSS)</i>	5
2.3	<i>Customer Support</i>	6
2.4	<i>Water Quality Monitoring</i>	9
2.5	<i>River Operations</i>	11
2.6	<i>Dam Safety Compliance O&amp;M</i>	14
2.7	<i>Allocation of Reduced Opex</i>	15
2.8	<i>Impact of Accounting Adjustments</i>	15
2.9	<i>Overheads</i>	17
2.10	<i>Efficiency Gains</i>	20
2.11	<i>Recommended Opex</i>	21
2.12	<i>Distribution of Proposed Opex</i>	23
<b>3</b>	<b>Concerns Raised by SWC in respect to Capital Expenditure</b>	<b>24</b>
3.1	<i>Review of SWC Concerns</i>	24
3.2	<i>Recommended Capex</i>	26
<b>4</b>	<b>Temporary Transfers of Water Entitlements</b>	<b>28</b>
<b>Appendix A</b>	<b>Operating Expenditure Distribution</b>	<b>A-1</b>



# 1 Introduction

## 1.1 *Background*

The Independent Pricing and Regulatory Tribunal (IPART) are responsible for determining the maximum prices that can be charged for the provision of bulk water in New South Wales (NSW). The two main suppliers of bulk water related services in NSW are the State Water Corporation (SWC) and the regulated water resource management group within the Department of Natural Resources (DNR).

IPART are undertaking a review of the bulk water charges set for SWC and DNR with the intention to set the maximum bulk water related prices for a period of up to four years commencing from 1 July 2006 (the price control period). IPART released their draft Determination on 31 May 2006 for public and stakeholder comment.

State Water Corporation has made a formal submission to the draft Determination and IPART has engaged Halcrow Pacific Pty Ltd (Halcrow) to review the SWC submission. The objective of the review has been to provide advice to the Tribunal on whether the submission contains sufficient information to warrant adjustments to the recommended levels of capital and operating expenditure for SWC over the price control period and hence the draft Determination on prices.

This report outlines the results of our assessment of the State Water Corporation's submission to the draft Determination. It highlights the concerns raised by SWC and identifies any data gaps in the information provided. SWC's response to our queries are included, and our recommendations in respect to the appropriate levels of expenditure are presented.

## 1.2 *Reference Material*

The information, comments and recommendations presented in this report are based on information obtained from the following:

- The report *SWC Response to IPART on Draft Determination No 3 and Draft Report; May 2006*, prepared by State Water Corporation.
- The report *Advice on Recommended Capital and Operating Expenditure for the 2006 Bulk Water Price Review of State Water Corporation and the Department of Natural Resources; Initial Report on SWC Submission to Draft Determination*, prepared by Halcrow, July 2006.

- Tele-conference between IPART (Michael Seery, Nigel Rajaratnam and Brett Everett), SWC (Dennis Zandona, Russell Simons) and Halcrow (David Francis, Jim Sly) on Monday, 17 July 2006.
- The report *IPART Bulk Water Expenditure Review; Additional Comments Regarding SWC Response to Draft Determination*, prepared by Halcrow, 17 July 2006.
- Email headed *Explanation of Overheads* (and attachments) from Dennis Zandona, Acting Chief Executive Officer, State Water Corporation to Michael Seery, et al, IPART, dated 19 July 2006.
- Email headed *Responses to Halcrow Enquiries* (and attachments) from Dennis Zandona, Manager Corporate Services, State Water Corporation to Michael Seery, IPART, David Francis, Halcrow, et al, dated 21 July 2006.
- Email headed *Excel Files to go with Responses to Halcrow Enquiries* (and attachments) from Dennis Zandona, Manager Corporate Services, State Water Corporation to Michael Seery, IPART, David Francis, Halcrow, et al, dated 21 July 2006.
- Email headed *2004/05 2005/06 Capex Data* (and attachments) from Russell Simons, State Water Corporation to David Francis, Halcrow, et al, dated 21 July 2006.
- The report *Provision of Advice on Recommended Capital and Operating Expenditure for the 2006 Bulk Water Price Review of State Water Corporation and the Department of Natural Resources; Final Report for State Water Corporation*, prepared by Halcrow, May 2006.

### 1.3

#### **Structure of Report**

This report has been set out in a manner that sequentially addresses the issues raised by SWC in response to the Draft Determination. For each issue, notes/comments are provided under the following headings:

- **SWC Comments** – provides a brief summary of the comment/claim made by SWC.
- **Halcrow Initial Comments** – provides a summary of the initial response to SWC's comments by Halcrow, and generally includes a brief summary of the basis for the original recommendation. Where appropriate, comments have been adjusted to take account of comments provided during the tele-conference held on
- **Discussion** – provides a discussion of the issue and includes any additional comments made following the provision of additional information by SWC.
- **Recommendation** – sets out Halcrow's recommendation in respect to the issue raised.



It is noted that all figures in this report are expressed in **\$'000s (2005/06)**, which allows comparison to our previous (May 2006) report and recommendations.

## 2 Concerns Raised by SWC in respect to Operating Expenditure

### 2.1 SWC Proposed Adjusted Opex

SWC has sought adjustments to the allowed levels of operating expenditure upon which the Draft Determination was based. The levels of expenditure allowed by the Tribunal had been based on recommendations previously made by Halcrow.

The levels of operating expenditure now sought by SWC are presented, together with the levels originally proposed and those previously recommended by Halcrow and adopted by the Tribunal, are presented in **Table 1**.

**Table 1 SWC Proposed Adjusted Operating Expenditure (2006/07 to 2009/10) Excluding MDBC and DBRC**

Proposed Operating Expenditure	Proposed Operating Expenditure \$'000s (2005/06)				
	2006/07	2007/08	2008/09	2009/10	Total
State Water Proposed Opex (Original)	36,816	36,816	35,708	34,641	143,981
Halcrow Previous Recommendation	30,351	27,852	27,135	26,415	111,754
<b>State Water Proposed Opex (Revised)</b>	<b>39,855</b>	<b>40,284</b>	<b>39,076</b>	<b>37,904</b>	<b>157,119</b>

The levels of operating expenditure now sought by SWC have been based on the commentary presented in their response to the Draft Determination and were derived as shown in **Table 2**.

**Table 2 Derivation of SWC Proposed Adjusted Operating Expenditure (2006/07 to 2009/10) Excluding MDBC and DBRC**

Proposed Operating Expenditure	Proposed Operating Expenditure \$'000s (2005/06)				
	2006/07	2007/08	2008/09	2009/10	Total
Halcrow Recommended	30,351				
+ FRWSS	2,175				
+ Customer Support	140				
+ Water Quality Monitoring	491	429			
+ River Operations	981				
+ Dam Safety Compliance O & M	264				
+ Removal of Overhead Adjustment	2,024				
+ Accounting Adjustments	4,100				
- Growth Allowance (double counted)	-167				
- Other Adjustments	-504				
- 3% Efficiency Adjustment 2008/09 onwards			-1,208	-1,172	
<b>State Water Proposed Opex (Revised)</b>	<b>39,855</b>	<b>40,284</b>	<b>39,076</b>	<b>37,904</b>	<b>157,119</b>

The “Other Adjustments” listed in **Table 2** comprise adjustments to the allowances to Insurance (-\$805K), Hydrometric Monitoring (+\$2K), Preventive Maintenance (+\$183K), Billing (+\$16.5K) and Metering (+\$103.5K). SWC considers that the manner in which adjustments were made to these items by Halcrow was inappropriate.

## 2.2

### ***Adjustment for Fish River Water Supply Scheme (FRWSS)***

#### **SWC Comments**

- Accepted operating expenditure for the FRWSS only represents the 2004/05 operating expenditure which is a half-year operation (from 1 January 2005).
- SWC is requesting an additional \$2,175K to give a total allowance of \$3,625K in 2005/06.
- SWC also advises that the actual operating expenditure for FRWSS to 30 April 2006 was \$2,864K giving a pro-rata full year operating expenditure of \$3,440K.

#### **Halcrow Initial Comments**

- Our allowed operating expenditure of \$1,450K (2005/06 Baseline) for the FRWSS was based on SWC’s response to PB Associates’ recommendations as set out in the document *State Water Corporation response to PBA Report - April 2006*, dated 6 April 2006.
- SWC advised in the response to the PB Associates report that they had transferred 14.5 EFTs in respect to the FRWSS and specifically stated that no additional resourcing would be required as a result of the transfer to SWC. Consequently, the assessed level of expenditure was based on 14.5 EFTs.
- On this basis, the \$1,450K is labour cost only, which infers that an additional operating expenditure of \$2,175K is required for non-labour costs.
- SWC will need to provide additional justification/explanation for the quantum of the non-labour costs represented by the proposed additional \$2,175K in operating expenditure.

#### **Discussion**

- SWC has provided a breakdown of their proposed expenditure for the FRWSS. This information shows:

- Actual total expenditure of \$2,676K (excluding depreciation and overheads) for 2004/05.
- Proposed total expenditure of \$2,831K (excluding depreciation and overheads) for 2005/06, an increase of \$155K over 2004/05.
- Allocation of \$793K overheads (28%) to give a total proposed expenditure of \$3,625K for 2005/06.
- Predicted actual expenditure of \$3,370K for 2005/06.
- We note that the previous allowance of \$1,450K for 14.5 EFTs did not include overhead allowance. If the 25% overhead allowance used for other assessments is included, this would be increased to \$1,813K.
- It is noted that approximately 52% of the total Opex relates to non-labour costs, and that this proportion has been consistent over the period for which costs have been provided (2002/03 to 2004/05). This proportion is considered acceptable.
- Applying the average overhead rate of 25% to the actual expenditure of \$2,676K (excluding depreciation and overheads) for 2004/05 would result in a total Opex of \$3,345K, which compares closely to the predicted actual Opex of \$3,370K for 2005/06.
- It is understood from the additional information provided by SWC that the additional expenditure in 2005/06 has included a salary increase and an additional EFT to fill a previously vacant position.

#### **Recommendation**

- We would recommend that the 2005/06 Baseline Opex allowance for the FRWSS be increased to a total of \$3,370K to allow for non-labour costs and overheads not previously included.

### **2.3**

#### ***Customer Support***

##### **SWC Comments**

- SWC comment that IPART accepted \$125K over 2004/05 levels to give total of \$414K for 2005/06.
- SWC advises that 2005/06 expenditure is forecast to be about \$400K.
- SWC requests an additional \$140K to achieve corporate objectives in customer service, comprising of \$90K to support a new Community Consultative Committee (from July 2006 onwards) and \$50K to implement systems and processes for independent review and consultation.

- SWC advises that the total expenditure required for customer support is \$554K per year.

#### **Halcrow Initial Comments**

- Our recommendation was to allow an additional \$125K (being for one (1) additional EFT as proposed by SWC) over our 2004/05 expenditure giving a total 2005/06 Baseline expenditure of \$414K (refer Table 6, page 21 of our final report).
- We would question the implication that these functions have not been undertaken previously? Did SWC not have independent review and consultation processes in place prior to the forecast price period?
- What service will the one (1) additional EFT be providing?
- We understand that the Customer Consultative Committee is a new responsibility under SWC's Operating Licence, and that an allowance of \$90K is required to cover support costs. What proportion of the \$90K relates to EFT (labour) expense and what proportion to other costs (eg sitting fees, travel costs).
- SWC have indicated that a further allowance of \$50K is required in relation to the conduct of a Customer Satisfaction Survey (currently in hand). In respect to this item:
  - Does the full \$50K relate to non-labour costs?
  - If the last survey was conducted in 2002, would it not then be included in the Baseline Opex allowance (which was derived from 2002/03, 2003/04 and 2004/05 expenditure)?
- We note that SWC changed its forecast expenditure for customer support from \$702K (original submission) to \$554K in its response to the Draft Determination. Which forecast is correct?

#### **Discussion**

- SWC has provided additional information in respect to the proposed additional expenditure, as follows:
  - No additional EFTs are required in respect to either the Customer Consultative Committee or the Customer Satisfaction Survey.
  - The additional \$90K sought in respect to the Customer Consultative Committee includes \$30K for travel and accommodation costs for the Committee members, \$30K for travel and accommodation costs for senior SWC managers and Board members involved with Committee activities and \$30K contingency allowance.

- The additional \$50K sought in respect to the Customer Satisfaction Survey includes \$30K for an external provider who is conducting the survey, \$10K for mail-outs and responses and \$10K for possible follow up work.
- No detailed justification has been provided for the one (1) additional EFT previously allowed.
- In respect to the proposed expenditure related to the Customer Consultative Committee:
  - The \$30K for travel and accommodation for Committee members amounts to approximately \$935 per member per meeting, which is considered reasonable.
  - The \$30K for involvement of senior SWC managers and Board members may be excessive, depending upon the number of persons involved in each meeting. There is, however, likely to be preparation time involved, which may justify some of the costs.
  - Whilst it is acknowledged that the level of involvement and commitment may not be totally defined at this stage, it is difficult to envisage additional activity to that outlined above, and consequently the “contingency” allowance is not considered appropriate at this stage.
- The quantum of expenditure proposed in respect to the Customer Satisfaction Survey appears reasonable in itself, however, it is our view that the survey is not a new responsibility and the additional allowance is not justified, as follows:
  - The recommended levels of operating expenditure have been determined by determining a “Baseline” level of expenditure based on actual expenditure during the period 2002/03 and 2003/04, then adding costs associated with demonstrated additional responsibilities in both 2004/05 and 2005/06.
  - Given our understanding that the last customer survey was undertaken in 2002, we consider that the cost of conducting the survey should have been included in the “Baseline” level of expenditure.

### **Recommendation**

- It is recommended that the 2005/06 Baseline Opex allowance be increased by \$60K to allow for additional expenditure to be incurred in respect to the Customer Consultative Committee.

- We consider that, as the conduct of Customer Satisfaction Surveys is a recurring activity, appropriate allowance should already be included in the Baseline Opex allowance.
- We note that no detailed justification has been provided for the one (1) additional EFT previously allowed, however, will allow its inclusion as previously assessed.

## 2.4

### ***Water Quality Monitoring***

#### **SWC Comments**

- SWC comments that actual expenditure for water quality sample collection was \$225K for 2004/05 and actual expenditure to May 2006 is \$302K, thereby giving an equivalent full year forecast of \$330K in 2005/06.
- SWC advises that these costs do not include laboratory analysis and response to water quality issues. For example, the same cost for blue green algal blooms is estimated at \$400K.
- SWC advises that they require a total of \$1,400K to carry out their water quality monitoring obligations including data collection, freight, laboratory analysis, reporting and response actions. The amount requested also includes \$400K for program expansion, \$100K for computer modelling capabilities, and \$200K for *State of Storages* water quality monitoring/reporting.
- SWC is seeking an amount of \$1,000K in 2006/07 increasing to \$1,400K in 2007/08 and thereafter.

#### **Halcrow Initial Comments**

- Our allowed operating expenditure of \$509K (2005/06 Baseline) was based on SWC's response to PB Associates' recommendations as set out in the document *State Water Corporation response to PBA Report – April 2006*, dated 6 April 2006 where they showed four (4) additional EFTs involved in water quality monitoring. The assessed increase in the level of expenditure was based on the additional four (4) EFTs.
- SWC has previously advised that their actual expenditure as at January 2006 was only \$81K. They have now advised that their actual expenditure to May 2006 was \$302K and that their full year forecast is \$330K, compared to an original forecast of \$1,430K for 2005/06 (ie 23% of original forecast).
- SWC have stated that the \$1,400K (\$1,430K in original submission) is required to meet the full obligations of their operating licence and works approvals. If actual expenditure for 2005/06 has only been \$330K, have

SWC breached their operating licence and works approvals requirements?  
If not, why is an additional \$1,100K now required to meet the obligations?

- We are interested to note that the \$1,400K appears to only include an allowance of laboratory costs and ongoing response for blue-green algal blooms. Surely there are other water quality monitoring issues that need to be covered in this program. We are suspicious of the approach used by SWC to justify the original forecast of \$1,430K.
- SWC acknowledges that “detailed evaluation is warranted before such an expansion [of the water quality program] is undertaken and the necessary resources committed.” SWC needs to advise whether this detailed evaluation has been undertaken and what the results of this evaluation were.
- The additional activities nominated by SWC appear to be labour intensive and we would assume would be covered by the additional four (4) EFTs included in the previous forecasts. SWC needs to confirm EFT numbers and justify any increases.
- What services will the additional EFTs be providing? How do these services relate to the proposed new activities?
- What proportion of the costs attributed to the new activities are EFT (labour) costs (presumably covered by the nominated 4 EFT increase, and what proportion relates to other (non-labour) costs? What do the non-labour costs include (eg software, consultant services for State of Storages report).
- A clear definition of responsibilities for water quality monitoring, ie storage monitoring versus stream monitoring, including the costs attributable to each, is required.
- It was indicated that there is a staged program for implementation of water quality monitoring requirements. A brief outline of the staging and the associated cost changes is required.

#### **Discussion**

- SWC has provided additional information in respect to the proposed additional expenditure, as follows:
  - Allowance has been included cover the casts of an Environmental Manager (recently recruited), an Environment Officer (being recruited), an Environmental Project Officer and a Water Quality Coordinator (both already in place).



- Responsibility for stream water quality rests with DNR, however, SWC believe that they need to protect their interests by improving the quality and extent of their Water Quality Monitoring program.
- Improvements to their existing program are proposed. These improvements will include a review of the existing testing regime (\$50-80K), expansion of the existing databases (\$150-250K) and population of databases/training of staff (\$50K). The work is to be undertaken by external providers, with consultancies to be engaged in the near future.
- It is assumed that the additional staff members listed above correlate with the additional four (4) EFTs allowed in the previous assessment.
- It appears from the additional information provided by SWC that they are now seeking additional costs of between \$250K and \$380K to cover the costs associated with the improvements to their existing Water Quality Monitoring program outlined above. An allowance of \$315K (average of estimated expenditure range) is considered appropriate for this work, which from the description provided would appear to constitute a “one-off” program of activities.
- Further subsequent information indicates that SWC indicates that they would require an ongoing allowance of \$300K for program enhancement. Whilst it would be appropriate for some ongoing enhancement of the water quality monitoring program to be allowed for, ongoing expenditure at the rate proposed by SWC is not justified on the basis of the activity description provided.

#### **Recommendation**

- It is recommended that an additional allowance of \$315K be made in 2006/07 for improvements to the water quality monitoring program. It is considered that the proposed program of improvement activities would constitute a “one-off” additional cost within the price path period, and no allowance should be made in other years.

## **2.5**

### ***River Operations***

#### **SWC Comments**

- SWC have provided a detailed explanation of their responsibilities for river operations under the NWI, their Operating Licence, the WMA2000 and other systems.

- SWC advised that their actual expenditure in 2005/06 is forecast to be \$4,500K compared to their budget of \$4,900K. SWC had previously advised that their actual expenditure to January 2006 was \$2,497K.
- SWC are requesting an operating expenditure of \$4,900K for river operations to enable compliance with their Operating Licence and the NWI.

#### **Halcrow Initial Comments**

- Our allowed operating expenditure increase of \$375K (2005/06 Baseline) was based on SWC's response to PB Associates' recommendations as set out in the document *State Water Corporation response to PBA Report - April 2006*, dated 6 April 2006 where they showed three (3) additional EFTs involved in river operations. This gave a total operating expenditure of \$3,916K for 2005/06.
- SWC need to relate the detailed explanation of responsibilities to a specific increase in EFTs or material expenses for us to consider whether the increase is justified or not.
- SWC need to explain how they have been achieving their Operating Licence with a lower level of expenditure than they are requesting for 2006/07.
- What are the additional responsibilities under the NWI and Operating Licence?
- What services will the additional EFTs be providing? How do these services relate to the additional responsibilities?
- What is the breakdown of the additional \$981K by EFT (labour) and non-labour costs, and the relationship of expenditure to the additional responsibilities.
- It was indicated that there is a staged program for implementation of the changes to River Operations requirements. What staging is proposed and how do the associated costs vary over the price path period?

#### **Discussion**

- Additional information provided by SWC indicates that:
  - They are seeking to transfer \$1,034K that was previously treated as overhead costs to River Operations. This amount comprises of \$570K in labour (six (6) EFTs) costs and \$464K in non-labour costs.
  - These costs relate to the development of water management and accounting systems required to meet SWC's obligations under the NWI.

- They are also seeking an additional \$200-250K to engage a contractor to assist with the continuing development of these systems.
- Other non-labour costs related to River Operations include utility costs, travel, vehicles, contract staff, facility costs, IT and other costs amounting to \$900K.
- The increasing demand for water in the Southern Region (Murray and Murrumbidgee Valleys) requires an additional one (1) EFT at a cost of \$80K.
- It is not clear from the information provided how the resource requirements outlined above, ie seven (7) EFTs relate to the three (3) additional EFTs already allowed.
- As the National Water Initiative (NWI) was agreed to in June 2004, it would seem reasonable to assume that an assessment of the resources needed to implement its requirements should have been identified prior to the preparation of the pricing submission. It is consequently difficult to see justification for any additional EFTs proposed at this time.
- There may be some justification for a “one-off” allowance for engagement of an external service provider to assist in the development of the water management and accounting systems, however, it would again be expected that this requirement would have been identified at an earlier time. Furthermore, the quantum of the cost proposed (\$200-250K per annum) seems excessive, even on a “one-off” basis, unless a total replacement of the existing systems is proposed.
- The \$900K non-labour costs are considered to be of an overhead nature and are assumed to have been included in the previous assessment.
- The \$1,034K that SWC propose to reassign to River Operations expenditure instead of overhead has, in effect, been taken into account in the previous assessment of total operating expenditure, albeit with some reduction as a result of the overhead adjustments. From the information provided by SWC it would appear that these costs are in part related to system development and a portion should be considered as “one-off” costs. Under the previous assessment where they are included as overheads, there is effectively provision of an ongoing allowance.
- Notwithstanding the above, an assessment of the nature of expenditure that is proposed to be transferred has been undertaken (refer **Section 2.9**) and the proposed adjustment, ie reallocation of \$1,034K from overhead to River Operations, is considered appropriate.

### **Recommendation**

- It is recommended that an amount of \$1,034K that was previously treated as overhead costs be included in the assessed allowance for River Operations. A corresponding adjustment will all need to be made in respect to the overhead allowance (refer also to **Section 2.9**).

## **2.6**

### ***Dam Safety Compliance O&M***

#### **SWC Comments**

- SWC comments that they have already provided justification for prudent and efficient costs of \$3,700K for 2005/06.
- SWC advise that they may be able to reduce the forecast expenditure to \$3,150K and still meet their duty of care.

#### **Halcrow Initial Comments**

- We have not seen adequate justification for the increase in operating expenditure requirements from \$2,036K in 2003/04 to \$3,635K in 2005/06 and beyond. SWC need to outline new compliance responsibilities under DSC that were not previously undertaken prior to corporatisation.
- SWC originally provided justification for four (4) new EFTs related to safety surveillance at a cost of \$500K (refer SWC's response to PB Associates' recommendations as set out in the document *State Water Corporation response to PBA Report – April 2006*, dated 6 April 2006). We allowed SWC's requested increase of \$545K in 2004/05, which included allowance for these EFT increases. We also allowed a further increase of \$258K in 2005/06 to account for further increases in responsibilities, although SWC have provided no justification for this further increase.
- Our assessed 2005/06 Baseline expenditure is \$2,885K, which includes allowance for the increase of four (4) EFTs together with an additional \$303K over previous expenditure.
- What specifically does the additional \$265K now being sought allow for?
- It is noted that SWC have advised that there have been no additional responsibilities in respect to dam safety, however, there is staged implementation of these responsibilities. Does the allowance requested cover full implementation from 2005/06 onwards?
- We also note that SWC has changed its forecast operating expenditure from \$3,700K (original forecast) to \$3,150K (response to Draft Determination). We assume that they wish to use the revised forecast.

### Discussion

- SWC have now indicated that, whilst there may be scope for some further development of their dam safety compliance and audit program, they are prepared to accept the reduced allowance for this item if so determined.
- On the basis that we have previously allowed additional costs, including both labour and non-labour costs, and there has been no clear justification for the additional expenditure requirements outlined in SWC's response to the Draft Determination, we consider it prudent to confirm our previous assessment.

### Recommendation

- It is recommended that the previously assessed allowance of \$2,885K for Dam Safety Compliance O&M be included in the 2005/06 Baseline Opex.

## 2.7

### *Allocation of Reduced Opex*

#### SWC Comments

- SWC has commented on the methodology used to distribute the reductions in operating expenditure indicating they believe it creates irregularities in the cost sharing arrangements between product codes.
- SWC suggest that the reductions in operating expenditure be applied specifically to the relevant product code.

#### Halcrow Initial Comments

- On initial review it appears that this method of applying the proposed reductions in operating expenditure to specific product codes would be appropriate.

#### Recommendation

- We recommend that the proposed reductions in operating expenditure be applied specifically to the relevant product codes.

## 2.8

### *Impact of Accounting Adjustments*

#### SWC Comments

- SWC have made some adjustments to the proposed operating expenditure to account for a new capitalisation policy. This involves the partial transfer of capital expenditure to operating expenditure for three specific products.
- SWC propose expensing expenditure of \$4,100K in 2006/07, \$2,100K in 2007/08, \$1,200K in 2008/09 and \$1,700K in 2009/10 in respect to Major Period Maintenance (MPM), Total Asset Management Planning (TAMP)

and Dam Safety Upgrades (research costs) expenditure that was previously capitalised.

#### **Halcrow Initial Comments**

- SWC needs to provide details on how the three products involved are impacted by the capitalisation policy and the new financial accounting standards. Justification of their inclusion as operating expenditure and the quantum of the expenditure for each item is required.
- It is noted that the capitalisation policy was initiated internally by SWC, partly in response to auditor comments. We understand that it was approved in November 2005, and that its accounting implications subsequently backdated to 1 July 2004.
- We also note that changes to accounting procedures arose from a review undertaken by KPMG.
- Whilst the change in policy and procedures is acknowledged, there needs to be a robust review of the items proposed to be expensed. To this end, has any independent review been undertaken?
- Can a list of previous capital items (and associated costs) that are now to be expensed be provided?

#### **Discussion**

- SWC has provided additional information that now indicates that they propose expensing \$4,100K in 2006/07, \$4,100K in 2007/08, \$3,977K in 2008/09 and \$3,858K in 2009/10 in respect to Major Period Maintenance (MPM), Total Asset Management Planning (TAMP) and Dam Safety Upgrades (research costs) expenditure that was previously capitalised.
- A breakdown of the amounts proposed to be expensed by valley and program (MPM, TAMP and Dam Safety) is provided for each year. The derivation of the figures included therein is not, however, apparent for either the TAMP or Dam Safety programs.
- Some evidence of the figures for the MPM program is provided, however, a more detailed assessment would be required to assess the appropriateness of the project breakdown. A factor has been applied in the compilation of several figures, the reason for which is not apparent. This has resulted in an additional \$3K being expensed in 2007/08 (negligible) and \$65K in 2009/10.

- Whilst the drivers leading to the change in capitalisation policy and accounting procedures are acknowledged and considered appropriate, there is insufficient time to undertake a robust review of the derived figures at this stage of the price determination process.
- SWC has also claimed that the proposed accounting adjustments should be applied following the proposed overhead adjustment (refer Section 2.9) on the basis that the amounts to be transferred do not include an overhead allowance. This is considered appropriate on the following basis:
  - It is considered that a proportion of the costs previously included as capital expenditure would attract overheads, in particular SWC's internal costs associated with managing the projects. Although a clear breakdown of the make-up of the costs being transferred has not been provided, the value of any overhead component is expected to be small in comparison to the total expenditure.
  - SWC's overhead costs are effectively distributed over the "Baseline" operating expenditure, and further recovery/adjustment against the costs being transferred as a result of the changes in accounting standards would not be appropriate.

#### **Recommendation**

- On the basis that both the capitalisation policy and change in accounting standards have been supported in principle by both SWC's Auditors and consultants KPMG, it is suggested that the expenditure previously proposed as capital be expensed as proposed. It is, however, noted that a robust assessment of the actual figures has not been undertaken.

## **2.9**

### ***Overheads***

#### **SWC Comments**

- SWC claim that the overheads nominated in their original submission include costs that, in their opinion, should not be considered as overheads. Consequently, they are proposing that costs amounting to \$3,100K should be directly attributed to valley/product codes and not included as part of overhead costs.
- SWC propose the recalculation of the baseline operating expenditure to reflect this redefinition of "true overheads" and that the baseline operating expenditure be further refined to take account of direct costs to valleys previously incorporated into the original overheads.

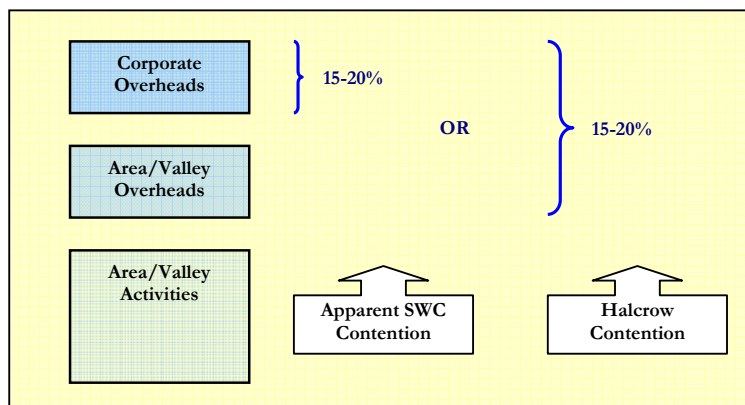
### Halcrow Initial Comments

- We are of the opinion that this stage of the price review process, ie commenting on the Draft Determination of prices, is not the most suitable time for proposing a re-definition of “overheads”.
- We recognise, however, that SWC has invested in new financial systems and has undertaken a review of their methodology for allocating overheads. We support this initiative and would recommend that SWC consult with IPART over the forthcoming price path period with a view to implementing any changes at the commencement of the next price path review.
- Halcrow’s previous review assessed that, on average, items identified as overhead costs amounted to 25% of total expenditure. The allowance for overheads was consequently adjusted back to 20% in 2006/07 and 15% for the remainder of the price path period, on the basis that 15% is considered an appropriate level (based on benchmarking) and that a transition adjustment be allowed in 2006/07.
- In order to further assess this issue, a listing of corporate versus area/valley overheads needs to be provided by SWC for review.
- Any assessment of the disaggregation of current overheads would require a detailed assessment to ensure that the costs being extracted are not already accounted for in the pre-overhead values.

### Discussion

- SWC have provided further information including a summary breakdown of the activities/amounts that constitute the expenditure that was previously identified as “overhead”.
- It appears that SWC’s contention is now that only costs incurred at a corporate level should be deemed to be, and allocated as, overheads. Consequently, they appear to be suggesting that all area/valley based expenditure should be direct charged to either existing or new product codes.
- Halcrow’s view is that, the level of overhead considered appropriate will depend upon the scope of activities/expenditure that is being treated as overhead. On this basis, we contend that the agencies against which we have sought to benchmark the level of overhead expenditure include the equivalent of both corporate level and area/valley management expenditure as overhead (refer **Figure 1**).





**Figure 1 Overhead Arrangement**

- It is noted that previous information provided reveals total overheads of approximately \$8,240K (25%) on a total operating expenditure of \$33,010K (excluding MDBC and DBBRC) in 2005/06. Figures now provided appear to indicate that overheads amounting to \$9,318K (25%) are applicable to a revised total operating expenditure of \$37,077K.
- It appears that of the \$3,100K that the SWC proposes to directly attribute to valley/product codes comprises of \$1,034K attributable to River Operations and \$2,066K that are predominantly area costs.
- As outlined above, we would expect that some area/valley related costs would normally be included in the benchmark 15% level of overheads. Whilst it is acknowledged that item descriptions are not definitive, the listing of area/valley costs that are proposed to be direct charged appear to include a significant proportion of costs that could reasonably be assumed to be of an overhead nature.
- An assessment of the nature of expenditure previously included as overhead has been undertaken. In particular, accounting guidelines published by the Essential Services Commission (ESC) in Victoria have been reviewed to gain a further appreciation of what the benchmarked agencies will have included as overhead costs. This review has revealed the following:
  - The guidelines indicate that “costs associated with the SCADA, telemetry and other ‘operational’ IT costs should be allocated to the relevant activity area”. This supports SWC’s contention that expenditure amounting to \$1,034K that was previously considered to be overhead expenditure would reasonably be directly allocated to River Operations for the purposes of comparison with the benchmarked agencies.
  - Consideration of area/valley management expenditure as overhead is appropriate.

- If costs previously considered be overhead are directly allocated to product codes, an adjustment will need to be made to the assessed level of overhead costs. On the basis that \$1,034K is to be direct allocated to River Operations, the total overhead amount reduces to \$8,284K, ie 22.5% of the total operating expenditure of \$37,077K. The previously assessed overhead adjustment needs to be adjusted accordingly.

#### **Recommendation**

- It is recommended that costs of \$1,034K that were previously considered to be overhead expenditure be removed from the total overhead allocation and included as costs directly related to River Operations (refer **Section 2.5**).
- It is recommended that the overhead adjustment as applied in our previous assessment be revised, ie that overheads be adjusted from an average 22.5% on the total operating expenditure (excluding MDBC and DBBRC) to 20% in 2006/07 and 15% thereafter for the remainder of the price path period.

## **2.10**

### ***Efficiency Gains***

#### **SWC Comments**

- SWC has commented that they have included a 3% efficiency gain effective from 2008/09 onwards. These efficiencies have been accepted by IPART but have been included from 2007/08 onwards.

#### **Halcrow Initial Comments**

- Our intent had been to apply the efficiency gains from 2008/09 to correspond with the end of the labour guarantee period.
- We accept that the efficiency gains were applied incorrectly from 2007/08 and we will revise our recommended operating expenditure figures.

#### **Discussion**

- SWC have subsequently proposed that, in view of the proposed overhead reductions, the proposed efficiency gains would effectively constitute double accounting.
- It is Halcrow's contention that efficiency gains should apply to both overheads and base expenditure. On this basis, we would consider that the proposed 3% efficiency gains are still applicable.

#### **Recommendation**

- We recommend that the proposed 3% per annum efficiency gain be applied from 2008/09 onwards.

## 2.11 Recommended Opex

Our recommended levels of operating expenditure for the State Water Corporation over the price path period are as shown in **Table 3**. The derivation of these figures is presented in **Table 4**. It is noted that all expenditure related to SWC's MDBC and DBBRC responsibilities has been excluded.

**Table 3 Recommended Operating Expenditure (2006/07 to 2009/10) Excluding MDBC and DBBRC**

	Proposed Operating Expenditure \$'000s (2005/06)				
	2006/07	2007/08	2008/09	2009/10	Total
<b>State Water Proposed Opex (Revised)</b>	39,855	40,284	39,076	37,904	<b>157,119</b>
<b>Recommended Opex (including FRWSS)</b>	38,526	36,214	35,127	34,045	<b>143,912</b>
Diff Recommended to Proposed	-1,329	-4,070	-3,949	-3,859	<b>-13,207</b>
% Diff Recommended to Proposed	-3%	-10%	-10%	-10%	<b>-8%</b>

**Table 4 Derivation of Recommended Operating Expenditure (2006/07 to 2009/10)**

	Proposed Operating Expenditure \$'000s (2005/06)				
	2006/07	2007/08	2008/09	2009/10	Total
<b>State Water Proposed Opex (Revised)</b>	39,855	40,284	39,076	37,904	<b>157,119</b>
<b>Recommended Baseline Opex</b>	33,996	33,996	33,996	33,996	
+ Major Preventative Maintenance increase	192	192	192	192	
+ increase for transfer of River Operations costs from Overhead	1,034	1,034	1,034	1,034	
+ WQM Program improvements in 2006/07 only	315				
<b>Adjusted Opex (Program Changes)</b>	35,537	35,222	35,222	35,222	
- 22.5% Overhead allocation	7,996	7,925	7,925	7,925	
<b>Adjusted Opex (excluding Overhead)</b>	27,541	27,297	27,297	27,297	
+ Revised Overhead allocation (20% in 2006/07 and 15% thereafter)	6,885	4,817	4,817	4,817	
<b>Adjusted Opex (including revised Overhead)</b>	34,426	32,114	32,114	32,114	
- 3% efficiency allowance			963	1,927	
<b>Adjusted Opex (including Efficiency allowance)</b>	34,426	32,114	31,150	30,187	<b>127,877</b>
+ Accounting Adjustments for previously Capitalised Expenditure	4,100	4,100	3,977	3,858	
<b>Recommended Opex (including FRWSS)</b>	38,526	36,214	35,127	34,045	<b>143,912</b>

Derivation of the Recommended Baseline Opex, ie a baseline expenditure of \$33,996K in 2005/06, is presented in **Table 5**.

**Table 5 Derivation of Baseline Operating Expenditure**

Breakdown of Operating Expenditure by Product		SWC Actual and Proposed Operating Expenditure \$'000s (2005/06)							
Code	Product Description	2002/03	2003/04	Average 2002/03 and 2003/04	2004/05	Adjusted 2004/05	Proposed 2005/06	Adjusted 2005/06	
1120	Customer Support	334	238	286	241	289	703	474	
2120	Hydrometric Monitoring	2,232	2,236	2,234	3,365	3,363	4,047	4,045	
2130	Water Quality Monitoring	191	173	182	0	9	1,430	509	
2150	River Operations	3,964	3,025	3,495	4,010	3,541	4,900	3,916	
	Dam Safety Compliance								
3130	O&M	2,129	2,036	2,083	2,581	2,628	3,635	2,886	
3140	Preventive Maintenance	7,107	7,473	7,290	9,839	9,656	12,975	12,792	
5220	Billing & Receipts	364	397	381	312	296	169	153	
5250	Insurance	3,266	1,656	2,461	1,376	2,181	1,290	2,095	
2180	Metering	2,879	3,086	2,983	3,461	3,358	3,860	3,757	
	Fish River					3,345		3,370	
		<b>22,466</b>	<b>20,320</b>	<b>21,393</b>	<b>25,186</b>	<b>28,665</b>	<b>33,009</b>	<b>33,996</b>	<b>Adopted Baseline Operating Expenditure</b>
		<b>New Responsibilities in:</b>			<b>2004/05</b>		<b>2005/06</b>	<b>Comments</b>	
	Customer Support				3		185	Reduction - allow 1 EFT + 25% overheads (\$125K) + \$60K CCC costs	
	Hydrometric Monitoring				1,129		682	No change - additional monitoring under NWI	
	Water Quality Monitoring				-173		500	Reduction - allow 4 EFT + 25% overheads	
	River Operations				46		375	Reduction - allow 3 EFT + 25% overheads	
	Dam Safety Compliance							Reduction - allow step increase due to regulations in 2005/06 then 10% increase	
	O&M				545		258	No change - previously under funded	
	Preventive Maintenance				2,366		3,136	No change	
	Billing & Receipts				-85		-143	No change	
	Insurance				-280		-86	No change	
	Metering				375		399	No change - additional monitoring under NWI	
	Fish River Water Supply Scheme				3,345		25	Allow 04/05 increases based on actual reported expenditure	
					<b>7,272</b>		<b>12,603</b>	Recommended baseline Opex increase	
Note:	New responsibilities in 2005/06 justified from Table 1 page 5 in SWC's Response to PBA report document dated 6 April 2006 and additional information provided by SWC in response to the Draft Determination. EFT costed at \$100K per EFT. Add 25% overheads to EFT costs to compare with existing SWC expenditure. New responsibilities in 2004/05 based on actual expenditure changes from previous year.								

## 2.12 *Distribution of Proposed Opex*

A breakdown of the recommended operating expenditure by product code is presented in **Table 6**.

**Table 6 Breakdown of Recommended Operating Expenditure  
(2006/07 to 2009/10)**

Breakdown of Expenditure by Product		Recommended Operating Expenditure \$'000s (2005/06)			
Code	Product Description	2006/07	2007/08	2008/09	2009/10
1120	Customer Support	459	432	419	406
2120	Hydrometric Monitoring	3,919	3,688	3,577	3,467
2130	Water Quality Monitoring	798	464	450	436
2150	River Operations	4,795	4,513	4,378	4,242
3110	Asset Management Planning	1,031	1,289	1,989	2,212
3521	Dam Safety Upgrades Pre-construction	1,500	1,794	1,068	0
3130	Dam Safety Compliance O&M	2,796	2,631	2,552	2,473
3140	Preventive Maintenance	14,147	12,855	12,403	12,774
5220	Billing & Receipts	148	139	135	131
5250	Insurance	2,030	1,910	1,853	1,796
2180	Metering	3,639	3,425	3,322	3,220
	Fish River	3,265	3,073	2,980	2,888
	<b>Total</b>	<b>38,526</b>	<b>36,214</b>	<b>35,127</b>	<b>34,045</b>

The distribution of the revised operating expenditure by valley (and product code) is presented in **Appendix A**.

## 3 Concerns Raised by SWC in respect to Capital Expenditure

### 3.1

#### *Review of SWC Concerns*

##### **SWC Comments**

- SWC have commented on some of the wording used in the review of capital expenditure.
- SWC have undertaken a review of their proposed capital expenditure and have determined that the revised figures they have developed are within the range of the recommended capital expenditure. SWC wish, however, to revise the allocation of capital expenditure on a valley basis to match the recommended capital expenditure.

##### **Halcrow Initial Comments**

- Our initial review of SWC's comments on the wording used in our report indicates that some statements may have been expressed differently, however, the intent of the statement would remain essentially the same.
- We understand that SWC have engaged a review of their capital program and that, as a result have implemented procedural changes in respect to the development and approval of their capital expenditure program.
- SWC's actions in respect to improving the development and management of their capital program are to be applauded.
- We are a little concerned about the timing of the capital review undertaken by SWC and find it interesting to note that this review has determined a level of capital expenditure that is within the range of the previously recommended expenditure. We believe that this review would have been better served if it had been undertaken prior to the issue of the Draft Determination or even prior to SWC's original submission.
- In any case, the recommended levels of capital expenditure were based on an assessed ability to spend and we acknowledge SWC's desire to adjust their capital works program accordingly.

### Discussion

- As noted above, the levels of capital expenditure recommended as a result in our previous review were based on an assessed ability to spend and the estimated costs for individual projects were neither assessed nor adjusted. It was expected that the reduced levels of expenditure would be achieved by the deferment of projects.
- It is understood that the actual expenditure in 2005/06 may have been less than that predicted at the time of our previous assessment (\$18,649K), however, figures excluding the proposed accounting adjustments have not been available to us and a further review has not been undertaken. If actual expenditure in 2005/06 was significantly less than predicted, it would be appropriate to reassess SWC's ability to spend as well as our previous recommendations in respect to capital expenditure.
- It is considered that recommended levels of capital expenditure should be adjusted to offset the proposed accounting adjustments that involve the expensing of expenditure previously included as capital (refer **Section 2.8**). Such adjustment is deemed appropriate on the basis that SWC's overall capacity to spend (operating and capital expenditure) will not be changed as a result of the expenditure reallocation. As previously documented, expensing of \$4,100K in 2006/07, \$4,100K in 2007/08, \$3,977K in 2008/09 and \$3,858K in 2009/10 is proposed.
- SWC have proposed upper and lower bound expenditure profiles, which they advise has been derived following a rigorous review of their capital program using a recently implemented capital investment and risk management framework. The primary difference between these two expenditure profiles appears to be driven by the deferment of works on two major dam upgrade projects. Whilst it appears that the profile to be adopted will be dependent upon SWC's ability to move these projects forward, presumably in part dependent upon factors outside of SWC's direct influence (eg approvals, community acceptance), it must be questioned whether SWC is able to meet its responsibilities by following the lower expenditure profile. If so, the lower profile would be more prudent to adopt.
- We consider that the allocation of the funds available for capital projects is best undertaken by SWC based on their knowledge of the various issues and constraints involved in setting priorities.

### **Recommendation**

- We recommend that the levels of total capital expenditure in each year of the price path period be adjusted to offset the proposed accounting adjustment involving the expensing of expenditure previously included as capital.
- We note that further adjustment of the proposed levels expenditure could be assessed if further information relating to the following was available:
  - actual capital expenditure achieved in 2005/06; and
  - details as to whether “up front” adoption of SWC’s lower expenditure profile would provide sufficient funding for it to meet its obligations.
- We further recommend that SWC be requested to allocate the revised levels of capital expenditure to projects and valley on the basis of their knowledge of the issues and constraints involved.

### **3.2**

#### ***Recommended Capex***

SWC’s proposed upper and lower bound expenditure profiles, together with their originally proposed expenditure profile and Halcrow’s original assessment, are presented in **Table 7**. It is noted that all capital expenditure related to SWC’s MDBC and DBBRC responsibilities has been excluded.

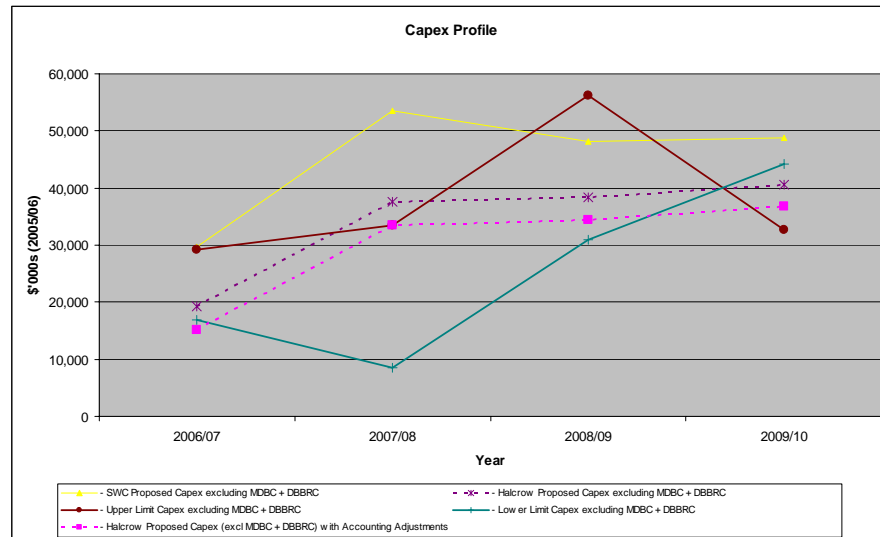
Adjustments have been made to the levels of expenditure previously recommended by Halcrow to offset the proposed accounting adjustments. The resulting expenditure profile, which recommends our recommended level of expenditure in the absence of the additional information discussed above, is also presented in **Table 7**.

**Table 7 Proposed Capital Expenditure (2006/07 to 2009/10) Excluding MDBC and DBBRC**

	<b>Proposed Capital Expenditure \$'000s (2005/06)</b>				
	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>Total</b>
SWC Proposed Capex (Revised)					
▪ Upper Limit Profile	29,152	33,487	56,248	32,720	151,607
▪ Lower Limit Profile	16,926	8,582	30,901	44,241	100,650
Halcrow Original Assessment	19,253	37,568	38,411	40,604	135,836
Proposed Accounting Adjustments	4,100	4,100	3,977	3,858	16,035
<b>Recommended Capex (incorporating Accounting Adjustments)</b>	<b>15,153</b>	<b>33,468</b>	<b>34,434</b>	<b>36,746</b>	<b>119,801</b>



These expenditure profiles are presented graphically in **Figure 2**.



**Figure 2 Capital Expenditure Profiles**

As noted above, we recommend that SWC be requested to allocate the recommended levels of capital expenditure to projects and valleys on the basis of their knowledge of the issues and constraints involved

## 4 Temporary Transfers of Water Entitlements

### SWC Comments

- SWC are proposing a fee structure for temporary transfer of water entitlements that comprises a base charge of \$25 plus \$1 per megalitre, with a cap of \$275 for transfers of 250 megalitre or more.
- SWC note that the current fee, which includes a \$75 cap, has been in place since before 1996.

### Halcrow Initial Comments

- It is understood that the current fee structure, which was initially implemented by DNR prior to the formation of SWC, comprises a base charge of \$25 plus \$1 per megalitre, with a cap of \$75.
- Proposed pricing would suggest that SWC accept that \$25 is the base administrative cost of implementing a temporary transfer. We therefore need to see justification for the increase in cost (sliding scale) with the increase in volume of transfer.
- Our initial assessment would be that costs involved in administering a temporary transfer should not exceed \$150, allowing for administrative documentation as well as a site visit to read the relevant meter(s) (anecdotal evidence indicates that meter readings are sometimes undertaken).
- It is suggested that, rather than reading meters, a significant penalty could be imposed should use of a customers allocation be exceeded. This would allow a flat rate fee (eg Goulburn-Murray Water impose a fixed fee of \$65 and a penalty of \$1,000 per megalitre for excess use).
- Fees higher than that required to cover the basic administrative costs effectively penalise those customers who “do the right thing”. Meter reading must be considered as a policing action that is primarily aimed at identifying excess use. This could be undertaken on a random audit basis.

### Discussion

- Allowing CPI adjustments over the period since 1996 (December 1995 to June 2005 for Sydney) would result in a fee structure comprising a base charge of \$31.50 plus \$1.25 per megalitre, with a cap of \$95.

- Assessment of the activities involved in processing a temporary transfer (as outlined in SWC's notes *IPART - Temporary Transfers*) indicate that the activities are entirely administrative. There does not appear to be any field based activity (such as meter reading) involved.
- Our assessment of the administrative activities would result in an estimated maximum allowance of two (2) hours per transfer. Allowing a nominal \$50 per hour for the appropriate staff, this would result in a maximum cost of \$100 per transfer.
- As noted above, if a site visit is made to read the relevant meter(s) as anecdotal evidence suggests, a maximum fee of \$150 (a total of three (3) hours administrative and site activity at a nominal rate of \$50 per hour) would be considered appropriate.
- An alternative assessment of costs would involve identification of the total labour cost associated with all transfers (assuming that some level of staffing is employed primarily for this purpose) and dividing it by the average number of transfers per year.
- Whilst the procedure outlined by SWC would suggest that the activities are common to all transfers, irrespective of volume involved, there may potentially be some additional technical work involved in assessing the availability of water and/or system capacity for larger volume transfers. If such additional work could be demonstrated, this may provide justification for a volume based transfer fee.
- Any volume based impact on transfer fees could be stepped rather than sliding scale.
- A brief review of a number of agencies reveals that, in general, they impose a fixed fee for temporary water transfers, as follows:

○ Goulburn-Murray Water (Victoria)	\$65
○ Southern Rural Water (Victoria)	\$150
○ Lower Murray Water (Victoria)	\$75
○ SA Water (South Australia)	\$311 - \$519 (not verified)

It is also noted that the G-MW process may involve a meter reading to check water availability, however, there is no variation to the fixed fee for this activity.

- Of these fees:
  - the reasoning behind the quantum of the SA Water charge is not immediately apparent; and
  - Southern Rural Water fees are potentially higher due to a significantly smaller number of temporary transfers.
- The fees imposed by both Goulburn-Murray Water and Southern Rural Water are in line with our assessed maximum cost of \$100 based on a two (2) hour time involvement for administrative activities only.
- Any penalty may have to be based on actual costs incurred (depending upon legislative constraints). In this case, it is suggested that a cost per megalitre be based on the administrative activities involved together with an assessment of the upper bound market cost for water.

#### **Recommendation**

- A fixed temporary transfer fee is more in line with the practices of similar water agencies.
- We would suggest a maximum fixed fee of \$100, which also corresponds to the current fee cap adjusted for CPI between 1996 and 2005. For larger transfers, a maximum fixed fee of \$150, which would allow for administrative work and some technical assessment of water availability and ability to deliver or a site visit may be appropriate.
- We would also recommend that the introduction of a penalty for excess water use be considered, and that such penalty be based on an assessment of the administrative costs involved together with an allowance equal to the assessed upper bound market cost for water.

## Appendix A Operating Expenditure Distribution

Distribution of the revised operating expenditure by valley (and product code) is presented in this Appendix. Operating expenditure associated with MDBC and DBBRC responsibilities is not shown.

**Table A-1 Recommended Operating Costs by Valley for 2006/07 [\$'000s (2005/06)]**

Product	Product Name	Border Rivers	Gwydir	Namoi	Peel	Macquarie	Lachlan	Murrumbidgee	Murray	North Coast	Hunter	South Coast	Fish River	Total
1120	Customer Support	22	31	25	5	42	44	99	156	1	32	2	0	459
2120	Hydrometric Monitoring	147	472	503	126	566	649	993	105	27	289	42	0	3,919
2130	Water Quality Monitoring	71	76	119	79	54	63	138	10	29	130	29	0	798
2150	River Operations	322	464	534	172	504	609	1,128	478	81	386	118	0	4,795
3110	Asset Mgt Planning	10	150	154	33	98	75	181	264	11	50	5	0	1,031
3521	Dam Safety Upgrades Pre-construction	0	505	265	190	287	190	0	0	0	63	0	0	1,500
3130	Dam Safety Compliance O&M	137	227	264	177	379	337	520	51	146	449	108	0	2,796
3140	Preventive Maintenance	609	1,685	1,884	481	1,834	1,888	2,475	813	376	1,671	431	0	14,147
5220	Billing & Receipts	7	13	16	12	19	17	24	25	3	9	3	0	148
5250	Insurance	70	233	193	65	327	245	433	28	70	335	31	0	2,030
2180	Metering	128	242	331	117	318	547	629	803	4	516	4	0	3,639
	Fish River	0	0	0	0	0	0	0	0	0	0	0	3,265	3,265
	<b>Total</b>	1,523	4,099	4,288	1,456	4,429	4,663	6,619	2,732	747	3,931	773	3,265	38,526

**Table A-2 Recommended Operating Costs by Valley for 2007/08 [\$'000s (2005/06)]**

Product	Product Name	Border Rivers	Gwydir	Namoi	Peel	Macquarie	Lachlan	Murrumbidgee	Murray	North Coast	Hunter	South Coast	Fish River	Total
1120	Customer Support	21	29	23	4	40	41	93	147	1	30	2	0	432
2120	Hydrometric Monitoring	138	444	474	118	533	611	934	98	26	272	40	0	3,688
2130	Water Quality Monitoring	41	44	69	46	31	36	80	6	17	76	17	0	464
2150	River Operations	303	437	503	162	475	573	1,062	450	76	363	111	0	4,513
3110	Asset Mgt Planning	13	187	192	41	123	93	226	330	14	62	6	0	1,289
3521	Dam Safety Upgrades Pre-construction	0	605	317	227	343	227	0	0	0	76	0	0	1,794
3130	Dam Safety Compliance O&M	129	214	249	166	357	317	489	48	137	422	102	0	2,631
3140	Preventive Maintenance	553	1,531	1,712	437	1,666	1,716	2,249	739	341	1,519	392	0	12,855
5220	Billing & Receipts	6	13	15	11	18	16	23	23	2	9	2	0	139
5250	Insurance	66	219	181	62	308	230	407	26	66	315	29	0	1,910
2180	Metering	121	228	312	110	299	515	592	755	3	486	4	0	3,425
	Fish River	0	0	0	0	0	0	0	0	0	0	0	3,073	3,073
	<b>Total</b>	1,392	3,951	4,048	1,385	4,193	4,376	6,156	2,623	684	3,630	705	3,073	36,214

**Table A-3 Recommended Operating Costs by Valley for 2008/09 [\$'000s (2005/06)]**

Product	Product Name	Border Rivers	Gwydir	Namoi	Peel	Macquarie	Lachlan	Murrumbidgee	Murray	North Coast	Hunter	South Coast	Fish River	Total
1120	Customer Support	20	29	23	4	39	40	90	142	1	30	2	0	419
2120	Hydrometric Monitoring	134	431	459	115	517	592	906	95	25	264	39	0	3,577
2130	Water Quality Monitoring	40	43	67	45	30	35	78	6	16	73	17	0	450
2150	River Operations	294	424	488	157	460	556	1,030	437	74	352	107	0	4,378
3110	Asset Mgt Planning	20	289	297	64	190	144	349	509	21	96	9	0	1,989
3521	Dam Safety Upgrades Pre-construction	0	360	189	135	204	135	0	0	0	45	0	0	1,068
3130	Dam Safety Compliance O&M	125	207	241	161	346	308	475	47	133	410	99	0	2,552
3140	Preventive Maintenance	534	1,477	1,652	422	1,608	1,656	2,169	713	329	1,465	378	0	12,403
5220	Billing & Receipts	6	12	15	11	17	16	22	23	2	9	2	0	135
5250	Insurance	64	213	176	60	298	224	395	26	64	305	28	0	1,853
2180	Metering	117	221	302	107	290	500	574	733	3	471	4	0	3,322
	Fish River	0	0	0	0	0	0	0	0	0	0	0	2,980	2,980
	<b>Total</b>	1,355	3,705	3,909	1,280	4,001	4,205	6,089	2,730	670	3,520	685	2,980	35,127

**Table A-4 Recommended Operating Costs by Valley for 2009/10 [\$'000s (2005/06)]**

Product	Product Name	Border Rivers	Gwydir	Namoi	Peel	Macquarie	Lachlan	Murrumbidgee	Murray	North Coast	Hunter	South Coast	Fish River	Total
1120	Customer Support	19	28	22	4	38	39	88	138	1	29	2	0	406
2120	Hydrometric Monitoring	130	417	445	111	501	574	878	93	24	256	38	0	3,467
2130	Water Quality Monitoring	39	42	65	43	30	34	75	5	16	71	16	0	436
2150	River Operations	285	411	473	152	446	538	998	423	71	341	104	0	4,242
3110	Asset Mgt Planning	23	322	330	71	211	160	388	566	23	107	11	0	2,212
3521	Dam Safety Upgrades Pre-construction	0	0	0	0	0	0	0	0	0	0	0	0	0
3130	Dam Safety Compliance O&M	121	201	234	156	336	298	460	46	129	397	96	0	2,473
3140	Preventive Maintenance	550	1,521	1,701	435	1,656	1,705	2,234	734	339	1,509	389	0	12,774
5220	Billing & Receipts	6	12	15	10	17	15	22	22	2	8	2	0	131
5250	Insurance	62	206	171	58	289	217	383	25	62	296	27	0	1,796
2180	Metering	113	214	293	104	281	484	556	710	3	457	4	0	3,220
	Fish River	0	0	0	0	0	0	0	0	0	0	0	2,888	2,888
	<b>Total</b>	1,348	3,373	3,748	1,144	3,804	4,065	6,083	2,762	672	3,471	688	2,888	34,045









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