



Office  
of Water

Mr James Cox  
Chief Executive Officer  
Independent Pricing & Regulatory Tribunal of NSW  
Level 8, 1 Market Street  
Sydney NSW 2000

File ref: W10/37

Dear Mr Cox

**REPORTING INFORMATION FROM 2006 BULK WATER PRICING DETERMINATION  
FOR 2006-07, 2007-08 AND 2008-09**

Please find the attached information in compliance with the annual reporting requirements imposed by the 2006 Bulk Water Pricing Determination.

The Office of Water has previously provided preliminary data for the 2006-07 and 2007-08 years. The attached information provides the final reports for those years plus the final return for the 2008-09 year. The variations between the final reports for 2006-07 and 2007-08 years have arisen due to the application of a more rigorous cost allocation process, which has been subjected to careful scrutiny from all levels of management.

All information shown in the attached reports has been extracted from the cost models provided to IPART by the Office on 24 December 2009, with the exception of the 2008-09 revenue, for which actual figures are now available.

I am pleased to report that for the three years 2006-07 to 2008-09 the Office has reported a total expenditure on IPART activities of \$128.1 million against a budget of \$131.6 million. This represents a shortfall of only \$3.5 million against a revenue shortfall of \$13.1 million for the same period.

Should your office require clarification of any of the attached information Debra Bock, Chief Financial Officer will be available on Ph: 8281 7309 or email: [debra.bock@dwe.nsw.gov.au](mailto:debra.bock@dwe.nsw.gov.au).

Yours sincerely,

**David Harriss**

Commissioner, NSW Office of Water  
27 January 2010

Department of  
**Environment, Climate Change and Water** NSW



## ATTACHMENT 1

Access the 2006-07 data by clicking on the link

Access the 2007-08 data by clicking on the link

Access the 2008-09 data by clicking on the link

Access the 2009-10 data by clicking on the link

Note: Groundwater forecast costs in 2009-10 given by two zones only, viz Inland and Coastal. This reflects NOW's view that the valley by valley costs are inappropriate for groundwater and that the Inland/Coastal division is more relevant.

### Notes

#### **Audited Financial Statements**

The 2008-09 audited Financial Statements for the Department of Water and Energy (DWE) are attached. All 2008-09 figures used in the submission and associated cost models have been drawn from the same source as the audited financial statements and have been subject to rigorous cross checks and reconciliations to ensure accounting integrity. Due to their complexity these reconciliations have not been provided for publication but can be made available to IPART's consultants if required. Attachment 1 provides detailed cost information by valley, activity and water source as per the requirements of the 2006 Determination.

#### **Historical Operating Expenditure (Opex) and Revenue**

Operating expenditure excludes depreciation and MDBRC and BRC costs.

A summary of the historical and budgeted costs is as follows:

	2006/7		2007/8		2008/9	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
	\$m	\$m	\$m	\$m	\$m	\$m
Regulated streams	16.9	15.7	17.9	18.7	18.2	19.6
Unregulated streams	14.2	13.9	14.5	13.3	16.1	15.5
Groundwater	11.1	8.9	11.3	9.3	11.4	13.2
Total	42.2	38.5	43.7	41.3	45.7	48.4
Revenue	22.1	17.6	24.3	19.6	26.7	22.8*

**Note:** The above is rounded to one decimal place this may result in rounding differences between the detailed information and that provided in this table and the submission.

\* Actual figure for 2008-09, including \$200,000 not yet invoiced.

A separate excel file of information has been prepared for each of the years 2006/7, 2007/8 and 2008/9. A separate worksheet is provided for the revenue and for each valley. The valley worksheets

show costs by activity code for all water sources and allocated actual FTE figures for each activity code.

The data in each of the files matches the model already provided to IPART, apart from the revenue for 2008-09 for which actual figures are now available. The format changes have been made in order to give more accessible information on a valley by valley basis.

The following matters should be noted in relation to the historical costs.

- This model shows operating expenses excluding depreciation, MDBA costs and BRC costs.
- The Office of Water's budget for water management and licence transaction processing has been assumed to be the IPART allowed opex expenditures. In the model the costs are presented in \$05/06 (as provided by IPART) together with the relevant inflation factors to adjust them to \$ nominal.
- The IPART allowed FTE's are noted as 276; this includes FTEs for licence transactions. The actual FTEs as noted have also included licence transaction FTEs; this has been included as a note in the model being provided.

#### **Variations from budgeted costs**

- During 2006-07 and 2007-08 the functions of the Office of Water suffered a number of structural realignments, principally the split from the Department of Natural Resources and the formation of the Department of Water and Energy. This restructuring gave rise to budget uncertainty, causing some decrease in total expenditure in those two years. During 2007-08 an ongoing increase in recurrent funds was secured, allowing improved planning of staffing levels and greater focus on frontline activities.
- In order to address the expenditure shortfall and ensure the targets were met over the Determination period as a whole, priority has been given to a range of Water Management activities in 2008-09 and 2009-10.
- Water revenue also suffered during these two years due to the persistent drought, and the Office is dependent on the revenue to partially fund its ongoing operations.
- The activity model is too detailed and the combinations arising from the valley by valley by water source approach too numerous for any meaningful explanation of individual variances to be determined at this level, however some variances will be inevitable and have arisen due to a range of unforeseen circumstances.
- For example in 2006 the implications of the Commonwealth Water Act were unknown and the COAG water reform processes had not been introduced. It is also extremely difficult when performing some tasks for the first time, such as Water Sharing Plans, to accurately predict the complexity of each task at the valley level.
- The drought has also influenced priorities and required a flexible response in terms of water management activities.
- In addition the Office of Water no longer conducts its operations on a regional basis and all activities and resources are managed on a state-wide basis.

#### **2009-10 budgeted costs**

- These are as per the model provided to IPART.
- The inflation adjustment factor from 2008-09 to 2009-10 included in the IPART model was 2.5%; this is in error. The IPART advised inflation adjustment was 3.9% and this is what has been used in preparing information for the submission.

#### **Water revenue**

- Accrued revenue information for 2006-7 and 2007-8 was included in the draft information previously provided. This has been updated in this data to reflect the actual invoiced amount.

- The water revenue for each year is the revenue attributed to that year but invoiced in subsequent year(s).
- The 2008-09 groundwater revenue includes the estimated value of a small number of invoices which have yet to be validated and sent to customers.

### **Capital costs (Capex)**

NOW's program of historical and budgeted capex eligible to be included in this report is extremely small and has not been divided on a valley by valley basis. It is shown in NOW's pricing submission Table 2.

### **Water availability reports**

Please refer to the following web site <http://waterinfo.nsw.gov.au/ac/allocation.shtml>

### **Environmental water**

Information on environmental water usage for individual river valley is not available at this stage. A methodology is being developed by NWI processes (with involvement of jurisdictions). When the methodology is agreed to, the information can be provided.

Some environmental water will be the result of licence purchases and this will be significant, especially as a result of the Commonwealth Government's involvement in the water market. The Office of Water holds the view that these licences should attract the same charges as the original licence before it was purchased and dedicated to the environment, otherwise the costs associated with managing these licences will be borne by other licensed water users.

### **Allocation of Opex across Valleys and Water Sources**

Where appropriate job costs have been assigned on a direct costing basis to individual activities, valleys and water sources. However, many jobs are undertaken for activities on a state wide basis. Until 2007 water management activities were structured regionally which meant that work was primarily undertaken against a single water source with the spread being across water types in a water source i.e. was geographically focused. However with the introduction of the current State based management approach post 2006-07 activities were structured more across a number of water sources and in a number of cases across the State.

In 2006 DNR had a matrix of water source codes that, for those jobs that were not specific to a single water source was the basis of allocating costs across water sources. This matrix has been used to allocate water management costs across water sources where the nature of the work was attributable to more than one water source. In these cases costs are allocated to valley and water sources using the same method as for the pricing submission to the 2006 Determination. Adopting this approach provides consistency between the allocation of the costs forecast for the 2006 price determination and the actual historical costs.

Full absorption costing principles have been adopted in providing the reported costs information.