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The Hon Phillip Costa, MP  
Minister for Water  
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SYDNEY NSW 2000

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Dear Minister,

## PRICING OF WATER MANAGEMENT SERVICES PROVIDED BY THE NSW OFFICE OF WATER

On Friday, 15 October 2010 we will be releasing our draft report and determination on maximum prices that can be charged by the NSW Office of Water (NOW) for the period commencing 1 July 2011 and concluding on 30 June 2014.

The draft report includes references to our decision to write to you and the need for NOW to improve its performance in certain areas. In writing to you, we are conscious that the issues raised are serious and long-standing. We are also aware of the challenges faced by the Department caused by a period of extend drought, organisational change and the implementation of the Commonwealth *Water Act*.

At the time of the last price review, we identified a number of specific areas of concern where action was required to improve the financial and budgeting systems of the, then, Department of Natural Resources.

Although, appreciating that the department responsible for water management has since been subject to a number of restructures and associated challenges, our observation is that many of the concerns raised in 2006 are yet to be comprehensively addressed. In addition, the review has identified some further areas for improvement, particularly with regard to stakeholder consultation about planned and actual expenditure. Consequently, we have decided to write to you to share our observations of the areas where improvements would be most beneficial. In our view, these improvements are needed if NOW is to meet the reasonable expectations of users, who will pay a large proportion of the cost of NOW's water management services over the 2011 determination period.

The Draft Report notes that IPART has written to the Minister in relation to the following issues:

- 10/10/11
- ▼ **Improvements that NOW should make to its billing, administration and expenditure systems.** Specific areas for improvement of NOW's systems identified in the report include:
    - timely billing of customers noting that there have been delays of up to three years in the sending of bills. Further, it appears that decision have been made not to bill some customers, such as zero share licence holders. We note that under the *Independent Pricing and Regulatory Tribunal Act 1992* such decisions require the concurrence of the NSW Treasurer.
    - establishing clearer links between NOW's expenditures and its obligations including
      - adopting ring-fenced accounts for NOW's monopoly services to ensure that only monopoly service activities are included in the cost base and to facilitate reporting of the regulated activities
      - ensuring preparation and documentation of robust business cases underpinning forecast expenditures covering investment appraisal, prioritisation of capital expenditure and documenting expected deliverables, outcomes and project justification
      - implementing robust asset management practices
  - ▼ **The importance of timely and accurate reporting of outcomes achieved against the findings underlying the price determination.** In general terms, NOW is expected to report its:
    - expenditure and revenue, by valley (or, in the case of groundwater, by 'inland' and 'coastal' region)
    - revenue received from the Commonwealth in relation to the Water Act and the acceleration of national water reform expenditures
    - progress against NOW's major deliverables for the period. These deliverables are listed in Appendix L of the draft report
    - annually by the last working day of October of each year commencing 2011.
  - ▼ **Stakeholders' expectations that NOW will implement mechanisms to facilitate greater consultation with users about its performance, expenditures and revenue.** We note that stakeholders highlighted the benefits of State Water's Customer Service Committees, and suggested that the Commissioner for Water could participate more fully in these Committees as a means of consulting with regulated river users on its water management activities and expenditures. However, other forums or means of consultation would be required for unregulated river and groundwater users, as these users don't currently participate in State Water's Customer Service Committees.

We have also written directly to the Commissioner about these issues. In addition, our letter to the Commissioner identifies: the need to provide more information about the metering program, given its potential to increase future operating costs and to significantly increase bills for some smaller entitlement holders; and reporting obligations arising from

rules made under the *Water Act*. A copy of our letter to the Commissioner is attached for your information.

Given the level of stakeholder interest in the matters raised in the letter, we intend to publish a copy of this letter and our letter to the Commissioner on our web site on 15 October 2010.

I will provide an embargoed copy of the report to you as soon as it is available next week. I will also provide copies of our media release and stakeholder fact sheets. Electronic copies will be available on IPART's website [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au) from 10.00 am on Friday, 15 October 2010. The draft report, media release and fact sheets will be under embargo until that time.

We intend to publish its Final Report for Water Administration Ministerial Corporation prices in February 2011. Should information be available, we would ensure that any instructions that you may have issued to NOW about these matters or any improvement actions undertaken by NOW are communicated to stakeholders via our Final Report.

Please contact me on 9290 8411 should you wish to discuss further the matters raised in this letter.

Yours sincerely



James Cox  
Chief Executive Officer  
Full Time Tribunal Member

cc Ms Lisa Corbyn, Director- General, Department of Environment, Climate Change and Water

Mr David Harriss, Commissioner for Water, NSW Office of Water