

Our Ref: lw 090116 2007/08 Reports

Mr James Cox  
Chief Executive Officer  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office NSW 2000

6 February 2008

Dear Mr Cox

I refer to Appendix 8 of the 2006 Bulk Water Pricing Determination which contains requirements for State Water to report six monthly and annually to the Customer Service Committees (CSCs) and IPART.

Attached to this letter is the information required for 2007/08 and the first six months of 2008/09. Additional information on the reporting requirements is also attached.

The attached financial statements are outputs from State Water's financial management system (IFMS). State Water has implemented an IFMS Improvement Project which has resulted in significant improvements in the quality and timeliness of financial reporting. As part of the IFMS Improvement Project, State Water's chart of accounts was reconfigured to simplify the complex structure that had been previously set up, improve the quality of financial reporting and ensure that reporting deadlines to stakeholders can be met.

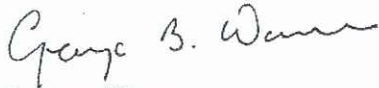
The Project included changing the classification of expenditure from the product codes used in the 2006 Determination to new activities which more accurately describe State Water's functions. The attached spreadsheet reconciles the new activities with the old product codes. It also shows that the user cost shares have remained unchanged in the transfer to the new activities.

*Reporting to Customer Service Committees*

The financial reports are now being produced for every CSC meeting, and include year to date results from the previous month. I therefore seek your concurrence that the 6 monthly reporting requirements are no longer formally required to be sent to CSCs as they have been replaced with more frequent reporting which ensures that the CSCs has the latest available information for each of their quarterly meetings. However, State Water will continue to send the 6 monthly reports to IPART.

If you require any further information or have any queries on the above, please contact Lisa Welsh, Strategic and Regulatory Manager, telephone 9354 1069.

Yours sincerely



George Warne

Chief Executive Officer

Attachments:

1. Additional Information on Reporting Requirements
2. Reconciliation of New Activities and Old Product Codes
3. 2007/08 Valley Financial Statements (all valleys)
4. 2007/08 Valley Financial Statements (valley specific)
5. 2008/09 Year to Date Financial Statements (includes 2008/09 budgets and actuals to end December 2008)
6. 2007/08 Annual Report
7. Water Use Penalties Enforcement Action for 2007/08

**ADDITIONAL INFORMATION ON REPORTING REQUIREMENTS**

*Apportionment of Corporate Overheads*

Each Business Unit (BU) is charged a Corporate charge with the rate of the charge calculated as part of State Water's annual budgeting process. The charge is attached to the BU on the basis of salaries incurred in that BU - specifically excluding capital works. This charge is moved to the works ledger for assets and projects (both regulated and non regulated) in a later step and is specifically excluded from capital projects.

The rate of Corporate charge is reviewed each quarter to ensure to ensure corporate costs are fairly recorded against each valley or customer and are 'fully absorbed' to ensure full cost recovery of the Corporate area at the end of the year. Even with this recovery Corporate BUs are still required to manage their cost performance against their budget.

The Corporate charge is shown as a separate line item in the financial reports. To assist transparency, State Water has provided financial information on all valleys to each CSC so that costs attributed to each valley, including the corporate charge, can be readily compared.

*Variations*

The attached reports do not include explanations of variances to the 2007/08 budget. This is because the budgets for 2007/08 were completed at the preliminary stage and entered into finance systems before changes to key personnel for State Water's restructure were finalised. Moving forward, detailed budgets for 2008/09 have been entered into the financial system and forecasts are being revised progressively during the year in line with current knowledge. This means that more meaningful analysis is being undertaken and State Water will be able to provide variation explanations in 2008/09.

*FTE Staff Reports*

State Water is also required to provide FTE staff reports, including the numbers of new positions filled during the reporting period and the number of vacancies unfilled. As you are aware, State Water is currently implementing an organisational restructure aimed at reducing operating costs to meet the efficient level of expenditure in the 2006 Determination, and also to establish an efficient operating platform for the future success of the corporation.

Before the reorganisation commenced, State Water had approximately 349 full time equivalent (FTE) staff in the regulated and unregulated business combined. The forecast number of FTEs when the new structure is fully implemented is 295, although FTE numbers may change as State Water fine tunes the new structure or as new business opportunities arise.

As part of the restructure, all job descriptions were revised to reflect the new arrangements. Position descriptions which had changed significantly were advertised internally as part of a spill and fill selection process. As a result of this process, between 50 to 60 people will be made redundant and around 7 staff will relocate to other locations. State Water is also advertising externally for positions where there are no appropriately skilled staff already within the organisation.

CSCs are being kept informed of staff movements at each CSC meeting. State Water can provide IPART with additional details on the new structure, if required.

*Compliance with Water Sharing Plans (WSPs)*

The majority of WSPs have been suspended due to the continuing drought of record and subject to iterative arrangements, in consultation with the Department of Water and Energy, CSCs and key customers.

State Water's obligations under the WSPs will be included in the valley Works Approvals (WA), which are currently being developed by the Department of Water and Energy. In 2008/09 there were no WAs in place and therefore compliance for those WSPs not suspended can only be provisionally assessed. There were no material breaches of the WSPs in 2007/08.