



Mr James Cox
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Our ref: CW10/563

Dear Mr Cox

Response to Draft Determination and Draft Report for the Review of Prices for the Water Administration Ministerial Corporation

Attached is the Office's submission on the draft determination and report. The Office of Water welcomes many aspects of the draft and in particular supports the simplification of the pricing formulae and the removal of the cap calculations. I would like to take this opportunity of thanking you and your staff for your response to our concerns regarding these issues.

The draft determination will provide a valuable resource for water users in understanding the work of the Office and I believe the reporting outcomes outlined in Schedule L have the potential to provide focus and clarity for the Office in its ongoing attempts to be transparent and accountable.

Naturally the Office does have some areas of concern, the most important of which are the basis for the usage charge for the two-part tariff for unregulated river and groundwater users and the proposed meter reading and dispute resolution charges. In both these areas the Office will significantly under-recover its costs and consequently I have suggested some adjustments to the provisions of the draft determination.

The work of the Office is subject to a range of legislative and policy impacts causing significant increases in work load. Over the period of this determination Water Sharing Plans requiring monitoring and evaluation will increase to 84 once all plans are complete. Monitoring and evaluation is a major program of work and in future determinations the Office will be requesting funding through IPART for the applicable user share.

Thank you for providing the opportunity to respond to the draft determination.

Yours sincerely

David Harriss
Commissioner, NSW Office of Water

NSW Office of Water
RESPONSE TO IPART'S DRAFT DETERMINATION

1. Two-part tariff

IPART has determined that all users that have a meter should be subject to the two-part tariff.

Meter Definitions

The definition of meter needs to be clarified to ensure that it specifies a "meter" that:

- satisfies the Office's requirements for a meter, that is, a functioning and appropriate meter for the purpose
- covers those meters installed by others on behalf of the Office – for example State Water may install meters on behalf of the Office
- covers all possible types of meters - the current definition refers to an electromagnetic, a mechanical meter or channel meter. This list is too restrictive, and the definition should be broadened to cover all meters.

As a result the definitions should read:

Corporation Meter means a meter that is installed by or on behalf of the Corporation.

User Meter means an instrument approved by the Corporation that measures and records the amount of water extracted from unregulated rivers and groundwater, installed on or near the licence holder's off-take point or points, that is not a Corporation Meter.

Usage factors for unregulated river and groundwater users

A significant concern is the basis for the usage charges put forward by IPART. IPART has adopted usage forecasts based on 100% entitlement volumes for unregulated rivers and groundwater. This was on the grounds of the absence of data provided by the Office.

The Office's submission was based on a fixed price for unregulated rivers and groundwater and as result did not provide forecast usage for unregulated rivers and groundwater. However subsequent to the submission, IPART did seek metered data for at least one year. This was provided for the metered groundwater users, the Barwon-Darling River system for a number of years and the surveyed data for town and industry use on unregulated rivers which covered a number of years. This information clearly showed usage varies significantly from year to year and does not average 100% of entitlement.

The Office does estimate usage on unregulated river and the smaller unmetered groundwater systems for its surface water cap reporting in the Murray Darling Basin and for its water sharing plan purposes. The figures given in Table 1 which are based on user surveys (not metered data) for the volumetric conversion process indicate that for unregulated streams in the Murray Darling Basin the usage factor can range from 2% to over 80%, with an average usage estimate of 56%.

Table 1: Entitlement and Usage Volumes for Inland Unregulated River Catchments (based on 2002 surveyed user returns for volumetric conversion process)

Valley	Units	Total Entitlement volume ML	Average Usage ML*	Active Use/ Entitlement
Border River	Combined	26,678	13,695	51%
Namoi River	Combined	122,988	78,075	63%
Gwydir River	Combined	45,356	10,317	23%
Castlereagh	Combined	15,288	4,033	26%
Bogan	Combined	9,007	5,566	62%
Macquarie	U/s and d/s of Burrendong, U/s and d/s of Windamere	32,344	23298	72%
	Effluents	12,451	2,390	19%
Lachlan	u/s and d/s of Wyangala, Belubula and d/s Wyangala (except Bland Ck)	20,231	11,753	58%
	Bland Creek	4,055	3,063	76%
	Effluents	2,437	526	22%
Murrumbidgee	Combined	62,594	42,374	68%
Murray	Above Hume Dam	8,663	7,197	83%
	Unreg Billabong	4,755	3,634	76%
	Unreg Mid Murray	21,595	16,818	78%
	Unreg Lower Murray	402	9	2%
		388,844	222,746	56%

* would represent average maximum usage as based on surveyed returns for the volumetric conversion process

The average use figures shown for the unregulated rivers are considered high as they were provided by users seeking to maximise their entitlements under the volumetric conversion process. Figures of usage on the coastal rivers is less extensive, but for the Hawkesbury Nepean for 2006/07 the usage is estimated at 32%

As a comparison, usage within the regulated river systems also varies widely from 9% on the North Coast to over 60% in the Murray and Murrumbidgee (see Table 2) but is clearly well below 100% of entitlement.

Table 2: Usage factors for regulated river systems

	Usage factor (Usage/Entitlement)
Border	56%
Gwydir	47%
Namoi	63%
Peel	27%
Lachlan	37%
Macquarie	45%
Murray	66%
Murrumbidgee	67%
Nth coast	9%
Hunter	67%
Sth coast	38%
	47%

Given the greater variability of supply, the usage factor for the unregulated rivers would generally be less than for the regulated rivers. This would suggest that average usage in the unregulated rivers is below 50% of entitlement.

The six major groundwater systems in NSW which are metered have an average usage factor of around 70%, while the smaller unmetered systems are estimated at about 25%

IPART setting the usage charge at 100% of entitlement will result in a significant under-recovery of water management costs as the metering program is rolled out and more users come under a two-part tariff. A more realistic assessment of forecast usage would be a maximum of 50% of entitlement for the unregulated rivers. For groundwater a figure of 70% is more appropriate, since the major groundwater systems account for the majority of groundwater extraction.

IPART has advised that it believes that the Office will achieve 94% of IPART's allowable cost recovery compared with 88% under the 2006 determination. However the cost recovery was only 80% for the last determination and the proportion will be significantly less in the next determination if the basis for the usage charge continues to be 100% of entitlement and given also the significant under-recovery from the meter reading charge discussed below.

2. Meter Charges

Meter Reading Charge

IPART has determined that an annual meter reading charge of \$131 (plus CPI) will apply to all those unregulated river and groundwater licence holders with user-owned meters and has removed from the water management charge cost base the \$1.36 million per annum the Office pays to State Water for current meter reading activities. This meter reading charge will result in a significant shortfall of revenue to the Office.

IPART's meter reading charge has been calculated (based on figures from Nayar Consulting) as:

manual meter reading fee	\$75
a meter information system cost of	\$56
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meter reading charge	\$131 per meter per year

IPART based its metering reading charge on one reading per year. However for purposes of resource management, water sharing plan implementation, and compliance issues, most meters are read more than once per year. The work of reading the existing user-owned meters is undertaken by State Water Corporation under a service level agreement with the Office. The latest agreement specifies an average of 1.81 readings per meter per year.

Consequently using the same basis for calculation as adopted by IPART, the Office believes that a more accurate estimate of the cost is:

manual meter reading fee <u>1.81 @ \$75</u>	\$136
a meter information system cost of	\$56
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meter reading charge	\$192 per meter per year

A meter reading charge of \$192 would enable the Office to recover a large portion of the costs paid to State Water, although may still fall short, depending on the number of meters read in a particular year.

In some cases where meters are not available, other methods of monitoring (e.g. crop assessment, electricity usage) are used to provide an annual ML usage figure for those on a two-part tariff.

The Office submits that the meter reading charge for a user meter for the unregulated river and groundwater licence holders should be increased to \$192 per meter per year and also cover assessments for usage purposes.

An issue that needs to be recognised is that IPART has not set a separate meter reading charge to be applied by State Water for current meters in the regulated rivers, but has retained these costs into State Water's general water charges. This will result in different approaches for those that have metered access from a regulated river as well as groundwater or an unregulated river. In addition where a licence holder has existing multiple pumps, the imposition of multiple meter reading charges for existing meters, without the possibility of rationalisation of meters, may also raise objections.

Meter Categories

IPART noted in the draft determination that there will be non-standard meters, but has made no determination on how these non-standard meters should be charged. As a result there will be a revenue shortfall if there are meters for which the Office cannot bill a meter service charge.

The Office will endeavour to match the actual installed meter to one of the designated categories. However where it cannot make a clear matching, in addition to the meter categories set out in the draft determination, that is:

- Mechanical meter – with data logger
- Electromagnetic meter – with data logger
- Electromagnetic meter- with data logger and mobile data modem

- Electromagnetic meter- with data logger and satellite data modem
 - Channel meter - with mobile phone or satellite telemetry coverage
- an additional category should be added of:

- Other meter not equivalent to any of the above

and that the charge for this category should be set at the minimum of the other categories, i.e. \$219.50 per meter.

By the time of the next determination when significant numbers of meters will have been installed, the Office expects to have more-accurate classification of meter categories and costs

The determination should also specifically note that the Office may need to broadly fit non-standard arrangements into one of the above categories for the meter service and reading charge for Corporation meters.

Refundable deposit for dispute resolution

In its draft determination, IPART has set the refundable deposit for dispute resolution over meter accuracy at \$108.20 for a mechanical meter and \$200.95 for electromagnetic and channel meters. IPART based these figures on the validation only cost as estimated by Nayar Consulting.

However the amount of work required to test a disputed meter is significantly more than just validation. Dispute testing would usually require the removal of the meter and remote testing or in-situ testing. Estimated activities and cost are set out below:

<p><u>Workshop verification</u> – removal of the meter from site (including installation of a replacement meter) and checking of the meter in a workshop (it is assumed that the replacement meter will remain in place, and that the original meter will not be re-installed after checking). Costs are estimated as follows: Removal/replacement (4 hours x 2 persons @\$90 per hour plus travel of 10km @ \$1.50 per km) based on estimates from Nayar Consulting, plus cost of workshop verification estimated @ \$1500 per meter (based on experience of State Water 50-150mm \$1155, 151-600mm \$1600, 601mm -900 \$2200), plus transport/cartage @ \$500 (estimated):</p>	<p>\$2735</p>
<p><u>In-situ verification</u> – installation of a truck-mounted (or equivalent) meter temporarily on site and run in conjunction with the installed meter. Cost have been estimated by Nayar Consulting:</p>	<p>\$5000</p>

Other jurisdictions also offer some guidance as to the cost of meter testing. Hunter Water Corporation has a charge for workshop test of a meter of:

50 mm heavy	\$486
65 mm	\$488
80 mm	\$497
100 mm	\$602
150 mm	\$747

Hunter Water also has a charge (in addition to the above) if a strip test is required. While a few of the Office's meters will be less than 50 mm, many of the meter fleet will

be larger than 150 mm, and hence extrapolation of the Hunter Water figures would lead to an average cost for the Office's fleet of \$1000-\$1500 per meter.

Based on the estimated costs from its analysis (\$2735 to \$5000 per meter) and comparisons with Hunter Water Corporation (\$1500 per meter), and to reduce the number of vexatious disputes, the Office believes that a refundable deposit of a minimum of \$1500 should be set.

Criteria for decision on type of meter

In its report IPART has specifically requested that the Office provide a clear framework for deciding what meter type will be installed where and what will be the minimum size entitlement/licence that will be subject to the metering program.

For the main roll-out of meters in the Murray Darling Basin, the Commonwealth Government is still undertaking due diligence assessment of whether it will fund the capital costs and by how much. As a result final decisions on type and size of meters cannot be made at this stage.

The Office is aiming to meter some 95% of the licensed extraction in an area and consequently some extractors who are taking small amounts of water will not be subject to metering under the program. However the aim of covering 95% of water extraction is not the only driver for metering, and each catchment will have other drivers that would determine the requirement for metering in that area.

Attachment A shows a typical distribution of water entitlement throughout NSW for the unregulated rivers. This graph demonstrates that most of the entitlement is held by a small number of licence holders. For example some 80% of the entitlement volume is held by only 28% of licencees. Although Attachment A is for unregulated licences, a similar pattern exists for groundwater licences.

It can be seen from Attachment A that 95% of the entitlement is covered by about 56% of the licences. Based on this information, at a state-wide level, metering of all unregulated river licences above 23 megalitres would enable some 95% of the entitlement to be metered. However a large number of unregulated river licences are not active – for example a licence holder may have an entitlement but is not equipped to extract water, that is, they do not have a pump in place. As a result, the Office will not be setting a cut-off level at a state-wide basis, but will be determining metering requirements based on assessed conditions in different areas.

If the Commonwealth Government approves the NSW metering scheme one of the first actions undertaken will be a detailed analysis of the metering sites. This will involve a site inspection to confirm or ascertain the number, type, size and characteristics of each work in the area. Once this information has been collated, the Office will be able to determine the minimum cut-off level in an area above which all active extraction will need to have a meter. This level will not be the same for the whole state, but will vary according to local water extraction patterns.

Because of the presence of a large number of non-active approval holders, it is expected that to achieve metering of 95% of the extraction in an area, will generally require metering of more than 95% of the issued entitlement. In the case of the Hawkesbury Nepean metering project which is underway, the cut-off level has been determined as 10 ML, with all holders of an entitlement above that level subject to the

metering program. For the Hawkesbury Nepean, the level of 10 ML represents some 98% of the entitlement on issue.

Attachment B gives an indication of the criteria that the Office will use to assess the type of meter to be installed at each site. As was set out in the Office's submission on the metering service charge, it is expected that an electromagnetic meter with an on-site telemeter will be the standard type of meter that will be installed. Because of long-term accuracy and effectiveness, mechanical meters will only be used where very good quality water with no sediment or debris is encountered – such conditions are more likely to occur for groundwater. Further, open channel meters will only be an option where multiple numbers of pumps are pumping water into one open channel. In many cases the option employed will need to be assessed on a cost basis to determine the most effective long-term metering solution.

The Office will not be able to determine the meter type to be installed at an individual site until the field data for the area has been collected and analysed during the initial stages of the metering program.

3. Waiving or reducing charges

The draft determination states that under the IPART Act charges may not be fixed or waived without the Treasurer's approval. Section 114(2) of the Water Management Act 2000 gives the Minister the power to waive or reduce fees and charges. Waiving or reducing fees or charges is not invariably the same as fixing a fee or charge. In practice, where the Minister was seeking to waive or reduce fees or charges for a class of water users this would occur as part of the Cabinet process. The draft determination should be amended to be consistent with the previous determination which referred to Treasurer's approval being required for the Minister to fix charges only.

IPART's draft report should also be amended having regard to the comments above. For example, references to waiving the meter service charge in the Hawkesbury-Nepean Valley and waiving of charges or charging less than the maximum set by IPART where licences are not being billed should be amended.

4. Minimum Bill

The Office supports the increase in the proposed minimum bill to \$97.90 (+ CPI). This will result in water management costs being spread on a more equitable basis amongst a large number of users, and more adequate recovery of the Office's billing and licence administration costs.

5. Pro-rata of annual charges

The draft determination provides that all charges (referred to as 'annual charges' which include minimum charges) are subject to pro-rata. This is satisfactory for billing fixed (access) charges as it would be unreasonable to bill a licence a full year's charges when the licence is only current for (say) the last few days of the year. However, where the pro-rata reduction would reduce a fixed charge to less than the minimum bill, the minimum bill should still apply. Not to apply this principle would defeat the purpose of a minimum charge tariff as bills could be issued for very small amounts, meaning the Office's costs of billing alone would not be recovered.

The rationale for the introduction of a minimum charge in the last determination was to ensure the costs of billing and licence administration were at least recovered through the water management charge. Further, as zero and small entitlement licences will receive the minimum charge, it would be anomalous not to bill the full minimum charge for a larger licence because of a pro-rata requirement.

6. Consent Transactions Charges

IPART has accepted the consent transaction charges put forward by the Office, with the exception that IPART has changed the unit rate for costing transaction costs. In its calculation IPART has used an hourly rate based upon 1826 hours per annum. This differs from that adopted for all other costs of 1500 hours per annum and as a result the IPART adjustment has reduced costs by 8.65%.

IPART has proposed that the costs of licence transaction charges should be based upon the Crown Employees (Administration and Clerical Officers) salary rate as at 1 July 2010. However IPART’s use of 1826 hours per annum in the calculation provides no allowance for leave entitlements, public holidays, sick leave, and other paid leave and therefore is not an appropriate cost rate to use. PwC/Halcrow in its review of the Office’s activities adopted 1500 hours as a basis for calculating cost recovery. It is inconsistent for IPART to adopt another basis for licence consent transactions.

It is suggested that the hourly rates proposed by IPART should be revised as follows:

Activity	Grade	IPART’s proposed hourly rate	Revised rate based upon 1500 hours per annum
For administration functions	6	\$52.57	\$64.03
For advertising	4	\$44.20	\$53.83
For basic assessment	8	\$59.94	\$73.00
For special assessment	10	\$68.02	\$82.85

7. Regulatory Asset Base, Rate of Return on Assets and Allowance for Regulatory Depreciation

In the draft determination IPART has set the opening value for the Office’s RAB (regulatory asset base) as at 1 July 2011 at zero because of deficiencies in capital planning and asset management systems. The Office requests IPART to reconsider this decision on the grounds that in its report PwC recommended that certain capital expenditure was prudent and efficient. In addition PwC has made a recommendation regarding the level of future capital expenditure it believes will be efficient, including an amount for 2010/11. The Office therefore requests that it receive an opening RAB as at 1 July 2011 of the total of PwC recommendations of prudent and efficient capital expenditure up to that date, adjusted for any variances in expected expenditure to actual expenditure. The Office has attached a spreadsheet detailing this expenditure as per IPART requirements.

8. Efficient Costs and Stress Testing

IPART has reduced the Office's proposed operating and capital expenditure on the mostly incorrect grounds put forward by PWC/Halcrow.

Given that IPART has cut the Office's allowed base level of staff, the price increase in the draft determination while purporting to allow for some additional staff in effect will only provide for current staff levels. PWC/Halcrow in its review of the Office's activities clearly recognised the additional workload due to the increasing complexity of water management issues. Yet the Office is expected to deliver substantial additional services with no effective additional resourcing.

Allocation of Staff

As part of its ongoing business the Office continuously assesses its staff allocations to take account of work priorities. The Office has also had to review its work as a result of a number of agency restructures, redundancy schemes, as part of the annual budget process and more recently because of the significant impost of the Commonwealth reform requirements. PWC/Halcrow was provided with an example of the staffing analysis and allocation adopted by the Office for one activity. IPART has drawn the conclusion that such planning is isolated to the example given.

Attachment 3 in the draft determination lists the significant additional work that was undertaken by the Office to meet the activities listed in its 2005 submission. Despite not receiving the level of resourcing required for the last determination period, since 1 July 2006 the Office has completed and gazetted 19 water sharing plans and placed another 16 on public exhibition. In addition the Office was involved in administering a \$135 million assistance program to groundwater users as a result of the water sharing plans and significant time and resources have been allocated to negotiations with the Commonwealth and provision of information for the Basin Plan – these were activities which were not envisaged or included in the 2005 submission but have taken the time of water planning staff.

In preparing its forecasts for the next determination period, the Office undertook a critical analysis of the work program for the period to 2012/13 and assessed the resources required to deliver this work program. The resource forecast then underwent a second round of review where activities were aligned and efficiencies identified. The outcome of this process was a self-imposed reduction of 20% on the additional FTEs sought.

Clear justification was provided for the increased staffing compared to the existing staffing level for each activity. This included the required future outcomes, the drivers of the outcomes, including an extensive set of statutory, administrative, contractual and performance standards for its monopoly service activities.

IPART has concluded that the Office has not redeployed staff from tasks that are complete and referred specifically to the movement of staff from water sharing plan development as the plans are completed. This fails to acknowledge that, while all the initial water sharing plans will be completed during the next determination period, there is a legislative requirement for review of all plans before the end of their ten year term as well as the significant new review process that is now required as a result of the Commonwealth's Basin Plan. The first round of plans will need to be reviewed and remade by July 2014. For those within the Murray-Darling Basin they will also have to be remade consistent with the Basin Plan and accredited by the Commonwealth.

This review of the plans will include detailed scientific analysis of the existing plan outcomes and extensive consultation with stakeholders. The resources required for this work will in many cases, be of at least the same order or more (given the likely significant impacts of the Basin Plan on extraction limits) as those required to develop the initial plan. There will be no freeing up of water planning staff until well after the period of this determination given the increased requirements imposed by the Commonwealth. The Commonwealth requirement is that all plans made after 2007 have to be reviewed 5 years after they commence. This is a significant reduction in the original time frame for NSW water sharing plans which is 10 years.

Stress Testing

Virtually all the Office's water management activities are mandatory, and to this extent, risk-based analysis is not generally considered appropriate. Nonetheless, when providing information to support submissions for additional government funding, it is necessary for agencies to demonstrate why the resources are required and the implications for delivery of key government services if the funding is not forthcoming. Such requests are rigorously assessed and are not always successful because of other priorities for available funds. Frequently this results in increasing staff workloads to maintain the community's service delivery expectations.

A key example of this is in the area of water monitoring where the Office is carrying out 3 visits per site/per year which does not meet the national standard of 6 visits to each water monitoring site per year. If funding is constrained further in the water monitoring area, not only will the national standard not be met, but up to 300 surface water monitoring sites will need to be effectively "mothballed" and not maintained into the future. These sites provide vital information to the Bureau of Meteorology and the State Emergency Services regarding flow and heights as well as providing key information to recreational and industrial users. Reduced flood warning information could potentially put lives at risk.

Efficiency Savings

IPART has recommended efficiency savings of 0.5%. However, this does not take into account the efficiency savings already incorporated into the Office's forecasts. In its submission the Office included a number of factors that reflecting efficiencies in operating costs including:

- A reduction in the overhead rate of 4% in each of the years 2010/11 and 2011/12
- A reduction of 20% in the baseline remuneration costs; whilst the majority of these costs related to staffing issues there was a factor included to reflect stakeholders' expectation of improved efficiency
- Reduction of 20% in the additional FTEs
- Productivity improvements already incorporated in the forecasts such as in the area of water monitoring.

Productivity Improvements

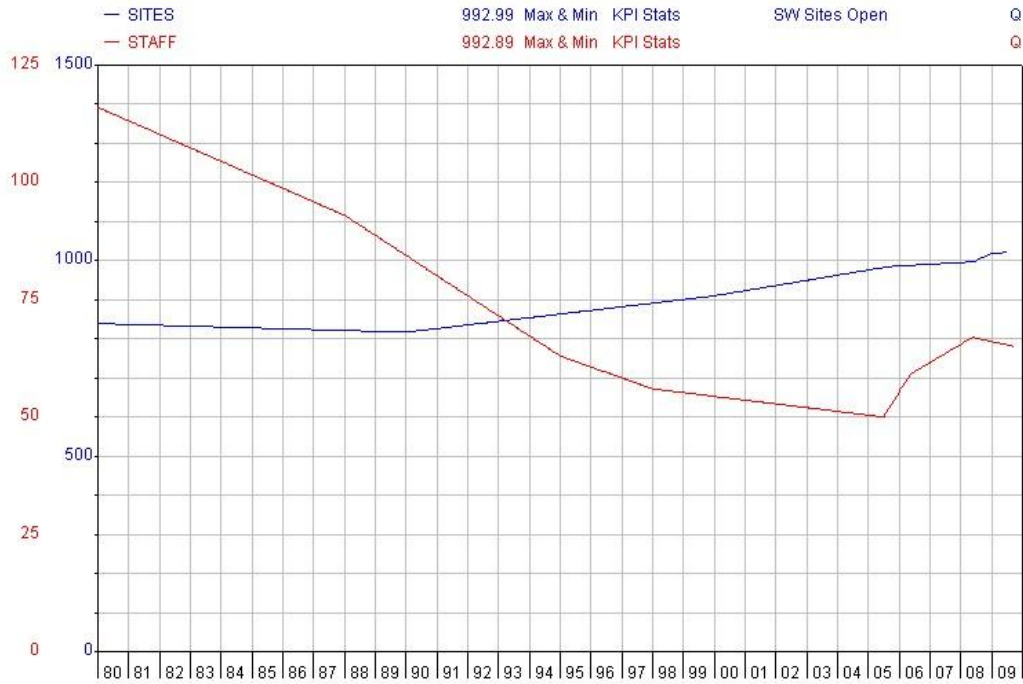
The Office provided information which showed that it has achieved and is continuing to implement productivity improvement in its hydrometrics operations as a result of capital investments. The following graph compares the number of hydrometric staff with the number of river monitoring sites maintained from the period 1980 to 2009. The graph shows that the number of staff (red line) has declined from 115 to 63 over the 30 year period, while the number of stations maintained (blue line) has increased from 850 to over 1,000.

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HYPLOT V132 Output 25/01/2010

Period 30 Year Plot Start 00:00_01/01/1980
 Interval 15 Day Plot End 00:00_01/01/2010

1980-10



The second graph further compares the number of staff (the red line) involved in the collection of hydrometric data (both surface and groundwater) with the amount of data collected and archived (the blue line) e.g. river level, EC, temperature, rainfall, groundwater level etc.

NSW Office of Water

HYPLOT V132 Output 25/01/2010

Period 30 Year Plot Start 00:00_01/01/1980
 Interval 15 Day Plot End 00:00_01/01/2010

1980-10



However while efficiencies are possible in areas such as water monitoring which can be assisted by technology improvements, it is difficult to assess the efficiency of or impose efficiencies in broader water planning, assessment and policy work. Areas such as water sharing plans and operational policies require detailed negotiation and consultation with stakeholders and demands on these activities and staff will only increase given the significant impacts of the Basin Plan. The demands on staff are already such that many staff are working significant unpaid hours.

Operational Planning

Of particular concern is the continued assertion that the Office has completed only one policy guideline with 20 to 25 FTEs working in the area of operational planning over the past four years.

The view that 20 – 25 staff were working on “operational planning” during the course of the current determination is based on an incorrect split of the activities. Within activity C07-01, there were approximately 38 FTEs working on development of water sharing plans, 5 FTEs devoted to the legislative reform tasks and just 5 FTEs working on the development of operational planning instruments.

With a resource pool of just 5 FTEs, the following major operational planning milestones were completed and implemented during the last determination period:

- Groundwater trading rules in inland aquifers;
- Embargoes on groundwater licence applications across all of the Murray-Darling Basin aquifers and all of the alluvial coastal aquifers;
- Controlled allocation strategy for savings associated with the Cap and Pipe the Bores Program;
- Rules and quantification of unassigned groundwater;
- Supporting information for the 2008, 2009 and 2010 amendments to the *Water Management Act 2000* and associated regulations;
- Assessment of water sharing and trading arrangements for their consistency with State and Commonwealth agreements and the *Water Management Act 2000*;
- Water sharing and trading arrangements for:
 - surface water: the Border Rivers and Peel in the MDB and the Bellinger, Coffs Harbour, Lower North Coast, Paterson, Hunter Unregulated/Alluvial, Central Coast (Gosford/Wyong) on the coast; and
 - groundwater: 6 inland aquifers and Great Artesian Basin;
- Licensing rules for access to sugar cane drains;
- Licensing strategy and supporting regulation for tidal pool users;
- Rules to define and manage replacement groundwater bore works;
- Rules for setting daily access conditions for licence holders extracting water from highly connected surface/groundwater systems and in-river pools;
- Rules for exemptions to daily access conditions for critically important licence categories, such as those who are licensed to extract water for domestic and stock purposes.

Significant progress was also made during the determination period on the following:

- Public exhibition of the draft rules for licensing floodplain harvesting;
- Final preparations for public exhibition of draft mandatory guidelines for the reasonable take and use of water for stock and domestic purposes under basic landholder rights;

- Draft guidelines for licensing aquifer interference activities and preparation of material to seek approval to proceed to consultation phase;
- Draft rules for the management of stacked aquifers;
- Draft return flow rules and providing advice to licensees interested in obtaining credits for return flows and managed aquifer recharge;
- Draft rules for licensing stormwater harvesting projects and providing advice to major proponents of these projects;
- Draft rules for setting long-term annual average extraction limits and managing compliance to these limits for unregulated and groundwater systems in the Murray-Darling Basin;

Compliance Framework

The Office has internal strategic, business plans and risk assessments which guide its compliance activities. These are confidential and IPART was advised that they could view these documents. The Office's broader Compliance Policy is a public document and on the internet at <http://www.water.nsw.gov.au/Water-management/Law-and-Policy/default.aspx>.

9. Cost Drivers and User Shares

It is noted that IPART has accepted the Office's cost drivers and expects these to be retained for future annual reporting. The Office intends to follow this approach, subject to any refinements that may be necessary in the future to better reflect cost allocations.

10. Identification of Monopoly Services

IPART's report indicates that the Office did not transparently explain how it identified its monopoly water management activities and their costs, nor clearly define the outputs of those activities.

The IPART (Water Services) Order (2004) declared certain services provided by the Water Administration Ministerial Corporation to be government monopoly services for which IPART sets fees and charges. The Order provides little guidance as to what makes up government monopoly services supplied by the Corporation, and is essentially the same Order as that applying to the bulk water operator, State Water.

Therefore the activities undertaken by the Office (on behalf of the Corporation) that comprise monopoly services have necessarily been a matter of judgment by IPART and the Office. To this extent, these activities have been reviewed and refined exhaustively by both agencies over a long period of price regulation.

With respect to the activities concerned, the Office's submission provided a detailed description of each activity, its outputs and outcomes (predicated on the basis that the increased levels of service would be adequately funded). These activities underpin the monopoly services undertaken by the Office, and are consistent with the NWI pricing principles which specify that water management involves activities:

- a) to promote the long term sustainability of the resource and to maintain the health of natural ecosystems by minimising impacts associated with water extraction; and
- b) that are necessary to manage the impacts of past, current and future patterns of water extraction; or

- c) that are concerned directly with the hydrology of surface and groundwater systems (as opposed to wider catchment management activities, although there are close linkages); or
- d) that protect the integrity of the entitlement system and the security of users' authorised access to water.

The Office is currently considering this issue and will undertake to develop a framework as requested by IPART which can be used over the period of the next determination.

11. Exclusion of Unallocated Staff

The Office does not agree with IPART's exclusion of 18.3 FTEs (and their associated costs) from the cost base for water pricing.

The 18.3 FTEs do not represent 18.3 staff, but a combined proportion of the time of various staff that was costed to an overall branch cost centre. In a costing environment it is generally accepted that not all time will be allocated to specific job activities. There are a range of reasons for this including:

- the task undertaken applies to a large range of activities such that it is impractical to appropriately allocate time to each specific output e.g. supervision and management of staff, general administrative support.
- where staff undertake activities that are not specific to an output e.g. staff performance reviews,
- the activity is new or short term and does not have an appropriate cost code.

The Office provided detailed information to Halcrow/PWC that attributed the time (and therefore costs) between IPART regulated activities and other activities based upon the average of all staff undertaking direct activities. There is no justification for removing these staff from the baseline costs for price purposes.

12. Stakeholder views on proposed operating expenditure

- *SCA believes that NOW is double counting between its corporate licensing charges and funding of works and IPART regulated charges.*

Corporate licences fees recover the actual cost incurred by the Office in a dedicated program for administering SCA's water management licence, whereas water management charges recover a share of the assessed cost of managing the resource for the valley as a whole. This cost recovery framework was confirmed by IPART in the 2006 determination.

The specific activities in managing corporate licences, although bulk water related, are distinctly different from those undertaken for valley-wide water management.

With regard to gauging stations, SCA collects data from its own gauging stations within the catchment boundary, and while the Office does not record or recover any costs for these stations, it still incurs costs to verify the data supplied by SCA from the gauging stations. The Office also operates its own gauging stations within Sydney/South Coast region outside SCA boundaries. Costs for these stations, including data collection and management, form part of costs recovered from all users in the valley through the valley

specific water management charge. These costs would be incurred regardless of whether water monitoring activities were undertaken by SCA.

Detailed job costs associated with both sets of activities are separately identified and not duplicated in the costing process. The costs are aggregated and allocated to activities and valleys for cost recovery through water management charges or invoiced directly to SCA for management of its corporate licence. The Office consults closely with SCA on the licensing costs incurred through an open and transparent account reconciliation mechanism.

- *Murray Irrigation and Coastal Customer Service Committee question NOW's cost given that hydrometric stations on regulated rivers are funded through State Water charges and contributions from other organisations*

Only the costs associated with Office funded stations are included in water management prices – stations funded by State Water and other external sources are not included.

- *NSWIC is concerned about NOW's proposal for additional compliance staff given State Water's compliance activity*

State Water has only one dedicated compliance staff member. While State Water staff may alert the Office to any breaches in water licence conditions, they do not have the same powers to investigate and prosecute illegal water activities as those of the Office of Water staff.

13. Recommended Actions to Improve Performance

Reporting Requirements

IPART requires the Office to report by 31 October each year on:

1. Annual financial Reports by valley and for groundwater by inland/coastal division:

- *Revenue collected from water charges*
- *Operating expenses identified by activity codes*
- *Current year allowed expenditure and actual expenditures*
- *Explanation of the variation between operating/capital expenditures and actual expenditure*
- *FTE staff reports on the resources allocated to each activity code*

2. Actual Revenue received from the Commonwealth in relation to Scenario 2 expenditure

The Office will provide Annual Reports on revenue and valley expenditure to IPART, according to the timetable requested by IPART.

In addition, the ACCC requires Murray Darling Basin states to publish information annually on their water planning and management cost recovery regimes. Commencing in 2011, the Office will publish on its website information on:

- schedules of fees and charges by valley, water source, licence type
- cost allocation principles
- billing arrangements

- details of water management activities including costs of each activity.

3. Progress against activities in Schedule L

The Office is currently reviewing its capability to report against the extensive criteria detailed in Schedule L. Resources will be required to develop the reporting framework, collect data on an ongoing basis and maintain a regular reporting routine. As the Office has not achieved the requested price increases, it will necessarily be operating in an environment of cost constraint and will need to make choices regarding priorities.

IPART also expects the Office to deliver on all activities listed in Schedule L on the basis that IPART's prices allow for efficient operation. The activities and outputs listed in Schedule L are based on those provided by the Office in its submission which was subject to funding sufficient for an additional 47 staff. Given that IPART excluded a number of legitimate staff from the cost base, the price provided by IPART allows no increase in staff over current levels and as such the Office will not be able to deliver all the outputs proposed.

For example, the Office cannot physically double the site visits to its hydrometric network without additional staff. While some efficiencies can be achieved arising from potentially improved planning and timing of visits, the reality is that it requires staff to undertake the visits.

Many of the service outputs are also not clear regarding what the actual performance indicator or aspect is to be measured. The Office will work with IPART to further refine Schedule L so as to produce a meaningful and reportable list of targets for performance reporting.

Improved Service Requirements

1. NOW should undertake options analysis of its activities, including testing contestability of the services provided

Most of the Office's activities are core business and mandated by legislation and the Office is the only organisation in NSW with the correct mix of expertise to undertake many of these activities. This restricts genuine contestability. Market testing in the larger core activities of hydrometrics, billing and metering services may provide cost efficiencies. As a step towards establishing more transparent and accountable service provision, and to ensure efficient use of specific expertise, the Office and State Water have developed service level agreements (SLAs) for provision of these services. As these activities require specialised skills, the current SLAs are considered the most viable option for business improvement.

The Office already outsources all of its transactional corporate services activities in Finance, HR and IT, as per the NSW Government policy for shared services.

2. NOW should consider and publish a policy on levying water management charges on stock and domestic and other basic rights holders prior to the next price determination

The Office has been working to develop draft Mandatory Use Guidelines for Basic Landholder Rights. These Guidelines will be implemented following public exhibition and further consultation. The Office considers that the appropriate time to consider a

policy for billing stock and domestic licence holders is following the implementation of these Guidelines. However, as basic landholder rights are not licensed, the Office does not have the information necessary for billing these users on unregulated rivers.

3. NOW should undertake consultation with users about performance, expenditure and revenue

Office staff, including the Commissioner, attend State Water's Customer Service Committees to provide information on major activities as required. The Office does not present financial information at these meetings. The Office will consider providing users with more regular reporting via the internet, but at this stage has identified this to have a lower priority than a range of other administrative tasks, such as developing the conceptual framework around the Water Services Order and refining the Office costing system.

As outlined by the Commissioner at the IPART hearings there is no practical or cost effective means of having similar arrangements which can cover the span of groundwater and unregulated river users across the State. The Office consults with water user on key issues and policies as they arise.

The annual reports provided to the ACCC and the information that the Office will post on its website in response to the ACCC publishing requirements should assist water users in understanding the basis of costs recovered through fees and charges for the Office's water management activities.

4. Improve billing systems and administration including billing those not billed and more timely billing

The Office acknowledges that there were delays in recent years in the issue of bills for bulk water management services, but wishes to emphasise that all bills apart from unregulated surveyed users have been up to date for a period of 12 months.

Unregulated river surveyed users represent less than one percent of the Office's annual revenue, and due to the required surveys, are work intensive and hence warranted a lower priority than the other cohorts. These bills for the years 2006-07, 2007-08 and 2008-09 were issued early in 2010 and the 2009-10 bills were issued on schedule in November 2010.

The Office did bill zero share licence holders the minimum charge of \$60. The only major licence categories not billed are unregulated river and groundwater domestic and stock licences. Groundwater domestic and stock licences are effectively basic landholder rights, meaning they are generally not chargeable. Longstanding administrative arrangements have precluded the Office from billing unregulated river domestic and stock licences.

It is envisaged that, subject to obtaining the Minister's approval and consulting with licence holders, unregulated river domestic and stock users will be billed from July 2011 in conjunction with commencement of the new determination.

5. Improve financial systems, including ring-fencing of expenditures

The Office currently operates a detailed, time sheet based, job costing system and it is not correct to say that reported monopoly service costs are only derived by eliminating other activities. All jobs identify activity and sub-activity to which they relate and are flagged as either monopoly service or non-monopoly service related activities. The

reported costs are the sum total of all the monopoly service related jobs. However, the Office accepts that the accuracy and consistency of its cost reporting could be improved and is currently considering the most feasible way of achieving this, giving the current and ongoing resource constraints it experiences.

Asset Management Plan

IPART has requested that the Office develop an asset management strategy to provide a long-term optimised replacement program for its assets. The Office does not have a comprehensive asset management system at this stage by which to formally monitor asset condition or to program periodical maintenance or assets renewals. The Office's major water management assets are groundwater monitoring bores and surface water (hydrometric) gauging stations. Other assets such as motor vehicles, water craft and office equipment are minor in value and often leased.

An asset management system would have some benefit in ensuring efficient maintenance and analysis of condition assessments and other data relevant to the management of monitoring bores and gauging stations. However, it should be noted that the wide dispersion of such relatively small long lived assets means assessment of asset condition may prove to be marginally cost effective on a risk management basis. In addition, these assets generally require low value maintenance. Where necessary, they are repaired or renewed in conjunction with data collection to a standard that meets data collection requirements.

The Office will assess the work involved in developing an asset management system for its assets and undertake a cost benefit analysis of implementing such a system. Development of an asset management system for the meters has been incorporated into funding proposal to the Commonwealth for the expansion of the meter network.

UNREG (Water Act 1912) 80/20 pattern

