

Contact: Marysia Derewlany
Phone: 9354 1084
Fax: 9354 1106

Our Ref: DOC10/5576

Mr James Cox
Acting Chairman and
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

15 June 2010

Dear Mr Cox

Water Administration Ministerial Corporation Price Review 2010

I am writing to express my concerns at the apparent anomaly in the outcomes of the Operating and Capital Expenditure Reviews of the NSW Office of Water (the Office) and State Water, which were commissioned by your organisation as part of the pricing reviews for each entity.

State Water maintains that both the Atkins/Cardno (Atkins) and PricewaterhouseCoopers (PWC) were tasked by IPART to undertake identical tasks: namely, to review the prudence and efficiency of each organisations' operating and capital expenditure (notwithstanding the fact that the Atkins Review also included a strategic management overview of State Water's planning, business and asset management processes). Both reviews recommended a range of reductions targeted at specific expenditure items, as well as an across the board percentage reduction.

As you are aware, State Water achieved a 20% reduction in operating expenditure over the 2006 Determination period, whilst maintaining a high level of service delivery to customers. Despite this achievement, the Atkins review recommended that a 7.2% cost efficiency should be applied to State Water's future operating expenditure over 4 years, including a 5.9% reduction already proposed by State Water. This recommendation was accepted by IPART in its draft Determination.

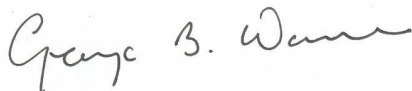
The PwC review of the Office found a number of specific inefficiencies in the Office's baseline 2009/10 expenditure. However, PwC recommended only a 2% efficiency reduction in operating expenditure over the same 4 year period as the 7.2% cut to State Water.

The stark contrast in review findings suggests there is a flaw in IPART's review process, whereby efficiency reductions are more dependent on the methodology used by the

organisation appointed by IPART to complete the review, rather than the actual efficiency of the business or agency. To improve the consistency of future regulatory outcomes, State Water strongly suggests that IPART consider providing additional guidance and a consistent methodology to future operating and capital expenditure reviewers.

In the short term, State Water requests that IPART apply any cost efficiencies consistently across both State Water and the Office.

Yours sincerely

A handwritten signature in black ink that reads "George B. Warne". The signature is written in a cursive style.

George Warne
Chief Executive Officer