

State Water Corporation Operational Audit

1 July 2006 - 24 June 2008

Report to the Minister

Water — Compliance Report
December 2008

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1 Introduction and Overview

The Independent Pricing and Regulatory Tribunal (IPART) of New South Wales (NSW) has completed its biennial audit of State Water Corporation's (State Water) compliance with the requirements of its operating licence (the licence). This audit covers the period from 1 July 2006 to 24 June 2008 (audit period). IPART engaged Halcrow Pacific Pty Ltd (Halcrow) as the consultant, to assist with the 2006-2008 Operational Audit (the audit) of State Water.

The purpose of this report is to inform the Minister for Water of IPART's findings in relation to State Water's performance against its licence obligations for the audit period and set out IPART's recommendations in response to these findings.

State Water is a State Owned Corporation which delivers bulk water to rural and regional NSW. It was established on 1 July 2004. It was previously a business unit within the then Department of Natural Resources (now the Department of Water and Energy (DWE)).

On 24 June 2005, State Water was issued with an operating licence for a period of 3 years. IPART is required to undertake an audit of the licence at times directed by the portfolio Minister, under part 4, Section 31 of the *State Water Corporation Act 2004* (the Act). The licence provides at clause 12.1.1 that IPART must initiate an audit of State Water's operations as soon as practicable after 29 June 2006 and following this date an audit should be conducted every two years.

This audit is the second time that State Water has been audited and is the last audit of State Water's performance against the requirements of the 2005-2008 licence. This licence expired on 24 June 2008. In July 2007, IPART commenced a review of the 2005-2008 operating licence which culminated in a new licence being granted to State Water for a period of 5 years commencing 24 June 2008.

Since it has only recently been corporatised, State Water has not had sufficient time to develop the processes and systems that ensure reliable performance against its licence requirements. For this reason, the 2005-2008 licence of State Water did not adopt the risk based audit regime that is currently employed by IPART for audits of other water utilities. Therefore, this audit involves a comprehensive assessment of State Water's compliance with each auditable clause of the licence.

1.1 Overview of Audit findings

State Water achieved a high level of compliance with the licence. Most notably State Water was able to demonstrate an improvement in compliance compared with the last audit. Specifically IPART found that State Water achieved:

- ▼ **High to Full Compliance** for part 2.3 of the licence concerning Memoranda of Understanding (MoU). **High Compliance** was awarded for one clause because the MoU with the Department of Water and Energy (DWE) did not reflect coordination of all of the functions between the two organisations.
- ▼ **High to Full Compliance** with part 4 of the licence concerning Customers and Community Engagement. A **High Compliance** was assigned for the provision of information to Customer Service Committee's (CSC).
- ▼ **High to Full Compliance** with part 5 of the licence concerning Complaint and Dispute Handling. One **High Compliance** was assigned because the consultant considered that State Water could provide additional information on the timeframe within which complaints were resolved.
- ▼ **Full Compliance** with the Asset Management clauses provided by part 6 of the licence.
- ▼ **Moderate to Full Compliance** with part 7 of the licence concerning Water Delivery. Lower compliance gradings were awarded where IPART's consultant identified inconsistencies with State Water's reporting of Water Balances. In addition, State Water undertook few activities to address the issue of metering accuracy during the audit period.
- ▼ **High-Full Compliance** with part 8 of the licence concerning its compliance with its Environment Management Plan (EMP). However, several improvements were identified for the EMP.
- ▼ **Moderate Compliance** with part 9 of the licence concerning Performance Indicators. Several **Low Compliance** gradings were identified for State Water's compliance with the Indicators outlined in Schedule 1 to the licence, and reported against under clause 9.1.
- ▼ **Full Compliance** for all clauses of Part 10 of the licence concerning Pricing. No issues were identified.

The areas identified with the most scope for improvement include Parts 7, 8 and 9 of the licence. These parts of the licence relate to Water Delivery (specifically metering), the EMP and Performance Indicators. IPART's recommendations focus on improving performance in these areas of the licence.

1.2 IPART recommendations

A number of recommendations are outlined in the consultants audit report. State Water should consider all of these recommendations and use them to guide its efforts to further improve its performance over the next year.

The audit has identified some areas of the licence where improved performance is needed. These are associated with metering, the EMP and performance indicators. These matters were explicitly addressed during the licence review and the licence amended as a result. IPART considers that rather than impose new obligations on State Water as a result of the audit findings, the new licence clauses should be given time to achieve their purpose and IPART should monitor State Water's progress in addressing these requirements in the new operating licence. On this basis, and based on the recommendations outlined in the Consultant's report, IPART makes the following recommendations for action by State Water.

Metering

IPART recommends that State Water reports to IPART and the Minister by 30 March 2009 on its progress against the requirements of clause 6.5 of the 2008-2013 licence to ensure that an efficient and reliable metering regime is implemented and audited by State Water consistently with the terms of the operating licence.

Environment Management Plan

IPART recommends that State Water reports to IPART and the Minister by 30 March 2009 on:

- ▼ a strategy and timeframe to develop and implement a clear and consistent algal management strategy
- ▼ a strategy and timeframe to develop and implement an overarching environmental framework, detailing the various policies, procedures and documents which sit below the EMP
- ▼ a strategy and timeframe to develop and implement a framework for evaluating and monitoring environmental performance and ensure that this framework includes appropriate benchmarks and measurable Key Performance Indicators (KPIs).

Performance Indicators

IPART recommends that State Water reports to IPART and the Minister by 30 March 2009 on its progress in implementing its new corporate compliance system. This report should specifically indicate the progress of the internet Water Accounting System (iWAS). In addition, State Water should outline its progress in reporting against the new indicators in the 2008-2013 operating licence.

1.3 Structure of Report

The following chapters explain the audit findings and recommendations in more detail. They also provide IPART's comments in response to these findings, based on its understanding of the issues, its ongoing compliance monitoring and observations during the audit process.

Chapter 2 explains the basis for, and scope of, the audit review, and the process followed in undertaking it.

Chapters 3 to 10 focus on State Water's compliance with the audited sections of the licence including:

- ▼ Memorandum of Understanding (Chapter 3)
- ▼ Customers and Community Engagement (Chapter 4)
- ▼ Complaint and Dispute Handling (Chapter 5)
- ▼ Asset Management (Chapter 6)
- ▼ Water Delivery Operations (Chapter 7)
- ▼ The Environment (Chapter 8)
- ▼ Performance Indicators (Chapter 9)
- ▼ Pricing (Chapter 10).

Each of Chapters 3 to 10 outlines the IPART's assessment of compliance with the requirements of each part of the licence, and presents recommendations for State Water.

Appendix A sets out the scope of this audit, indicating which clauses of the licence were subject to audit. A copy of the consultant's audit report is attached as Appendix B.

2 Audit Scope and Process

Part 12 of the licence provides that IPART must initiate an audit of State Water's Operations as soon as practicable after 29 June 2006 and following this date an audit should be conducted every two years. The 2008 audit is the second and final audit of State Water under the 2005-2008 operating licence.

2.1 Scope

The conduct and matters to be considered under this audit are specified in part 12 of the licence. This includes a requirement for a public consultation process which includes an invitation to receive submissions from members of the public. The scope of the audit is defined in clause 12.2 of State Water's operating licence, which provides:

IPART or the person undertaking the Audit must investigate and prepare a report on any or all of the following:

- a) Compliance by State Water with its obligations in each of clauses 2.3, 4, 5, 6, 7, 8, 9 and 10 (and any Schedules referred to in those clauses) of this Licence; and
- b) Any other matter required by this Licence, the Act or administrative direction to be assessed and considered as part of the Audit.

This audit assessed all matters under clauses 2.3, 4, 5, 6, 7, 8, 9, and 10 (and the associated schedules).

2.2 Process

IPART engaged Halcrow as the consultant to assess State Water's performance against the requirements of its licence. As a part of the audit process, State Water's key stakeholders, including Government agencies and its customers were consulted. In addition, IPART invited members from the public to make submissions to this review. IPART advertised for public submissions in the Government Pages of "The Land" and "The Sydney Morning Herald" newspapers on 10 September 2008. IPART notes that no public submissions were received for this review.

The consultant adopted a methodology consistent with *ISO 14011 - Guidelines for Environmental Auditing*. These guidelines set out a systematic approach to defining the requirements of the audit, which ensure that it is conducted in accordance with an established and recognised audit protocol.

IPART held an inception meeting with its consultant and State Water on 27 August 2008. This meeting developed the protocol for the conduct of the audit. All parties adhered to the agreed protocols throughout the audit.

IPART provided State Water with drafts of the consultant's audit report for comment. IPART considered State Water's comments before finalising its report. The consultants audit report is attached as Appendix B.

State Water's compliance with the requirements of the licence was assessed and rated according to the following compliance schedule:

Compliance Grade	Description Detail
Full Compliance	All requirements of the condition have been met.
High Compliance	Most requirements of the condition have been met with some minor technical failures or breaches.
Moderate Compliance	The major requirements of the condition have been met.
Low Compliance	Key requirements of the condition have not been met but minor achievements regarding compliance have been demonstrated.
Non Compliance	The requirements of the condition have not been met.
Insufficient Information	Relevant, suitable or adequate information to make an objective determination regarding compliance was not available to the auditor.
No Requirement	The requirement to comply with this condition does not occur within the audit period or there is no requirement for the utility to meet.

3 Memoranda of Understanding

Under the provisions of clause 2.3 of the operating licence, State Water is required to enter into Memoranda of Understanding (MoU) with each of the Directors-General of:

- The Department of Environment and Climate Change (DECC); [formerly Department of Environment and Conservation (DEC)];
- The Department of Primary Industries (DPI); and
- The Department of Water and Energy (DWE) [formerly Department of Infrastructure, Planning and Natural Resources (DIPNR)].

The purpose of each MoU is to form the basis for a cooperative relationship between the organisations to ensure that both parties can meet the agreed objectives of the MoU.

3.1 Audit Findings

Compliance with MoU provisions of the licence for the audit period ranged from **High to Full Compliance**. **High Compliance** was awarded for one clause because the MoU with DWE did not reflect coordination of all of the functions between the two organisations.

Compliance with this section of the licence has improved since the last audit, when State Water's compliance ranged from low to full. This was primarily due to State Water not having implemented a MoU by the date specified in the licence. In addition, State Water is currently in the process of reviewing each MoU with a view to developing new MoU's for the new licence.

3.2 IPART's Recommendations

IPART does not make any specific recommendations for this part of the Licence.

3.3 IPART's Comments

State Water has demonstrated that significant emphasis had been placed on fostering a better relationship with each of the parties to the MoUs since the last audit of State Water. In particular, State Water's relationship with DWE has improved and

appears to be progressing well. IPART notes that this improvement is largely due to direction from Senior Management within both organisations to develop and foster a better working relationship between the two organisations. The extent of this relationship was examined on a valley basis during the audit interviews and the feedback from State Water staff was positive towards the ongoing relationship between the two organisations. IPART considers that the relationship between State Water and DWE to be particularly important, since these organisations have complementary roles in a wide range of activities.

State Water also demonstrated that it had maintained a MoU with both DPI and DECC and reported on performance with each MoU as required by the licence. No areas of concern were identified with either MoU. During the audit interviews, State Water noted that there may be scope to work with DPI in providing advice to water users on the watering requirements of crops. This is not a core activity for State Water and so does not warrant inclusion of the MoU. However, there are several potential benefits that could arise from such operation, particularly in relation to water efficiency.

State Water's compliance with its MoUs was closely investigated during the audit. Not only were the Director General's of the agencies specified in the licence contacted but staff from these agencies that have a direct working relationship with State Water were also contacted. The feedback received from these agencies was very positive. In particular, DPI highlighted the contribution of State Water to the:

...wise management of aquatic resources and commended its efforts to work collaboratively with NSW DPI to achieve positive environmental outcomes.

IPART notes the work that has been undertaken by State Water with respect to each MoU, and considers that the improved relationships between State Water and the parties to each MoU will result in improved operational performance.

IPART supports the negotiation of new MoUs with each of the Government agencies outlined in the licence and understands that this process is currently underway. IPART does not recommend that any additional requirements are imposed on State Water with respect to the development and maintenance of MoUs with Government agencies.

4 Customers and Community Engagement

State Water's core business is providing services to 'regulated river' customers. These services include providing water allocations from dams, billing and metering. The licence includes requirements related to customer consultation and community engagement and enables community groups to provide input into how State Water's delivery system is managed.

4.1 Audit Findings

State Water has maintained a very **High Level of Compliance** with this section of the licence, which is consistent with the previous audit. A brief summary of the findings for each section of part 4 of the licence is outlined below.

Community Consultative Committee

State Water achieved **Full Compliance** for all clauses of this section, because State Water has established and regularly engages in consultation with a Community Consultation Committee (CCC). State Water also demonstrated that it had provided the CCC with relevant information to allow the CCC to discharge the tasks assigned to it.

Valley Based Customer Service Committees (excluding Fish River Customers)

State Water achieved **High-Full Compliance** for clauses relating to its Valley Based Customer Service Committees (CSCs). State Water demonstrated that it had established and regularly engaged in consultation with each CSC. A **High Compliance** was assigned for the provision of information to CSC's because State Water can still improve its performance in providing financial information requested by customers. State Water has acknowledged that it has limitations with the configuration of its financial system and this has, at times meant that it has been unable to provide some of the information requested of it.

Customer Service Charter (excluding Fish River)

State Water achieved **Full Compliance** in respect to its Customer Service Charter. State Water developed a new Charter in July 2007 and engaged in consultation with its CSC's as a part of the Customer Charter review.

Fish River Customer Council

State Water achieved **Full Compliance** for all clauses of this section. State Water has established and regularly consults with a Fish River Customer Council. State Water also demonstrated that it had provided this Council with relevant information to enable the Council to discharge its tasks.

Customer Contracts (Fish River customers only)

State Water achieved **Full Compliance**, as State Water used its best endeavours to enter into agreements with its Fish River customers during the audit period.

Code of Practice and Procedure on Debt Management

State Water achieved **High-Full Compliance** with its Code of Practice and Procedure on Debt Management (Code). State Water established and maintained a Code throughout the audit period and it was made available to the public as specified by the licence. A **High Compliance** was awarded because State Water did not advertise alternative payment options on bills. This clause was amended during the recent licence review. Under the terms of the new licence State Water would have received full compliance.

4.2 IPART's Recommendations

IPART does not make any specific recommendations for this part of the Licence.

4.3 IPART's Comments

IPART notes that in the 2005/06 audit, State Water received predominately full compliance with the licence obligations concerning Customers and Community engagement. The major issue arising from that audit for this section related to the provision of financial information to its customers.

There is still opportunity for improvement with respect to the provision of financial information requested by customers. State Water acknowledged that limitations with the configuration of its financial systems have meant that it has been unable to provide some of the information requested of it. State Water considers that the IFMS (Integrated Financial Management System) improvement project, which is currently nearing completion, will facilitate more accurate and prompt reporting of financial information to CSCs. State Water also noted that when and where concerns arose concerning the provision of information, it had attempted to work proactively with CSCs to disclose information. This has included the attendance of State Water's CEO at CSC meetings to work through these issues.

IPART notes that State Water had significantly improved its financial reporting systems since the 2005/06 audit and State Water is actively improving its performance in this area.

Members of both the CCC and CSC's were consulted during the audit period. In general, feedback was positive. The key exception being the provision of financial information, which was raised as an issue by each of the CSC's who made submissions to this review.

State Water has maintained a high level of compliance with part 4 of the licence and actively sought to improve its compliance based on the recommendations of the 2005/06 audit. IPART considers that State Water has demonstrated a commitment to improvement in this area of the licence and will monitor this improvement in future audits.

5 Complaint and Dispute Handling

The operating licence includes provisions relating to complaints and dispute handling. Under clause 5 of the licence, State Water must:

- ▼ Establish and continue to have in place internal complaints handling procedures for receiving, responding to and resolving complaints it receives from customers and the community relating to any of its functions.
- ▼ Have in place and continue to have in place a Dispute Resolution Scheme or other arrangements for the external resolution of disputes between State Water and its customers.
- ▼ Report on complaints made against it to other bodies.

5.1 Audit Findings

State Water achieved a very **High Level of Compliance** with part 5 of the licence. This is an improvement from the previous audit, where State Water had not implemented a Complaint and Dispute Handling Policy or associated procedures at the time of the audit.

Internal Complaints Handling Procedure

State Water achieved **High-Full Compliance** with respect to its Internal Complaint Handling Procedure. State Water maintained the complaints procedure throughout the audit period, made its procedure available to the public, and reported on complaints as required. However, IPART considers that State Water should provide additional information on the timeframe within which complaints were resolved.

External Dispute Resolution Scheme

Full Compliance was assessed for this section of the licence. State Water demonstrated that it maintained its membership to the NSW Energy and Water Ombudsman NSW Scheme (EWON) and has been a member since 1 January 2006. State Water also reported on its external dispute resolution scheme and provided information about the scheme to its customers and the public as required by the licence.

Complaints to other bodies

State Water achieved **Full Compliance** with this section of the licence.

5.2 IPART's Recommendations

IPART does not make any specific recommendations for this part of the Licence.

5.3 IPART's Comments

Overall State Water achieved mainly full compliance with this section of the licence, although high compliance was awarded for one clause.

State Water demonstrated that it had in place a Complaint and Dispute Handling System and that the system is working effectively. Some recommendations were proposed in the Consultant's report which could further improve the complaint and dispute handling system and also reporting on this system. IPART considers that State Water should progress these recommendations as opportunities to further improve its current systems.

6 Asset Management

The licence requires State Water to operate its assets efficiently and effectively and in compliance with any obligations imposed upon it by any law or policy. State Water is also required to report on the state of its assets to IPART and consider cost effective strategies for demand management proposed by customers.

6.1 Audit Findings

State Water achieved **Full Compliance** with part 6 of the licence. This was the first time that this part of the licence had been audited, as it was excluded from the previous audit.

Asset Management Obligation

State Water achieved **Full Compliance** with this section of the licence. State Water has managed its assets consistently with the obligations outlined in clause 6.1.1 of the licence.

Augmentation of Water Management Works

State Water achieved **Full Compliance** for its performance with respect to the augmentation of Water Management Works and its consideration of any additional scope for cost effective demand management strategies by customers.

6.2 IPART's Recommendations

IPART does not make any specific recommendations for this part of the Licence.

6.3 IPART's Comments

State Water achieved full compliance with each of the audited clauses in respect to asset management. State Water produced a report on its Asset Management System in March 2007 and a Total Asset Management Plan (TAMP) in 2004. These documents outline State Water's approach to planning and asset management.

The licence contains options for IPART to require State Water to report on the asset management system and IPART to undertake an audit of State Water's asset management system. In 2007/08 IPART did not enforce these clauses. IPART intends to audit the asset management system under the new licence and will also request State Water to report on its asset management systems within the duration of the new licence.

State Water demonstrated a very high level of compliance with the asset management clauses of the licence. IPART does not recommend any further action in relation to this section of the licence.

7 | Water Delivery Operations

Part 7 of the licence includes provisions relating to State Water's Water Delivery Operations. These provisions require State Water to have a high degree of understanding of the water cycle and river systems and to develop and maintain appropriate plans to conserve water and manage the system in times of drought.

7.1 Audit Findings

State Water compliance ranged from **Moderate to Full Compliance** with part 7 of the licence. This assessment is consistent with State Water's performance in the last audit.

Water Conservation

State Water achieved **Full Compliance** for its progress in ensuring water conservation and minimising losses that result from its operations. State Water undertook a number of measures to conserve water, where practicable, during the audit period.

Supply Constraints

Full Compliance was awarded for State Water's endeavours to manage its water release functions and operations to ensure the timely availability of water whilst taking account of physical supply constraints.

Drought Management Plan

State Water was awarded **Full Compliance** for developing drought management plans for its river operations during periods of extreme water shortage.

Water Metering

Overall, State Water achieved **Moderate Compliance** for licence provisions concerning water metering. This is a reduced level of compliance compared to the previous audit. Further comment on this matter is provided in a later section of this chapter.

Water Balances

State Water achieved **High Compliance** with the licence requirements relating to reporting and maintaining water balances. The primary concern was that the draft water balances supplied to IPART contained errors.

Fish River Water Balance and System Yield

Full Compliance was achieved in relation to preparing and reporting water balances for the Fish River Supply Scheme. State Water also fully complied with the requirement to report to IPART on the system yield of the Fish River Scheme by 29 June 2008.

7.2 IPART's Recommendations

IPART notes that the key issue arising from this section of the licence concerns Metering. This issue was addressed in the licence review, undertaken by IPART prior to the commencement of the new licence. As a result of this review the licence was amended to include new clauses in respect to metering. IPART considers that the issues identified by the auditor are addressed within the terms of the new licence. However, IPART also considers that it should closely monitor State Water's progress.

IPART recommends that State Water reports to IPART and the Minister by 30 March 2009 on its progress against clause 6.5 of the 2008-2013 licence to ensure that an efficient and reliable metering regime is implemented and audited by State Water consistently with the terms of the operating licence.

7.3 IPART's Comments

IPART understands that the drought has placed significant pressures on State Water, particularly with respect to its ability to provide water to customers and ensure timely delivery of this water. IPART notes that overall State Water has achieved a high level of compliance in relation to the Water Delivery clauses of the licence.

Several recommendations and some areas for improvement are outlined in the Consultants report. IPART recommends that State Water progress these recommendations. IPART considers that these recommendations will help to improve the performance of State Water. The specific issues identified for this part of the licence are addressed in the following paragraphs.

Water Balances

Inconsistencies in reporting were identified concerning the "Water Balances" provided by State Water to IPART. In particular the water balances contained some obvious errors. It is recommended that some checks are put in place to ensure that draft balances are accurate. IPART considers that the Water Balances are an

important aspect of the licence. The purpose of presenting a water balance for each system is to ensure transparency in the availability and distribution of water resources. Thorough accounting of the source and distribution of water provides consumers with confidence about the availability and management of those resources.

IPART notes the improvement of State Water in reporting Water Balances since the last audit. However, it considers that there is still scope for improvement in this area. State Water has noted the recommendations proposed in the Consultant's report and advised IPART that the new organisational structure has created a position which is responsible for developing procedures for water balances and reviewing the balances once they have been drafted. These procedures will be developed during 2008/09 and will reduce the potential for error in future reported water balances.

Metering

State Water achieved, on average, moderate compliance for licence provisions concerning metering. With respect to reading meters State Water indicated that neither the 2005-2008 operating licence nor other legislative instruments give State Water the express function of meter reading, and that without a clear allocation of this function, its power to ensure metering accuracy is undefined.

IPART acknowledges that uncertainty concerning State Water's roles and responsibilities with respect to metering, including absence of enforcement powers, were the primary reason State Water undertook few activities to address the issue of metering accuracy during the audit period. State Water's new operating licence has clarified its roles and responsibilities and explicitly requires State Water to undertake meter reading activities. Given this clarification, IPART expects that over time the provisions of the new licence will improve State Water's compliance and lead State Water to implement a metering audit program, which should result in an improvement in its compliance.

State Water has also outlined a plan to address metering. This includes the installation of new meters and also relies on the finalisation of national metering standards. This will provide State Water with a consistent standard against which it can audit meters. IPART considers the changes made to the licence and the programs outlined by State Water should improve performance with respect to metering in future audits.

IPART notes that the issue of metering is not likely to be resolved before the next audit of State Water, but is more likely to evolve over the term of the new licence. IPART will closely monitor and work with State Water over the term of the new licence in respect to the metering clauses of the licence.

8 The Environment

State Water's core functions—the capture, storage and release of water—have the potential to significantly affect the environment. Its storages (dams and weirs) can have detrimental impacts on river health and biodiversity, by changing the natural flow of rivers, impeding the passage of fish, and interfering with ecological processes. The quality and temperature of water released from these storages can also affect river health. The licence, therefore, imposes obligations on State Water to undertake its operations so as to minimise the impact on the environment.

8.1 Audit Findings

State Water achieved predominately **Full Compliance** with part 8 of the licence concerning its compliance with its Environmental Management Plan. One clause was assessed as being **High Compliance**. This performance is consistent with State Water's level of compliance achieved in the last audit.

Environment Management Plan

State Water achieved **High-Full Compliance** with respect to its compliance with the licence provisions concerning the development and review of its Environmental Management Plan (EMP). **High Compliance** was assessed for one clause, as State Water could not demonstrate that a clear and consistent algal management strategy was in place. In addition, State Water does not have an appropriate overarching environmental framework in place, and the EMP does not include relevant benchmarks or key performance indicators to track environmental performance.

8.2 IPART's Recommendations

IPART recommends that State Water reports to IPART and the Minister by 30 March 2009 on:

- ▼ A strategy and timeframe to develop and implement a clear and consistent algal management strategy.
- ▼ A strategy and timeframe to develop and implement an overarching environmental framework, detailing the various policies, procedures and documents which sit below the EMP.

- ▼ A strategy and timeframe to develop and implement a framework for evaluating and monitoring environmental performance and ensure that this framework includes benchmarking and measurable Key Performance Indicators (KPIs).

8.3 IPART's Comments

State Water has established and maintained an EMP and engaged in the required consultation to develop this plan. Whilst the requirements of the licence concerning the EMP have reasonably been complied with, IPART's consultant has suggested some improvements for the plan. IPART considers that these recommendations should be progressed. In particular, IPART supports the development of a monitoring and reporting framework for the EMP and the development of benchmark data.

IPART notes that the licence specifically requires State Water to include an algal management strategy under the terms of its EMP. State Water could not demonstrate that a clear and consistent strategy was operational during the audit period. In discussions with IPART State Water agreed that the EMP does not contain sufficient detail with respect to algal management. IPART acknowledges that State Water currently plays a role in algal management. This role is explicitly included in the Regional Algal Co-ordinating Committee (RACC) Plans, which are whole of government plans. However, IPART does not consider that this is adequate given the implications of State Water's operations in inducing algal growth. IPART recommends that State Water should develop a clear and consistent algal management strategy as outlined in its EMP.

State Water failed to achieve full compliance with its EMP because it could not demonstrate that an appropriate overarching environmental framework was in place, and the EMP did not include relevant benchmarks or KPIs to track environmental performance. State Water has advised that it is currently developing the Monitoring, Evaluation and Reporting framework (MER) which will include an overarching framework containing a logical hierarchy linking the EMP objectives with the various relevant procedures and documents. It will also identify the key regulatory and Government policy drivers. In addition, it is anticipated that the MER will establish the baseline for environmental performance monitoring so that State Water can include benchmarking and KPIs in the EMP.

IPART considers that the development of the MER and a clear and consistent algal management strategy will ensure that State Water maintains a robust EMP and is able to meet each of the objectives of the EMP.

9 | Performance Indicators

Under the provisions of part 9 of the licence, State Water must maintain record systems that are sufficient to enable it to accurately measure its performance against a number of performance indicators related to asset management, water delivery/quality and policing functions.

9.1 Audit Findings

Overall State Water achieved **Moderate Compliance** with part 9 of the licence. Several **Low Compliance** gradings were achieved for compliance against the Indicators outlined in Schedule 1 to the licence, and reported against under clause 9.1 specifically:

- ▼ “percentage of Customers contacted within one working day of a non-complying water order being placed” (**Low Compliance**)
- ▼ “percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay” (**Low Compliance**)
- ▼ “percentage of complying orders identified as being delivered outside of +/- 1 day of the scheduled day of delivery” (**Low Compliance**).

9.2 IPART’s Recommendations

IPART recommends that State Water reports to IPART and the Minister by 30 March 2009 on its progress in implementing its new internet Water Accounting System (iWAS) and its corporate compliance system. In addition State Water should outline its progress in reporting against the performance indicators in the 2008-2013 operating licence.

9.3 IPART's Comments

The audit identified varying levels of compliance with the requirements of part 9 concerning performance indicators. In particular it was found that State Water does not have specific systems in place to measure and record performance against the performance indicators. For many of the indicators, State Water is able to use its existing corporate management systems, such as CAIRO and its Water Accounting System to report information. However, these systems do not provide for the measurement of performance for all of the indicators set out in Schedule 1 to the licence.

State Water is currently in the process of implementing iWAS and a new compliance system. State Water will incorporate the performance indicators into these systems which will ensure that the reporting of indicators is uniform and consistent across the valleys.

IPART notes that as a part of the 2008 licence review, several of the performance indicators of part 9 were reviewed and new indicators added to ensure that State Water reported against meaningful targets. Whilst measures for some indicators have been revised in the new licence, it remains essential that State Water takes action to establish and maintain record systems to enable reporting of performance against all performance indicators set out in Schedule 1 to its licence.

IPART considers that while State Water has made some progress in improving its performance with the monitoring and reporting of performance indicators within the licence further improvements can be made. IPART considers that the implementation of the new compliance system and iWAS will improve the effectiveness and efficiency of monitoring, recording and reporting against the performance indicators in part 9 of the licence. IPART has made a recommendation for State Water to report its progress in implementing these systems prior to the next audit.

10 Pricing

State Water is required to apply fees and charges for all services in accordance with the terms of the operating licence, relevant legislation, COAG Strategic Framework for Water Reform Initiatives, and any IPART determinations related to setting the maximum fees and charges payable.

10.1 Audit Findings

Full Compliance has been assessed for all clauses of part 10 of the licence concerning pricing.

10.2 IPART's Recommendations

IPART does not make any specific recommendations for this part of the Licence.

10.3 IPART's Comments

IPART notes that State Water has fully complied with this part of the licence and no issues have been identified.



Appendices

A Audit Scope

State Water Corporation Operating Licence		2007/08 audit scope
2	State Water's Responsibilities	
2.3	Memorandum of Understanding	Audit
4	Customers and Community Engagement	
4.1	Community Consultative Committee	Audit
4.2	Valley Based Customer Service Committees (excluding Fish River Customers)	Audit
4.3	Customer Service Charter (excluding Fish River)	Audit
4.4	Fish River Customer Council	Audit
4.5	Customer Contracts (Fish River customers only)	Audit
4.6	Code of Practice on Debt Management	Audit
5	Complaint and Dispute Handling	
5.1	Internal Complaints Handling Procedure	Audit
5.2	External Dispute Resolution Scheme	Audit
5.3	Complaints to Other Bodies	Audit
6	Asset Management	
6.1	Asset Management Obligation	Audit
6.2	Reporting on the Asset Management System	N/A
6.3	Auditing the Asset Management System	N/A
6.4	Augmentation of Water Management Works	Audit
7	Water Delivery Operations	
7.1	Water Conservation	Audit
7.2	Supply Constraints	Audit
7.3	Drought Management Plan	Audit

State Water Corporation Operating Licence		2007/08 audit scope
7.4	Water Metering	Audit
7.5	Water Balances	Audit
7.6	Fish River Water Balance and System Yield	Audit
8	The Environment	
8.1	Environment Management Plan	Audit
9	Performance Indicators	
9.1	Performance Indicators – Record systems	Audit
9.2	Performance Indicators - Reporting	Audit
9.3	Performance Indicators – Provide IPART with physical and electronic access to record systems	Audit
9.4	Performance indicators – Report made available to the public	Audit
10	Pricing	
10.1	Price setting methodologies	Audit
10.2	Consistency with the COAG Strategic Framework	Audit
10.3	Submission to IPART must reflect applicable usage based component	Audit

B | Final Audit Report – Halcrow Pacific Pty Ltd

Independent Pricing and Regulatory Tribunal (IPART)



2008 Operational Audit of
State Water Corporation

Audit Report

November 2008

Halcrow
Halcrow Pacific Pty Ltd

Halcrow

Independent Pricing and Regulatory Tribunal (IPART)

2008 Operational Audit of State Water Corporation

Audit Report

November 2008

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Independent Pricing and Regulatory Tribunal (IPART)

2008 Operational Audit of State Water Corporation

Audit Report

November 2008

Contents Amendment Record

This report has been issued and amended as follows:

Issue	Revision	Description	Date	Prepared by	Checked by	Authorised by
1	1	First Draft	26.09.08	AMD/NA	JOS	JOS
2	1	Second Draft	17.10.08	AMD/NA	JOS	JOS
3	1	Final	20.11.08	AMD	JOS	JOS

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Abbreviations

Acronym	Description
ADWG	Australian Drinking Water Guidelines
CAIRO	Computer Aided Improved River Operations
CCC	Community Consultative Committee
CMA	Catchment Management Authorities
COAG	Council of Australian Governments
CSC	Customer Service Committee
CWP	Cold Water Pollution
DECC	Department of Environment and Climate Change
DPI	Department of Primary Industries
DMP	Drought Management Plan
DWE	Department of Water and Energy
EMP	Environment Management Plan
EWON	Energy and Water Ombudsman NSW
FRWS	Fish River Water Supply
Halcrow	Halcrow Pacific Pty Ltd
IFMS	Integrated Financial Management System
IPART	Independent Pricing and Regulatory Tribunal
KPI	Key Performance Indicator
MoU	Memorandum of Understanding
NWI	National Water Initiative
REF	Review of Environmental Factors
RERP	Rivers Environmental Restoration Program
SCA	Sydney Catchment Authority
SCADA	Supervisory Control and Data Acquisition
SLA	Service Level Agreement
State Water	State Water Corporation
TAM Guidelines	Total Asset Management Guidelines
TAMP	Total Asset Management Plan
TOR	Terms of Reference
TRC	Tamworth Regional Council
WIX	Water Information Exchange
WSP	Water Sharing Plan

Glossary/Definitions

Term	Meaning
Audit Period	1 July 2006 to 30 June 2008
Bulk Water	Water delivered to meet the needs of the environment and authorised users.
End of Term Review	A review of the Operating Licence to be commenced on a date specified in the Licence
Function	Means a power, authority or duty
Minister	The Minister responsible for administering the provisions of the Utility's Act
Operating Licence	The Licence between 24 June 2005 and 23 June 2008
New Operating Licence	The Licence between 24 June 2008 and 23 June 2013

Compliance Assessment Guide

Compliance ratings have been used to grade achievement of compliance with each Licence condition. The ratings used were:

- **Full compliance** All requirements of the condition have been met.
- **High compliance** Most requirements have been met with some minor technical failures or breaches.
- **Moderate compliance** The major requirements of the condition have been met.
- **Low compliance** Key requirements of the condition have not been met but minor achievements regarding compliance have been demonstrated.
- **Non compliance (NC)** The requirements of the condition have not been met.
- **Insufficient Information** Relevant, suitable or adequate information to make an objective determination regarding compliance was not available to the auditor.
- **Not Auditable (NA)** The requirement to comply with this condition does not occur within the audit period or there is no requirement for the utility to meet.

Executive Summary

Background

Halcrow Pacific Pty Ltd (Halcrow) was engaged by the Independent Pricing and Regulatory Tribunal (IPART) to undertake the 2008 Operational Audit of the State Water Corporation (State Water).

The requirement to undertake an operational audit is specifically contained within clause 12.2 of the *State Water Operating Licence* which commenced on 24 June 2005 and ceased on 24 June 2008, when the new *Operating Licence* came into effect.

This 2008 Operational Audit covers the operational period from 1 July 2006 to 30 June 2008 (audit period) and is the second audit of the State Water since it commenced operation on 1 July 2004.

Summary of Key Recommendations

This section collates the key recommendations made after reviewing State Water's compliance with the requirements of the *Operating Licence*. These recommendations are made to assist State Water in improving its performance and increasing its level of compliance in future audits.

The recommendations may also be reviewed by IPART in its report to the Minister and may form the basis of recommendations by IPART for a Ministerial Direction to be issued for any systemic or significant compliance issues.

Licence Section 2.3 – Memoranda of Understanding

No recommendations are proposed in respect to this section.

Licence Section 4 – Customers and Community Engagement

No recommendations are proposed in respect to this section.

Licence Section 5 – Complaint and Dispute Handling

R5.1 - State Water may wish to assess the potential benefits of recording and tracking verbal complaints as part of the development of its new customer call centre.

R5.2 - State Water does not currently have a standard definition of what constitutes a complaint. The provision of a clear definition as to what is classified as a complaint is recommended.

R5.3 - In its 1 September reports to IPART, State Water reports all complaints that it receives, including those that are referred to other organisations (where the issue raised in the complaint was not within State Water's Functions). State Water's performance would be better reflected if it excluded these from its report, or separately identified them, when reporting by complaint category

Licence Section 6 – Asset Management

No recommendations are proposed in respect to this section.

Licence Section 7 – Water Delivery Operations

R7.1 - During the course of the audit interviews it was identified that the Lachlan Valley had attempted to quantify water savings made due to conservation measures. It is recommended that State Water endeavours to estimate water savings from conservation procedures throughout each valley, to assess the impact of these practices.

R7.2 - It is recommended that State Water continues to formulate appropriate performance measures with respect to State Water's performance in ensuring metering accuracy and that it then implements these recording measures.

R7.3 - It is recommended that State Water develop and document a set of procedures for preparing the water balances. This will ensure year on year consistency, and consistency between valleys. It will also reduce State Water's reliance on the currently limited number of staff that are capable of preparing the water balances.

R7.4 - It is recommended that, as part of its procedures, there are some checks in place to ensure that all draft water balances are as accurate as possible prior to submission to IPART.

Licence Section 8 – The Environment

R8.1 - It is recommended that State Water develops and implements a clear and consistent algal management strategy.

R8.2 - It is recommended that State Water develop an overarching environmental framework, detailing the various policies, procedures and documents which sit

below the EMP. Development of such a framework will provide greater clarity as to how State Water intends to meet its environmental objectives.

R8.3 - It is recommended that State Water finalises a framework for evaluating and monitoring environmental performance and includes benchmarking and measurable KPIs.

Licence Section 9 – Performance Indicators

R9.1 - It is recommended that State Water implements a set of procedures for the reporting of performance information to IPART. These procedures should involve checking and verifying all calculations used in the reporting of performance data, thereby eliminating errors and helping to ensure year on year consistency in reporting.

R9.2 - It is recommended that State Water retains copies of relevant year end reports where the information is extracted from 'live' systems that cannot produce historical reports (such as the Water Accounting System).

R9.3 - The Fish River Water Supply indicators for planned and unplanned supply interruptions are reported from Incident Report Forms. The Incident Report does not readily identify whether an incident is planned or unplanned. State Water may wish to consider updating the Incident Report Form template to include a tick box to indicate whether the incident is planned or unplanned.

Licence Section 10 – Pricing

No recommendations proposed in respect to this section.

Concluding Remarks

Overall, State Water's level of compliance has improved since the previous (2005/2006) audit of performance against its *Operating Licence*. It is apparent that State Water has addressed the majority of recommendations arising from the previous audit, and this has contributed to its improved performance.

We found evidence that State Water has implemented a number of processes and systems that have enabled it to better track and report its compliance with its *Operating Licence* during the period 2006/07 and 2007/08. There are still a number of areas where State Water's processes and systems can be improved, and this has been reflected in assessments of 'Low' to 'High' compliance with some clauses of the *Operating Licence*.

State Water's response to the 2nd draft Audit Report includes a preliminary outline of the actions it proposes to take in relation to each of the recommendations made in this report. We consider that these proposed actions will lead to further improvements in State Water's performance and understand that State Water and IPART are currently in discussion regarding their implementation.

1 Introduction

1.1 *Background*

Halcrow Pacific Pty Ltd (Halcrow) was engaged by the Independent Pricing and Regulatory Tribunal (IPART) to undertake the 2008 Operational Audit of the State Water Corporation (State Water).

The requirement to undertake an operational audit is specifically contained within clause 12.2 of the *State Water Operating Licence* which commenced on 24 June 2005 and ceased on 24 June 2008, when the new *Operating Licence* came into effect. The 2005-2008 *Operating Licence* is the second licence State Water has operated under with an interim licence being issued at State Water's inception on 1 July 2004.

This 2008 Operational Audit covers the operational period from 1 July 2006 to 30 June 2008 (audit period) and is the second audit of State Water since it commenced operation on 1 July 2004. The first audit of State Water covered the period 1 July 2005 to 30 June 2006. A comparison of State Water's compliance for 2005/06, 2006/07 and 2007/08 is provided in **Appendix A**

This Operational Audit report is structured so that the clauses reviewed in this report are presented in the same order as they are listed in the *Operating Licence*.

1.2 *State Water Corporation*

The State Water Corporation is a State Owned Corporation which delivers bulk water to rural and regional New South Wales. State Water was established as a stand-alone Corporation on 1 July 2004 by the *State Water Corporation Act 2004*. State Water had previously operated as a commercial business within the former Department of Land and Water Conservation. In April 2003, State Water was moved to operate as a business unit within the Department of Energy, Utilities and Sustainability (DEUS).

The key objective for corporatising State Water was to separate the Government's commercial water delivery functions from its policy and regulatory functions, in line with National Competition Policy requirements.

State Water incorporates into a single business all of NSW's bulk water delivery functions outside of the areas of operation of the Sydney Catchment Authority, Sydney Water Corporation, Hunter Water Corporation and of a water supply

authority (other than the area of operation of the Fish River Water Supply Scheme). State Water provides water to irrigation corporations, country town water supply authorities, farms, mines and electricity generators, by releasing flows from its dams and using natural streams as the conduit. It also provides water for stock and domestic users and is responsible for delivering environmental flows on regulated rivers.

State Water's core business is providing services to about 6,200 customers who purchase water sourced from 'regulated rivers'. These services include providing water allocations from dams, billing and metering. The Department of Water and Energy (DWE) is responsible for managing unregulated rivers and groundwater systems. However, State Water provides billing and metering services to DWE for around 15,000 groundwater and unregulated river customers.

State Water's roles and responsibilities derive from the *State Water Corporation Act 2004* (the Act) and the *Operating Licence* issued under Section 11(1) of the Act. The *Operating Licence* was granted pursuant to the Act by the Governor of New South Wales on 22 June 2005, and came into effect on 24 June 2005.

Under the Act, State Water's principal objectives are "*to capture, store, and release water in an efficient, effective, safe and financially responsible manner*".

State Water's principal functions include:

- Capturing, storing and releasing water:
 - to persons entitled to take water, including release to regional towns;
 - for the purposes of flood management; and
 - for any lawful purpose, including the release of environmental water.
- Constructing, maintaining and operating water management works.

The *Operating Licence* provides the framework under which State Water is required to operate in achieving its principal objectives and functions.

1.3

Operating Licence

The performance of State Water was assessed against the requirements of its 2005-2008 *Operating Licence*. A copy of the *Operating Licence* is available from State Water's website.

Operating Licence: <http://www.statewater.com.au/aboutus/swopelic050622.pdf>

Amendment to Operating Licence:

<http://www.statewater.com.au/aboutus/swopelic050622amendment.pdf>

1.4

Scope of Work

The scope of work for the Operational Audit of *State Water's Operating Licence* is available on IPART's website: <http://www.ipart.nsw.gov.au>.

2 Audit Methodology

2.1 *Audit Scope*

The requirement for and the scope of the Operational Audit is clearly defined in Section 12 of State Water's 2005-2008 *Operating Licence* and particularly clause 12.2, which states that:

"IPART or the person undertaking the Audit must investigate and prepare a report on any or all of the following:

- *compliance by State Water with its obligations in each of clauses 2.3, 4, 5, 6, 7, 8, 9 and 10 (and any Schedules referred to in those clauses) of this Licence; and*
- *any other matter required by this Licence, the Act [State Water Corporation Act 2004] or administrative direction to be assessed and considered as part of the Audit."*

For the purposes of this Audit, all clauses of the *Operating Licence* nominated above are subject to Audit, with the exception of clauses 6.2 and 6.3 – *Asset Management*. It is understood that these clauses will be subject to a separate audit. There have been no administrative directions in respect to the inclusion of any other matters in the scope of the Audit.

This Operational Audit report has been structured so as to meet this scope and **Table 2-1** outlines where compliance against each part of the *Operating Licence* has been assessed in this report.

2.2 *Audit Processes*

The methodology and processes adopted throughout the operational audit were consistent with ISO 19011 *Guidelines for Quality and/or Environmental Management Systems Auditing*. The standard provides guidance on the principles of auditing, managing audit programs, conducting environmental management system audits, as well as guidance on the competence of quality and environmental management system auditors.

2.3 *Audit Tasks*

The Operational Audit was undertaken in a number of distinct stages and the tasks undertaken in each of these stages are briefly outlined below.

Table 2-1 Scope of Operational Audit

Licence Part	Requirements	Report Section
Part 2.3 – Memoranda of Understanding (MoU)	MoU with DECC, DPI and DWE	Section 3
Part 4 – Customer and Community Engagement	Development of Community Consultative Committee, Customer Service Committees, Customer Service Charter, Customer Council and Customer Contracts for Fish River, Code of Practice for Debt Management	Section 4
Part 5 – Complaint and Dispute Handling	Internal Complaints Handling Procedure, External Dispute Resolution Scheme, complaints to other bodies	Section 5
Part 6 – Asset Management	Asset Management Obligation, Augmentation of Water Management Works	Section 6
Part 7 – Water Delivery Operations	Water conservation, supply constraints, Drought Management Plan, water metering, water balances, Fish River water balance and system yield	Section 7
Part 8 – The Environment	Environment Management Plan	Section 8
Part 9 – Performance Indicators	State Water performance against specific indicators	Section 9
Part 10 – Pricing	Fees and charges for services provided by State Water	Section 10

2.3.1

Project initiation

This task involved the set up of the project, the collection and initial review of information provided by IPART and State Water, and an inception meeting with IPART to review and confirm the requirements of the project.

2.3.2

Operational Audit preparation

The preparation for the audit involved reviewing the *Operating Licence* and identifying the specific scope of the audit; developing an audit checklist that covers all the requirements and that could be used as a guide for the audit interviews with State Water, and; meeting with IPART and State Water to present and explain the audit checklist.

The audit checklist was provided to State Water prior to the face-to-face interviews to allow State Water to prepare responses and supporting documentation. In preparation for the audit, State Water provided copies of various supporting documents to evidence its compliance with its *Operating Licence*.

2.3.3

Utility interviews & 1st draft Audit Report

Interviews were held with State Water at State Water's Sydney and Dubbo offices from Monday, 15 September 2008 until Wednesday, 17 September 2008, to assess, in detail, State Water's compliance against the requirements of the *Operating Licence*. The audit checklist was used as a guide, however, the interviews were generally scheduled around the availability and particular responsibilities of key staff within State Water. The agenda for the interviews are presented for reference in **Appendix B**

Representatives of IPART attended all interview sessions.

The notes from the interviews, and supporting documentation provided by State Water, were used to develop the 1st draft Audit Report on State Water's compliance against the 2005-2008 *Operating Licence*.

2.3.4

Utility compliance assessment & 2nd draft Audit Report

A discussion session on the 1st draft Audit Report was held with State Water on 13 October 2008. The discussion provided State Water with an opportunity to ask questions on the initial findings presented in the 1st draft Audit Report and to provide additional supporting information for consideration and, where appropriate, incorporation into the 2nd draft Audit Report.

2.3.5

Preparation of final Audit Report

A presentation was made to the Tribunal on 5 November 2008 on the findings of the Operational Audit. The Audit Report was then updated to incorporate comments from both IPART and State Water and the final Audit Report was prepared for submission to IPART. State Water's responses to the recommendations made in the 2nd draft Audit Report are included in **Appendix C**

2.4

Audit Team

The Audit Team for this project was made up of a team of experienced water consultants coordinated by the Project Manager. The Audit Team is shown in **Figure 2-1**.

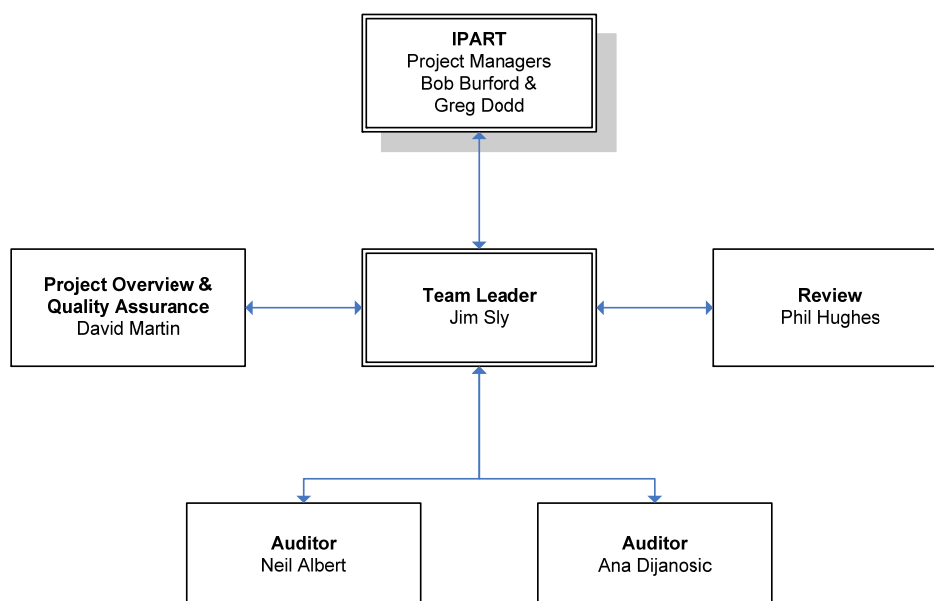


Figure 2-1 Audit Team Structure

2.5

Audit Report

The Audit Report has been developed with a relatively simple structure and is written in Plain English (where possible) with the balance of including sufficiently detailed information on State Water's compliance with their requirements to gain a full understanding of compliance assessment process. As stated previously, the Audit Report has also been structured so as to mimic the order in which the various requirements are presented in the *Operating Licence*.

For each Part of the *Operating Licence*, the Report includes:

- Overview of requirements – summary of requirements listed in the *Operating Licence*.
- Details of compliance – detailed notes on each requirement in the *Operating Licence* and an assessment of compliance.
- Discussion – key areas of concern in the compliance assessment; factors affecting compliance; comments from key stakeholders.
- Recommendations – key recommendations.

3 Licence Section 2 – State Water’s Responsibilities

3.1 *Overview of Requirements*

Clause 2.3 of the *Operating Licence* was subject to a detailed audit. The remaining clauses of Section 2 of the Licence were not included within the scope of this audit.

Under the provisions of clause 2.3 of the *Operating Licence*, State Water is required to enter into Memorandum of Understanding with each of the Directors-General of:

- the Department of Environment and Conservation (DEC) [now Department of Environment and Climate Change (DECC)];
- the Department of Primary Industries (DPI); and
- the Department of Infrastructure, Planning and Natural Resources (DIPNR) [now Department of Water and Energy (DWE)].

The requirements in respect to each Memorandum of Understanding are set out in clause 2.3.2 of the *Operating Licence*.

3.2 *State Water’s Responsibilities – Compliance*

Overall, compliance with this section of the Licence has improved since the last audit, when State Water’s compliance ranged from ‘Low’ to ‘Full’, primarily due to it not having implemented its Memoranda of Understanding (MoU) by the dates specified in its *Operating Licence*.

Compliance for the 2006/07 and 2007/08 period ranges from ‘High’ to ‘Full’. Compliance for Section 2, State Water’s Responsibilities, is outlined in **Table 3-1**.

Table 3-1 Section 2: Memorandum of Understanding – Compliance Assessment

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
2.3	Memorandum of Understanding					
2.3.1	State Water must use its best endeavours to enter into, by 1 October 2005, Memoranda of Understanding (MoU) with each of the Directors-General of DEC [now DECC], DPI and DIPNR [now DWE]. State Water must maintain these MoUs for the duration of this Licence:					
	(a) MoU with DEC [DECC];	This requirement presents a moderate environmental risk which is generally managed by developing and maintaining a suitable framework to support cooperation between State Water and DECC. The previous audit shows High compliance with this clause.	Full	Full	-	<p>The MoU between State Water and DECC was signed on 2 November 2005. The MoU remains in place and no changes have been made since it was first entered into. During 2007/08, DECC and State Water prepared a schedule that will be added to the MoU when it is revised. State Water has stated its intent to revisit the MoU with DECC in 2008. The schedule was developed to clarify the changing relationship between State Water and DECC, recognising DECC as a potential major customer (following the establishment of NSW Riverbank, which is moving towards being a major holder of water access licence for use for environmental purposes).</p> <p>State Water provided a copy of the MoU, and the schedule, together with a background paper explaining the development of the schedule.</p> <p>In addition to the MoU, State Water and DECC have also agreed a set of Operating Principles and Protocols for the Operation of the Water Regulation Structures in the Macquarie Marshes North Bypass Channel. The agreement outlines the principles and procedures for cooperative</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						management of the structures to ensure that DECC and State Water management responsibilities are achieved. A copy of the agreement has been provided by State Water.
	(b) MoU with DPI;	This presents a moderate environmental risk which is generally managed by developing and maintaining a suitable framework to support cooperation between State Water and DPI. The previous audit shows High compliance with this clause.	Full	Full	-	<p>The MoU between State Water and DPI was signed on 23 June 2006. The MoU remains in place and no changes have been made since it was first entered into. State Water has indicated its intent to review the MOU with DPI in the 2009 year.</p> <p>State Water provided a copy of two additional instruments which are in place to support the MoU with DPI. These are:</p> <ul style="list-style-type: none"> • Service Level Agreement (SLA) with DPI which identifies cooperative arrangements between State Water and DPI for exchange of specified services and the cost of those services related to aquatic ecosystem management. The SLA commenced on 1 May 2006, and remains valid for three years. • Draft SLA with DPI for the Island Creek Fishway Carp Inception Project. The SLA outlines the roles of State Water and DPI in relation to the Project.
	(c) MoU with DIPNR [DWE].	This presents a moderate operational risk which is generally managed by developing and maintaining a suitable framework to support	Full	Full	-	<p>The MoU with DWE was signed on 28 July 2006. The MoU remains in place and no changes have been made since it was first entered into.</p> <p>In addition to the MoU, the following arrangements are in place to support cooperation between the two organisations:</p> <ul style="list-style-type: none"> • The Namoi Works Approval, which outlines Mandatory and discretionary conditions for the operation of the Upper Namoi and Lower Namoi regulated river water sources.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
		cooperation between State Water and DWE. The previous audit shows Low compliance with this clause.				<ul style="list-style-type: none"> • A series of SLA's with DWE, covering a range of interactions, including (but not limited to) Salt Interception Scheme, Water Billing, and Facilities Charges. • Draft Heads of Agreement for Water Accounting System. • Service Level Contract for Emergency Drought Works. • Agreement between State Water and DWE on a protocol for managing compliance.
2.3.2	The purpose of the MoUs is to form the basis for cooperative relationships between the parties to the MoU, in particular:					
	(a) the MoU with DIPNR [now DWE] is to recognise the roles of DIPNR [DWE] in regulating water access, use and management and State Water in delivering water and managing assets, and is to address the co-ordination of Functions and associated responsibilities between DIPNR [DNR] and State Water in undertaking their respective roles, including arrangements in relation to information sharing and the making and announcements of available water determinations and	This presents a moderate operational risk which is generally managed by ensuring that all areas of coordination of Functions and associated responsibilities are included within the MoU. The previous audit shows High compliance	High	High	Revisit MoU with DWE and update it to reflect coordination of all functions as appropriate.	<p>Section 1 of the MoU recognises the roles of DWE and State Water. Section 2 of the MoU states the functions and responsibilities of DWE and State Water. Information sharing arrangements are covered in Section 6 of the MoU.</p> <p>As noted in 2005/06 audit of State Water's compliance with its Operating Licence, Section 1 indicates that the MoU addresses the issue of the arrangements in place for the making and announcements of available water determinations and controlled flows; however, the MoU does not include any details of such arrangements. It is understood that this was excluded from the MoU after discussions with DWE indicated that while it agreed with the roles in relation to available water determinations, it reserved the right to include or exclude the relevant clauses from the MoU. State Water decided to exclude any clauses related to available water determinations so as not to compromise the MoU development process.</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	controlled flows;	with this clause.				<p>It was also noted during the 2005/06 audit that the MoU with DWE did not include all of the functions where there was a need for cooperative relationship. This concern was reiterated by the Minister, who noted that the restructure of DWE (which occurred in early 2007) provided an opportunity to review the MoU to ensure that it accurately reflects the allocation of functions between State Water and the DWE. In its 2006/07 1 September report to IPART, State Water indicated its intent to review the MoU with DWE in the near future.</p> <p>The MoU with DWE is yet to be reviewed. State Water did, however, provide a copy of correspondence between it and DWE in relation to revisiting the MoU. State Water wrote to DWE in October 2007 and June 2008, seeking its agreement to revisit the MoU. DWE indicated its agreement to review the MoU in a letter dated July 2008. In the letter, DWE consented to the suggested timeframe of aiming to finalise the new MoU prior to November 2008.</p> <p>In its 1 September reports to IPART, State Water has provided examples of its interactions with DWE under the MoU during the period 2006/07 and 2007/08. State Water provided evidence of these interactions in the form of various meeting minutes, agendas and reports.</p> <p>Interaction with DWE has been across a broad range of issues and areas throughout the audit period. State Water provided evidence of meetings and interactions with DWE. Examples of the interaction with DWE include:</p> <ul style="list-style-type: none"> • Bi-monthly meetings between the CEO of State Water and Director General of DWE, together with other senior members of each organisation. • Cooperation to plan and manage the release of Water

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>from the Menindee Lakes (January 2008).</p> <ul style="list-style-type: none"> • Cooperation to manage and declare uncontrolled, supplementary and off-allocation releases. • Planning meetings between DWE and State Water in relation to 2010 Determination. • Meetings of the NSW Senior Officers Group on Water; chaired by DWE and attended by a number of organisations, including State Water, discussing a range of issues including Cold Water Mitigation, Wetland Policy and Management, and other items.
	(b) the MoU with DPI is to recognise the role of DPI as the agency responsible for fisheries management in the State and address aquatic habitat and fish passage impacts of State Water's operations and information sharing arrangements;	This presents a moderate environmental risk which is generally managed by ensuring that all areas of coordination of Functions and associated responsibilities are included within the MoU. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>Section 1 of the MOU recognises the role of DPI, while Section 5 details State Water's environmental obligations including its responsibilities to address aquatic habitat and fish passage impacts of State Water's operations.</p> <p>State Water and DPI report annually on the activities conducted under the MoU and State Water provided the 2006/2007 Annual Report for review. The report provides details of activities undertaken over the year grouped by: the four State Water areas – North, South, Central and Coastal; the State Water Fishway Monitoring Program, and; strategic projects. The report also includes details of reportable environmental performance indicators and financial information relating to projects.</p> <p>State Water also provided additional evidence of interaction between it and DPI throughout the period 2006/07 and 2007/08. Examples of interactions include:</p> <ul style="list-style-type: none"> • Planning and management of Fish Rescue Operations. • Minutes of the Annual meetings between State Water and DPI on the MoU for 2006 and 2007. • Removal of unused weirs.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<ul style="list-style-type: none"> Joint development of valley specific programs to improve long term planning and strategic decision-making regarding fish passage requirements.
	(c) the MoU with DEC is to recognise the role of DEC as the agency responsible for environmental protection and conservation of natural and cultural heritage and address river health and water quality impacts of State Water's operations and information sharing arrangements.	This presents a moderate environmental risk which is generally managed by ensuring that all areas of coordination of Functions and associated responsibilities are included within the MoU. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>Section 1 of the MoU recognises the roles of DECC and State Water; Section 5 outlines State Water's environmental obligations including addressing the river health and water quality impacts of its operations. Section 6 outlines the information sharing arrangements in place between DECC and State Water.</p> <p>State Water provided evidence of its continuing interaction between itself and DECC throughout 2006/07 and 2007/08. Some examples of the interaction include:</p> <ul style="list-style-type: none"> The NSW Rivers Environmental Restoration Program (RERP) – Funded by the Australian and NSW Governments, RERP has been established to improve the health of threatened wetlands in the Murray-Darling Basin. State Water is assisting DECC to achieve the objectives of the program. A contract has been agreed between the two organisations to set out clear responsibilities for DECC and State Water to ensure that DECC satisfied all requirements under the Funding Agreement. Both DECC and State Water are members of the Cold Water Pollution Interagency Group. The group aims to minimise the impact of cold water pollution from bulk water supplies. State Water provided minutes of meetings for three meetings held in the 2007/08 year. State Water assisted DECC in releasing environmental water for the Southern Bell Frog (SBF). State Water provided copies of emails between the two organisations in relation to the release.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
2.3.4	State Water must make the MoUs referred to in clause 2.3.1 available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	The MoUs are available on State Water's website by following the 'Corporate Information' link from the Home Page. The MoUs are available as PDF documents that can be downloaded free of charge. Copies of the MoUs are also provided free of charge on request at each of State Water's offices.
2.3.5	State Water must, by no later than 1 September each year, for the preceding financial year, report to IPART on its performance against and compliance with the MoUs referred to in clause 2.3.1 including such relevant information as may be required by IPART to be included in the report.					<p>State Water reported on its compliance to IPART under the Operating Licence in 2006/07 and 2007/08 in its 1 September reports to IPART each year.</p> <p>The 2006/07 and 2007/08 reports were structured in tabular form to show each MOU requirement, together with an explanation of how State Water had complied during the reporting year.</p> <p>As part of the audit, State Water provided documentation to evidence its compliance with the MoUs. Audit interviews were conducted with staff, including a number of Operations Managers, to further investigate and confirm the level of interaction and co-operation between State Water and DECC, DPI and DWE.</p>
	(a) Reporting on MoU with DEC [now DECC];	This represents a low risk. The previous audit shows High compliance with this clause.	High	Full	-	<p>In the 2006/07 report, State Water did not report against all elements of the MoU. It only reported against non-discretionary requirements. As a result of feedback from IPART, State Water released a supplementary report, including activities undertaken in the year in relation to discretionary requirements in the MoU.</p> <p>In the 2007/08 report, State Water reported its compliance against all requirements in the MoU.</p>
	(b) Reporting on MoU with DPI;	This represents a low risk. The previous audit shows Full	High	Full	-	Refer to the comments in 2.3.5(a).

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
		compliance with this clause.				
	(c) Reporting on MoU with DNR [now DWE].	This represents a low risk. The previous audit shows Medium compliance with this clause.	High	Full	-	Refer to the comments in 2.3.5(a).
2.3.6	State Water must make the report referred to in clause 2.3.5 available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	Both the 2006/07 and 2007/08 1 September reports to IPART on State Water's compliance against its <i>Operating Licence</i> are available on State Water's website by following the 'Corporate Information' link from the home page. The report is available for download from State Water's Internet website free of charge.

3.3 *Discussion*

In general, State Water has achieved 'Full' compliance with the requirements of the *Operating Licence* in respect to Memoranda of Understanding. There is one 'High' compliance rating.

3.3.1 *Clause 2.3.2(a) Purpose of MoU with DWE – High compliance*

Compliance with this clause of the *Operating Licence* has been assessed as 'High' for two key reasons. Firstly, as noted in the report on the 2005/06 Operational Audit, the *Operating Licence* requires that the MoU with DWE recognises the roles of DWE and is to address the coordination of functions and associated responsibilities between DWE and State Water in undertaking their respective roles. In particular the *Operating Licence* requires that the arrangements for the making and announcements of available water determinations and controlled flows be specified. As the MoU does not reflect this arrangement, "Full" compliance with this clause cannot be assessed.

Secondly, as also noted during the 2005/06 audit, the MoU with DWE does not include all of the functions where there is a need for cooperative relationship. This concern was reiterated at the time by the Minister, who noted that the restructure of DWE (which occurred in early 2007) provided an opportunity to review the MoU to ensure that it accurately reflects the allocation of functions between State Water and the DWE. In its 2006/07 1 September report to IPART, State Water indicated its intent to review the MoU with DWE in the near future. As the MoU is yet to be updated, this requirement remains outstanding.

Despite this assessment, discussions with State Water staff and a corresponding review of supporting documentation indicate that State Water has had significant interaction with DWE across a broad range of issues throughout the audit period, 2006/07 to 2007/08.

3.4 *Stakeholder Consultation*

3.4.1 *Overview*

As part of the audit we contacted each Director General of DECC, DPI and DWE to seek comment from each Agency on State Water's performance in regards to the requirements of the relevant MoU, and the level of consultation and interaction with State Water with respect to relevant sections of the *Operating Licence*. Both DECC and DPI provided feedback, a summary of which is provided in the paragraphs below, however, DWE has not provided a formal response to Halcrow. The letters sent to these stakeholders and the responses received are included within **Appendix D**

We also sought comments from a selection of individuals within DECC, DPI and DWE who have a direct working relationship with State Water. The comments received from individuals within DECC indicate that in general, State Water has been helpful and co-operative, and that the relationship is working well. No comments were received from individuals within DPI or DWE.

3.4.2

DECC

The feedback provided by DECC indicates that it is satisfied with State Water's operation in relation to the MoU. DECC notes that its relationship with State Water has changed since 2005 in that DECC is now responsible for environmental water management. DECC has confirmed that a schedule to the existing MoU is currently being negotiated with State Water to establish a framework within which State Water and DECC will work cooperatively to manage and deliver environmental water.

DECC has also confirmed that it was consulted by State Water in relation to the EMP, stating that it did not raise any specific areas in which a change to the plan was needed.

3.4.3

DPI

In its feedback, DPI has stated that State Water has met all its obligations towards NSW DPI in relation to the continuation of the MoU, compliance with legislative requirements under the Fisheries Management Act (1994) and collaboration over issues to enhance the protection of aquatic habitats. DPI wished to highlight the contribution of State Water to the 'wise management of aquatic resources and commend its efforts to work collaboratively with NSW DPI to achieve positive environmental outcomes'.

The feedback provided by these stakeholders has been considered as part of the audit, in respect to the relevant Sections of the *Operating Licence*.

3.5

Progress in Responding to Previous Audit Recommendations

The report on the 2005/06 Operational Audit of State Water identified three recommendations in relation to the Memoranda of Understanding. These recommendations, together with State Water's progress in addressing these recommendations, are discussed in the following paragraphs:

R4.1 – State Water to consider revising the MoU with DNR [now DWE] in order to address the arrangements for the making and announcements of available water determinations and controlled flows and to address more broadly the specific roles of each agency.

As noted in **Section 3.3.1**, State Water is yet to review the MoU with DWE. State Water did, however, provide evidence to show that it has agreed with DWE to review the MoU. The review of the MoU should capture all of the activities where State Water and DWE collaborate, including those activities not covered in the existing MoU. The target for completing the review of the MoU is December 2008.

R4.2 – State Water should consider preparing a more formal report of performance against and compliance with the MoUs including, as a base, a list of the requirements of the MoU and how State Water have complied with each one.

State Water has modified the format of its 1 September report to IPART in line with the above recommendation. Performance against and compliance with the MoU is now reported in a tabular format, with each requirement separately identified. In 2006/07 State Water only reported against the non-discretionary requirements of each MoU. As a result of feedback from IPART, State Water released a supplementary report, including activities undertaken in the year in relation to discretionary requirements of each MoU. The 2007/08 1 September report to IPART reported on performance and compliance in all areas.

R4.3 – State Water needs to provide additional detail on performance against and compliance with the MoU with DNR including all the various activities that State Water and DNR [now DWE] collaborate on.

As noted above, State Water has modified the format of its 1 September report to IPART so that it now provides additional details on performance against and compliance with each aspect of the MoU with DWE. State Water has also reported its collaboration with DWE in areas not explicitly identified within the existing MoU.

3.6

General Observations

During the audit interviews, State Water noted that there may be scope for working with DPI in the identification of crop watering requirements. It noted, however, that as this is not a core activity of State Water it should not be included within the MoU.

We note the potential benefits that may arise from such cooperation, particularly in relation to water efficiency. State Water has indicated that, should it consider this proposal further, it is of the opinion that such cooperation would be best supported by a Service Level Agreement (SLA), separate to the MoU with DPI.

3.7

Recommendations

No recommendations are proposed in respect to this section of the *Operating Licence*.

4 Licence Section 4 – Customers and Community Engagement

4.1 *Overview of Requirements*

Under the provisions of Section 4 of the *Operating Licence*, State Water is required to:

- establish and regularly consult with a Community Consultative Committee (CCC);
- establish and regularly consult with valley based Customer Service Committees (CSCs), excluding Fish River Customers;
- in consultation with the CSCs, establish and continue to have in place a Customer Service Charter;
- establish and regularly consult with a Fish River Customer Council;
- enter into agreements with its Fish River customers; and
- establish and continue to have in place a code of practice and procedure on debt management.

Details in respect to each of these requirements are set out in clauses 4.1 to 4.6 of the *Operating Licence*.

4.2 *Customer and Community Engagement – Compliance*

Compliance with Section 4, Customer and Community Engagement, is outlined in **Table 4-1**. Overall, compliance with Section 4 of the *Operating Licence* has remained in line with that of the last audit. ‘Full’ compliance has been assessed for most clauses, with some ‘High’ assessments of compliance resulting from some minor technical failures.

Table 4-1 Section 4: Customer and Community Engagement – Compliance Assessment

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
4.1	Community Consultative Committee					
4.1.1	State Water must establish and regularly consult with a State wide community consultative committee (“CCC”) to enable community involvement in issues relevant to the performance of State Water’s obligations under this Licence, except in relation to the Fish River Scheme.	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>State Water set up a State wide Community Consultative Committee in 2005/06. The CCC remains in place.</p> <p>State Water provided a copy of the Terms of Reference (TOR) for the CCC, which state the objectives of the CCC as being:</p> <ul style="list-style-type: none"> • To provide advice to State Water Corporation on issues that impact on Service Delivery. • To provide a platform for consultation on community issues. <p>As noted in the 2005/06 audit, this scope is worded differently and may have a slightly different meaning than that envisaged in the Operating Licence which states that the CCC must ‘enable community involvement in issues relevant to the performance of State Water’s obligations under this Licence’.</p> <p>The purpose of the Committee is to provide communication with and feedback from representative organisations comprising the membership of the Committee. The terms of reference state that the CCC will meet once or twice per year.</p> <p>In 2006/07, the CCC met twice, on 27 July 2006 and 24 November 2006. In 2007/08, the CCC met once, on 27 September 2007. State Water provided copies of minutes from meetings. The minutes from the meetings indicate that the CCC discussed a number issues, including (but not limited to) Environment Management Plan, Complaints Handling, the review of State Water’s</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<i>Operating Licence</i> , Implications for State Water of the State Plan, and the EMP Review outcome.
4.1.2	<p>State Water must appoint the members of the CCC consistently with this Licence. The membership of the CCC must include a representative from at least each of the following:</p> <p>(a) Customers (excluding Fish River customers);</p> <p>(b) environment groups;</p> <p>(c) basic water right holders;</p> <p>(d) regional business and consumer groups;</p> <p>(e) Catchment Management Authorities; and</p> <p>(f) local government.</p>	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>The TOR outlines the appointment of members to the CCC. State Water approaches the Peak Representative Groups to provide representatives of the community groups specified by the licence. The Peak Representative Groups are:</p> <ul style="list-style-type: none"> • NSW Irrigators Council; • Nature Conservation Council; • NSW Farmers Association; • Chamber of Commerce; • Australian Consumers Association; • Chair of CMA Chairs Committee; and • NSW Aboriginal Land Council; • Local Government and Shires Association. <p>The CCC is presently comprised of the following representatives:</p> <ul style="list-style-type: none"> • Customers - NSW Irrigators' Council – Mr Col Thomson; • Environment groups - Nature Conservation Council - Prof Don White; • Basic water right holders - NSW Farmers Association - Mr Malcolm Holm; • Regional businesses- State Chamber of Commerce - Mr Paul Orton; • Consumer groups - Australian Consumers' Association - None; • CMAs - CMA Chairs Council Secretariat - Mr Bob Wilson; • Indigenous Groups - NSW Aboriginal Land Council

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>– Mr Robert Burgess; and</p> <ul style="list-style-type: none"> Local Government - Local Government and Shires Association of NSW – Cr Bruce Miller. <p>State Water has stated that although no consumer groups have taken up membership of the CCC, it undertakes valley-based consultation via the CSCs. State Water has stated that its customers are well represented by the NSW Irrigators Council which is a member of the CCC.</p> <p>The representative for Regional Businesses does not attend the CCC meetings, however, all agendas, business papers and minutes are sent to the contact.</p>
4.1.3	The term of a member of the CCC will expire two years after his or her appointment. A member will be eligible for re-appointment for one further consecutive term.	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>The TOR for the CCC includes this requirement. The two year term for the CCC expired on 27 July 2008 (two years after the first meeting of the CCC).</p> <p>State Water sent letters requesting nominations for representatives to nominating organisations on 27 June 2008. These letters were sighted as part of the audit. To date, nominations have been received from the Local Government and Shires Association, CMA Chairs Council, NSW Farmers Association, NSW Irrigators Council.</p>
4.1.4	State Water must provide the CCC with information within its possession or under its control necessary to enable the CCC to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege.	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>A review of the meeting minutes for the CCC indicates that any requests for information not immediately available was marked for action in the minutes and a staff member named as responsible. Progress was noted in the next meeting, typically with the request fulfilled. No record of complaint from any CCC member regarding the availability of information was recorded in the minutes.</p> <p>As part of the audit, we contacted each member of the CCC seeking comment on State Water's discharge of its obligations under this clause. Only one member of the</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						CCC provided feedback and no specific issues were raised in relation to the provision of information by State Water.
4.2	Valley Based Customer Service Committees (excluding Fish River customers)					
4.2.1	<p>State Water must establish and regularly consult with valley based customer service committees ("CSCs") to enable Customer involvement in issues relevant to the performance of State Water's obligations to Customers under this Licence or the customer service charter referred to in clause 4.3.</p> <p>The membership of the CSCs must also include representatives from unregulated water Customers, groundwater Customers and the relevant Catchment Management Authority.</p> <p>For the purposes of this clause 4.2, Customer does not include a Fish River customer.</p>	<p>This represents a moderate operational risk. The risk is managed by appropriate levels of consultation with valley based CSCs. The previous audit shows Full compliance with this clause.</p>	Full	Full	-	<p>Currently State Water has in place eight (8) CSCs, one for each valley except the three coastal valleys which are combined under the one (1) CSC, and a combined CSC for the Namoi and Peel valleys. The list of CSCs is as follows:</p> <ul style="list-style-type: none"> • Border Rivers; • Gwydir; • Namoi-Peel; • Macquarie-Cudgegong; • Lachlan; • Murrumbidgee; • Murray; and • Coastal (consisting of three separate regions, i.e. North Coast, South Coast and Hunter Valley). <p>Typically, each of the CSCs met four times a year with the exception of Murrumbidgee CSC which met twice in 2006/07 and once in 2007/08. Sub-groups within the CSC generally meet four times a year. For the 2006/07 and 2007/08 years the following meetings took place:</p> <ul style="list-style-type: none"> • Border Rivers: 16-Aug-06, 21-Nov-06, 21-Feb-07, 20-Jun-07, 15-Aug-07, 21-Nov-07, 20-Feb-08, 17-Jun-08. • Gwydir: 30-Aug-06, 23-Nov-06, 26-Apr-07, 10-July-07, 20-Sep-07, 13-Dec-07, 27-Mar-08, 16-Jun-08.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<ul style="list-style-type: none"> Namoi-Peel: 17-Aug-06, 16-Nov-06, 9-Feb-07, 10-May-07, 7-Aug-07, 23-Oct-07, 14-Feb-08, 15-May-08. Macquarie-Cudgegong: 6-Sep-06, 29-Nov-06, 14-Mar-07, 13-Jun-07, 12-Oct-07, 12-Dec-07, 12-Mar-08, 11-Jun-08. Lachlan: 14-Aug-06, 13-Nov-06, 12-Feb-07, 14-May-07, 13-Aug-07, 12-Nov-07, 11-Feb-08, 12-May-08. Murrumbidgee: 12-Dec-06, 5-Mar-07, 21-Dec-07. Murray: 1-Sep-06, 1-Nov-06, 2-Mar-07, 1-Jun-07, 24-Aug-07, 7-Dec-07, 28-Apr-08. Coastal: 14-Nov-06, 13-Mar-07, 29-May-07, 31-Oct-07, 25-Feb-08, 24-Jun-08. <p>State Water provided agendas and minutes for all meetings held over the 2006/07 and 2007/08 period. In addition to the CSCs, there are a number of sub-committees that meet on an ad-hoc basis in relation to specific issues.</p> <p>Although a significantly revised Customer Service Charter was used from 1 July 2007, the CSC meetings continued to follow a format based on the original Charter, with the following sections as part of the agenda:</p> <ul style="list-style-type: none"> Customer Service; Water Delivery; Asset management; Business Development; and Our People. <p>The Operating Licence requires that membership of the CSCs must also include representatives from unregulated water Customers, groundwater Customers and the relevant</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>Catchment Management Authority. In most instances, these obligations have been met, however, not all CSCs include a representative from each group. The Coastal Valley CSC does not include a groundwater representative. State Water has confirmed that all the people who nominated to join the CSC were appointed and that, although there are a number of CSC members who hold groundwater licences, no one member represents groundwater specifically. State Water noted that this is partly due to the fact that there are no groundwater associations in the coastal valleys and also because the CSC is mainly focused on regulated water (i.e. State Water's core business). Therefore members with a variety of licences are more likely to choose to represent their regulated water licence interests in this forum.</p> <p>We understand that State Water did seek to appoint representatives from unregulated water customers, groundwater customers and the relevant Catchment Management Authority for each CSC. State Water also provided evidence from its most recent request for nominations to the CSCs (for appointment from 1 July 2008) which demonstrated that it sought to appoint members from these areas.</p>
4.2.2	State Water must provide the CSCs with information within its possession or under its control to enable the CSC to discharge the tasks assigned to the CSC, other than information or documents over which State Water or another person claims confidentiality or privilege.	This represents a low operational risk. The previous audit shows High compliance with this clause.	High	High	Provision of valley based financial information to CSCs as requested. A new format of financial reporting which is about to be introduced is	<p>The minutes of CSC meetings provide evidence of State Water's endeavours to fulfil all CSC information requests. Information requests by CSCs during meetings are noted on action sheets which are distributed to CSC members following each meeting. These action sheets are attached to the meeting minutes.</p> <p>A review of the minutes indicates that State Water has provided CSCs with information covering a broad range of issues including water quality, Water Sharing Plans, water metering compliance and financial information. Customer</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
					expected to meet CSC requirements.	<p>Service Managers from across a number of valleys were interviewed as part of the audit and explained the types of information provided to their respective CSCs, and how information requests are dealt with.</p> <p>During the 2005/06 audit, compliance was assessed as 'High' as State Water had been unable to provide all of the information requested by CSCs. Specifically, the detail and quality of the financial information provided to the CSCs was not considered satisfactory by the Murrumbidgee CSC. The reason that State Water had been unable to provide this information was due to the configuration of its Financial Management System (IFMS).</p> <p>In the period since the last audit State Water has been working on an IFMS improvement project. This has involved changing the way costs are recorded to enable reporting of expenditure in a way that is more representative of how it is incurred within each valley (i.e. it has moved away from activity based costing to a Profit and Loss style of reporting). State Water provided a copy of the template that it intends to use when reporting financial data to the CSCs. The report clearly sets out the expenditure in each valley, and provides a breakdown of the costs incurred in within each valley (into staff costs, travel etc). The format of the report also aligns to IPART's 2006 Determination Transactions that sit under the reports will also be made available to the CSCs. State Water indicated that trials of the new format have been well received by the CSCs.</p> <p>State Water is yet to provide the 2007/08 financial information to its CSCs in this revised format but it expects to provide it at first round of CSC meetings for the 2008/09 year, which will be held in October.</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>During the audit interviews State Water acknowledged that the Murrumbidgee CSC Chair was still unsatisfied with the level of financial information provided throughout 2006/07 and 2007/08. However, it was confident that this dissatisfaction was not common across all CSCs. In any case, State Water expects the new report format will address the concerns of the CSC in relation to the provision of financial information.</p> <p>As part of the audit, we contact the Chair of each CSC seeking comments as to the discharge of State Water's obligations in relation to the CSCs. Of the eight CSCs Chairs, three provided feedback on State Water's performance. In general, the CSC Chairs that provided feedback expressed satisfaction with State Water's performance in relation to its <i>Operating Licence</i>. However, the provision of financial information was raised as an area where State Water's performance could be improved. A number of the CSC Chairs anticipated that the quality of the financial information would improve following improvements to State Water's finance system. Additional details of the feedback provided by CSC Chairs is provided in Section 4.4.2.</p>
4.3	Customer Service Charter (excluding Fish River)					
4.3.1	State Water must, in consultation with the CSCs, establish and continue to have in place a customer service charter ("Charter").	This represents a moderate operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>State Water established a Customer Service Charter on 28 January 2005.</p> <p>During the audit period State Water was required to update the Customer Service Charter. The Charter was reviewed and a new Charter adopted in April 2007, effective from 1 July 2007. The revised Charter was developed in consultation with member CSCs. The CSC minutes show that the Charter was developed in consultation with</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						members of the Murrumbidgee, Lachlan and Macquarie-Cudgegong CSC (refer to Section 4.4.2 for further details). The Customer Service Charter continues to operate.
4.3.2	The Charter must set out the mutual responsibilities or obligations of State Water and its Customers (excluding Fish River customers) consistently with this Licence, the Act, the <i>Water Management Act 2000</i> and the <i>Water Act 1912</i> .	This represents a moderate operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	The current Charter, effective from 1 July 2007, states that State Water will operate it accordance with its legislative requirements, including its <i>Operating Licence</i> , Water Sharing Plans, <i>Water Management Act 2000</i> and <i>Water Act 1912</i> . It sets out both State Water's and the customers' obligations under three sections: <ul style="list-style-type: none"> • Water Ordering and Delivery; • Customer Contact; and • Information and Communication. Within these sections are listed specific obligations for both State Water and the customer. In simplifying the Charter, State Water has removed some mutual obligations that had been included within the earlier (28 January 2005) Charter. For example, the earlier Charter included the requirement to involve CSCs in the Total Asset Management Planning (TAMP) process. The new Charter only states that State Water will maintain its assets fit for service. We note, however, that input from the CSCs in relation to asset management is included in the Terms of Reference for the CSCs.
4.3.3	State Water must make the Charter available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	The Charter is available on State Water's website by following the 'Customer Service' link from the Home Page. The Charter is available for download free of charge. A hardcopy is available free of charge upon request from any of State Water's customer service desks.
4.3.4	State Water must, in consultation	This represents a	NA	Full	-	As part of its obligation under this clause, and as reflected

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	with the members of the CSCs, regularly review, and if necessary update, its Charter and in any event must do so by no later than 1 July 2007.	low operational risk. Compliance with this clause was not assessed during the previous audit.				<p>in the TOR for the CSC, State Water was required to review and, if required, replace the preceding Charter by 1 July 2007.</p> <p>A review of the minutes from the CSC meetings indicates that consultation with the CSCs began in February 2007 with final submissions typically in by May 2007. Meeting minutes show that the Charter was discussed and reviewed by the following CSCs during CSC meetings:</p> <ul style="list-style-type: none"> • Border Rivers; • Macquarie-Cudgegong; • Lachlan; • Murray; and • Coastal. <p>No reference to the Charter review is made in the minutes for meetings with Gwydir, Naomi-Peel or Murrumbidgee CSCs. However, State Water provided copies of business papers sent to the Namoi-Peel CSC, as evidence that it was consulted on the draft Charter. It also provided a copy of paper submitted to State Water's Board seeking endorsement of the revised Customer Service Charter. The paper states that only two comments from CSCs were received in relation to the new Charter, one from Border Rivers CSC and one from the Gwydir Valley Chairperson. The Charter was amended to include feedback from the Border Rivers CSC. The feedback from the Gwydir Valley CSC Chairperson indicated that he was unhappy with the revised Charter.</p> <p>State Water was unable to provide evidence of any correspondence sent in reply to the Gwydir CSC Chair. Minutes of the Gwydir CSC meeting held on 10 July 2007 indicate that the final Charter had been released by State Water and that the main feedback to the Charter was</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>provided by the Gwydir Valley. The Murrumbidgee CSC Chair was contacted by the auditors and confirmed that State Water had consulted with the Murrumbidgee CSC in relation to the review of the Charter.</p> <p>As part of this audit feedback was sought from CSC Chairpersons in relation to whether State Water had consulted with CSCs in the review of the Charter. A total of three CSCs provided feedback. In general, the feedback confirmed that State Water did consult with the CSCs, and that the CSCs are satisfied with the new Charter. Section 4.4.2 presents more information on the consultation with the CSCs.</p>
4.3.5	State Water must by no later than 1 September each year, for the preceding financial year, report to IPART on its overall performance against its obligations under the Charter and where appropriate State Water is also to report on its performance against its obligations under the Charter in relation to each valley.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>As part of its 2006/07 1 September report to IPART, State Water reported on its performance against the then current Customer Charter. Under the section 'Customer Service Charter' each of its obligations were listed and compliance reported in general terms with specific mention of valleys where appropriate. For the 2007/08 period, a similar approach was also used, however, State Water reported its performance against the current Charter which came into affect 1 July 2007.</p> <p>Neither the 2006/07 nor the 2007/08 reports provide an overview compliance with obligations under the Charter '<i>in relation to each valley</i>'. Rather, compliance is reported as a whole. State Water has indicated that this is because many of its obligations under the Charter are centralised corporate activities which apply uniformly to all valleys. Where activities have occurred specific to a valley, State Water has noted this.</p>
4.3.6	State Water must make the report referred to in clause 4.3.5 available to the public.	This represents a low risk. The previous audit	Full	Full	-	State Water's 1 September reports for 2006/07 and 2007/08 are available on its website by following the 'Corporate Information' link from the Home Page. The

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
		shows Full compliance with this clause.				reports are available as a PDF document that can be downloaded free of charge. Hard copies of the reports are available upon request and free of charge at any of State Water's customer service desks.
4.4	Fish River Customer Council					
4.4.1	State Water must establish and regularly consult with a Fish River customer council ("Fish River Customer Council") to enable Fish River customer involvement in issues relevant to the performance of State Water of its obligations to Fish River customers under this Licence and any Customer Contract.	This represents a moderate operational risk. This is generally managed by regular consultation with the Fish River Customer Council on relevant matters of State Water's performance and obligations. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>The Fish River Customer Council was established on 1 January 2006. The Council meets approximately bi-monthly with all meetings recorded and minuted. The following meetings were held during the audit period:</p> <ul style="list-style-type: none"> • 22 August 2006; • 14 November 2006; • 12 December 2006; • 20 February 2007; • 3 April 2007; • 25 May 2007; • 26 June 2007; • 28 August 2007; • 23 October 2007; • 11 December 2007; • 19 February 2008; • 15 April 2008; • 16 May 2008; and • 20 June 2008.
4.4.2	State Water must appoint the members of the Fish River Customer Council consistently with this Licence. The membership of the Fish River Customer Council must include a representative from at least each of the following:	This represents a moderate operational risk. This is managed by ensuring all representatives identified in the Operating	Full	Full		<p>Membership of the Fish River Customer Council consists of Lithgow City Council, Oberon Council, Delta Electricity and the Sydney Catchment Authority (SCA). Each of these customers had a nominated representative that attended the regular Council meetings. The representatives were as follows:</p> <ul style="list-style-type: none"> • Lithgow City Council – Andrew Muir (Manager

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	(a) Lithgow City Council; (b) Oberon Council; (c) Delta Electricity; and (d) Sydney Catchment Authority	Licence are included on the Fish River Customer Council. The previous audit shows Full compliance with this clause.				<p>Regional Services);</p> <ul style="list-style-type: none"> • Oberon Council – Bruce Fitzpatrick (General Manager); • Delta Electricity – Peter Gray (Production Manager); and • SCA – Ramen Charan (General Manager). <p>Each meeting was fully represented with the exception of the December 2006 and October 2007. The Oberon City Council representative was unable to attend these meetings.</p>
4.4.3	State Water must provide the Fish River Customer Council with information within its possession or under its control to enable the Fish River Customer Council to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege.	This represents a moderate operational risk. This is generally managed by providing sufficient information to the Fish River Customer Council on relevant matters. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>State Water stated that it provides all requested information to the Fish River Customer Council. All information requests are recorded on action sheets which are attached to the minutes of the meetings.</p> <p>A review of the minutes indicates that any requests for information not immediately available were marked for action in the minutes and a State Water staff member named as responsible. Progress was noted in the following meetings, typically with the request fulfilled. Minutes do not record any instances where the requested information could not be reported.</p> <p>As part of the audit, feedback was sought from members of the Fish River Customer Council in relation to the provision of information by State Water. The feedback confirmed that State Water had provided all requested information to the Fish River Customer Council. More detailed information about the feedback is provided in Section 4.4.3.</p>
4.5	Customer Contracts (Fish River customers only)					
4.5.1	State Water must use its best endeavours to enter into	This represents a moderate	NA	Full	-	As the <i>Operating Licence</i> term is three years from the commencement date of 24 June 2005, the requirements of

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	agreements with its Fish River customers during the term of this Licence, in relation to the arrangements to apply to the supply of water by the operation of the Fish River Scheme.	operational risk. This is managed by entering into water supply agreements with Fish River customers. The previous audit did not assess compliance with this clause.				<p>this clause were not due until the 2007/08 year. As such, compliance in 2006/07 is assessed as NA.</p> <p>Under the terms of the <i>Operating Licence</i>, State Water is required to have in place a current supply agreement with each of its customers. The current supply agreements began on 1 July 2008. Both the SCA and Oberon City Council have agreed and signed the contracts. The SCA signed on 31 December 2007; the Oberon City Council contract is not dated, although minutes from meetings of the Customer Council indicate that it was signed by 20 June 2008.</p> <p>To date neither Delta Electricity nor Lithgow City Council has signed the current agreements and both have been operating on draft agreements. Minutes of Fish River Customer Council meetings indicate that the customer contracts were discussed throughout 2007 and into 2008, with iterations of the agreements going back and forth between each party. In addition, State Water provided copies of letters sent to both customers outlining the importance of a current supply agreement, although dated 5 September 2008, i.e. two months after the new agreement was to formally begin.</p>
4.5.2	<p>The terms of the arrangements must, as a minimum, include:</p> <ul style="list-style-type: none"> (a) the standard of the quality of water supplied; (b) the continuity of water supplied (i.e. interruption, disconnection and reconnection to supply); (c) the metering arrangements; (d) the costs to be paid by Fish 	This represents a moderate operational risk. This is managed by ensuring that the Fish River water supply agreements address each of the stated requirements.	NA	Full	-	<p>The terms of agreement by which the SCA and Oberon City Council are supplied water cover the following areas:</p> <ul style="list-style-type: none"> • Water quality: <ul style="list-style-type: none"> ◦ Section 8: Water Quality; ◦ Section 9: Water Quality Testing Regime. • Continuity of water supply: <ul style="list-style-type: none"> ◦ Section 7: Annual and Daily Quantities; ◦ Section 10: Disconnection from Supply of Water, Failure of Supply; ◦ Section 11: Planned maintenance;

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	River customers for the supply of water and other services to them; and (e) any other terms agreed between State Water and its Fish River customers.	The previous audit did not assess compliance with this clause.				<ul style="list-style-type: none"> Section 13: Drought management. Metering arrangements: <ul style="list-style-type: none"> Section 12: Flow Management. Cost to be paid by customers: <ul style="list-style-type: none"> Section 15: Charges for Water Supplied; Section 16: Payment of Accounts for Water Supplied; Section 21: Variation; Section 23: Costs, Stamp Duty ,etc. Other specific terms: <ul style="list-style-type: none"> Section 14: Dispute Resolution; Section 18: Trading of Water. <p>The draft agreement for Lithgow Council also follows the same format. The format of the draft agreement with Delta Electricity varies slightly to the above, although all of the required terms of arrangements are addressed.</p>
4.6	Code of Practice and Procedure on Debt Management					
4.6.1	State Water must have in place by no later than 1 July 2005, and continue to have in place, a code of practice and procedure on debt management.	This presents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water developed a code of practice and procedure on debt management, which was implemented in February 2005. The procedure remains in place, and a copy of the latest version 'Water Debtor management Policy' was provided at audit. The policy outlines the billing procedure and the management of delinquent debts. The document was last reviewed in April 2007 and the next review date is due in April 2009, or when any changes are made to the billing cycle.
4.6.2	The Code must: (a) provide for deferred payment or payment by instalment	This presents a low operational risk. The previous audit	High	High	Under the new <i>Operating Licence</i> this clause has been changed	Under the terms of the Policy, State Water has made provision for deferred payment should the customer experience difficulty in paying. If the customer seeks a deferment of less than three months, the Credit Supervisor

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	options; and (b) provide that the payment options referred to in (a) are to be advised in bills.	shows High compliance with this clause.			and the current format of the bill would be assessed as fully compliant. No action required.	<p>must be satisfied of the need for deferring the debt.</p> <p>Should a customer request a deferment of more than three months, the Corporate Shared Services manager or Manager Corporate Services must be satisfied of one or more of the following conditions apply:</p> <ul style="list-style-type: none"> • Receipt of direct benefits from the Commonwealth Exceptional Circumstances Scheme. • Receipt of benefits under a State operated droughts or other natural disaster relief scheme. • Suffering conditions arising from a drought of record and have no carryover water or access to other water. • Experiencing conditions that create a direct and significant impact on his/her ability to pay water charges. <p>As noted in the 2005/06 Operational Audit, State Water does not make reference to payment plans on its bills. State Water indicated that the payment options are not included in the customers' bills as the options are not, and should not be, standard practice for paying bills. State Water argues that the options should only be implemented if a customer experiences hardship paying the bills. In accordance with this policy, the bills do refer customers to contact State Water if they are experiencing difficulties in paying an account.</p> <p>We note that while this constitutes a technical non-compliance with the <i>Operating Licence</i>, the wording of the new <i>Operating Licence</i> has been changed so that State Water need only provide a point of contact for a deferred payment with each bill to customers, which its current bill template does.</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
4.6.3	State Water must make the Code available to the public.	This presents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>State Water does not make a full version of the Policy available to the public, however, the conditions of deferred payment are included on the State Water website. Omissions from the Policy relate to internal billing procedure rather than debt management.</p> <p>All State Water offices are able to access Code which can be provided to customers for viewing on request, free of charge. Copies will be provided on request. State Water also has a 'Customer Concerns' form and information pamphlet which provides additional information in respect to the Code.</p>

4.3 *Discussion*

In general, State Water has achieved high level of compliance with the requirements of the *Operating Licence* in respect to Customers and Community Engagement. A brief discussion of compliance for clauses not assessed as 'Full' is presented below.

4.3.1 *Clauses 4.2.2 Provision of information to CSC – High compliance*

Although State Water has demonstrated that it has actively seeks to provide all information requested by CSCs, it has acknowledged that limitations with the configuration of its financial system have meant that it has been unable to provide some information requested of it. On this basis, 'High' compliance has been assessed for this clause.

The IFMS improvement project, which is currently nearing completion, will facilitate more accurate and prompt reporting of financial information to CSCs. Hence, future Operational Audits should see the elimination of these delays and limitations in the provision of financial information.

4.3.2 *Clauses 4.6.2 Customer Charter – High compliance*

As State Water does not make reference to payment plans on its bills, it is not strictly compliant with clause 4.6.2(b). While this constitutes a technical non-compliance with the *Operating Licence*, the wording of the new *Operating Licence* has been changed so that State Water need only provide a point of contact for a deferred payment with each bill to customers. State Water's existing bill template provides a point of contact and as such, no further action is required for future compliance.

4.4 *Stakeholder Consultation*

4.4.1 *Community Consultative Committee*

State Water provided the names of each member of the Community Consultative Committee. As part of the audit we contacted each member of the CCC, seeking comment on State Water's discharge of its obligations under clause 4.1 of its *Operating Licence*. Feedback was received from one member of the CCC, and no specific issues were raised in relation to the provision of information to the CCC by State Water.

Appendix D contains a copy of the email sent to each member of the CCC together with the feedback received from the CCC member that provided a response to the request for comments.

4.4.2

Customer Service Committees

Each CSC Chairperson was contacted as part of the audit and comments were sought as to the discharge of State Water's obligations in relation to clause 4.2.2 and clause 4.3.4 of the *Operating Licence*. Feedback was received from three CSC Chairpersons.

In general the feedback from the CSCs was positive and State Water's discharge of its obligations was deemed satisfactory. The key exception to this was the provision of financial information, which was raised as an issue by all three CSC Chairpersons. The feedback confirmed that State Water did consult with the CSCs in relation to the Customer Charter.

Appendix D includes a copy of the email sent to each CSC Chairperson together with a full breakdown of the feedback received.

4.4.3

Fish River Customer Council

Consultation with each member of the Fish River Customer Council was undertaken to assist the assessment of State Water's performance in relation to clause 4.4 of its *Operating Licence*. In general, members of the Fish River Customer Council were satisfied with the information provided by State Water and the level of consultation in relation to the Fish River system yield and the Drought Management Plan. However, one of the members did raise an issue in respect to the reporting of financial information by State Water.

A number of other issues were raised that fall outside of the audit period, such as the re-structure of State Water and the potential impacts that this may have on the existing levels of service.

A full breakdown of the feedback provided by each member is presented in **Appendix D**

4.5

Progress in Responding to Previous Audit Recommendations

The report on the 2005/06 Operational Audit of State Water identified two recommendations in relation to Customers and Community Engagement. The recommendations, together with State Water's progress in addressing them, are discussed below:

R5.1 – State Water should ensure that their financial systems are able to provide information as requested by the CSCs.

As noted in **Table 4-1** (clause 4.2.2), State Water's financial systems were unable to provide all of the financial information requested by the CSCs during the audit period, 2006/07 to 2007/08. However, improvements to its financial systems have now been completed and from 2008/09, State Water is confident that it will be able to provide each CSC with more detailed and accurate financial information.

R5.2 – State Water should consider revising clause 4.6.2 of the Operating Licence at the upcoming Operating Licence review to reflect their stance on alternative payment plans.

As part of the recent review of State Water's *Operating Licence*, clause 4.6.2 has been updated. The new *Operating Licence* reflects State Water's stance on alternative payment conditions.

4.6

Recommendations

No recommendations are proposed in respect to this section.

5 Licence Section 5 – Complaint and Dispute Handling

5.1 *Overview of Requirements*

Under the provisions of Section 5 of the *Operating Licence*, State Water must:

- establish and continue to have in place internal complaints handling procedures for receiving, responding to and resolving complaints it receives from Customers and the community relating to any of its functions;
- have in place and continue to have in place a Dispute Resolution Scheme or other arrangements for the external resolution of disputes between State Water and its Customers; and
- report on complaints made against it to other bodies.

Details in respect to each of these requirements are set out in clauses 5.1 to 5.3 of the *Operating Licence*.

5.2 *Complaints and Dispute Handling – Compliance*

Compliance with Section 5, Complaint and Dispute Handling, is outlined in **Table 5-1**. Full compliance has been assessed for all but one clause (clause 5.1.5).

Overall, compliance with this Section of the *Operating Licence* has improved since the last audit, when State Water did not have in place a Complaint and Dispute Handling policy or associated procedures at the time of audit. It has since implemented the policy and these procedures and its compliance with these clauses has been assessed as 'Full'.

Table 5-1 Section 5: Complaint and Dispute Handling – Compliance Assessment

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
5.1	Internal Complaints Handling Procedure					
5.1.1	State Water must establish by no later than 31 October 2005, and continue to have in place, internal Complaints handling procedures for receiving, responding to and resolving Complaints it receives from Customers and the community, relating to any of its Functions.	This presents a low operational risk. The previous audit shows Low compliance with this clause.	Full	Full	-	<p>State Water has in place a Complaints Handling and Resolution Policy (SW2006-P0104), and associated Complaints Handling and Resolution Procedures (SW2006-P0105). The policy and procedures were endorsed by State Water's Board on 28 July 2006. The complaints handling policy and procedures remain in place.</p> <p>State Water indicated that no changes to the policy or procedures have been made since that time as they are deemed adequate in the present state, and no issues of a systematic nature have arisen sufficient to require amendments.</p> <p>A copy of the Complaints Handling and Resolution Policy (SW2006-P0104) and the Complaints Handling and Resolution Procedures (SW2006-P0105) were provided by State Water.</p> <p>The aims of the Complaints Handling and Resolution Policy are stated as being to ensure that:</p> <ul style="list-style-type: none"> • All employees are receptive to State Water's customers and other people who raise concerns about the services provided by State Water. • All complaints are handled in a fair and consistent manner. • Feedback and complaints are handled confidentially and at no cost to the customer. • Feedback and complaints are used to improve customer service.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<ul style="list-style-type: none"> Employees clearly understand their obligations to help resolve complaints. <p>The Complaints Handling and Resolution Procedures define the processes for receiving, recording and assessing, responding and resolving complaints relating to any of State Water's Functions.</p> <p>The procedures do not, however, include a standard definition of what constitutes a complaint. As this may lead to some variability between regions as to what is classified as a complaint, the provision of a clear definition is recommended.</p>
5.1.2	The internal Complaints handling procedures of State Water must be based on the Australian Standard <i>AS4269-1995 Complaint Handling</i> .	This presents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>State Water provided a paper on the compliance of its complaint handling scheme with AS4269-1995 in a document entitled 'Consistency of the Complaints Handling and Dispute Resolution Policy with AS4269-1995', dated December 2006. This document outlines how the Policy complies with each of the 14 elements of AS4269-1995, namely:</p> <ul style="list-style-type: none"> Commitment; Fairness; Resources; Visibility; Access; Assistance; Responsiveness; Charges; Remedies; Data collection; Systemic and recurring problems; Accountability; Reviews; and

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<ul style="list-style-type: none"> Dispute resolution.
5.1.3	State Water must make these procedures available to the public.	This presents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>State Water's Complaints Handling and Resolution Procedures (SW2006-P0105) are not available on State Water's website as these detail the internal procedures to be followed upon receipt of a complaint (that is, the procedure is for internal use only). However, State Water's website contains a link to a document titled 'Customer Concerns'. The link is found on the 'Contact Us' page. The link provides guidance on how to raise 'issues' and 'concerns' with State Water and also provides contact details of the Energy and Water Ombudsman NSW (EWON).</p> <p>Copies of the Customer Concerns document are also available at State Water's offices free of charge.</p>
5.1.4	State Water must, in consultation with IPART, determine appropriate Complaint categories by no later than 31 October 2005. The Complaint categories must include categories relevant to the Fish River Scheme.	This presents a low operational risk. The previous audit shows Low compliance with this clause.	Full	Full	-	<p>There are eleven (11) complaint categories, including nine (9) general categories and two (2) categories specific to the Fish River Water Supply Scheme. The complaint categories are:</p> <ol style="list-style-type: none"> Asset Management. Water release/river operations. Water metering (including metering accuracy). Annual water balances. Environmental management. Billing. Customer Service Charter. Performance of employees. General – complaints about matters not specifically categorised above. <p>For the Fish River Water Supply, the two additional</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						categories are: 10. Standard quality of water delivered. 11. Continuity of water supplied.
5.1.5	<p>State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on its internal Complaints Handling Procedures including the following:</p> <p>(a) the total number of Complaints;</p> <p>(b) once the category of Complaints are determined under clause 5.1.4, the number of Complaints received by the category of Complaint determined in accordance with that clause;</p> <p>(c) the number and type of Complaints resolved or not resolved in sufficient detail for IPART to gain an understanding of the timeframe with which the Complaint was resolved, how the Complaint was resolved, or why the Complaint was not resolved (as the case may be); and</p> <p>(d) any problems of a systemic nature arising from Complaints.</p>	This presents a low risk. The previous audit shows High compliance with this clause.	High	High	Provide additional detail on complaints with respect to the timeframe within which complaints are resolved.	<p>State Water's 1 September reports to IPART for 2006/07 and 2007/08 both include information on State Water's Complaint Handling Procedures. The 2007/08 report also includes details of the new complaints handling system that State Water introduced, on 1 September 2006, to register complaints.</p> <p>Both the 2006/07 and the 2007/08 reports include the total number of complaints received in the year, broken down into complaint categories. The 2007/08 report also provides a breakdown of complaints by valley.</p> <p>In 2006/07, State Water reported a total of 70 complaints. Of these, 36 were resolved, 30 were referred to other relevant organisations and 4 complaints were considered completed. State Water provided a copy of its 2006/07 Complaints Register, detailing the nature of the complaints and how they had been resolved, together with any system improvements implemented as a result of the complaint. The report to IPART states that 'State Water endeavours to resolve any problems as quickly as possible at the coal face'. However, the report does not provide explicit information on the timeframe within which the complaints were resolved.</p> <p>In 2007/08, State Water reported a total of 51 complaints received in the year. Of these, 15 were resolved, 4 were referred to other organisations, 25 were completed, and 7 remained unresolved at year end. Of those unresolved at year end, only two remain open as at 3 October 2008.</p> <p>State Water reported that it endeavours to resolve any</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>problems as quickly as possible at the local level and that it responds to all complaints raised through the Minister's office within four weeks of the notification. Most local complaints are responded to in less than four weeks. State Water provided a copy of its 2007/08 Complaints Report detailing information on each complaint, including how they had been resolved, together with any system improvements implemented as a result of the complaint. From the information provided in the report, it is not possible to ascertain, on an individual basis, whether any given complaint has been resolved, how it was resolved and the time taken to resolve it.</p> <p>All formal complaints received by State Water are tracked using an Excel spreadsheet. State Water does not currently track complaints that are raised verbally and which can be resolved or referred without having to complete a Customer Concerns Form. For example, a customer complaint reported locally to a State Water Customer Representative would go unreported if resolved at a local level. On this basis, it is possible that some complaints have gone unrecorded. There is a risk that, in not recording and tracking verbal complaints, State Water may miss the opportunity to identify early trends in issues identified by Customers via complaints, or the opportunity to improve its systems and processes. State Water indicated that it is currently consolidating its complaints handling and processing via a designated customer call centre, which is expected to also improve data collection. It may wish to consider the benefits of recording verbal complaints as part of this consolidation process.</p> <p>State Water has not reported, in either its 2006/07 or its 2007/08 1 September reports to IPART, any problems of a systemic nature arising from complaints. This is consistent with our review of the detailed 2006/07 and 2007/08</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						Complaints Reports, which have been provided by State Water as part of the audit. We note that the 2007/08 Complaints Report does indicate that a number of complaints were raised into the impacts of the current restructuring of State Water on its operations. Based on our audit interviews with State Water staff, it is well aware of the potential impacts associated with the restructure on its business.
5.1.6	State Water must make the report referred to in clause 5.1.5 available to the public.	This presents a low risk. The previous audit did not assess compliance with this clause.	Full	Full	-	The 1 September reports to IPART for 2006/07 and 2007/08 are published on State Water's Internet website. The reports are easily found and they can be accessed by following the 'Corporate Information' link from the Home Page.
5.2	External Dispute Resolution Scheme					
5.2.1	State Water must have in place by no later than 1 September 2005, and continue to have in place, a Dispute Resolution Scheme (the Scheme) for a Dispute Resolution Body or be a member of an industry based dispute resolution scheme to resolve disputes between State Water and its Customers.	This presents a low operational risk. The previous audit shows High compliance with this clause.	Full	Full	-	State Water has been a member of the Energy and Water Ombudsmen NSW (EWON) since 1 January 2006.
5.2.2	The Scheme established by State Water is subject to the Minister's approval.	This presents a low operational risk. The previous audit did not assess compliance with	NA	NA	-	This requirement is not applicable as State Water is a member of an industry based dispute resolution scheme.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
		this clause.				
5.2.3	The Dispute Resolution Body is to hear disputes and Complaints made by Customers in relation to: (a) Water Delivery; (b) Customer Accounts; (c) State Water's responsibilities in relation to the communication of water availability and access notifications; and (d) the exercise by State Water of the Functions conferred under clause 3 of this Licence.	This presents a low operational risk. The previous audit did not assess compliance with this clause.	NA	NA	-	On its website, EWON states that it can investigate issues such as disputed bills, disconnection or restriction of supply, actions of a supplier which affect the complainant's property, quality of supply and connection or transfer issues. The website also lists the types of complaints which it cannot investigate. These are listed as Private contractors (electricians, plumbers and gas fitters) including contracting arms of water suppliers where the work is open to competitive quotation; tariff or price increases; or the complainant's landlord.
5.2.4	The Scheme must comply with the minimum standards, so far as applicable, specified in the Guidelines to the Prevention, Handling and Resolution of Disputes AS4608.	This presents a low operational risk. The previous audit did not assess compliance with this clause.	NA	NA	-	<p>This requirement is not applicable as State Water has joined an industry based dispute resolution scheme. The Energy and Water Ombudsman NSW (EWON) is a well recognised dispute resolution scheme of which a number of water agencies are members.</p> <p>State Water provided a copy of an email from EWON, dated 10 September 2008, confirming that it is the Ministerially approved Industry Dispute Resolution Body. In that same email, EWON notes that AS4608 applies to business and is not specific to Ombudsman schemes; however, it confirms that it does comply with the key elements as set out in the standard.</p> <p>EWON suggested that State Water may wish to consider approaching IPART to have this section of the <i>Operating Licence</i> revised, as has already been done to both Hunter Water's <i>Operating Licence</i> and Sydney Water's</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						Operating Licence, both of which are members of EWON.
5.2.5	<p>The Scheme must have the following features:</p> <ul style="list-style-type: none"> (a) the decision-making process of the Dispute Resolution Body and administration of the Scheme is to be independent from State Water; (b) State Water agrees to abide by the decisions of the Dispute Resolution Body in relation to disputes referred to it for resolution; (c) the Scheme must adopt informal proceedings which discourage an adversarial approach; (d) decisions of the Dispute Resolution Body should be fair and be seen to be fair, by observing the principles of procedural fairness, by making its decisions based upon the information before it, and by having specific criteria upon which its decisions are based; (e) the Scheme is to operate efficiently by keeping track of disputes referred to it, ensuring complaints are dealt with by the appropriate 	<p>This presents a low operational risk. The previous audit did not assess compliance with this clause.</p>	Full	Full	-	<p>EWON is independent of State Water, and as such the administration of the scheme and the decision-making process is independent of State Water. It is a condition of participation in EWON that its members comply with its determinations.</p> <p>As noted above, the EWON scheme is administered independently of State Water and it is a specialist dispute investigation and resolution body within the NSW Water and Energy industries. EWON independently reports to IPART on a monthly basis, on the complaints made to it in relation to the operations of State Water. Customers are not charged for accessing the EWON scheme.</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	process, and by the Dispute Resolution Body regularly reviewing the operation of the Scheme; and (f) the Scheme is to be provided by State Water to Customers free of charge.					
5.2.6	State Water must prepare a pamphlet that explains how the Scheme operates and how it can be accessed and make this pamphlet available to the public.	This presents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water's the website contains a link to a document titled 'Customer Concerns'. The link is found on the 'Contact Us' page. The link provides guidance on how to raise 'issues' and 'concerns' with State Water and also provides contact details of the Energy and Water Ombudsman NSW (EWON). State Water provided a copy of a media release, dated 2 May 2008, in relation to a tour of Burrendong Dam by representatives from EWON. State Water indicated that the purpose of the tour was to improve EWON's understanding of State Water's business. The aim of the media release was to raise customer awareness of the EWON scheme.
5.2.7	State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on the Scheme based on information available to State Water and information reasonably obtained from the Dispute Resolution Body. Where considered appropriate by State Water and the Dispute Resolution Body, confidentiality arrangements are to be made so as not to disclose the Customer's	This presents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water reported on its External Dispute Resolution Scheme in both the 2006/07 and the 2007/08 1 September reports to IPART. The reports provide the number and types of complaints received by EWON. State Water has indicated that no determinations were made by EWON in relation to complaints against State Water during 2006/07 or 2007/08. EWON were contacted during the audit and confirmed the information reported by State Water for 2006/07 and 2007/08.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	identity in such reports. The report must take into account any issues raised by the Dispute Resolution Body and must contain the following information: (a) the number and types of Complaints received by the Dispute Resolution Body, classified in accordance with the Dispute Resolution Body's reporting arrangements; (b) information on any determinations made by the Dispute Resolution Body; and (c) any other relevant information required by IPART to be included in the report.					
5.2.8	State Water must make the report referred to in clause 5.2.7 available to the public.	This presents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	The information reported under this clause is contained in the 1 September reports to IPART. The reports for 2006/07 and 2007/08 are both available on State Water's website by following the 'Corporate Information' link from the Home Page. The reports are available as PDF documents and they can be downloaded free of charge. The reports are also available at State Water's offices for viewing or collection by any person free of charge.
5.3	Complaints to Other Bodies					
5.3.1	State Water must report to IPART by no later than 1 September each year, for the preceding financial	This presents a low operational risk. The	Full	Full	-	State Water has reported, in both 2006/07 and 2007/08, that it is not aware of any complaints made under

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	<p>year, on Complaints made against State Water to a court or tribunal such as the Consumer Trader and Tenancy Tribunal (based on information reasonably obtained from these bodies and State Water itself as a party to the Complaint), and the report to IPART shall contain the following information:</p> <ul style="list-style-type: none"> (a) the number and types of Complaints received by such other bodies; (b) the outcome of the Complaints; (c) how the Complaints were resolved; (d) any problems of a systemic nature arising from the Complaints; and (e) any other relevant information required by IPART to be included in the report. 	previous audit shows Full compliance with this clause.				clause 5.3.1 of its <i>Operating Licence</i> .
5.3.2	State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on any civil actions against State Water to a court (based on information available from the courts and State Water itself as a party to the civil action) where the civil action claims loss, damage or other relief arising from a	This presents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water has reported, in both 2006/07 and 2007/08, that it is not aware of any civil actions against it.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	<p>Complaint against State Water, and the report to IPART shall contain the following information:</p> <ul style="list-style-type: none"> (a) the number and types of civil actions commenced; (b) the outcome of the civil actions; (c) how the civil actions were resolved; (d) any problems of a systemic nature arising from the civil actions; and (e) any other relevant information required by IPART to be included in the report. 					

5.3 *Discussion*

State Water achieved full compliance with the requirements of the *Operating Licence* in respect to Complaint and Dispute Handling, with the exception of clause 5.1.5 where 'High' compliance has been awarded.

5.3.1 *Clause 5.1.5 Reporting on Complaints – High compliance*

The basis for the assessment of compliance as 'High' is that clause 5.1.5(e) of the *Operating Licence* requires that State Water provides sufficient detail for IPART to gain an understanding of the timeframe with which the Complaint was resolved, how the Complaint was resolved, or why the Complaint was not resolved (as the case may be). Although State Water has reported in both 2006/07 and 2007/08 that it endeavours to resolve any problems as quickly as possible (and within a period of four weeks) the report does not provide explicit information on the timeframe within which the complaints were resolved.

5.4 *Progress in Responding to Previous Audit Recommendations*

The report on the 2005/06 Operational Audit of State Water identified one recommendation in relation to Complaint and Dispute Handling. The recommendation, together with State Water's progress in addressing it, is discussed below:

R6.1 – State Water should consider providing the information on customer complaints prior to the 1 September deadline to avoid downgrading their compliance rating.

As reported in **Table 5-1**, State Water implemented a new customer complaints handling system which enabled it to report to IPART by the 1 September deadline in both 2006/07 and 2007/08.

5.5 *Recommendations*

During the audit fieldwork, a number of areas have been identified where State Water may be able to improve its management of complaints.

R5.1 - State Water may wish to assess the potential benefits of recording and tracking verbal complaints as part of the development of its new customer call centre.

R5.2 - State Water does not currently have a standard definition of what constitutes a complaint. The provision of a clear definition as to what is classified as a complaint is recommended.

R5.3 - In its 1 September reports to IPART, State Water reports all complaints that it receives, including those that are referred to other organisations (where the issue raised in the complaint was not within State Water's Functions). State Water's performance would be better reflected if it excluded these from its report, or separately identified them, when reporting by complaint category.

6 Licence Section 6 – Asset Management

6.1 *Overview of Requirements*

Section 6 of the *Operating Licence* outlines State Water's obligations in relation to Management of its Assets, Reporting and Auditing of State Water's Asset Management Systems and the Augmentation of Water Management Works.

Under the provisions of Section 6 of the *Operating Licence*, State Water must:

- ensure that its assets are managed in a manner consistent with relevant laws, policies, principles and guidelines;
- report to IPART on the state of each group of assets it manages;
- participate in an audit of its asset management system as determined by IPART; and
- consider as a priority additional scope for cost-effective demand management strategies by customers when considering any augmentation of water management works.

6.2 *Asset Management – Compliance*

Clauses 6.2 and 6.3 of the *Operating Licence* have been excluded from the scope of the audit. Compliance with the remaining clauses of Section 6, Asset Management, are outlined in **Table 6-1**. Compliance has been assessed as 'Full' for each of the clauses that have been audited.

Table 6-1 Section 6: Asset Management – Compliance Assessment

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
6.1	Asset Management Obligation					
6.1.1	State Water must ensure that its Assets are managed in a manner consistent with:					State Water has produced a “State Water’s Asset Management System” report dated March 2007 and a Total Management Plan (TAMP) 2004. These documents outline State Water’s approach and strategy to management of its assets.
	(a) its obligations in this Licence, and all applicable laws, policies and guidelines with which State Water must comply, including the requirements of the NSW Dams Safety Committee;	This presents a high operational risk. The risk is generally managed by an asset management framework that is compliant with all relevant laws, policies and guidelines. The previous audit did not assess compliance with this clause.	Full	Full	-	State Water engages with and demonstrates to the Dam Safety Committee that it has an effective and compliant dam safety management program including ANCOLD. State Water has provided examples of dam safety reports. DPI has also reported that State Water has managed its works in accordance with the <i>Fisheries Management Act (1994)</i> (refer Section 3.4).
	(b) the principles of the NSW Government’s Strategic Management Framework and the NSW Government’s Total Asset Management (TAM) Policy and Guidelines;	This presents a high operational risk. The risk is generally managed by an asset management framework that	Full	Full	-	The TAMP 2004 report states that it is produced in line with NSW Government Total Asset Management (TAM) Guidelines. A review of the TAM guidelines supports the claim that TAMP 2004 aligns with these guidelines.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
		is consistent with all relevant principles, policies and guidelines. The previous audit did not assess compliance with this clause.				
	(c) the lowest life cycle cost and acceptable risk of the Assets;	This presents a high operational risk. It is generally managed by an asset management framework that includes appropriate consideration of risk and life cycle cost. The previous audit did not assess compliance with this clause.	Full	Full	-	<p>TAMP 2004 outlines the Life Cycle Management Process. The process includes management options and strategies which take into account all relevant economic and physical factors through the life span of an asset.</p> <p>State Water has also supplied examples of a business case for the upgrading of a major dam (Blowering Dam) This business case includes a risk assessment, cost details and aims to provide best value for money having regard for the long term solution.</p>
	(d) the whole life of the Assets; and	This presents a high operational risk. It is generally managed by an asset management framework that	Full	Full	-	<p>State Water provided examples of project plans (Colligen Creek and Boolooroo Weirs) and maintenance plans (Split Rock Dam and Mollee Weir) for major structures. These plans outline project justification, objectives of the program and maintenance schedules.</p> <p>In addition the TAMP 2004 includes a decision making process for programs such as asset disposal and</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
		includes appropriate consideration of whole of life of Assets. The previous audit did not assess compliance with this clause.				rationalisation.
	(e) its assessment of the risk of loss of the Asset, and capacity to respond to a potential failure or reduced performance of the Assets.	This presents a high operational risk. It is generally managed by an asset management framework that includes appropriate consideration and assessment of risk and the capacity to respond to asset failure. The previous audit did not assess compliance with this clause.	Full	Full	-	State Water's TAMP 2004 includes Dams and River Structure Portfolio Risk Analysis (PRA). This contains quantification of risks associated with the failure of dams and establishes a series of priority works based on risk criteria. State Water has also prepared Dam Safety Emergency Plans (DSEP) for all of its 18 large dams and 4 small dams. In addition, State Water has indicated that flood plans have been completed for 12 dams. A review of weirs is currently being completed, which will also supply information regarding consequences of failure.
6.2	Reporting on Asset Management Systems		NA	NA	-	This clause was excluded from the scope of the audit.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
6.3	Auditing the Asset Management System		NA	NA	-	This clause was excluded from the scope of the audit.
6.4	Augmentation of Water Management Works					
	In considering any augmentation of water management works, State Water must consider as a priority any additional scope for cost-effective demand management strategies by Customers.	This presents a high operational risk. It is generally managed by appropriate consideration of cost-effective demand management strategies prior to augmenting any water management works. The previous audit did not assess compliance with this clause.	Full	Full	-	<p>State Water did not augment or pro-actively seek to augment any works during the period 2006/07 to 2007/08. However, it did assist in investigations of the augmentation of Chaffey Dam on behalf of the sub-committee of the Chaffey Dam Community Reference Panel.</p> <p>The Community Reference Panel, comprising members of the local community with an interest in Chaffey Dam was established in 2003. The Panel comprises members Tamworth Regional Council (TRC), Peel Valley Water Users Association (Irrigation), Namoi Catchment Management Authority, Namoi Water and appropriate NSW Government Agencies.</p> <p>The Community Reference Panel is chaired by the Deputy Mayor of Tamworth Regional Council and its role is to assist State Water:</p> <ul style="list-style-type: none"> • In determining the most appropriate solution for improving dam safety as well as considering other opportunities for improving flooding, the environment and sustainable regional development including the potential for augmentation of Chaffey Dam; and • With consultation with specific stakeholders and the wider community. <p>Investigations into a range of options for the long-term upgrade of Chaffey Dam were completed and reported in October 2006. The investigations took into account demand management/water efficiency measures in</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>forecasting demand for the Tamworth area. Although changed irrigation practices and land uses were considered in forecasting future irrigation needs, the report noted that should more water be allowed and made available at a reasonable cost, then it would be used to increase production. The report found that on their own, water efficiency measures are unlikely to deliver the water savings needed to allow future growth in demand. The investigations found that the most cost effective means of improving the reliability of supply to Tamworth and Irrigators in the Peel Valley was augmentation of Chaffey Dam.</p> <p>State Water provided a copy of the consultant's brief, which stated that a critical aspect of the review was to fully incorporate demand management efficiency opportunities into the review. It was noted that this is a requirement under State Water's Interim <i>Operating Licence</i>.</p> <p>In 2006, a Sub-Committee of the Community Reference Panel was established to identify beneficiaries and secure funding commitments for the augmentation of Chaffey Dam. If funding is secured, the augmentation will be undertaken in tandem with State Water's dam safety upgrade of Chaffey Dam.</p>

6.3

Discussion

State Water has achieved 'Full' compliance with each of the *Operating Licence* clauses audited in respect to Asset Management. During the audit, State Water was able to demonstrate that its assets are managed in a manner consistent with relevant laws, policies, principles and guidelines. In addition, it provided evidence to show that the scope for cost-effective demand management strategies by customers was considered during the investigations of Chaffey Dam.

6.4

Progress in Responding to Previous Audit Recommendations

Section 6 of the *Operating Licence* (Asset Management) was not included in the scope of the 2005/06 Operational Audit. Consequently, no recommendations were made in relation to this section.

6.5

Recommendations

No recommendations are proposed in respect to this section.

7 Licence Section 7 – Water Delivery Operations

7.1 *Overview of Requirements*

Under the provisions of Section 7 of the *Operating Licence*, State Water must:

- take steps to conserve water and minimise losses;
- manage water release functions and operations;
- when required, prepare a Drought Management Plan;
- take action and report on performance in respect to ensuring water metering accuracy;
- prepare annual water balances; and
- prepare an annual water balance and report on system yield in respect to the Fish River Scheme.

Details in respect to each of these requirements are set out in clauses 7.1 to 7.6 of the *Operating Licence*.

7.2 *Water Delivery Operations – Compliance*

Compliance with Section 7, Water Delivery Operations, is outlined in **Table 7-1**. Compliance has been assessed as ‘Moderate’ to ‘Full’ for the clauses in this Section.

Overall, compliance with Section 7 has remained in line with that of the last audit, although the compliance with individual clauses has varied with some areas improving and other areas declining.

Table 7-1 Section 7: Water Delivery Operations – Compliance Assessment

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
7.1	Water Conservation					
7.1.1	State Water must take such steps as are reasonably practicable to conserve water and to minimise losses that result from its operations; and to recover associated costs from beneficiaries where practicable.	This presents a high operational risk. It is generally managed by appropriate steps to conserve water. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>State Water undertakes a number of general measures to conserve water. In conservation of water, losses are categorised as: storage losses; transmission losses; operational losses.</p> <p>Storage Losses: State Water is limited in options with which to minimise these losses, however, it operates a standard procedure by releasing water from high evaporation large surface area storages first to conserve water and minimise losses.</p> <p>Transmission Losses: transmission losses have been reduced during the current drought conditions by block releases and ceasing to supply parts of the river and creek system where high losses occur. Block releases conserve water in the system by reducing the number of releases required and consequently the transmission and operational losses associated with each release.</p> <p>Operational Losses: State Water uses CAIRO, a water ordering and flow management software, and technology such as SCADA to improve the management of releases and water ordering. Review of a number of end of system flows against target flows indicate that the target flows have been exceeded and at times significantly. It is understood that the reason for exceeding these target flows could be a combination of a number of factors including environmental flows, rainfall events during releases etc. It is also understood that flows are not actually lost and will contribute to environmental flows downstream.</p> <p>During the course of the audit interviews it was identified</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>that the Lachlan Valley had attempted to quantify water savings made due to conservation measures. It is recommended that State Water endeavours to estimate water savings from conservation procedures implemented in each valley, to assess the impact of these practices.</p> <p>It is also recommended that, to the extent possible, an estimation or quantification of operational losses be undertaken with a view to better understanding the reasons for variances and to provide improvements to the procedures for controlling flows such that end of system flow targets are not exceeded.</p>
7.2	Supply Constraints					
7.2.1	State Water must endeavour to manage its water release functions and operations to ensure the timely availability of water taking into account physical supply constraints.	This represents a medium operational risk. The previous audit shows High compliance with this clause.	Full	Full	-	State Water is constrained under the Water Sharing Plan's. Rostering and restrictions are used to supply customers under the constraints. Given the continuing drought during the audit period the availability of flows has also been low, limiting the impact of supply constraints.
7.3	Drought Management Plan					
7.3.1	In periods of extreme water resource shortage beyond drought of record as and when gazetted by DIPNR [now DWE], a Drought Management Plan for river operations must be developed by State Water in accordance with DIPNR [now DWE] requirements.	This represents a high operational risk. This risk is managed by operation of gazetted resources in accordance with Drought Management Plans, developed in accordance	Full	Full	-	<p>Water Sharing Plans (WSPs) are currently suspended in five (5) valleys, namely the Lachlan, Macquarie, Murray, Murrumbidgee and Hunter valleys. Drought Management Plans are available for only three valleys and for two valleys, only draft plans were viewed. No clear date was found for the commencement of the draft Drought Management Plans.</p> <p>For the valleys where no Drought Management Plans were available, State Water indicated that its staff is in continual contact with DWE in operating releases in these valleys.</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
		with DWE. The previous audit shows Full compliance with this clause.				<p>It is noted that the suspension of WSPs is outside of State Water's control and that the decision is made by the relevant State Minister.</p> <p>State Water indicated that it is proposed that the new Works Approvals include a requirement for State Water in respect to circumstances which may trigger the suspension of a WSP. This would clarify State Water's role in this matter.</p>
7.4	Water Metering					
7.4.1	State Water must report to IPART by no later than 1 September each year on what action it has undertaken over the preceding financial year to address the issue of metering accuracy (for example, the number or percentage of Customer meters State Water has audited or calibrated) and its findings in carrying out this action.	This presents a moderate operational risk. The risk is generally managed by the conduct of appropriate activities to address the issue of metering accuracy. The previous audit shows Full compliance with this clause.	Moderate	Moderate	Implementation of an audit program for meters – audit against National Standards and manufacturers standards as appropriate. Improvement of Licence /Approval conditions in liaison with DWE.	<p>In its 2006/07 and 2007/08 1 September reports to IPART, State Water has reported that as a result of its interactions with DWE regarding the enforcement of metering standards, it became apparent that State Water's roles and responsibilities with respect of metering were unclear. The specific issue being that, neither the 2005-2008 <i>Operating Licence</i> nor other legislative instruments give State Water the express function of meter reading. Without this function, State Water's interests or obligations to ensure metering accuracy are undefined.</p> <p>Furthermore, State Water indicated that the conditions in Works Approvals related water metering are currently inadequate for the enforcement of accurate measurement of water extraction.</p> <p>State Water has indicated that it is seeking action by DWE to resolve the inadequacy in Works Approval conditions, however, it recognises that this situation is unlikely to be resolved until the National Metering Standards have been finalised.</p> <p>As a result of the uncertainty, State Water undertook few activities to address the issue of metering accuracy during the period 2006/07 to 2007/08. This uncertainty has now</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>been clarified in State Water's new <i>Operating Licence</i>, effective from 24 June 2008, which explicitly requires State Water to undertake meter reading activities.</p> <p>State Water has reported that during 2006/07, it did undertake metering audits in accordance with the NSW Water Extraction Monitoring Standards (which it developed in consultation with the Customer Service Committees, peak water user groups, Catchment Management Authorities and meter suppliers and retailers in 2005/06). It undertook 611 audits, of which it analysed 368 in detail (118 in Lachlan Valley and 250 in Gwydir Valley). However, as the standards it developed were not enforceable with the DWE conditions on Works Approvals, no actions were taken as a result of the audits. Consequently, the audits were discontinued, and none were undertaken in 2007/08.</p> <p>State Water staff is required to visit every metering site at least once each year, and State Water indicated that each site was visited in 2006/07 and again in 2007/08. Whilst some in-situ volumetric verification is undertaken during such site visits, this information is not currently fed into any corporate systems.</p> <p>State Water has sought funding from the Commonwealth under the "Water for the Future" priority projects to upgrade the regulated river water meter system through the installation of State Water owned meters. The Commonwealth has committed in principle to the metering project, subject to the completion of a due diligence assessment which will be undertaken later in 2008/09. The newly installed meters will be compliant with the new national standards. State Water anticipates that this project may also require further changes to the <i>Operating Licence</i>.</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						Notwithstanding the above comments, based on the <i>Operating Licence</i> and the example DWE Works Approval Condition provided by State Water, there appears sufficient need for it to attempt to assess the accuracy of customer meters and report against the manufacturer's standards. In any case, State Water has indicated that going forward, it is intending to audit customer meters against DWE Works Approval Conditions which state that meters must be in accordance with manufacturer's specifications. These audits will be required until all existing meters have been replaced with newly installed meters which are compliant with the new national standards.
7.4.2	State Water will, by no later than 31 March 2006, submit to IPART, for IPART's approval, proposed performance measures with respect to State Water's performance in ensuring metering accuracy. Once such measures have been approved by IPART, State Water will comply with these measures for the duration of this Licence and clauses 7.4.3, 7.4.4, 7.4.5 and 7.4.6 will apply.	This presents a moderate operational risk. The risk is generally managed by the conduct and tracking of appropriate activities to address the issue of metering accuracy. The previous audit shows Medium compliance with this clause.	High	High	Continue to formulate appropriate performance measures and then implement recording measures.	<p>In April 2006, State Water submitted to IPART a number of measures with respect to its performance in ensuring metering accuracy. It is understood that IPART has discussed with State Water the need for more detailed measures, performance indicators and targets. However, at the current stage of development of national standards, it is not possible for State Water to establish these measures.</p> <p>State Water indicated that it suggested that the new <i>Operating Licence</i> should contain some additional performance indicators to reflect State Water's metering responsibilities. As a result, the 2008-2013 <i>Operating Licence</i> includes the following new performance indicators:</p> <ul style="list-style-type: none"> • Number of water supply works audited for compliance with metering conditions and the proportion of those works that comply with metering conditions; and • Number of "alleged breach reports" forward to DWE.
7.4.3	State Water must maintain record systems that are sufficient to enable it to measure accurately its	This presents a moderate operational risk.	NA	NA	-	State Water indicated that the performance measures are yet to be finalised and hence its obligations under this clause are not yet applicable. State Water did indicate that it does

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	performance against the performance measures approved under clause 7.4.2.	The risk is generally managed by the conduct and tracking of appropriate activities to address the issue of metering accuracy. The previous audit shows Medium compliance with this clause.				perform annual inspections of customer's metering sites to confirm operation and any obvious breaches.
7.4.4	State Water must report to IPART and the Minister, by no later than 1 September each year on its performance against the performance measures approved under clause 7.4.2 for the preceding financial year, including analysis of any systemic problems.	This represents a low operational risk. The previous audit did not assess compliance with this clause.	NA	NA	-	As State Water does not currently have a formal set of performance measures, State Water's performance in achieving these targets cannot be reported. The 2006/07 and 2007/08 September reports to IPART do include statements regarding clause 7.4.2 and note the current situation with regards to performance measures.
7.4.5	As part of its report, State Water must provide IPART with physical and electronic access to the records kept by State Water that enable it to prepare the report under clause 7.4.4.	This represents a low operational risk. The previous audit did not assess compliance with this clause.	NA	NA	-	State Water does not have any records related to its performance as it does not have a recording system and it yet to have finalised performance measures agreed with IPART.
7.4.6	State Water must make the report referred to in clause 7.4.4 available to the public.	This represents a low risk. The previous audit shows Full	NA	NA	-	As noted in the comments to clause 7.4.4, State Water does not currently have a formal set of performance measures and hence, State Water's performance in achieving these targets cannot be reported. State Water's 1 September

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
		compliance with this clause.				reports to IPART for 2006/07 and 2007/08 do, however, include reference to clause 7.4.4. The reports are available on State Water's website. The reports are available as a PDF document that can be downloaded free of charge. All State Water offices have access to the reports on the external and internal networks and can quickly download and print a copy of the report upon request from a customer.
7.5	Water Balances					
7.5.1	State Water must prepare by no later than 1 September each year, annual water balances in the form of the template at Table 5-1 of the final report by Sinclair Knight Merz "State Water Operating Licence – Water Balance Template" dated 30 March 2005 and in accordance with that report.	This represents a low operational risk. The previous audit shows Medium compliance with this clause.	High	High	Draft and final water balances to be checked for errors prior to issue to IPART. We note that under the new <i>Operating Licence</i> this clause has been changed so that State Water must submit draft water balances by 1 September, whilst final water balances are not due until 1 December.	For 2006/07, water balances have been completed for Border Rivers, Gwydir, Namoi, Macquarie, Lachlan, Murrumbidgee, Murray, Lower Darling, Hunter Valley, North Coast and South Coast. For 2007/08, draft water balances have been completed for Border Rivers, Gwydir, Namoi, Murrumbidgee, Murray, Lower Darling, Hunter Valley, North Coast, South Coast and Paterson River. Final water balances have been completed for Macquarie and Lachlan. Given the difficulties encountered by State Water in gathering the necessary information to complete the water balances by the 1 September each year, the new <i>Operating Licence</i> has been changed to ease this requirement. The new <i>Operating Licence</i> requires State Water to submit draft water balances by 1 September, whilst final water balances are not due until 1 December. Whilst State Water has not technically complied with the requirement of the 2005-2008 <i>Operating Licence</i> to submit final versions of the water balances, it is considered to be only a minor breach. However, a review of the draft water balances identified a number of obvious errors have been made in preparing the draft balances. For example, both

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>the Gwydir and Hunter Valley balances have negative unaccounted for differences. Although it is expected that these balances will be revised and updated with new information, it is recommended that there are some checks in place to ensure that the draft balances are as accurate as possible prior to submission to IPART.</p> <p>It is also recommended that State Water develop a set of procedures for preparing the water balances. This will ensure year on year consistency, and consistency between valleys.</p>
7.5.2	State Water may, in preparing the annual water balances referred to in clause 7.5.1, deviate from this template provided that State Water has obtained the prior written approval of IPART to do so.	This represents a low risk. The previous audit did not assess compliance with this clause.	NA	NA	-	State Water has prepared the current water balances in the same format as developed by SKM.
7.5.3	State Water must make the annual water balances referred to in clause 7.5.1 available to the public.	This represents a low risk. The previous audit shows Medium compliance with this clause.	High	High	No action required - If State Water's compliance with this clause was assessed against the new <i>Operating Licence</i> , it would be assessed as 'Full' - the obligations under clause 7.5.1 of the new <i>Operating Licence</i> allow draft balances to be reported at	<p>The annual water balances (draft for 2007/08 and final for 2006/07) are available on State Water's website via its Water Delivery page.</p> <p>Compliance has been assessed as 'High', as final balances are not made available to the public until 1 December of each year, three months after the deadline in the <i>Operating Licence</i>.</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
					1 September.	
7.6	Fish River Water Balance and System Yield					
7.6.1	In relation to the Fish River Scheme, State Water must:					
	(a) prepare by no later than 1 September each year, an annual water balance for the Fish River Scheme in the form of the template at Table 4-2 of the final report by Sinclair Knight Merz "Outcomes of consultation on performance standards and indicators for the Fish River Water Supply Scheme" dated 11 March 2005 and in accordance with that report; and	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water provided a water balance for both years, in the form of the SKM template, in its 1 September report to IPART for both 2006/07 and 2007/08.
	(b) report to IPART by no later than 29 June 2008 on system yield at a specified level of reliability to be determined by State Water in consultation with the Fish River Customer Council. For the purpose of this clause 7.6.1(b), "system yield" is the average annual volume of water that can be supplied by the water supply system,	This represents a moderate operational risk. This risk is generally managed by formulating system yield at a specified level of reliability determined in consultation with	Full	Full	-	State Water engaged the Department of Natural Resources, now DWE, to produce a report to satisfy this <i>Operating Licence</i> condition. DWE were engaged to produce the report as it operates the Integrated Quantity Model (IQQM) water model which is used throughout the rest of NSW. State Water provided a copy of the DWE report, "Fish River Water Supply Scheme", dated March 2007. The report was endorsed by the Fish River Customer Council on 3 April 2007 and was issued to IPART on 20 June 2008.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	subject to system inflows, an adopted set of operational rules (including the release of environmental water) and a typical demand pattern without violating a given level of service standard; and “reliability of supply” is the proportion of time that a supply system is expected to be able to meet demand, often expressed as the probability that restrictions of any given severity will not be imposed in a given year or month.	the Fish River Customer Council and reporting this to IPART. The previous audit did not assess compliance with this clause.				Additional modelling was to undertaken to indicate if it was possible to better use the Duckmaloi Weir Supply. The modelling concluded that transferring water from Duckmaloi Weir to Oberon Dam increased the drought storage and decreased the restriction periods from 41% of days to 6% of days. Feedback from members of the Fish River Customer Council confirms that State Water did consult with the Council during development of the system yield (refer to Section 4.4.3).
7.6.2	State Water may, in preparing the annual water balance referred to in clause 7.6.1(a), deviate from the template referred to in that clause provided that State Water has obtained the prior written approval of IPART to do so.	This represents a low operational risk. The previous audit shows Full compliance with this clause.	NA	NA	-	State Water has prepared the current water balances in the same format as developed by SKM.
7.6.3	State Water must make the annual water balance referred to in clause 7.6.1(a) available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	The annual water balances are reported within the 2006/07 and 2007/08 1 September reports to IPART. These reports are available on State Water’s website and can be downloaded free of charge.

7.3 *Discussion*

In general, State Water has achieved a relatively high level of compliance with the requirements of the *Operating Licence* in respect to Water Delivery Operations. There are, however, a number of lower compliance ratings and these are discussed briefly in the following sections.

7.3.1 *Clause 7.4.1 Action to address metering accuracy – Moderate compliance*

As noted in **Table 7-1**, as a result of its interactions with DWE regarding the enforcement of metering standards, it became apparent that State Water's roles and responsibilities with respect of metering were unclear. As a result of the uncertainty, State Water undertook few activities to address the issue of metering accuracy during the period 2006/07 to 2007/08. As a result of this, compliance with this clause has been assessed as 'Moderate'.

We note that State Water's roles and responsibilities with respect to metering have now been clarified in State Water's new *Operating Licence*, effective from 24 June 2008. Under the new *Operating Licence* State Water is explicitly required to undertake meter reading activities.

7.3.2 *Clause 7.4.2 Meter Accuracy Performance Measures – High compliance*

Compliance with this clause has been assessed as 'High' as, whilst some action has been undertaken, performance measures for ensuring metering accuracy are yet to be established.

7.3.3 *Clause 7.5.1 & Clause 7.5.3 Water Balances – High compliance*

This clause requires that State Water must prepare by no later than 1 September each year, annual water balances. Difficulties associated with compiling water balances meant that State Water was unable to finalise the water balance data by the 1 September deadline in either 2006/07 or 2007/08. These difficulties were highlighted in the 2005/06 audit report, and include such things as the time required to undertake meter readings and the lack of a direct correlation between water use readings and licences. As a result, State Water submitted draft balances to IPART in its 1 September reports. A final version of the water balance for 2006/07 was submitted to IPART on 1 December 2007 and a final version for 2007/08 is to be submitted on 1 December 2008.

Compliance has been downgraded as State Water has not been strictly compliant with the requirement of the clause. However, we note that the obligations under clause 7.5.1 of the new *Operating Licence* will allow draft balances to be reported at 1 September from 2008/09. On this basis, State Water would be assessed as fully compliant under the new *Operating Licence*.

7.4

Progress in Responding to Previous Audit Recommendations

The report on the 2005/06 Operational Audit of State Water identified two recommendations in relation to Water Delivery Operations. These recommendations, together with State Water's progress in addressing them, are discussed in the following paragraphs.

R7.1 – State Water needs to improve performance in coordinating accurate water releases to improve compliance for management of water releases while taking into account physical supply constraints.

As noted in **Table 7-1**, the impact of supply constraints has been limited due to the ongoing drought. Nonetheless, implementation of recommended improvements in respect to monitoring of performance indicators (refer **Section 9.4**) was expected to provide the basis for improved compliance in this area. As discussed in **Section 9.3**, further improvement in respect to performance monitoring is required.

R7.2 – State Water to complete all remaining water balances as soon as possible and continue to investigate improvements for the timely delivery of the information by 1 September.

As noted in **Table 7-1**, although State Water did not fully comply with the requirement to complete final versions of water balances by 1 September, it did provide IPART with draft water balances by the 1 September deadline in both 2006/07 and 2007/08. Although errors in the draft balances have been identified, State Water has advised its intention to improve the quality and consistency of water balances by developing templates and standard procedures for use in their preparation.

As also noted in **Table 7-1**, the new *Operating Licence* has been changed to ease the reporting requirement in relation to water balances. The new *Operating Licence* requires State Water to submit draft water balances by 1 September, whilst final water balances are not due until 1 December.

R7.3 – State Water is to ensure that the metering performance measures developed are appropriately in line with National Water Initiative standards.

The NWI metering standards are yet to be finalised and hence, State Water is yet to finalise its metering performance measures.

R7.4 – State Water is to fully implement the pro-forma metering audit sheets to commence collecting data for inclusion in future 1 September reports to IPART.

As noted in **Table 7-1**, State Water suspended its metering audit program in 2006/07. No audits were performed in 2007/08.

7.5

Recommendations

R7.1 - During the course of the audit interviews it was identified that the Lachlan Valley had attempted to quantify water savings made due to conservation measures. It is recommended that State Water endeavours to estimate water savings from conservation procedures throughout each valley, to assess the impact of these practices.

R7.2 – It is recommended that State Water continues to formulate appropriate performance measures with respect to State Water’s performance in ensuring metering accuracy and that it then implements these recording measures.

R7.3 - It is recommended that State Water develop and document a set of procedures for preparing the water balances. This will ensure year on year consistency, and consistency between valleys. It will also reduce State Water’s reliance on the currently limited number of staff that are capable of preparing the water balances.

R7.4 - It is recommended that, as part of its procedures, there are some checks in place to ensure that all draft water balances are as accurate as possible prior to submission to IPART.

8 Licence Section 8 – The Environment

8.1 *Overview of Requirements*

Under the provisions of clause 8 of the *Operating Licence*, State Water must produce and implement a 5-year Environmental Management Plan. The Environmental Management Plan may be developed for all of State Water's operations, including the Fish River Scheme, or alternatively State Water may develop separate Environmental Management Plans for the Fish River Scheme and the rest of its operations. State Water must also report on its performance against or compliance with the Environmental Management Plan(s).

8.2 *The Environment – Compliance*

Compliance for Section 8, The Environment, is outlined in **Table 8-1**. Compliance has been assessed as 'Full' for all but one of the clauses in this Section (clause 8.1.2).

Overall, compliance with this Section of the *Operating Licence* has remained in line with that of the last audit.

Table 8-1 Part 8: The Environment – Compliance Assessment

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
8.1	Environment Management Plan					
8.1.1	State Water must produce a five-year environment management plan (“EMP”) by 1 November 2005. The EMP may be developed for all of State Water’s operations (including the Fish River Scheme) or alternatively State Water may develop separate EMPs for the Fish River Scheme and the rest of its operations, in which case the provisions of this clause 8 will apply to each of the EMPs prepared.	This represents a moderate environmental risk. The risk is managed by development of an appropriate EMP. The previous audit shows High compliance with this clause.	Full	Full	-	State Water finalised its Environment Management Plan (EMP) in April 2006 and a final version of the EMP was submitted to IPART on 2 May 2006. In accordance with clause 8.1.3, the EMP was revised in June 2007.
8.1.2	The EMP must: (a) include details of State Water’s program for addressing its environmental impacts and achieving environmental improvements, including (but not limited to): - management and mitigation of riverbank and bed erosion; - management and mitigation of water quality issues associated with storage and release (including mitigation of thermal impacts);	This represents a moderate environmental risk. This risk is managed by appropriately addressing within the EMP, all key environmental impacts and improvements. The previous audit shows Full compliance with this clause.	High	High	Development and implementation of a clear and consistent algal management strategy.	The EMP outlines the relevant points of consideration specified in the <i>Operating Licence</i> . However, although algal management is included in Objectives 2 and 3, a clear and consistent algal management strategy was not identified. We note that State Water has provided evidence that it is active in algal management and that it has endeavoured to improve and address this matter. State Water provided evidence of interaction with DWE in improving algal management and DWE has been worked with State Water in developing the Regional Algal Contingency Plan. State Water is yet to develop an overarching environmental framework, detailing the various policies, procedures and documents which sit below the EMP. Development of such a framework will provide greater clarity as to how State Water intends to meet its environmental objectives.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	<ul style="list-style-type: none"> - management and mitigation of barriers to fish passage; - an algal management strategy; - energy management and consumption; and - waste management and minimization. <p>(b) adopt Ecologically Sustainable Development principles;</p> <p>(c) be integrated into State Water's business plans;</p> <p>(d) include indicators to measure the environmental impact of State Water's Asset operations and maintenance; and</p> <p>(e) incorporate environmental improvement targets and timetables for State Water to achieve those targets over the term of the EMP.</p>	this clause.				
8.1.3	State Water must review, and if necessary update, its EMP by 1 July 2007. In undertaking this review State Water must consult with the following organisations for the purpose of considering the views of those organisations consulted and whether they seek amendments to the EMP:	This represents a moderate environmental risk. This risk is managed by undertaking appropriate consultation with the identified	Full	Full	-	<p>The EMP was updated June 2007. State Water consulted with relevant authorities with a summary of submissions issues reported June 2007.</p> <p>State Water provided evidence that DWE, DPI, DECC and key stakeholders were consulted as part of the review of the EMP. DECC and DPI indicated satisfaction with the plan; DWE and a number of other stakeholders provided written responses to State Water.</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	(a) DEC; (b) DIPNR [now DNR]; (c) DPI; (d) IPART; and (e) peak environmental non-government organisations.	agencies when updating the EMP. The previous audit did not assess compliance with this clause.				
8.1.4	State Water must make the EMP available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	The EMP is available on State Water's website and can be downloaded free of charge.
8.1.5	State Water must, by no later than 1 September each year, or an alternative later date specified by IPART, for the preceding financial year, report to IPART on its environmental performance including its performance against or compliance with: (a) its EMP; (b) any environmental provisions of each Water Management Plan and the State Water Management Outcomes Plan issued under the <i>Water Management Act 2000</i> where applicable to State Water; (c) any environmental regulatory requirements applicable to State Water, including those	This presents a moderate environmental risk. This risk is generally managed by actively monitoring and reporting on environmental performance. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water reported to IPART on its environmental performance in accordance with this clause of its <i>Operating Licence</i> by the 1 September deadline in both 2006/07 and 2007/08. Correspondence with DPI, DWE and DECC indicates that State Water has been actively seeking to improve its environmental performance. State Water is continuing to develop, with agencies such as DPI, a framework of KPIs. DPI has indicated that, during the current audit period, State Water has responded against two KPIs by restoring free passage for fish to 900km and protecting 50ha of aquatic habitat. DPI has also indicated that State Water has met all its obligations in relation to the MoU, relevant legislation and protection of aquatic habitat (refer Section 3.4). State Water has also shown evidence of undertaking REFs in accordance with Part V of the EPA Act in relation to its works and maintenance. A number of REFs were sighted

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	<p>under the water management work approval(s) issued under the <i>Water Management Act 2000</i> and the <i>Fisheries Management Act 1994</i>; and</p> <p>(d) the environmental provisions of any MoUs referred to in clause 2.3 including any performance standards and indicators established under these MoUs.</p>					<p>in support of this function.</p> <p>State Water, however, does not have any clear benchmarks by which to report against or provide any robust assessment of its environmental performance. State Water has indicated that it is developing a framework to monitor, evaluate and report environmental outcomes. This will assist in reporting against EMP requirements.</p> <p>It is recommended that State Water finalise a framework for evaluating and monitoring environmental performance and include benchmarking and measurable KPIs.</p>
8.1.6	State Water must make the report referred to in clause 8.1.5 available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	The 1 September reports to IPART are available on State Water's website and can be downloaded free of charge.

8.3 *Discussion*

In general, State Water has achieved 'Full' compliance with the requirements of its *Operating Licence* in respect to The Environment. There was one 'High' compliance rating which is discussed below.

8.3.1 *Clause 8.1.2 EMP – High compliance*

Whilst State Water's EMP outlines the relevant points of consideration specified in the *Operating Licence*, a clear and consistent algal management strategy has not been identified. It is on this basis that compliance has been assessed at 'High'.

8.4 *Progress in Responding to Previous Audit Recommendations*

The report on the 2005/06 Operational Audit of State Water did not identify any recommendations in relation to Section 8, The Environment.

8.5 *Recommendations*

R8.1 - It is recommended that State Water develops and implements a clear and consistent algal management strategy.

R8.2 - It is recommended that State Water develop an overarching environmental framework, detailing the various policies, procedures and documents which sit below the EMP. Development of such a framework will provide greater clarity as to how State Water intends to meet its environmental objectives.

R8.3 - It is recommended that State Water finalises a framework for evaluating and monitoring environmental performance and includes benchmarking and measurable KPIs.

9 Licence Section 9 – Performance Indicators

9.1 *Overview of Requirements*

Under the provisions of clause 9 of the *Operating Licence*, State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against a number of performance indicators related to:

- State Water (excluding the Fish River Scheme):
 - Water Delivery; and
 - Policing Functions;
- Fish River Scheme:
 - Asset Management;
 - Water Delivery; and
 - Water Quality.

State Water must also report on its performance against its performance indicators.

9.2 *Performance Indicators – Compliance*

Compliance for Section 9, Performance Indicators, is outlined in **Table 9-1**. Compliance has been assessed as between ‘Low’ and ‘Full’ for the clauses in this Section of the *Operating Licence*.

Overall, compliance with Section 9 has remained in line with that of the last audit, although it has declined in some areas due to the identification of errors in the figures reported to IPART.

Table 9-1 Part 9: Performance Indicators – Compliance Assessment

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
9.1	State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance indicators set out in Schedule 1.	This represents a moderate operational risk. This risk is generally managed by maintaining record systems that are sufficient to enable accurate measurement and reporting of performance. The previous audit shows Medium compliance with this clause.	Moderate	Moderate	Establish and maintain record systems to enable reporting of performance against all performance indicators set out in Schedule 1.	State Water does not have a specific system in place to report against the performance indicators listed in Schedule 1 of the <i>Operating Licence</i> . It uses its corporate information systems to report compliance for most of indicators. For example, Policing Functions indicators are extracted from State Water's Water Accounting System, and flow data is reported from extracts from State Water's Computer Aided Improved River Operations (CAIRO) system. There are two indicators where State Water does not have in place record systems that are sufficient to enable it to accurately measure its performance. These are the first and third of the Water Delivery indicators. Figures reported by State Water are incomplete in that they only relate to two valleys. Information on these indicators is not currently recorded in the remaining valleys with sufficient accuracy to enable reporting to IPART. On this basis, compliance has been assessed as 'Moderate'.
Schedule 1 Part A	1. Water Delivery					
	"percentage of Customers contacted within one working day of a non-complying water order being placed;"	This represents a low operational risk. The previous audit shows Non Compliance with this clause.	Low	Low	Roll out of the reporting system currently used in the Lachlan and Macquarie Valley's to all other valleys.	State Water does not currently have a system in place to report this indicator across all of its valleys. The figures reported for both 2006/07 and 2007/08 are incomplete in that they relate only to the Lachlan and the Macquarie Valleys. State Water has noted this in its 2007/08 report, stating that the information is not collected in other valleys. State Water outlined its difficulties in collecting the information necessary to report against this performance

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>indicator. Historically, State Water has only accepted orders on a daily basis from its major customers. Smaller users have been allowed to extract water prior to ordering it. State Water indicated that it is currently spending much effort to have its smaller customers place an order before extracting water.</p> <p>In the 2005/06 audit it was noted that State Water was planning to introduce an electronic water ordering system called Water Information Exchange (WIX) which would immediately prevent any non-complying orders from being made. WIX is a joint project between State Water and DWE, although the Project Manager for WIX is based at DWE. State Water had hoped to commence some trials of the system in 2006/07, however, the project has since been delayed. In the interim, State Water is now planning to introduce an internet based water ordering system called iWAS. iWAS is effectively one work stream of WIX, and the two systems will be interfaced. It is hoped that iWAS will be in place by early 2009. As for WIX, it will immediately prevent any non-complying orders from being made.</p> <p>Prior to iWAS being implemented, State Water will roll out the MS Excel spreadsheet based system currently used for recording non-compliant orders in the Macquarie and Lachlan Valley's.</p>
	"percentage of complying orders identified as being delivered outside of +/- 1 day of the scheduled day of delivery;"	This represents a medium operational risk. The previous audit shows Low compliance with this clause.	Low	Low	No action required - this clause has been changed in the new <i>Operating Licence</i> and the current practice of	State Water does not have a system in place to report on this indicator. State Water has stated in both the 2006/07 and 2007/08 reports that it relies on customer complaints to identify orders delivered outside +/- 1 day of the scheduled day of delivery. Given that this is unlikely to identify all complying orders delivered outside of the +/- 1 day of scheduled delivery, we have assessed compliance as 'Low'. However, we note that the new <i>Operating Licence</i>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
					reporting would be assessed as fully compliant.	<p>specifically reflects State Water's reliance on customer complaints in making it aware of late deliveries via customer complaints or notification.</p> <p>In the 2006/07 year State Water reported that customer notifications indicated that 0.001% of complying orders were delivered outside of one (1) day of the scheduled day for delivery.</p> <p>In the 2007/08 year State Water reported that customer notifications indicated that 0.005% of complying orders were delivered outside of one (1) day of the scheduled day for delivery.</p>
	"percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay;"	This represents a low operational risk. The previous audit shows Non-Compliance with this clause.	Low	Low	Roll out the reporting system currently used in the Lachlan and Macquarie Valley's to all other valleys.	<p>As for the first indicator, State Water does not currently have a system in place to report this indicator across all of its valleys. The figures reported for both 2006/07 and 2007/08 are incomplete in that they relate only to the Lachlan and the Macquarie Valleys. State Water has noted this in its 2007/08 report, stating that the information is not collected in other valleys.</p> <p>For 2006/07, State Water reported that it rescheduled 100% of the water orders within one (1) working day of a known storage or delivery delay. For 2007/08, State Water reported that it rescheduled 100% of the water orders within one (1) working day of a known storage or delivery delay.</p>
	"percentage of time that daily minimum flow targets are met;"	This represents a moderate environmental risk. The previous audit shows Full compliance with	High	Full		State Water reported that the daily flow targets were met 91% of the time in 2006/07. Daily flow targets were not met during all periods in the Border, Gwydir, Lower Namoi, and Murray Valleys. The WSP for Gwydir Valley does not include an end of system target and hence it should not technically be included in the daily flow target calculation. The value of the indicator reported does not change materially when Gwydir is excluded from the

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
		this clause.				<p>calculation (it remains at approximately 91%). However, the error indicates that there is scope for State Water to improve its reporting processes.</p> <p>State Water reported that the daily flow targets were met 96% of the time in 2007/08. Daily flow targets were not met during all periods in the Border and Lower Namoi Valleys.</p> <p>Those valley's where the Water Sharing Plan has been suspended (due to Drought), are excluded from the calculation of this indicator.</p> <p>WSPs are not prepared for valleys operated under the <i>Water Act 1912</i>. However, where DWE determines the operational plans for these valleys, including an end of system flow (such as in the Border and Peel Valleys), these valleys are included in the calculation of this indicator.</p>
	"percentage of complying intra-valley transfers processed within four working days of State Water's receipt of correctly completed application form and fee."	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>For 2006/07 State Water reported that it processed 72% of the 2,545 inter-valley transfers within four (4) working days. State Water also reported that the current level of transfer fees does not fully recover the cost of its management of transfers and as such it is difficult for it to increase service levels in this area with the current level of under-recovery. State Water stated that the transfer rules were changed several times during the year leading to additional time required for clarification of rules and limits.</p> <p>For 2007/08 State Water reported that it processed 65% of the 1,932 inter-valley transfers within four (4) working days.</p>
	2. Policing Functions					
	"volume of water taken in excess of access licence conditions under the Water Management Act 2000"	This represents a low operational risk. The	High	High	Retain records of year end balances from	State Water reported for 2006/07, that 7,355ML of water was taken in excess of licence conditions at 30 June 2007. There were 162 licence breaches involved.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	(ML) and number of licences and licence breaches involved”	previous audit shows Full compliance with this clause.			the Water Accounting System to evidence the figures reported.	<p>State Water reported for 2007/08, that 7,489ML of water was taken in excess of licence conditions at 30 June 2008. There were 91 licence breaches involved.</p> <p>This information has been extracted directly from State Water’s Water Accounting System. State Water was unable to provide year end reports for 2006/07 and 2007/08 from its Water Accounting System hence we have been unable to verify the figures reported. State Water indicated that as its Water Accounting System is a ‘live’ system it is unable to generate historic reports. The balances currently in the Water Accounting System no longer reflect the figures reported in the 1 September report. State Water indicated that this is due to the following reasons:</p> <ul style="list-style-type: none"> • Back-dated transactions to correct over-use. These include re-apportioning usage from one licence to another licence and also allocation assignments. • Genuine meter reading errors that have since been corrected • Changes in the Licensing Administration System (LAS) to the licence Share Component Volume. <p>As State Water is required to report year end figures, copies of reports showing the year end balances should be retained.</p>
	“value of penalties imposed by State Water for taking of water in excess of licence conditions under the Water Management Act 2000 or the Water Act 1912 (\$)”	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>State Water did not impose any monetary penalties for taking water in excess of licence conditions in 2006/07 or 2007/08.</p> <p>State Water indicated during the audit interviews that volumetric penalties are preferred over monetary penalties as the value of water (when traded) is greater than the</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						financial penalty that State Water can apply.
	“volume of penalties imposed by State Water for taking water in excess of access licence conditions under the Water Management Act 2000 (ML)”	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>For the 2006/07 year, State Water reported that the volume of penalties imposed over the 2006/07 period was 319.5ML.</p> <p>For the 2007/08 year, State Water reported that the volume of penalties imposed over the 2007/08 period was 314ML.</p> <p>There are significant discrepancies between the volume of water taken in excess of licences at year end, and the volume of penalties applied. These discrepancies arise because State Water does not always impose a penalty for taking water in excess of access licence conditions. State Water provided a copy of a flow chart outlining the procedures which are followed when an overuse is identified.</p> <p>State Water provided a breakdown showing how the penalties for 2006/07 and 2007/08 were calculated. Under the <i>Water Management Act</i>, State Water can debit up to five times the amount of water taken. However, State Water considers the individual circumstances of each case before deciding what penalty to impose and calculates the penalty in accordance with its Overuse Penalty Guidelines, a copy of which was provided.</p>
	“number of licences and entitlements suspended under the Water Management Act 2000 or the Water Act 1912”	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water reported that no licences or entitlements were suspended in 2006/07 or 2007/08 under either of the Acts. State Water indicated that the <i>Water Management Act 2000</i> has made it more difficult to suspend licences than under the <i>Water Act 1912</i> . However, it is actively pursuing this issue and noted that it is the role of its Compliance Manager to assessing how this is best done.
	“number of approvals suspended under the Water Management Act	This represents a low operational risk. The	Full	Full	-	State Water reported that no approvals were suspended in 2006/07 or 2007/08 under the Act.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	2000”	previous audit shows Full compliance with this clause.				
Schedule 1 Part B	Fish River Scheme Indicators 1. Asset Management					
	“the average response time for unplanned supply interruptions;”	This represents a medium operational risk. The previous audit shows Low compliance with this clause.	High	Full	-	<p>Following the 2005/06 audit, when State Water was not collecting and recording this information, it implemented an incident reporting system to assist in the accurate reporting of response time and supply interruptions. For each incident that occurs, an Incident Report Form is completed. The Form includes a range of information including the time of notification, the time on site, whether supply was interrupted.</p> <p>On the basis that response time is the exact time it takes from being notified of a problem in the system to the time on site, State Water reported that the average response time for unplanned supply interruptions was 1 hour in 2007/08 and 17 minutes in 2006/07. State Water provided copies of the incident report forms together with the spreadsheet used to collate the data. Based on the incident report forms provided, the figures reported for 2006/07 are incorrect. The average response time is 22 minutes. State Water has incorrectly included unplanned incidents that did not result in an interruption to supply. It is recommended that State Water performs quality checks of calculations prior to submission of performance data to IPART.</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	“number of planned water supply interruptions;”	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	High	Checks to verify the accuracy of the data reported to be performed prior to reporting.	For 2006/07 State Water reported that there were no planned water supply interruptions. For 2007/08 State Water reported that there was one (1) planned water supply interruption. A review of the Incident Report Form indicates that the incident was incorrectly classified as a planned interruption when it was actually an unplanned incident with no interruption to supply (the system was cross-connected).
	“number of unplanned water supply interruptions;”	This represents a medium operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water has reported that unplanned interruptions occur when supply is interrupted because the pipelines cannot be cross connected. For 2006/07 it reported that there were three (3) unplanned interruptions to supply. For 2007/08 it reported that there was one (1) unplanned interruption to supply.
	“average duration of planned water supply interruptions;”	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	High	Checks to verify the accuracy of the data reported to be performed prior to reporting.	State Water reported the average duration of planned water supply interruptions in 2007/08 was 48 hours. As noted in the comment for the ‘number of planned water supply interruptions’, State Water incorrectly reported an unplanned incident with no interruption to supply as a planned interruption. There were no planned supply interruptions during 2006/07.
	“average duration of unplanned water supply interruptions.”	This represents a medium operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	On the basis that duration is calculated as the time it takes from being notified of a problem in the system to the rectification of the problem, State Water has reported that, for 2006/07 the average duration of unplanned water supply interruptions was 13.5 hours. For 2007/08, State Water reported that the average duration of unplanned water supply interruptions was 45 hours. We confirmed the reported figures by correlation with the data recorded in the Incident Report Forms.

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
	2. Water Delivery					
	“percentage of time that daily minimum flow targets are met.”	This represents a moderate environmental risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>For 2006/07 State Water reported that the scheme satisfied its daily minimum flow target of 1.9ML/day riparian release.</p> <p>For 2007/08 State Water has reported that the Fish River Water Scheme does not yet have daily minimum flow targets. It reported that in its previous reports to IPART, it has interpreted this requirement as an average riparian release of 1.9ML/day.</p> <p>State Water reported that in response to the severity of the drought, in 2007/08 it sought and received approval from DWE for releases to the Fish River to mimic natural flow release variations. In addition, during 2007/08 the scheme maintained water restrictions, with the approval of the FRWS Customer Council.</p>
	3. Water Quality					
	“percentage compliance with Australian Drinking Water Guidelines (2004) at the Fish River Scheme’s water sampling locations for e-coli, colour, turbidity, iron, manganese, aluminium and pH.”	This represents a high operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>State Water provided details of the monitoring compliance with the ADWG 2004 in its 1 September reports to IPART for 2006/07 and 2007/08.</p> <p>For 2006/07, the results of compliance tests of Chlorinated Raw Water test sites show that State Water complied with two parameters (Aluminium and pH). It did not meet compliance for E Coli (94.2%), Colour (75%), Turbidity (75%), Iron (87.5%), Manganese (25%).</p> <p>For 2006/07, the results of compliance tests of Filtered Water test sites show that State Water complied with four parameters (Turbidity, Iron, Aluminium and pH). It did not meet compliance for E Coli (97.2%), Colour (62.5%), and Manganese (75%).</p> <p>For 2007/08, the results of compliance tests of Chlorinated</p>

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
						<p>Raw Water test sites show that State Water complied with three parameters (E Coli, Aluminium and pH). It did not meet compliance for Colour (28.6%), Turbidity (85.7%), Iron (71.4%), and Manganese (14.3%).</p> <p>For 2007/08, the results of compliance tests of Filtered Water test sites show that State Water complied with four parameters (Turbidity, Iron, Aluminium and pH). It did not meet compliance for E Coli (97.8%), Colour (90%), and Manganese (60%).</p>
9.2	State Water must report to IPART, by no later than 1 September each year on its performance against the performance indicators in Schedule 1 for the preceding financial year, including analysis of any systemic problems.	This represents a moderate operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	<p>State Water has reported under this clause, both in 2006/07 and 2007/08, in its 1 September reports to IPART.</p> <p>State Water has reported, in both 2006/07 and 2007/08, that there are no systemic problems raised by the indicators, other than processing time for inter-valley transfers. It has stated that the current level of transfer fees does not fully recover the costs of its management of transfers, and hence State Water finds it difficult to increase service levels in this area.</p>
9.3	As part of its report, State Water must provide IPART with physical and electronic access to the records kept by State Water that enable it to prepare the report under clause 9.2.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water has committed to providing IPART access to physical and electronic records upon request. During the audit, State Water provided physical and electronic access to all records requested.
9.4	State Water must make the report referred to in clause 9.2 available to the public.	This represents a low risk. The previous audit shows Full compliance with this clause.	Full	Full	-	The 2006/07 and 2007/08 1 September reports to IPART are both available on State Water's website by following the 'Corporate Information' link from the Home Page. The reports is available as a PDF document that can be downloaded free of charge.

9.3

Discussion

State Water has achieved varying levels of compliance with the requirements of the *Operating Licence* in respect to Performance Indicators. There are a number of 'Moderate' and 'Low' ratings for specific requirements. These issues are discussed briefly in the following sections.

9.3.1

Clause 9.1 Recording Systems – Moderate Compliance

Under this clause, State Water must maintain record systems that are sufficient to enable them to accurately measure their performance against the performance indicators listed in the *Operating Licence*.

State Water does not have specific recording systems to measure performance against the performance indicators. For many of the measures it is able to use its existing corporate management systems (such as CAIRO and its Water Accounting System) to report this information, however, these systems do not provide for the measurement of performance for all of the indicators set out in Schedule 1, Part A of the *Operating Licence*, namely:

- “percentage of Customers contacted within one working day of a non-complying water order being placed” and,
- “percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay”.

9.3.2

Clause 9.1 Schedule 1 Part A Section 1 Indicators

These indicators relate to the performance of State Water in water delivery. State Water achieved the following performance against these indicators:

- “percentage of Customers contacted within one working day of a non-complying water order being placed” – Low Compliance
- “percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay” – Low Compliance

State Water does not currently have a system in place to report these indicators across all of its valleys. A manual reporting system is currently in use in the Lachlan and Macquarie Valleys, and it is yet to be rolled out across the all of State Water’s valleys.

- “percentage of complying orders identified as being delivered outside of +/- 1 day of the scheduled day of delivery” – Low Compliance

State Water does not have a system in place to report on this indicator. We note, however, that the new *Operating Licence* specifically reflects State Water’s reliance on customer complaints in making it aware of late deliveries via customer complaints or notification. This clause has been changed in the

new *Operating Licence* and the current practice of reporting on the basis of customer complaints would be assessed as fully compliant.

9.3.3

Clause 9.1 Schedule 1 Part A Section 2 Indicators

These indicators relate to the performance of State Water in its policing functions. State Water achieved high compliance for the following performance indicators:

- *'volume of water taken in excess of access licence conditions under the Water Management Act 2000 (ML) and number of licences and licence breaches involved.'* – *High compliance*
State Water was unable to provide year end reports for 2006/07 and 2007/08 from its Water Accounting System to enable verification of the figures reported. This is because its Water Accounting System is a 'live' system and it is unable to generate historic reports. The balances currently in the Water Accounting System no longer reflect the figures reported in the 1 September report to IPART. As State Water is required to report year end figures, copies of reports showing the year end balances should be retained to verify the accuracy of the figures reported.

9.3.4

Clause 9.1 Schedule 1 Part B Fish River Scheme Indicators

These indicators relate to the performance of State Water in relation to Asset Management of the Fish River Scheme. State Water achieved the following performance against these indicators:

- *"the number of planned water supply interruptions"* – *High compliance*
- *"average duration of planned water supply interruptions;"* – *High compliance*
Checks performed on the figures reported by State Water highlighted errors. Compliance has been downgraded on the basis that this indicates that insufficient checks were made by State Water to verify the accuracy of the data reported prior to submission of the report to IPART.

9.4

Progress in Responding to Previous Audit Recommendations

The report on the 2005/06 Operational Audit of State Water identified four recommendations in relation to Performance Indicators. These recommendations, together with State Water's progress in addressing them, are discussed in the following paragraphs:

R9.1 – State Water should accelerate the implementation of the Water Information Exchange program to ensure that the information required under this part of the Operating Licence is collected for the next Operational Audit.

As noted in **Table 9-1**, the WIX project has been delayed. This has meant that State Water did not collect all of the information necessary to adequately report

under this section of the *Operating Licence*. This has been reflected in the compliance grades assessed for both 2006/07 and 2007/08.

R9.2 – State Water should investigate alternative methods of measuring performance in delivering orders within +/- one (1) day of the scheduled day of delivery. This may include, for example, additional flow gauging stations at strategic locations to assist in monitoring for the timing of scheduled releases.

In response to the above recommendation, State Water acknowledged that the installation of additional gauging stations would improve the accuracy of measuring performance with this indicator. However, it noted that it would be costly to do so as 2,400 additional gauges would be required. The end of *Operating Licence* review that was undertaken in early 2008 resulted in the modification of this clause in the new *Operating Licence*. As noted in **Table 9-1**, State Water's current method of reporting this indicator on the basis of customer complaints will be compliant with the new *Operating Licence*.

R9.3 – State Water should investigate whether the current method of recording rescheduled orders can be expanded to note whether the rescheduling was requested by the customer or was a result of State Water operations.

State Water indicated that it would not be practicable to adjust its CAIRO system for the purpose of collecting information to enable more accurate reporting of the indicator, 'percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay'. State Water indicated that it implemented a paper-based system to collect this information. As noted in **Table 9-1**, this paper-based system was not rolled out to all valleys which is reflected in the assessed 'Low' compliance with this clause.

R9.4 – State Water to accelerate implementation of the Incident Report form and ensure that staff are provided training in the use of the form. The information collected on the form should be stored in order to report the information at the next Operational Audit.

State Water has implemented the Incident Report Form, and the form was used to collect information on response times to planned and unplanned water supply interruptions in both 2006/07 and 2007/08.

R9.5 – State Water may wish to review the performance target related to reporting the delivery of water orders outside +/- 1 day of the scheduled delivery to more accurately reflect the complexities of water delivery.

As noted above, this clause has been changed in the new *Operating Licence* and State Water's current method of reporting this indicator on the basis of customer complaints will be compliant with the new *Operating Licence*.

9.5

Recommendations

R9.1 - It is recommended that State Water implements a set of procedures for the reporting of performance information to IPART. These procedures should involve checking and verifying all calculations used in the reporting of performance data, thereby eliminating errors and helping to ensure year on year consistency in reporting.

R9.2 - It is recommended that State Water retains copies of relevant year end reports where the information is extracted from 'live' systems that cannot produce historical reports (such as the Water Accounting System).

R9.3 - The Fish River Water Supply indicators for planned and unplanned supply interruptions are reported from Incident Report Forms. The Incident Report does not readily identify whether an incident is planned or unplanned. State Water may wish to consider updating the Incident Report Form template to include a tick box to indicate whether the incident is planned or unplanned.

10 Licence Section 10 – Pricing

10.1 *Overview of Requirements*

Under the provisions of clause 10 of the *Operating Licence*, State Water must apply a level of fees, charges and other amounts payable for its services subject to the terms of the *Operating Licence*, the *State Water Corporation Act* and the maximum prices and methodologies for State Water's supply of water determined from time to time by IPART.

State Water's pricing policies and practices must also be consistent with the COAG Strategic Framework for Water Reform and other initiatives relating to water.

10.2 *Pricing – Compliance*

Compliance for Section 10, Pricing, is outlined in **Table 10-1**. 'Full' compliance has been assessed for all clauses.

Table 10-1 Part 10: Pricing – Compliance Assessment

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
10.1	State Water must apply the level of fees, charges and other amounts payable for its services subject to the terms of this Licence, the Act and the maximum prices and methodologies for State Water's supply of water determined from time to time by IPART.	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water applies the fees and charges specified in the latest IPART Pricing Determination.
10.2	The pricing policies and practices of State Water must be consistent with the COAG Strategic Framework for Water Reform and other COAG initiatives relating to water. In particular, State Water must ensure:	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water applies the fees and charges specified in the latest IPART Pricing Determination.
10.2.1	the usage based component of charges is not lower than 50% by 1 July 2006; and	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water included this requirement in its submission to IPART (<i>State Water Corporation Bulk Water Pricing Submission to the Independent Pricing and Regulatory Tribunal, September 2005</i>)
10.2.2	the usage based component of charges is not lower than 60% by 1 July 2008.	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	State Water included this requirement in its submission to IPART (<i>State Water Corporation Bulk Water Pricing Submission to the Independent Pricing and Regulatory Tribunal, September 2005</i>)

Clause	Requirement	Risk	Compliance 06/07	Compliance 07/08	Target for Full Compliance	Comments
10.3	Any submission by State Water to IPART in relation to the maximum prices and methodologies for State Water's supply of water to be determined by IPART is to reflect the applicable usage based component of charges referred to in clause 10.2.	This represents a low operational risk. The previous audit shows Full compliance with this clause.	Full	Full	-	Clause 10.3.3 of State Water's pricing submission <i>State Water Corporation Bulk Water Pricing Submission to the Independent Pricing and Regulatory Tribunal</i> , September 2005, which is available on the IPART website, outlines its proposals in respect to the usage based component of charges. These proposals comply with the requirements of this clause.

10.3

Discussion

State Water operates under the IPART Bulk Water Pricing Determination which sets the maximum fees and charges payable for all services.

10.4

Progress in Responding to Previous Audit Recommendations

The previous audit did not make any recommendations in relation to this Section of the *Operating Licence*.

10.5

Recommendations

No recommendations proposed in respect to this section.

11 Concluding Remarks

Overall, State Water's level of compliance has improved since the previous (2005/2006) audit of performance against its *Operating Licence*. It is apparent that State Water has addressed the majority of recommendations arising from the previous audit, and this has contributed to its improved performance.

We found evidence that State Water has implemented a number of processes and systems that have enabled it to better track and report its compliance with its *Operating Licence* during the period 2006/07 and 2007/08. There are still a number of areas where State Water's processes and systems can be improved, and this has been reflected in assessments of 'Low' to 'High' compliance with some clauses of the *Operating Licence*.

The area with most scope for improvement by State Water is Section 9, Performance Indicators, which attracted a number of 'Low' and 'Medium' compliance ratings. Low compliance in these areas represents a moderate risk as early indications of poor performance may go undetected. State Water does not currently have in place record systems that are sufficient to enable it to accurately measure its performance in all areas covered by its *Operating Licence*, and where systems are currently available, they have not been widely implemented. Whilst measures for some indicators have been revised in the new *Operating Licence*, it remains imperative that State Water takes action to establish and maintain record systems to enable reporting of performance against all performance indicators set out in Schedule 1 of its *Operating Licence*.

Water Metering is another key area where State Water's performance against its *Operating Licence* can be improved. State Water indicated that neither the 2005-2008 *Operating Licence* nor other legislative instruments give State Water the express function of meter reading, and that without a clear allocation of this function, its interests or obligations to ensure metering accuracy are undefined. It is acknowledged that uncertainty surrounding its roles and responsibilities with respect of metering, and a consequent absence of enforcement powers, was the primary reason State Water undertook few activities to address the issue of metering accuracy during the period 2006/07 to 2007/08. Nonetheless, State Water's new *Operating Licence* has now clarified its roles and responsibilities and State Water is explicitly required to undertake meter reading activities. Given this clarification, we expect that State Water will now implement a metering audit program, which should result in an improvement in its compliance with this clause.

State Water's response to the 2nd draft Audit Report (refer **Appendix C**) includes a preliminary outline of the actions it proposes to take in relation to each of the recommendations made in this report. We consider that these proposed actions will lead to further improvements in State Water's performance and understand that State Water and IPART are currently in discussion regarding their implementation.

State Water's 2005-2008 *Operating Licence* expired on 24 June 2008 when a new *Operating Licence* came into effect. The new *Operating Licence* includes a number of changes to the 2005-2008 *Operating Licence* and it is noted that, in some areas, a higher compliance rating would have been awarded had State Water been assessed against its new *Operating Licence*. This acknowledges the fact that a number of the requirements have been modified to reflect operational constraints that impacted State Water's ability to fully comply with the 2005-2008 *Operating Licence*, and in some cases reflects recommendations arising from the previous audit.

During the audit interviews, State Water provided an overview of a current project to implement a Compliance Register across the organisation. The compliance register will identify every obligation that State Water must comply with, including its legal obligations, those arising from its *Operating Licence*, and its Memoranda of Understanding. The risks associated with not meeting each obligation will be assessed, and each obligation prioritised accordingly. The register will allocate an owner of each obligation, who will be responsible for ensuring that the obligation is met. This corporate system will facilitate better reporting of State Water's compliance against the obligations stated in its *Operating Licence*, and should assist in the early identification of areas where compliance may be declining. The development and implementation of a risk based Compliance Register is considered to be good business practice.

During the audit interviews, State Water provided an overview of a management restructure that it is currently implementing. The restructure represents a major change to State Water and it will have a significant impact on the way in which it delivers and undertakes its core business activities. Whilst the impacts of this restructure fall outside the audit period, we anticipate that the new management structure will provide a strong basis from which State Water will improve its future performance against the requirements of its *Operating Licence*. Feedback from some stakeholders, such as the CSCs, has indicated that there is some concern with the impact that the restructure may have on the existing levels of service provided by State Water, however, discussions with State Water management indicate that it is well aware of the risks associated with the restructure, and that it is confident that the processes and systems required to ensure that the restructure is successful are being implemented.

Appendix A Comparison of Compliance

This Appendix contains a comparison of compliance for the three years 2005/06, 2006/07 and 2007/08.

State Water Corporation – Audit of Operating Licence 2008

Comparison of Compliance 2005/06 to 2007/08

Compliance Assessment Guide 2005/06

Full compliance	All requirements of the condition have been met.
High compliance	Most requirements have been met with some minor technical failures.
Moderate compliance	The major requirements of the clause have been met.
Low compliance	The key requirements have not been met however some minor achievements towards compliance have been made..
Non compliance (NC)	The requirements of the clause have not been met.
Insufficient Information	The relevant information was not available to make an informed assessment of compliance. Additional information would have been required to award a compliance rating.
Not Auditable (NA)	The requirement of the clause are not auditable at this stage as the date for implementing the requirements lie outside the audit period of the requirements are related to a clause that is not auditable.

Compliance Assessment Guide 2006/07 and 2007/08

Full compliance	All requirements of the condition have been met.
High compliance	Most requirements have been met with some minor technical failures or breaches.
Moderate compliance	The major requirements of the condition have been met.
Low compliance	Key requirements of the condition have not been met but minor achievements regarding compliance have been demonstrated.
Non compliance (NC)	The requirements of the condition have not been met.
Insufficient Information	Relevant, suitable or adequate information to make an objective determination regarding compliance was not available to the auditor.
Not Auditable (NA)	The requirement to comply with this condition does not occur within the audit period or there is no requirement for the utility to meet.

Clause	Requirement	Compliance 2005/06	Compliance 2006/07	Compliance 2007/08
2	State Water's Responsibilities			
2.3	<i>Memorandum of Understanding</i>			
2.3.1	State Water must use its best endeavours to enter into, by 1 October 2005, Memoranda of Understanding (MoU) with each of the Directors-General of DEC [now DECC], DPI and DIPNR [now DWE]. State Water must maintain these MoUs for the duration of this Licence.			
2.3.1 (a)	MoU with DEC [DECC];	High	Full	Full
2.3.1 (b)	(b) MoU with DPI;	High	Full	Full
2.3.1 (c)	(c) MoU with DIPNR [DWE].	Low	Full	Full
2.3.2	The purpose of the MoUs is to form the basis for co-operative relationships between the parties to the MoU, in particular:			
2.3.2(a)	the MoU with DIPNR [now DWE] is to recognise the roles of DIPNR [DWE] in regulating water access, use and management and State Water in releasing water and managing assets, and is to address the co-ordination of Functions and associated responsibilities between DIPNR [DNR] and State Water in undertaking their respective roles, including arrangements in relation to information sharing and the making and announcements of available water determinations and controlled flows;	High	High	High
2.3.2(b)	the MoU with DPI is to recognise the role of DPI as the agency responsible for fisheries management in the State and address aquatic habitat and fish passage impacts of State Water's operations and information sharing arrangements;	Full	Full	Full
2.3.2(c)	the MoU with DEC [now DECC] is to recognise the role of DEC [now DECC] as the agency responsible for environmental protection and conservation of natural and cultural heritage and address river health and water quality impacts of State Water's operations and information sharing arrangements.	Full	Full	Full
2.3.4	State Water must make the MoUs referred to in clause 2.3.1 available to the public.	Full	Full	Full
2.3.5	State Water must, by no later than 1 September each year, for the preceding financial year, report to IPART on its performance against and compliance with the MoUs referred to in clause 2.3.1 including such relevant information as may be required by IPART to be included in the report.			
	(a) Reporting on MoU with DEC	High	High	Full
	(b) Reporting on MoU with DPI	Full	High	Full
	(c) Reporting on MoU with DNR	Medium	High	Full
2.3.6	State Water must make the report referred to in clause 2.3.5 available to the public.	Full	Full	Full
4	Customers and Community Engagement			
4.1	<i>Community Consultative Committee</i>			
4.1.1	State Water must establish and regularly consult with a state wide community consultative committee ("CCC") to enable community involvement in issues relevant to the performance of State Water's obligations under this Licence, except in relation to the Fish River Scheme.	Full	Full	Full

Clause	Requirement	Compliance 2005/06	Compliance 2006/07	Compliance 2007/08
4.1.2	State Water must appoint the members of the CCC consistently with this Licence. The membership of the CCC must include a representative from at least each of the following: (a) Customers (excluding Fish River customers); (b) environment groups; (c) basic water right holders; (d) regional business and consumer groups; (e) Catchment Management Authorities; and (f) local government.	Full	Full	Full
4.1.3	The term of a member of the CCC will expire two years after his or her appointment. A member will be eligible for re-appointment for one further consecutive term.	Full	Full	Full
4.1.4	State Water must provide the CCC with information within its possession or under its control necessary to enable the CCC to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege.	Full	Full	Full
4.2	<i>Valley Based Customer Service Committees (excluding Fish River customers)</i>			
4.2.1	State Water must establish and regularly consult with valley based customer service committees (“CSCs”) to enable Customer involvement in issues relevant to the performance of State Water’s obligations to Customers under this Licence or the customer service charter referred to in clause 4.3. The membership of the CSCs must also include representatives from unregulated water Customers, groundwater Customers and the relevant Catchment Management Authority. For the purposes of this clause 4.2, Customer does not include a Fish River customer.	Full	Full	Full
4.2.2	State Water must provide the CSCs with information within its possession or under its control to enable the CSC to discharge the tasks assigned to the CSC, other than information or documents over which State Water or another person claims confidentiality or privilege.	High	High	High
4.3	<i>Customer Service Charter (excluding Fish River)</i>			
4.3.1	State Water must, in consultation with the CSCs, establish and continue to have in place a customer service charter (“Charter”). <i>Note: The Charter was established on 28 January 2005.</i>	Full	Full	Full
4.3.2	The Charter must set out the mutual responsibilities or obligations of State Water and its Customers (excluding Fish River customers) consistently with this Licence, the Act, the <i>Water Management Act 2000</i> and the <i>Water Act 1912</i> .	Full	Full	Full
4.3.3	State Water must make the Charter available to the public.	Full	Full	Full
4.3.4	State Water must, in consultation with the members of the CSCs, regularly review, and if necessary update, its Charter and in any event must do so by no later than 1 July 2007.	NA	NA	Full
4.3.5	State Water must by no later than 1 September each year, for the preceding financial year, report to IPART on its overall performance against its obligations under the Charter and where appropriate State Water is also to report on its performance against its obligations under the Charter in relation to each valley.	Full	Full	Full
4.3.6	State Water must make the report referred to in clause 4.3.5 available to the public.	Full	Full	Full
4.4	<i>Fish River Customer Council</i>			
4.4.1	State Water must establish and regularly consult with a Fish River customer council (“Fish River Customer Council”) to enable Fish River customer involvement in issues relevant to the performance of State Water of its obligations to Fish River customers under this Licence and any Customer Contract.	Full	Full	Full

Clause	Requirement	Compliance 2005/06	Compliance 2006/07	Compliance 2007/08
4.4.2	State Water must appoint the members of the Fish River Customer Council consistently with this Licence. The membership of the Fish River Customer Council must include a representative from at least each of the following: (a) Lithgow City Council; (b) Oberon Council; (c) Delta Electricity; and (d) Sydney Catchment Authority.	Full	Full	Full
4.4.3	State Water must provide the Fish River Customer Council with information within its possession or under its control to enable the Fish River Customer Council to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege.	Full	Full	Full
4.5	<i>Customer Contracts (Fish River customers only)</i>			
4.5.1	State Water must use its best endeavours to enter into agreements with its Fish River customers during the term of this Licence, in relation to the arrangements to apply to the supply of water by the operation of the Fish River Scheme.	NA	NA	Full
4.5.2	The terms of the arrangements must, as a minimum, include: (a) the standard of the quality of water supplied; (b) the continuity of water supplied (i.e. interruption, disconnection and reconnection to supply); (c) the metering arrangements; (d) the costs to be paid by Fish River customers for the supply of water and other services to them; and (e) any other terms agreed between State Water and its Fish River customers.	NA	NA	Full
4.6	<i>Code of Practice and Procedure on Debt Management</i>			
4.6.1	State Water must have in place by no later than 1 July 2005, and continue to have in place, a code of practice and procedure on debt management ("Code").	Full	Full	Full
4.6.2	The Code must: (a) provide for deferred payment or payment by instalment options; and (b) provide that the payment options referred to in (a) are to be advised in bills.	High	High	High
4.6.3	State Water must make the Code available to the public.	Full	Full	Full
5	Complaint and Dispute Handling			
5.1	<i>Internal Complaints Handling Procedure</i>			
5.1.1	State Water must establish by no later than 31 October 2005, and continue to have in place, internal Complaints handling procedures for receiving, responding to and resolving Complaints it receives from Customers and the community, relating to any of its Functions.	Low	Full	Full
5.1.2	The internal Complaints handling procedures of State Water must be based on the Australian Standard <i>AS4269-1995 Complaint Handling</i> .	Full	Full	Full
5.1.3	State Water must make these procedures available to the public.	Full	Full	Full
5.1.4	State Water must, in consultation with IPART, determine appropriate Complaint categories by no later than 31 October 2005. The Complaint categories must include categories relevant to the Fish River Scheme.	Low	Full	Full

Clause	Requirement	Compliance 2005/06	Compliance 2006/07	Compliance 2007/08
5.1.5	State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on its internal Complaints handling procedures including the following: (a) the total number of Complaints; (b) once the category of Complaints are determined under clause 5.1.4, the number of Complaints received by the category of Complaint determined in accordance with that clause; (c) the number and type of Complaints resolved or not resolved in sufficient detail for IPART to gain an understanding of the timeframe with which the Complaint was resolved, how the Complaint was resolved, or why the Complaint was not resolved (as the case may be); and (d) any problems of a systemic nature arising from Complaints.	High	High	High
5.1.6	State Water must make the report referred to in clause 5.1.5 available to the public.	NA	Full	Full
5.2	<i>External Dispute Resolution Scheme</i>			
5.2.1	State Water must have in place by no later than 1 September 2005, and continue to have in place, a Dispute Resolution Scheme (the Scheme) for a Dispute Resolution Body or be a member of an industry based dispute resolution scheme to resolve disputes between State Water and its Customers.	High	Full	Full
5.2.2	The Scheme established by State Water is subject to the Minister's approval.	NA	NA	NA
5.2.3	The Dispute Resolution Body is to hear disputes and Complaints made by Customers in relation to: (a) Water Delivery; (b) Customer Accounts; (c) State Water's responsibilities in relation to the communication of water availability and access notifications; and (d) the exercise by State Water of the Functions conferred under clause 3 of this Licence.	Not assessed	NA	NA
5.2.4	The Scheme must comply with the minimum standards, so far as applicable, specified in the <i>Guidelines to the Prevention, Handling and Resolution of Disputes AS4608</i> .	NA	NA	NA
5.2.5	The Scheme must have the following features: (a) the decision-making process of the Dispute Resolution Body and administration of the Scheme is to be independent from State Water; (b) State Water agrees to abide by the decisions of the Dispute Resolution Body in relation to disputes referred to it for resolution; (c) the Scheme must adopt informal proceedings which discourage an adversarial approach; (d) decisions of the Dispute Resolution Body should be fair and be seen to be fair, by observing the principles of procedural fairness, by making its decisions based upon the information before it, and by having specific criteria upon which its decisions are based; (e) the Scheme is to operate efficiently by keeping track of disputes referred to it, ensuring complaints are dealt with by the appropriate process, and by the Dispute Resolution Body regularly reviewing the operation of the Scheme; and (f) the Scheme is to be provided by State Water to Customers free of charge.	Not assessed	Full	Full
5.2.6	State Water must prepare a pamphlet that explains how the Scheme operates and how it can be accessed and make this pamphlet available to the public.	Full	Full	Full
5.2.7	State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on the Scheme based on information available to State Water and information reasonably obtained from the Dispute Resolution Body. Where considered appropriate by State Water and the Dispute Resolution Body, confidentiality arrangements are to be made so as not to disclose the Customer's identity in such reports. The report must take into account any issues raised by the Dispute Resolution Body and must contain the following information: (a) the number and types of Complaints received by the Dispute Resolution Body, classified in accordance with the Dispute Resolution Body's reporting arrangements; (b) information on any determinations made by the Dispute Resolution Body; and (c) any other relevant information required by IPART to be included in the report.	Full	Full	Full

Clause	Requirement	Compliance 2005/06	Compliance 2006/07	Compliance 2007/08
5.2.8	State Water must make the report referred to in clause 5.2.7 available to the public.	Full	Full	Full
5.3	<i>Complaints to Other Bodies</i>			
5.3.1	State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on Complaints made against State Water to a court or tribunal such as the Consumer Trader and Tenancy Tribunal (based on information reasonably obtained from these bodies and State Water itself as a party to the Complaint), and the report to IPART shall contain the following information: (a) the number and types of Complaints received by such other bodies; (b) the outcome of the Complaints; (c) how the Complaints were resolved; (d) any problems of a systemic nature arising from the Complaints; and (e) any other relevant information required by IPART to be included in the report.	Full	Full	Full
5.3.2	State Water must report to IPART by no later than 1 September each year, for the preceding financial year, on any civil actions against State Water to a court (based on information available from the courts and State Water itself as a party to the civil action) where the civil action claims loss, damage or other relief arising from a Complaint against State Water, and the report to IPART shall contain the following information: (a) the number and types of civil actions commenced; (b) the outcome of the civil actions; (c) how the civil actions were resolved; (d) any problems of a systemic nature arising from the civil actions; and (e) any other relevant information required by IPART to be included in the report.	Full	Full	Full
6	Asset Management			
6.1	<i>Asset Management Obligation</i>			
	State Water must ensure that its Assets are managed in a manner consistent with:			
	(a) its obligations in this Licence, and all applicable laws, policies and guidelines with which State Water must comply, including the requirements of the NSW Dams Safety Committee;	NA	Full	Full
	(b) the principles of the NSW Government's Strategic Management Framework and the NSW Government's Total Asset Management (TAM) Policy and Guidelines;	NA	Full	Full
	(c) the lowest life cycle cost and acceptable risk of the Assets;	NA	Full	Full
	(d) the whole life of the Assets; and	NA	Full	Full
6.1.1	(e) its assessment of the risk of loss of the Asset, and capacity to respond to a potential failure or reduced performance of the Assets.	NA	Full	Full
6.2	<i>Reporting on Asset Management Systems</i>	NA	NA	NA
6.3	<i>Auditing the Asset Management System</i>	NA	NA	NA
6.4	<i>Augmentation of Water Management Works</i>			
6.4.1	In considering any augmentation of water management works, State Water must consider as a priority any additional scope for cost-effective demand management strategies by Customers.	NA	Full	Full

Clause	Requirement	Compliance 2005/06	Compliance 2006/07	Compliance 2007/08
7	Water Delivery Operations			
	<i>Note: State Water must operate its water management works consistently with any licences or approvals granted by the Minister for Natural Resources and must only release water from those works consistently with any relevant Water Management Plan under the Water Management Act 2000. Under DIPNR's [DNR's] water management works approval(s) issued under the Water Management Act 2000, State Water will be provided with the necessary conditions to use its Assets to deliver water.</i>			
7.1	Water Conservation			
7.1.1	State Water must take such steps as are reasonably practicable to conserve water and to minimise losses that result from its operations; and to recover associated costs from beneficiaries where practicable.	Full	Full	Full
7.2	Supply Constraints			
7.2.1	State Water must endeavour to manage its water release functions and operations to ensure the timely availability of water taking into account physical supply constraints.	High	Full	Full
7.3	Drought Management Plan			
7.3.1	In periods of extreme water resource shortage beyond drought of record as and when gazetted by DIPNR [now DWC], a Drought Management Plan for river operations must be developed by State Water in accordance with DIPNR [now DWE] requirements.	Full	Full	Full
7.4	Water Metering			
7.4.1	State Water must report to IPART by no later than 1 September each year on what action it has undertaken over the preceding financial year to address the issue of metering accuracy (for example, the number or percentage of Customer meters State Water has audited or calibrated) and its findings in carrying out this action.	Full	Moderate	Moderate
7.4.2	State Water will, by no later than 31 March 2006, submit to IPART, for IPART's approval, proposed performance measures with respect to State Water's performance in ensuring metering accuracy. Once such measures have been approved by IPART, State Water will comply with these measures for the duration of this Licence and clauses 7.4.3, 7.4.4, 7.4.5 and 7.4.6 will apply.	Medium	High	High
7.4.3	State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance measures approved under clause 7.4.2.	Medium	NA	NA
7.4.4	State Water must report to IPART and the Minister, by no later than 1 September each year on its performance against the performance measures approved under clause 7.4.2 for the preceding financial year, including analysis of any systemic problems.	NA	NA	NA
7.4.5	As part of its report, State Water must provide IPART with physical and electronic access to the records kept by State Water that enable it to prepare the report under clause 7.4.4.	NA	NA	NA
7.4.6	State Water must make the report referred to in clause 7.4.4 available to the public.	Full	NA	NA
7.5	Water Balances			
7.5.1	State Water must prepare by no later than 1 September each year, annual water balances in the form of the template at Table 5-1 of the final report by Sinclair Knight Merz "State Water Operating Licence – Water Balance Template" dated 30 March 2005 and in accordance with that report. <i>Note: A copy of this report can be found on IPART's website at www.ipart.nsw.gov.au.</i>	Medium	High	High
7.5.2	State Water may, in preparing the annual water balances referred to in clause 7.5.1, deviate from this template provided that State Water has obtained the prior written approval of IPART to do so.	NA	NA	NA
7.5.3	State Water must make the annual water balances referred to in clause 7.5.1 available to the public.	Medium	High	High

Clause	Requirement	Compliance 2005/06	Compliance 2006/07	Compliance 2007/08
7.6	<i>Fish River Water Balance and System Yield</i>			
7.6.1	In relation to the Fish River Scheme, State Water must:			
7.6.1(a)	prepare by no later than 1 September each year, an annual water balance for the Fish River Scheme in the form of the template at Table 4-2 of the final report by Sinclair Knight Merz “Outcomes of consultation on performance standards and indicators for the Fish River Water Supply Scheme” dated 11 March 2005 and in accordance with that report; and <i>Note: A copy of this report can be found on IPART’s website at www.ipart.nsw.gov.au.</i>	Full	Full	Full
7.6.1(b)	report to IPART by no later than 29 June 2008 on system yield at a specified level of reliability to be determined by State Water in consultation with the Fish River Customer Council. For the purpose of this clause 7.6.1(b), “system yield” is the average annual volume of water that can be supplied by the water supply system, subject to system inflows, an adopted set of operational rules (including the release of environmental water) and a typical demand pattern without violating a given level of service standard; and “reliability of supply” is the proportion of time that a supply system is expected to be able to meet demand, often expressed as the probability that restrictions of any given severity will not be imposed in a given year or month.	NA	Full	Full
7.6.2	State Water may, in preparing the annual water balance referred to in clause 7.6.1(a), deviate from the template referred to in that clause provided that State Water has obtained the prior written approval of IPART to do so.	Full	NA	NA
7.6.3	State Water must make the annual water balance referred to in clause 7.6.1(a) available to the public.	Full	Full	Full
8	The Environment			
	<i>Note: State Water must conduct its operations in compliance with requirements of the Water Management Act 2000, the State Water Management Outcomes Plan and the Water Management Plans established under that Act.</i>			
8.1	<i>Environment Management Plan</i>			
8.1.1	State Water must produce a five-year environment management plan (“EMP”) by 1 November 2005. The EMP may be developed for all of State Water’s operations (including the Fish River Scheme) or alternatively State Water may develop separate EMPs for the Fish River Scheme and the rest of its operations, in which case the provisions of this clause 8 will apply to each of the EMPs prepared.	High	Full	Full
8.1.2	The EMP must: (a) include details of State Water’s program for addressing its environmental impacts and achieving environmental improvements, including (but not limited to): (i) management and mitigation of riverbank and bed erosion; (ii) management and mitigation of water quality issues associated with storage and release (including mitigation of thermal impacts); (iii) management and mitigation of barriers to fish passage; (iv) an algal management strategy; (v) energy management and consumption; and (vi) waste management and minimization. (b) adopt Ecologically Sustainable Development principles; (c) be integrated into State Water’s business plans; (d) include indicators to measure the environmental impact of State Water’s Asset operations and maintenance; and (e) incorporate environmental improvement targets and timetables for State Water to achieve those targets over the term of the EMP.	Full	High	High

Clause	Requirement	Compliance 2005/06	Compliance 2006/07	Compliance 2007/08
8.1.3	State Water must review, and if necessary update, its EMP by 1 July 2007. In undertaking this review State Water must consult with the following organisations for the purpose of considering the views of those organisations consulted and whether they seek amendments to the EMP: (a) DECC; (b) DIPNR [now DWE]; (c) DPI; (d) IPART; and (e) peak environmental non-government organisations;	N/A	Full	Full
8.1.4	State Water must make the EMP available to the public.	Full	Full	Full
8.1.5	State Water must, by no later than 1 September each year, or an alternative later date specified by IPART, for the preceding financial year, report to IPART on its environmental performance including its performance against or compliance with: (a) its EMP; (b) any environmental provisions of each Water Management Plan and the State Water Management Outcomes Plan issued under the <i>Water Management Act 2000</i> where applicable to State Water; (c) any environmental regulatory requirements applicable to State Water, including those under the water management work approval(s) issued under the <i>Water Management Act 2000</i> and the <i>Fisheries Management Act 1994</i> ; and (d) the environmental provisions of any MoUs referred to in clause 2.3 including any performance standards and indicators established under these MoUs.	Full	Full	Full
8.1.6	State Water must make the report referred to in clause 8.1.5 available to the public.	Full	Full	Full
9	Performance Indicators			
9.1	State Water must maintain record systems that are sufficient to enable it to measure accurately its performance against the performance indicators set out in Schedule 1.	Medium	Moderate	Moderate
Schedule 1 Part A	1. Water Delivery			
	“percentage of Customers contacted within one working day of a non-complying water order being placed”	NC	Low	Low
	“percentage of complying orders identified as being delivered outside of +/- 1 day of the scheduled day of delivery”	Low	Low	Low
	“percentage of water orders rescheduled in consultation with Customers within one working day of a known storage or delivery delay”	NC	Low	Low
	“percentage of time that daily minimum flow targets are met.”	Full	High	Full
	‘percentage of complying inter-valley transfers processed within four working days of State Water’s receipt of correctly completed application form and fee’	Full	Full	Full
	2. Policing Functions			
	“volume of water taken in excess of access licence conditions under the Water Management Act 2000 (ML) and number of licences and licence breaches involved”	Full	High	High
	“value of penalties imposed by State Water for taking of water in excess of licence conditions under the Water Management Act 2000 or the Water Act 1912 (\$)”	Full	Full	Full
	“volume of penalties imposed by State Water for taking water in excess of access licence conditions under the Water Management Act 2000 (ML)”	Full	Full	Full

Clause	Requirement	Compliance 2005/06	Compliance 2006/07	Compliance 2007/08
	“number of licences and entitlements suspended under the Water Management Act 2000 or the Water Act 1912”	Full	Full	Full
	“number of approvals suspended under the Water Management Act 2000”	Full	Full	Full
Schedule 1 Part B	Fish River Scheme Indicators 1. Asset Management			
	- the average response time for unplanned supply interruptions;	Low	High	Full
	- number of planned water supply interruptions;	Full	Full	High
	- number of unplanned water supply interruptions;	Full	Full	Full
	- average duration of planned water supply interruptions;	Full	Full	High
	- average duration of unplanned water supply interruptions.	Full	Full	Full
	2. Water Delivery			
	- percentage of time that daily minimum flow targets are met.	Full	Full	Full
	3. Water Quality			
	- percentage compliance with Australian Drinking Water Guidelines (2004) at the Fish River Scheme’s water sampling locations for e-coli, colour, turbidity, iron, manganese, aluminium and pH.	Full	Full	Full
9.2	State Water must report to IPART, by no later than 1 September each year on its performance against the performance indicators in Schedule 1 for the preceding financial year, including analysis of any systemic problems.	Full	Full	Full
9.3	As part of its report, State Water must provide IPART with physical and electronic access to the records kept by State Water that enable it to prepare the report under clause 9.2.	Full	Full	Full
9.4	State Water must make the report referred to in clause 9.2 available to the public.	Full	Full	Full
10	Pricing			
10.1	State Water must apply the level of fees, charges and other amounts payable for its services subject to the terms of this Licence, the Act and the maximum prices and methodologies for State Water’s supply of water determined from time to time by IPART.	Full	Full	Full
10.2	The pricing policies and practices of State Water must be consistent with the COAG Strategic Framework for Water Reform and other COAG initiatives relating to water. In particular, State Water must ensure:	Full	Full	Full
10.2.1	the usage based component of charges is not lower than 50% by 1 July 2006; and	Full	Full	Full
10.2.2	the usage based component of charges is not lower than 60% by 1 July 2008.	Full	Full	Full
10.3	Any submission by State Water to IPART in relation to the maximum prices and methodologies for State Water’s supply of water to be determined by IPART is to reflect the applicable usage based component of charges referred to in clause 10.2.	Full	Full	Full

Appendix B Utility Interviews – Agenda

This Appendix contains the Agenda for the Operational Audit Interviews conducted with the State Water Corporation from 15th September 2008 to 17th September 2008.

Operating Licence Audit

Proposed Schedule of Interviews

IPART: Bob Burford, Greg Dodd
 Halcrow: Jim Sly, Ana Dijanosic, Neal Albert
 State Water: Lisa Welsh

Monday 15 September 2008

Location: Level 8, 2-10 Wentworth Street, Parramatta

Time	Name	Section/Topic
9 – 10	Dermot Armstrong Compliance Manager	Part 2: MoU with DWE: Compliance protocols, Works Approvals.
10 – 10.30	Dermot Armstrong John de Groot Risk and Internal Audit Manager	Compliance Register
10.30 – 10.45	Break	
10.45 – 11.45	Sharon Rixon Environmental Services Manager and Jocelyn Karsten Environmental Projects Officer	Part 8: Environment Management Plan
11.45 – 12.30	George Warne CEO	Overview
12.30 - 1	Lunch	
1.00 – 2.30	Jocelyn Karsten	Part 2: DPI MoU, DECC MoU (RERP)
2.30 – 2.45	Break	
2.45 – 4.15	Greg Hillis Regulated Metering Project Manager and former Coastal Customer Service Manager	Part 2: Interaction with DECC and DWE, Cold Water Pollution Interagency Group 4.2 CSCs 7.1 and 7.2 (Coastal Valleys River Operations) 7.3 Drought Management Plan (Hunter) 7.4 Regulated Metering Project.

Operating Licence Audit

Tuesday 16 September 2008-08-29

Location: Riverview Business Park, 36 Darling Street, Dubbo

Time	Name	Operating Licence Section/ Topic
8.30 – 9.15	Geoff Borneman Chief Operating Officer	Overview of new organisational arrangements
9.15 – 10	Jane Redden General Manager Finance Russell Simons Manager Commercial Accounting	Part 4: 4.2.2 Provision of financial information to CSCs – IFMS Improvement 4.6 Debt Management
10 – 10.15	Break	
10.15 – 10.45	Tony Webber Acting Communications Manager	Part 5: Complaints Handling
10.45 – 11.30	Dan Berry	7.1 and 7.2 Overview
11.30 – 11.45	Break	
11.45 – 12.15	Ross Barrie Former Strategic Assets Services Manager Amit Chanan, Manager Strategic Assets (teleconference)	6.1 Asset Management
12.15 – 12.45	Lunch	
12.45 – 2.15	Sri Sritharan Operations Manager, Lachlan and Macquarie	Part 2: Interaction with DECC and DWE. 4.2 CSCs 7.1 and 7.2 (Lachlan and Macquarie River Operations, Lake Brewster Water Efficiency Project) 7.3 Drought Management Plans
2.15 – 2.30	Break	
2.30 – 4	Scott Barber Manager Operations Systems and former acting Customer Service Manager Border, Gywdir, Namoi-Peel	Part 2: Interaction with DECC and DWE. 4.2 CSCs 7.1 and 7.2 (Nthn Valleys River Operations, future SCADA) Part 9: (iWAS)
4 – 4.30	Jo Smith Board Executive Officer	4.1 Customer Consultative Committee

Operating Licence Audit

Wednesday 17 September 2008

Location: Level 8, 2-10 Wentworth Street, Parramatta

Time	Name	Clause/Topic
9.45 – 10.45	David Clarke Operations Manager, Murray (teleconference)	Part 2: Interaction with DECC and DWE. 4.2 CSCs 7.1 and 7.2 (River Operations) 7.3 Drought management planning
10.45 – 11.45	Dan Berry	Part 9 Water Delivery Performance Indicators and WIX
11.45 – 12	Break	
12 – 1.30	Warwick Battye-Smith	Part 9: Fish River Performance Indicators 4.4 and 4.5 Fish River Customer Council and Customer Contracts 7.6 Fish River System Yield Report
1.30 – 2	Lunch	
2 – 3.45	Dan Berry Water Delivery Manager	7.4 Metering and 7.5 Water Balances
3.45 – 5	Electronic access to records, if required. IPART to confirm details in advance.	

Appendix C State Water's response to 2nd Draft Audit Report



Contact: Lisa Welsh
Phone: (02) 9354 1069
Fax: (02) 9354 1106

Our Ref: lw 081028 Draft Audit Rspnse

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

31 October 2008

Dear Mr Cox

I refer to the draft report prepared by Halcrow regarding State Water Corporation's performance with its Operating Licence in 2006/07 and 2007/08. As you would be aware, this is the second operational audit of State Water since it became a State Owned Corporation on 1 July 2004.

I am pleased to note that overall State Water's performance has improved since the 2005/06 operational audit. I believe this result reflects an organisation-wide focus on improving compliance generally, with all regulatory and legislative instruments, including the Operating Licence.

My preliminary comments on the draft recommendations are included at Attachment 2. For the most part, I believe that the recommendations provided by the auditors will assist State Water's endeavours to continually improve its compliance with the Operating Licence.

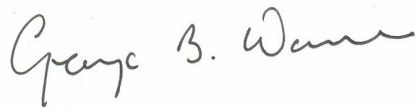
I also note that the report found that there were several areas of technical non compliance which would have received a higher rating under the terms of the new 2008-2013 Operating Licence which is now in place. This includes the deadline for water balances and the performance indicator for the measurement of water delivery within +/- one day of scheduled delivery.

The draft report has highlighted the need for a review of the Memorandum of Understanding (MoU) with the Department of Water and Energy. This review has now commenced and both parties have agreed to develop a draft of the new MoU by December 2008. I expect that the new MoU will provide the basis for more clearly defined and co-operative interactions between the two organisations in future. It should also assist State Water in achieving an improved compliance rating for this requirement in the next operational audit.

I note that the second draft report has assessed State Water's compliance against the requirement to provide of information to Customer Service Committees (CSCs) as high rather than full on the basis that State Water was unable to meet all requests for financial information. State Water's financial systems have been progressively improved and are now able to provide detailed consolidated and valley specific information. However, I note that the comments in the report state that compliance was assessed as high in part because the financial information provided to CSCs was unaudited. I would like to clarify that the audit of State Water's financials is based on a consolidated set of accounts. The valley based reports are tailored to provide transparency of expenditure and revenues associated with the IPART-regulated bulk water activities. Consequently, these reports are not subject to audit.

If you have any questions regarding these comments, please contact Lisa Welsh, Policy and Regulatory Affairs Manager (9354 1069).

Yours sincerely



George Warne
Chief Executive Officer

Summary of Key Recommendations

Licence Section 2.3 – Memoranda of Understanding

No recommendations are proposed in respect to this section.

Licence Section 4 – Customers and Community Engagement

No recommendations are proposed in respect to this section.

Licence Section 5 – Complaint and Dispute Handling

R5.1 - State Water may wish to assess the potential benefits of recording and tracking verbal complaints as part of the development of its new customer call centre.

State Water will establish the call centre during the first quarter of 2009. As part of the set up, appropriate systems will be implemented to both improve our customer experience and track customer feedback. This will also allow better analysis of the data to identify emerging issues and operational shortcomings so that they can be resolved before a formal complaint is registered or the matter is elevated to either a complaint to EWON or a letter to a Member of Parliament.

R5.2 - State Water does not currently have a standard definition of what constitutes a complaint. The provision of a clear definition as to what is classified as a complaint is recommended.

The Complaints Handling and Resolution Policy was developed in keeping with the Australian Standard on complaints handling. That Standard says that a complaint is an "Expression of dissatisfaction made to an organisation, related to its products, or the complaints-handling process itself, where a response or resolution is explicitly or implicitly expected".

This will be incorporated into the Complaints Handling and Resolution Policy and appropriate wording will be included in external publications associated with complaints handling.

R5.3 - In its 1 September reports to IPART, State Water reports all complaints that it receives, including those that are referred to other organisations (where the issue raised in the complaint was not within State Water's Functions). State Water's performance would be better reflected if it excluded these from its report, or separately identified them, when reporting by complaint category.

State Water agrees that performance would be better reflected if it excluded these complaints from its reports. However, there is value in these matters continuing to be separately identified. For example, the issue of customers' lack of understanding of the different roles of State Water and DWE was identified in the 2002 and 2006 customer

2006/07 and 2007/08 Operating Licence Audit

satisfaction surveys. As part of its marketing strategy, State Water will continue with initiatives that are aimed distinguishing between the roles of State Water and DWE.

State Water will consider developing a separate complaint category for those complaints which are related to Government policy rather than State Water's performance.

Licence Section 6 – Asset Management

No recommendations are proposed in respect to this section.

Licence Section 7 – Water Delivery Operations

R7.1 - During the course of the audit interviews it was identified that the Lachlan Valley had attempted to quantify water savings made due to conservation measures. It is recommended that State Water endeavours to estimate water savings from conservation procedures throughout each valley, to assess the impact of these practices.

It is difficult to quantify savings from operations. Ungauged tributaries and accessions to groundwater mean that estimates are unlikely to be robust. However, water savings from specific water efficiency projects or specific conservation procedures may be able to be estimated.

R7.2 - It is recommended that State Water continues to formulate appropriate performance measures with respect to State Water's performance in ensuring metering accuracy and that it then implements these recording measures.

As required by the 2008-2013 Operating Licence, State Water will develop performance measures by 31 March 2009 and submit them to IPART for approval.

R7.3 - It is recommended that State Water develop and document a set of procedures for preparing the water balances. This will ensure year on year consistency, and consistency between valleys. It will also reduce State Water's reliance on the currently limited number of staff that are capable of preparing the water balances.

AND

R7.4 - It is recommended that, as part of its procedures, there are some checks in place to ensure that all draft water balances are as accurate as possible prior to submission to IPART.

The new organisational structure has a position which is responsible for developing procedures for water balances and reviewing the balances once they have been drafted. These procedures will be developed during 2008/09 and will reduce the potential for error in future reported water balances.

Licence Section 8 – The Environment

R8.1 - It is recommended that State Water develops and implements a clear and consistent algal management strategy.

State Water agrees that the Environment Management Plan (EMP) does not contain a lot of detail on the algal management strategy and will address this concern in the next EMP review. However, State Water does have an algal management strategy, as detailed below.

State Water is written into the Regional Algal Co-ordinating Committee (RACC) Plans, which are whole of government plans, including local government. DWE provides the secretariat role for these plans whilst State Water is one of a number of 'water body managing' organisations which participate in the monitoring and notification requirements of the plans.

Rather than produce its own strategy, State Water's approach, given the limited resources currently available and to avoid duplication with the RACC plans, has been to continue to carry out the cooperative commitments under the RACC plans and work with DWE to improve the existing plans. In future, State Water expects that this will include the addition of a specific section in each RACC plan relating to State Water's role.

R8.2 - It is recommended that State Water develop an overarching environmental framework, detailing the various policies, procedures and documents which sit below the EMP. Development of such a framework will provide greater clarity as to how State Water intends to meet its environmental objectives.

State Water is currently developing the Monitoring Evaluation and Reporting (MER) framework as required by the EMP. State Water will include in the MER an overarching framework which contains a logical hierarchy linking the EMP objectives with the various procedures and document and identifies the key regulatory and Government policy drivers.

Due to limited resources, work on the MER was put on hold during the 12 month EMP review period to enable the review to be designed and delivered and work on other targets to be maintained. The development of the MER has also been delayed due to the implementation of the new organisational arrangements which has significantly altered accountabilities for EMP deliverables. It is expected that implementation of the MER, including training for relevant staff, will occur in 2009/10.

2006/07 and 2007/08 Operating Licence Audit

R8.3 - It is recommended that State Water finalises a framework for evaluating and monitoring environmental performance and includes benchmarking and measurable KPI's.

The MER will establish the baseline for environmental performance monitoring so that State Water can include benchmarking and KPIs in the next EMP.

Licence Section 9 – Performance Indicators

R9.1 - It is recommended that State Water implements a set of procedures for the reporting of performance information to IPART. These procedures should involve checking and verifying all calculations used in the reporting of performance data, thereby eliminating errors and helping to ensure year on year consistency in reporting.

State Water agrees that procedures for the verification of the underlying data in performance measures would be useful to ensure consistent reporting. These procedures will be developed in 2008/09.

R9.2 - It is recommended that State Water retains copies of relevant year end reports where the information is extracted from 'live' systems that cannot produce historical reports (such as the Water Accounting System).

State Water agrees with the auditor's recommendations and will ensure an 'archived' copy of year end reports are retained to enable historical reviewing.

R9.3 - The Fish River Water Supply indicators for planned and unplanned supply interruptions are reported from Incident Report Forms. The Incident Report does not readily identify whether an incident is planned or unplanned. State Water may wish to consider updating the Incident Report Form template to include a tick box to indicate whether the incident is planned or unplanned.

State Water's daily water delivery and water quality checks are recorded on various proforma, such as the Incident Report Form. These completed proforma are then faxed to interested customers, and filed.

State Water intends to incorporate the proformas into the FMMS (Facilities Maintenance Management System), with readings taken either by PDA and downloaded at the end of the inspection, or taken manually and entered via data entry into the FMMS system. Supply interruptions will be recorded as a breakdown work order for capture of location, cost of repairs, outage times, repair methods, etc. The FMMS system provides the ability to identify trends in the reasons for doing work, whether it be a routine planned, or scheduled work order based on time, or a breakdown type work order.

Implementation is expected to be completed during 2008/09.

Appendix D Stakeholder Consultation

This Appendix contains the letters sent to the stakeholders requesting their comments on the State Water's performance and the responses received from the stakeholders:

- Consultation with DWE, DECC and DPI;
- Consultation with Community Consultative Committee;
- Consultation with Customer Service Committee; and
- Consultation with Fish River Customer Council.

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Mr Mark Duffy
Director General
Department of Water and Energy
GPO Box 3889
Sydney, NSW, 2001

5 September 2008

Our ref: KMWHAT/18_01/0011

Your ref:

Dear Mr Duffy

2008 State Water Operational Licence Audit - Comments on State Water's Performance

I am writing in regard to the 2008 Operational Audit of State Water Corporation (State Water) which commenced on 27 August 2008. The Independent Pricing and Regulatory Tribunal (the Tribunal) has engaged Halcrow Pacific Pty Ltd to assist with the audit of State Water's compliance against its Operating Licence over the period 1 July 2006 to 30 June 2008.

This audit will review State Water's performance against the requirements of its Operating Licence 2005-2008, which commenced on 24 June 2005 and expired on 23 June 2008. This is the second audit of State Water's performance against its 2005-2008 Operating Licence. The first audit of State Water, undertaken in November 2006, assessed compliance during the period 24 June 2005 to 30 June 2006.

State Water Corporation (SWC) has a Memorandum of Understanding (MoU) in place with the Department of Water and Energy (DWE), which commenced on 26 July 2006. The MoU is required under Clause 2.3.2 (a) of State Water's Operating Licence and its purpose is to form the basis for co-operative relationships between State Water and DWE, in particular *"to recognise the roles of DIPNR [DWE] in regulating water access, use and management and State Water in delivering water and managing assets, and is to address the co-ordination of Functions and associated responsibilities between DIPNR [DWE] and State Water in undertaking their respective roles, including arrangements in relation to information sharing and the making and announcements of available water determinations and controlled flows"*.

I am writing to invite you to comment on how State Water has performed in regards to any of the requirements of the MoU with DWE.

In 2006/07, State Water indicated its intent to revisit the MoU with DWE to improve co-operation in light of the restructure of DWE. State Water also agreed to consider the inclusion of arrangements for making announcements of available water determinations and controlled flow in the MoU (subject to concurrence of DWE).

Could you please comment on whether DWE has been involved in any discussions with State Water to review the MoU, particularly in relation to how to better reflect the allocation of functions between State Water and DWE?

There are also a number of specific requirements under the Operating Licence where State Water is required to consult with and/or obtain approval from DWE and these are outlined below.

- (i) *Clause 7.3 – in periods of extreme water resource shortage beyond drought of record as and when gazetted by DIPNR [DWE], a Drought Management Plan for river operations must be developed by State Water in accordance with DIPNR [DNR] requirements.*

State Water has reported that as a result of ongoing drought, the suspensions of the Murray, Murrumbidgee, Lachlan, Macquarie and Hunter WSPs were still in place in 2007/08, and that it operated these valleys in compliance with the drought management plan instructions of DWE.

Could you please comment on whether DWE included any particular requirements in the Drought Management Plan and whether DWE was satisfied with the level of consultation undertaken by State Water and the final plan that was produced?

- (ii) *Clause 8.1.3 – State Water must review, and if necessary update, its EMP [Environmental Management Plan] by 1 July 2007. In undertaking this review State Water must consult with... [DNR] ...for the purpose of considering the views of those organisations consulted and whether they seek amendments to the EMP.*

State Water has reported, in its 2006/07 Report to IPART under the Operating Licence that it reviewed and updated EMP in consultation with the required agencies. The revised EMP was effective from 1 July 2007.

Could you please comment on whether State Water undertook consultation with DWE during the review of the EMP and whether DWE sought any amendments to the EMP?

I would appreciate your comments on the issues listed above and also on any other matters that DWE believes are relevant to the performance of State Water against its Operating Licence 2005-2008.

If possible, I would appreciate your comments by the close of business on 22 September 2008. If you have any questions or wish to discuss any aspect of this letter please do not hesitate to contact me by telephone on (03) 9899 9777, or by email at the address listed below.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'J. Sly' or 'Jim Sly', with a stylized flourish at the end.

Jim Sly
Principal Consultant, Water and Power Business Group
slyj@halcrow.com

cc: Mr Bob Burford, Independent Pricing and Regulatory Tribunal

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Ms Lisa Corbyn
Director General
Department of Environment and Climate Change
PO Box A290
Sydney South, NSW, 1232

Our ref: KMWHAT/18_01/0008

05 September 2008

Your ref:

Dear Ms Corbyn,

2008 Operational Licence Audit of State Water Corporation - Comments on State Water's Performance

I am writing in regard to the 2008 Operational Audit of State Water Corporation (State Water) which commenced on 27 August 2008. The Independent Pricing and Regulatory Tribunal (the Tribunal) has engaged Halcrow Pacific Pty Ltd to assist with the audit of State Water's compliance against its Operating Licence over the period 1 July 2006 to 30 June 2008.

This audit will review State Water's performance against the requirements of its Operating Licence 2005-2008, which commenced on 24 June 2005 and expired on 23 June 2008. This is the second audit of State Water's performance against its 2005-2008 Operating Licence. The first audit of State Water, undertaken in November 2006, assessed compliance during the period 24 June 2005 to 30 June 2006.

State Water has a Memorandum of Understanding (MoU) in place with the Department of Environment and Climate Change (DECC), which commenced on 26 October 2005. The MoU is required under Clause 2.3.2 (c) of SWC's Operating Licence and its purpose is to form the basis for co-operative relationships between SWC and DECC, in particular *"to recognise the role of DEC [DECC] as the agency responsible for environmental protection and conservation of natural and cultural heritage and address river health and water quality impacts of State Water's operations and information sharing arrangements"*.

I am writing to invite any comments you may have on how State Water has performed in regards to any of the requirements of the MoU with DECC.

There is also a specific requirement under Clause 8.1.3 of the Operating Licence where State Water is required to consult with the DECC.

- (i) *Clause 8.1.3 – State Water must review, and if necessary update, its EMP [Environmental Management Plan] by 1 July 2007. In undertaking this review State Water must consult with... [DECC] ...for the purpose of considering the views of those organisations consulted and whether they seek amendments to the EMP.*

In its 2006/07 Report to IPART under the Operating Licence, State Water reported compliance against this requirement as follows:

In keeping with Clause 8.1.3, State Water has reviewed and updated EMP in consultation with the required agencies. The revised EMP is effective from 1 July 2007.

Could you please comment on whether State Water undertook consultation with DECC during the review of the EMP and whether DECC sought any amendments to the EMP?

I would appreciate your comments on the issues listed above and also on any other matters that DECC believes are relevant to the performance of State Water against its Operating Licence 2005-2008.

If possible, I would appreciate your comments by the close of business on 22 September 2008. If you have any questions or wish to discuss any aspect of this letter please do not hesitate to contact me by telephone on (03) 9899 9777, or by email at the address listed below.

Yours sincerely



Jim Sly
Principal Consultant, Water and Power Business Group
slyj@halcrow.com

cc: Mr Bob Burford, Independent Pricing and Regulatory Tribunal

Your reference : KMWAT/18_01/0008
Our reference : ED08/1696
Contact : Alex Meehan, 9995 6066

Jim Sly
Principal Consultant, Water and Power Business Group
Halcrow Pacific Pty Ltd
Level 1 542 Station Street Box Hill
MELBOURNE VIC 3128

Dear Mr Sly

Thank you for providing the Department of Environment and Climate Change (DECC) with the opportunity to assist Halcrow Pacific Pty Ltd in the Operational Licence Audit of State Water Corporation.

In your letter you have raised two issues for DECC to consider. Firstly, how State Water has performed in regards to any of the requirements of the Memorandum of Understanding (MoU) with DECC, and secondly, whether State Water undertook consultation with DECC during the review of its Environmental Management Plan (EMP).

With regards to the first issue, DECC and State Water signed an MoU in 2005. While DECC has been generally satisfied with State Water's operation in relation to the MOU, the relationship between DECC and State Water has changed since 2005 as DECC has become responsible for environmental water management. A schedule to the existing MoU is therefore now being negotiated to establish a framework within which State Water and DECC will work cooperatively to manage and deliver environmental water. The schedule should be finalised in the coming months and will outline governing principles, information exchange and communication, operational arrangements, dispute resolution, and review arrangements.

With regards to the second issue, DECC was consulted by State Water about their EMP and was satisfied that, in its first 12 months, the EMP had been an effective foundation for State Water's achievements in environmental management. DECC did not raise any specific areas in which a change to the plan was needed.

If you require any further clarification, please contact Alex Meehan on (02) 9995 6066.

Yours sincerely

Simon A Y Smith

23/9/08

SIMON A Y SMITH
Deputy Director General
Climate Change, Policy and Programs



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Mr Richard Sheldrake
Director General
Department of Primary Industries
Locked Bag 21
Orange, NSW, 2800

5 September 2008

Our ref: KMWHAT/18_01/0009

Your ref:

Dear Mr Sheldrake,

2008 Operational Licence Audit of State Water Corporation - Comments on State Water's Performance

I am writing in regard to the 2008 Operational Audit of State Water Corporation (State Water) which commenced on 27 August 2008. The Independent Pricing and Regulatory Tribunal (the Tribunal) has engaged Halcrow Pacific Pty Ltd to assist with the audit of State Water's compliance against its Operating Licence over the period 1 July 2006 to 30 June 2008.

This audit will review State Water's performance against the requirements of its Operating Licence 2005-2008, which commenced on 24 June 2005 and expired on 23 June 2008. This is the second audit of State Water's performance against its 2005-2008 Operating Licence. The first audit of State Water, undertaken in November 2006, assessed compliance during the period 24 June 2005 to 30 June 2006.

State Water has a Memorandum of Understanding (MoU) in place with the Department of Primary Industries (DPI), which commenced on 23 June 2006. The MoU is required under Clause 2.3.2 (c) of State Water's Operating Licence and its purpose is to form the basis for co-operative relationships between State Water and DPI, in particular *"to recognise the role of DPI as the agency responsible for fisheries management in the State and address aquatic habitat and fish passage impacts of State Water's operations and information sharing arrangements"*.

I am writing to invite your comments on how State Water has performed in regards to any of the requirements of the MoU with DPI.

There is also a specific requirement under the Operating Licence where State Water is required to consult with the DPI and this is outlined below.

- (i) *Clause 8.1.3 –State Water must review, and if necessary update, its EMP [Environmental Management Plan] by 1 July 2007. In undertaking this review State Water must consult with... [DPI] ...for the purpose of considering the views of those organisations consulted and whether they seek amendments to the EMP.*

State Water has reported, in its 2006/07 Report to IPART under the Operating Licence that it reviewed and updated EMP in consultation with the required agencies. The revised EMP was effective from 1 July 2007.

Could you please comment on whether State Water undertook consultation with DPI during the review of the EMP and whether DPI sought any amendments to the EMP?

I would appreciate your comments on the issues listed above and also on any other matters that DPI believes are relevant to the performance of State Water against its Operating Licence 2005-2008.

If possible, I would appreciate your comments by the close of business on 22 September 2008. If you have any questions or wish to discuss any aspect of this letter please do not hesitate to contact me by telephone on (03) 9899 9777, or by email at the address listed below.

Yours sincerely



Jim Sly

Principal Consultant, Water and Power Business Group

slyj@halcrow.com

cc: Mr Bob Burford, Independent Pricing and Regulatory Tribunal



New South Wales

DEPARTMENT OF PRIMARY INDUSTRIES

OUT08/11940

Mr Jim Sly
Halcrow Pacific Pty Ltd
Level 1, 542 Station St
BOX HILL VIC 3128

Dear Mr Sly

Thank you for the opportunity to provide NSW Department of Primary Industries (NSW DPI) input into the 2008 Operation Audit of State Water Corporation (State Water). My apologies for the delay in reply.

NSW DPI works cooperatively with State Water and this cooperation is facilitated by the Memorandum of Understanding (MoU) between State Water and NSW DPI. The creation of the initial MoU in 2003 was a key contributor to the enhanced managed of natural resources that are impacted upon by State Water's operations. The establishment of the MoU is a critical component in the delivery of State Water's Environmental Management Plan and as such is a requirement of its existing Operating Licence.

Under the MoU, NSW DPI reports against three key performance indicators on an annual basis: – kilometres of restored fish passage, length of riparian habitat restored and area of aquatic habitat managed during works in accordance with the *Fisheries Management Act (1994)*. During the current audit period State Water activities have restored free passage for fish to 900km of river and protected over 50 ha of aquatic habitat during construction and maintenance operations. No opportunities for riparian rehabilitation were identified by either organisation during the audit period.

NSW DPI wishes to highlight the contribution of State Water to the wise management of aquatic resources and commend its efforts to work collaboratively with NSW DPI to achieve positive environmental outcomes. State Water's contribution to restoring fish passage within NSW waterways ranks as one of the major investments in the health of NSW rivers. As reflected in IPART's previous determination on cost sharing for environmental works, the incorporation of these activities into bulk water pricing has been an important factor in allowing State Water to meet the objectives of its Environmental Management Plan.

During the current audit period, State Water has met all its obligations towards NSW DPI in relation to the continuation of the MoU, compliance with legislative requirements under the *Fisheries Management Act (1994)* and collaboration over issues to enhance the protection of aquatic habitats.

If you have any further queries regarding NSW DPI's interaction with State Water, please do not hesitate to contact Adam Vey (Senior Conservation Manager – Aquatic Habitat Rehabilitation) on 02 6042 4205.

Yours sincerely

WENDY STAMP

EXECUTIVE DIRECTOR STRATEGY, POLICY AND COMMUNICATIONS

7-10-8

Template of the email sent to each member of the Community Consultative Committee

Subject: 2008 Operational Audit of State Water Corporation

Our Ref: KMWHAT/18_03/0043

Dear ,

The Independent Pricing and Regulatory Tribunal (IPART) is currently conducting an audit of State Water Corporation's performance against the requirements of its Operating Licence 2005-2008. The audit covers the period 1 July 2006 to 30 June 2008. IPART has engaged Halcrow to undertake the audit.

As part of the audit process we are contacting representatives the community consultative committee (CCC) to gain feedback on a number of issues.

The key issues you raise will be reported in our final Audit Report to the Tribunal, however the responses will be reported anonymously, that is, the name of the respondent will not be included in the report. You may also wish to make a more formal written submission to the audit and in this case we would require all responses to be provided by, at the latest, 22 September. All responses will be collated and summarised into a written report, a copy of which will be provided to State Water Corporation for comment.

We are specifically seeking comment on the compliance of State Water Corporation with Clause 4.1.4 of the Operating Licence 2005-2008, which states that:

" State Water must provide the CCC with information within its possession or under its control necessary to enable the CCC to discharge the tasks assigned to it, other than information or documents over which State Water or another person claims confidentiality or privilege."

In relation to this requirement, we are seeking your comment on issues such as:

- whether the information provided is adequate and whether the quality of information provided is sufficient to enable the CCC to discharge its duties;
- whether information is provided in a timely fashion;
- whether information requested by the CCC members has been refused or only partially provided;
- any general issues on the provision of information to the CCC; and,

- other operating matters that you may wish to discuss.

If you feel that there are other important issues related to State Water Corporation's performance against the requirements of its Operating Licence, please also highlight these issues.

I look forward to hearing from you in relation to the above. If you have any questions on these issues please do not hesitate to contact me using any of the details listed below.

Kind Regards,

Feedback from Community Consultative Committee Member via email

Sent: Monday, 13 October 2008 10:12 PM

Subject: RE: 2008 Operational Audit of State Water Corporation

The CCC has only met twice in the last couple of years twice in 2006 and not in 2007

I would see some of the reason is the state of flux the organisation has been in looking for a new CEO and then him settling in. In some respect the CSC at a local level probably provide more up to date info, although they do concentrate at a local level.

The CCC has not found its charter and XXX would still like to remain involved but it does need to meet at least twice a year and needs substantive issues to discuss. Otherwise other forums could fill this void and be just as effective.

Template of the email sent to each CSC Chairperson

2008 Operational Audit of State Water Corporation

Our Ref: KMWHAT/18_02/000X

Dear ,

As you may be aware, the Independent Pricing and Regulatory Tribunal (IPART) is currently conducting an audit of State Water Corporation's performance against the requirements of its Operating Licence 2005-2008. The audit covers the period 1 July 2006 to 30 June 2008. IPART has engaged Halcrow to undertake the audit.

As part of the audit process we are contacting representatives from a number of Customer Service Committees to gain feedback on a number of issues.

As discussed I will be contacting each you by telephone again between Thursday 11 September and Friday 12 September next week to seek your comments on the issues outlined below. The key issues you raise will be reported in our final Audit Report to the Tribunal, however the responses will be reported anonymously, that is, the name of the respondent and the CSC you represent will not be included in the report. You may also wish to make a more formal written submission to the audit and in this case we would require all responses to be provided by, at the latest, Monday 22 September. All responses will be collated and summarised into a written report, a copy of which will be provided to State Water Corporation for comment.

We are specifically seeking comment on the compliance of State Water Corporation with Clause 4.2.2 of the Operating Licence 2005-2008, which states that:

"State Water must provide the CSCs with information within its possession or under its control to enable the CSC to discharge the tasks assigned to the CSC, other than information or documents over which State Water or another person claims confidentiality or privilege."

In relation to this requirement, we are seeking your comment on issues such as:

- whether the information provided is adequate and whether the quality of information provided is sufficient to enable the CSC to discharge its duties;
- whether information is provided in a timely fashion;

- whether information requested by the CSC members has been refused or only partially provided;
- any general issues on the provision of information to the CSC; and,
- other operating matters that you may wish to discuss.

There is also a specific requirement under the Clause 4.3.4 of the Operating Licence where State Water is required to consult with the CSCs:

“State Water must, in consultation with the members of the CSCs, regularly review, and if necessary update, its Charter and in any event must do so by no later than 1 July 2007”

Could you please comment on whether State Water undertook consultation with the CSC during the review of the Customer Service Charter in 2006/07, and what form it took?

If you feel that there are other important issues related to State Water Corporation's performance against the requirements of its Operating Licence, please also highlight these issues.

I look forward to talking with you next week, however if you have any questions on these issues or if you are going to be unavailable between Thursday and Friday next week please do not hesitate to contact me using any of the details listed below. If you wish to pre-arrange a time for my call or if you would prefer a specific time please give me a call.

Thank you and regards,

Halcrow - Sustaining and improving the quality of people's lives

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Feedback provided from Customer Service Committee Chairpersons

Email from CSC A – dated 12/9/08

My thoughts on this are that State Water have done a very good job of providing relevant and timely information to the XXX CSC on operational matters, eg, resource assessment, major projects and structure upgrades resource assessment - there is very full discussion on this at CSC meetings, all committee members have a good understanding of the process and this has contributed to the ability of State Water to successfully operate the river and supply water to towns, S&D and basic rights holders through the worst drought on record. The provision of frank, detailed information and co-operation of SW, XXX and XX in holding verandah meetings when necessary has meant there is an understanding and general agreement within the community on how the river should be operated, and there have been no surprises like the withdrawal of allocation that occurred in the Murray in late 2006. This helps to meet the following terms of reference for CSC's:

- Create an environment for operationally successful valleys
- Monitor, review and enhance information exchange and communication between SW and its customers
- Provide input to water delivery strategies that promote efficient and compliant use of water and assist in the development of annual operating plans.

Information on major projects and structure upgrades - again the provision of information and co-operation between State Water and CSC has been very good and has contributed to the implementation of major projects such as Lake Brewster. This helps meet the following terms of reference:

- Review and advise on asset management priorities
- Identify and develop partnerships for collaborative projects

Where I think SW could do better is in the provision of financial information and information that contributes to strategic direction. At the strategic level I think the XXX CSC has had good opportunity to provide input to the Valley Business Plan but until recently I do not think SW has provided adequate financial information to allow the CSC to properly carry out the following terms of reference:

- To provide a link between customers and SW to identify customer service

requirements and appropriate service delivery standards

- To provide input on water pricing strategies for recommendation to IPART
- To review financial and other business information provided in accordance with IPART requirements.

We all know the problems SW had with implementing its new financial management system, which contributed to virtually no financial reports being provided for 05/06, and even now the reports don't have the budget vs actual comparison in them, which I would like to see.

For the last IPART determination SW prepared their submission without consultation with the CSC until it was completed, which therefore didn't enable the CSC to have sensible, informed input on customer service requirements and service delivery standards. Until now there has been no discussion of the tradeoffs between level of service and cost, eg, if the XXX wants a higher level of service, for example by having an extra CSO, what would that cost on a per ML basis. SW is now moving to do this - at the last CSC meeting a sub-committee was set up to provide advice to SW on these issues.

Re the question about review of the Customer Service Charter - yes, SW did consult the CSC early in 2007 on the review and the proposed changes.

Notes from a telephone conversation with CSC B – 23/9/2008

Summary of comments:

The lack of financial information was XX's main concern. Financial accounts were incomplete or insufficient for the CSC to use as input into business planning. The financial statements need to be defined at least by the product, business unit etc. XX believes that this area will improve and was surprised that State Water has not had this information before.

CSC hesitant to call meetings as of the opinion that old and insufficient information would be provided.

The CSC had input into the original charter and that the new charter should have more detail. XX conceded that the CSC did have the opportunity for input into the new charter though the CSC did not really pursue or push for any amendments.

Acknowledged that the restructure of State Water and the new CEO (George Warne) should improve the matters he has raised.

Notes from a telephone conversation with CSC C – 3/10/08

Provision of information - State Water has provided sufficient information to the CSC with the exception of financial information. It appears that the new financial system is better able to provide the required financial information (financial information extracted from the new finance system was provided at the most recent meeting of the CSC). However, over the audit period, provision of financial data had not been resolved.

In terms of the issues that the CSC had to deal with, the lack of financial data did not pose a major problem. The only exception to this was the restructure of State Water.

It would have been good to have received financial information in relation to the restructure – as it was clearly driven by a financial imperative (to meet IPART's targets).

Otherwise, XX was satisfied with the quality and quantity of information provided.

Customer Charter - State Water did consult with the CSC in relation to the customer charter. XX indicated that everyone was satisfied with the new charter.

Other issues - XX raised the issue of the restructure. He stated that it has consumed a lot of time and energy. XX is not totally satisfied with the restructure. Primarily, as key staff are to be taken away from the area (on-ground staff responsible for managing river flows). On the positive side, he said that State Water was engaging with the CSC in relation to the restructure.

Fish River Water Supply – Customer Council Feedback

Member 1 - Telecon on 2/10/08

- Concerned about the impact of the restructure of State Water – XX hopes that the current Levels of Service will be retained although is concerned that Service Delivery will suffer. XX understands that calls/issues will have to go via Dubbo in the future and expressed dissatisfaction with this.
- No other comments made.

Member 2 - Telecon on 2/10/08

Satisfied with the information provided to date although did mention the following points:

- XX did not think that State Water was ‘on top of its costings/financial controls and reporting and had not been for the past 4 years’. When asked about whether State Water’s reporting had improved, XX was of the opinion that State Water has not demonstrated that it is on top of this.
- Concerned about the major restructure of State Water. To date, Fish River schemes have been driven by FRWS Customer Council. XX feels that State Water isn’t adequately re-investing in the Fish River scheme. XX expects a reduction in costs going forwards for FRWS customers.
- System Yield – a lot of work went into the system yield report and XX was satisfied with the level of consultation.
- Drought Management Plan – again the level of consultation was very good.

Member 3 - Telecon on 13/10/08

Satisfied with the information provided to date and the level of involvement. XX indicated that XX has a good working relationship with State Water.

Member 4 - Telecon on 15/10/08

- Satisfied with the information provided by State Water. Satisfied with the level of input to Fish River system yield, Drought Management Plan.
- Cooperated with State Water throughout the drought to better manage demand.



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