

State water

Annual Report

04
05

The Hon Michael Costa, MLC
Treasurer, Minister for Infrastructure and
Minister for the Hunter
Level 31 Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

The Hon John Della Bosca, MLC
Minister for Commerce, Minister for Finance,
Minister for Industrial Relations, Minister for
Ageing and Minister for Disability Services
Level 30 Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Ministers

We present State Water Corporation's first Annual Report as a State Owned Corporation. It outlines the performance of the Corporation during 2004-05.

This report has been prepared for presentation to the New South Wales Parliament, in accordance with the requirements of the *Annual Reports (Statutory Bodies) Act 1984* and the *State Owned Corporations Act 1989*. It includes financial statements prepared in accordance with the *Public Finance and Audit Act 1983* and a report on compliance with the *Freedom of Information Act 1989*.

We regret that completion of this initial Annual Report has been delayed beyond the approved submission date of 12 December 2005. The transition of State Water – from business unit within the Department of Energy, Utilities and Sustainability to stand-alone State Owned Corporation – has been marked by financial reporting difficulties. Without established commercial systems, the corporation necessarily relied on systems, policies and services provided by its former host agencies. This situation is being rectified by progressive development of corporate financial and reporting systems that accord with current accounting policies and standards.

The delay was compounded by the integration of the Fish River Water Supply, with separate financial systems and policies, into the Corporation from 1 January 2005. Resolution of differences in asset valuation opinions was notable in delaying the completion of the accounts.

The Independent Audit Report for the 2004-05 accounts was signed by the Auditor-General's Office on 3 November 2006, allowing this Annual Report to be published.

Yours sincerely



AG (Tony) Wright
Chairman



Abel Immaraj
Chief Executive Officer

Cover image: Oberon Dam, built in 1949, with a capacity of 45,000ML. The dam supplies water to the communities of Oberon, Lithgow and the Blue Mountains.



Our Vision, Mission, Values and Critical Success Factors

Our Vision

To be Australia's most effective water business.

Our Mission

To sustain life and the economy by delivering water efficiently to customers and the community.

Critical Success Factors

Excellent Customer Service
Best Practice Operations
Strategic Asset Management and Investment
Skilled and Dedicated People
Profitable Business Growth
Enhanced Riverine Environment
Supportive Stakeholders

Organisational Values

We will be recognised as being:

Accountable
Consultative
Reliable
Innovative and leading edge
Effective
Experts

Our people will have:

Integrity
Respect
Expertise



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A Message from the Chairman and CEO

To our shareholders and customers

In this inaugural year of State Water Corporation, employees, assets and systems were tested by extreme drought conditions and the challenge of change. We want to summarise here how the superb response added value to the company and our customers.

The prolonged drought underlined the importance of our mission of striving to get more water to where it is needed. Our employees well understand the gravity of the three-year drought and they responded with ongoing determination to make every drop count. With initial water storage level at 28% and only 33% of normal rainfall over the year, State Water managed to deliver some 61% of normal allocation. High security water supplies to towns and essential services were met, as were environmental flow requirements. Unfortunately, three valleys with the most severe conditions received record low water allocations.

While handling adverse natural conditions to best advantage, State Water employees responded to the challenges of creating a new, corporatised structure and implementing the operational aspects of the water reforms.

With the support of customers, staff and shareholders, a smooth transition was made to our new status as a state owned corporation from 1 July 2004. The Fish River Water Supply Authority was successfully merged with the corporation from 1 January 2005, as required by the *State Water Corporation Act 2004*.

An important part of the transition was the rapid development of commercial systems to complement the well-established operating and asset management systems. New accounting, financial and human resources systems and processes were planned and largely developed during the year to meet new imperatives.

The commitment to a strong presence in rural and regional communities was continued, through a new head office in Dubbo, as well as new offices in Moree, Muswellbrook and Deniliquin.

Customer involvement in and commitment to the business increased during the year, particularly through the nine valley-based Customer Service Committees and Community Reference Panels for the major upgrade projects at Keepit and Chaffey Dams.

Our first year as a corporation also coincided with commencement of the NSW Water Sharing Plans. We acknowledge the outstanding work of those involved in developing water delivery protocols and water accounting rules, and in working with customers to ensure a smooth uptake of the new arrangements. This included both State Water people and staff of the Department of Natural Resources. The experience cemented the already strong relationship between State Water and our customers.

Water revenue was down by \$3.5 million against an already reduced budget impacted by the prolonged drought. The change from a government business unit to a State Owned Corporation required that internal accounting practices be reviewed to ensure compliance with Australian accounting standards and to adopt a more commercial approach. Maintenance expenditure that was in the past funded as capital works did not meet the test for assets and was required to be expensed. Costs of this nature included \$6.4 million from prior years, and with the reduction in revenue, resulted in profit before income tax of \$400,000 compared to a budget of \$6.5 million. After adjusting for non-deductible expenditure, an unusually high income tax equivalent expense resulted in a loss of \$2 million compared to a budgeted profit of \$4.5 million.

Despite the difficult conditions, State Water was able to carry out its works program without the need for debt funding.

We want to thank all employees, the management and our colleagues on the board, for their outstanding contribution and achievements. Their professionalism and enthusiasm for the business and customers underpins our success.

Good management of a water supply business demands strong relationships with customers. It also requires a readiness to innovate in developing, operating and maintaining assets and systems. State Water has long been adept at adding value through relationships and innovative thinking.

The recent corporatisation is a landmark event in the long partnership with rural water customers and the rural community. Few companies can claim a lineage extending more than 100 years. State Water is proud to be one of the few and is determined to maintain its promise to maximise the value of every available drop of water.



AG (Tony) Wright
Chairman



Abel Immaraj
Chief Executive Officer

Highlights of 2004-05



Construction of the innovative fishways for the Macquarie Weirs upgrade.

Corporatisation

State Water commenced operation as a State Owned Corporation on 1 July 2004. The transition to a business framework involved developing a new capital structure and commercial systems, while taking on new functions and initiating cultural change in keeping with a broader set of business objectives.

An independent Board of Directors was appointed to provide strategic direction and ensure regulatory compliance. The Board provides governance of the Corporation's responsibilities to the Shareholding Ministers, the Portfolio Minister, the customers and the community. A Chief Executive Officer and a senior management team were appointed during the year.

State Water Corporation now operates within a regulatory framework that prescribes explicit operating conditions, outlined in a formal Operating Licence. This ensures that the corporation is managed efficiently and in line with Government and community expectations. It also specifies reporting requirements to ensure corporate disclosure.

Water Delivery

Services to bulk water customers and riparian users were maintained through a further year of the worst drought in the history of NSW. Despite the depleted availability of stored water – down to only 28% of capacity at the year's commencement - State Water delivered some 3,308GL of water. This represented 61% of the long-term average volumes for customers and the environment during a year in which NSW received only 33% of average rainfall. This very positive result was achieved through careful planning and execution of operations. High security supplies to towns and essential requirements were met during the year, as were environmental flow requirements.

Water Reform

The introduction of the Water Sharing Plans for regulated rivers, under the *Water Management Act 2000*, reformed water management and licensing in 2004-05. The new scheme required State Water to redefine, redesign and rewrite the Water Ordering and Use database - the primary system to account for customer water balances as well as their financial accounts. Employees worked diligently with customers to explain the new water sharing rules and water accounting processes and took the lead role in working with customers to establish new protocols for water delivery operations, especially sharing Supplementary Access.

State of our Dams

The Corporation inherited 20 large dams from predecessor organisations. Many of these dams do not fully comply with extreme natural event safety requirements. State Water has actively tackled this legacy of non-compliance and is refining a comprehensive program for remediation and upgrading to provide a high level of asset security. Four options were finalised for the Keepit Dam Upgrade following extensive consultations, investigations and value management study.

Highlights of 2004-05 continued

Asset Maintenance

This year, State Water was able to fully fund, for the first time, its asset maintenance and rehabilitation program. The drought provided opportunities for maintenance on normally submerged infrastructure. State Water took advantage of the chance to improve the condition of assets and increase operational reliability.

Improved River Health

With new fishways on the Lachlan and Macquarie Rivers, about 510km of river now provides free passage for a large number of native fish species. As part of State Water's commitment to improving the health of the NSW riverine systems, a modelling study of low cost options for mitigating the impacts of cold water releases from dams was also completed. This is pointing the way for future innovative works programs.

Customer Service Charter

A new Customer Service Charter was developed, in consultation with the Customer Service Committees. The Charter clearly defines the rights and obligations and allows improvement of the standard of customer service.

Fish River Water Supply Authority

Fish River Water Supply was smoothly merged of into State Water Corporation in January, as required by the *State Water Corporation Act 2004*. This important water supply scheme adds a new operating perspective and additional high-use customers to the Corporation.

Safe and Healthy Workplaces

State Water employees were provided with safe and productive workplaces, with site safety plans, safe work methods and site inspections to ensure compliance. All employees can take pride in the substantial reduction in the OH&S frequency rate achieved during the year.

Efficient Operations

Considerable effort went into improving financial systems during the year to help State Water transition to a commercial entity. An Integrated Financial Management System was tendered, selected and specified. After considerable effort went into its development, the system was progressively implemented from 1 July 2005 with accounts payable, accounts receivable, payroll, general and job ledger, asset register and financial reporting modules. This ambitious project was developed from July 2004 and commissioned during a 12 month period from July 2005.

Information Sharing

State Water, in partnership with NSW Farmers, NSW Irrigators' Council and the Department of Infrastructure, Planning and Natural Resources has been instrumental in developing the Water Information Exchange to improve information exchange with customers.

Working with Sydney Futures Exchange (SFE), State Water is also developing SFE-State Water Indexes as a risk management tool for use by farming and investment interests. This innovative tool has created a great deal of interest in the financial and corporate sectors. SFE expects to use these Indexes for risk management through futures contracts.

Financial Results

As expected, during the worst drought on record, water revenue was down for the year, finishing \$3.5 million below budget. With the change to a State Owned Corporation, it was necessary to review internal accounting practices to ensure compliance with Australian accounting standards and to adopt a more appropriate and commercial approach.

Examination of expenditure previously charged to capital works resulted in a policy decision to more accurately treat some of this expenditure as operational and maintenance costs. Costs of this nature related to prior years amounted to \$6.4 million, which together with the reduction in revenue referred to above, caused the profit before income tax to be \$400,000 compared to a budget of \$6.5 million. As prior year expenditure related to costs incurred before corporatisation, this expenditure was not deductible for income tax purposes. The outcome was an unusually high income tax equivalent expense which contributed to a loss of \$2 million, compared to a budgeted profit of \$4.5 million.

Our Board



From left: Ted Woodley, Kathleen Bowmer, Tony Wright, Michael Bennett, Abel Immaraj, Kathy Ridge at front.
Absent: Graham Ebbett



AG (Tony) Wright Dip Tech, MBA

State Water Corporation Chairman since 1 July 2004

- Chair, Remuneration and Organisation Development Committee
- Member, Marketing and Customer Relations Committee
- Chair, New Business Development Committee

External Directorships

- Joint Managing Director, Wright Corporate Strategy Pty Ltd
- Chairman, BioTrack Australia Pty Ltd
- Deputy Chairman, NSW EPA Board
- Partner, Corymbia Creek Angus
- Chairman, NSW Reference Group on Extended Producer Responsibility
- Member, National Advisory Council for Environment Business Australia
- Member, Barton Group

Tony is an active director and runs a corporate strategy and public policy advisory firm, specialising in resource and infrastructure management. He has significant leadership experience in the water industry and in the transport sector, gained over the past 30 years.

Much of Tony's recent work has been in guiding reform of solid waste management. He has chaired three Public Inquiries and helped shape the strategy and legislation for sustainable waste management at state and national levels. Tony's current non-executive work is focused on environment business management.

Our Board



Michael Bennett BAgEcos(UNE)

State Water Corporation Director since 1 July 2004

- Member, Risk Management Committee
- Member, IPART Committee
- Chair, Marketing and Customer Relations Committee
- Member, New Business Development Committee

External Directorships

- Director, Bennett Nominees Pty Ltd
- Director, Killowen, Pty Ltd
- Director, Collyburl Pty Ltd
- Director, NSW Irrigators' Council
- Director, Dataspan Pty Ltd
- Executive Member, Macquarie River Food and Fibre
- Chair, Macquarie-Cudgegong State Water Customer Service Committee

Michael operates a 2,700 hectare property that produces cereals, sheep, cattle and cotton at Narromine, NSW. He has been actively involved in consultation with water users and governments over natural resource management issues at regional, state and Murray-Darling Basin Commission level.

In addition, Michael has been involved with numerous advisory committees and boards developing NSW water policy since the mid-1980s.



Kathleen Bowmer BSc(Hons), PhD(Nott)

State Water Corporation Director since 1 October 2004

- Member, Remuneration and Organisation Development Committee
- Member, Water Efficiency and Innovation Committee
- Member, New Business Development Committee

External Directorships

- NSW Department of Infrastructure, Planning and Natural Resources, Science and Information Board

Kath has worked in irrigation research and aquatic ecology with CSIRO for most of her career. Honours include the Eureka Prize for Environmental Science.

She was previously Deputy Chief of CSIRO Water Resources, Business Director of CSIRO Land and Water, Deputy Vice-Chancellor of Charles Sturt University, board member of several Co-operative Research Centres and Chair of the Murrumbidgee River Management Committee.

She currently holds the position of Professor of Water Policy at Charles Sturt University and is an Honorary Research Fellow with CSIRO Land and Water.

Our Board



Graham Ebbett BCom

State Water Corporation Director since 1 October 2004

- Chair, Audit and Compliance Committee
- Member, Water Efficiency and Innovation Committee
- Member, New Business Development Committee

External Directorships

- General Manager - Resources, Southern Hydro Pty Ltd
- Director, Southern Hydro Operations Pty Ltd
- Director, Southern Hydro Maintenance Services Pty Ltd
- Director, Meridian Energy Australia Pty Ltd

Graham held senior financial management positions in the investment and development banking sector, as well as holding directorships in both private and publicly listed companies before entering the energy sector some 15 years ago where he has held senior posts at a financial and operational level.

Graham joined the state-owned Meridian Energy Ltd, New Zealand's largest hydro electricity generator, in 1999 as Financial Controller, before moving to Australia in January 2002 to manage Meridian's newly-acquired Australian hydro assets. Upon Meridian's acquisition of Southern Hydro in 2003, Graham was appointed General Manager - Resources, responsible for asset management, human resources, property management, insurance and information technology. He also holds several directorships of companies within the Australian group.



Abel Immaraj MSc(Eng)

Chief Executive Officer and State Water Corporation Director since 1 July 2004

- Convenor, IPART Committee
- Member, Audit and Compliance Committee
- Member, Risk Management Committee
- Member, Remuneration and Organisation Development Committee
- Member, Water Efficiency and Innovation Committee
- Member, Marketing and Customer Relations Committee
- Member, New Business Development Committee

Abel was appointed Chief Executive Officer on 16 March 2005, after acting in this role from the formation of the State Water Corporation on 1 July 2004. As CEO, he provides leadership and strategic management for the Corporation; including staff, customer and stakeholder relationship management. As Executive Director on the State Water Corporation Board, he contributes to the corporate governance, direction and review of the organisation.

Prior to this appointment, Abel was the General Manager of State Water while it was managed within the Department of Energy, Utilities and Sustainability (DEUS) and the Department of Land and Water Conservation. He is an engineer with expertise in natural resource management and agricultural engineering.

Our Board



Kathy Ridge LLB(Hons1), BSc

State Water Corporation Director since 1 July 2004

- Chair, Water Efficiency and Innovation Committee
- Member, Audit and Compliance Committee
- Member, IPART Committee
- Member, New Business Development Committee

Kathy is a solicitor at Shaw Reynolds Lawyers. Prior to working as a solicitor she was the tipstaff to the Chief Judge of the Land and Environment Court, the Hon Mahla Pearlman AO. Kathy is a co-author of the Biodiversity and Conservation Chapter of the Butterworths Local Government Planning and Environment Service.

Kathy was the Executive Officer of the Nature Conservation Council of NSW (1999-2003). She has extensive experience in natural resource management policy and legislation.



EA (Ted) Woodley BSc, BE (Hons1), DipCD

State Water Corporation Director since 1 October 2004.

- Chair, Risk Management Committee
- Member, Marketing and Customer Relations Committee
- Member, New Business Development Committee

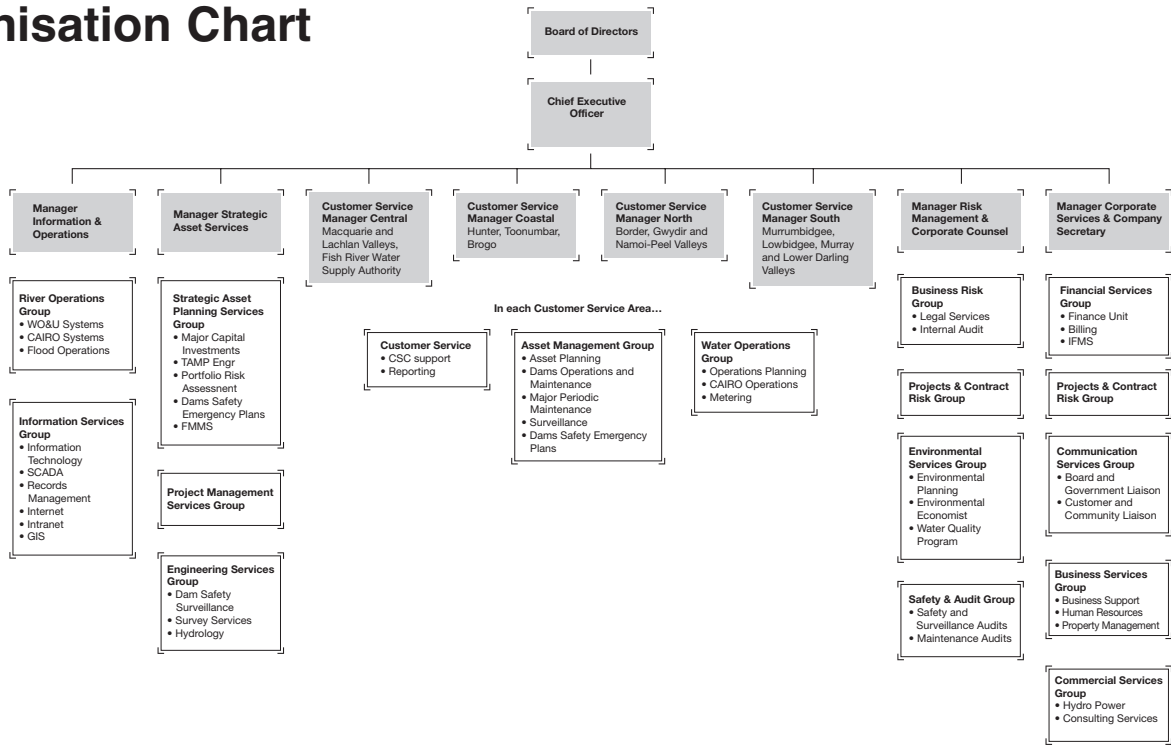
External Directorships

- Director, Victorian Energy Networks Corporation
- Member, NSW Home Care Service Advisory Board
- Member of two Western Australian Gas Review Boards

Ted has extensive experience in the water, energy, transport, agricultural and community care sectors. He has held CEO and senior positions with CLP Power Hong Kong, Transmission Pipelines Australia, PowerNet Victoria, EnergyAustralia, GrainCorp, NSW Department of Water Resources, NSW Energy Authority and the Uniting Church.

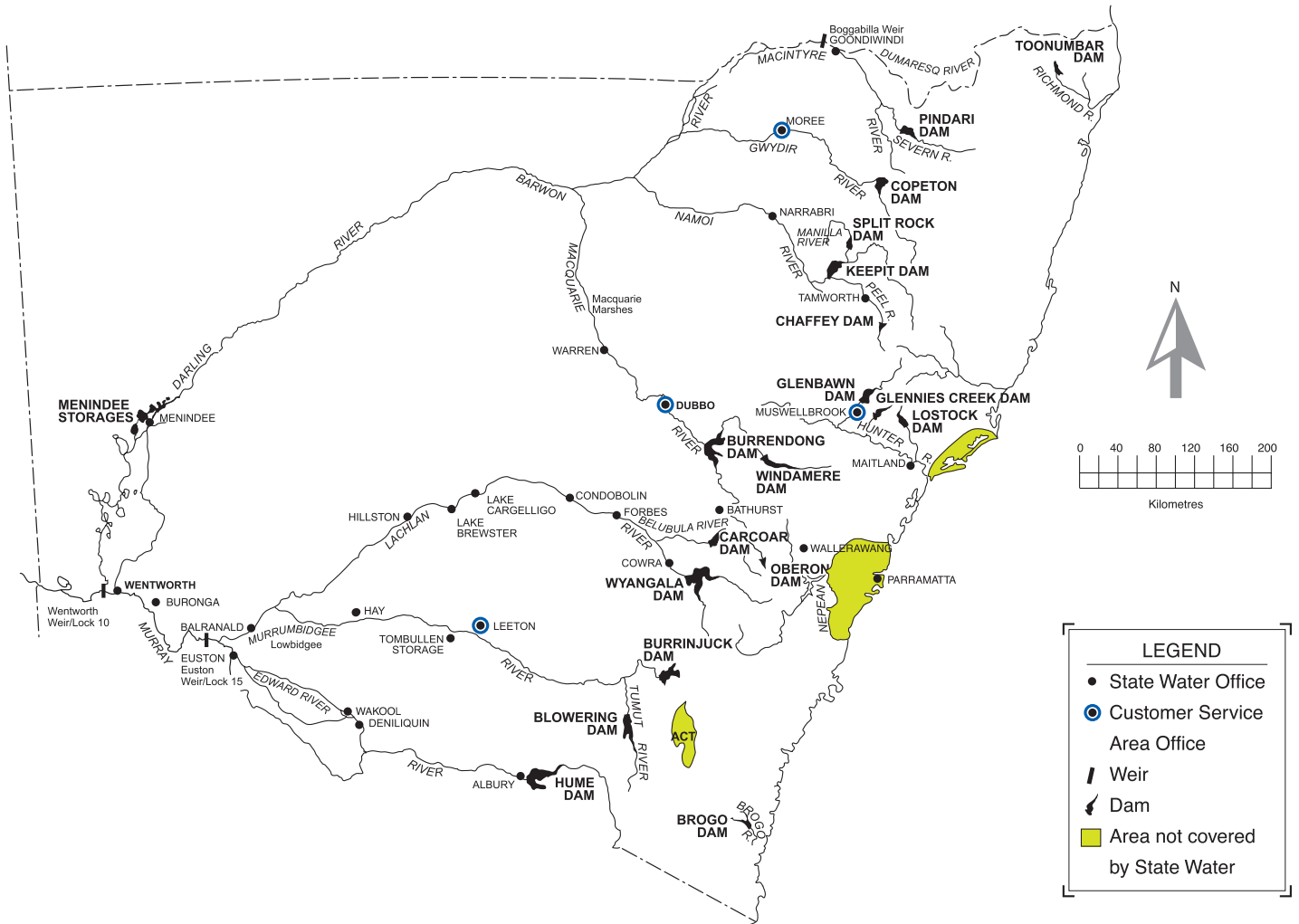
Previous Board appointments include Australian Inland, UnitingCare Ageing & Disability Service, Australian Bulk Handling Authorities, Snowy Mountains Council and Yarra Trams.

Organisation Chart



Our Area of Operations

State Water is committed to providing a presence in regional and rural communities. Our staff are located in the country towns shown on this map and at Parramatta, as well as at each of the dams and locks shown on the map.



Senior Executive

Ross Barrie BE(Hons), MEngSc, MBA

Manager Strategic Asset Services

Responsible for the strategic management and planning of State Water's total asset portfolio, principal adviser on asset management policy, regulatory and legislative requirements, and for the provision of specialised technical services, including asset performance surveillance monitoring, survey services and project management of major capital works.

Lindsay Beck Dip Civil Eng, Engineer of Water Supply, Vic

Customer Service Manager, South Area

Responsible for the operation, management and leadership of the State Water South Area, including water delivery and strategic asset management. Area of operations covers the Murrumbidgee, Murray and Lower Darling Valleys.

Dan Berry BE

Manager Information and Operations

Responsible for performance of State Water's water delivery operations, information technology, network asset management strategy and policy, records and intellectual property management.

Geoff Borneman BE

Customer Service Manager, Central Area

Responsible for leading bulk water delivery and infrastructure operations functions to customers and the community in the Central Area. This includes the Macquarie, Cudgegong and Lachlan Valleys and Fish River Water Supply.

Greg Hillis BE (Hons)

Customer Service Manager, Coastal Area

Responsible for the commercial and operational performance of State Water's operations and asset management in the Coastal Area. This covers the area along the coast from Queensland to the Victorian border and the Hunter region.

Abel Immaraj MSc(Eng)

Chief Executive Officer

Responsible for leading and strategic management: staff, customer and stakeholder relationship management. As an Executive Director on the Board, responsible for: corporate governance, direction and review.

Jubrahil Khan BTech, Grad Dip Mgt

Customer Service Manager, North Area

Responsible for leading the North Area of State Water in bulk water delivery, customer service, strategic asset management and commercial business functions. Area of operations includes the Border, Gwydir, Namoi and Peel Valleys.

Paul Percival Solicitor of Supreme Court of NSW and the High Court of Australia

Corporate Counsel and Manager Risk Management

Responsible for Corporate Counsel and the Risk Management Branch, including legal services, risk management, water quality monitoring program, dam safety surveillance audit, dam safety emergency planning, mechanical/electrical audits, environmental planning laws compliance, heritage legislation compliance, contracts management and audit and freedom of information/privacy.

Bill Sims BEng, MBA, Grad Dip CSP

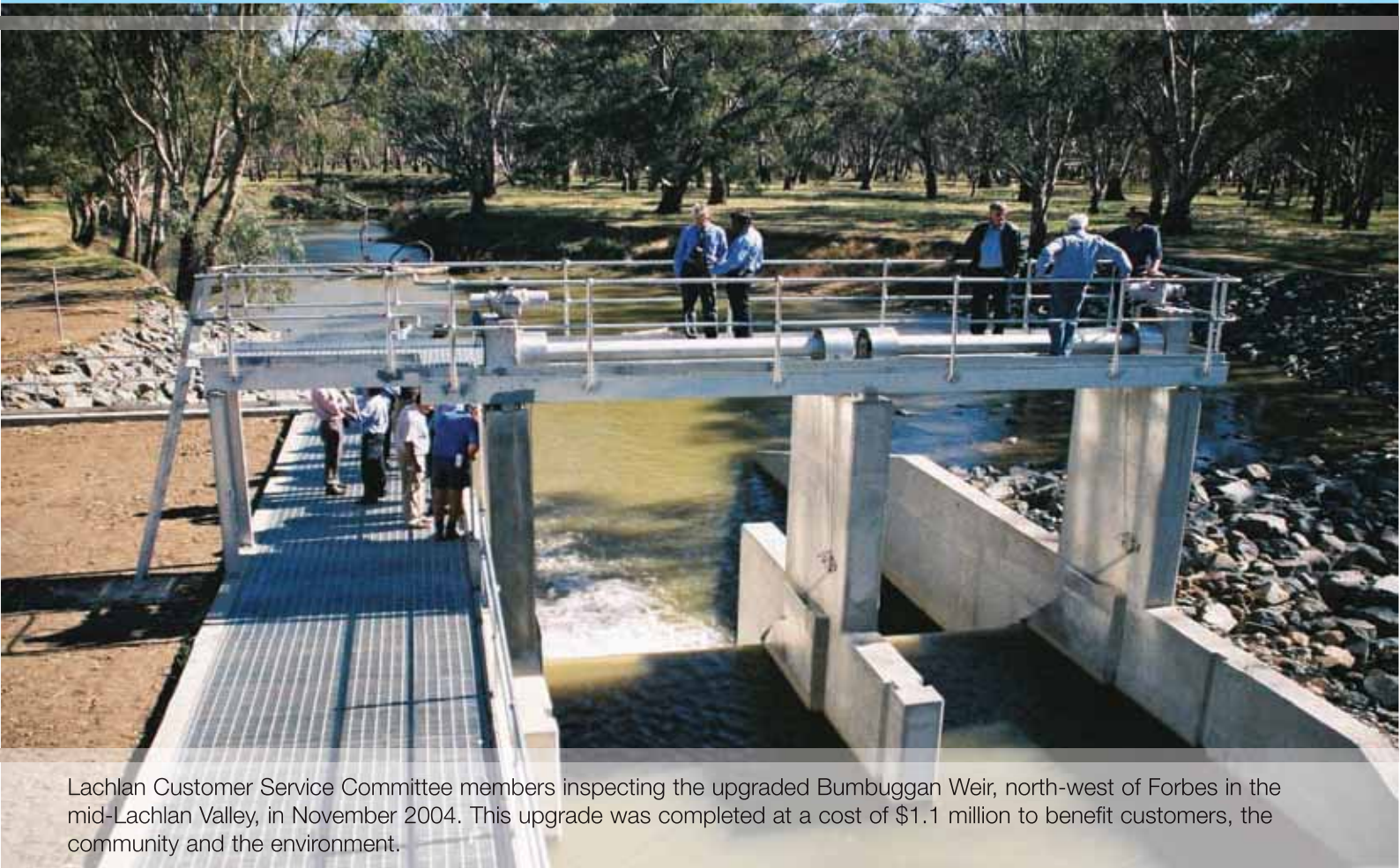
Manager Corporate Services and Company Secretary

Responsible for strategic direction and management of the Corporate Finance Group (accounting, billing and accounts receivable), the Business Service Group (human resources, industrial relations, employees services, fleet and facilities management) and the Corporate Communications Group (internal and external communications, ministerial responses, publications and community consultation). Also responsible for establishing and managing the Board processes.

State Water Corporate Plan 2004-05 to 2006-07

Critical Success Factor	Development Strategies 2004-05 to 2006-07
Excellent Customer Service	<ul style="list-style-type: none"> • Further develop the role of Customer Service Committees, to provide a clear linkage between customer needs and operational improvements. • Continuously develop the role of Community and Stakeholder Reference Panels in major projects to ensure that capital investment choices match willingness to pay. • Improve the quality and timeliness of information to customers, to maximise business and water efficiency.
Best Practice Operations	<ul style="list-style-type: none"> • Implement world's best practice benchmarking and develop cooperative relationships with benchmark partners for sharing of innovative practices. • Improve and integrate operating systems: water management, billing and revenue collection, information. • Develop an efficient information and communications system so that all operating decisions can be made with full, real-time information. • Develop and implement a quality risk management plan.
Strategic Asset Management and Investment	<ul style="list-style-type: none"> • Develop and implement an investment evaluation program that supports the State Water mission and wins the support of shareholders and key stakeholders. • Continuous development of asset maintenance system to reduce costs and incidents, through improved preventive maintenance and condition monitoring.
Skilled and Dedicated People	<ul style="list-style-type: none"> • Develop a commercial culture based on personal initiative, technical and commercial excellence and a widely shared understanding by all employees of all aspects of the business.
Profitable Business Growth	<ul style="list-style-type: none"> • Progressively identify, evaluate and move to secure new business opportunities aligned to core competencies, including asset management, bulk water operations and water information management. • Embrace innovations in water technology, marketing and financing to enhance commercial success.
Enhanced Riverine Environment	<ul style="list-style-type: none"> • Develop fundamental understanding across State Water of the real outcomes being sought by all environmental regulators and develop basis to ensure that environmental health is integrated into operating and investment practices through formal protocols and cultural awareness.
Supportive Stakeholders	<ul style="list-style-type: none"> • Continue to work closely with customers and shareholders, and co-operatively with regulators and all stakeholders so that views and agendas are considered in State Water planning.

Excellent Customer Service



Lachlan Customer Service Committee members inspecting the upgraded Bumbergan Weir, north-west of Forbes in the mid-Lachlan Valley, in November 2004. This upgrade was completed at a cost of \$1.1 million to benefit customers, the community and the environment.

Achievements

In the first year as a State Owned Corporation, State Water made some major improvements by providing more timely information and working more closely with customers. Internet registers were finalised for Available Water Determinations and water allocation assignments and a stand alone internet presence was established. Water delivery ordering processes also improved in the South and North Areas through the introduction of Water Assignment forms.

To provide better access to water information, State Water (in collaboration with DIPNR) established the Water Information Exchange (WIX) project to deliver information services via the internet, SMS, faxback and interactive voice response. In the North and South Areas and on the Coast, the reliance on the media for water delivery notifications was abandoned, with customers notified of supplementary water events directly by fax.

Border Rivers CSC

Two meetings held

- Endorsed the assets work plan.

Coastal CSC

One meeting held

- Provided ongoing support to area operations.

Fish River Water Supply CSC

Four meetings held

- Provided ongoing support to area operations.

Gwydir CSC

Four meetings held

- Developed water delivery strategy, including bulk water delivery releases.
- Endorsed the storages and weirs major periodic maintenance program.

Namoi-Peel CSC

Four meetings held

- Developed water delivery strategy, including bulk water delivery releases.
- Endorsed the storages and weirs major periodic maintenance program.

we maintained the confidence of water users...

As part of its separation from the Department of Land and Water Conservation and the Department of Energy, Utilities and Sustainability, State Water established independent offices for Head Office and Central Area in Dubbo and separate offices in Deniliquin, Moree and Muswellbrook. This year also saw the smooth transition of Fish River Water Supply Authority and the former Department of Public Works and Services' Dam Surveillance Unit into State Water.

Customer Service Committees

Key Outcomes/Achievements:

CSC Chairs Meetings

Two meetings held

- Development of the Valley Business Plan templates.

Statewide CSC Processes

- Catchment Management Authority now represented on each CSC.
- Developed and agreed on Customer Service Charter.
- Reviewed Terms of Reference for new three-year term, starting on 1 July 2004.
- CSCs involved in development of IPART pricing submission.
- CSCs involved in development of Code of Practice and Debt Management Policy.

Macquarie-Cudgegong CSC

Four meetings held

- Oversaw completion of Macquarie Weirs Upgrade Project, which was commissioned in May.
- Established Bulk Water Transfer Rules for Windamere to Burrendong Dam transfers, in partnership with DIPNR and in accordance with Water Sharing Plan requirements.
- Formed a water efficiency sub-committee to consider how to minimise losses in water delivery. Examined issues with willows, transmission losses in North Marsh Bypass Channel and losses in Duck Creek.

Lachlan CSC

Four meetings held

- Successful water delivery operations during the drought of record and third year of zero water allocations.
- As the main forum for customer consultation, the Lachlan CSC took the lead role in working with customers in delivering the Drought Contingency Plan, supported by DIPNR.
- Innovative verandah chats with key high security licensees were pivotal in ensuring effective communications to manage the restricted high security supply under the Lachlan Drought Contingency Plan.
- Worked with the Catchment Management Authority on water quality improvement project for Lake Brewster.
- Stock and domestic sub-committee reviewed the efficient delivery of stock and domestic replenishments.

Murrumbidgee CSC

Three meetings held

- Maintained user confidence in river operations during another year of drought in the Murrumbidgee.
- Formed a CSC Executive to improve meeting processes.

Murray-Lower Darling CSC

Four meetings held

- Maintained user confidence in river operations during another year of drought in the Murray.
- Managed the Edward River Easter period water shortage and achieved positive improvement in operations for future years.
- Managed the Menindee Lakes supply shortage to customer satisfaction.
- Reached agreement at Water Liaison Committee regarding alternative methods of managing small surplus flow events.
- Provided advice regarding the impacts of the Lake Victoria operating strategy during low resource years.
- Obtained support for a new single page application to assign water form and checklist.
- Obtained support to trial a customer information workshop at Barham.

Community Reference Panel (CRP) Progress

State Water also works with stakeholders on its major dam upgrade projects at Chaffey Dam and Keepit Dam. Both CRPs held three meetings during the year and made progress in narrowing the range of options, as well as clarifying the position of stakeholders on environmental and storage augmentation enhancements.

Chaffey Dam Upgrade CRP

Meetings: 26 November, 9 February and 2-3 June

Key Outcomes/Achievements:

- Identified regional issues associated with the upgrade, particularly water supply reliability, environmental impacts and social aspects.
- Started to evaluate more than 50 possible long-term upgrade options.
- Provided guidance on an extensive environmental review of Chaffey Dam and the potential upgrade.
- Assisted with storage rim landowner issues and general communication on the upgrade and emergency warning system.

Keepit Dam Upgrade CRP

Meetings: 19 October, 30 November and 31 March

Value Management Workshops were also held, in November and December

Key Outcomes/Achievements:

- Assisted with evaluation of potential environmental improvements associated with the upgrade.
- Refined long-term upgrade options down to four.
- Developed and assisted with community consultation of the four long-term upgrade options and emergency warning system.

CSCs and CRPs

CSC link between customer needs and operational improvements:

The CSCs continued to be the key forum for the development of operational improvements, setting asset management priorities, communicating customer service changes and driving business efficiencies at the valley level during 2004-05. Their operations were reviewed, in preparation for the new three-year term of office from 1 July 2005 and the terms of reference were revised to meet the needs of corporatisation. The CSCs now also include Catchment Management Authority representation.

The CSCs had significant input and involvement in the development of State Water's Bulk Water Pricing Submission to IPART and reviewed several draft corporate policies, including the Debt Management Policy and Customer Service Charter. Operational improvements were realised in the Gwydir, Namoi-Peel, Lachlan and Macquarie-Cudgegong as a result of CSC involvement. Staff maintained the confidence of water users during drought-of-record conditions in many valleys, including the Lachlan, Murrumbidgee and Murray-Lower Darling.

Reference panels helping match capital investment choices with willingness to pay:

The two CRPs continued to play a pivotal role in project investigations and lead both agency and community consultation this year. They have provided State Water with a sound understanding of community needs and impacts of the projects and have contributed to the management and communication of the projects to the broader community.

The Keepit CRP helped State Water reach four final options that are technically, economically, socially and environmentally feasible.

The Chaffey CRP, after achieving interim works within the first 18 months of operation, continued to investigate and explore options for the dam's long-term upgrade. The CRP model is now being considered for other major projects. Reference panels and CSC working groups are increasingly being established for smaller asset management projects to help improve capital investment choices, achieve effective community involvement and broaden the scope of the projects.



Chaffey Dam low level outlet penstock.

Quality and timely information to maximise business and water efficiencies:

Staff worked closely with CSCs this year to develop and introduce new systems for communicating critical information, including supplementary and off-allocation flow announcements and available water determinations. The introduction of the new water sharing plans required significant increases in the quantity and complexity of information customers needed. Record drought

conditions drove water efficiencies in nearly all valleys. In the Murray and Lower Darling Valleys, water efficiencies resulted in improved operations and customer satisfaction in the Edward River and Menindee Lakes systems.

Customer newsletters were also published in the Lachlan and Macquarie-Cudgegong Valleys during the year. These were particularly helpful in keeping customers up to date with changes after corporatisation and when the Central Area office moved premises and changed phone numbers.

Report on Customer Service Charter

Customer Service

TARGET	ACHIEVEMENTS
State Water will provide all information needed for quality customer service and staff will respond promptly, efficiently and courteously at all times.	No notified incidences of non-compliance. Stand-alone website provided, with improved access to State Water information.
State Water will be readily contactable by customers. We will be available during standard working hours, 8.30am to 4.30pm at our offices, or on our mobile phones. We will acknowledge within one working day any telephone messages, faxes, emails or voicemails. On weekends and public holidays, the duty operations officer or Senior Operations Engineers will respond to any problem or urgent issues with water delivery.	No notified incidences of non-compliance. New offices established, independent of DIPNR, at Dubbo, Moree, Deniliquin and Leeton, with plans for further separation from DIPNR in the next year.
State Water will communicate with customers effectively and equitably, publishing relevant information on the internet for access by customers.	Launched stand-alone State Water website with publishing of media releases and customer notifications, including allocation assignments.
State Water will develop and continuously improve electronic systems to handle all standard water ordering, billing, trading and account management tasks on a continuous basis. State Water will provide a customer account queries hotline (1800 353 091).	State Water is developing WIX to deliver information services to customers via the Internet, SMS, fax-back and Interactive Voice Response systems and accommodate new legislative requirements. Account queries hotline in operation. July-October averaged 250 calls/month, including many relating to licensing; 350 calls/month after accounts issued in October; 800 calls/month in January when Lachlan regulated accounts issued.
State Water will develop and publish compliance, debt management, water trading and water restriction processes to inform customers of transparent decision making and demonstrate procedural justice.	Delayed implementation date for Code of Practice and Procedures on Debt Management negotiated with IPART. Water trading forms and procedures on the State Water website. Processes for compliance actions under the <i>Water Management Act 2000</i> under development.
State Water will treat customer information with privacy and confidentiality in accordance with Freedom of Information legislation.	No notified incidences of non-compliance. Privacy statements now included on all forms that collect or use customer contact details.
State Water will provide a complaint handling process with a single point of first contact.	Board adopted complaints handling procedure for internal matters.

Report on Customer Service Charter

Customer Service

TARGET	ACHIEVEMENTS
State Water will provide a dispute resolution process and advice for customers and suppliers on handling disputes.	Consultation began on dispute resolution procedure.
State Water will undertake a customer satisfaction survey every three years.	Survey delayed due to other priorities arising from corporatisation.
State Water will develop and publish a Code of Practice and Procedures on Debt Management. The Procedures will include 'How to pay' and 'Where to pay' information. State Water will commence bulk water billing within eight weeks of the end of the period and will provide at least three options for payment.	Input sought from a CSC reference panel, with delayed implementation date negotiated with IPART. Deferral of payments and the eventual waiver of charges prevented timely billing. Payment available in person at any State Water office; by cheque or money order, posted to Head Office in Dubbo; or by BPay.
State Water will develop protocols for adopting Best Management Practice and work with customers to ensure that when entering properties to read and inspect meters, our staff do so with minimal disruption and impact.	No notified incidences of non-compliance.
State Water will comply with requirements under various Acts, including <i>State Owned Corporations Act 1989</i> , <i>State Water Corporation Act 2004</i> , <i>Water Management Act 2000</i> , <i>Water Act 1912</i> , <i>Occupational, Health and Safety Act 2000</i> , and the <i>Dams Safety Act 1989</i> .	No notified incidents of major non-compliance and working towards full compliance for dam safety across the dam portfolio. Extension granted by IPART for some requirements under the Interim Operating Licence.

Water Delivery

TARGET	ACHIEVEMENTS
State Water will be vigilant in continually reviewing and increasing operational efficiencies to maximise the delivery of available water to customers consistent with Water Sharing Plans.	Block releases planned for North Area were not needed due to good rain in December. Failed to deliver water to Hunter River customers, downstream from Singleton, from 14 to 16 January, due to shortfalls in ordering during heatwave.
State Water will credit Available Water Determination water into customer accounts within one day and will provide access to this information to all customers through the internet within the same timeframe.	Some delays at the start of the year due to interpretation of rules under the <i>Water Management Act 2000</i> . Determination information provided on website.
State Water will report on extraction performance against water ordering to customers.	No notified incidences of non-compliance.
State Water will reschedule orders in consultation with customers within one day of a known shortage.	No notified incidences of non-compliance.
State Water will investigate climatic modelling to improve predictive capability of daily demand to supplement water orders.	Project deferred until 2005-06 when internal resources will be available.
Supplementary water announcements will be made available to customers within two hours of the event determination by DIPNR.	Improved notification processes, with North, South and Coastal areas now sending notification direct to customers. Continuous improvement will see text message alerts by August 2005.

Report on Customer Service Charter

Water Delivery

TARGET	ACHIEVEMENTS
State Water will develop a checklist process for determining supplementary events and advising customers.	Staff contributing to development of DIPNR Implementation Manuals that will detail processes for determining supplementary events.
State Water will continue to develop national standards for meters to ensure that our customers' and business needs are best met. State Water will enforce compliance with National Metering Standards.	Continued working with DIPNR on development of NSW water extraction monitoring standards that are likely to comply with National Standards and will be developed over the next two years.
State Water will process complying intra-valley water trades within four working days.	No notified incidences of non-compliance.
Any water going through a licensed work meter will be charged regardless of the nature/purpose of use, unless State Emergency Provisions are triggered.	No notified incidences of non-compliance.
State Water will develop a compliance and penalties regime in conjunction with CSCs.	Initial discussion undertaken.

Asset Management

TARGET	ACHIEVEMENTS
State Water will provide asset management services at efficient cost as defined by inter-valley and industry benchmarks.	Stage one of benchmarking study undertaken.
State Water will ensure continuing involvement of CSCs in the Total Asset Management Planning process.	Compliance.
State Water will manage asset maintenance and renewal to provide assets in a state that is 'fit for purpose'.	Compliance.
State Water will demonstrate compliance with best management standards.	No notified incidences of non-compliance.
State Water will identify beneficiaries in cost sharing arrangements.	October 2004 and 2004-05 IPART submissions identified actual beneficiaries that were reflected in cost sharing arrangements.

Report on Customer Service Charter

Business Development

TARGET	ACHIEVEMENTS
State Water will comply with the Operating Licence.	Complied with all requirements, except where implementation dates negotiated with IPART: for Code of Practice and Procedure on Debt Management; External Dispute Resolution Scheme; Environmental Management Plan; and Memoranda of Understanding.
State Water will run a cost efficient and effective business, benchmarked against similar industries and will report transparently to CSCs.	Stage one of benchmarking study undertaken.
State Water will provide to the CSCs on valley-by-valley basis including Profit and Loss, Balance Sheet and budget versus actual reporting.	Not provided to CSCs due to limitations of financial system.
State Water will develop communication protocols between the Board and CSCs.	Completed – any CSC issues are brought to the Board via the Customer Service Managers and Chief Executive Officer.

Our People

TARGET	ACHIEVEMENTS
State Water will ensure it is staffed to provide adequate service levels throughout the year and provide a review that caters for the long-term needs of the business.	Undertaken in Central, North and South Areas.
State Water will ensure that its staff are adequately trained in safe and effective operations and customer service.	Ongoing training in operations provided. No training provided in customer service.

Best Practice Operations



North Area Customer Service Officer, Tim Budd inspecting a water meter.

Achievements

Achieving best practice operations in 2004-05 with the drought continuing posed a significant challenge for State Water. Also setting the scene was the introduction of the *Water Management Act 2000*. During the year, staff implemented changes to the Water Ordering and Usage application to manage customers' water accounts under the Act. They also continued to develop the Operations Information Management System project to integrate operations databases and systems.

In the changed business environment as a State Owned Corporation, staff also initiated relationships with similar interstate utilities, with the aim of sharing information and benchmarking practices.

Water Delivery Report

A NSW Perspective

Water delivery in 2004-05 was dominated by the ongoing drought. The year also brought the introduction of Water Sharing Plans under the *Water Management Act 2000*.

However, due to the drought and low flows very few of the Water Sharing Plans' environmental rules were triggered.

The total State Water storage level in July 2004 was 28% of capacity. This rose to 36% in September 2004, before dropping to 27% by May 2005 and then rising to 29% by 30 June 2004. This was a significant drop from the high of 89% in December 2000.

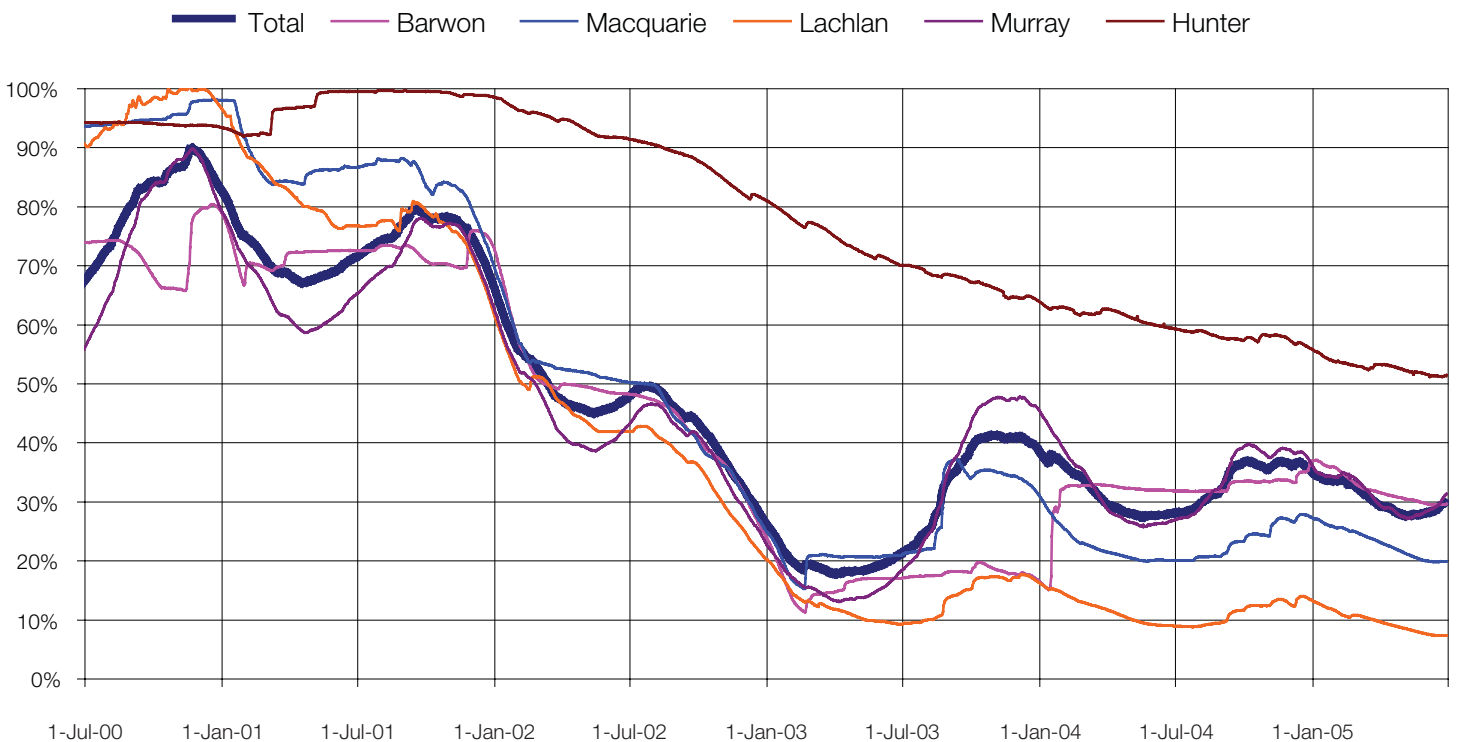
Allocations were restricted in all valleys, except the Hunter. Allocations in the Murrumbidgee, Macquarie and Lachlan Valleys equalled the lowest in irrigation history for those valleys.

Total water deliveries of 3,308GL in 2004-05 were the lowest recorded for this drought. Diversions were 16% lower than last year. These diversions were also lower than all the modelled estimates of diversions. These models provide estimates of diversions in all valleys for the past 100 years, assuming the current water sharing plans had been in place with the current dams and irrigation developments.

State Water delivered all water required under the environmental rules of the new Water Sharing Plans. Deliveries to high security customers were not significantly restricted, except in the Lachlan Valley. This meant that all of State Water's town, domestic, stock, industrial and high security irrigation customers received close to their full allocations for the year and State Water delivered all water ordered by those customers.

water delivery in 2004-05 was dominated by the ongoing drought...

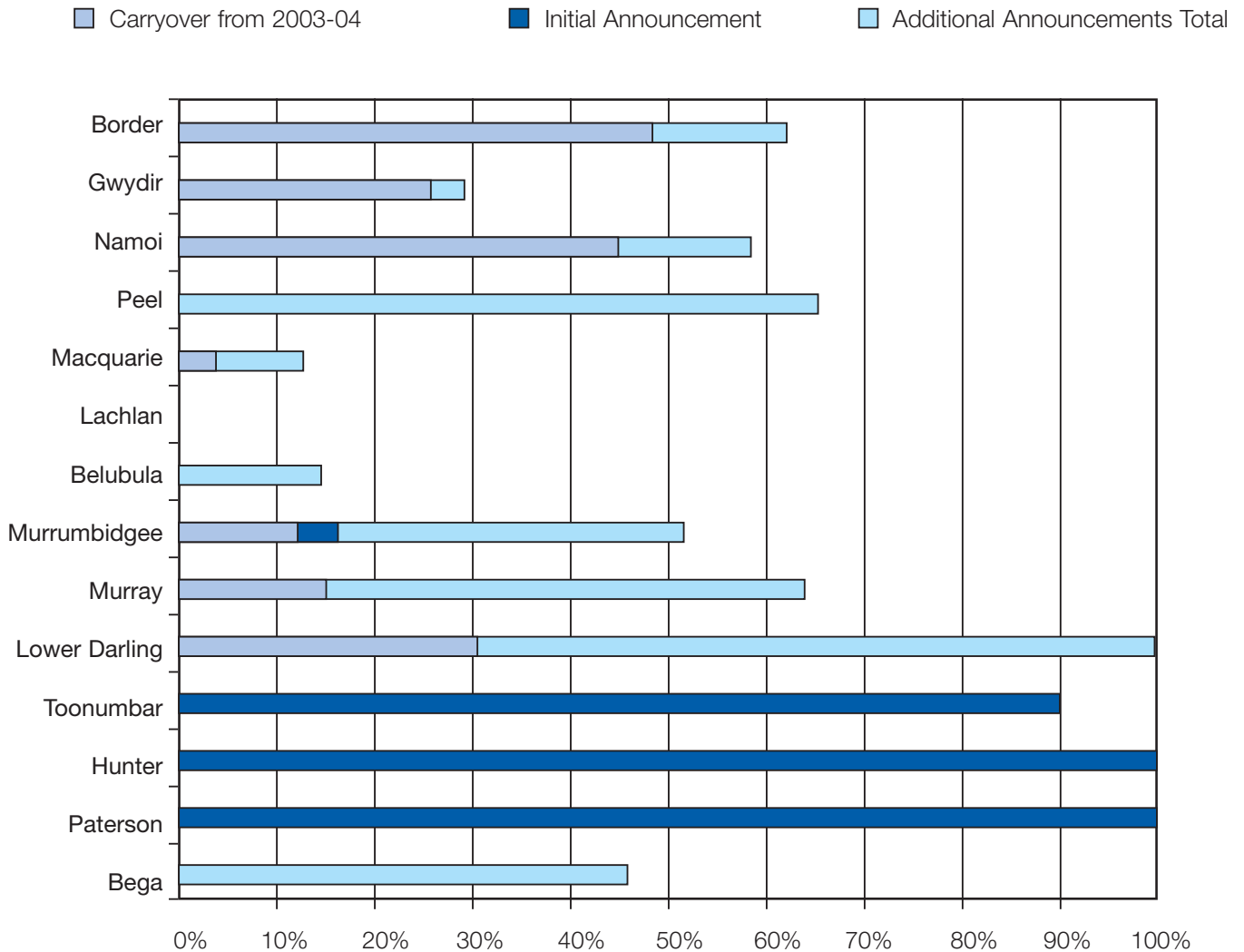
Total Storage and Sydney Futures Exchange State Water Indexes



General security customers received various levels of restricted allocations, depending on the water available in the storages in their particular valley. The following bar chart shows the initial and final levels of water availability in each valley. State Water delivered all water ordered by general security customers.

State Water received congratulations and support from many customers and the Customer Service Committees this year for efficient water delivery in very difficult circumstances.

General Security Water Availability 2004-05



Drought Contingency Plans

State Water continued to operate the Lachlan Valley conservatively under drought contingency plans to maintain essential supplies to towns, domestic, stock and high security customers. Drought contingency plans were under development at some stages during the year for the Macquarie, Lower Darling, and Hunter Valleys. Storage inflow events meant these plans were not implemented.

Border Rivers

Levels at Pindari and Glenlyon Dams at the end of June 2005 were 65% and 24% respectively, which compares to 66% and 23% at the start of the year. Allocations in the Border Rivers started the year at the equivalent of 48% for general security licence holders and finished the year at 52%. This was after some use of allocation, followed by small allocation increments in October, January and February. Good rainfall in December allowed significant access to off-allocation, however dam inflows were insufficient to significantly raise dam levels.

Gwydir Valley

Customers in the Gwydir Valley received substantial rain during peak irrigation periods. As a result, demand from Copeton Dam was lower than usual. The rain also allowed State Water to provide significant access to supplementary water. Copeton Dam began the year at just under 24% of its capacity and at the end of the year was only one per cent lower. Allocation increments throughout the year totalled 4.6%, allowing general security customers an average of 25% allocation for next season.

More than 13,000ML of Environmental Contingency Allowance was delivered to the Gwydir Wetlands between January and March 2005. This followed natural flooding in November and December 2004 that triggered a water bird breeding event.

Namoi Valley

The Namoi Valley also received heavy rain in December, giving customers access to supplementary water. Keepit Dam received moderate inflows in December. It reached the year's high of 43% in January, before falling to 24% by the end of June. General security

water accounts received allocation increases totalling 14.2% and have access to an equivalent of 40% allocation for next year.

Upper Namoi water users had the benefit of 100% allocation from Split Rock Dam while Peel Valley general security customers received an initial allocation of five per cent in mid-August. This was followed by allocation increases in September, November and January, finishing at 65% in February after Chaffey Dam received good inflows in late 2004.

Environmental releases were made from Keepit Dam for the first time this year. The releases were needed to maintain end-of-system flows at Walgett and were very high because the river had been dry for almost two months beforehand.

Macquarie Valley

The Macquarie-Cudgegong Valley again began the year under drought conditions. By the end of June, the valley had the lowest allocations and water deliveries in the history of its irrigation industry. There were no periods of supplementary access and no releases for the Macquarie Marshes.

Releases from Windamere Dam to Burrendong Dam began in August 2004. The transfer ended in September 2004 after releases of only 9,500ML as Burrendong Dam received an additional 50,000ML of inflows. Subsequent inflows allowed the announcement of a nine per cent allocation for general security customers, on top of carryover allocations of three per cent from 2003-04.

With exceptionally dry and warm autumn months, stock and domestic users needed large volumes of water from Burrendong Dam to deliver their annual replenishment flows. Total deliveries in the valley were 62,185ML. A total of 168 allocation assignments were processed, transferring 10,200ML.

Fish River Water Supply

The operation of the Fish River Water Supply scheme saw a continuation of the worst drought on record. This was the fifth consecutive year of below average rainfall. The three months from March 2005 were the lowest period of rainfall ever recorded, with just 29mm measured. In accordance with the scheme's Drought Management Plan, Delta Electricity and the Sydney Catchment Authority continued with 40% water restrictions and all other consumers with 20% restrictions. Total deliveries of 8,478ML represent only 57% of the scheme's allocations. Oberon Dam finished the year at 34% of capacity and is approaching record low levels.

Lachlan Valley

Due to the severe water shortage, the Lachlan Valley continued to operate under a drought contingency plan. Some sections of the river stopped flowing. Lachlan River allocations started with 40% for the towns and 20% for stock, domestic and high security irrigation entitlements and increased to 50% and 30% respectively after inflows to Wyangala Dam in September. General security customers were also allowed to extract their balances from the previous year.

Total extraction in the Lachlan River was about 19,000ML or six per cent of the long-term average. A total of 131 allocation assignments were processed, transferring 4,650ML.

The resource in Carcoar Dam was inadequate to allocate 100% for high security entitlements. An initial allocation of 20% for high security was announced, with the availability extending to the end of October. Spring inflows increased the high security allocation to 50% and the availability was extended to the end of June. Access to general security carryover allocation was allowed, based on the downstream flow triggers.

Murrumbidgee Valley

Similar to last season, water delivery in the Murrumbidgee Valley was dominated by the ongoing drought. The combined storage in Burrinjuck and Blowering Dams started the year at 18% and only rose to 31% during the spring. This was the lowest level on record for that time of year. The dams finished with a combined storage of 20%, among the lowest seven per cent of combined storage levels for 30 June.

Allocations for 2004-05 were 100% for towns, domestic, stock, Aboriginal cultural and research, 95% for high security and 40% for general security. General security carryover from the previous year was equivalent to an additional 10.9%. However, the drought reduced rice growers to the smallest crop on record.

State Water also delivered additional water after negotiations between Snowy Hydro, irrigators and DIPNR.

Murray Valley

Restricted water availability was a feature of water delivery again this year. Allocations for 2004-05 were 100% for town water supplies, 97% for high security and 49% for general security, plus 14% carryover from the previous season. This was similar to the previous year but above the record low set in 2002-03 when general security only received a combined 22%.

The South Area processed 1,683 applications for allocation assignments during the 2004-05 season. This is about twice the number of transfers compared to pre-drought levels. These transfers were processed under the new *Water Management Act 2000* procedures, using forms designed in consultation with customers.

Lower Darling Valley

Allocations for 2004-05 were 100% in the Lower Darling following inflows to the Menindee Lakes in autumn 2004. Despite this, reserves in the Lakes remain very low. Securing town water requirements for Broken Hill remains a very high priority.

Toonumbar Dam

Toonumbar Dam started the year at full supply level and remained above 70%. Allocations were 100% for high security and 90% for general security. Usage was down, despite drought conditions prevailing on the North Coast.

Hunter Valley

The combined storage in Glenbawn and Glennies Creek Dams fell from 59% to 51% over the year. Allocations were 100% for all customers. Drought conditions progressively worsened during the year in the Upper Hunter Valley, while the Lower Hunter received good rainfall. As a result, usage was up in the upper valley and down in the lower valley from 2003-04. There were only three very small supplementary flow events.

There were no restrictions in the Paterson Valley, with allocations of 100% for all customers. The valley received good coastal rainfall, with a number of off-allocation flows and lower usage than in 2003-04.

Bega River

Brogo Dam started the year at 27% of capacity and no allocation to general security customers. It continued to fall to a low of 23% in October as a result of low inflows and drought releases for high security. Inflows in October, November and December filled and spilled the dam and allocations to general security were increased to 45%.

Water Deliveries (ML)

Valley	2004-05	percentage of average	2003-04	Average
Border	107,564	51%	100,543	209,670
Gwydir	153,195	50%	159,000	309,164
Namoi	96,823	41%	72,000	237,146
Macquarie	62,185	16%	175,000	391,900
Lachlan	19,348	6%	44,000	305,000
Murrumbidgee	1,529,210	79%	1,671,000	1,925,000
NSW Murray	1,242,064	64%	1,271,000	1,934,830
Hunter	97,938	77%	133,000	128,067
Total	3,308,327	61%	3,625,543	5,440,777

Total Valley Flow (ML)

Valley	2004-05	percentage of average	2003-04	Average
Border*	319,067	32%	885,000	1,012,000
Gwydir	806,799	71%	606,000	1,141,000
Namoi	626,006	72%	344,000	870,000
Macquarie	258,107	18%	385,000	1,448,000
Lachlan	167,197	14%	211,000	1,212,000
Murrumbidgee	2,201,131	51%	2,553,000	4,360,000
NSW Murray	2,906,420	48%	2,811,000	6,083,000
Hunter	431,179	42%	451,000	1,040,000
Total	7,715,906	45%	8,246,000	17,166,000

* The Total Valley Flow for the Border Valley is for the entire valley and is therefore inclusive of Queensland water.

Interim Operating Licence

The Interim Operating Licence was in force from 1 July 2004 to 23 June 2005 when it was replaced by the Initial Operating Licence. Extensive consultation was undertaken with the Independent Pricing and Regulatory Tribunal (IPART) in the development of the Initial Operating Licence.

State Water complied with all requirements of the Interim Operating Licence, except the following items, for which later implementation dates were negotiated with IPART:

- Code of Practice and Procedure on Debt Management;
- External Dispute Resolution Scheme;
- Environmental Management Plan;
- Memoranda of Understanding with the Departments of Primary Industries, Environment and Conservation and Infrastructure, Planning and Natural Resources.

Benchmarking

In August 2004, State Water Corporation began a Benchmarking Study of bulk water delivery businesses in Australia. We identified four bulk water storage and irrigation supply organisations to benchmark against. These do not carry out water treatment, reticulation or catchment management and have a significant number of large dams.

Fifty-four performance indicators were identified as potential key indicators to demonstrate our commitment to continuous improvement and present meaningful benchmarking information. They fall broadly into the categories of:

this solution provides a solid platform for the future ...

- Successful business (size, profitability financial management, OH&S, etc);
- Social responsibility (dam safety, community service, etc);
- Ecologically sustainable development (environmental flows, quality, energy, etc); and
- Regional development and decentralisation (capital improvement, services, etc).

Thirty five of these indicators will be pursued in stage two of the study, which will be undertaken in 2006.

Risk Management

Soon after Corporatisation, State Water's organisation structure was modified, with a senior manager allocated responsibility for organisational risk management systems and processes.

The Board also formed a Risk Management Governance Committee, consisting of three directors and senior managers. This Committee is managing the development of a risk management framework, risk management plan and compliance program.

Extensive consultation with other organisations about risk management approaches has been undertaken as an efficient method for quickly developing a cost effective risk management program.

The organisation is building a risk management approach into many business processes in order to achieve better outcomes. The development and enhancement of risk management as a core skill will continue in 2005-06.

Integrated Financial Management System (IFMS) Implementation

The IFMS project involves the implementation of a new integrated system covering the Corporation's financial functions, human resources, payroll and water billing.

In July, the Board approved the project with a budget estimate of \$2 million. Two hundred detailed business requirements and strict technical and compliance criteria were issued to selected potential vendors, with five tenders considered. The Board approved the tender from Technology One in February.

During the year, the core financials (Finance One) were implemented, including: purchasing; accounts payable; general ledger; costing; asset management; and reporting. Next year, People One will be implemented, incorporating payroll, timesheet entry and position management. The next step will be implementing functions to cover water billing and accounts receivable; and financial analysis and reporting.

The Technology One solution provides a solid platform for the future and is based on Microsoft technologies. Additional modules are available, including online requisitioning and purchasing and employee self-service human resources.

The total project is estimated to cost \$1.653 million. Expenditure in 2004-05 totalled \$1.177 million, with costs estimated at \$278,000 next year.

State Records Act Implementation

State Water is in the process of implementing a records management process, with a Records Management Policy, Procedures, Business Classification Scheme, Thesaurus, Access Directions and Draft Disposal Authority now complete. The Draft Disposal Authority will be issued to State Records for approval next year.



Justin Boyer of Austral Construction (left) and Central Area SCADA Administrator, Michael Parsons inspecting works in progress at Warren Weir.

State Water chose the Tower Software product, TRIM (Total Records and Information Management) system, to meet its records management needs. TRIM will also be used to replace the Tower Imaging System for managing and viewing our scanned plans and technical documents. TRIM is capable of full electronic document management, including managing hard copy files, e-mails, documents created with Microsoft products such as Word and Excel, images (eg our scanned plans) and various library collections.

The implementation of TRIM will be a staged process, with full electronic document

management the final goal. A scoping study has been completed to implement TRIM at all State Water sites, taking into consideration the user requirements and all the differing communication issues involved. The scoping study also details the data migration from DIPNR's records management system and from the scanned plans held in the Tower Imaging System.

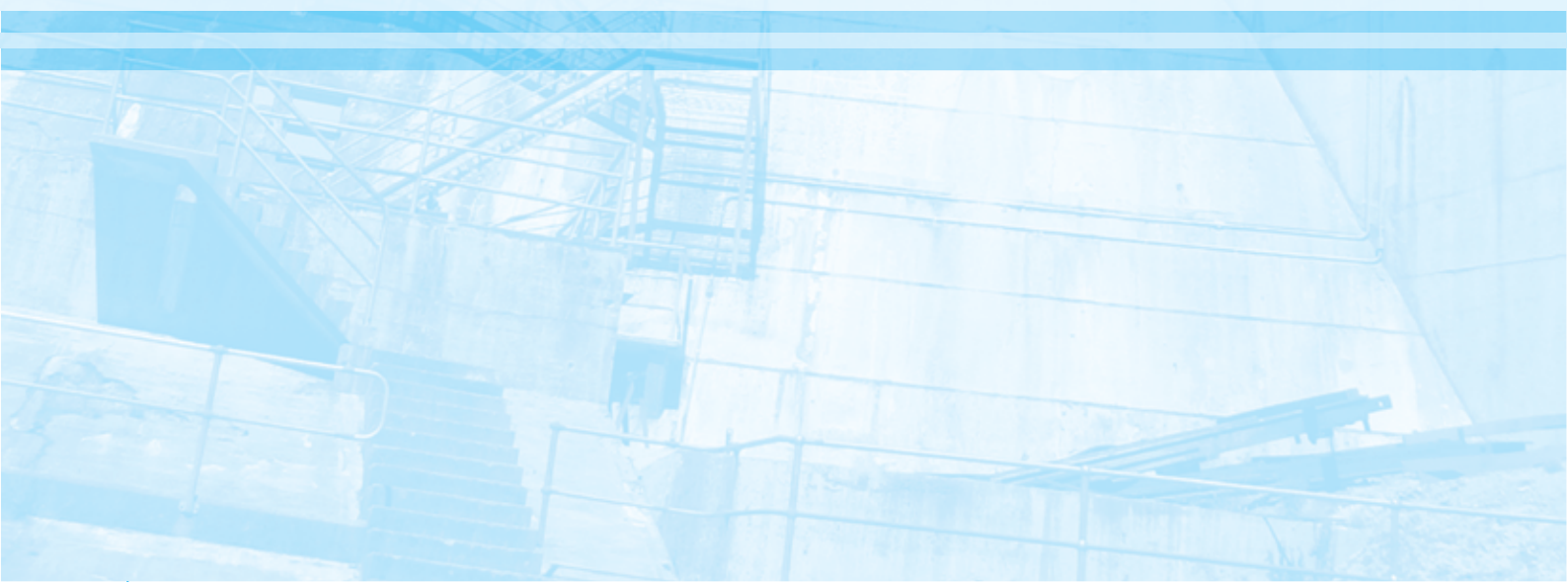
An extensive program is planned to ensure all staff receive training in records management and the use of TRIM.

Agreement was reached with DIPNR to separate State Water's records and library information in early 2005-06. The separation of archives will be more difficult and will involve physically viewing more than 1,500 boxes of documents at the Government Records Repository.

Strategic Asset Management and Investment



Hume Dam spillway with most of the gates fully raised to allow access behind the gates during winter maintenance.



Capital Works Progress Report

Major capital works projects carried out by State Water in 2004-05 totalled \$14.345 million, as outlined below.

Project	Expenditure \$000	Percentage of project complete	Comment
Blowering Dam Upgrade	378	80% of investigations for Stage One	Detailed spillway modelling and geotechnical review of spillway foundations undertaken.
Burrendong Dam Upgrade	314	45% of investigations	Need to remodel spillway due to potentially unstable rock foundation delayed progress.
Chaffey Dam Upgrade	892	70% of investigations	Environmental assessments completed and assessment of long-term options begun.
Copeton Dam Upgrade	400	25% of investigations	Review of risk assessment begun.
Keepit Dam Upgrade	824	85% of investigations	Four final upgrade options under consideration.
Split Rock Dam Upgrade	96	15% of investigations	Revised hydrology saw flood and options studies undertaken.
Wyangala Dam Upgrade	354	30% of investigations	Initial review highlighted need for further development of options and more investigation before concept design.
Macquarie Weirs Upgrade	930	100%	Works completed and commissioned.
Major Periodic Maintenance	2,921	continuous program	Further details on project progress can be found on pages 36-37.
River Structures	2,266	continuous program	Further details on project progress can be found on pages 36-37.
Total Asset Management Plan (TAMP) process	904	continuous program	Further details on TAMP can be found on page 39. Some work deferred this year and resources redirected to corporatisation issues, IPART process and TAMP 2004 document.
Essential Staff Housing	727	n/a	Housing program on hold during a review of the need for housing. Committed expenditure only proceeded.
Integrated Financial Management System (IFMS) Project	1,231	65%	New system required by State Water as a stand alone organisation.
Dubbo Head Office move	337	100%	New office accommodation needed as State Water no longer part of a DLWC.
Wyangala Sewerage treatment	1	5%	Preliminary work commenced to upgrade village sewerage scheme.
Parramatta Office move	582	5%	New office accommodation needed as DIPNR required the space.
Motor Vehicles	1,188	continuous program	Motor vehicles now purchased instead of leased.
Total Specific Capital	14,345		

Note: Due to a change in accounting policy for the capitalisation of expenditure, some of the amounts shown above were subsequently expensed.

Summary of Major Works Completed

As shown in the previous table, State Water is in the process of completing upgrade projects at seven major dams. These dams complied with the engineering standards of the day when they were built many years ago. They are also safe for day-to-day operations and can easily handle the worst floods on record. However, as our ability to predict rainfall and extreme weather patterns and events has developed, new dam safety standards and guidelines for extreme floods and earthquakes have been established. In order to comply with the current requirements of the NSW Dams Safety Committee, State Water has embarked on these upgrade programs.

Blowering Dam Upgrade

The State Water Project Management Team proposed a staged approach to achieve this project's safety upgrade objectives. During the year, staff continued to consult the community on this approach, via the Tumut River Advisory Committee. Their input is valuable in the project development process.

Staff undertook a Computational Fluid Dynamics Analysis of the spillway to define the hydraulic profiles down the spillway chute. This showed the height we will need to raise the training wall to contain a high level flood within the spillway. A Failure Mode Effects Analysis also helped assess whether there is any risk to dam safety if the training wall is not raised. In conjunction with these actions, State Water also refined the flood security options.

Burrendong Dam Upgrade

This year staff completed investigations into the structural options to improve the outlet capacity of Burrendong Dam's intake tower and the quality of water releases. An innovative floating curtain around the intake tower was modelled, proving that it could improve the quality of water releases.

State Water completed an inspection and analysis of the structural stability and adequacy of the existing spillway gates and undertook further investigations into flood security options. These focused on the spillway's ability to handle larger flows. Consultation with the community was also important to this process this year, with a focus on briefings to the Macquarie-Cudgegong Customer Service Committee.

Chaffey Dam Upgrade

At Chaffey Dam, staff negotiated the acquisition of three properties affected by the interim dam safety upgrade works. They also began to assess the long-term dam upgrade, which will involve further improvements in dam safety, flood mitigation, environment and water supply reliability.

We completed a comprehensive environmental assessment of upstream, in-storage and downstream environmental improvements and potential upgrade impacts. As part of the dam safety upgrade option development process, we developed a range of options for both dam safety and associated flood mitigation and dam safety with storage augmentation. The Community Reference Panel evaluated and advised on these options.

Copeton Dam Upgrade

A contract was awarded this year for investigations into potential environmental improvements at Copeton Dam. This included an overview of the impact of the dam on the Gwydir environment, an evaluation of the existing spillway's erosion potential and developing potential environmental improvement options.

A contract was awarded to review the options for upgrading the dam to reduce the level of risk, using revised probable maximum flood data. State Water started the consultation process with internal stakeholders and developed a community consultation strategy. An inspection and analysis of the stability of the spillway gates was also completed.

Hume Dam Remedial Works

The Hume Dartmouth Technical Review Committee adopted a flood routing model this year. Work also started on calibrating the model for gauged catchments. Validation and finalisation of inflows and outflows is expected in 2006. A Failure Modes Workshop was also held to prioritise issues needing investigation as part of the remedial works.

Keepit Dam Upgrade

The Keepit Dam Upgrade project moved into another stage this year, with the Community Reference Panel confirming four final upgrade options. These range in cost from \$56 million to \$79 million and include a multi-level offtake and improved fish passage downstream. Extensive consultation with the community began to consider these options.

Environmental improvements associated with the long-term upgrade were a key focus for investigations, with consideration given to: a multi-level offtake; improved fish passage; and increased capacity for environmental water. Value management workshops were also held to further investigate and refine the initial dam safety studies and associated flood mitigation options.

Split Rock Dam Upgrade

Preliminary investigations have begun at Split Rock Dam to consider the need for a flood security upgrade and assess the environmental and cultural impacts. The hydrology data has been revised, with aerial photography and digital mapping undertaken downstream of the saddle dams.



L to R: Board Member Mike Bennett; Rex Wilson, Mayor of Warren Shire Council (obscured); the Hon Frank Sartor, Minister for Utilities; Ian Slack-Smith, Member for Barwon; and Abel Immaraj, Chief Executive Officer at the opening of the Macquarie Weirs Upgrade.

Wyangala Dam Upgrade

State Water commissioned a literature review of environmental information concerning the impact of Wyangala on the Lachlan System this year as part of the longer term upgrade. The spillway upgrade options were further developed and a preliminary environmental assessment was carried out. State Water also inspected the spillway gates to determine their structural stability.

Macquarie Weirs Upgrade

The Hon Frank Sartor, Minister for Energy and Utilities, officially opened the upgraded and new Warren and Gunningbar Weirs on 18 May 2005. This project was commissioned on time and included construction of vertical slot fishways, as well as reconstruction of the Duck and Crooked Creek structures with modified rock ramp fishways – a design first for Australia.

Lock 10 Wentworth Weir

State Water awarded a contract this year for the upgrade of the navigable pass and the construction of a fishway at Lock 10. Willow trees that posed a navigation hazard were also removed from the upstream entrance to the lock.

Small Dams

Responsibility for Bethungra, Sheba and eight other small dams rests with the dam owner, the Department of Lands (DoL). State Water continued to manage the surveillance, maintenance and capital upgrade works at these dams under a service agreement with DoL during 2004-05.

The final option for the upgrading of Bethungra Dam was chosen, involving lowering the dam wall by 2.9 metres. This will address the safety, structural, environmental and heritage issues. State Water completed the Review of Environmental Factors and Statement of Heritage Impact Assessment and the development application was submitted to Junee Shire Council.

modified rock ramp fishways – a design first for Australia...

Supervisory Control and Data Acquisition (SCADA) and automation works are now in progress and expected to be completed next year. Design and construction reports and operation and maintenance manuals should be completed by 2006.

Upgrade and decommissioning options were investigated at Moore Creek Dam, with site hydrology reviewed and geotechnical investigations undertaken. Emergency rehabilitation work was also undertaken at Gallymont Dam to repair erosion of the downstream toe of the dam and prevent future undermining of the dam wall foundation. An inspection of the site rehabilitation works at Wellington Dam showed stable conditions.



Sheba Dam, upstream of Chaffey Dam, pictured in July 2004. State Water manages 10 small dams on behalf of the Department of Lands.

Major Periodic Maintenance and River Structures Rehabilitation

Summary of Works Completed

Central Area

Painting was the focus of maintenance work at Wyangala Dam, with the upstream skin plates of the radial gates, the downstream steelwork of the spillway gates and the intake tower gate guides all receiving attention. At Carcoar Dam, the trashracks on the intake works were galvanised and painted and the 30-inch fixed dispersion cone valve was dismantled for repair.

Safer access was provided to the spillway apron at Burrendong Dam and the village access roads were resealed. Stabilising anchors were installed at the foot of the intake tower access bridge at Windamere Dam. The crest road of the dam wall was also resealed. Major rehabilitation works were completed at Bumbuggan Weir this year. These included raising the weir crest by 50cm, adding a two-gated regulator and a vertical slot fishway.

Work started on another fishway at Island Creek Weir, while wetland design works started at Lake Brewster to address water quality issues. Work also continued on the automation of Island Creek Weir, Bulgeraga Creek Regulator Two, Gunningbar Creek Weir and Regulator, Bumbuggan Weir and Duck and Crooked Creek Weirs.

Coastal Area

On the Coast, staff overhauled the discharge valves at Glennies Creek, Glenbawn, Brogo and Toonumbar Dams and refurbished the outlet works at Toonumbar Dam. Work started on the rehabilitation of the discharge channel below Glenbawn Dam and the installation of a vehicle safety kerb on the crest road at Lostock Dam. This year also saw a continuation of work to replace the flood warning system for Glennies Creek Dam.

North Area

Repainting work was the major focus at dams in the North Area. Projects included: the inside of both irrigation penstocks at Keepit Dam; six of Keepit's 12 spillway radial gate arms; the hydro power station trashrack at Copeton Dam; the main penstock and pipework at Pindari Dam's Low Level Outlet chamber; the trashracks at Pindari Dam's high level intake works; and the main bulkhead gate at Split Rock Dam's intake tower. The four-year repainting program for the intake trashracks and baulks at Split Rock Dam also continued.

Repair work was undertaken at Chaffey Dam's intake structure and main conduit and to reseat the access roads to Copeton Dam's outlet works. The guard valves at Chaffey Dam were refurbished and the primary hoist gear for Copeton Dam's spillway gates was overhauled.

The first 10-year and 25-year audits of all gantry cranes at the five dams were carried out in compliance with new Australian Standards this year. After five years of major rehabilitation works, the backlog of major maintenance items should be completed at Split Rock, Chaffey and Pindari Dams by the end of June 2006, and at Keepit and Copeton Dams towards the end of 2007.

Access issues were also addressed at Keepit and Chaffey Dams to meet occupational health and safety requirements and fencing was erected to stop public access around sites at Copeton and Pindari Dams.

South Area

While conditions were favourable, repainting work was undertaken on the four irrigation penstock transition liners at Hume Dam. At Blowering Dam, the first major inspection of the section of conduit between the bulkhead gate and the intake tower was completed since the dam was commissioned in 1968. Occupational health and safety compliance work was also undertaken.

Work started on refurbishing the low level outlet valve at Burrinjuck Dam and on upgrading the SCADA link from the office to the control room.

At Menindee Lakes, a major task was completed to inspect the inlet regulator. This involved de-watering and exposing the downstream apron slab, developing an operational improvement and dam safety compliance program and reporting on the frequency of a maximum design flood.

River Structure work included concrete apron repairs at Beavers Creek and bank stabilisation at both Beavers Creek and Hay Weir. Inlet flow monitoring was developed for Tombullen Storage.

Problems Encountered

The majority of major period maintenance projects were completed in most areas. Some contract works were held up by bad weather on the Coast, where contractors also encountered minor problems with insurance brokers. State Water encountered problems when contractor financial assessments were not returned when requested.

Several painting projects were delayed due to excess condensation and difficulties accessing sites in the Coastal area.

The North Area completed 54 of the 92 scheduled major periodic maintenance projects at the dams. A further 24 are underway. The 92 tasks were mainly backlog maintenance from the 1990s, many of which cost less than \$10,000.

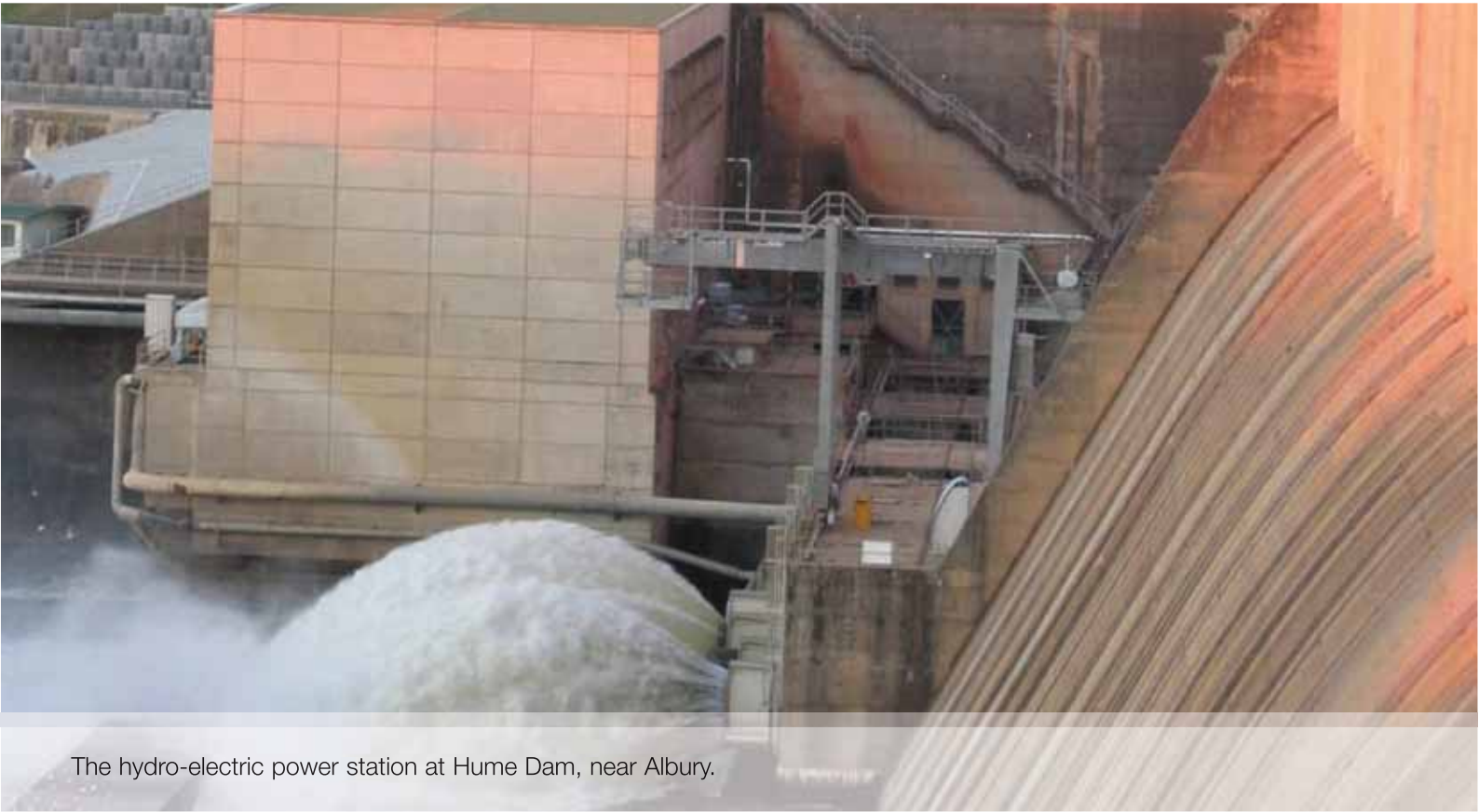
Of the 65 North Area river structures refurbishment projects, 36 were completed and another 13 were underway by the end of June 2005. Work on eight unregulated structures was deferred when they were handed back to DIPNR.

A lack of resources impacted on State Water's ability to complete projects on time in all areas. This included delays when positions became vacant and subsequent difficulties in filling positions for electricians and engineers. There were also problems caused by dam staff on long-term sick leave.

Facilities Maintenance Management System (FMMS)

Implementation of FMMS across the South Area river structures was completed. FMMS now contains data hierarchy of all State Water's major dams and river structure components in the four Customer Service Areas, with the exception of Fish River Water Supply, with that work in progress. The upgrade version of FMMS, version 4.1, was implemented in March 2005. This version has all the capabilities of the earlier version, plus additional functionalities.

Automatic e-mailing functionality in FMMS 4.1 was developed and implemented in-house. This feature automatically reports specified functions such as rescheduling of jobs to the nominated supervisor via an e-mail. The FMMS monthly report to management has been expanded to report on job history, tolerance on outstanding jobs, percentage of scheduled jobs completed, etc.



The hydro-electric power station at Hume Dam, near Albury.

Hydro Power Summary

There are hydro-electric power stations on 10 of State Water's 19 large dam sites, with a potential generation capacity of 248 megawatts of power.

Installation of hydro facilities at Glennies Creek and Windamere Dams was affected by the drought this year. Until dam levels rise, commercial liability provisions restrict the operator from plant installation and commissioning. The hydro station at Wyangala Dam has been unable to operate due to drought conditions for the past two years, with the upgrade completed but still not commissioned.

A private developer has requested a construction licence to install a mini hydro facility at Lostock Dam, with detailed hydro power station feasibility studies currently ongoing at three other locations.

Income to State Water from hydro-electric power generation in 2004-05 totalled \$458,575, including site rentals. Total generation

amounted to 65.4 gigawatt hours, representing a saving in production of 62,100 tonnes of greenhouse gases.

Hydro power is an environmentally beneficial method of power generation, utilising kinetic energy from water discharges that would otherwise be lost. Dissipation of energy through hydro generation minimises the effects of scouring caused by high energy water discharge from dams.

Water is not solely released from storages for the purpose of power generation. All hydro-electric generators operate in association with environmental releases and planned flows to meet customer orders.

Power Station Locations

Dam	Year Installed	Capacity (megawatts)
Blowering	1968	80
Burrendong	1996	19
Burrinjuck	Upgraded 2002	28
Copeton	1995	21
Glenbawn	1994	6
Hume	1957	60
Keepit	1960	6
Pindari	2001	6
Toonumbar	2000	0.1
Wyangala	1991, upgraded 2004	22.5
Total		248.6



Storage Water Quality Coordinator, Bruce Hindmarsh commissioning a pontoon at Chaffey Dam.

SCADA Project Report

State Water Supervisory and Data Acquisition System (SCADA) improves the effectiveness and efficiency of day-to-day water delivery and asset management operations across the state. The benefits of SCADA accrue to water users and the environment, particularly in drought time, through better control of the scarce water that is available for distribution.

In 2004-05 State Water consolidated and developed improvements to the installed SCADA, planned future works and investigated new technologies.

The SCADA network was extended with new projects commissioned, including automated weather stations and water temperature profile systems at Keepit and Chaffey Dams. The inflow and outflow gauges at Keepit and the Copeton Dam spillways were also automated.

SCADA staff continued to modernise the technology and upgrade the system capability with extensive purchase, development and implementation of hardware and software to contemporary standards.

A highlight of 2004-05 was SCADA staff member Michael Parsons winning a NSW Regional Customer Excellence Award for "Best Return on Investment" and being nominated for the National Customer Excellence Awards.

The Total Asset Management Plan (TAMP) Overview

The 2004-05 year saw the culmination of several years of investigation and development and resulted in the publication of the first revision of the preliminary TAMP document. A rigorous process of stakeholder consultation, engineering studies and software development was undertaken to achieve this result.

The TAMP has developed into a series of integrated parts, with the further development of the expenditure planning (EXPLAN) software and the Facilities Maintenance Management System (FMMS) software.

TAMP is a multi-faceted system, involving elements that include heritage and environmental assessments and remediation planning. The Heritage

best return on investment award...

and Conservation Register, Heritage Procedures Manual and heritage protocols for project planning were both developed and enhanced this year. Through this process, State Water is well advanced in achieving compliance with the *Heritage Act 1977*.

The project planning environmental assessment protocols were enhanced this year and a fish passage priority strategy was developed, in consultation with the Department of Primary Industries. This strategy ensures fish passages associated with capital works are constructed at optimal locations.

Skilled and Dedicated People



Lake Cargelligo-based Conservation Field Officer, Tim Trembath at work.

Achievements

Since the 2003 Staff Satisfaction Survey, there has been an increased emphasis on the importance of communication and consultation with staff throughout State Water. In the past year, all areas held regular staff meetings, with the Area managers in attendance. Supervisors have been encouraged to meet with their units once a week and hold a more formal meeting every six weeks to improve workplace change and allow employees to raise issues of concern.

Staff forums and a fortnightly newsletter from the Chief Executive Officer have also served as effective means of ensuring information is passed on to staff and that senior management has an opportunity to hear the concerns of the staff.

- Expressions of interest were called to fill vacancies when staff were on leave, giving staff opportunities to expand their experience and develop career paths.
- New Temporary Storage Officers were accredited, helping provide relief at dam sites and enhance career opportunities.

Organisation Development

The provision of strategic and operational Organisation Development and Human Resource services to State Water and staff changed significantly during the year. The Board Remuneration and Organisation Development Committee was formed to provide oversight and direction to executive remuneration and organisation development strategy. An Organisation Development Group was also formed within the Business Support Group, to provide strategic advice, policy and systems related to people, performance and culture. State Water increased its payroll and personnel resources this year, in preparation for providing these services internally when the new IFMS is implemented in the first quarter of 2005-06.

downward trend in the number of injuries resulting from workplace hazards...

Following are some of the improvements that have helped make the jobs of our staff easier:

- All areas held operations, assets meetings and Customer Service Officer staff meetings for all levels of staff at least three times a year.
- Central and North Areas held end-of-year meetings of all area staff, with the Chief Executive Officer in attendance.
- South Area separated the Assets and Operations groups into specific valley entities (Murray and Murrumbidgee).
- South Area held half-yearly Program Support Officer and Transfer group meetings.
- Staff meetings were consolidated so that issues could be forwarded to the statewide Staff Consultative Steering Committee.
- Water Delivery Forum held in Narrabri in May, with focus on metering, OH&S and the introduction of the *Water Management Act 2000*.
- Asset Forum held in Jindabyne in September, with good interaction with Snowy Hydro.
- Senior Assets Engineers met regularly as a peer group.
- Senior Operations Engineers held regular teleconferences to discuss emerging issues.
- Strategic Asset Services Branch changed its role to internal service provider of technical asset and project management skills emphasised to staff.

The Board and Management Team redefined the Corporation's people strategy through the strategic planning process and identified the building of a skilled and dedicated team as a critical success factor for the commercial success of State Water.

Development strategies for 2005-06 will focus on:

1. Developing a commercial culture;
2. Encouraging staff commitment;
3. Succession planning;
4. Clearly articulating employment conditions; and
5. Collectively developing and working in a safe and healthy work environment.

A strong focus has been applied to ensuring a smooth transition for staff from the Public Service to the commercially successful State Owned Corporation. Staff transfers to State Water Corporation were managed to ensure appropriate conditions of employment were provided and entitlements carried forward. Consultation and communication processes were intensified to minimise any potential negative impacts of corporatisation and to ensure valuable staff feedback was incorporated into the change process.

A new senior management structure was established and all positions were advertised nationally to ensure the best people were recruited to lead State Water. Each member of the Senior Management team was appointed on a performance-based Employment Agreement. These agreements were developed to ensure a robust, commercial and performance-oriented employment foundation was established.

Staff resources and structures were reviewed following the appointment of the senior management team. Human resource needs have been analysed and positions designed or redesigned, evaluated and marketed internally and externally to attract and retain quality staff to deliver the Corporation's strategies.

Staffing Report

Number of Employees

Area	Location	TOTAL	
North Area	Goondiwindi	2	
	Moree	10	
	Narrabri	7	
	Tamworth	5	
	Chaffey Dam	5	
	Copeton Dam	9	
	Keepit Dam	7	
	Pindari Dam	3	
	Split Rock Dam	4	
	Total North Area		52
South Area	Albury	1	
	Balranald	2	
	Buronga	2	
	Deniliquin (inc Wakool)	9	
	Hay	3	
	Leeton	19	
	Blowering Dam	5	
	Burrinjuck Dam	9	
	Hume Dam	17	
	Wentworth	3	
	Euston	3	
	Menindee Lakes	12	
	Total South Area		85
Central Area	Condobolin	1	
	Bathurst	1	
	Cowra	1	
	Dubbo	10	
	Forbes	6	
	Hillston	1	
	Warren	6	
	Lake Cargelligo	5	
	Burrendong Dam	5	
	Carcoar Dam	3	
	Wallerawang	13	
	Windamere Dam	4	
	Wyangala Dam	8	
	Total Central Area		64
	Coastal Area	Maitland	2
Muswellbrook		4	
Brogo Dam		3	
Glenbawn Dam		5	
Glennies Creek Dam		5	
Lstock Dam		4	
Toonumbar Dam		4	
Total Coastal Area		27	
Risk Management	Parramatta	18	
Information & Operations	Dubbo	4	
	Parramatta	6	
Strategic Asset Services	Parramatta	28	
Corporate Services	Dubbo	30	
	Parramatta	6	
TOTAL 2004-05*		320	
TOTAL 2003-04		253	
TOTAL 2002-03		263	
TOTAL 2001-02		257	

* Actual staff numbers, including contractors and temporary staff. Effective full time number was 287.13.

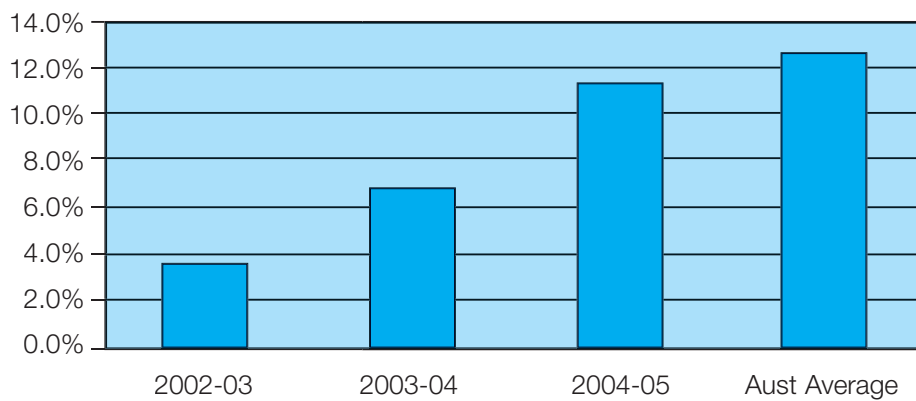
Staff numbers increased during 2004-05 to provide internal services previously provided under contract or by DIPNR and to address resource constraints imposed by previous host agencies.



Central Area SCADA Administrator, Michael Parsons and Warren-based Operations Officer, Brian Robertson at Warren Weir.

Staff Turnover

Over the past three financial years, staff turnover has increased. This is mainly due to increases in staff numbers, as opposed to departures. State Water is below the current Australian Average for staff turnover.



Sick Leave

Sick leave has also slowly increased in the past three years to just over four days per effective full-time staff member per year.

Year	Sick Days	EFT	Ratio
2002-03	980	262.7	3.73
2003-04	970	253	3.83
2004-05	1195.7	287.13	4.16

Occupational Health and Safety (OH&S)

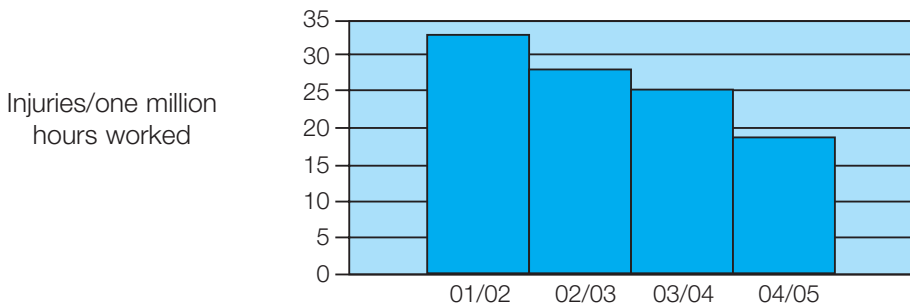
State Water formed an OH&S Review Committee this year. This committee focussed on abselling and confined spaces procedures and OH&S documentation. Area OH&S Committees also conducted regular inspections, using checklists to ensure each work site complied with current legislation.

With improved OH&S measurement and reporting, management and employees have been able to make better decisions. Next year, performance will be benchmarked with like organisations within the sector.

There were no breaches of OH&S requirements during 2004-05.

There has been a downward trend in the number of injuries resulting from workplace hazards over the past four years, as shown below. The Lost Time Injury Frequency Rate (number of lost time injuries per million hours worked) has fallen by 30% since 2001. There has been a reduction in the length of each injury resulting from exposure to workplace hazards.

Lost Time Injuries Resulting from Workplace Hazards (Frequency Rate)



During 2004-05 there were four injuries: two sprains and two back injuries relating to manual handling. State Water aims to reduce the frequency of such injuries through policy improvements and relevant training.

Clearly Articulated Employment Conditions

Management, employees and workplace unions continued to work effectively to resolve issues, clarify employment conditions and improve the performance of State Water. The focus following Corporatisation has been on:

1. Recruitment and Selection;
2. Job Evaluation and Remuneration Management; and
3. Award Development.

Personnel Policies and Practices

All State Water's existing policies and practices were preserved as at 1 July 2004 to allow the Corporation to continue effective operations. Various policies have been reviewed and redrafted to reflect State Water's structure and culture as a State Owned Corporation and relevant legislation. Consultation with staff has begun in many areas, with a new Motor Vehicle Policy implemented this year.

Communication and Consultation

The Joint Consultative Committee (JCC) and Staff Consultation Steering Committee (SCSC) continued to provide valuable input to a range of organisational issues and initiatives and improve communication throughout State Water.

An OH&S review committee was established to enhance consultation provided by area OH&S committees and to evaluate, improve and develop OH&S systems.

Self-auditing was conducted via workplace inspections and there were no third party audits conducted during the year.

Learning and Development

The Storages Staff Training and Accreditation Workbook was enhanced during the year and used for training and accreditation. The workbook ensures employees are trained and accredited systematically, improving the management and operation of storages.

The Communication and Personal Development Program was integrated into the overall Organisation Development strategy and a new on-line platform was chosen to optimise delivery of the program, while minimising administrative complexity and resources. The program will enable seamless alignment of strategic objectives and organisational values with personal planning and development. The program and on-line platform will be piloted and refined next year.

State Water continues to promote the personal and professional development of its employees. A number of training programs were conducted during the year, at a cost of \$133,465. Some of the major training areas were in OH&S, including first aid, confined spaces and manual handling and OH&S General Induction for Construction Work in NSW. Other development opportunities included the Fourth Annual Australian Wind Energy Conference and Hydraulic Systems: Operation and troubleshooting. State Water continues to provide on-the-job learning via training in new processes and procedures, induction and relief opportunities.



Officer in Charge, Geoff Scott and Assistant Officer in Charge, Ken Yates on the water at Split Rock Dam.

State Water also provided assistance for some senior managers applying for roles in the new Corporation and training for the Board of Directors, to outline their roles and responsibilities as Directors of State Water Corporation.

Miscellaneous training costs included traffic control, licence testing (including crane and front end loader licences), chemical certification, Freedom of Information training and safe use of excavators, backhoes and chainsaws.

Additional training courses, not accounted for in this expenditure, were held in some areas, as well as flood operations training and induction training for all new staff. Sessions were also held during specific staff forums to update staff on changing practices and procedures throughout the organisation.

An important element of State Water's 2005-06 succession strategy will be a program to support graduates and other students by providing financial assistance and work experience. In 2004-05, eight members of staff were granted a total of 70.5 days of study leave.

Training 2004-05

Type of Course	Expenditure \$
Financial management	692
First aid	3,253
Introduction for Board of Directors	16,395
Personal development	4,710
Project management	24,060
OH&S	48,133
Survey training (university fees)	2,513
Miscellaneous	33,709
Total	133,465

Profitable Business Growth



The dam wall at Oberon Dam.



Achievements

During 2004-05, State Water identified opportunities for dam surveillance monitoring of privately owned dams, with one proposal submitted and another accepted. State Water also established the Water Information Exchange project, with the development of a discussion paper, website and supporting material. An agreement was also entered into with the Sydney Futures Exchange. While this project is still in its infancy, it could provide an income stream for State Water.

Bulk Water Pricing Submission

In September 2004, IPART published an Issues Paper on Bulk Water Prices. Since then, State Water Corporation has lodged the following documents with IPART:

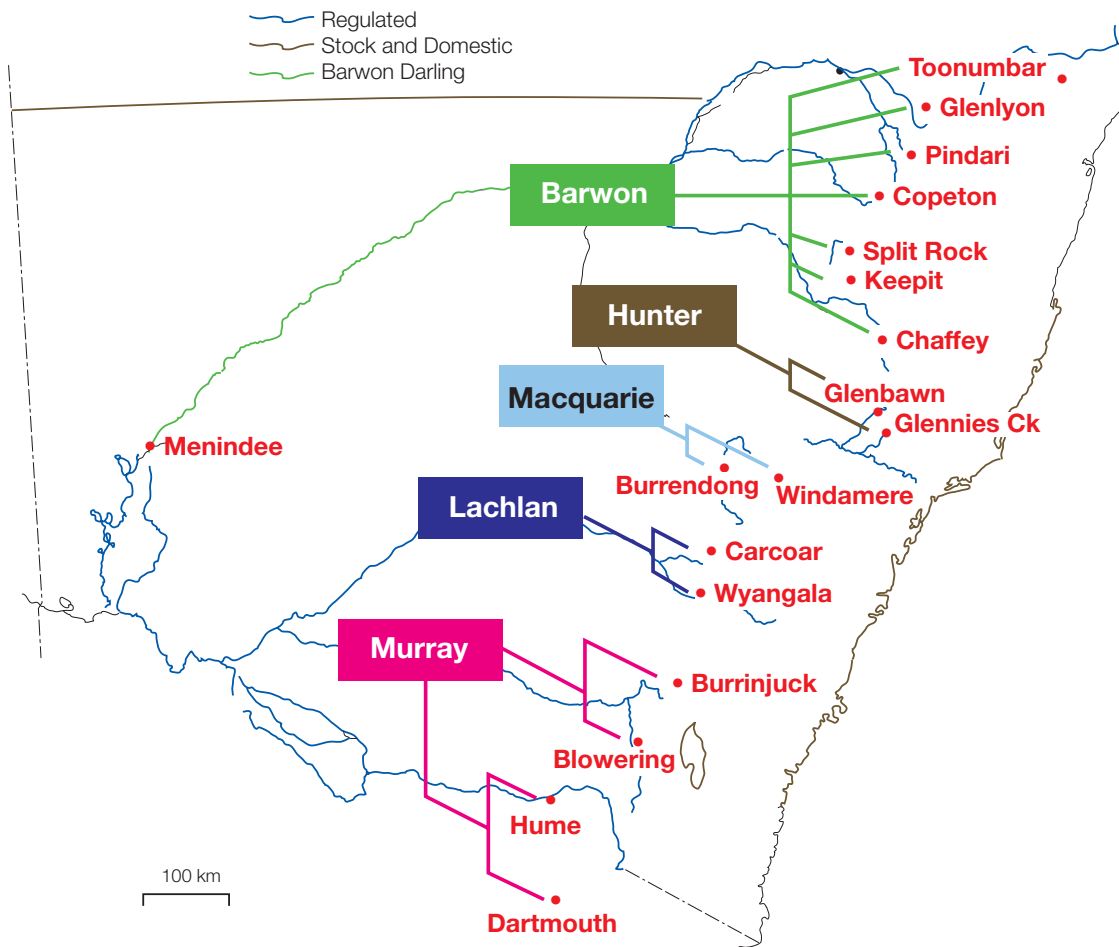
- a bulk water pricing submission in October 2004;
 - a response to the Marsden Jacobs Associates and Cardno MBK draft report in March 2005; and
 - a supplementary bulk water pricing submission in April 2005.
- At 30 June 2005, IPART had not handed down a pricing determination.

Sydney Futures Project

This year State Water worked with the Sydney Futures Exchange (SFE) to develop a range of world-first water index products. The proposed agreement would see State Water provide information to the SFE for a return from futures contracts listed by the SFE.

The project is exploring the possibility of publishing a number of indexes that simplify the description of how much water is in our dams and storages. SFE State Water Indexes have been proposed for Barwon, Macquarie, Lachlan, Murray and Hunter. However, there are a wide range of options for calculating and grouping other indexes.

State Water worked with the Sydney Futures Exchange to develop a range of world first water index products...





L to R: Ross Barrie, Manager Asset Services; Dennis Humphries, Gwydir Valley Customer Service Officer; Jubrahil Khan, North Area Customer Service Manager; and Duncan Wilson, Assistant Officer in Charge at Copeton Dam, during an inspection of the Copeton Dam spillway gates from the spillway hoist deck.

The storage levels in our dams rise and fall with the weather and are affected by weather patterns both upstream and downstream. The weather on the catchment upstream affects the inflows, so the dam acts like a big rain gauge for that catchment. The weather downstream of the dam also affects its levels through the water supply demands placed on the dam.

The proposed indexes could be used by SFE as the basis for a weather derivative financial product. These futures contracts would provide economic infrastructure to allow capital markets to hedge their exposure to water availability. Other financial products could also develop on the basis of the SFE State Water Indexes.

There are other potential users of these indexes, including the media, government, land managers and any business that is affected by the weather and water availability. A discussion paper, internet web-site and supporting material were prepared for the launch of the SFE State Water indexes in July 2005.

Fish River Water Supply

In 2004-05 State Water assumed responsibility for the Operation, Maintenance and Administration of the Fish River Water Supply (FRWS). The assets of the scheme were vested to State Water on 1 January 2005, while the staff transferred from the NSW Department of Commerce to State Water on 23 September 2004. FRWS supplies both bulk treated and chlorinated raw water to the following customers;

- Delta Electricity for use at their Mt Piper and Wallerawang Power stations;
- The Sydney Catchment Authority for use in the upper Blue Mountains;

- Oberon Council for town and industrial water supply; and
- Lithgow City Council for village and town supply.

In addition, there are approximately 240 minor consumers directly connected to the scheme's pipework. The scheme's main water supply is Oberon Dam, which has a capacity of 45,400ML. A supplementary water source is the Duckmaloi Weir, with a capacity of 20ML. The scheme has more than 236km of pipework, including an off creek storage dam at Rydal, with a capacity of 370ML and numerous other water pumping stations and reservoirs.

As part of the Drought Management Plan and the overall strategic direction for FRWS to increase and diversify its water resources, the scheme identified the Clarence Colliery mine as a potential source of water reuse. A Review of Environmental Factors was completed this year, together with 90% of the detailed design work. The estimated cost of the project is \$5.1 million. In order for the project to progress, the necessary water licence approvals have been sought from DIPNR and formal agreements for sale of the water.



Pamamaroo inlet regulator at Menindee Lakes storages.

Enhanced Riverine Environment



This modified rock ramp fishway is part of the innovative design work completed for the Macquarie Weirs upgrade and features at both Duck Creek and Crooked Creek.



Achievements

Central Area

- In a major initiative being developed jointly by State Water and the Lachlan Catchment Management Authority, a wetland management plan has been developed for Lake Brewster to address water quality issues.
- A willow removal program was undertaken in the mid-Lachlan to reduce riverbank erosion.
- Staff were involved in the physical modelling of a floating curtain at Burrendong Dam around the intake tower to determine its feasibility to improve water quality.
- Windamere Dam's multi-level offtake operated to minimise releases of blue-green algae into the Cudgegong River.
- State Water built fishways at Warren and Gunningbar Weirs and at Duck and Crooked Creek regulators, re-establishing 403km of riverine passage. Monitoring of fish movements to date suggests good results, with several endangered and threatened species using the fishways.

new fishways re-established 403km of riverine passage...

- Construction of Bumbuggan Weir Fishway opened up 107km of waterways in the Lachlan catchment, allowing the movement of threatened silver perch and endangered Murray cod.
- Bulk water transfer protocols were developed to ensure transfers between Windamere and Burrendong Dams provided optimal benefits to the environment. Water was transferred in August and September, in accordance with these protocols.

Coastal Area

- Following the Coastal weir review, staff have completed initial assessments of all weirs on the coast to determine their future operations and viability.

North Area

- State Water delivered supplementary environmental flows in accordance with the Gwydir Water Sharing Plan in September, November and December.

- Substantial rain in December triggered a bird-breeding event in the Gwydir Wetlands. This resulted in approximately 20,000 birds flocking to the wetlands. A planned Environmental Contingency Allowance was released from Copeton Dam to sustain the bird-breeding event.
- Pindari Dam environmental releases were made in accordance with the Environmental Impact Statement rules, with two stimulus flows released in July and October.
- State Water successfully managed supplementary flows in December by ensuring that the environmental share of the surplus water was preserved, in accordance with the Namoi Water Sharing Plan.
- Multi level off-takes were operated at Split Rock, Chaffey and Pindari Dams, with trash-rack positioning determined by State Water's Water Quality Officer.
- Environmental releases from Keepit Dam maintained end-of-system flows at Walgett, where the river had been dry for almost two months.

South Area

- Staff began to develop Bank Erosion Remedial Works design proposals for Wentworth Weir.
- A program of willow removal and rock placement was completed at Berembed Weir.
- Data was collected from data loggers set up at Berembed and Yanco weirs on the Murrumbidgee River. This data has assisted

the Fisheries Research and Development Corporation develop an ecological approach to re-establishing Australian freshwater cod populations.

- The fishway modification work at Euston Weir was completed and is in operation.
- Input has been sought to develop an equitable sharing arrangement for the use of surplus Lowbidgee flows to protect the most significant wetland area in the Murrumbidgee Valley.

During the year, State Water staff also contributed to the DIPNR Water Sharing Plan Implementation Manuals. The drafting of these manuals allowed State Water operators and DIPNR staff to discuss environmental outcomes and operational practicalities.

Environmental Management Plan

State Water Corporation is required to have an Environmental Management Plan approved by the Minister and published by November 2005. The Corporation is already conducting its operations consistent with many of the strategies identified in the draft plan. When finalised and approved by the Minister, the plan will address all of the matters required by the Corporation's Operating Licence.

Supportive Stakeholders



L to R: Russell Sainsbury, Assistant Officer in Charge at Keepit Dam; Jubrahil Khan, North Area Customer Service Manager; and Richard Warner of IPART during a tour of Keepit Dam.

Achievements

In its new role as a State Owned Corporation, State Water made a concerted effort to work closely with its stakeholders, particularly with the development of Memoranda of Understanding (MoU) with various Government agencies, in keeping with the requirements of the Interim Operating Licence.

Other projects undertaken in collaboration with stakeholders included the development of bulk water transfer protocols for the Cudgegong Valley and for releases from Copeton and Keepit Dams to achieve water delivery efficiency in drought conditions.

State Water made a concerted effort to work closely with its stakeholders...

State Water also reached agreement with the Department of Primary Industries on monitoring of newly constructed fishways. An inter-agency meeting was convened to discuss dredging of North Marsh Bypass Channel and State Water accepted as technical advisor to the Macquarie Cudgegong Environmental Flows Reference Group.

Tours and Briefings for Stakeholders

IPART Tours	Leeton and Murrumbidgee, August Macquarie Valley and Burrendong Dam, September Peel Valley and Tamworth, October
Treasury Tour	Wyangala, Carcoar and Burrendong Dams, March
DIPNR Director-General	Burrendong Dam, March

Memoranda of Understanding

Under the Initial Operating Licence, State Water is required to enter into Memoranda of Understanding (MoU) with the Departments of Conservation; Primary Industries; and Infrastructure, Planning and Natural Resources.

The purpose of an MoU is to form the basis for co-operative relationships between the parties involved. As at 30 June 2005 the following MoU were in draft form and the date for completion was renegotiated with IPART to 1 October 2005.

Memoranda of Understanding

1. State Water Corporation and the Department of Environment & Conservation (DEC)

The MoU with DEC will recognise DEC's role 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.

A meeting was held with DEC to discuss issues for inclusion, with both parties keen for a proactive document that allowed a cooperative relationship to be formed without burdening either organisation.

DEC has drafted an initial document, which State Water is currently reviewing. It is anticipated that a revised document incorporating any DEC amendments will be collated by 27 July 2005. This will be reviewed by the Management Team and then forwarded to the Board for consideration.

2. State Water Corporation and the Department of Primary Industries (DPI)

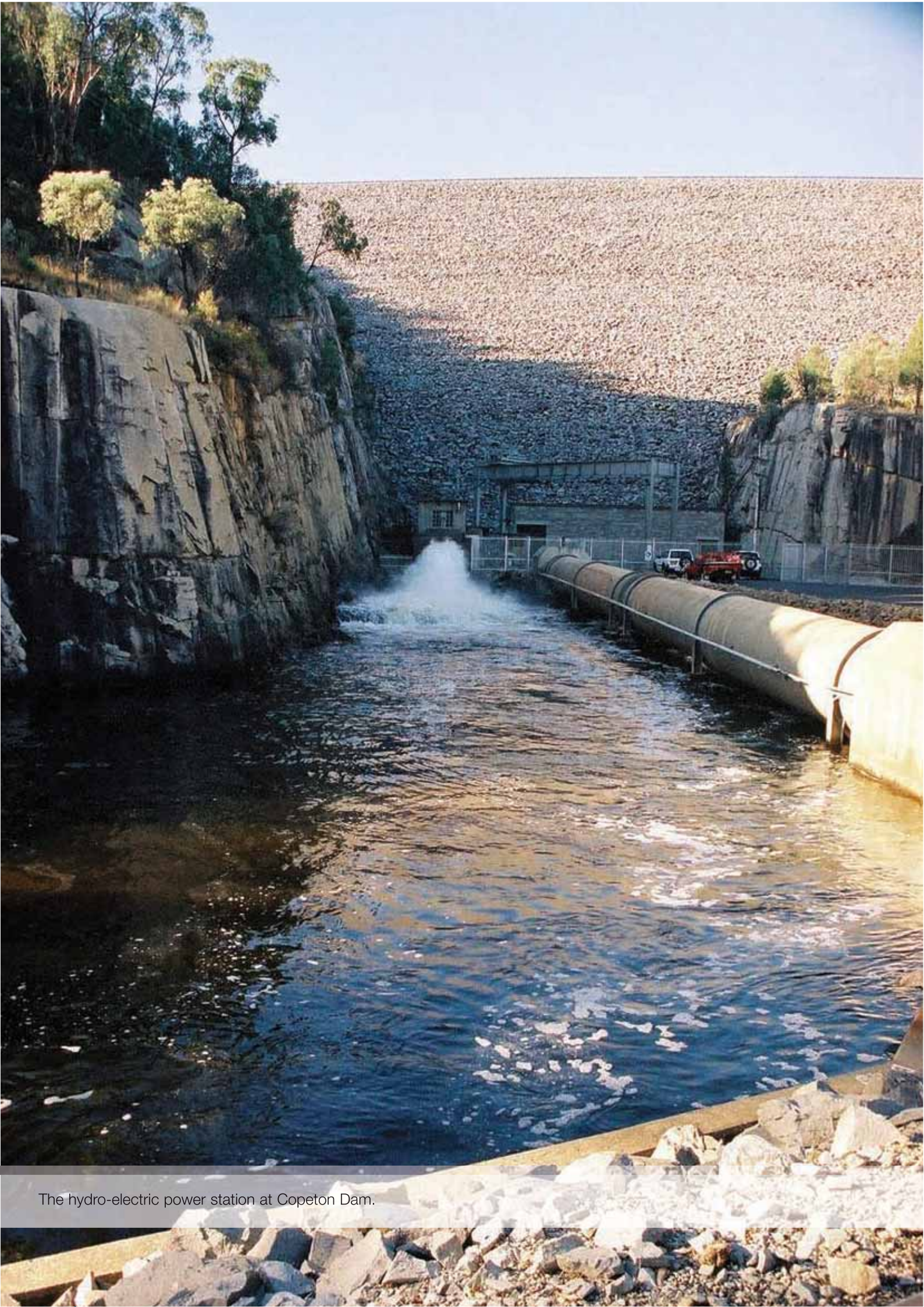
The MoU with DPI will recognise DPI's role as the agency responsible for fisheries management in NSW and address aquatic habitat and fish passage impacts of State Water's operations and information sharing arrangements.

A meeting was held with DPI in June to discuss the issues for inclusion and the draft content is nearing completion. Once agreed by both parties, the MoU will be forwarded to the Board for consideration.

3. State Water Corporation and Department of Infrastructure, Planning and Natural Resources (DIPNR)

This MoU will recognise DIPNR's role in regulating water access, use and management and State Water's role in delivering water and managing assets. It will address the coordination of functions and associated responsibilities between DIPNR and State Water, including arrangements in relation to information sharing and the making and announcements of available water determinations and controlled flows.

The content of the MoU is still under discussion with DIPNR. The major areas, which might normally be covered by a MoU, are already prescribed in various other instruments, including the Water Sharing Plans, the Water Management Works Approval, the State Water Operating Licence and the Environmental Management Plan. The allocation of some assets is also still under discussion, including such items as hydrometric services, water quality programs, cold water pollution mitigation requirements, etc.



The hydro-electric power station at Copeton Dam.

Other MoU not required by the Initial Operating Licence are also being developed:

• **NSW Irrigators' Council (NSWIC)**

A draft MoU has been prepared in consultation with NSWIC. Where appropriate, the parties to this MoU will establish formal project relationships to:

- Facilitate and enhance industry understanding of new processes and information exchange;
- Articulate the value of and promote the dissemination of research outcomes;
- Identify and promote new or improved technology options associated with more efficient and effective water use;
- Identify new or expanded research priorities;
- Prepare joint submissions to governments and other authorities on strategic water management issues;
- Promote alternative production and market options and systems;
- Stimulate uptake of environmental management and environmental services options; and
- Encourage early adoption by industry of technology, products and services.

When the MoU is finalised and signed, it will form a three-year agreement.

• **Department of Lands (DoL)**

An MoU with DoL has not yet been drafted. However, a number of service agreements between State Water and DoL are in effect:

- General Service Agreements for 2005-06 surveillance and maintenance of all DoL small dams: both prepared and with DoL for acceptance and signature;
- Specific Project Management Service Agreements for Bethungra, Moore Creek, Gallymont and Junction Reefs Dams have been accepted and signed by DoL;
- Specific Service Agreement to develop, update and issue Dams Safety Emergency Plans for Bethungra, Junction Reefs, Moore Creek and West Gosford One and Two Dams and test and update Bethungra early warning system: accepted and signed by DoL;
- State Water is waiting on a proposal from DoL for foreshore land management.

• **Department of Commerce (DoC)**

A draft MoU with DoC was prepared during 2004 and was agreed to in principle. Given the developing circumstances of State Water as a result of corporatisation, and in recognition of skill shortages in both State Water and DoC, it was agreed not to proceed with this MoU. Future options for an MoU are being considered.

• **Hunter Salinity Trading Scheme**

State Water is contracted to DIPNR to maintain and operate the Salinity Trading Scheme model and to produce the River Register and publish it on the internet. The River Register contains information such as Total Allowable Discharge (the amount of salt the river can absorb without exceeding limits) and start and finish times for the mines to discharge their salt-laden water.

• **Barnard Trial**

State Water has contracted DIPNR hydrographers to carry out gaugings on the Hunter River, above Glenbawn Dam. The aim of the trial is to ascertain losses when Macquarie Generation pumps from the Barnard River Catchment into the Hunter River Catchment, to store water in Glenbawn Dam. Gaugings are carried out under wet, average and dry conditions. This trial will help State Water determine how the level of losses in water reaching Macquarie Generation's pumps at Jerrys Plains.

Statement of Corporate Intent

State Water Corporation prepared its first Statement of Corporate Intent for the 2004-05 year. The NSW Treasurer, State Water Corporation's Chairman and Acting Chief Executive Officer signed this document on 2 December 2004. The Statement of Corporate Intent included the Preliminary Corporate Plan, which was developed by the Board soon after appointment.

The Statement of Corporate Intent outlines reporting requirements to Treasury and the Voting Shareholders. The following reports were submitted on time:

- September quarter financial report;
- Half yearly report, in accordance with the *State Owned Corporations Act 1989*;
- Forecast financial statements requested by Treasury via Treasury Online Electronic System;
- Budget round forecasts.

Corporate Governance



Testing the winch cable at Blowering Dam, on the Tumut River.



The information in this section of the report has been prepared to meet State Water's statutory reporting obligations, particularly under the *Annual Reports (Statutory Bodies) Act 1984*. It is provided in accordance with the annual reporting requirements published by Treasury.

Establishment

State Water Corporation is a statutory State Owned Corporation (SOC) under the *State Owned Corporations Act 1989*, established by the *State Water Corporation Act 2004*. Under this Act, the principal objectives of State Water Corporation are:

1. To capture, store and release water in an efficient, safe and financially responsible manner.
2. The other objectives of the organisation are:
 - (a) to be a successful business and, to that end:
 - i. to operate at least as efficiently as any comparable business, and
 - ii. to maximise the net worth of the State's investment in the Corporation,
 - (b) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates,
 - (c) where its activities affect the government, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the Protection of the Environment Administration Act 1991,
 - (d) to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.
3. The other objectives of the Corporation are of equal importance, but are not as important as the principal objectives of the Corporation.

Shareholders

In accordance with the provisions of the *State Water Corporation Act 2004*, State Water Corporation has two shareholders, each

holding one share of \$1.00. The shareholders are the New South Wales Treasurer and the New South Wales Special Minister of State.

With the retirement of The Hon Michael Egan, MLC, his share was transferred to the new Treasurer, The Hon Andrew Refshauge, MP, on 15 February 2005.

Functions

The principal functions of the Corporation are as follows:

- (a) to capture and store water and to release water:
 - i. to persons entitled to take water, including release to regional towns, and
 - ii. for the purposes of flood management, and
 - iii. for any other lawful purpose, including the release of environmental water,
- (b) to construct, maintain and operate water management works,
- (c) any other functions conferred or imposed on it by the operating licence or by or under this or any other Act or law.

Clientele/Community Served

State Water delivers water to irrigation corporations, country town water supply authorities, farms, mines and electricity generators, by releasing flows from its dams into rivers to be accessed by water users. It also provides water for stock and domestic users and is responsible for delivering environmental flows on regulated rivers.

State Water's core water delivery business provides services to about 6,000 customers who purchase water sourced from regulated rivers. These services include the operation of its assets to deliver allocated water from storages, metering and commercial services. The operation of these assets enables the delivery of about 5,500GL of bulk water per year to water users and the environment in the 14 regulated river systems, along 7,000km of river.

Directors

The *State Water Corporation Act 2004* provides that the Board consists of:

- Not fewer than three and not more than eight Directors appointed by the voting shareholders. The voting shareholders are to consult with the Portfolio Minister on the persons recommended for appointment as Directors.
- The person for the time being holding office as Chief Executive Officer of the Corporation is to be a Director of the Board.
- Of the Directors, one is to be a person who is selected from a panel of three persons nominated by the Labour Council of NSW by a selection committee consisting of two persons nominated by the voting shareholders and two persons nominated by the Labor Council.

The voting shareholders appointed six independent Directors to the Board of the State Water Corporation, for fixed-period, renewable terms, as detailed below.

Interim Board: 1 July 2004 – 30 September 2004

Tony Wright (Chairman), Michael Bennett, Kathryn Ridge, Abel Immaraj (Director and CEO)

Initial Board: 1 October 2004 – 30 September 2007

Tony Wright (Chairman), Michael Bennett, Kathryn Ridge, Kathleen Bowmer, Edward Woodley, Graham J Ebbett, Abel Immaraj (Director and CEO)

The Board is accountable to the voting shareholders in the manner set out in the *State Owned Corporations Act 1989* and in the State Water Constitution.

Board Committees and Meetings

Board Committees

The Board has formed a number of committees to address certain matters in close detail and to make recommendations to the Board. The committees have delegated authority as specified in their respective Terms of Reference.

Governance Committees

Audit and Compliance Committee

Graham Ebbett (Chair), Abel Immaraj, Kathy Ridge

The purpose of the Audit and Compliance Committee is to:

- Ensure that an effective internal control framework exists
- Approve and review the annual audit program
- Review financial statements, financial reports and annual report(s)
- Review audit report(s)
- Review the performance of the internal auditors
- Review and monitor the effectiveness of management systems designed to ensure compliance with legal requirements
- Review compliance with applicable accounting standards
- Review compliance with the OH&S Act and Regulations
- Monitor statutory compliance with various regulators of the Corporation including Dams Safety Committee, DIPNR (water supply works approvals), IPART (interim operating licence and bulk water pricing determination).

Risk Management Committee

Ted Woodley (Chair), Michael Bennett, Abel Immaraj

The purpose of the Risk Management Committee is to:

- Ensure that an effective risk management framework exists to manage and mitigate risk in an innovative manner.
- Review risk management strategies.
- Ensure that adequate policies and procedures have been designed and implemented to manage all identified risks.
- Review audit reports on compliance with risk management policies.
- Review internal control systems and the operational effectiveness of policies and procedures relating to risk.
- Monitor the investigations of alleged breaches of policy.
- Monitor the ten most significant risks and regularly review the actions taken to manage these risks.

Remuneration and Organisation Development Committee

Tony Wright (Chair), Kathleen Bowmer, Abel Immaraj

The purpose of the Committee is to:

- Assist the Board to determine and oversee the Board's people and remuneration strategy and policy.
- Assist the Board to determine parameters for and oversee the Chief Executive Officer and contract staff remuneration, recruitment and development policy and practice.
- Oversee State Water's organisation development policy and practice to ensure seamless implementation of corporate strategy throughout the organisation.
- Assist the Board in meeting regulatory reporting and stakeholder reporting requirements.
- Review and monitor the effectiveness of management systems designed to ensure compliance with policy requirements

Special Interest Committees

Water Efficiency and Innovation Committee

Kathy Ridge (Chair), Dan Berry (representing Abel Immaraj), Kathleen Bowmer, Graham Ebbett

The Terms of Reference for this Committee are yet to be finalised and approved by the Board, however the proposed purpose of the Committee is to:

- Identify projects that may improve State Water's water use efficiency in terms of both quantity and quality.
- Ensure State Water's operations and asset systems identify and implement continuous improvement for water use efficiency.
- Ensure proposed actions to increase water use efficiency undergo assessment of the environmental, social and economic cost/benefits prior to implementation.
- Develop recommendations for modifications to the regulatory framework that will improve water use efficiency.
- Identify opportunities to partner with public and private interests to maximise the environmental, social and economic cost benefits of actions to increase water use efficiency of State Water's operations.

This Committee did not meet during the 2004-05 Financial Year.



Board members overlooking Oberon Dam, L to R: Abel Immaraj, Ted Woodley, Tony Wright, Michael Bennett, Kathleen Bowmer, Kathy Ridge. Absent: Graham Ebbett

Marketing and Customer Relations Committee

Michael Bennett (Chair), Abel Immaraj, Ted Woodley, Tony Wright

The purpose of this Committee is to assist the Board in setting the strategic policy and direction for State Water's approach to marketing and customer relations.

The Terms of Reference for this Committee are to set strategic direction to position State Water Corporation as Australia's most effective water business through raising awareness and recognition of staff innovation, best practice operations, expertise and leading edge activities with customers, the community and stakeholders.

The Board Committee will address: Communication Strategies – both internal and external; Corporate Image and Style Policies; Customer and Stakeholder Relations Strategies; and Promotions and Marketing Strategies.

New Business Development Committee

The focus of this Committee is to discuss expanding the existing core business areas and exploring other growth opportunities for developing the business.

All Board members are members of this Committee. The Committee did not meet during 2004-05 and the Terms of Reference have not yet been drafted.

Ad Hoc Committee

IPART Committee

This Committee was established to oversee the preparation of current and future IPART Submissions, and meets on an ad hoc basis, as required. They met once in the 2004-05 year. The membership of this Committee consists of Abel Immaraj (Convenor), Mike Bennett and Kathy Ridge.

Directors' Attendance at Meetings

Board Member	Board Meetings		Committee Meetings*	
	Eligible	Attended	Eligible	Attended
Tony Wright	13	13	2	2
Kathleen Bowmer	9	8	2	2
Kathy Ridge	13	11	1	1
Ted Woodley	9	8	1	1
Michael Bennett	13	13	1	1
Graham Ebbett	7	7	1	1
Abel Immaraj	13	13	3	2

* Governance Committees only

Directors' Interests

Directors are required to disclose any material contract or relationship with State Water Corporation and to disclose all companies or other organisations with which they are professionally involved. The Company Secretary maintains details of Director's interests in a register that is available at every Board meeting. The Constitution provides procedures to be followed in the event of a conflict or a perceived conflict arising between a director's interest and a matter before the Board.

Directors' Remuneration

Directors' remuneration is determined by the NSW Government and is currently in the form of a cash stipend without 'at risk' elements, but including nine per cent superannuation contributions. State Water makes payments to the Directors in accordance with these directions through its payroll system. Out-of-pocket expenses related to attendance at meetings are reimbursed.

Indemnities

Under the *State Owned Corporations Act 1989*, State Owned Corporations are able to indemnify their directors and officers against certain liabilities incurred in the course of their employment. The indemnity cannot be issued without the approval of the voting shareholders.

Currently, all State Water Corporation Directors have been issued with a Deed of Indemnity in the form approved by the shareholders. Application has been made for approval to issue Deeds of Indemnity to the Chief Executive Officer and other officers of the Corporation fitting the criteria detailed in Treasury Policy TPP03-6.

The Deed of Indemnity provides cover against the following types of liability:

- Civil liability, but only if such liability is, or was, incurred by the indemnified party in his or her capacity as an officer acting in good faith;
- Costs and expenses incurred by the indemnified party in defending proceedings, whether civil or criminal, in which judgement is, or was, given in favour of the indemnified party, or in which the indemnified party is, or was, acquitted;
- Costs and expenses in connection with any application in relation to a proceeding in which a court grants or granted relief to the indemnified party.

State Water Corporation also purchases insurance cover for Directors' and officers' liability, professional indemnity and employment practices.

Insurance

State Water has policies under the Treasury Managed Fund, providing unlimited cover for the following insurable risks:

- workers' compensation, as per NSW statute;
- comprehensive motor vehicle;
- property (full replacement, new for old, including consequential loss);
- liability, including but not limited to public liability, products liability, professional indemnity and directors/officers liability;
- miscellaneous, notably personal accident and protection for overseas travellers.

The only exposures not included are: illegal operations; wear, tear and inherent vice; and pollution (other than sudden and accidental pollution).

The fund is protected by a wide-ranging reinsurance program that reimburses losses above a pre-determined retention figure. For general liability that amount is \$25 million and for workers' compensation and property it is \$20 million.

Delegations to Management

On 4 August 2004, the Board approved a State Water Authorisations Manual which contains the delegation limits for the Chief Executive Officer and staff. This is a comprehensive manual covering a wide range of functions and defining the delegations for relevant staff.

Standard functions requiring delegations beyond the Authorisations Manual limits which are included in the budget, (such as payment of insurance premiums), have been delegated to the Chief Executive Officer.

Code of Conduct

From 1 July 2004, State Water carried forward the philosophy and guidelines of the Department of Energy, Utilities and Sustainability's (DEUS) Code of Conduct into State Water Corporation. Conduct and ethical standards were incorporated into executive employment contracts. During 2005-06, State Water will develop a new Code of Conduct.

State Water investigated breaches of the Code of Conduct on two occasions this year. One instance resulted in disciplinary action and the other is ongoing.

Equal Opportunities

After Corporatisation, State Water continued to operate under principles of the policies and procedures of the Department of Energy, Utilities and Sustainability relating to the Government's Ethnic Affairs Policy Statement, Equal Employment Opportunity (EEO), disability and women. These programs will be reviewed during the coming year.

During the year a cultural change program was developed, based on the implementation of: organisational and personal values; leadership capability; and performance management. The program will be implemented during 2005-06 and will establish the foundation for the

leadership and behaviours that underpin equal opportunity programs. Involving all staff in the development of the organisational values in particular will set the expectations for day to day behaviour and ensure the program starts with maximum commitment. The values will then be incorporated into new equal opportunity plans, policies and procedures, and the Code of Conduct in 2005-06.

Consultation with Aboriginal communities improved during the year with the inclusion of Aboriginal representatives on the Keepit and Chaffey Dam Community Reference Panels. At Menindee Lakes, staff developed a very good working relationship with the local Aboriginal community and respect of Aboriginal culture by:

- Developing an excellent knowledge of all local burial and artefact sites and being particularly mindful of their significance when planning any works;
- Advising local Aboriginal Elders of any proposed works;
- Visiting the site of proposed works with Aboriginal Elders; and
- Working collaboratively with the Elders to determine the most suitable approach to undertaking works.

State Water employs four Aboriginal people, including its first Aboriginal trainee. This trainee was engaged in 2004-05 and during the year was appointed to a permanent position. Peer Groups and Networks were also formalised, providing valuable forums for young people and women to contribute to the organisation, improve outcomes for their peers and support each other.

No breaches of equal employment policy were identified or reported during the year.

Salary Level \$	Number Total Staff	Men	Women	Aboriginal People & Torres Strait Islanders	People from Racial, Ethnic, Ethno-Religious Minority Groups	People Whose Language First Spoken as a Child was not English	People with a Disability	People with a Disability Requiring Work-related Adjustment
< 31,352		0	0	0	0	0	0	0
31,352 - 41,177	74	65	9	2	0	0	4	1
41,178 - 46,035	11	8	3	0	0	0	1	0
46,036 - 58,253	43	21	22	0	2	1	2	0
58,254 - 75,331	92	82	10	1	8	7	7	2
75,332 - 94,165	46	42	4	0	4	5	0	0
> 94,165 (non-SES equivalent)	10	10	0	0	2	1	3	1
> 94,165 (SES equivalent)	2	2	0	0	1	1	0	0
TOTAL	278*	230	48	3	17	15	17	4

* Total Effective Full Time Staff, excludes contractors and temporary staff.

Freedom of Information

In the 12 months since State Water Corporation was constituted, one Freedom of Information application was received. This application was transferred to another agency for response.

Privacy Management Plan

State Water has published its Privacy Management Plan in accordance with Section 33 of the Act. No reviews were conducted by or on behalf of agency under Part 5.

Licence Compliance

State Water Corporation's Interim Operating Licence was in force from 1 July 2004 to 23 June 2005 when it was replaced by the Initial Operating Licence. Extensive consultation was undertaken with IPART in the development of the Initial Operating Licence.

State Water complied with all requirements of the Interim Operating Licence, except the items for which implementation dates were negotiated with IPART. These were the Code of Practice and Procedure on Debt Management, the External Dispute Resolution Scheme, the Environmental Management Plan and the Memoranda of Understanding with the Department of Primary Industries, the Department of Environment and Conservation and DIPNR.

Land Disposal

State Water sold properties in 2004-05 at a total value of \$249,000. These were buildings that were no longer required by State Water. The proceeds were used for the fit-out of new premises for Head Office in Dubbo and to refurbish the cottages supplied for use by the Officer in Charge and 2IC at Burrendong Dam. Documents relating to these sales can be obtained under the *Freedom of Information Act 1989*.

Controlled Entities

State Water does not control any entities.

Executive Remuneration

At the end of 2004-05, State Water had 10 executive officers with remuneration equal to or exceeding the equivalent of the NSW Senior Executive Service (SES) Level One. All of these officers were male. There was one officer at this level at the end of 2003-04 and this officer was male.

There were no executive officers at SES Level Five or above at the end of 2003-04. At the end of 2004-05, State Water employed one executive officer with a total remuneration package equal to or exceeding SES Level Five:

Abel Immaraj, Chief Executive Officer, \$228,000

- Appointed 16 March 2005
- Performance assessment due 15 March 2006

CEO Performance Statement

This year presented significant challenges as the foundations for the future commercial success of State Water Corporation were laid down. Mr Immaraj effectively led a multi-faceted and demanding program to:

- Build a strong strategic and operational commercial framework;
- Establish successful relationships and clarify the operating boundaries with key stakeholders; and
- Identify and manage key risks.

Despite the extreme drought conditions, Mr Immaraj continued to build strong relationships with customers and stakeholders. Customer involvement in, and commitment to, the business increased and the establishment of valley business planning processes created improved confidence.

Key to the stability of State Water Corporation in its first year was the recruitment of a highly skilled Executive team. Mr Immaraj and his team have worked with the Board to set the strategy and focus for State Water. With strong consultative and developmental processes, the operational efficiency and effectiveness of State Water have also been assured.

State Water Corporation now has a foundation for sustainable commercial success and a team focused on customer and stakeholder support.



AG (Tony) Wright
Chairman

Overseas Visits

At the invitation of the UNESCO Institute for Hydraulic Engineering in The Netherlands, Abel Immaraj, Chief Executive Officer, made a presentation on Institutional Reforms in Water and Corporatisation of State Water on 18 December. There was no cost to State Water Corporation associated with this visit.

Consultants

Consultants equal to or more than \$30,000

Consultant	Project	\$ Cost
Department of Commerce (DoC): Manly Hydraulics Laboratory	Chaffey Dam: Undertake environmental investigations	84,810
Murray Darling Freshwater Research Centre	Wyangala Dam: Undertake investigations for dam upgrade environmental improvements	44,220
Environmental Services & Systems DoC	Review earthquake safety status at 15 major dams	110,990
DoC	Undertake detailed design and investigation program at Hume Dam , including surveillance and seismology reviews, computer modelling and camera inspections	719,000
Dialogue Information Technology DoC	Advise on records management options	60,000
DoC	Chaffey Dam: Undertake further assessment of long-term upgrade options	198,585
DoC	Moore Creek Dam: Undertake review of hydrology, future options and preliminary environmental impact assessments	77,480
Worley Parsons	Blowering Dam: Undertake spillway analysis for upgrade	41,701
DIPNR	Hume Dam: Prepare hydrology investigation	385,000
SMEC	Hume Dam: Undertake calibration of hydrology	100,000
DoC	Keepit Dam: Design multi-level offtake for Stage Two of upgrade	39,155
SKM	Keepit Dam: Refined downstream inundation modelling	32,673
DoC	Keepit Dam: Finalised technical specifications for short-listed dam safety options	41,800
DoC: (Manly Hydraulics Laboratory)	Copeton Dam: Undertake environmental improvements investigations for upgrade	72,463
DoC	Copeton Dam: Completed risk assessment for upgrade	183,490
Heritage Concepts	Junction Reefs Dam: Service agreement for repair and heritage impact assessment	81,862
SMEC	Hume Dam: Verification of flood modelling	65,000
Price Waterhouse Coopers	Development of water pricing strategies	31,412
Total		2,287,779

Consultants less than \$30,000

During the year, 14 other consultancies were engaged, with a total value of \$283,270.

Publications

State Water published the following during 2004-05:

- Total Asset Management Plan 2004
- 2003-04 Annual Activities Report
- State Water Map
- Initial Operating Licence
- Customer Service Charter
- Statement of Corporate Intent
- Schematics for Toonumbar, Brogo, Peel Systems
- Important Changes to Your Water Accounts (including water prices)
- Bulk Water Price Submission to IPART September 2004
- Bulk Water Price Supplementary Submission to IPART April 2005

Fact Sheets

- Keepit Final Long-term Upgrade Options – General Information
- Keepit Upgrade – Option A3
- Keepit Upgrade – Option B1
- Keepit Upgrade – Option D2
- Keepit Upgrade – Option D3
- Keepit Upgrade Update Newsletter
- Macquarie Weirs Upgrade Project
- Warren Weir Fact Sheet
- Gunningbar Weir Fact Sheet
- Duck and Crooked Creek Fact Sheet
- Bumbuggan Weir Fact Sheet
- Chaffey Community Reference Panel Poster

Conference Presentation

Gaynor, SM; Betts, P; and Watson, D, “Community Consultation – value adding and invaluable”: paper presented at ANCOLD (Australian National Committee on Large Dams) Conference, Melbourne, November 2004

Funds Granted to non-Government Organisations

State Water did not grant any funds during 2004-05.

Legal Change

No changes were made to the Corporation’s enabling legislation, the *State Water Corporation Act, 2004*. There were no departures from the *Subordinate Legislation Act 1989*.

Consumer Response

The Board of State Water approved a complaints handling procedure for internal matters this year. The Corporation has not formally established its dispute resolution procedure, however consultation has begun on this process, particularly with the involvement of the CSCs. No complaints or disputes arose during the year

Research and Development

A number of projects were undertaken during 2004-05 to further develop State Water innovations and develop new projects. For Burrendong Dam, physical modelling was undertaken of an innovative floating curtain around the intake tower to the outlet works. This modelling proved the concept was a feasible option to improve the quality of water releases. Water quality issues were also investigated at Lake Brewster Storage, with a wetland management plan and impact statement on flora and fauna developed.

Strategic Asset Services Branch further developed EXPLAN as State Water’s engineering asset register and annual expenditure planning tool during the year. The branch also enhanced the functionality of FMMS to improve the management, monitoring and reporting of infrastructure maintenance.

State Water and DIPNR have jointly developed the Water Information Exchange project that will provide a wide range of water information services via the internet, SMS, fax-back and Interactive Voice Response (IVR) in 2005-06. State Water is also working with the Sydney Futures Exchange to develop a range of world-first water index products that will simplify the description of how much water is in our dams and storages.

A new system was developed for State Water’s Water Ordering and Usage (WOU) application and this was successfully implemented in 2004-05. WOU is the system that manages all State Water customers’ water accounts. It manages transactions, including allocation credits, orders, usage, and allocation assignments (temporary transfers). WOU also creates the source data for our water billing.

In past years, WOU administered these water accounts under the provisions of the *Water Act 1912*. With the introduction of the *Water Management Act 2000* and new Water Sharing Plans, each valley now has significantly different rules for the management of water accounts and an entirely new WOU application was needed. This new application was successfully deployed from 1 July 2004 so that staff experienced no disruption in water delivery to our customers, by crediting accounts with available water determinations and then accepting orders placed against those accounts.

WOU was under continuous development as additional features of the Act became available. More than 25 upgraded versions of the application were developed, tested and released during the year.

Government Energy Management Policy

State Water is committed to minimising its impact on the environment by:

- achieving energy savings;
- incorporating sustainable energy management practices, where cost effective;
- using whole of Government energy contracts to achieve cost savings; and
- purchasing Greenpower to reduce greenhouse gas emissions.

Accountability and responsibility for energy management has been established by the nomination of an Energy Manager, Mike Glockler (Business Services Manager) and Energy Co-ordinator, Col Hurst (Property and Facilities Coordinator). State Water has been working under the Energy Management Plan developed by the DIPNR and is developing its own plan for introduction in 2005-06.

The new Energy Management Plan will establish a plan of implementation to achieve energy

savings. The plan will address facilities or technologies with the greatest saving potential. The plan will also identify suitable funding options to allow energy saving recommendations to be implemented.

Waste Management

State Water is committed to the NSW Government's Waste Reduction and Purchasing Policy (WRAPP) agenda and encourages staff participation through practical strategies that aim to avoid waste, increase resource recovery and increase the purchase of recycled products.

Up to 30 June 2005, State Water was included in the DIPNR WRAPP Plan and biannual return.

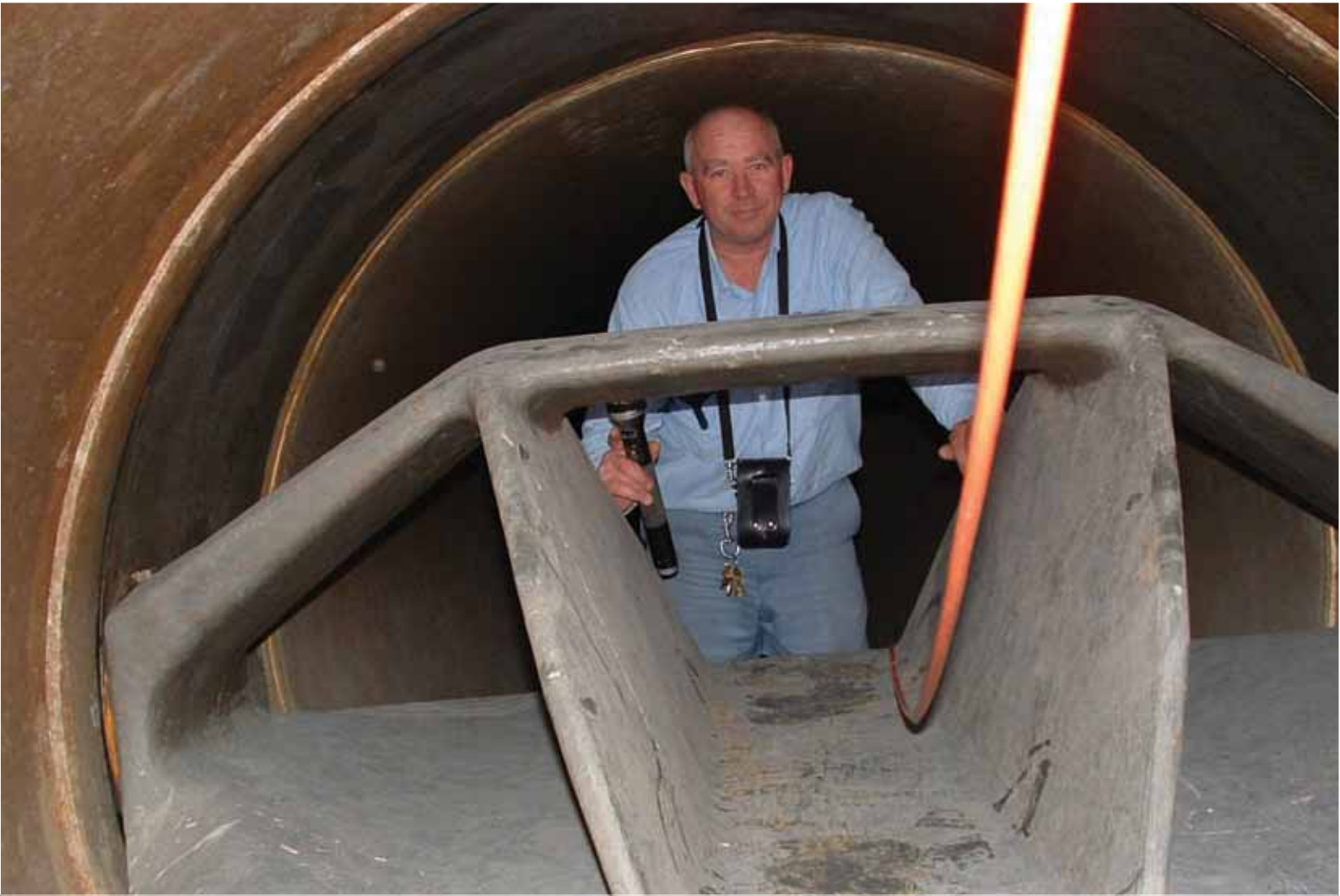
State Water is currently developing a WRAPP Plan for consideration by management. Processes for the recording of statistical information have been implemented and data will be monitored against targets during the financial year.

Processes to reduce waste have included an increased use of the intranet to disseminate internal memos and staff communications and to provide ready access to policies and procedures, the re-use of envelopes for all internal mail, re-use of paper through fax machines and photocopiers and the re-use of obsolete stationery for notepads.

Recycling arrangements are in place at State Water's major offices, with dedicated collection bins in place to encourage staff to recycle paper and paper products. Used toner cartridges are also returned to the suppliers for re-manufacture. State Water also actively encourages the use of recycled paper as part of its ongoing commitment to waste reduction.

2004-05 WRAPP Waste Data

Material	Total Quantity Generated	Total Quantity Recycled
Paper and Office Products		
A4 and A3 white paper	15.32 tonnes	8.05 tonnes
All other office paper	3.6 tonnes	2.3 tonnes
Cardboard	5.6 tonnes	2.3 tonnes
Used toner cartridges	155	57
Computer processing units	5	5
Computer monitors	7	0
Vegetation, Construction and Demolition Materials		
Vegetation waste	49.4 tonnes	39.5 tonnes
Concrete	18 tonnes	4 tonnes
Fill	66 tonnes	66 tonnes
Timber	11 tonnes	2 tonnes
Virgin Excavated Natural Material	53 tonnes	53 tonnes
Bricks and roof tiles	13 tonnes	1 tonne
Glass	0.5 tonnes	0
Steel	27.6 tonnes	21 tonnes
Non-ferrous metal	0.55 tonnes	0.55 tonnes
Mixed waste	9.25 tonnes	1.25 tonnes



Split Rock Dam Officer in Charge, Geoff Scott inspecting the butterfly guard valve, inside the main penstock.

Electronic Service Delivery

State Water launched its stand-alone website during the year: www.statewater.com.au. The website gives access to water delivery and asset information and the latest forms for water allocation transactions. It provides the *State Water Corporation Act 2004*, State Water Initial Operating Licence, the Customer Service Charter, as well as previous annual reports and staff contact details.

The website also contains links to all State Water media releases, including announcements on water delivery issues such as supplementary water, demand management and bulk water releases.

State Water and DIPNR have jointly developed the Water Information Exchange project that will provide a wide range of water information services via the internet, SMS (Short Messaging Service), fax-back and IVR in 2005-06.

Credit Card Certification

State Water Corporation operates Mastercard credit card facilities with Westpac Bank. Credit card expenditure is paid by electronic settlement directly from State Water's bank account.

All expenditure on credit cards is certified by card holders and independently verified by the cardholder's supervisor. There is also continuous review of usage characteristics and authorisations to promote correct usage.

During 2004-05 all Mastercard credit card payments were made on time and no interest charges were incurred.

Payment of Accounts

The Government's target is to settle all accounts payable within 30 days, or in accordance with the terms agreed with individual vendors. Both the Department of Infrastructure, Planning and Natural Resources (DIPNR) and the Department of Commerce provided financial accounting services on behalf of State Water this financial year. This has included the payment of accounts for goods and services acquired.

There are no statistics available from DIPNR or Commerce that allow the disclosure of the payment performance record for State Water accounts. This year, State Water implemented its own computerised financial management system and in future years will be able to report on its own payment performance.

Interest Incurred

There has been no identified interest incurred on overdue accounts during 2004-05.

Water Prices

Implementation of IPART Price Determination

Determination No 3, 2001 expired on 30 June 2004. The *State Water Corporation Act 2004* extended those prices, with a two per cent CPI increase for 2004-05. Those prices were implemented accordingly.

Region/ river valley	2004-2005		
	High Security (\$/ML)	General Security (\$/ML)	Usage (\$/ML)
Border ¹	6.09	4.08	4.74
Gwydir	5.50	3.65	4.26
Namoi	10.41	6.94	8.31
Peel	12.39	5.43	9.89
Lachlan	7.09	4.72	5.41
Macquarie	4.45	3.42	4.62
Murray ²	5.69	5.16	1.39
Murrumbidgee	4.18	3.97	1.04
North Coast	11.28	8.67	5.78
Hunter	8.82	6.30	6.27
South Coast	11.28	8.67	5.78

¹ Pindari levy is charged on Border Rivers usage at the rate of \$13.89 for 2004-05. This is not an IPART determined price, but is indexed 5% per year.

² Gol Gol Delivery Service Charge: this not an IPART determined price. 2004-05 price is \$4.94 + GST.

Number of Water Licences (as at 30 June)

Area	Regulated	Unregulated	Groundwater (PT)
North	833	1,061	1,758
Central	1,588	1,616	1,765
South	2,507	930	1,272
Coastal	1,063	7,629	2,446
Total	5,991	11,236	7,241

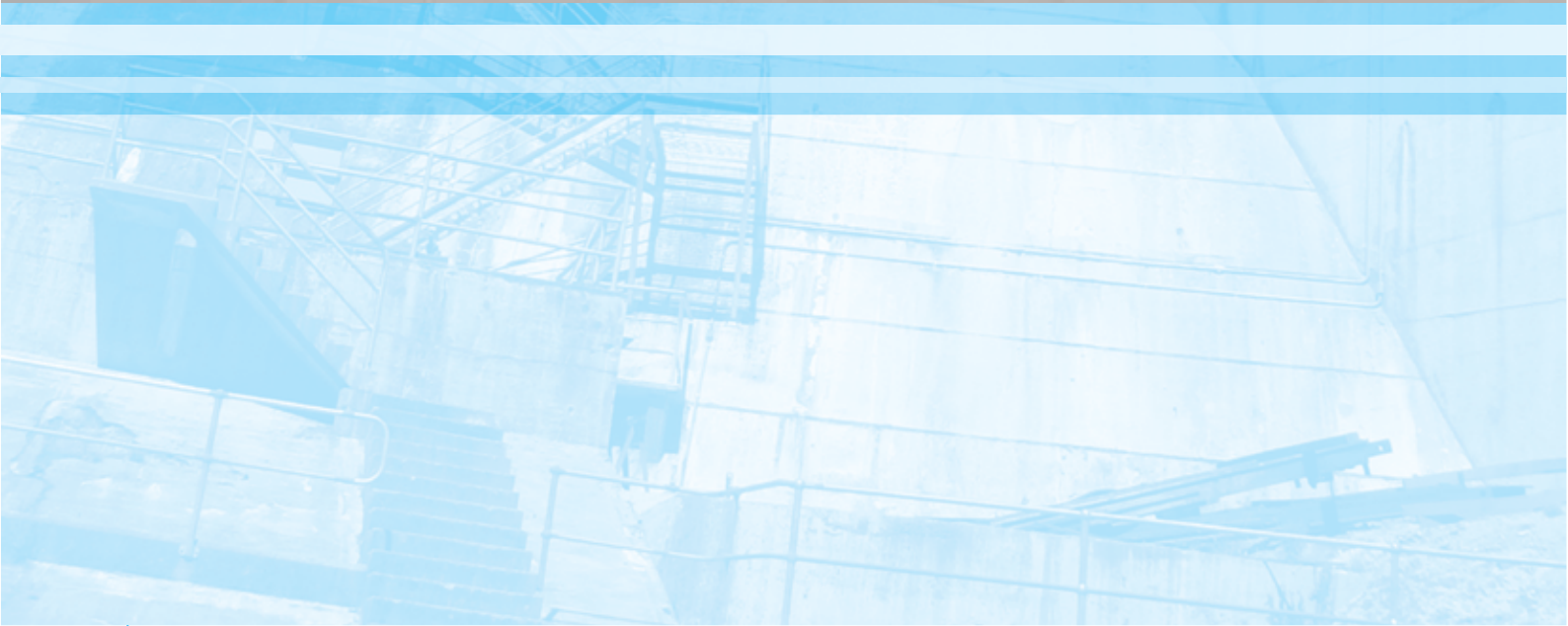
Number of Customers Billed 2004-05 (as at 30 June)

Area	Regulated	Unregulated	Groundwater
North	698	909	1,572
Central	1,361	1,382	1,575
South	2,057	799	1,178
Coastal	820	6,729	2,267
Total	4,936	9,819	6,592

Financial Statements



Irrigation in the Macquarie Valley.



Financial Statements

Year ended 30 June 2005

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Statement by Members of the Board Year ended 30 June 2005

Pursuant to Section 41C of the *Public Finance and Audit Act 1983* we state that:

- 1 The accompanying financial statements are a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the Public Finance and Audit Regulation 2005, and give a true and fair view of the financial position of State Water Corporation as at 30 June 2005 and its performance for the year ended on that date.
- 2 At the date of this statement, there are reasonable grounds to believe that the Corporation will be able to pay its debts, as and when they become due and payable.
- 3 We are not aware of any circumstances at the date of this statement that would render any particulars included in the financial report to be misleading or inaccurate.

Signed in accordance with a resolution of the Directors: 3 November 2006



AG (Tony) Wright
Chairman
3 November 2006



Abel Immaraj
Chief Executive Officer
3 November 2006



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDIT REPORT
STATE WATER CORPORATION

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of State Water Corporation:

- presents fairly the Corporation's financial position as at 30 June 2005 and its performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act), and the *Public Finance and Audit Regulation 2005*.

My opinion should be read in conjunction with the rest of this report.

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the Corporation for the year ended 30 June 2005.

The directors of the Corporation are responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for accounting policies and accounting estimates inherent in the financial report.

Audit Approach

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the directors had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

J Kheir B Ec, FCPA
Director, Financial Audit Services

SYDNEY
3 November 2006

Statement of Financial Performance Year ended 30 June 2005

2005

	Notes	\$'000
Revenues from ordinary activities	2	51,260
Expenses from ordinary activities, excluding borrowing costs	3	(50,377)
Borrowing costs		(307)
Profit/(Loss) on disposal of assets		(142)
Profit from ordinary activities before Income Tax Equivalent Expense		434
Income Tax Equivalent Expense	4	2,473
Loss from ordinary activities after related Income Tax Equivalent Expense		2,039
Net Loss attributable to members of State Water	17, 5	2,039
Total changes in equity other than those resulting from transactions with owners as owners	17	2,039

The accompanying notes form part of this Statement of Financial Performance.

Statement of Financial Position Year ended 30 June 2005

	Notes	2005 \$'000
Current Assets		
Cash	11, 18	30,307
Receivables	9	5,336
Accrued Water Sales		27,901
Inventories		109
Unbilled Work		780
Tax Assets	4	486
Other Current Assets	10	4,162
Total Current Assets		69,081
Non-Current Assets		
Land & Buildings	6	16,096
Water Systems	7	326,830
Other Non-Current Assets	8	2,671
Total Non-Current Assets		345,597
Total Assets		414,678
Current Liabilities		
Payables	12	17,565
Provisions	13	3,566
Other Current Liabilities	14	652
Total Current Liabilities		21,783
Non-Current Liabilities		
Interest Bearing Liabilities	15	67,163
Provisions	16	9,573
Total Non-Current Liabilities		76,736
Total Liabilities		98,519
Net Assets		316,159
Equity		
Contributed Equity	17	318,198
Accumulated Losses	17	(2,039)
Total Equity		316,159

The accompanying notes form part of this Statement of Financial Position.

Statement of Cash Flows Year ended 30 June 2005

	Notes	2005 \$'000
Cash flows from operating activities		
Receipts from customers		50,167
Payments to suppliers and employees		(59,801)
Recurrent contribution from the NSW Government		10,495
Interest received		1,081
Interest and other finance costs paid		(307)
Income tax refund/(paid)		(124)
	18	1,511
Cash flows from investing activities		
Payments for property, plant and equipment		(1,976)
Proceeds from sale of property, plant and equipment		217
		(1,759)
Cash flows from financing activities		
Proceeds from borrowings		(6)
		(254)
Net Increase/(Decrease) in cash held		
Cash transferred from the NSW Department of Energy, Utilities and Sustainability (DEUS) on the formation of State Water Corporation	18	20,809
Cash taken over on merging the Fish River Authority business to State Water	18	9,752
Cash at the end of the financial year	11, 18	30,307

The accompanying notes form part of this Statement of Cash Flows.

Notes to the Financial Statements

Year ended 30 June 2005

Note

1 Significant Accounting Policies

(a) Reporting Entity

State Water Corporation (State Water) was constituted as an entity on 1 July 2004 under the *State Water Corporation Act 2004*. The operations of the Fish River Water Supply Scheme (FRWS) were merged with the newly created State Water Corporation on 1 January 2005. State Water's capital comprises two fully paid \$1.00 ordinary shares, all of which are beneficially owned by the Government of NSW.

State Water is in the business of delivering bulk water to farmers, irrigators, industrial users and local utilities in regional New South Wales. Its core functions comprise asset management of water infrastructure, water delivery, flood mitigation and customer service. In addition, State Water is a water supply authority in terms of the provisions of Chapter 6 of the *Water Management Act 2000* for the purposes of administering FRWS.

(b) Financial Reporting Framework

The accompanying financial statements, presented in Australian dollars, are a general purpose financial report, which discloses the whole of the financial activities of State Water during the period, and reports on its financial position at the reporting date.

These financial statements have been prepared to satisfy the requirements of the *State Water Corporation Act 2004*, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* (in so far as applicable to State-owned entities), the *Public Finance and Audit Regulation 2000* (in so far as applicable to State-owned entities), and the relevant Treasury circulars using accrual accounting and a going concern basis, and conform to Australian Accounting Standards, Urgent Issues Group Consensus Views, and other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements have been prepared in accordance with the historical cost convention and, except where stated, do not take account of changes in the general purchasing power of the dollar.

No comparative information in respect of a prior year has been provided as 2004-05 is State Water Corporation's first year of existence as an entity.

(c) Change in Accounting Policies

The accounting policies adopted by State Water on its formation on 1 July 2004 applied throughout the reporting period.

(d) Recognition of Revenue

Revenue relating to State Water's core operations is classified as revenue from operating activities for the purpose of Note 2. All other revenue is classified as revenue outside operating activities.

(i) Water Revenue

Water revenue represents revenue earned from the provision of bulk water and includes both fixed and variable charges for water. This is recognised on delivery of water or on the grant of usage licences. For the reported year, customers have not been billed for water entitlements or supply, except for FRWS customers, who have been billed for fixed charges during the year, and for the four major customers, who have been billed monthly in arrears. FRWS minor consumers will be billed for their excess water usage in arrears. The balance of customers will be billed in arrears. The price of water is subject to pricing determination by the Independent Pricing and Regulatory Tribunal (IPART).

The water revenue includes revenue from water sales to the Murray-Darling Basin Commission (MDBC) bulk water customers have been retained under agreement with NSW Treasury as an implicit operating subsidy. Under the Murray-Darling Basin Agreement, 40% of the operations and maintenance costs of the MDBC are apportioned to NSW and funded by NSW Treasury. In future years, to maintain funding transparency, MDBC revenues will be paid over to Treasury and disclosed separately.

(ii) Contract Revenue

Contract revenue represents revenue for work done by State Water Corporation on the assets of other entities. These are recognised on the basis of work completed at the reporting date.

(iii) Government Contribution

This represents NSW Government's budgeted contribution to State Water's cost base for capital funding and for services not directly related to bulk water delivery. In future years, the share of the Government's contributions will be determined by IPART and will be separated from other Government contributions, such as operating subsidies. These are recognised on the date when the funds become due and payable in terms of the IPART determination, or other Government pronouncement.

(iv) Non-Water Revenue

Consultancy fees, property income, investment income and other income, outside the provision of water, are recognised on an accrual basis in accordance with the substance of the agreements covering such transactions.

Notes to the Financial Statements

Year ended 30 June 2005

Note

1 (ctd) Significant Accounting Policies

(e) Valuation of Non-Current Assets

Non-current assets were transferred to State Water Corporation from the Department Energy, Utilities and Sustainability (DEUS) on 1 July 2004 at a value of \$300 million. The non-current assets of FRWS were transferred on 1 January 2005, at a value of \$48.1 million. The values of the assets transferred from DEUS and FRWS were derived from the underlying economic values as determined through a State Water - Financial Structure Review conducted for NSW Treasury and were based on IPART pricing determinations at the time. The non-current assets held by State Water Corporation comprise major water infrastructure (storages, river regulators, pipelines and associated structures), land and buildings, and other non-current assets as detailed in notes 6, 7 and 8.

The valuation of non-current assets transferred to State Water Corporation was independently assessed in accordance with the recoverable amounts test as defined in AASB 1010 Recoverable Amount of Non-Current Assets, based on a discounted present value of net cash inflows.

State Water Corporation was established as a bulk water supply authority including the operations of FRWS. For the purposes of Treasury Policy TPP 03-02 Valuation of Physical Non-Current Assets at Fair Value, the entire business operation is considered to constitute a single "cash-generating unit" (CGU) and this approach has been applied to ensure State Water assets are valued at fair values. A detailed examination of the business has been undertaken in conjunction with the requirements for valuation and impairment of assets under AIFRS and it has been determined that a single CGU is appropriate.

State Water Corporation is pursuing a policy of annual reviews of the carrying amounts of its non-current assets to ensure that the carrying amounts do not exceed the fair-value recoverable amounts. If the carrying amounts of assets exceed their fair value, the assets are written down proportionately to ensure their carrying amounts reflect fair value. No such adjustment was necessary for the year ended 30 June 2005. State Water does not hold any revaluation reserves since the assets transferred to it were at written down values. Any further write-down of assets required after corporatisation will need to be treated as an expense in net profit or loss.

Subsequent additions made during the financial year have been recorded at cost, including the cost of acquisition, the cost of materials, labour and direct overheads. Depreciation is applied to non-current assets as outlined in Note 1(i).

(f) Capitalisation

A Capitalisation Policy was adopted by the Board and has been applied to expenditure incurred since 1 July 2004 and to expenditure recorded as Work-in-Progress as at that date. Expenditure considered to be of a capital nature and to be recognised as an asset includes:

- acquisition costs of new assets or components of assets, including water infrastructure, plant and equipment, land and buildings or other non-current assets
- acquisition costs of replacement assets
- acquisition costs of asset enhancements and upgrades
- expenditure on major periodic maintenance (MPM) or refurbishments.

Assets are not normally recognised until they are brought into use. While an asset is being constructed or is not yet available for the purpose to which it is to be put, the expenditure is treated as Work-in-Progress and recognised as such in the statement of financial position. Depreciation is not raised until it is brought into use.

Thresholds are applied for the capitalisation of expenditure according to asset classes as follows:

• computers and attractive items	\$2,000
• other plant and equipment	\$5,000
• new or replacement infrastructure assets	\$10,000
• MPM or refurbishments of major infrastructure components	\$50,000
• MPM or refurbishments of river structure components	\$20,000

(g) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Assets which are acquired under leases deemed to be "finance leases", i.e. leases which substantially transfer the risks and benefits incidental to the ownership of the leased assets to the lessee, are capitalised as fixed assets where appropriate. During the year, State Water did not enter into any finance leases.

(h) Segment Reporting

State Water operates in one industry, being the delivery of bulk water in NSW. As such, State Water has only one business segment as well as one geographical segment in accordance with AASB 1005 Segment Reporting, and this is reported in the financial statements.

(i) Depreciation

Depreciation is provided on a straight line basis on all non-current assets, other than freehold land, at rates calculated to allocate the cost or valuation less estimated residual value at the end of the useful lives of the assets, against revenue over those estimated useful lives.

Depreciation expense is recognised in the Statement of Financial Performance and the carrying value of non-current assets is net of accumulated depreciation, where applicable. Depreciation is charged on a pro-rata basis for assets purchased or sold during the year and is not charged on assets under construction. Accumulated depreciation is written back against the

Notes to the Financial Statements Year ended 30 June 2005

Note

1 (ctd) Significant Accounting Policies

(i) Depreciation (ctd)

The applicable depreciation rates of major asset categories are as follows:

Asset Class	Depreciation Rate
Land & Buildings	
Buildings - Cottages and Dwellings/Office Buildings/Accommodation	2.0-2.5%
Water Systems	
Dams - Structure/Concrete Works	0.50%
Dams - Other Civil Components	0.5-1.0%
Dams - Mechanical/Electrical Components	0.5-3.3%
Weirs and Regulators - Concrete Components and Fountain Pplings	1.0%
Weirs and Regulators - Steel Structural Components	1.0-2.0%
Channels and Structures	2.5%
Plant	6.7%-20.0%
Other Non-Current Assets	
Furniture and Fitouts	10.0%
Instruments	12.5%-20%
Marine Craft	20.0%
Motor Vehicles	20.0%

Asset lives are reviewed annually in accordance with AAS 4 Depreciation to ensure the applicability of the above rates and the depreciation rate for the remaining period adjusted upwards, if the physical condition, technical or commercial obsolescence warrant that the asset be written off faster.

(j) Insurance

State Water maintains a mix of external insurance policies and internal provisioning in accordance with AASB 1044 Provisions, Contingent Liabilities and Contingent Assets. These are managed through the NSW Treasury Managed Fund on behalf of State Water. The treatment of risks and associated liabilities are determined in conjunction with independent insurance advisors and loss adjusters.

(k) Valuation of Current Assets

(i) Receivables

Receivables are carried at amounts due, less a provision for any uncollectable trade debts. The ability to collect debts is reviewed on an ongoing basis. Bad debts are written-off as incurred and if an assessment at the balance sheet date reveals that the collection of the amounts are no longer probable. In addition, a general provision is made after having considered the age of the debt and the credit risk of the debtors.

The payment terms for receivables is usually 30 days from the date of invoice.

(l) Liabilities

(i) Payables

Trade creditors, accruals and other current liabilities are recognised when State Water is obliged to make a future payment for the purchase of goods or services. Payables are recorded at fair values. Payables are usually settled within 30 days from the end of the month in which the invoice is received.

(ii) Interest Bearing Liabilities

The interest bearing liabilities are disclosed at their capital value, which is the face value of the debt, less unamortised discount, or plus unamortised premiums.

Borrowing costs include interest and costs incurred in connection with arrangement of borrowings. Discount/Premium on loans is in the nature of a cost/cost reduction of borrowing. Discount/Premiums are amortised over the term of the loans, unless the amounts are insignificant, where they are written off at the time of the loan. The amount applicable to each year is included in the Statement of Financial Performance as part of State Water's borrowing costs for the year.

Notes to the Financial Statements

Year ended 30 June 2005

Note

1 (ctd) Significant Accounting Policies

(m) Cash

For the purpose of the Statement of Cash Flows, cash includes deposits at call with financial institutions.

(n) Dividends

Provision is made for the amount of dividend payable in relation to the current financial year, in accordance with the recognition policy set out in Treasury Circular NSW TC 03/02 Accounting for Dividend. Accordingly, a dividend in relation to the financial year is taken to be determined before balance sheet date, consistent with the requirements of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets.

(o) The Assets of Fish River Water Supply

The operations and assets of the Fish River Water Supply (FRWS) were transferred to State Water Corporation on 1 January 2005. The assets and liabilities were integrated accordingly. These assets, which include the pipelines, dams and other infrastructure for the water authority operations in the Macquarie, Cox and Wollondilly River catchment areas of Central NSW, were valued at fair values on the basis of the 2004 report by Global and Corporate Pty Ltd for NSW Treasury. The financial statements include the FRWS assets of \$60 million.

(p) Employee Leave Entitlements

A calculation in accordance with AASB 1028 Employee Benefits is made each year in respect of State Water Corporation's liability at balance date for employees' entitlements to long service leave and annual leave, and an annual contribution is made to adjust the provision to an amount which is considered adequate to meet that liability.

(i) Annual Leave

The provision for employee entitlements to annual leave represents the amount that State Water has a present obligation to pay resulting from employees' services up to balance date.

(ii) Long Service Leave

The liability for employee entitlements to long service leave has been calculated by adjusting the current salary rates for future increases using the NSW Government Actuary's factors as per Treasury Circular TC 03/08 LSL Pool - Accounting for Long Service Leave. The current salary rates are the amounts that have to be paid by State Water for employees' services provided up to balance date and includes related on-costs, in accordance with the guidelines of Treasury Circular TC 03/08.

(q) Income Tax

State Water Corporation is subject to the National Tax Equivalent Regime (NTER), administered by the Australian Taxation Office (ATO). The NTER is based on application of federal income tax laws, under which State Water pays income tax equivalents to NSW Treasury.

State Water adopts the liability method of tax effect accounting. Income tax expense is calculated on the operating profit, adjusted for permanent differences between taxable income and accounting profit. The effect of timing differences, which occur when items are brought to account in different periods for income tax equivalent and accounting purposes, are shown at the rate deemed applicable when the timing difference reverses in the provision for deferred income tax and future income tax benefit where applicable.

(r) Goods and Services Tax

Revenues, expenses and assets are recognised net of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cashflows.

Notes to the Financial Statements
Year ended 30 June 2005

	2005 \$'000
Note	
2 Revenue from Ordinary Activities	
Operating Activities	
Water Revenue	
Regulated	25,444
Unregulated	403
Retail water	2,734
Licence fees	377
	28,958
Contract Revenue	
Fees from other utilities	7,527
Government contribution	10,495
Non-Water Revenue	
Property income	955
Consultancy	374
Other income	326
	1,655
Total Revenue from Operating Activities	48,635
Investment Income	943
Interest on overdue accounts	138
Net movement in employer's superannuation reserve	1,544
	2,625
Total Revenue from Ordinary Activities	51,260
3 Profit from ordinary activities before income tax equivalent expense includes:	
Amount set aside to provisions	
Doubtful debts	130
Expenses relating to ordinary activities	
Bad debts written off	47
Consultants	1,995
Contractors	1,858
Employee benefits	17,231
Operating lease rentals	818
Other operations and services	14,012
Repairs and maintenance	11,507
	47,468
Depreciation Expenses	
Buildings	51
Computers	6
Furniture and fitouts	51
Instruments	18
Marine Craft	20
Motor Vehicle	28
Plant and Equipment	315
Water Infrastructure	2,290
	2,779
Total Expenses from Ordinary Activities	50,377

Notes to the Financial Statements Year ended 30 June 2005

2005
\$'000

Note

3 (ctd) Profit from ordinary activities before income tax equivalent expense includes:

The profit from ordinary activities before tax has been significantly reduced by one-off expenditure adjustments amounting to \$6.409 million. These relate to items attributable to State Water's operations during prior years when State Water Corporation did not exist in its present form and should have been accrued as expenses by State Water Corporation's predecessor. The correct accounting of these at the time would have impacted the asset values that were used to transfer assets to State Water Corporation. Therefore, State Water Corporation has decided to write off these expenses in its inaugural year. These items, included above in repairs and maintenance or in expenses for other operations and services, comprise:

Items previously identified as major periodic maintenance balances	3,346
Items identified as Total Asset Management Plan balances	1,936
Expenditure related to contract revenue earned in prior years	1,127
	6,409
Total one-off items relating to prior years	6,409

4 Income Tax Equivalent Expense

Profit from ordinary activities before income tax equivalent expense	434
---	------------

The prima facie tax equivalent, using tax rates applicable on operating profit and extraordinary items, differs from the income tax equivalent expense provided in the financial statements as follows:

Prima facie income tax equivalent expense calculated at 30% of profit	130
---	-----

Adjustment to income tax due to the tax effect of permanent differences arising from non-tax relevant items:

Net movement in employer's superannuation reserve	(463)
Expenditure incurred prior to corporatisation now expensed	1,923
Entertainment	30
	1,620

Income tax adjusted for permanent differences	1,620
--	--------------

Adjustment to income tax due to the tax effect of timing differences	853
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Income Tax Equivalent Expense	2,473
--------------------------------------	--------------

Tax Equivalent Assets

Prior year overpayment of tax equivalent instalments to the Office of State Revenue for FRWS	486
--	------------

State Water has calculated that a Future Income Tax Equivalent Benefit (FITEB) of \$3.38 existed at balance date due to timing differences relating to provisions for employee benefits and doubtful debts. This FITEB has not been carried as an asset because realisation of the benefit within a five year forecast period is not assured beyond reasonable doubt, due to the continuing deduction of accelerated depreciation relating to water infrastructure asset.

Notes to the Financial Statements Year ended 30 June 2005

	2005 \$'000
Note	
5 Dividends	
State Water Corporation has not provided for dividends as there are no profits available.	
6 Land and Buildings	
Land	
Assets transferred in from DEUS 1, 2	12,044
Assets transferred in from FRWS 3, 4	1,737
Additions	257
	14,038
Buildings	
Assets transferred in from DEUS 1, 2	1,135
Additions	1,151
Disposals	(177)
Depreciation	(51)
	2,058
Net Carrying value for land and buildings	16,096
7 Water Infrastructure	
Bulk Water Infrastructure	
Assets transferred in from DEUS 1, 2	250,613
Additions	19,602
Depreciation	(1,900)
	268,315
Fish River Water Supply Infrastructure	
Assets transferred in from FRWS 3, 4	44,763
Additions	505
Depreciation	(390)
	44,878
Plant	
Assets transferred in from DEUS 1, 2	2,514
Assets transferred in from FRWS 3, 4	67
Additions	1,039
Disposals	(28)
Depreciation	(315)
	3,277
Work in Progress - Infrastructure	10,360
Net Carrying value for water systems	326,830

1 NSW Department of Energy, Utilities and Sustainability
2 See note 1(e)
3 Fish River Water Supply Authority
4 See note 1(c)

Notes to the Financial Statements Year ended 30 June 2005

Note	2005 \$'000
8 Other Non-Current Assets	
Computer and Systems	
Additions	260
Disposals	0
Depreciation	(6)
	254
Furniture and Fitouts	
Assets transferred in from DEUS 1, 2	17
Assets transferred in from FRWS 3, 4	2
Additions	285
Depreciation	(51)
	253
Instruments	
Assets transferred in from DEUS 1, 2	51
Assets transferred in from FRWS 3, 4	4
Additions	33
Depreciation	(18)
	70
Marine craft	
Assets transferred in from DEUS 1, 2	45
Additions	69
Depreciation	(20)
	94
Motor Vehicles	
Assets transferred in from FRWS 3, 4	187
Additions	1,259
Depreciation	(28)
	1,418
Work in Progress - Other	
	582
Net Carrying Value for Other Non-Current Assets	2,671
9 Receivables	
Trade debtors - water	1,004
Less: Provision for doubtful debts	(576)
	428
Trade debtors - other	
Less: Provision for doubtful debts	3,764
	(24)
	3,740
Client work - debtors	463
Special work for NSW Department of Lands	705
Total Receivables	5,336

1 NSW Department of Energy, Utilities and Sustainability

2 See note 1(e)

3 Fish River Water Supply Authority

4 See note 1(o)

Notes to the Financial Statements Year ended 30 June 2005

Note	2005 \$'000
10 Other Current Assets	
Advances	4
GST	2,012
Superannuation Fund - net overfunded position	2,114
Other	32
	4,162
<p>The Superannuation Fund represents the funds administered by Pillar Administration Ltd for the purpose of providing defined superannuation benefits for employees of State Water Corporation (note 24).</p>	
11 Cash	
Cash on hand	14
Operating accounts	10,189
Deposit accounts	20,104
	30,307
12 Payables	
Trade creditors	811
Pindari Dam levy due to NSW Treasury	3,270
Resource Management collected on behalf of Department of Infrastructure Planning and Natural Resources	4,860
Accruals - other	8,624
	17,565
13 Provisions (Current)	
Income Tax	507
Recreation leave	2,229
Employee entitlements	805
Employee related oncosts	25
	3,566
14 Other Current Liabilities	
Security and contract deposits	165
Other	487
	652
15 Interest Bearing Liabilities	
Loan from NSW Treasury	67,163
<p>The loan from Treasury comprises a loan for \$60 million, drawn to repay shareholders as agreed on the formation of State Water Corporation. This carries an interest rate of 5.72% and matures on 14 July 2005. The Corporation has agreed with Treasury to replace this loan with a portfolio of loans, with a weighted average interest rate of 5.523%, and consisting of various maturity dates from August 2005 to August 2014. The loan is guaranteed by the Government of NSW for a guarantee fee amounting to 1.3% of the loan.</p> <p>The balance of the loan refers to the loan assumed by State Water Corporation on taking over the operations and assets of FRWS. This is carried at its current capital value less premium amortised to date. The loan is due for repayment in March 2008. Interest is charged at 8% on the face value (\$6.965 million) of the loan which is equivalent to an effective interest rate of approximately 7%. The loan is guaranteed by the NSW Government.</p>	
16 Provisions (Non- current)	
Deferred Income Tax	1,967
Other Employee entitlements	7,606
	9,573

Notes to the Financial Statements Year ended 30 June 2005

Note	2005 \$'000
17 Components of Equity	
Equity transfer from DEUS on State Water's formation ^{1, 2}	326,761
Movement:	
Conversion of Equity to loan	(60,000)
FRWS net assets contributed to State Water Corporation ^{3 4}	51,437
	318,198
The above Equity balance includes:	
Issued and paid up capital of two \$1.00 shares each, fully paid	0
Accumulated Losses	
Movement:	
Loss from ordinary activities after income tax expense	(2,039)
	(2,039)
18 Note to the Statement of Cash Flow	
Loss from ordinary activities after tax	(2,039)
Non-cash items:	
Amounts set aside to provision for doubtful debts	130
Net movement in employer's superannuation reserve	(1,544)
Depreciation of non-current assets	2,779
Item classified as finance/investment activities:	
(Profit)/Loss on disposal of assets	142
Changes in assets and liabilities:	
(Increase)/decrease in receivables	5,158
(Increase)/decrease in inventories	537
(Increase)/decrease in other current assets	(316)
Increase/(decrease) in operating payables	(13,079)
Increase/(decrease) in provisions	6,880
Increase/(decrease) in other operating liabilities	514
Increase/(decrease) in tax payable	2,349
	1,511
Components of cash	
Cash balance comprises:	
Cash on hand	14
Cash at bank	10,189
Investment with Tcorp	20,104
	30,307
Cash transferred from DEUS	20,809
Cash taken over on merging with FRWS	9,752

1 NSW Department of Energy, Utilities and Sustainability

2 See note 1(e)

3 Fish River Water Supply Authority

4 See note 1(o)

Notes to the Financial Statements Year ended 30 June 2005

Note	2005 \$'000
19 Commitments	
Capital Expenditure Commitments	
There were no known contracted capital expenditure commitments at balance sheet date that have not been provided for in these financial statements.	
Lease Commitments	
Non-cancellable operating lease commitments not provided for in the accounts:	
Not later than one year	562
Later than one year and not later than five years	652
	1,214
Operating Expenditure Commitments	
Estimated operating expenditure contracted for at balance sheet date but not provided for:	
Not later than one year	66
Later than one year and not later than five years	26
	92
The leases have no contingent rentals, renewal options, conditions or restrictions.	
20 Auditors' Remuneration	
Amounts paid and payable to the external auditor for Audit and review of the financial statements	
	121
21 Directors' Remuneration	
The aggregate amount of remuneration paid or due and payable, directly or indirectly to directors, but excluding salaries of full time officers	
	182
The aggregate amount of retirement benefits paid to superannuation plans during the financial year for the benefit of directors	
	16
	198
22 Directors' Appointments	
AG (Tony) Wright, Kathryn Ridge, Michael Bennett and the Chief Executive Officer, Abel Immaraj acted as interim directors of State Water Corporation from its formation on 1 July 2004. The appointment of directors was formalised on 1 October 2004 when the following non-executive directors were appointed:	
AG (Tony) Wright (Chairman)	
Kathleen Bowmer	
Michael Bennett	
Graham J Ebbett (resigned 15 February 2006)	
Kathryn Ridge	
Edward Woodley	
Don Marples (appointed as a director on 24 April 2006)	
23 Related Party Disclosures	
The names of persons holding the position of director of State Water Corporation during the financial year are:	
AG (Tony) Wright (Chairman)	
Abel Immaraj (Chief Executive Officer)	
Kathleen Bowmer	
Michael Bennett	
Graham J Ebbett	
Kathryn Ridge	
Edward Woodley	
Details of directors remuneration are set out in note 21.	
Some Directors of State Water are also directors of other companies, or have a substantial interest in other companies or entities, that may have had transactions with State Water during the year. A register of Directors' interests is confirmed and noted at each meeting of the Board. During the year, there were no declared director related party material interests.	

Notes to the Financial Statements Year ended 30 June 2005

Note

2005

24 Superannuation Plans

All employees are entitled to benefits on retirement, disability or death. The superannuation plans are administered by Pillar Administration (formerly the Superannuation Administration Corporation). State Water Corporation contributes to the defined benefit State Superannuation Scheme, State Authorities Superannuation Scheme and State Authorities Non-Contributory Superannuation Scheme and other defined contribution schemes.

In the case of defined benefit schemes, employer contributions are based on the advice of the plans' actuaries. Employee contributions are based on various percentages of employee gross salaries. The actual contributions are expensed at the time of payment. The plans provide defined benefits to qualifying employees, based on length of service and final average salary.

The assessment of the defined benefit plans as at 30 June 2005 by Pillar Administration, the funds' administrator, showed that the fund was fully funded under existing accounting standards. The actuary adopted the following assumptions:

- Expected return 7.0%
- Rate of salary increase 4.0%
- Rate of CPI 2.5%

Payments made to Pillar towards superannuation liabilities are held in Investment Reserve Accounts. The superannuation position of the funds as at 30 June 2005 was:

	SASS	SANCS	SSS	Total
Gross Liability assessed by actuaries as at 30 June 2005	6,651	2,639	14,161	23,451
Investment Reserve account balance	7,642	3,347	14,576	25,565
Overfunded	991	708	415	2,114

- (i) SASS = State Authorities Superannuation Scheme
- (ii) SANCS = State Authorities Non-Contributory Superannuation Scheme
- (iii) SSS = State Superannuation Scheme

However, under AIFRS (note 27), the benefits are to be valued using the long-term bond rate (5.2%) instead of the expected return (7.0%). This valuation method results in a calculated deficit of \$7,188,082 as at 30 June 2005. State Water Corporation will negotiate with NSW Government, the former employer, to fund this amount in respect of employees transferred to State Water on 1 July 2004. Failing a positive outcome of these discussions, State Water Corporation will provide this amount from its own reserves.

25 Contingent Liabilities

Except for the possible impact of the changed discount rate on employee benefits (Note 24), there are no known contingent liabilities that would impact on the state of affairs of the economic entity or have a material effect on these financial statements.

26 Events Subsequent to Balance Sheet Date

There are no known events that would impact on the state of affairs of the economic entity or have a material effect on these financial statements.

Notes to the Financial Statements

Year ended 30 June 2005

Note

30 June 2005

27 Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS)

Adoption of AIFRS

In July 2002, the Financial Reporting Council (FRC) and the Australian Accounting Standards Board (AASB) announced that all reporting entities must comply with the standards issued by the International Accounting Standards Board (IASB) for reporting periods on or after 1 January 2005. NSW Treasury has mandated that NSW Government owned enterprises will apply the Australian equivalents to International Financial Reporting Standards (AIFRS).

Management of Transition to AIFRS

State Water Corporation will apply the AIFRS for the year ending 30 June 2006.

As part of managing the transition to AIFRS, the Audit and Compliance Committee will oversight the implementation strategy. An AIFRS project team, made up of internal and external resources has been established to manage the transition in a structured and controlled manner. To date, a high level assessment of gap differences and detailed assessments of impacts have been completed.

Impact on Transition to AIFRS

State Water Corporation has determined the key areas where changes in accounting policies are likely to impact the financial report. Some of these impacts arise because AIFRS requirements are different from existing AASB requirements (AGAAP). Other impacts are likely to arise from options in AIFRS.

To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it is likely to mandate for the NSW Public Sector. The impacts identified below reflect Treasury's likely mandates (referred to as "indicative mandates").

State Water has quantified the impact of all material gap differences on the equity, profit/loss or cash flows as at the date of preparing the 30 June 2005 financial report. The actual assessment of effects of the transition may differ from the current assessment outlined below because of pending changes to AIFRS, including the UIG Interpretations and/or emerging accepted practice in their interpretation and application. State Water's accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS).

The key areas where accounting policies are expected to change on adoption of AIFRS are set out below:

- 27.1 AASB 116 Property, Plant and Equipment requires for-profit entities to recognise revaluation increments and decrements on an individual asset basis, rather than a class basis. There is no impact on transition as a result of this requirement.
- 27.2 AASB 136 Impairment of Assets states that the carrying amount of non-current assets, excluding deferred tax assets, must be reviewed at each reporting date to determine whether there is an indication of impairment. If there is such an indication, an impairment test must be undertaken to compare the carrying amount of the asset with its recoverable amount. AIFRS requires impairment to be considered at an individual asset level. It does recognise that not all assets generate cash inflows on a stand alone basis and allows assets to be combined into cash generating units (CGUs) where this is the case. A discount rate of the pre-tax weighted average cost of capital is to be used for impairment testing. Impairment losses are recognised as an expense unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrement. State Water has determined that it comprises a single cash generating unit for the purpose of this Standard.
- 27.3 AASB 116 Property, Plant and Equipment requires major inspection costs to be capitalised, where these are currently expensed. This will require the fair value and depreciation of the related asset to be re-allocated. State Water is currently in the process of identifying whether or not such major inspection costs are material and should be capitalised.
- 27.4 AASB 116 Property, Plant and Equipment requires the cost and fair value of property, plant and equipment to be increased to include the estimated restoration and make good cost, where restoration and make good provisions are recognised under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. These capitalised restoration and make good costs must be depreciated from the acquisition date and the unwinding of the discounted present value measurement of the restoration provision must be recognised as a finance expense. This treatment is not required under current AGAAP. State Water has established that no material obligations of this nature exist.

Notes to the Financial Statements

Year ended 30 June 2005

Note

30 June 2005

27

(ctd) Impact of Adopting Australian Equivalents to International Financial Reporting Standards (AIFRS)

- 27.5 AASB 138 Intangible assets requires all research costs to be expensed and restricts the capitalisation of development costs. Current AGAAP permits some research and development costs to be capitalised when certain criteria are met. State Water has reviewed costs contained within Work-in-Progress (WIP) for compliance with these criteria and has identified that a total of \$8.154 million will need to be derecognised. Further, intangibles can only be revalued where there is an active market, which is not the case for State Water. There is no impact of this requirement on transition. The adoption of AASB 138 will also result in certain reclassifications from property, plant and equipment to intangible assets (eg computer software, TAMP, and easements).
- 27.6 AASB 120 Accounting for Government Grants and Disclosure of Government Assistance requires for-profit entities to recognise grant income over the period necessary to match related costs. This has the effect of delaying revenue recognition and increasing liabilities. Under current AGAAP, grants are normally recognised on receipt. It is possible that AASB 120 may be amended to adopt the approach in AASB 141 Agriculture.
- 27.7 AASB 119 Employee Benefits requires the defined benefit superannuation obligation to be discounted using the government bond rate at each reporting date, rather than the long-term expected rate of return on plan assets. This will increase the defined benefit superannuation liability (or decrease the asset if in an overfunded position) and change the quantum of the superannuation expense. The change in the discount rate on superannuation obligations will decrease the net profit for the year ended 30 June 2005 and increase liabilities as at 30 June 2005 by \$9.302 million.
- 27.8 AASB 119 Employee Benefits requires present value measurement for all long-term employee benefits. Current AGAAP provides that wages, salaries, annual leave and sick leave are measured at nominal value in all circumstances. State Water has long-term annual leave benefits and accordingly will measure these benefits at present value, rather than nominal value, thereby decreasing the employee benefits liability and changing the quantum of the annual leave expense. This is not expected to have a material impact on State Water.
- 27.9 AASB 112 Income Taxes uses a balance sheet approach which requires the differences between the accounting and tax value of assets and liabilities to be recognised as deferred tax assets or liabilities. Current AGAAP uses an operating statement method that accounts for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach alters the quantum and timing of tax assets and liabilities recognised. In particular, the balance sheet approach results in the recognition of a deferred tax liability in relation to revalued assets that are generally not recognised under current AGAAP. This also changes the quantum and timing of the tax expense. State Water is currently evaluating the impact of this standard.
- 27.10 AASB 117 Leasing applies a substance over form approach to determining if a lease is classified as operating or finance. Any lease incentives or fixed increases are to be recognised over the course of the lease on a straight line basis. State Water has reviewed its lease contracts and established that no material adjustments will be required.
- 27.11 AASB 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and Measurement will be applied from 1 July 2005. In accordance with NSW Treasury's indicative mandates, State Water will apply the exemption provided in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards not to apply the requirements of AASB 132 and AASB 139 for the financial year ended 30 June 2005. These standards will apply from 1 July 2005. When these standards are applied, they may impact on retained earnings (on first adoption) and the amount and volatility of profit/loss. Further, the impact of these standards will in part depend on whether the fair value option can or will be mandated consistent with Government Finance Statistics. State Water is currently reviewing its policies for provisioning for doubtful debts for compliance with AIFRS and undertaking a review of contracts for embedded derivatives.

Notes to the Financial Statements Year ended 30 June 2005

Note	2005 \$'000
27 (ctd) Given the above analysis of AIFRS impacts, the following provides State Water Corporation's best estimate of the impact on equity and net profit on the respective reported positions under AGAAP.	

Reconciliation of key aggregates under existing Standards (AGAAP) and AIFRS:

Total equity under existing standards (AGAAP)	316,159
Adjustment to equity:	
Defined benefit superannuation adjustment for change in discount rate	(6,511)
Items deemed as expenditure under AIFRS	(5,708)
Total equity under AIFRS	303,940
Reconciliation of Net Profit Attributable to members of State Water	
Net Profit under existing standards (AGAAP)	(2,039)
Defined benefit superannuation provision	(9,302)
Write-off of amounts deemed as expenditure under AIFRS	(8,154)
Income tax effect of above items	5,237
Net Loss attributable to members under AIFRS	(14,258)

The actual effects of the transition may differ from the the above expectations because of pending changes to the AIFRS, including UIG Interpretations and/or emerging accepted practice in their interpretation and application. State Water's accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the impact is uncertain because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Current Australian standards require borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised and other borrowing costs to be expensed. AASB 123 Borrowing Costs provides the option to expense or capitalised borrowing costs. NSW Treasury's indicative mandate requires all General Government Sector agencies to expense all borrowing costs to harmonise with Government Finance statistics reporting. This reduces the recognised value of assets and reduces profits.

In accordance with NSW Treasury's indicative mandates, State Water Corporation will apply the exemption provided in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards not to apply the requirements of AASB 132 Financial Instruments: Presentation and Disclosures and AASB 139 Financial Instruments: Recognition and Measurement for the financial year ended 30 June 2005. These standards will apply from 1 July 2005. None of the information provided in these financial statements includes any impacts for financial instruments. However, when these standards are applied, they are likely to impact on retained earnings and the amount and volatility of profit/loss. Further, the impact of these standards will in part depend on whether the fair value option can or will be mandated consistent with Government Finance statistics.

28 Administered Revenues, Expenses, Assets and Liabilities

Administered Revenues

Water Revenue

Regulated	8,287
Unregulated	4,298
Groundwater	3,958
	16,543
Administered Assets	16,543
Accrued Water Sales	

The amounts shown above have not been recognised in the Statement of Financial Performance and the Statement of Financial Position, as they arise from an agency arrangement with the Department of Infrastructure Planning and Natural Resources (DIPNR).

Under this arrangement State Water is responsible for billing licence holders on behalf of DIPNR for unregulated river and groundwater charges determined by IPART. It was also responsible for billing licence holders for regulated river charges which were to be shared between State Water and DIPNR. When collected by State Water these charges were to be paid on to DIPNR.

Glossary

CAIRO	Computer Aided Improvements to River Operations
CEO	Chief Executive Officer
CMA	Catchment Management Authority
CPI	Consumer Price Index
CRP	Community Reference Panel
CSC	Customer Service Committee
DEC	Department of Environment and Conservation
DEUS	Department of Energy, Utilities and Sustainability
DIPNR	Department of Infrastructure, Planning and Natural Resources (now Department of Natural Resources)
DLWC	Department of Land and Water Conservation
DoC	Department of Commerce
DPI	Department of Primary Industries
DSC	NSW Dams Safety Committee
DSEP	Dam Safety Emergency Plan
EFT	Effective Full Time
EXPLAN	Expenditure Planning (for strategic asset management)
FMMS	Facilities Maintenance Management System
FRWS	Fish River Water Supply
GL	Gigalitre (100 million litres)
GW	Gigawatts
GWh	Gigawatt hours
IPART	Independent Pricing and Regulatory Tribunal
IVR	Interactive Voice Response
JCC	Joint Consultative Committee
MDBC	Murray-Darling Basin Commission
ML	Megalitre (1,000,000 litres)
MoU	Memorandum of Understanding
MW	Megawatts
MWh	Megawatt hours
MPM	Major Periodic Maintenance
OH&S	Occupational Health & Safety
SCADA	Supervisory Control and Data Acquisition System
SCSC	Staff Consultative Steering Committee
SES	NSW Senior Executive Service
SFE	Sydney Futures Exchange
SMS	Short Messaging Service
TAMP	Total Asset Management Plan
WIX	Water Information Exchange
WOU	Water Ordering and Usage
WRAPP	Waste Reduction and Purchasing Policy

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