

annual report



06-07

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 Watkins MP
Deputy Premier, Minister for Transport,
Minister for Finance
Level 30 Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

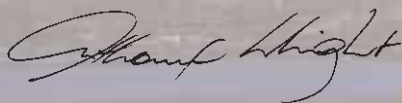
Dear Ministers

We present State Water Corporation's 2006-07 Annual Report, which outlines the performance of the Corporation during the past financial year.

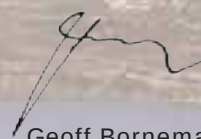
This report has been prepared for presentation to the New South Wales Parliament, in accordance with the *Annual Reports (Statutory Bodies) Act 1984* and the *State Owned Corporations Act 1989*. It includes financial statements prepared in accordance with the *Public Finance and Audit Act 1983* and a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

The Independent Audit Report for the 2006-07 accounts was signed by the Auditor-General's Office on 22 October, allowing this Annual Report to be published.

Yours sincerely



AG (Tony) Wright
Chairman



Geoff Borneman
A/Chief Executive Officer

Cover: *Background* - Glenbawn Dam. *Foreground* - State Water Project Management Services Manager Glenn Tully and Environmental Project Officer Jocelyn Karsten.

About Glenbawn Dam

Glenbawn Dam is situated on the Hunter River about 20km east of Scone. The dam was named after a riverside property that was engulfed for part of the water storage area.

Glenbawn Dam celebrates 50 years of operation in 2008 after the dam was completed in 1958.

The primary role of Glenbawn Dam is to regulate the flow of the Hunter River to meet stock, domestic and irrigation needs. A major upgrade of the dam occurred in 1986 and Glenbawn Dam now holds 750,000ML at full supply capacity.

The wall is 100m high, 1.125km long, and is of rock and earth fill construction. The lake has a surface area of some 2,615 hectares along with a maximum depth of 85 metres. The dam also has additional reserve capacity to hold back a further 120,000ML of water in flood situations.

contents

Who We Are	4
Our Achievements	6
Message from the Chairman	8
Message from the CEO	10
Our Board	12
Our Management Team	14
Our Strategic Direction	16
Excellent Customer Service	22
Best Practice Operations	50
Supportive Stakeholders	64
Great People	68
Enhanced Environment	78
Strategic Asset Investment	88
Profitable Business Growth	100
Corporate Governance	104
Financial Statements	120
Glossary	186
Index	187
Office Locations	190

What We Do

On regulated river systems in NSW, we:

- Deliver allocated water to customers and the environment
- Deliver environmental flows, according to water sharing plans (WSPs)
- Compile and analyse water orders
- Manage customer water accounts
- Measure and monitor water usage
- Coordinate Water Allocation Assignments (Temporary Transfers)
- Manage supply and delivery restrictions
- Issue bulk water bills and accounts
- Ensure compliance with metering standards
- Take action against overuse of water allocations
- Suspend customer accounts for non-payment.

Water Resource Management

In NSW, the regulator and policy maker for water resource management is the Department of Water and Energy (DWE). It develops natural resource policy frameworks, strategies and plans related to water management, water quality, salinity, soils, vegetation and environmental sustainability.

DWE is accountable for WSPs, which define the rules for sharing the water resources of each regulated river valley, between consumptive users and the environment.

The WSPs contain the sharing rules for each river valley, to determine how much water goes to users and how much to the environment. WSPs have been gazetted in seven regulated river valleys; Gwydir, Namoi, Macquarie, Lachlan, Murrumbidgee, Murray-Lower Darling and the Hunter.

State Water operates in accordance with these WSP and delivers water to customers and the environment. Based on the WSP rules, the available water resources are shared throughout the year, allowing water for the environment and for consumptive use.

Customers' water accounts are credited with their volume of available water and, as they use their water, their usage is debited from their accounts.

Bulk Water Pricing

Water prices are set by the Independent Regulatory and Pricing Tribunal (IPART) and cover State Water's costs of delivering water and maintaining and operating infrastructure. Bulk water prices are not based on the value of water, but based on the recovery of costs incurred in delivering water.

Ministerial Responsibility

State Water has two voting shareholders, the Treasurer and the Minister for Finance, with whom we enter into a Statement of Corporate Intent. Our Operating Licence is issued by our Portfolio Minister, the Minister for Climate Change, Environment and Water.



Needle beams at Lock 15 Euston

our achievements 2004-07

Achievements	Critical Success Factor
Customer satisfaction index improved from 7.2 in 2002 to 7.3 in 2006, as reported in the customer survey results.	Excellent Customer Service
Awareness of State Water's role has improved, with more than 85% of customers understanding the organisation's responsibilities for water releases, water delivery, maintenance and upgrades of dams.	Excellent Customer Service
Communication with customers by email increased by 6.3%, along with the introduction of SMS text message announcements.	Excellent Customer Service
In the past three years, State Water has delivered 100% of water allocations despite drought conditions, delivering 2,200GL in 2006-07.	Best Practice Operations
Water sharing plans have been implemented, incident free.	Best Practice Operations
Memoranda of Understanding have been signed with three government agencies which help define best practice in environmental management and support cooperative relationships between agencies.	Supportive Stakeholders
Operating profit as a proportion of revenue increased from 2.1% in 2004-05 to 15.5% in 2006-07.	Sound Financial Performance
Achieved an extra 27% in allocations in the drought-affected Hunter in 2006-07 by improving river operations and modifying outlet works at Glenbawn Dam.	Best Practice Operations
Reduced in-stream losses and delivered all available water in user accounts in the Namoi and Gwydir valleys in 2006-07 by managing block releases.	Best Practice Operations
State Water's capital investment program totalled \$15.1 million for 2006-07 and major capital works projects carried out by State Water in 2006-07 totalled \$12.3 million.	Strategic Asset Investment
In times of drought, alternative methods of accessing water have been introduced, including the recommissioning of old dam valves.	Best Practice Operations
State Water recognised 10 employees with Long Service Medals, which collectively totalled more than 400 years experience in the water industry.	Great People
Customer notifications indicated only 0.001% of complying orders were delivered outside one day of the scheduled day of delivery.	Excellent Customer Service
The customer account enquiries hotline received more than 550 calls per month and registered only 18 formal complaints.	Excellent Customer Service
State Water introduced a Debt Management Policy, providing greater access to deferred payment arrangements for customers experiencing difficulty paying their water bills and ensuring State Water's income stream. Some 273 customers were in receipt of assistance in 2006-07.	Sound Financial Performance

Achievements	Critical Success Factor
Out of six unplanned water supply interruptions for the Fish River Water Supply, only three interrupted supply.	Excellent Customer Service
State Water achieved full or high compliance rating for 81% of the key requirements of the Operating Licence.	Best Practice Operations
State Water received 100% compliance rating for five year dam surveillance reports, annual maintenance audits on dams and two yearly audits on weirs.	Best Practice Operations
State Water significantly reduced its cost of lost time injuries by 15% from \$11,540 to \$3,682.	Great People
In a milestone for State Water, 36 worksites achieved more than 365 days with no lost time due to injury.	Great People
New fishway built at Island Creek Weir, taking the total of open river for native fish movement to 741km.	Enhanced Environment
In improvements to water delivery and operational efficiencies, willow trees were removed from a further 19km of river. In total State Water has improved more than 40km of river foreshore.	Enhanced Environment
To encourage training and development, State Water provides opportunities for employees to undertake placements in temporary vacancies. More than 40 expressions of interest were advertised internally.	Great People
In 2006-07, more than 90 separate communications were sent to customers covering supplementary and off allocation flow access.	Excellent Customer Service

Lostock Dam spillway



message from the chairman



State Water's third year as a corporatised business was dominated by intensified drought conditions and continued business reform. Considerably less water was available for distribution than in the past two years and the amount of water supplied to customers hit a record low level. State Water put special effort into communicating available water determinations and maximising water supply efficiency.

Operations

With initial water storage at only 37% of capacity, and little runoff into storages, we delivered only 40% of average water volume. At 2,200GL, the volume of water delivered was a substantial decrease on last year's 4,500GL, which was only 82% of average. Five of the seven valleys with water sharing plans received a zero allocation for general security while the Murrumbidgee Valley received 10% and the Hunter Valley 35%. Some water was available as 2005-06 carryover. This amounted to a volume equivalent to 16% of general security share components.

State Water's Community Consultative Committee continued to provide an effective forum for stakeholders to provide input into our operations. Coupled with the ongoing support of our nine valley-based Customer Service Committees, this has helped us forge relationships with a wide set of stakeholders.

Financial

Water delivery revenue was down by 8.3% on last year to \$33 million, due to lower deliveries and the progressive move to an increased variable component in the tariff structure. Overall income amounted to \$72.5 million, down by \$6 million on the previous year. The NSW Government contributed revenue of \$27 million, up 9.8% on the previous year, and included compensation to State Water of \$1.9 million for the waiving of Lachlan Valley general security entitlement charges as a result of continuing severe drought conditions. Other revenue of \$10.5 million was down significantly (by 31.6%) from the previous year due largely to reduced contract work undertaken.

Total operating expenses reduced by 9.0% to \$60.2 million, principally as a result of reduced contract work undertaken. Profit before income tax and actuarial superannuation adjustments was \$9.8 million, up 19.2% on the previous year, a pleasing result in the circumstances. A substantial positive net movement in superannuation reserve position of \$5.0 million contributed to a net profit after tax of \$13.2 million, up 16.6% on last year.

Investment

A major review of dam safety compliance was completed and a cost-effective program was prepared to achieve safety compliance across the dam portfolio. This program was endorsed by the NSW Dams Safety Committee, the State's regulator of dam safety requirements. A program management approach is now being implemented to upgrade at-risk dams, including: Keepit, Chaffey, Split Rock, Blowering, Copeton, Burrendong, and Wyangala dams.

Water efficiency projects have been high on the agenda, culminating in innovative ventures, including the \$12 million Lake Brewster Water Efficiency Project. This will generate water savings of up to 10GL, improve general security reliability and create 1,100ha of managed wetlands to improve water quality and habitat in Lake Brewster.

Strategic Direction

The Board continued its active role in guiding the strategic reform agenda and monitoring implementation of key programs including Business Basics, aimed at getting the fundamental utility business and compliance functions operating effectively; Dam Safety, to bring all dams to an acceptable level of flood security; Cost Structure Realignment, to reduce operating expenditure in line with the 2006 IPART determination; and Business Improvement, to upgrade the way State Water conducts its business and provides value to customers and shareholders.

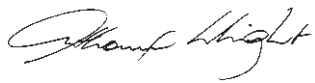
Our People

Special thanks to our employees for their continued commitment during the challenges of change over the last three years, and particularly for the support provided to customers.

I want also to thank my Board colleagues for their important contribution throughout this year of progress. The Board farewelled two Directors during the year – the former CEO and Executive Director, Abel Immaraj and Non-executive Director, Ted Woodley. He was a member of the Initial Board, established in October 2004, and chaired the Risk Management Committee. With extensive experience in both the water and energy utilities, Ted brought a balanced approach to the Board and made a significant contribution during his two-year term.

Abel Immaraj spent 16 years with State Water and its predecessors. He was the first CEO of State Water Corporation, after several years running State Water as a commercial unit of a government department. Abel brought to the business an extraordinary understanding of water management and a detailed knowledge of water operations, mostly gained at the grass roots level as an operator in the Murrumbidgee Valley. He is widely respected throughout the water industry and he greatly assisted the Board to size up the issues confronting State Water and set the course for business success. Geoff Borneman has very capably stepped into the role as acting CEO and worked closely with the Board to carry forward the wide-ranging reforms.

Finally I want to extend my sincere thanks to the Shareholding Ministers and Portfolio Minister for their continued support. I commend this report to you and look forward working with you to further develop the corporation's success over coming years.



A G (Tony) Wright
Chairman



State Water Board: Mike Bennett, Kathy Ridge, Geoff Borneman, AG (Tony) Wright, Kath Bowmer and Don Marples

message from the ceo



State Water made real progress in the past year in each of its priority areas and is maturing as a corporation. Driven by our corporate plan, we have focused our efforts on the activities that make a real difference in the delivery of bulk water to regional and rural NSW and focusing on our vision to be Australia's leading water business.

It is important to recognise that the achievements delivered throughout the year occurred against a backdrop of prolonged drought, which has a significant implication on the day-to-day running of State Water, its stakeholders and customers.

During 2006-07, State Water contributed to the development of a successful NSW bid to the Australian Water Fund project, The NSW Rivers Environmental Restoration Program, which is coordinated by the Department of Environment and Climate Change. The National Water Commission approved funding of \$71 million for the program, including \$10 million for the State Water sub-project Better Delivery of Environmental Water. This project aims to improve the release, management and delivery of environmental flows through a range of feasibility studies and structural works that provide for the removal of in-stream barriers and improvements in the quality, quantity and timing of environmental flows.

Customer service remains of paramount importance to State Water and in response to the 2006 Customer Service Survey, we developed a strategy to address areas of improvement highlighted by our customers. The strategy is a key driver in our business planning process and aims to improve the relationship between State Water and our customers by focusing on: customer contact, water ordering and delivering, invoicing, information and communication, customer service committees.

Teething problems, associated with introducing new systems, prevented us from submitting our 2005-06 accounts by the statutory deadline. However, new systems have now been introduced to streamline our financial processes and ensure all business basics are in place. We face some challenging years ahead in light of the 2006 IPART Price Determination, which requires us to progressively reduce our regulated operating expenditure by \$16 million against planned levels by 2009-10. My focus, since taking on the Acting CEO role last December, has been on systems improvement and cost structure reforms.

A business can only grow as much as its people and, at a corporate level, there has been a strong focus on both personal and corporate values this year, particularly on how they bring about good business through better working relationships. To make these changes, a Cultural Change Program was instigated and a cross-section of the organisation was involved in developing the 2006-09 Corporate Plan. A key part of this program was delivering systems and processes to move the organisation forward and develop leadership skills for employees.

With safety now a core value for State Water, we increased our focus on the critical importance of occupational health and safety this year. This has helped ensure full reporting of injuries. While our lost time injury rate increased significantly, I am now comfortable that our employees are reporting all injuries so that we can now identify trends. This improvement in reporting and management of injuries has led to a significant decline in the severity and cost of claims. We expect a decline in future recurrent injuries due to improved rehabilitation of injured employees.

I am passionate about my role with State Water and see an exciting future ahead. While we are facing some significant challenges to improve the efficiency of our operations, we are working towards becoming an employer of choice and being recognised as a leader within the water industry in Australia.

A handwritten signature in dark ink, appearing to read 'Geoff Borneman'.

Geoff Borneman
Acting Chief Executive Officer



*State Water: Delivering the right amount of water to the right place
at the right time.*

our board



Michael Bennett BAgEcos (UNE)

State Water Director since 1 July 2004

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



Geoff Borneman BEng

Acting Chief Executive Officer and State Water Director since December 2006

- Convenor, IPART Committee
- Member, Risk Management Committee
- Member, Remuneration and Organisation Development Committee
- Member, Water Efficiency and Innovation Committee
- Member, Marketing and Customer Relations Reference Panel
- Member, River Murray Water Advisory Board
- Member, Natural Resources CEO Cluster Group

As acting CEO, Geoff has been instrumental in the development of critical business functions to achieve compliance with regulatory and licence requirements. He has successfully introduced a Cost Structure Reform Program to ensure the business meets efficient operating costs determined by the Independent Pricing and Regulatory Tribunal in 2006.

Geoff joined State Water in 2001 as Customer Service Manager for the Central Area. He has extensive experience in the water industry and has managed bulk water delivery in the Macquarie-Cudgegong and Lachlan valleys, working closely with stakeholders. Geoff has more than 25 years experience in the Department of Public Works and Services, principally with procurement and public infrastructure projects.



Kathleen Bowmer BSc(Hons), PhD(Nott), FAICD

Director since 1 October 2004

External Directorships

- NSW Department of 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.

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



Don Marples BCom, MCom, FFin, GAICD

Director since 24 April 2006.

External Directorships

- Director Fortius Funds Management Pty Ltd
- Director MPC Funding Ltd

Don is a Senior Management professional with 22 years experience in strategic leadership in banking, merchant banking and major corporations, with particular emphasis on property and infrastructure. He has led, grown and repositioned value-added financial and investment businesses in a high performance environment.

Don is the Joint Managing Director of Fortius Funds Management a specialist institutional property funds management group. Previously, Don was the General Manager and Global Head of Project and Infrastructure with the Commonwealth Bank and has held senior positions with Lend Lease Corporation Ltd and ANZ Banking Group.



Kathy Ridge LLB(Hons1), BSc

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 the Solicitor Director of Ridge and Associates Pty Ltd. 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 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.



A G (Tony) Wright Dip Tech, MBA

State Water Corporation Chairman since 1 July 2004

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 a Managing Director of a corporate strategy and public policy advisory firm, specialising in resource and infrastructure management. His career focus has been running utilities and developing infrastructure covering water, waste and transport industries.

Tony has played a significant role in developing the Australian environment management industry through leadership positions in the industry association, Environment Business Australia. 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.

our management team

Bob Barber BE(Hons), MEngSc

Manager Technical Services

Responsible for major capital works, including the dam safety upgrade program, the Environment Management Plan, environmental and heritage requirements, the water quality monitoring program, project management systems, facility maintenance management system, engineering and contract services and hydro development.

Scott Barber BE, MAppSc

A/Customer Service Manager, North Area

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

Ross Barrie BE(Hons), MEngSc, MBA

Manager Strategic Asset Services

Responsible for strategic management and planning of the total asset portfolio and principal advisor on asset management policy, regulatory and legislative requirements. Branch provides specialised technical services, including asset performance surveillance monitoring, survey services, dam safety surveillance audit, emergency planning and engineering audits.

Lindsay Beck Dip Civil Eng

Customer Service Manager, South Area

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

Dan Berry BEng

Manager Information and Operations

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

Geoff Borneman BEng

A/Chief Executive Officer (from December 2006)

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

Marysia Derewlany BA(Hons), MTCP, MComm

Manager Strategic Policy and Compliance and Company Secretary

Responsible for managing the Board processes, strategic policy and regulatory compliance, legal services and business risk management and internal audit.

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 Valley.



State Water Management Team Members, Geoff Borneman, Marysia Derewlany, Ross Barrie and Bob Barber - Absent: Sri Sritharan and Dennis Zandona



State Water Management Team Members, Dan Berry, Scott Barber, Lindsay Beck and Greg Hillis

Abel Immaraj MSc(Eng)**Chief Executive Officer (until December 2006)**

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

Sri Sritharan BSc(Hons) Civil Eng**A/Customer Service Manager, Central Area**

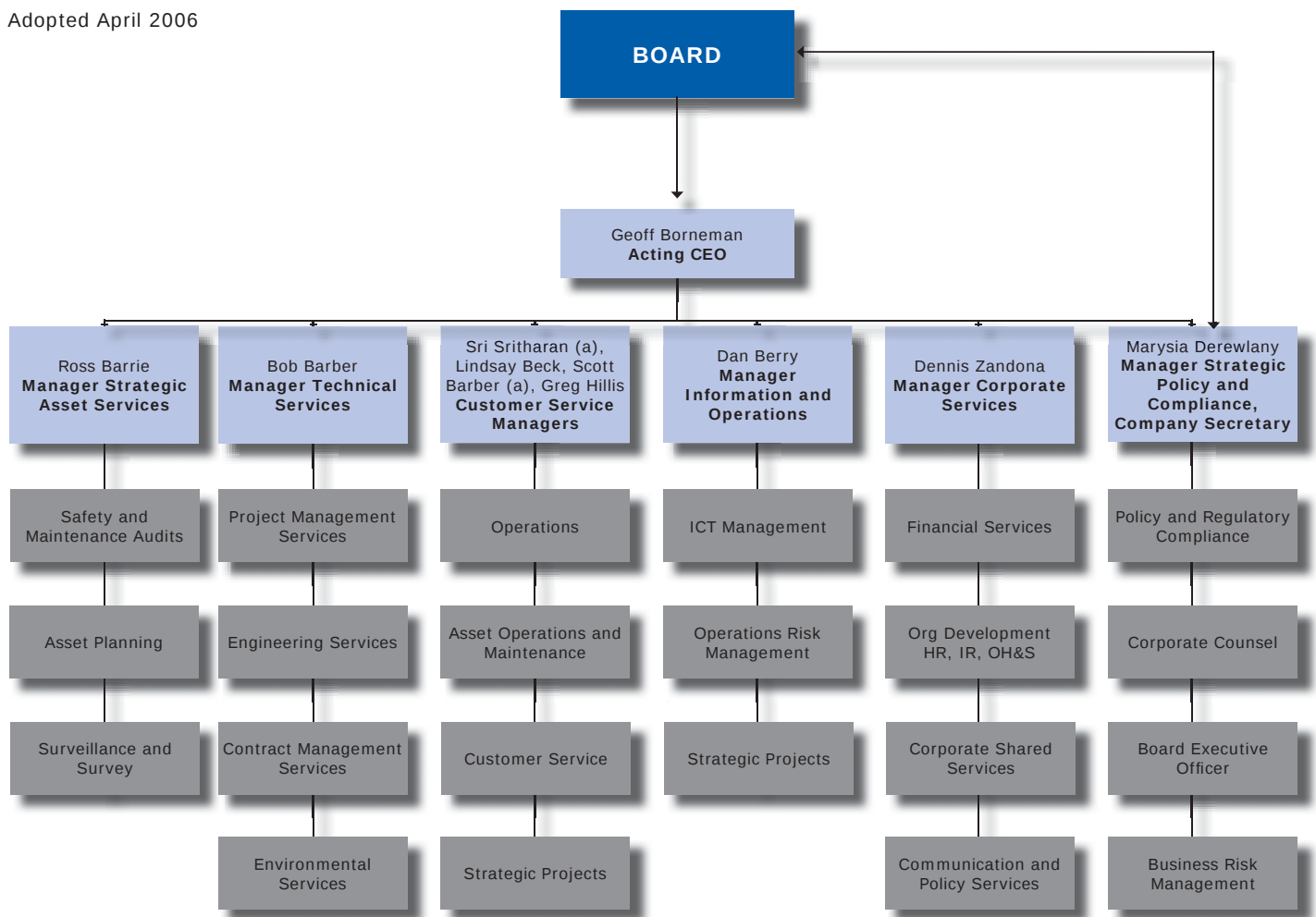
Responsible for leading bulk water delivery and infrastructure operations functions to customers and the community in the Central Area. This includes the Macquarie, Cudgegong and Lachlan valleys and Fish River Water Supply.

Dennis Zandona BEc Syd, JP**Manager Corporate Services**

Responsible for strategic direction and management of the Corporate Finance and Accounts Group, including the Chief Finance Officer, Corporate Shared Services, Organisation Development, and Corporate Policy and Communication. Areas of accountability include billing, accounts payable/receivable, human resources, industrial relations, payroll, fleet and facilities management, internal and external communications and corporate policy.

organisation structure

Adopted April 2006



our strategic direction

Our Vision

To be Australia's leading water business.

Our Purpose

To efficiently deliver water and services to customers, the community and the environment, to improve life and the economy.

Critical Success Factors

- Excellent Customer Service
- Great People
- Best Practice Operations
- Supportive Stakeholders
- Enhanced Environment
- Strategic Asset Investment
- Profitable Business Growth
- Sound Financial Performance.

Our Values

We operate on the basis of our corporate values:

Accountability

We are responsible for our actions, behaviours and outcomes.

Customer Service

We meet our customers' needs and strive to exceed their expectations.

Environment

We respect and enhance the environment.

Expertise

We apply our skills, competency and experience to deliver effective and innovative solutions.

Integrity and Respect

We are honest, truthful and respectful in all that we do.

People

We support, develop and motivate each other, professionally and personally.

Safety

We put safety above time, cost, productivity and employment.

Shareholder Value

We deliver consistent returns and long term growth.

In our relationships with each other we aspire to:

- Be truthful
- Trust each other
- Coach unselfishly
- Be open to new ideas
- Be innovative and supportive
- Give credit where it's due
- Put the interests of others first
- Have pride in State Water.



our corporate plan

Critical Success Factor: Excellent Customer Service

Performance Measure

- Determine the needs and unsatisfied wants of customers
- Improve internal customer service
- Strengthen customer relationships

Critical Success Factor: Best Practice Operations

Performance Measure

- Conduct a Business Analysis of corporate systems
- Consolidate and streamline corporate policies and procedures
- Conduct benchmarking against Levels of Service, Standards and Best Practice
- Procurement and service delivery of major capital works program

Critical Success Factor: Supportive Stakeholders

Performance Measure

- Developing the Memoranda of Understanding (MoU) with government agencies
- Increase shareholder understanding of revenue volatility and State Water management of the issue

Critical Success Factor: Great People

Performance Measure

- Develop and implement the Workforce Plan to ensure business critical systems are resourced
- Implement employee survey recommendations
- Improve individual accountability and performance
- Develop and motivate employees through improved leadership, team work and internal communication

Critical Success Factor: Enhanced Environment

Performance Measure

- Environment Management Plan implemented, monitored and reported against

Critical Success Factor: Strategic Asset Investment

Performance Measure

- Develop a program of capital works
- Develop emergency response and Dam Safety Emergency Plans
- Develop and manage assets under the Total Asset Management Plan, consistent with NSW Government Asset Management Committee

Critical Success Factor: Profitable Business Growth

Performance Measure

- Securing Funding for Catchment Improvement Projects
- Reduce adverse impacts of revenue volatility on operating and investment strategies

Critical Success Factor: Sound Financial Performance

Performance Measure

- Audited Financial Statements



State Water has taken advantage of low dam and river levels to perform maintenance on some assets that have been inundated since construction.



operating licence performance

State Water delivers services under an Operating Licence granted by the NSW Government.

The Licence sets out conditions relating to the following matters:

- State Water's responsibilities
- Functions authorised by the Licence
- Customers and community engagement
- Complaints and dispute handling
- Asset management
- Water delivery
- The environment
- Performance indicators
- Pricing
- Licence audits by IPART.

The following table summarises State Water's performance relative to the requirements of the Operating Licence. Additional information on State Water's compliance with the Operating Licence in 2006-07 can be found in the annual Operating Licence report to IPART, which is published on State Water's website.

2006-07 Operating Licence Performance

Issue	Requirement	Achievement
Memoranda of Understanding (MoU)	Use best endeavours to establish MoU with Department of Environment and Climate Change (DECC), DWE and Department Primary Industries (DPI). Make MoU available to the public.	State Water continues to have in place MoUs with DECC, DWE and DPI. MoU available on State Water's website.
State Water functions authorised by the Licence	Exercise functions under the Licence consistently with Water Act, Water Management Act, the Licence and relevant water management plans.	No reported instances of non-compliance.
Community Consultative Committee (CCC)	Establish and regularly consult with the CCC.	Meetings held 27 July 2006 and 24 November 2006.
Customer Service Committees (CSCs)	Establish and regularly consult with CSCs.	Regular meetings of the CSCs have taken place in all valleys. (see page 39 for further details)

Issue	Requirement	Achievement
Customer Service Charter	Establish a Customer Service Charter in consultation with CSCs. Make charter available to the public, review the charter in consultation with CSCs by 1 July 2007.	The charter has been established and is available on State Water's website. In 2006-07, State Water reviewed the charter in consultation with CSCs. A new Customer Service Charter has been is effective from 1 July 2007.(see page 38 for further details)
Fish River Customer Council	Establish and regularly consult with Customer Council.	Regular meetings of the council have occurred. (See page 39 for further details)
Code of Practice and Procedure for Debt Management	Develop a code of practice and a procedure for debt management.	State Water continues to have in place a code of practice and procedure for debt management. The code is available on State Water's website.
Internal Complaints Handling Procedure	Establish a procedure in consultation with IPART to determine complaint categories. Make procedure available to the public.	State Water finalised complaint categories with IPART and introduced a new complaints handling system on 1 September 2006. The complaints handling and resolution policy and procedures pamphlet, entitled "Customer Concerns", has been published and can be found on State Water's website.
External Dispute Resolution Scheme	Establish an external dispute resolution scheme which is consistent with requirements specified in the Operating Licence. Make a pamphlet regarding the scheme available to the public.	State Water has been a member of the Energy and Water Ombudsman of NSW (EWON) since 1 January 2006. State Water has included information about EWON in a pamphlet on complaints handling and dispute resolution which can be found on State Water's website.
Asset Management	State Water must report to IPART on the state of each group of assets managed by State Water.	State Water's report on the state of its assets was sent to IPART on 30 March 2007.
Performance Indicators	Maintain records to enable reporting against Schedule One indicators. Report to IPART by 1 September 2007 on performance against indicators.	In 2006-07, State Water implemented a new system to collect information on performance indicators which were not already captured using existing systems. State Water included its performance against the indicators in the annual Operating Licence report to IPART.

Issue	Requirement	Achievement
Water Delivery	Take reasonably practical steps to conserve water and minimise losses.	State Water's river operations are designed to maximise water delivery and minimise water losses. Specific initiatives in 2006-07 to increase operational efficiency in response to the ongoing drought included: • The development of an end of system averaging protocol to meet environmental flow targets and save water. • Minimising end of system losses, decreasing the use of some storages to reduce evaporation and seepage losses and implementing demand management to maximise downstream inflows. • Instream desilting to improve the efficiency of water delivery in the Gwydir River. • Liaising closely with customers to determine the best way to conduct water accounting in an extremely dry year without violating WSPs. • Working with irrigators to develop rules for equitable access to supplementary flows.
	Endeavour to ensure timely delivery of water.	Customer notifications indicated only 0.001% of complying orders were delivered outside one day of the scheduled day of delivery.
	Develop drought management plans when required.	State Water developed drought management plans in the Lachlan, Macquarie-Cudgegong and Hunter valleys. Although formal plans were not developed in the Murray or Murrumbidgee valleys, State Water worked closely with DWE throughout the year to manage the limited available resources.
Water Balances	Prepare annual water balances according to approved template by 1 September 2007 and make available to the public.	2006-07 water balances to be provided to IPART in State Water's annual Operating Licence report. The report will be placed on State Water's website.
Environment Management Plan (EMP)	Review and update the EMP by 1 July 2007 in consultation with relevant agencies and stakeholders.	In 2006-07, State Water reviewed and updated the EMP in consultation with relevant agencies and stakeholders.
	Report to IPART by 1 September 2007 on performance against the EMP.	State Water included its compliance with the EMP in the annual Operating Licence report to IPART.
Pricing	Apply charges in accordance with IPART pricing determinations.	State Water has applied charges in accordance with the 2006 IPART determination.

excellent customer service



Warren based Customer Service Officer, Trevor Pearce

determine the needs and unsatisfied wants of customers

State Water is committed to surveying its customers every three years to determine their level of satisfaction.

One of the performance targets in the 2006–09 Corporate Plan is to maintain or improve the Customer Satisfaction Index (CSI).

In July and August 2006, the Hunter Valley Research Foundation conducted a survey of 590 regulated water licence holders. Results from the survey showed a slight improvement in the CSI, from 7.2 out of 10 in the 2002 customer survey to 7.3 in 2006.

The 2006 survey showed that most regulated licence holders are long term customers, with almost half of those surveyed in 2006 being bulk water users for 20 years or more and a further 25% being customers for at least 10 years.

In the four years since the previous survey, the method of communication with customers has changed significantly. Of those surveyed, contact with State Water employees at work or home increased, while customers made less visits to State Water offices. Email communication doubled, while communication by mail fell by nearly half.

The results suggested that when customers initiate contact with State Water their queries are handled to their satisfaction. They also showed that customers would appreciate more information from State Water on water related issues.

There is still a lack of awareness of State Water's responsibilities among some customers, as well as a low level of awareness of Customer Service Committee (CSC) operations and confusion about fixed and variable charges.

A strategy has been developed to address these and other issues. Actions in the strategy include: further development of on-line water ordering; more customer

newsletters; easier access to the local employee when a customer needs to talk to, including the possibility of a statewide 1300 phone number; a review of weekend water delivery operations; and improved authorisation for billing officers to negotiate payment terms.

Communicating the Effectiveness and Efficiency of State Water

As State Water is still in the relatively early stages of its development as an organisation, the level of awareness of its operations and role within the water industry is still somewhat unclear.

One of the biggest challenges for the organisation has been in distinguishing its role as separate from the former Department of Natural Resources (DNR), and now the Department of Water and Energy (DWE).

When it was established in 1999, State Water was a commercial business unit of the former Department of Land and Water Conservation. Since then it has reported to a number of other departments or agencies.

Results from the 2006 customer satisfaction survey suggest some customers do not understand the difference between the roles played by State Water and DWE or other agencies.

To improve this understanding, State Water embarked on a brand awareness campaign during 2006-07. The focus of this campaign has been strengthening the presence of the State Water logo and developing a marketing plan for 2007-08.

Publications have also been developed to help explain the things State Water is and isn't responsible for, as well as a key set of facts and statistics that can be used for multiple purposes.

Complaint Handling System

State Water receives feedback about its operations from many different avenues including CSCs, water user groups and customer satisfaction surveys.

Although employees and customers now have the option of formally recording the nature of a concern or issue on an official complaints form, only two complaints were registered using the new forms, with customers preferring to outline their concerns in a formal letter.

During the reporting year, 16 complaints were received directly by the Customer Service Managers in the form of a letter, phone call or email and 36 complaints were raised by letter with Members of Parliament.

The Billing Enquiries Hotline received more than 550 calls per month (more than of 6,500 annually) yet only registered 18 formal complaints into the Billing System "Proclaim", as the majority of customers' enquiries were resolved within the timeframe of the initial phone call.

State Water endeavours to resolve problems as quickly as possible at the coal face. State Water encourages

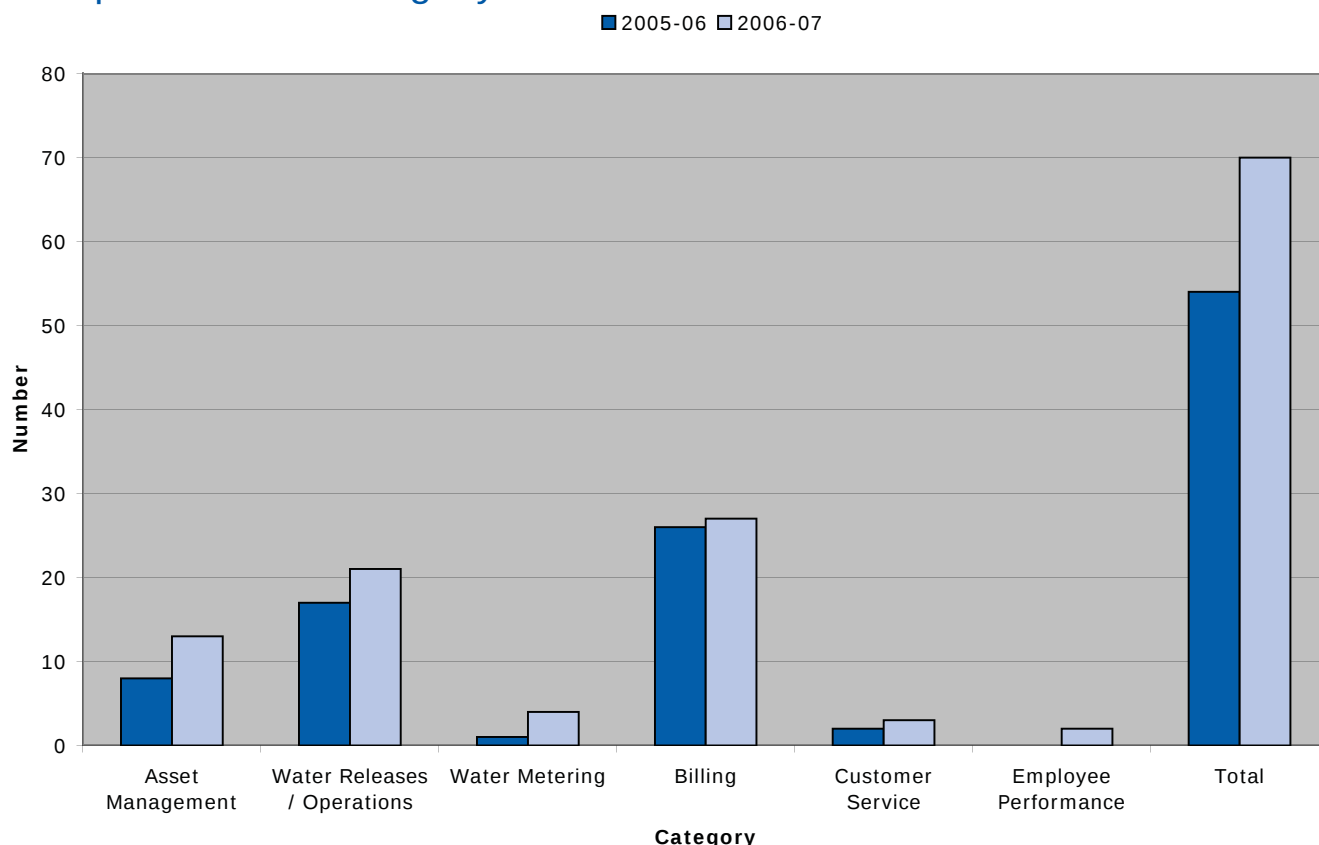
local officers to work with customers directly to resolve concerns. State Water addresses those that cannot be resolved between the customer and local officers on a priority basis.

State Water responds to all complaints raised through the Minister's office within four weeks of notification. Most local complaints are also resolved in less than four weeks.

With the introduction of a formal recording system for complaints and the associated raising of employee awareness of appropriate complaint handling procedures, the increase in the total number of complaints was expected (30% more than last reporting period).

However, in light of the total number of individual customers contracts (10,000 regulated licences and 7,000 groundwater meters read under contract for DWE) and the total number of individual customer transactions (3,787 temporary water transfers and more than 75,000 water orders), the total number of complaints as a percentage of total customers was extremely low and well within industry standards.

Complaints Via Category



improved customer and stakeholder satisfaction

State Water continually strives to ensure services are delivered to the satisfaction of its customers and other stakeholders.

Improvements to customer service levels in 2006-07 have included an increase in the use of e-mail based water ordering and the introduction of SMS text messaging to advise customers of changes in water availability and make other announcements.

The Lachlan Valley has also continued to use Verandah Chats to keep people informed of arrangements to cope during the longest drought on record.

The Coastal Valley introduced self-regulated assessments for uncontrolled flow events, improving the level of service provided outside normal business hours.

A similar service is now also available in the Namoi Valley. Block water release deliveries were used in the Namoi Valley again this summer, with significant improvements in the level of understanding of customer needs by State Water's operators.

Forums for customers and stakeholders to provide input to State Water's operations include the eight CSC, Fish River Water Supply Customer Council, Community Reference Panels (CRP) for the Chaffey and Keepit Dam upgrade projects and the Community Consultative Committee (CCC).

The CCC was established in 2006, in response to a requirement of State Water's Operating Licence and to provide a forum for community involvement in issues relevant to the obligations under the licence.

The CCC allows consultation with peak groups, including the Nature Conservation Council, Catchment Management Authorities, NSW Irrigators Association, NSW Farmers and the Aboriginal Land Council.

Developing Valley Business Plans

The development of valley business plans provides customers with an opportunity to have input into each valley's annual business planning.

Valley business plans are mechanisms for customers to input into the development of objectives that allow State Water to realise the benefits of state-wide systems and processes, inter-valley resource sharing, economies of scale, as well as consistency.

The Macquarie-Cudgegong, Lachlan and Coastal valleys had business plans in place from the beginning of July 2006 and updated those plans during the year for implementation from July 2007, in consultation with CSCs.

New plans were developed for the Namoi-Peel, Gwydir and Border Rivers valleys during the year, while development of the Murrumbidgee and Murray-Lower Darling Business Plans continued during the year. These plans were approximately 70% complete by the end of June.



Viticulture is a growing industry in the Macquarie Valley

Customer Service Charter

To ensure customers receive quality service, State Water has a customer service charter outlining the standards of customer service that our customers can expect and what State Water needs from them.

The following table provides a summary of State Water's performance against its obligations under the customer service charter in the 2006-07 reporting period.

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.	Three complaints were received in regard to customer service (two in the South Coast and one in the Gywdir Valley). The complaints resulted from misunderstandings of roles and responsibilities of employees and therefore all were referred to the appropriate organisation. Frontline employees in all valleys were trained in improved customer service and conflict resolution skills to assist them in dealing with the increased numbers of distressed enquiries as a result of the drought.
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.	State Water's statewide office hours are 8.30am to 4.30pm, Monday to Friday.
On weekends and public holidays, the duty operations officer or Operations Manager will respond to any problem or urgent issues with water delivery.	The Customer Service Managers, Operations Manager and Customer Service Operators' mobile numbers are published on the State Water internet site.
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.	A number of water accounting rule changes were made this year as a result of the drought and the suspension of water sharing plans. State Water's electronic systems were modified to accurately process these changes in water accounting rules and advise customers of their new account balances. An email address database was established for water ordering in the Lachlan and Macquarie-Cudgegong valleys. Trading application forms for the Lachlan and Macquarie-Cudgegong valleys have been placed on the internet. Following the 2006 IPART Determination, State Water provided a Ready Reckoner on the internet to allow customers to calculate their bulk water bill using the newly determined prices.

Target	Achievements
State Water will communicate with customers effectively and equitably, publishing relevant information on the internet for access by customers.	State Water has reviewed and improved information services to customers, especially with the increased importance of providing accurate and timely information to customers during the drought. State Water has increased the usage of customer notices by direct fax, SMS text message or post for critical water delivery announcements to customers in all valleys. The majority of media releases and customer notices were uploaded to the internet within 24 hours of release. Customer information services are being set up where customers elect to be on designated distribution lists to receive all important information directly by fax or email. Following the 2006 IPART Determination, State Water published on the internet a series of customer fact sheets explaining key elements of the determination. State Water published newsletter and information sheets on the internet for customers in the Lachlan and Macquarie-Cudgegong valleys.
State Water will provide a customer account queries hotline.	The Customer account queries hotline is in operation (1800 353 091). The hotline received an average of 564 calls per month in 2006-07.
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 are now included on all forms that collect or use customer contact details.
State Water will provide a complaint handling process.	The Board endorsed a complaint handling framework and associated policies and procedures In 2006-07, all employees received training in the customer complaints handling system and State Water has published a pamphlet entitled Customer Concerns, to assist customers in using the new system.
State Water will provide a dispute resolution process and advice for customers and suppliers on handling disputes.	As required by State Water's Operating Licence, the Energy and Water Ombudsman NSW (EWON) has been engaged to handle external disputes. State Water's complaints handling policy promotes EWON as an avenue for customer complaints.

Target	Achievements																								
State Water will develop and publish compliance, debt management, water trading and water restriction processes to inform the customer of transparent decision making and demonstrate procedural justice.	Compliance policies have been developed and are available for employees on the intranet. In 2006-07, State Water successfully pursued legal action for non-compliance against several customers in the South Area. The following information is provided on the internet: • Debt management and payment options; • NSW Water Extraction Monitoring Standards; • Link to Department of Water and Energy site for water trading and compliance information. In 2006-07, the following number of customers were in receipt of assistance (deferred payments) under State Water's Debt Management Policy: <table> <tr><td>• July 2006</td><td>9</td></tr> <tr><td>• August 2006</td><td>5</td></tr> <tr><td>• September 2006</td><td>25</td></tr> <tr><td>• October 2006</td><td>42</td></tr> <tr><td>• November 2006</td><td>49</td></tr> <tr><td>• December 2006</td><td>47</td></tr> <tr><td>• January 2007</td><td>27</td></tr> <tr><td>• February 2007</td><td>27</td></tr> <tr><td>• March 2007</td><td>0</td></tr> <tr><td>• April 2007</td><td>19</td></tr> <tr><td>• May 2007</td><td>44</td></tr> <tr><td>• June 2007</td><td>62</td></tr> </table> Please note that the figures for each month are standalone, not cumulative.	• July 2006	9	• August 2006	5	• September 2006	25	• October 2006	42	• November 2006	49	• December 2006	47	• January 2007	27	• February 2007	27	• March 2007	0	• April 2007	19	• May 2007	44	• June 2007	62
• July 2006	9																								
• August 2006	5																								
• September 2006	25																								
• October 2006	42																								
• November 2006	49																								
• December 2006	47																								
• January 2007	27																								
• February 2007	27																								
• March 2007	0																								
• April 2007	19																								
• May 2007	44																								
• June 2007	62																								
State Water will undertake a customer satisfaction survey every three years.	Regulated river customers were surveyed in July and August 2006. Overall satisfaction rating improved from 7.2 out of 10 in 2002 to 7.3 in 2006. A strategy has been developed to address the issues raised in the survey.																								
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.	A State Water Code of Practice and Procedures on Debt Management has been developed in consultation with Customer Service Committees. A simplified customer-friendly version is available on the internet. In addition to 'How and where to pay' information, guidelines for alternative payment plans and suspensions are also provided on the website and linked to the NSW Government portal home page.																								

Target	Achievements
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.	With the exception of the Barwon, which is billed quarterly, all State Water's regulated valleys were billed in August 2006 for 2005-06 water charges. The billing periods for the Barwon during 2006-07 were: • March 2006 quarter - billed in May 2006 • June 2006 quarter - billed in August 2006 • September 2006, December 2006 and March 2007 quarters - billed in April 2007 (target not met). The three payment options are advertised on the back of accounts: in person at any State Water office, by post to Head Office 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.	Best practice guidelines for entering properties are issued by each industry. These guidelines are followed by Customer Service Officers. In 2006-07, State Water received one customer complaint relating to officers entering properties. State Water engaged the Internal Audit Bureau to investigate the complaint which was resolved to the satisfaction of the complainant.
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> • <i>Dams Safety Act 1989.</i>	Water Management Act : In 2006-07, State Water's electronic systems were modified to comply with a number of changes in water accounting rules announced this year. These changes were the result of drought conditions and announced by DWE to ensure an appropriate response to the drought while being compliant with the Water Management Act. There were no instances of non-compliance. Dam Safety Act: No notified instances of non-compliance. Working towards full compliance for dam safety. Occupational Health and Safety Act: No notified instances of non compliance. State Owned Corporations Act: State Water obtained an extension to delay the finalisation of the 2006-07 Statement of Corporate Intent (SCI) until after the IPART Bulk Water Price Determination was released. As a result, the 2006-07 SCI was signed by all relevant parties on 13 November 2006. State Water obtained an extension for the submission of the 2005-06 Annual Report to the Treasurer. The 2005-06 Annual Report was subsequently submitted on 17 September 2007. State Water Corporation Act: No notified instances of non-compliance.

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.	State water initiated a number of measures to increase operational efficiency in response to the drought, including: • Drought management plans were developed and implemented in the Lachlan and Macquarie Cudgegong valleys aimed at conserving water. • State Water's coastal valleys developed an end-of-system averaging protocol to save water and meet environmental flow targets. • In the southern valleys, a range of measures were undertaken to minimise system losses and increase reliability, including minimising end of system losses, minimising use of some storage to reduce evaporation and seepage losses and implementing demand management to maximise downstream inflows. • State Water consulted with DECC and presented Reviews of Environmental Factors for desilting work conducted instream to improve the efficiency of water delivery in the Gwydir River. • In the northern valleys, State Water and DWE worked closely with customers to determine the best way to conduct water accounting in an extremely dry year without violating the WSP. • State Water worked with Gwydir irrigators to develop rules for equitable access to supplementary flows.
State Water will credit AWD water into customer accounts within one day of being advised of a determination and will provide access to this information to all customers through the internet within the same timeframe.	State Water is no longer able to credit accounts as this function has been transferred to DWE.
State Water will report on extraction performance against water ordering to customers.	Water allocation statements report extraction performance against water ordering. Water allocation statements are forwarded to customers routinely. In addition, water delivery performance is a standing meeting agenda item for most CSCs (Border, Gwydir, Namoi-Peel, Macquarie Cudgegong, Lachlan, Murrumbidgee, Murray). In State Water's southern valleys, customer water ordering was enforced and reports comparing orders with extractions were provided to the Murrumbidgee and Murray Customer Service Committees. Extensive media and customer notification was sent out during the 2006-07 water year to ensure all customers are well informed on the importance of water orders. A review of travel times and water order lag times was carried out and any anomalies rectified.
State Water will reschedule orders in consultation with customers within one day of a known shortage.	All known instances were rescheduled within one day.

Target	Achievements
State Water will investigate climatic modelling to improve predictive capability of daily demand to supplement water orders.	This project has been deferred due a lack of internal resources.
Supplementary water announcements will be made available to customers within two hours of the event determination by DWE.	State Water alerts customers of supplementary water announcements by issuing media releases and customer notices. State Water also sends notices direct to customers by fax and by SMS text messaging in some areas. Due to the severity of the drought, there were very few supplementary announcements in 2006-07, except in the coastal valleys. In the coastal valleys, State Water undertakes the determination of supplementary flow access under delegation from DWE due to the quick response time that the rivers reflect to rainfall. Coastal Area commenced communicating electronically to customers via SMS text message, email or faxstream. In 2006-07, more than 90 separate communications were sent to customers using these methods, most covering supplementary flow access and off allocation flow access. All notifications met this timeframe for 2006-07. For most of the year, Gwydir, Namoi and Border Rivers had a DWE enforced embargo preventing supplementary and off-allocation access during 2006-07. The Gwydir Valley had one event which was announced immediately. All Peel Valley off-allocation notifications met this requirement. In the Macquarie Valley one supplementary event occurred. The event was assessed and communicated to water users on 11 June 2007 (long weekend) within two hours of approval by DWE. Extensions to the same event were communicated to water users within two hours of approval by DWE. The Lachlan Water Sharing Plan does not provide for supplementary events. Access to unregulated flows by general security licences in Belubula River was communicated to customers promptly by operation staff. In the southern valleys there were no supplementary events during 2006-07. However, State Water has systems and procedures in place to comply with this target when future events occur.

Target	Achievements
State Water will develop a checklist process for determining supplementary events and advising customers.	This process is ongoing. Given the different characteristic of each valley, a standard checklist for all valleys is not practical. Checklists have been developed in the Namoi and Gwydir Valleys. State Water has been working towards developing a system of equitable announcements for supplementary flows and is working closely with Gwydir Valley Irrigators. In some valleys, such as the coastal valleys, State Water is now authorised by DWE to make supplementary water availability announcements. In the coastal valleys, a format has been developed for the determination of supplementary events which continues to be used for approval by DWE. Due to the complex nature of supplementary event determination rules in the WSP and the relationship between Murrumbidgee, Murray and Lower Darling, it is impractical to develop a checklist process in the South Area. In Murrumbidgee, due to Murray resource requirements, State Water must consult with DWE before determining an event. In the Murray Valley, supplementary events are decided by River Murray Water.
State Water will continue to develop national standards for meters to ensure that our customers and business needs are best met.	In 2006-07, State Water continued to work with the National Water Commission to develop national metering standards.
State Water will enforce compliance with National Metering Standards.	State Water's metering standards are in line with what is being proposed at the national level. These metering standards are applied consistently across all valleys. In instances of breaches, licence holders may now be required to replace mechanical meters with accurate non-mechanical meters.
State Water will process complying intra-valley water trades within four working days.	72% of water trades were processed within four working days.
Any water going through a licensed work meter will be charged regardless of the nature/purpose of use, unless State Emergency provisions are triggered.	State Water's billing rules have been changed to incorporate these provisions.

Target	Achievements
State Water will develop a compliance and penalties regime in conjunction with CSCs.	The Lachlan, Macquarie-Cudgegong and Murray CSCs have endorsed implementation of a compliance and penalties regime for 2006-07. In State Water's southern valleys, the compliance and penalties regime was developed with the CSCs in 2005-06 and implemented in 2006-07. In 2006-07 some penalties have been imposed under this regime after pursuing legal action. Two cases have been referred to DWE for prosecution for breach of licence conditions and notices. In the northern valleys, CSCs have been involved in developing compliance and penalty regimes for 2007-08. Compliance issues are a standing agenda item for CSCs and representatives from DWE have attended the Namoi and Gwydir CSC meetings to outline the department's approach on compliance. The focus of the Coastal CSC in 2006-07 was on managing the drought and resource assessment issues. Despite this, State Water referred one case to DWE for further action.

Asset Management

Target	Achievements
State Water will provide asset management services at efficient cost as defined by inter-valley and industry benchmarks.	Benchmarking has been deferred, pending the finalisation of the Rural Performance Benchmarking Framework by the National Water Commission.
State Water will ensure continuing involvement of CSCs in the Total Asset Management Planning (TAMP) process.	Since the 2006 IPART Determination, the primary mechanism for the involvement of the CSCs in the TAMP process is via the development of valley business plans. The Namoi-Peel, Gwydir, Macquarie-Cudgegong, Lachlan and Murrumbidgee CSCs were all involved in the TAMP process as part of the development of valley business plans. In addition, asset management is a standing meeting agenda item for all CSCs except the Coastal CSCs. The Coastal CSC was not closely involved in the TAMP process as the focus was in drought and resource access issues. However, the CSC did review the proposed capital program as part of the valley business plan process. The Lachlan CSC was particularly active in TAMP issues. During 2006-07, the Lachlan CSC: • nominated a CSC member as liaison person for dam upgrade works • was actively involved with the willow clearing project • was actively involved with Lake Brewster water efficiency project. In 2006-07, the Macquarie-Cudgegong CSC was actively involved with the North Marsh Bypass Channel desilting project.

Target	Achievements
State Water will manage asset maintenance and renewal to provide assets in a state that is 'fit for purpose'	Asset maintenance and renewal has been managed effectively and efficiently and water delivery was not compromised. Annual maintenance and surveillance audits were undertaken in accordance with requirements set by the Dam Safety Committee (DSC) and the Australian National Committee on Large Dams. Dam Safety Emergency Plans are being progressively updated in accordance with DSC and State Emergency Service requirements.
State Water will demonstrate compliance with best management standards.	No notified incidences of non-compliance or failure of assets.
State Water will identify beneficiaries in cost sharing arrangements.	Beneficiaries identified in October 2005 pricing submission to IPART. The actual decision on sharing of costs has been left to IPART.
State Water will comply with the Operating Licence.	In 2006-07, State Water complied with all Operating Licence requirements, with the exception of the timely provision of 2005-06 Water Balances by 1 September 2007.
State Water will run a cost efficient and effective business, benchmarked against similar industries and will report transparently to CSCs.	State Water is undertaking preliminary work to identify potential performance indicators. In 2006-07, State Water contributed to the development of a performance monitoring and benchmarking system by the National Water Commission. In addition, State Water is implementing a Cost Structure Reform Strategy in order to reduce operating expenses to the IPART determined efficient level.
State Water will regularly provide CSCs with financial and other information relevant to each valley and of state significance.	In 2006-07 State Water endeavoured to fulfil all reasonable requests for information from CSCs. Ongoing difficulties with State Water's new financial system prevented State Water providing satisfactory financial information to all CSCs. State Water is committed to improving financial reporting to stakeholders and has initiated a Corporate Management Information Systems Project aimed at resolving the difficulties with the financial system. This project is well advanced and State Water is confident that regular and accurate financial reporting to CSCs and other stakeholders will recommence in 2007-08.
State Water will develop communication protocols between the Board and CSCs.	Issues continue to be brought to the Board via Customer Service Managers and the CEO.

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.	Like many businesses, State Water faces difficulties in recruiting engineers due to an industry shortage along with attracting skilled employees to regional areas because of rural and sometimes remote locations. The imperative to achieve reduced operating costs imposed by the 2006 IPART Determination limits State Water's ability to compete with other employers for these resources. Despite these challenges, in 2006-07, State Water continued to review employee levels to ensure customer service obligations could be met. During 2006-07 State Water developed a Workforce Plan to ensure adequate service levels would be provided to the business now, and in the future. State Water also started a Storages Review Project and Service Level Review Project to gain a better understanding of service level requirements for the future. State Water continues to call for expressions of interest to act in temporarily vacant positions to enable the development of our employees to better cater for the long term needs of the business.
State Water will ensure employees are adequately trained in safe and effective operations and customer service.	State Water has ensured employees are trained in safe and effective operations by requiring inductions for on site visitors and investing in both internal and external training courses. An example of training that has been delivered during 2006-07 includes: • Abseiling • First aid • OH&S consultation • Return to work coordination • Confined spaces • Green card • Auditing • Manual handling • Risk management for supervisors and managers. In addition to this, State Water conducted Asset and Water Delivery Forums to promote safe and effective operations. Agenda topics included site risk assessment and State Water's OH&S targets and strategies.

Target	Achievements
State Water will ensure employees are adequately trained in safe and effective operations and customer service.	A monthly OH&S newsletter is prepared for employees, updating them on any legislative changes and advising of new national or state codes of practice. The newsletter is aimed at ensuring State Water employees are complying with industry best practice. The newsletter also provides updates on current OH&S legal cases to improve OH&S awareness. State Water has established six OH&S Committees, spread across its operations. The committees ensure that OH&S issues raised by employees are addressed. To further encourage training and development, State Water provides opportunities for employees to undertake placements in temporary vacancies. These opportunities are advertised across the organisation and provide the successful applicant with on the job learning. Employees taking up these opportunities have gained a broader understanding of the organisation enabling them to provide a greater level of service to customers. Customer Service Officers and other employees who interact with customers have undertaken drought counselling training to ensure they can adequately address the needs of our customers in this stressful time of drought. In addition, Corporate Services Branch has undertaken customer service training. State Water implemented a new Customer Complaints Handling System and provided training to employees in the new system. The Customer Service Charter has been reviewed to better reflect the mutual obligations of State Water and customers with respect to customer service.

State Plan Priority - S8

Increased customer satisfaction with government services

State Water has worked on improving services to its customers by focusing on water delivery and information provision.

New and innovative methods of increasing customer satisfaction have been formulated and include the use of email-based water ordering and the introduction of SMS text messaging to advise customers of changes in water availability and other announcements.

Results from the 2006 State Water Customer Satisfaction Survey have been used to develop a customer service strategy which includes further development of online water ordering, more customer newsletters and easier access to local employees.



You can't manage what you can't measure. Using best practice water meter technology helps ensure efficient water management.

Customer Service Charter Review

As per State Water's Operating Licence, the Corporation must: *"in consultation with the Customer Service Committees, regularly review, and if necessary update, its Charter and in any event must do so by no later than 1 July 2007"*.

The charter was reviewed in consultation with CSCs and a new customer-friendly version was adopted in April 2007.

The Charter can be found on State Water's website and is reproduced below.

It will be posted to all customers with their water accounts in early 2007-08 and be available at all State Water offices.

2007 Customer Service Charter

The image shows a document titled '2007 Customer Service Charter' from State Water. The document has a blue header with the 'State water' logo. It is divided into several sections: 'Water Ordering and Delivery', 'Customer Contact', 'Information and Communication', and 'Please help us to help you'. Each section contains a commitment statement, a list of expectations, and a list of actions needed to fulfill those expectations. The document is presented as a scan of a physical page with a slight shadow.

State water

Water Ordering and Delivery

We strive to deliver water to our customers on time, through the most efficient and effective means possible, in an environmentally responsible manner.

To achieve this we will operate in accordance with our legislative requirements, including our Operating Licence, Water Sharing Plans, *Water Management Act 2000* and *Water Act 1912*.

By doing this, you can expect:

- An accessible water ordering system
- Timely water delivery within the limits of system response times
- That we will inform you of any water delivery issues
- Assets that are maintained fit for service
- Proactive management for optimal water availability.

To help us to do this, we need you to adhere to the conditions of your water licence, including:

- Timely water ordering, in accordance with specified conditions
- Water meter installations that meet the NSW Water Extraction Monitoring Standards
- Maintaining a positive water account balance.

Customer Contact

We strive to ensure that our people and our services are accessible to our customers.

To achieve this we will ensure that we have the appropriate resources to meet our customers' needs.

By doing this, you can expect our people to:

- Be courteous, helpful and communicate clearly
- Behave responsibly in accordance with our Code of Conduct
- Listen and respond to your requests, including access to your property, in an appropriate way
- Make office hours and contact details accessible.

To help us to do this, we need you to:

- Provide reasonable and safe access to supply works on your property, in keeping with NSW Occupational Health and Safety standards
- Treat our people in a courteous and non-discriminatory manner

- Provide feedback on our services and contact us when you want more information.

Information and Communication

We strive to provide clear, concise and accessible information at the appropriate time in an appropriate manner.

To achieve this we will:

- Regularly meet with Customer Service Committees in every valley
- Consult with affected communities on major projects
- Provide a toll-free customer billing information service
- Provide a complaints handling system that you can access
- Survey customers every three years to measure their satisfaction with our services.

By doing this, you can expect:

- Accurate invoices and water information and where you may not think this is the case, prompt resolution of any concerns
- Options for how, where and when you pay us and a willingness to negotiate payment terms if you are experiencing difficulties
- Confidential use of your personal information and that we will use it in accordance with the law.

To help us to do this, we need you to:

- Pay your invoice on time
- Contact us if you have difficulty paying your invoice.

Please help us to help you

To help us meet the obligations outlined in this Customer Service Charter, we need you to keep your personal information accurate, complete and up to date with us.

If you are not satisfied that we are meeting the obligations outlined in this Charter, please tell us. Feedback provided by customers helps us to meet your needs and expectations. If you have any concerns we encourage you register these through our customer concerns process. Details are available at www.statewater.com.au or from your local Customer Service Officer.

We will review our Customer Service Charter every two years.

Customer Service Committees

Since their introduction in 1999, CSCs have proven an effective forum for the development of operational improvements, setting asset management priorities, communicating customer service changes and driving business efficiencies at the valley level.

The current term of office ends on 30 June 2008, with CSC processes and procedures due to be reviewed in the coming year.

CSCs provide a forum for communication and consultation between State Water and its customers. Representatives on the committees ensure that the interests of all water users are considered when developing projects, policies and priorities for State Water.

CSC members and State Water exchange information so that a positive, constructive and efficient service provider-customer relationship can be maintained. This relationship is based on collaborative identification of relevant issues.

State Water employees ensure effective communication of information to CSC members and take advice from them into account when making decisions that affect customers.

Key outcomes/achievements

Border Rivers CSC

Four meetings held

- Endorsed the Border Rivers Assets Work Plan
- Provided input into the Border Rivers Institutional Reform
- Provided feedback for the trial access rules for supplementary water in the Border Rivers
- Endorsed the valley business plan
- Provided input into the draft Customer Service Charter.

Coastal CSC

Four meetings held

- Requested change in Hunter Valley Water Sharing Plans (suggested review of current tolerance of 25% above and below target for end of system flows to increase water efficiency)
- Current Chairperson re-elected for next term
- Request approved for 10% carryover for the 2007-08 water year.
- Provided forums for water users on the implications of new Available Water Determination and 10% carryover
- Provided ongoing support to area operations
- Provided advice on metering standards and their implementation
- Successful in gaining broader representation from the community.

Fish River Customer Council

Eight meetings held

- Adoption of operating rules for FRWS Customer Council
- Development of new customer contracts to satisfy IPART requirements
- Engaged DWE to remodel the safe yield based on water restrictions and the 5-10-20 rule for Oberon Dam
- Continued to manage the drought by undertaking the following:
 - Adoption of revised Drought Management Strategy
 - Preparation of storage depletion curves for different inflow scenarios
 - Hydraulic investigation of pipework for drought contingency planning
 - Began investigations into the possibility of obtaining additional water from bores in and around Oberon
 - Adoption of revised stage-storage curve for Oberon Lake based on the most recent survey information
 - Investigating the amount of siltation around the intake tower at Oberon Dam.

Gwydir CSC

Four meetings held

- Developed water delivery strategies with operations group for block releases
- Reached agreement with irrigators on water ordering to suit block releases
- Provided feedback to IPART on draft determination for water prices
- Endorsed the storages and weirs maintenance program
- Prepared supplementary access rules which aim to be fairer and more equitable for customers
- Provided input to draft Customer Service Charter
- Valley business plan has been endorsed and implemented.

Lachlan CSC

Four meetings held

- Promoted native vegetation and erosion protection by supporting willow removal in agreed areas in the mid-Lachlan
- Endorsed individual water order debiting and application of 85B penalties for repeat water order breaches
- Endorsed customised water order proforma for each works approval
- Supported creation of an email address for placing water orders
- Reviewed the area communications plan
- Held meetings with DWE to solve several outstanding issues
- Secured funding from the National Water Commission for the Lake Brewster Water Efficiency Project
- Reviewed and recommended improvements to water account statements
- Continually reviewed the Drought Contingency Plan and the committee's recommendations led to successful drought management in the fourth successive year.
- Contributed to the veranda chats conducted in different parts of the Lachlan Valley to advise users of the drought situation and contingency measures.
- Provided updates and additions to the Lachlan Valley Business Plan
- Nominated members to the DWE reference panel for consultation on allocation issues

Macquarie-Cudgegong CSC

Four meetings held

- Reviewed the area communications plan
- Supported funding of Duck Creek clearing to improve the water delivery subject to agreement with the Creek's Association
- Endorsed different water order lead time to meet the requirements of the drought operations
- Continually reviewed the resource assessments and recommended to DWE a series of drought contingency measures in order to conserve water and ensure adequate essential supplies in 2007-08
- Ensured increased communication to the water users on drought issues
- Nominated members to the DWE reference panel for consultation on allocation issues
- Provided updates and additions to the valley business plan
- Endorsed individual water order debiting and application of 85B penalties for repeat water order breaches.

Murray-Lower Darling CSC

Four meetings held

- Promoted discussion on the introduction of the Barwon-Darling Cap and implications for Lower Murray Darling
- Ongoing refinement of the valley business plan
- Promoted discussion on interstate sharing of Murray River channel capacity
- Promoted discussion on improved metering standards
- Reviewed the supplementary announcement process
- Managed customer expectations for the potential Lower Darling water shortage in 2006-07
- State Water employees continue to enjoy the support of the CSC in difficult times.

Murrumbidgee CSC

Three meetings held

- Increased participation in the review of asset replacement and maintenance programs
- Provided advice on water sharing plan environmental flow rules and supplementary event flow rules
- Discussed the impact of revised cut-off dates for water transfers
- Ongoing refinement of the valley business plan.
- Users endorsed operations for the year 2006-07 as “extremely well done” and “very congratulatory”.

Namoi-Peel CSC

Four meetings held

- Provided input into the negotiation of a discharge regime for bulk transfer from Split Rock Dam to Keepit Dam
- Agreed that Upper Namoi users must improve water ordering practice
- CSC represented on the Keepit and Chaffey Dam Upgrade Community Reference Panels.
- Provided feedback to IPART on draft determination for water prices
- Endorsed the storages and weirs maintenance program
- Valley business plan was endorsed and implemented
- Developed water delivery options for the Namoi Valley during a year with no “normal” tributary inflows to assist deliveries
- Negotiated options with DWE to secure General Security supply of allocated water.

Community Reference Panels

State Water works with stakeholders on its major dam upgrade projects at Chaffey Dam and Keepit Dam. One meeting was held for the Chaffey Dam Upgrade and one meeting for the Keepit Dam Upgrade at which a final set of upgrade options was determined.

Chaffey Dam Upgrade CRP

Meeting: 26 September 2006

- The panel agreed with the final dam safety and augmentation options.
- A funding sub-committee was formed to assist in seeking funding for augmentation works.

Keepit Dam Upgrade CRP

Meeting: 26 September 2006

- Members of the panel continued to assist State Water in public consultation on the options and preparation of the final environmental assessment.

Community Consultative Committee

The Community Consultative Committee (CCC) met twice in 2006-07. State Water Chairman Tony Wright chairs the CCC, and the purpose of the committee is to consult on relevant issues with peak groups.

This helps State Water meet the objectives of the Corporate Plan as well as the Operating Licence. Issues for consultation include cultural heritage and environmental management, funding and community collaboration opportunities, the IPART Bulk Water Pricing Determination and customer complaints handling.

State Plan Priority**R4: Increased community participation**

State Water continues to interact with the community, its customers and stakeholders through a number of avenues including Customer Service Committees, Community Reference Panels, Community Consultative Committee and involvement with Catchment Management Authorities.

Community participation is encouraged, especially given the implications of water delivery on rural towns and livelihoods.

More than 90 State Water storage levels, water allocations, off-allocation announcements and media releases were posted on the internet for access by customers, community and the media.

improved internal customer service

As well as the external customer survey in 2006, State Water's Corporate Services Branch at Head Office in Dubbo, conducted a survey to determine the level of satisfaction with the service it provides to customers within the organisation.

Corporate Services includes the teams responsible for Organisation Development, Financial Services, Corporate Policy and Communication and Corporate Shared Services - everything from payroll and purchasing to human resources and internal communication.

Forty five per cent of employees responded to the survey and while most felt they were relatively well informed about the branch's role in the organisation, they did not feel that the branch understood their functions and needs as well as they expected, nor that the branch was always open to suggestions for improving its services.

A strategy was developed in response to the survey and focus groups will be held in early 2007-08 to follow up on any improvements in service levels.

Actions in the strategy include:

- more visits by head office employees to other offices
- delivery of corporate messages via the Roadshow forums
- a branch page on the intranet
- customer service training for all members of the branch
- information about services in the employee newsletter
- improvements to the finance system.

Sunrise at Copeton Dam



Number of Regulated River (*Water Management Act 2000*) Licences

Water Source	June 30 2005	June 30 2006	June 2007
Gwydir	439	444	461
Hunter	1,342	1,361	1,379
Lachlan	1,409	1,453	1,454
Lower Darling	259	261	266
Lower Namoi	548	556	573
Macquarie-Cudgegong	1,449	1,481	1,475
Murrumbidgee	1,482	1,520	1,585
Murray	2,631	2,728	2,707
Paterson	N/A	N/A	142
Upper Namoi	102	106	108
Total	9,661	9,910	10,150

This does not include regulated *Water Act 1912* licences, such as those on the Border Rivers, Peel, Belubula, Bega Rivers and Ironpot/Eden Creek. The Paterson Valley Water Sharing Plan was introduced in the 2006-07 reporting period and is now included under the *Water Management Act 2000*.

Number of Works Approvals as at 30 June 2007

Water Source	Number
Gwydir	211
Hunter	853
Lachlan	968
Lower Darling	193
Lower Namoi	239
Macquarie-Cudgegong	674
Murray	1,523
Murrumbidgee	853
Paterson	100
Upper Namoi	97
Total	5,711



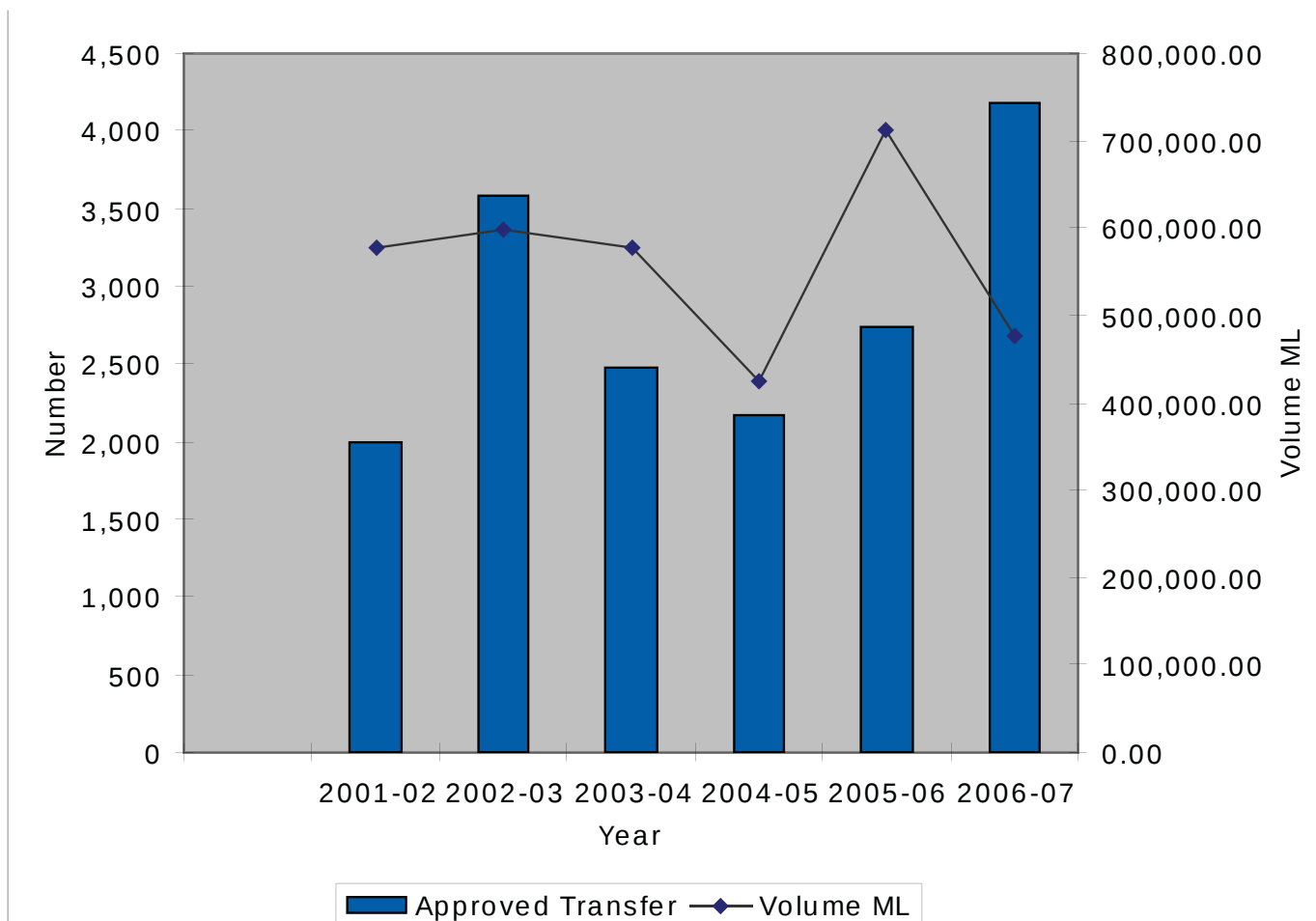
State Water is an active member of the environmental community ensuring water delivery to the environment as well as town water supplies.

Regulated Customers Billed 2006-07

Area	2004-05	2005-06	2006-07
North	698	794	717
Central	1,361	1,596	1,539
South	2,057	2,311	2,233
Coastal	820	1,307	886
Total	4,936	6,008	5,375

Note: State Water implemented a new billing system in July 2005. Where a licence has changed ownership since that time, it appears as two separate customer listings for the 2005-06 financial year. The number of customers billed in 2005-06 did not increase as significantly as the table suggests.

Approved Temporary Transfers



Note: This includes approved intra-valley and inter-valley transfers.

NSW Temporary Water Transfers

Annual Summary	Number	Volume	\$M
2001-02	1,992	578,012	14.84
2002-03	3,585	597,698	15.35
2003-04	2,482	577,782	14.84
2004-05	2,173	423,929	11.18
2005-06	2,735	711,333	17.78
2006-07	4,184	476,473	53.95

Fish River Water Supply Customer Service Levels

- The average response time for unplanned water supply interruptions was 17 minutes.
- No planned water supply interruptions occurred.
- Six unplanned water supply interruptions occurred.
- Out of the six unplanned water supply interruptions, only three interrupted supply.

Repairs	2003-04	2004-05	2005-06	2006-07
Pipe breaks repaired	2	9	9	6
Leaks repaired	12	2	12	2

Water Quality: Filtered

Parameter	Criteria	NRMRC Guideline Target	No of Tests	% of tests passing
E.Coli	0 Organisms per/100ML	98%	144	97.2%
Colour	15 CU	100%	8	62.5%
Turbidity	5 NTU	100%	8	100.0%
Iron	0.3 mg/L	100%	8	100.0%
Managanese	0.1 mg/L	100%	8	75.0%
Aluminium	0.2 mg/L	100%	8	100.0%
pH	6.5-8.5	100%	8	100.0%

Water Quality: Raw

Parameter	Criteria	NRMRC Guideline Target	No of tests	% of tests passing
E.Coli	0 Organisms per/100ML	98%	120	94.2%
Colour	15 CU	100%	8	75.0%
Turbidity	5 NTU	100%	8	75.0%
Iron	0.3 mg/L	100%	8	87.5%
Managanese	0.1 mg/L	100%	8	25.0%
Aluminium	0.2 mg/L	100%	8	100.0%
pH	6.5-8.5	100%	8	100.0%

Water Prices

State Water has billed bulk water charges in accordance with IPART pricing determinations as follows:

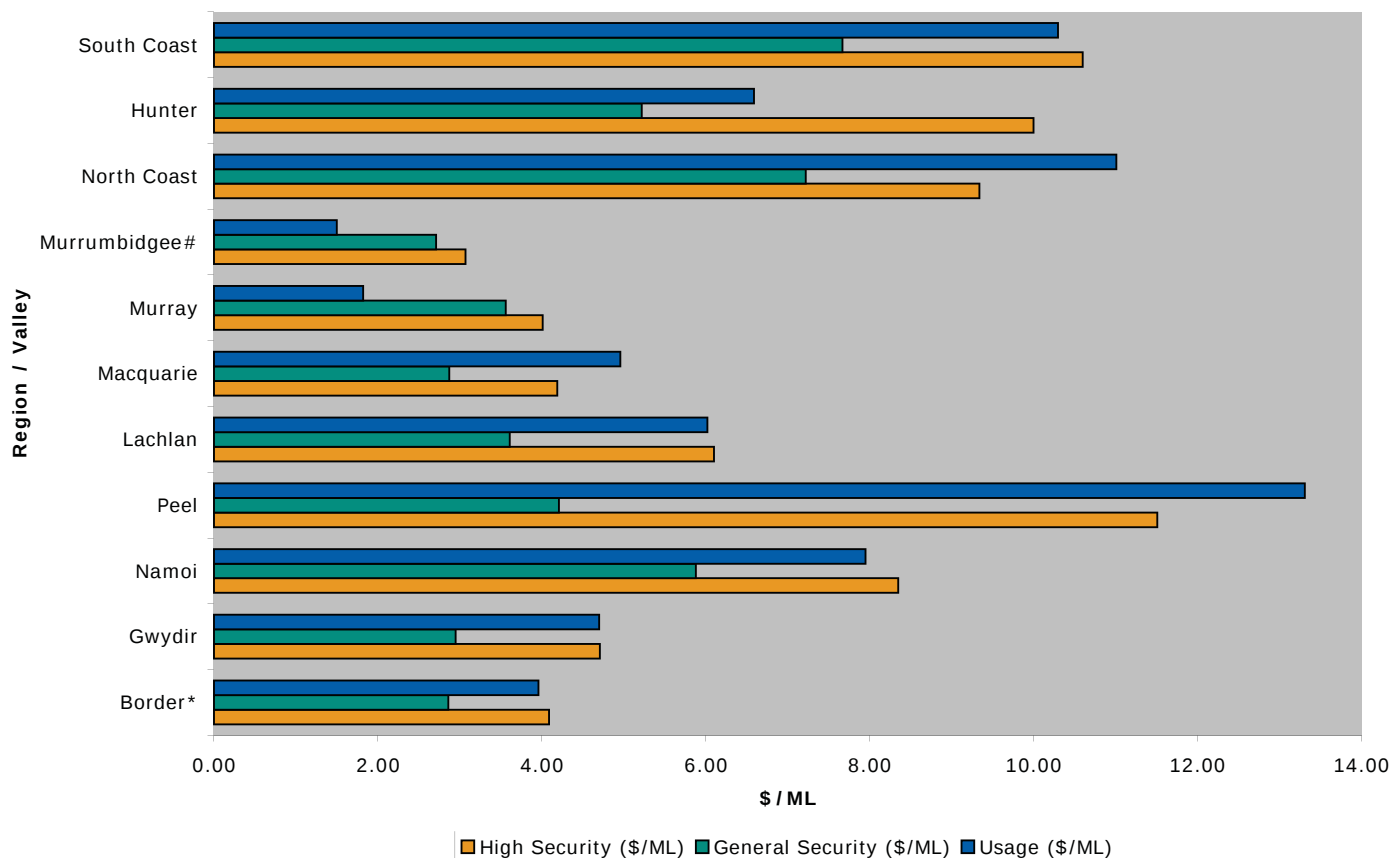
	IPART Determination No.8, 2005			IPART Determination No.4, 2006		
	01.07.2006 to 30.09.2006			01.10.2006 to 30.06.2007		
Region / river valley	High Security (\$ / ML)	General Security (\$ / ML)	Usage (\$ / ML)	High Security (\$ / ML)	General Security (\$ / ML)	Usage (\$ / ML)
Border*	4.00	2.68	3.11	4.09	2.86	3.96
Gwydir	4.25	2.82	3.29	4.71	2.95	4.70
Namoi	8.04	5.36	6.42	8.35	5.88	7.95
Peel	11.52	5.05	9.19	11.51	4.21	13.31
Lachlan	5.80	3.86	4.42	6.10	3.61	6.02
Macquarie	3.66	2.81	3.79	4.19	2.87	4.96
Murray	4.43	4.02	1.09	4.01	3.56	1.82
Murrumbidgee [#]	3.28	3.11	0.82	3.07	2.71	1.50
North Coast	10.59	8.14	5.42	9.34	7.22	11.01
Hunter	6.61	4.72	4.70	10.00	5.22	6.59
South Coast	10.60	8.15	5.43	10.60	7.67	10.30

*Pindari Levy is an additional charge on Border Rivers usage. The 2006-07 rate is \$15.31. This is not an IPART determined price but is indexed 5% each year. #Yanco Columbo System Levy is an additional \$0.90 per ML of entitlement or unit share.



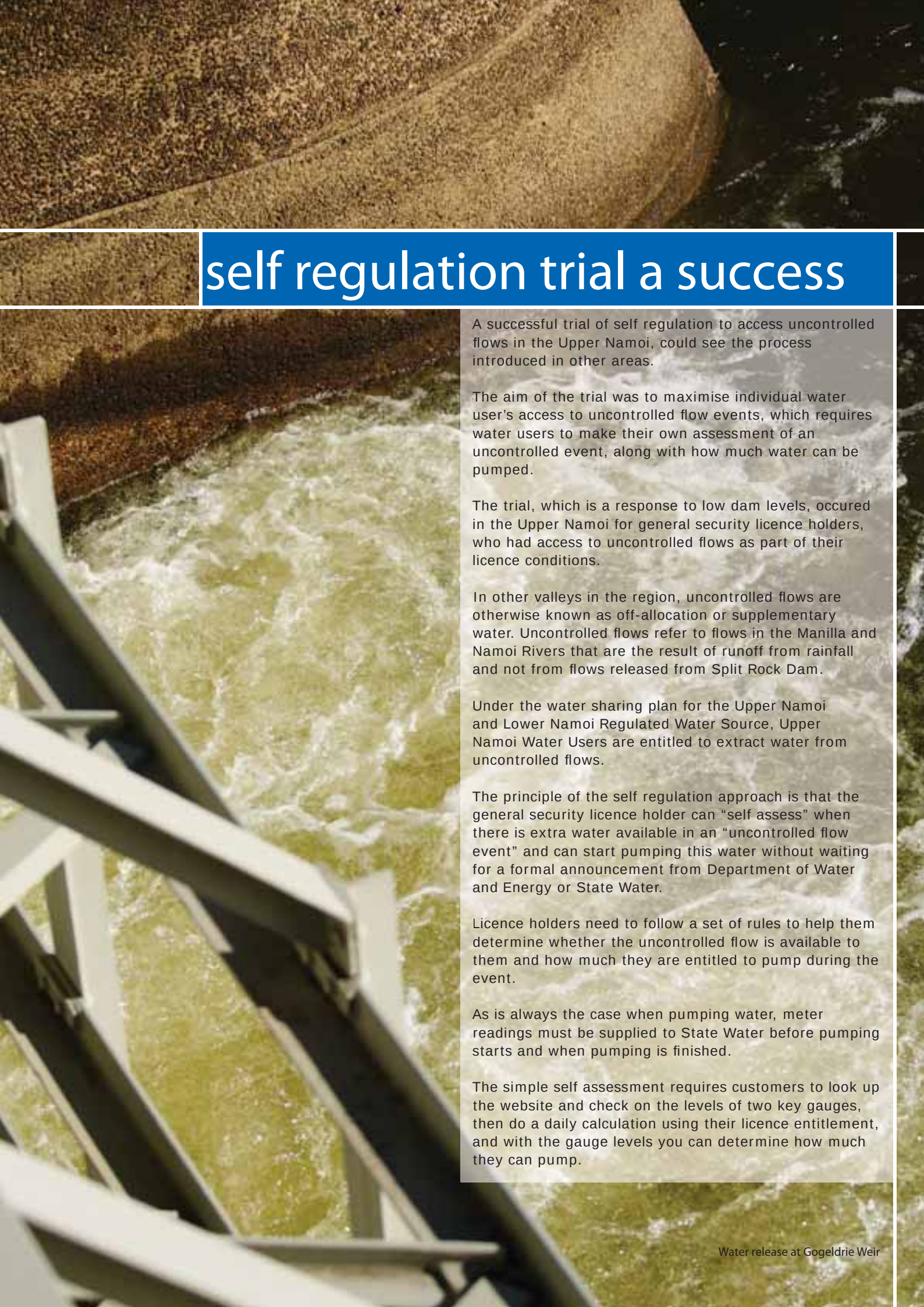
Lock 10 fishway

Valley Price Comparisons



Fish River Water Supply Prices

	01.07.06 to 30.09.06			01.10.06 to 30.06.07		
	Access	Use	Excess Use	Access	Use	Excess Use
Unfiltered Water (\$/kL)						
Delta Electricity	0.2050	0.2300	0.4350	0.2130	0.2390	0.4520
Sydney Catchment Authority	0.2050	0.2300	0.4350	0.2130	0.2390	0.4520
Oberon Council	0.2050	0.2300	0.4350	0.2130	0.2390	0.4520
Individual minor customers	0.2560	0.4610	0.7170	0.2660	0.4790	0.7460
Filtered Water (\$/kL)						
Lithgow City Council	0.3070	0.3330	0.6400	0.3190	0.3460	0.6660
Individual minor customers	0.3580	0.5630	0.9220	0.3720	0.5860	0.9590



self regulation trial a success

A successful trial of self regulation to access uncontrolled flows in the Upper Namoi, could see the process introduced in other areas.

The aim of the trial was to maximise individual water user's access to uncontrolled flow events, which requires water users to make their own assessment of an uncontrolled event, along with how much water can be pumped.

The trial, which is a response to low dam levels, occurred in the Upper Namoi for general security licence holders, who had access to uncontrolled flows as part of their licence conditions.

In other valleys in the region, uncontrolled flows are otherwise known as off-allocation or supplementary water. Uncontrolled flows refer to flows in the Manilla and Namoi Rivers that are the result of runoff from rainfall and not from flows released from Split Rock Dam.

Under the water sharing plan for the Upper Namoi and Lower Namoi Regulated Water Source, Upper Namoi Water Users are entitled to extract water from uncontrolled flows.

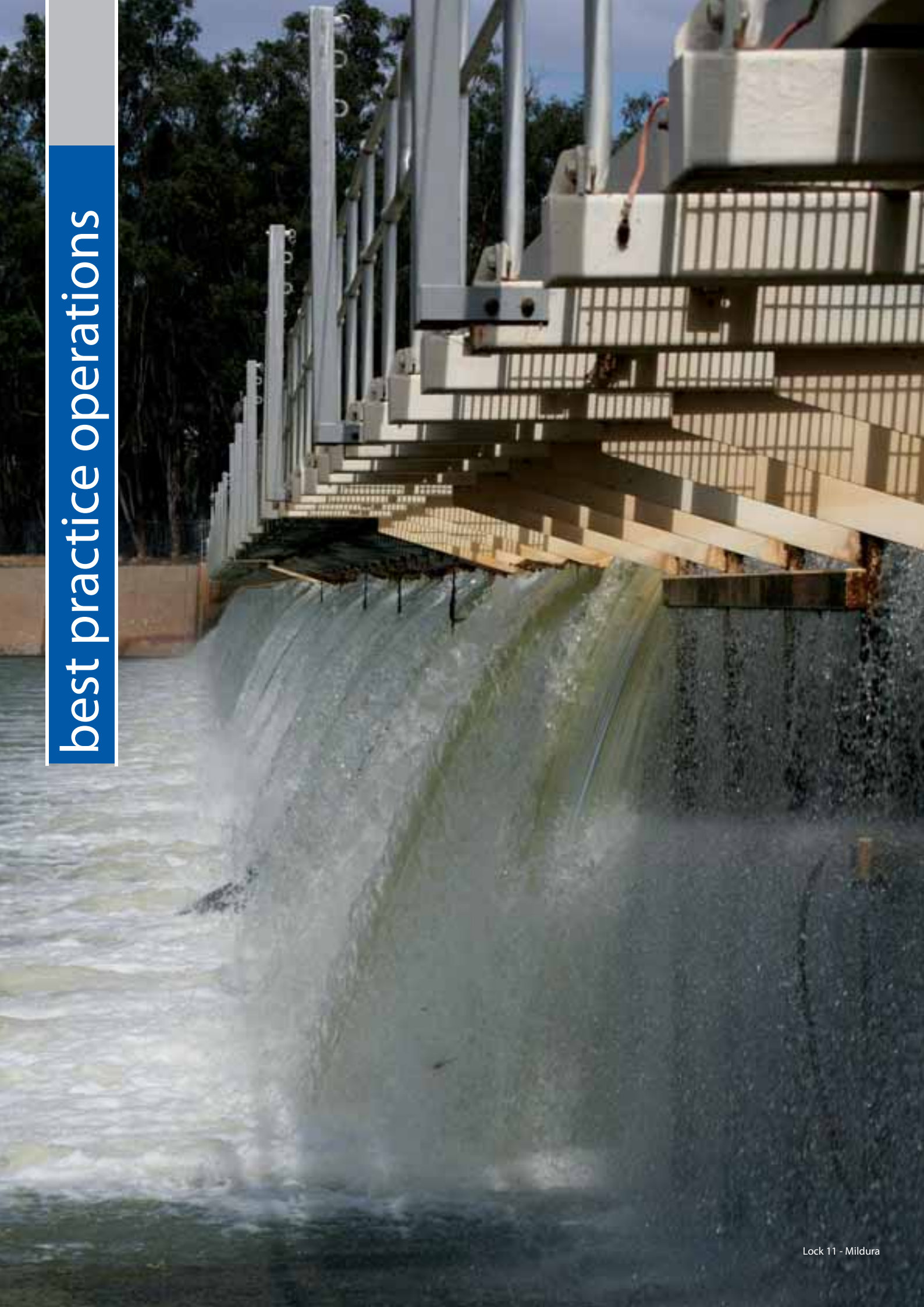
The principle of the self regulation approach is that the general security licence holder can "self assess" when there is extra water available in an "uncontrolled flow event" and can start pumping this water without waiting for a formal announcement from Department of Water and Energy or State Water.

Licence holders need to follow a set of rules to help them determine whether the uncontrolled flow is available to them and how much they are entitled to pump during the event.

As is always the case when pumping water, meter readings must be supplied to State Water before pumping starts and when pumping is finished.

The simple self assessment requires customers to look up the website and check on the levels of two key gauges, then do a daily calculation using their licence entitlement, and with the gauge levels you can determine how much they can pump.

best practice operations



operate effectively and efficiently

Safe and Productive Work Environment

State Water puts safety above time, cost, productivity and employment. The organisation has ensured employees are trained in safe and effective operations through the introduction of inductions for on-site visitors and investing in both internal and external training courses.

Some of the safety-related training delivered during 2006-07 was:

- abseiling
- first aid
- OH&S consultation
- return to work coordination
- confined spaces
- auditing
- manual handling
- risk management for supervisors and managers.

Presentations on safe and effective operations were made by the OH&S Coordinator at several employee forums. Agenda topics included site risk assessment and an overview of State Water's OH&S targets and strategies.

Monthly OH&S newsletters were prepared for employees updating them on legislative changes and new national or state codes of practice. The newsletters are aimed at ensuring State Water employees are complying with industry best practice. The newsletters also update employees on current OH&S legal cases to improve OH&S awareness.

Six OH&S Committees have been formed throughout the organisation to ensure OH&S issues raised by employees are addressed.

Water Order Shortfalls

In 2006-07, customer notifications indicated that only 0.001% of complying orders were delivered outside of one day of the scheduled day of delivery.

Water Delivery/Release Efficiency

State Water initiated a number of measures to increase operational efficiency in response to the ongoing drought:

- Drought management plans were developed and implemented in Lachlan and Macquarie-Cudgong aimed at conserving water.
- The coastal valleys developed an end of system averaging protocol that the Department of Water and Energy (DWE) approved to meet environmental flow targets and save water
- In the Southern Valleys, a range of measures were been undertaken in consultation with DWE to minimise system losses and increase reliability, including minimising end of system losses, minimising use of some storage to reduce evaporation and seepage losses and implementing demand management to maximise downstream inflows.
- State Water consulted with the Department of Environment and Climate Change (DECC) and presented Reviews of Environmental Factors for desilting work conducted instream to improve the efficiency of water delivery in the Gwydir River.
- In the Northern Valleys, State Water and DWE worked closely with customers to determine the best way to conduct water accounting in an extremely dry year without violating the water sharing plans (WSP).
- State Water worked with Gwydir irrigators to develop rules for equitable access to supplementary flows.

Number of Events that Impact on Water Delivery

Asset maintenance and renewal has been managed effectively and efficiently and water delivery was not compromised in managing the assets.

Annual maintenance and surveillance audits were undertaken in accordance with requirements set by the NSW Dams Safety Committee (DSC) and the Australian National Committee on Large Dams.

Dam safety emergency plans are being progressively updated in accordance with DSC and State Emergency Service requirements.

conduct a business analysis of corporate systems

State Water has established a systems review called The Corporate Information Systems Project in response to difficulties arising with the Integrated Financial Management System (IFMS).

A Cost Structure Reform Program has also been developed in response to the 2006 Independent Pricing and Regulatory Tribunal (IPART) Price Determination.

The price determination requires State Water to progressively reduce its regulated operating expenditure by \$16 million against planned levels by 2009-10.

The overall objective of this project is to ensure all corporate information systems are established in an effective and timely way. Key aspects of the project are to:

- Review the status of existing systems and make improvements, enabling an understanding of current issues and improved communication
- Undertake stakeholder, business and system analyses to ensure effective involvement of staff and contractors, as well as address overall corporate requirements
- Design and establish the project program to meet critical and continuous improvement time frames
- Implement the program.

The Project is being undertaken in three phases:

Phase One - Detailed scoping, initiating and resourcing the project (including establishing a project steering group and team).

Phase One has been completed and included an overall business analysis, which identified corporate financial information system upgrades and streamlining as the most critical and highest priority for the organisation.

The next priority was associated with financial systems including project management and water accounting/ billing systems.

Systems such as an independent information technology communications system and TRIM records management system were also seen as critical to effective management.

Other systems are progressively being reviewed to ensure effective coordination, justification and efficiency is achieved.

Phase Two - Ensuring key Board, management, and stakeholder reporting target dates for 2006-07 are met and critical information and reporting systems are effectively established.

Phase two involved the coordination of the 2006-07 financial systems, associated with reporting and meeting key target dates. IFMS will be updated early in 2007-08.

Phase Three – Program for ongoing improvement, resulting in the completion of all systems and their appropriate linking by 2007-08.

Several systems have been or are about to be assessed for their needs, including asset management, environmental planning and monitoring, GIS and SCADA. Other systems will progressively be analysed in 2007-08.

Travelling irrigator in the Macquarie Valley



consolidate and streamline corporate policies and procedures

Policies Identified

Most of State Water's policies were carried over from the various agencies the corporation was formerly a part of and are slowly being updated to suit the changing needs of the corporation and the move out of the traditional government environment.

During the reporting period, 15 policies were either developed or updated, including the following:

- Water Debtor Management Policy
- Sponsorship Policy
- Personal Protective Equipment Policy
- Motor Vehicle Selection Policy
- No Smoking Policy
- Recruitment and Selection Policy
- Corporate Credit Card Policy
- Petty Cash Handling Procedures
- Numerous OH&S policies.

Compliance with the Operating Licence

In 2006-07, IPART audited State Water's compliance during 2005-06 with the requirements of the operating licence.

IPART found that overall, State Water achieved a reasonable level of compliance with the Operating Licence.

State Water achieved full or high compliance rating for 81% of the key requirements of the Operating Licence. Compliance with water delivery, customers and community, environmental management and pricing was particularly good.

Although the audit did find several areas where compliance needs to be improved, State Water believes that this is an encouraging result for its first audit.

Compliance Ratings

Operating Licence Requirement	Compliance Rating
Memoranda of Understanding	Medium-High
Customers and Community	Very High
Complaints and Dispute Handling	Medium
Water Delivery	High
Environmental Management Plan	High-Full
Performance Indicators	High
Pricing	Full

Annual Surveillance Inspections

State Water undertakes annual surveillance inspections for each dam, in accordance with NSW DSC requirements. In 2006-07, State Water completed 19 inspections (which includes the five year inspections mentioned below), achieving 95% compliance with this requirement.

In addition, State Water undertakes annual surveillance inspections of major weirs. In 2006-07, State Water achieved 94% of the planned surveillance inspections.

Five-Yearly Dam Surveillance Reports

State Water is required to undertake more comprehensive surveillance inspections on its dams every five years and report to the NSW DSC. In 2006-07, State Water achieved 100% of planned five-yearly inspections. Inspections were carried out at Glenbawn, Hume and Pindari dams.

Maintenance Audits

State Water is required to complete annual maintenance audits on all its dams. State Water achieved 100% compliance with this requirement in 2006-07.

State Water audits weirs every two years. In 2006-07, State Water completed 100% of scheduled maintenance audits on weirs.

Internal Audit

In 2006-07, State Water began 10 internal audits. Seven of these audits were completed in 2006-07: credit control, contract management, tendering and procurement, purchasing and accounts payable, project management system, business continuity gap analysis, and business continuity business impact analysis. Three audits were still in progress: tax compliance; water delivery; and completeness of general ledger reconciliations.

benchmark service, standards and best practice

Project Delivery System

The Project Delivery System is an intranet based tool used by employees delivering major projects. The PDS includes manuals, procedures and forms - specifically developed for State Water, with an aim of minimising risk.

An internal auditor reviewed the system in 2006 and identified improvements to ensure the system was aligned with current best practice and increased the efficiency of State Water in delivering projects such as the Dam Safety Upgrade program.

Improving Risk Management

In keeping with its ongoing commitment to risk management State Water has achieved some significant milestones in 2006-2007.

- The appointment of an experienced senior risk manager to develop and implement an enterprise wide risk management program
- A comprehensive review of the corporation's risk register along with its underlying matrices and the corporation's risk policy
- Development of a risk reporting framework to enable the Board and Management Team to be better informed of risk movements which will ensure that risks identified at various levels within the organisation are tracked, resulting in a comprehensive approach to Risk Management that is continually monitored across the organisation

- A risk gap analysis workshop was conducted by external consultants (RiskChase) to enable management to identify any areas of weakness in its risk management processes and to train managers to utilise the principles contained in the Australian Standard on risk management AS4360.
- Development of a Risk Management Framework that incorporates the Risk Management Policy, Risk Management Strategy and Risk Management Methodology.
- A review of OH&S system responsibilities and processes has been conducted to ensure risk management processes are applied consistently at an operational level.
- A risk management project plan has been developed and endorsed by the Board and management team to ensure systematic implementation of the risk framework across all areas of the corporation over a period of two years.

Integrated Financial Management System

IFMS is a financial system that provides State Water with an integrated package to improve financial information, budgeting and expenditure control.

The system allows employees to meet reporting obligations to various stakeholders, including IPART and Treasury. A review of IFMS will be undertaken in the 2007-08 reporting period with an aim to improve internal financial systems.

water delivery report

Water delivery in 2006-07 was dominated by the continuing drought and large parts of the state recorded the lowest ever rainfall, particularly over the winter/spring period of 2006 and in the southern catchment areas.

The total State Water storage level in July 2006 was 37% of capacity. This fell to a low of 11% in April 2007 and then rose to 16% by 30 June 2007. Total water deliveries of about 2,200,000ML were as low as the lowest forecast in the long term models.

June 2007 was a relatively wet month and in the Hunter Valley and central tablelands rainfall totals were the highest ever recorded for June leading to major flooding in the Hunter River. Unfortunately no rain was caught in the catchments upstream of State Water's Hunter Valley storages.

On the coastal valleys there were low initial allocations in the Hunter and South Coast, while the Paterson and North Coast had high allocations.

Hunter Valley allocations increased during the year to a total of 35%, primarily as a result of savings generated from good river operations and works at Glenbawn Dam allowing access to inactive storage.

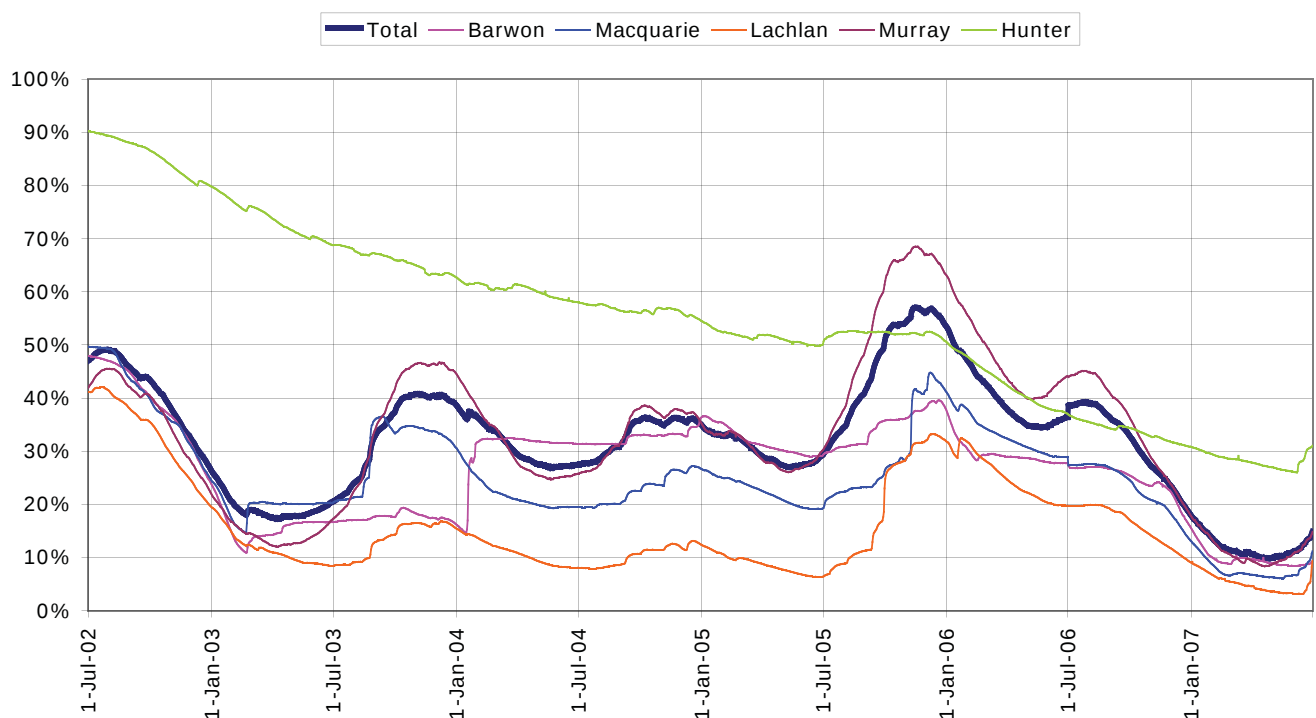
South Coast allocations increased to high levels when Brogo Dam filled in February 2007.

For the inland valleys, the initial available water determinations were zero for general security customers, except the Murrumbidgee. There were no increases in allocations in these valleys during the year, except a 2% increase in the Border Rivers.

Drought conditions worsened in the first four months of the year, particularly in the Murrumbidgee and Murray valleys where inflows were well below previously recorded minimums.

Total water deliveries of 2,200GL in 2006-07 were about 40% of the long term average sales and the lowest since the development of the irrigation industry.

Total Storage and Sydney Futures Exchange State Water Indexes



Water sharing plans were suspended in the Murray, Lower Darling, Murrumbidgee, Macquarie and Hunter valleys.

The water sharing plan also remained suspended in the Lachlan Valley, where it has been suspended since its inception in July 2004. This allowed for drought management measures that were beyond the scope of water sharing plans.

State Water delivered all water required under environmental rules of water sharing plans and those instructions issued when plans were suspended.

Deliveries to town water supplies were not significantly restricted except in the Peel Valley which supplies Tamworth Regional Council.

The graph below shows the initial and final levels of general security water availability in each valley.

State Water delivered all water ordered by general security customers.

Border Rivers

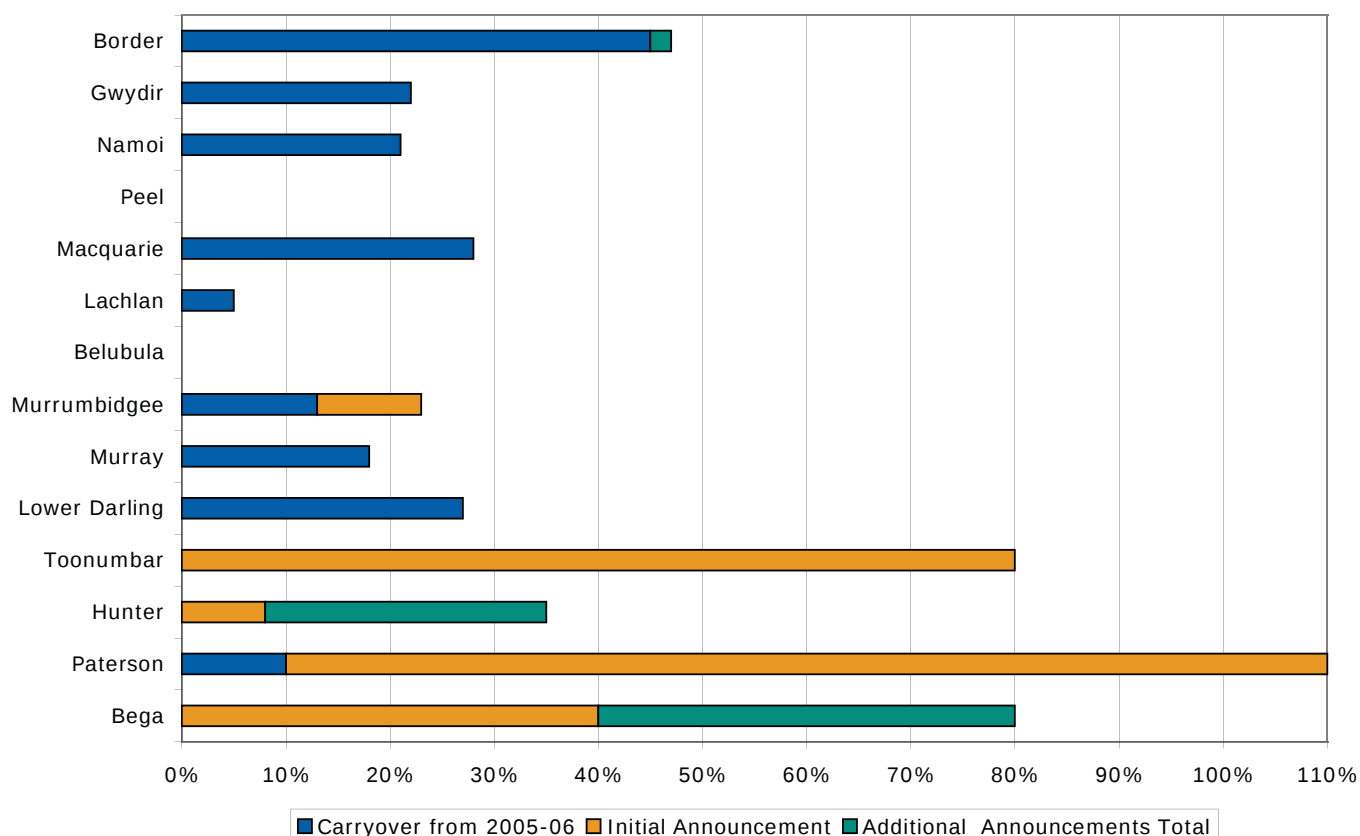
Levels in Pindari and Glenlyon dams at the end of June 2007 were 20% and 13% respectively, compared to 66% and 28% in June 2006.

Allocations in the Border Rivers started the year at the equivalent of 45% for general security licence holders and finished the year at 8%. This was after some use of allocation, along with increments occurring from November through to March.

Pindari Dam environmental releases were made in accordance with Environmental Impact Statement rules.

Stimulus flows were not required to be released for the 2006-07 water year, but pass through flows were made in the months of July, August, November, March, April, May and June in accordance with Environmental Impact Statement rules.

General Security Water Availability 2006-07



Gwydir Valley

Copeton Dam began the year at 23% of capacity and ended with less than 10%. Customers in the Gwydir Valley received good rain toward the end of the water year which restarted inflows into Copeton Dam.

General security allocation totalled nearly 21% at the start of the water year and there were no allocation increments, with almost all allocated water being used. General security customers will start the next season with less than 1% in their account balances. Water savings were gained through block releases and reducing the number of days over which the river was run.

State Water successfully delivered environmental contingency allowance water to the Gwydir Wetlands in two separate events during 2006-07. The first event delivered 5,600ML during December 2006 and January 2007 in order to maintain aquatic ecosystem health in the Gwydir Wetlands. A second delivery of 5,740ML was also made during March 2007 into the Gingham Wetlands to the north of the Gwydir Wetlands.

Namoi-Peel Valley

Keepit Dam began the season with 17% of capacity and dropped to only 3% in April. General security allocation totalled around 21% at the start of the water year. There were no allocation increments with almost all allocated water being used. General security customers will start the next season with 2% in their account balances.

Environmental releases were made from Keepit Dam to maintain end-of-system flows at Walgett in July and August 2006. Releases were not made in June 2007 as the water sharing plan does not require end-of-system flows when the combined storage of Split Rock and Keepit Dams is less than 120,000ML.

Efficient river operations using block releases and great customer cooperation allowed State Water to shorten the irrigation season by more than 40 days, saving around 20,000ML in transmission losses.

Split Rock Dam started the year at 19% and fell to 4% after a bulk water transfer to Keepit Dam in November and December to finish the water year at less than 3%.

A bulk water transfer was undertaken in consultation with water users and was in accordance with

environmental requirements prescribed by DWE. The transfer saw 53,000ML of water released from Split Rock Dam, about 2,000ML less than originally planned, as tight river operations allowed more water to remain in Split Rock Dam.

Upper Namoi water users had the benefit of 100% allocation from Split Rock Dam while Peel Valley general security customers received a 0% allocation for the whole year.

Chaffey started the year with 37% and dropped to a record low of 14%, finishing at 26%. Supplies to Tamworth Regional Council were maintained throughout the year.

Macquarie Valley

The Macquarie-Cudgegong Valley started the year once again under drought conditions. Customers were informed in August 2006 of drought contingency measures.

Prudent operations resulted in the successful completion of the summer watering season with unrestricted access to carryover water. Restrictions were then announced and 20% of remaining carryover water was accessible from the end of April 2007.

Overall 90% of the water available at the start of the year was delivered or remained deliverable, and as the restriction had been forecast and communicated, there was no major impact on customers.

As part of drought contingency measures, a project was initiated to install pumps to access the 33,000ML of inactive storage in Burrendong Dam. The project design was completed, but further costs were avoided when in June 2007 inflows to Burrendong Dam delayed the need for the pumps by at least another year.

A series of information meetings were held with local government representatives, detailing the severity of the drought and likely impacts on town water supplies in 2007-08.

A significant flow event in the Talbragar River and in Coolbaggie Creek, triggered a supplementary access event lasting 18 to 24 hours during the second week of June 2007. The extraction during the supplementary event was about 10% of the total supplementary entitlement in the Macquarie valley and about 13% of the flow event.

The exceptionally dry season resulted in the release of stock and domestic replenishment flows to the Lower Macquarie from Burrendong Dam.

Local rainfall and runoff delayed stock and domestic flows to Marra Creek, while replenishment flow requirements for Reddenville Break, lower Bogan River, Beleringar Creek (below Gunningbar regulator) Bogan River (below Nyngan to the Gunningbar Creek confluence), were met from flows received from tributaries downstream of Burrendong Dam in June 2007.

About 47,000ML of water was delivered to the general riverine environment below Marebone Weir after tributary events in June 2007. This volume was over and above water orders and basic rights below Marebone Weir. There was no order for the delivery of the environment water allowance to the Macquarie Marshes.

In spite of the severe drought, no high volume transfers from Windamere to Burrendong Dam occurred this year.

Total deliveries for the extractive users in the valley were about 204,746ML or about 52% of the long-term average. About 324 assignments of allocation (including two supplementary flows) were processed, transferring 40,806ML.

Fish River Water Supply

The operation of the Fish River Water Supply scheme saw a continuation of the worst drought on record.

This is now the seventh consecutive year of below average rainfall. The four months commencing August 2006 were the lowest period of rainfall ever recorded with just 85mm measured. The months of February to June had above average rainfalls which stalled the decline of the Oberon Dam. In January 2007 restrictions were moved to Level 3 and in March 2007, the restrictions were moved to Level 4.

The continued dry resulted in Oberon Dam falling to a record low of 16.3% in June 2007. The scheme sold 11,543ML of water for the 2006-07 year.

Lachlan Valley

The Lachlan Valley continued to be operated under drought contingency measures and the water sharing plan remained suspended.

Allocations for town, stock, domestic and high security entitlements were 80% while general security had zero. Access to carryover balances was limited to 40%, a volume equivalent to about 5% of total share components. This restricted access had been forecast in the drought contingency plan since February 2006.

No flows were delivered to wetlands as there was only about 6,000ML from the tributaries downstream of Wyangala Dam. Further, the total inflow into Wyangala Dam was about 105,213ML. Out of this, some 80,212ML was received in June 2007.

No replenishment flows were delivered into the effluent creek systems downstream of Lake Cargelligo. Continuous low flows were maintained in the Wallamundry Creek system, while Booberoi Creek received one stock and domestic replenishment flow. There was one replenishment flow, combined with a delivery to licensed users in the regulated section of Willandra Creek, to the homestead.

Total extraction in the Lachlan River was about 55,837ML or about 18% of the long-term average. A total of 328 assignments of allocation were processed transferring about 21,342ML.

Inflows into Carcoar Dam were very low, resulting in water allocation remaining at 50% for high security entitlements.

Due to dry tributaries below Carcoar Dam, delivery losses were substantial. Different delivery arrangements including grouping orders were trialled in the Belubula Valley. The allocation for general security continued to be 0%, although general security licences were allowed to access up to 20% of their entitlement based on downstream flow triggers. This access was not tradable.

The Lachlan Valley Drought Contingency Plan was nominated for a NSW Public Sector Award for 2006-07.



Minimise your footprint on the environment, tread softly, take time to plan and work with natural resources.

The Lachlan Valley operation successfully maintained a continuous flow to the end of the river system for more than three consecutive years with overall stakeholder satisfaction. At the end of summer Wyangala Dam was drawn down to a 25 year low of 3.87%.

Due to very low storage levels and lack of rain, drought contingency planning focussed on worst-case scenarios which included drastic measures such as stopping flows in the mid-Lachlan at Condobolin. Fortunately the rains and inflows in June 2007 alleviated the need for this drastic action.

Murrumbidgee Valley

The 2006-07 water year was dominated by the ongoing drought. Water allocated to customers was the lowest on record with only 15% for general security and access to 5% of this was suspended in November 2006. Access to the 95% high security allocation was also suspended by 10%, but 5% of this was made available again in March 2007.

The low initial allocations were due to low storage levels at the start of the year. Burrinjuck Dam started at 33% and Blowering Dam at 53% of capacity, and there was a reduced forecast for inflows from Snowy Hydro for the year. Inflows to the dams and in the tributaries downstream of the dams in the first four months of the year were lower than previous records, prompting the suspensions in allocations.

Despite the reduced allocations, water availability in the Murrumbidgee was better than most other lower Murray-Darling systems and there was a record number and volume of intervalley and interstate transfers from the Murrumbidgee. There were over 1,000 transfers totaling over 97,000ML from the Murrumbidgee to other systems.

The total extractions from the Murrumbidgee River were 934,592ML. This is 72% of the lowest figure predicted in the long term modelling of the Murrumbidgee valley.

Murray Valley

The 2006-07 water year was dominated by the ongoing drought. Water allocated to customers was the lowest on record, with 97% for high security, 0% for general security and carryover equivalent to about 32% of the total general security share components. Access to this water was restricted as the impacts of the drought deepened.

In October 2006, 20% of the water remaining in account balances of both high and general security accounts was suspended. This was followed by a further 32% suspension of the remaining available water in November 2006.

The low initial allocations were due to low storage levels at the start of the year. Dartmouth Dam started at 64%, Hume Dam at 21% and Menindee Lakes at 16% of capacity, and there was a reduced forecast for inflows from Snowy Hydro for the year.

State Plan Priority - E1

A secure and sustainable water supply for users

State Water aims to deliver the right amount of water to the right people at the right time, as determined by water sharing plans (WSP). Based on the WSP rules, available water resources are shared throughout the year, providing water for the environment and consumptive use.

During 2006-07 water sharing plans were suspended in the Murray, Lower Darling, Murrumbidgee, Macquarie, Lachlan and Hunter Valleys.

A range of drought contingency measures were undertaken to ensure water supplies continued to towns and customers including: block releases of remaining account water, rescheduling stock and domestic deliveries to cooler months when there was increased probability of tributary contributions and suspension of some water in accounts to ensure delivery of water and security of town water supply for next year.

Inflows to the dams and in the tributaries downstream of the dams in the first four months of the year were significantly lower than previous records, prompting the suspensions in allocations.

Low river levels in the autumn of 2007 caused some supply difficulties in the Merran Creek and Wakool River systems. These low flows were the result of drought measures that reduced Hume Dam and Yarrawonga Weir releases below their usual minimum levels.

Lower Darling Valley

The Menindee Lakes scheme had almost no inflow in 2006-07. The Darling River at Wilcannia, upstream from Menindee, was dry from September 2006 to the end of the year, and the flow in July and August 2006 was very small. The storage level dropped from 16% to 5% over the year.

Releases from Menindee Lakes to the lower Darling River were maintained until end of April 2007, when the flow at Weir 32 was stopped to extend Broken Hill's supplies from the lakes.

Toonumbar Dam

Toonumbar Dam started the year at 100%, falling to 80% by the end of the year. Allocations were 100% for all customers. Usage was slightly up on the previous year due to drier conditions during the summer.

Hunter Valley

The combined storage in Glenbawn and Glennies Creek Dams fell from 38% to 27% over the year. Despite extensive flooding of the majority of the valley over the June long weekend, the two dams received little inflow. Allocations were 79% for all high security customers and initially 8% for general security customers. These rose to 92% for high security customers and 35% for general security customers.

Drought conditions progressively worsened during the year in the Hunter Valley, with the Lower Hunter receiving some coastal rainfall. There were a large number of very small uncontrolled flow events and two supplementary flow events one of which was a result of the June floods.

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, while Lostock Dam remained above 80% all year.

Total extraction from the Hunter River was about 101,774ML or about 79% of the long term average.

Bega River

Brogo Dam started the year at 67% of capacity and a 40% allocation to general security customers. The dam continued to fall to a low of 37% in early February as a result of low inflows before filling up and spilling at the end of February. Allocations were subsequently increased to 80% later in the year. Usage remained similar to previous years.

A water pump along the Lachlan River



Water Deliveries (ML)

Valley	2006-07	Percentage of average	2005-06	Average
Border	131,934	68%	134,417	194,500
Gwydir	129,565	42%	218,762	309,164
Namoi	66,056	28%	141,280	237,146
Macquarie	204,746	52%	179,663	391,900
Lachlan	55,842	18%	109,732	305,000
Murrumbidgee	930,495	48%	1,942,845	1,925,000
Murray	559,369	29%	1,603,284	1,934,830
Hunter	101,774	79%	156,409	128,067
Total	2,179,781	40 %	4,486,392	5,425,607

Total Valley Flow (ML)

Valley	2006-07	Percentage of average	2005-06	Average
Border	157,689	n/a*		
Gwydir	90,970	8%	433,210	1,141,000
Namoi	49,159	6%	440,138	870,000
Macquarie	173,600	12%	680,730	1,448,000
Lachlan	111,241	9%	608,144	1,212,000
Murrumbidgee	1,034,809	24%	3,674,970	4,360,000
Murray	1,092,550	n/a*	3,483,000	
Hunter	1,587,205	153%	290,370	1,040,000
Total	4,297,223		9,610,562	

*For total flow figures, see the Dumaresq-Barwon-Border Rivers Commission (for Border Rivers) or the Murray-Darling Basin Commission (For Murray Valley).

Hands-on asset experience



State Water is using its employee knowledge base to manage its multi-billion dollar package of assets, with the appointment of a new Facility Maintenance Management System (FMMS) administrator.

A move towards providing new opportunities for employees and encouraging practical knowledge transfer has resulted in the creation of this new position, filled by a man with hands-on experience in asset management.

Long-time State Water employee Tony Pithers (pictured) has taken on the challenge. Tony brings more than 20 years experience in maintaining and operating State Water assets, including three years at Brogo Dam and 11 years as Officer in Charge at Copeton Dam.

Among his credits, Tony is a four-time winner of the annual JF Bate Medal for best maintained storage: winning in 2005 and 2006 for Copeton Dam and twice in a row in the 1990s for Brogo Dam. The award recognises the highest level of management of a State Water storage in the areas of maintenance, operation and OH&S standards.

Tony's input into the review of operational and maintenance procedures and frequencies is expected to increase the efficiency of maintenance activities, along with cost savings.

State Water's sound management of its assets ensures bulk water delivery in a sustainable, timely and cost effective manner.

The asset management tool controls the maintenance of State Water's assets, which consist of:

- 20 large dams, with a total capacity of more than 14,000GL
- 280 weirs and regulators
- 140 associated structures (bridges, culverts, levees)
- 220 buildings and residences associated with major asset operations
- 326 other buildings and residences
- 90,000ha of land under infrastructure, including foreshores.

supportive stakeholders



Barry Phillip and John De Cataldo standing on the banks of the Murray River at Menindee

develop and maintain memorandum of understanding

As required by the Operating Licence, State Water has a Memorandum of Understanding (MoU) with:

- Department of Water and Energy (DWE)
- Department of Primary Industries (DPI)
- Department of Environmental and Climate Change (DECC).

These MoU form the basis of State Water's cooperative relationship with key NSW Government agencies, which help define best practice in environmental management and support cooperative relationships between agencies.

Some activities and initiatives undertaken include:

- State Water and DECC have been working together to develop a schedule as part of the MoU. The schedule will define key areas where the two organisations can work together in partnership.
- State Water participated in weekly algal alert level briefings, which were facilitated by DWE, to provide timely data and information to the Minister for Natural Resources and Regional Algal Coordinating Committees.
- The relationship between State Water and DPI continues to be effective under the MoU. The department liaison arrangement allows employees to access consistent advice in a timely manner which has benefits at both operational and strategic levels.
- A fishway monitoring program was developed between DPI and State Water, in line with the MoU. The program outlines legislative drivers, fish community science, engineering requirements, methodology and cost arrangements needed to monitor the effectiveness of new fishways.

NSW State Plan

The NSW Government has begun implementing a 10-year State Plan. The plan outlines key budget processes, areas of accountability and reporting requirements for all state government activities.

The plan sets clear priorities for actions, with challenging targets for improvement to guide decision making and resource allocation. In addition, it sets out how agencies will work to deliver the targets, with fundamental reforms to government accountability and reporting.

State Water is involved in achieving priorities and targets outlined in the State Plan, through a number of programs and initiatives.

Projects that State Water is currently involved with which contribute to priorities and targets within the plan include:

- Consultation with the Customer Service Committees and Community Reference Panels (Priority R4)
- Customer satisfaction survey and strategy in response to its findings (Priority S8)
- Involvement in development of national water metering standards (Priority E1)
- Electricity audits, in keeping with our Energy Management Plan targets (Priority E2)
- Hydro electricity generation on our storages (Priority E2)
- Fish passage development and water quality monitoring (Priority E4).

increase shareholder understanding of revenue and state water

Current scientific predictions indicate that Australia is heading into a period of increasing climatic variability. If this is the case, the consequences for State Water's revenue volatility could be severe.

Water supply in the past decade has varied from a peak of 7,661GL in 1996-97 to a low of 2,200GL in 2006-07. As prices move towards a 60:40 fixed to variable tariff mix, revenue fluctuations will amplify.

State Water used negotiations for the 2006-07 and 2007-08 Statement of Corporate Intent (SCI) to improve voting shareholders' understanding of potential revenue variations.

A scenario analysis was undertaken to model the impact of prolonged increases or decreases of water availability, and hence water sales, compared to SCI estimates.

The SCI process will continue to be used to inform voting shareholders of the impact of water sales revenue fluctuations on financial viability.

Statement of Corporate Intent

State Water entered into a SCI for 2006-07 with its shareholding Ministers as required under the *State Owned Corporations Act 1989*.

The SCI outlines reporting requirements to the voting shareholders and Treasury.

State Water submitted the following reports in relation to the 2006-07 SCI:

- Half-yearly report in accordance with the *State Owned Corporations Act 1989*
- September, December, March and June quarterly reports
- Forecast financial statements to Treasury via Treasury Online Electronic System
- Forecast of financial distribution and tax equivalents (budget round forecasts).

The following table outlines State Water's financial performance in 2006-07, relative to the financial targets in its 2006-07 SCI.

Financial Performance in 2006-07

	SCI Target	Actual
Earnings before interest and tax	\$6.3M	\$10.7M*
Operating profit before tax	\$3.5M	\$9.8M
Target dividend	\$2.5M	\$5.7M
Return on assets	1.5%	2.9%
Return on equity	1.1%	2.5%

* *Earnings and profits exclude superannuation actuarial gains of \$5 million.*

State Water's year end net profit before tax of \$9.8 million is a significant improvement on the SCI target of \$3.5 million.

Improvements resulted mainly from:

- lower than expected other operating expenses (\$2.5 million)
- higher investment income (\$1.4 million)
- lower interest expense (\$0.5 million).

The positive superannuation fund movement is excluded from the calculation of dividends.

Non-Financial Performance

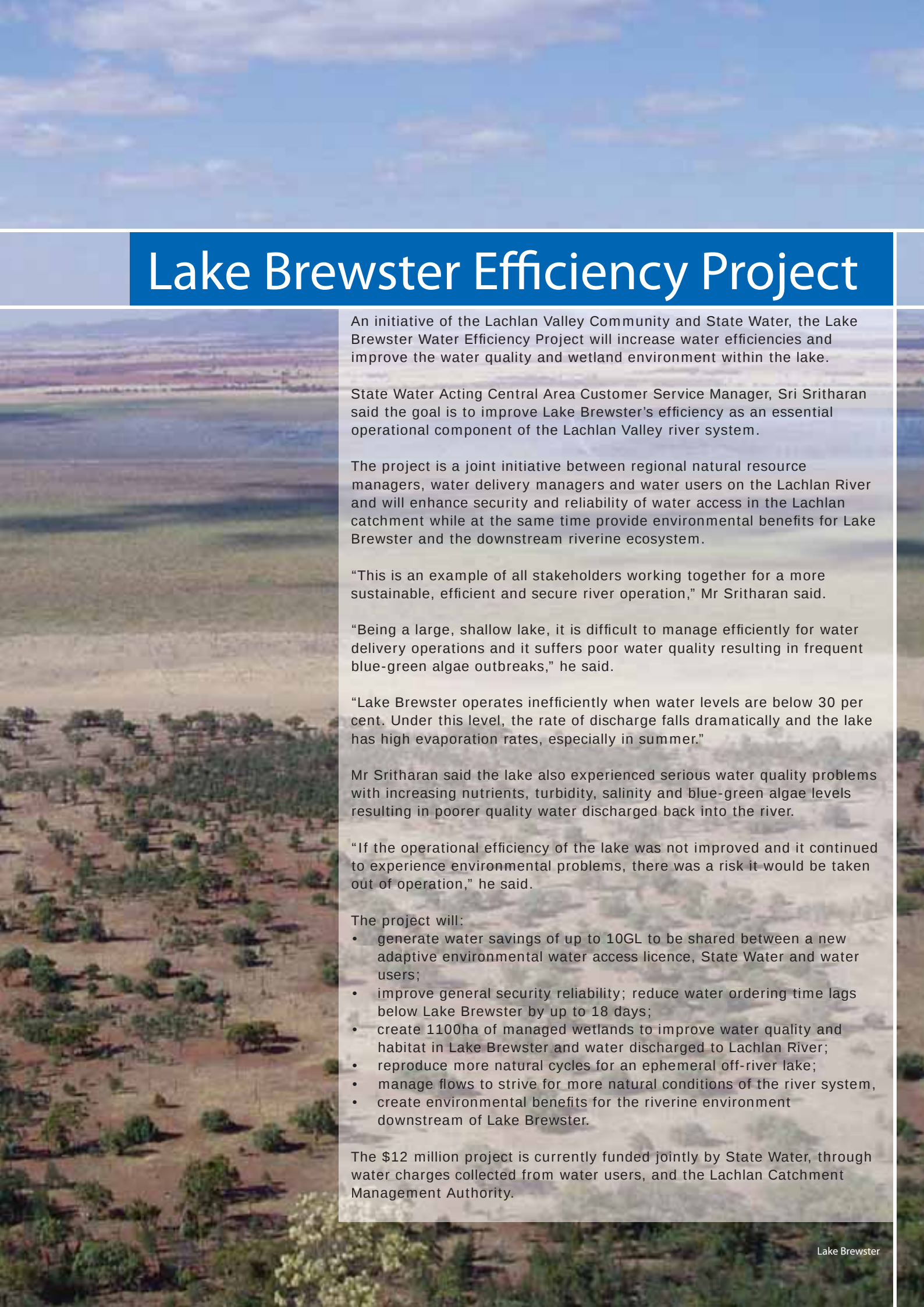
The non-financial performance indicators in the 2006-07 SCI were adopted from the targets in the 2006-2009 Corporate Plan.

State Water's performance against each of the Corporate Plan targets is provided in detail in each chapter of this report.

Maintaining Relationships with Regulators and Shareholders

In 2006-07, State Water met all submission deadlines for the quarterly reports and half yearly to Shareholders.

Due to delays in the release of IPART's 2006 Bulk Water Price Determination, State Water received an extension on the deadline for the submission of the 2006-07 (SCI). The 2005-06 Annual Report failed to meet the statutory deadline, due to the delays in the finalisation of the 2005-06 financial accounts.

An aerial photograph showing a vast, flat landscape. In the foreground, there is a large, shallow body of water (Lake Brewster) with a mix of blue and green hues, indicating varying water levels and vegetation. The surrounding land is dry and brownish, with scattered green shrubs and trees. The sky is a clear, pale blue with some light clouds.

Lake Brewster Efficiency Project

An initiative of the Lachlan Valley Community and State Water, the Lake Brewster Water Efficiency Project will increase water efficiencies and improve the water quality and wetland environment within the lake.

State Water Acting Central Area Customer Service Manager, Sri Sritharan said the goal is to improve Lake Brewster's efficiency as an essential operational component of the Lachlan Valley river system.

The project is a joint initiative between regional natural resource managers, water delivery managers and water users on the Lachlan River and will enhance security and reliability of water access in the Lachlan catchment while at the same time provide environmental benefits for Lake Brewster and the downstream riverine ecosystem.

"This is an example of all stakeholders working together for a more sustainable, efficient and secure river operation," Mr Sritharan said.

"Being a large, shallow lake, it is difficult to manage efficiently for water delivery operations and it suffers poor water quality resulting in frequent blue-green algae outbreaks," he said.

"Lake Brewster operates inefficiently when water levels are below 30 per cent. Under this level, the rate of discharge falls dramatically and the lake has high evaporation rates, especially in summer."

Mr Sritharan said the lake also experienced serious water quality problems with increasing nutrients, turbidity, salinity and blue-green algae levels resulting in poorer quality water discharged back into the river.

"If the operational efficiency of the lake was not improved and it continued to experience environmental problems, there was a risk it would be taken out of operation," he said.

The project will:

- generate water savings of up to 10GL to be shared between a new adaptive environmental water access licence, State Water and water users;
- improve general security reliability; reduce water ordering time lags below Lake Brewster by up to 18 days;
- create 1100ha of managed wetlands to improve water quality and habitat in Lake Brewster and water discharged to Lachlan River;
- reproduce more natural cycles for an ephemeral off-river lake;
- manage flows to strive for more natural conditions of the river system,
- create environmental benefits for the riverine environment downstream of Lake Brewster.

The \$12 million project is currently funded jointly by State Water, through water charges collected from water users, and the Lachlan Catchment Management Authority.

great people



Lostock Dam's Field Officer Trevor Bird and Acting Officer in Charge Michael Sharkey

improve individual accountability and performance

State Water must develop an effective corporate culture to make a successful transformation from government department to commercial business.

The Culture Development Framework and associated program was developed to create a corporate culture where all employees operate in accordance with State Water's strategic direction, thereby achieving performance through people.

The program focused on five key factors: leadership, strategic direction, technology and systems, decision making and relationships.

Senior managers participated in an Emotional Intelligence Development Program to improve key areas of leadership.

The program began with a 360 degree feedback process and continued throughout the year with a series of peer group coaching sessions. The program will be completed later in 2007 with a further 360 degree review to measure improvement and will be evaluated for roll out to middle management.

Thirty two managers sought feedback from a range of people on their commitment to State Water values and their management competence through 360 degree surveys. The information collected was used to identify and communicate strengths and development needs along with creating and implementing practical and effective personal development plans. The 360 degree process has created a culture more open to giving and receiving feedback and continuous improvement.

An on-line employee planning and review (EPR) process was introduced to senior and middle managers, which focuses on State Water's strategic direction and achieving the things that are important to our business.

The EPR process promotes individual development and succession planning through employee initiated development plans. Feedback from the pilot process and initial roll out has been positive, with employees identifying key work and development priorities, and having a clearer understanding of how their role contributes to achieving corporate strategies. The EPR process will continue to be rolled out to other employees in 2007-08.

State Plan Priority - P3

More people participating in education and training throughout their life

State Water is committed to continuous education and training to drive productivity and is currently investigating ways to retain the skills and services of its ageing workforce.

A number of initiatives have been implemented to improve State Water's succession capability, such as encouraging employees to take up relieving roles, establishing a knowledge library and fostering a young persons' group, which encourages knowledge transfer through the establishment of a mentoring program.

A Workforce Plan has been introduced which recognises that State Water requires a capable, available, adaptive and effective workforce to meet the current and future requirements and demands of the organisation.

The plan outlines the necessary integrated strategies to build workforce capability to respond to significant ongoing shortages in the labour market, the ageing of State Water's workforce and ongoing organisational change. The plan also positions State Water to more effectively meet the challenges of the future.

develop and implement a workforce plan

State Water has developed a Workforce Plan aimed at achieving sustained organisational performance and accountability through the development of a capable workforce, appropriate to the needs of the corporation, both now and into the future.

State Water faces a number of unique challenges associated with:

- supporting operations in regional NSW
- securing and retaining professional engineers and experienced supervisors and operators under tight labour market conditions
- developing a commercial culture to build business growth and increase customer focus and satisfaction, while still supporting and responding to the regulatory demands of a State Owned Corporation.

State Water requires great people to meet the current requirements and demands of the organisation. The plan outlines the integrated strategies needed to build workforce capability to respond to significant ongoing shortages in the labour market, the ageing workforce and ongoing organisational change.

Development and implementation of a workforce plan is identified in the organisation's corporate plan as critical to the success of State Water. The plan recognises that State Water requires an adaptive and effective workforce.

Integrated strategies will be implemented that build workforce capability to respond to existing demands, which will allow the organisation to meet future challenges.

The plan outlines three integrated strategies that build organisational capability:

- developing the organisation
- developing the current workforce
- developing the future workforce.

Strategies included in the plan are consistent with workforce planning requirements outlined in documentation from the Australian Public Service Commission and the Australian National Audit Office.

State Water understands that the workforce planning process is not a stand alone plan or process. Rather, the plan is integrated with business processes, incorporates an analysis of State Water's current and possible future operating contexts and, includes ongoing monitoring of the environment, workforce issues and organisational strategies.

The organisation has already introduced a broad range of human resource focused initiatives to ensure the organisation is better positioned to respond to future demands.

The workforce plan attempts to formalise and structure the broad range of initiatives and strategies. All employees can now be more aware of the interdependence of these strategies and their natural and necessary link to building State Water's workforce capability.



Glennies Creek Field Officer, Joseph Peters

provide a safe, healthy and productive working environment

Health and safety is State Water's number one priority, which was demonstrated through improved safety performance in 2006-07.

The organisation focused on improving safety systems, consultation, hazard identification and developing OH&S audit systems.

State Water has been working to address five targets from the NSW Government Public Sector OH&S and Injury Management Strategy 2005-2012, which include:

- injury prevention
- reduction in the cost and duration of injuries
- providing OH&S risk management training
- injury management for suitable duties
- improving agency knowledge and capability with respect to risk management and processes.

No	Target	State Water Target	Status	State Water Statistics
1	20% reduction in Lost Time Injuries (LTI)	4.1 %	Target not met*	4.6%
2	20% reduction in employees off work at eight, 12 and 26 weeks after injury	0 > eight weeks	On target	0 > eight weeks
3	15% reduction in average cost of claims	\$7,300	On target	\$3,682 and falling
4	10% improvement in employees participating in suitable duties when prescribed by the nominated treating doctor	100%	On target	100%
5	90% of managers trained in risk and injury management	90%	Achieved	91.2%

Note: * Target 1 required a 20% drop in LTI's down to 4.1% and was not met. However, the final target is to reduce it by another 20% to 3.6% by June 2012. The LTI frequency rate was 4.6% at 30 June 2007 which is lower than State Water's starting point of 5.1% and should be read in conjunction with Target 3. It is financially and culturally better to have 20 LTIs of one day than one LTI of 20 days. This is reflected in the significant reduction in the average cost of claims from starting point of \$11,540 to \$3,682.

Lost Time Injury Frequency Rate

Encouraging hazards and injuries to be reported has increased State Water's Lost Time Injury Frequency Rate but significantly reduced the number of days lost and the average cost of injuries.

In the long term, this encouragement will lead to a reduction in hazards and in the Lost Time Injury Frequency Rate, resulting in a healthier and safer workplace.

State Water has focused on safety committee consultation, hazard identification and elimination processes, further developing OH&S policy, procedures and safety compliance audit techniques.

The OH&S focus for 2007-08 is to improve the provision of relevant safety training, further develop lead indicators for safety performance, improve our safety and risk management systems and gain third party certification under AS/NZS:4801 of State Water's OH&S Management Manual.

Injury Management Program

Claims reported to insurance company Allianz in 2006-07 are summarised below:

- Thirty four notifications
- Five notifications of incidents only with no cost accruing
- Two denied claims

Two incidents at Tamworth and Parramatta were not reported to Allianz, however were significant enough to note in the database.

The total cost of claims for 2006-07 was \$29,995.89.

In a milestone for State Water, 36 worksites achieved more than 365 days with no lost time due to injury.

This included 18 dam and weir work sites, which have greater exposure to injuries due to the nature of work involved.

This achievement demonstrates that State Water employees are putting their safety and the safety of others first by identifying incidents and hazards as they occur, in accordance with the organisation's corporate value of safety - *we put safety above time, cost, productivity and employment.*

Employees were recognised and presented with an Excellence in Safety Certificate.

implement employee survey recommendations

State Water values employee involvement in the development of the business and strives to maintain a high level of engagement.

Strategies developed from the 2005 Employee Survey continued to be implemented during the 2006-07 year along with preparation for the 2007 Employee Survey.

Following the 2005 Employee Survey, strategies were put in place to improve communication, leadership and culture.

The strategies included:

- Employee Planning and Review (EPR)
- Roadshow
- Workforce Plan
- Young professionals group
- 360 degree feedback process
- New employment agreements
- Employee newsletter
- Roll out of corporate and shared personal values
- Changes to the Joint Consultative Committee and Staff Consultative Steering Committee to improve formal consultative processes.

The next employee survey will be conducted in July 2007 to assist in prioritising our key focus areas for 2007-08.

The survey will analyse:

- Employee behaviour
- State Water's strategic direction
- Values for an effective organisation
- Follow-up questions from the 2005 Survey.



develop and motivate employees

Shared Personal Values

State Water placed a strong emphasis on both personal and corporate values this year to bring about good business through better working relationships.

State Water's Shared Personal Values were marketed to employees through promotional gifts which symbolised each value.

One gift per month, relating to each shared personal value was distributed to every employee.

The gifts were linked to branch meetings, roadshow workshops and toolbox meetings that built stronger awareness of and commitment to the shared personal values.

The values are a guide to the personal behaviours that will enable State Water to become Australia's leading water business.

Roadshow Sessions

Roadshow information sessions were introduced in 2006-07 as an initiative from the 2005 employee survey.

The program is aimed at improving internal communications and providing consistency in delivering messages to employees.

The CEO attended 19 sessions speaking with employees one on one and listening to their concerns, while gaining local input from branch managers.

The inaugural program received a four out of five rating from employees for being informative and useful.

After this positive employee feedback, the program will be continued in 2007-08 and be conducted twice a year in each area, with the CEO attending one session.

State Water employees at the 2006 Asset Forum



Developing new enterprise agreements with employees

During 2006-07 State Water successfully negotiated two enterprise agreements with the three unions involved with State Water and lodged them with the NSW Industrial Relations Commission. Both agreements are due to expire on 30 June 2008.

State Water is preparing to begin negotiations for a new employment agreement to be lodged by the end of June 2008 and has developed a project plan outlining key milestones to ensure the deadline of June 2008 is met.

No time was lost due to industrial disputes through the year.

New Wave/Young Professionals

In order to speed up the development of young professionals at State Water a New Wave group was established in 2006-07.

New Wave is an initiative to help address the ageing workforce of State Water and the associated impacts this has on the needs of younger people.

The initiative is assisting State Water with the attraction and retention of the next generation which is important to ensure the organisation's ongoing viability.

New Wave has committed to addressing and promoting various issues particularly relevant and important to younger people within the organisation.

The group aims to provide a range of diverse development opportunities for its members along with exposure to all facets of the business.

New Wave provides an organised forum for younger employees to voice their opinions as well as an exchange point where the more experienced State Water people can pass on and transfer their extensive knowledge.

The CEO also invited New Wave members to the 2007 Institute of Public Administration Australia CEO and Young Professional Breakfast Forum. State Water's young professionals had direct access to the CEO and the opportunity to voice their opinions and receive feedback about their ideas on change.



Some of the young professionals who make up State Water's New Wave group

create a more commercial culture

State Water has implemented many strategies which are supported by a Culture Change Program aimed at replacing long-standing public service cultures of operating on the basis of tradition and custom and replacing it with a commercial utility culture, based on compliance as a given and on building value for shareholders and service quality for customers through innovation.

The program was an initiative from the 2005 employee survey which highlighted issues with leadership in State Water and a need for stronger accountability and clearer communication.

A key part of the program is developing systems and processes to move the organisation forward and develop the leadership skills of managers. Another is implementing State Water's Corporate Values and developing a set of shared personal values.

State Water is continuing to develop its corporate culture through corporate planning, employee development and the negotiation of a new employment agreement.

Number of Employees By Branch	Figure
Branch	Total
North Area Includes Border, Gwydir, Namoi, Barwon and Peel River valleys	59
Central Area Includes Macquarie, Lachlan and Upper Darling River valleys	61
South Area Includes Murrumbidgee, Murray and Lower Darling River valleys and the Medindee Storages	83
Coastal Area Includes North Coast, Hunter, Sydney, Snowy and South Coast River valleys	27
Strategic Asset Services	32
Technical Services	18
Information and Operations	22
Corporate Services	38
Strategic Policy and Compliance	9
Total	
2006-07	* 349
2005-06	359
2004-05	320
2003-04	253

*Actual staff numbers, including contractors and temporary staff. Effective Full Time (EFT) was 302.88.

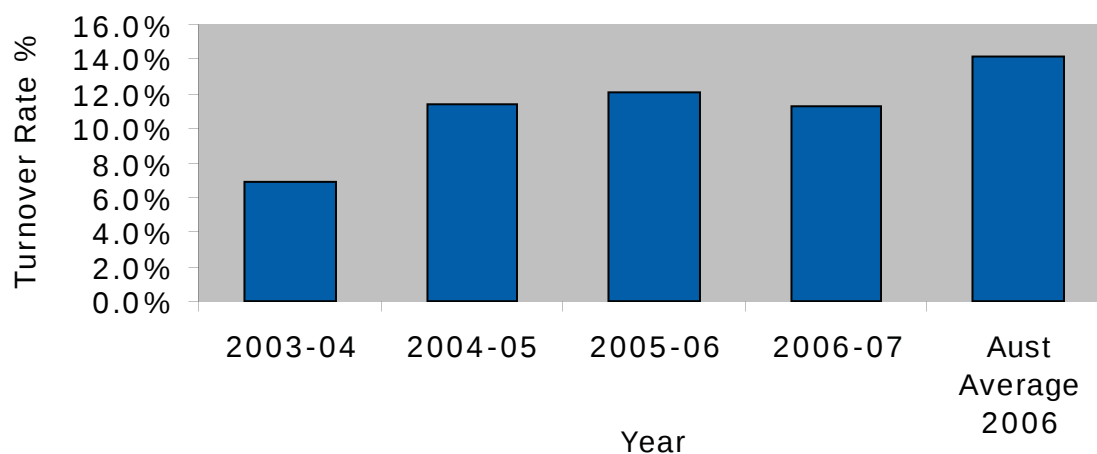
Turnover

The employee turnover statistic that is benchmarked against the Australian average is calculated from a combination of departures and arrivals at State Water.

Corporatisation had a significant impact on the arrivals at State Water with expansion needed to provide corporate services that had previously been provided

by the former Department of Infrastructure, Planning and Natural Resources.

The 2005-06 and 2006-07 reporting periods have seen this expansion stabilise as State Water nears its optimal staffing levels. This is directly reflected in the turnover statistics for this year.

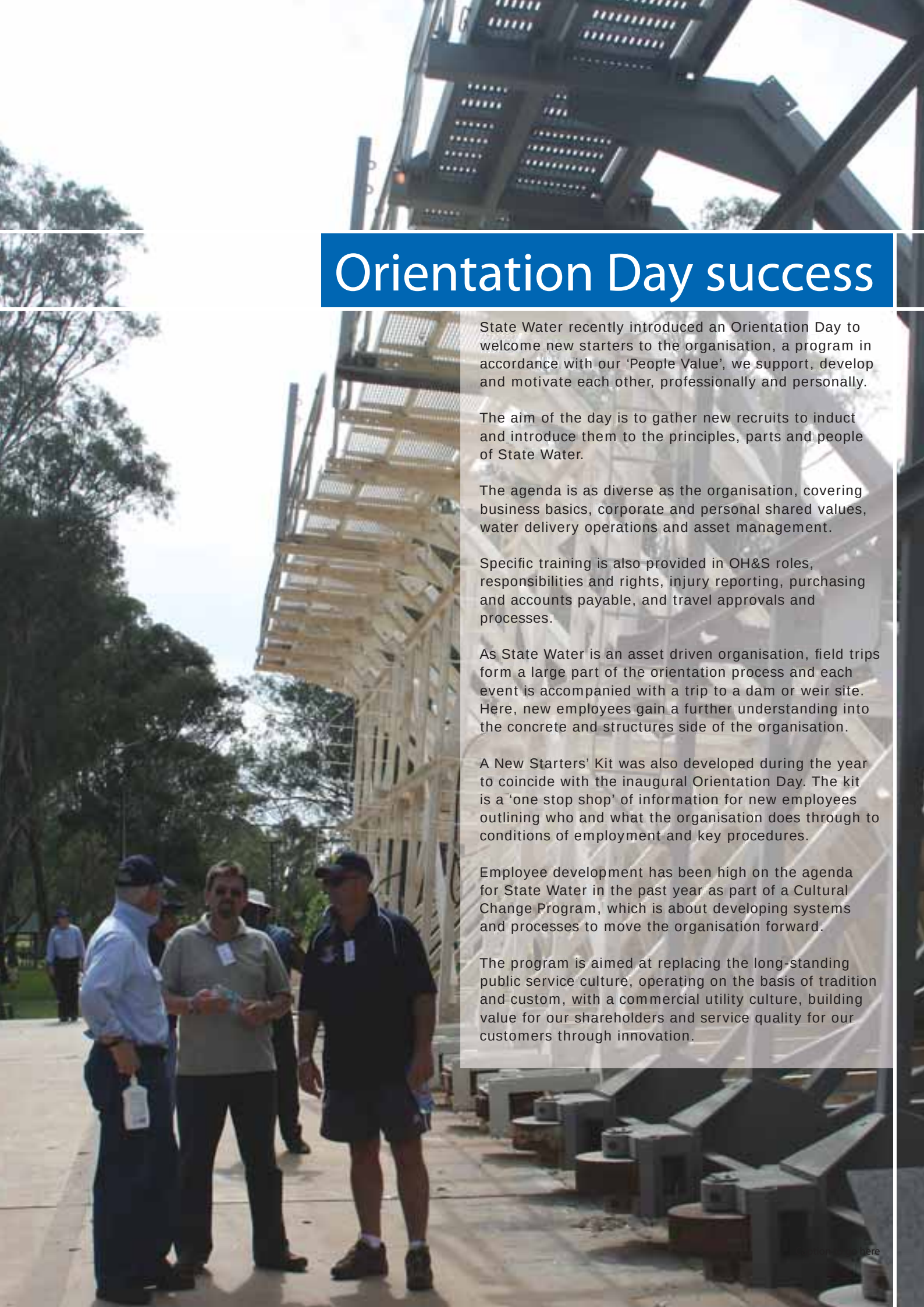


Note: The Australian Average figure for Staff Turnover is based data provided by the - Australian Institute of Management 2006. The turnover statistic is formulated by a combination of departures and arrivals.

Sick Leave

The amount of sick leave taken per employee has remained below the Australian average.

Year	Sick Days	EFT	Ratio	Australian Average
2003-04	970	253	3.8	N/A
2004-05	1,195	287	4.1	N/A
2005-06	1,487	312	4.7	6.0
2006-07	1,008	296.5	5.5	5.7



Orientation Day success

State Water recently introduced an Orientation Day to welcome new starters to the organisation, a program in accordance with our 'People Value', we support, develop and motivate each other, professionally and personally.

The aim of the day is to gather new recruits to induct and introduce them to the principles, parts and people of State Water.

The agenda is as diverse as the organisation, covering business basics, corporate and personal shared values, water delivery operations and asset management.

Specific training is also provided in OH&S roles, responsibilities and rights, injury reporting, purchasing and accounts payable, and travel approvals and processes.

As State Water is an asset driven organisation, field trips form a large part of the orientation process and each event is accompanied with a trip to a dam or weir site. Here, new employees gain a further understanding into the concrete and structures side of the organisation.

A New Starters' Kit was also developed during the year to coincide with the inaugural Orientation Day. The kit is a 'one stop shop' of information for new employees outlining who and what the organisation does through to conditions of employment and key procedures.

Employee development has been high on the agenda for State Water in the past year as part of a Cultural Change Program, which is about developing systems and processes to move the organisation forward.

The program is aimed at replacing the long-standing public service culture, operating on the basis of tradition and custom, with a commercial utility culture, building value for our shareholders and service quality for our customers through innovation.

enhanced environment



A modified rock ramp fishway at Duck and Crooked Creek Weir

environment management plan

This year, State Water continued to implement its Environment Management Plan (EMP). Initial scoping of a monitoring, evaluation and reporting framework was also undertaken to assist the management, tracking and subsequent reporting of activities under the EMP. An EMP Coordinators Group was established to encourage the implementation of EMP strategies throughout the state.

A number of EMP targets have been completed this financial year, including:

- Full compliance achieved for the 2005-06 environmental performance report to IPART
- Flow, timing and channel capacity targets in the Water Sharing Plans were achieved
- Timely information was provided to the Environmental Flows Reference Groups
- State Water's Waste Reduction and Purchasing Plan (WRAPP) plan was adopted
- Continued to monitor storages for water quality
- Began documentation of water quality activities to identify improvements and future needs, such as production of water quality reports
- Developed Pesticide Use Notification Plan
- Discussed potential partnership opportunities with Catchment Management Authorities (CMAs)
- Began implementation of TRIM electronic records management system
- Energy usage benchmarked and three energy audits proposed for 2007-08.

In accordance with Section 8.13 of the State Water Corporation Operating Licence, a 12-month review of the EMP was submitted to IPART on the 29 June 2007.

The scope of the review concentrated on the appropriateness of timeline-related aspects of the plan and the need to identify any technical or regulatory changes which may affect the plan's strategies and targets.

Forty-six stakeholder groups were invited to comment as part of the review and appropriate amendments were made in light of those comments. The revised EMP will be in place from July 2007 until June 2011 and will be available on the website.

Increased Employee Awareness and Education

State Water continued to promote environmental initiatives across the business to increase employee awareness and education about State Water's environmental responsibilities and share innovative ideas and best practices this year.

Key initiatives include:

- a new Environmental Happenings column in the employee newsletter
- development of an environment and heritage intranet page
- regular meetings of the Environment and Heritage Technical Improvement Group
- a presentation on environmental management issues at the Assets Forum
- increased relationship building with State Water's liaison officer at Department of Primary Industries (DPI)
- continued streamlining and employee capacity building for environmental assessment processes.



Department of Water and Energy's Hydrographer Andrew Brissett stream gauging

maintaining relationships with regulators and shareholders

State Water worked closely with key environmental regulators in the past 12 months as part of the initial review of the EMP and implementation of key environmental initiatives. Input on the review was sought from the regulators through a call for written submissions.

Key regulators consulted as part of the review, included the Independent Pricing and Regulatory Tribunal, Department of Water and Energy (DWE), Department of Environment and Climate Change (DECC), Department of Planning (DoP) and DPI. The findings of the review and the revised EMP were provided to IPART, as required by the Operating Licence.

State Water has worked in partnership with DWE on the preliminary drafting of the Water Supply Works Approval conditions, which are required under the *Water Management Act 2000*.

Extensive internal consultation took place to ensure both the operator and regulator were involved in the development of realistic, reportable and enforceable conditions.

Environmental health and impact mitigation measures have been integrated into State Water's project planning and operating practices in consultation with environmental regulators.

State Water worked closely with DPI (Fisheries) this year to gain concurrence and approval for more than 25 programs under the *Fisheries Management Act 1994*. These included monitoring of new fishways, dewatering exercises, bank stabilisation, weir repairs, and weed and silt removal.

State Water, together with other utilities also took part in heritage forums facilitated by the NSW Heritage Office. This increased information sharing between utilities and fostered a good working relationship with the Heritage Office. To further enhance working relations, the Heritage Office established a liaison officer contact for State Water.

Regular liaison with DWE continued to contribute information on algal alert levels in State Water storages as part of the statewide reporting process.

State Plan Priority - E4

Better outcomes for native vegetation, biodiversity, land, rivers and coastal waterways

State Water's Environment Management Plan (EMP) outlines the organisation's direction, strategies and targets for environmental management. The EMP focuses on the operations and management of State Water's assets and operations, as well as the broader environmental benefits that are achieved in cooperation with stakeholders. Key achievements under the EMP this year included:

- New fishway built at Island Creek Weir, opening up 231km of river, and continued monitoring of five existing fishways that allow 510km of open river for native fish movement.
- Approximately \$200,000 spent removing willows in the Wallamundry Creek and Little Lachlan, along approximately 19km of river, improving water delivery and operational efficiencies.
- More than 54 hectares of aquatic habitat managed for protection, in accordance with the *Fisheries Management Act, 1994*.

environmental initiatives

Central Area

In 2006-07, State Water and DPI continued to monitor the movement of fish through five fishways at Warren, Gunningbar, Duck, Crooked and Bumbergan weirs.

The methodology designed to audit the success of the fishways demonstrates that large and small fish are finding their way upstream through modified rock ramp fishways at Duck and Crooked Creeks. Vertical slot fishways at Warren, Gunningbar and Bumbergan weirs have proven effective for the migration of larger fish.

Audit results show that all the fishways are operating effectively for the classes of fish they were designed for. The Island Creek Weir fishway was completed this year.

However it has been inoperable due to the ongoing drought conditions in the Lachlan Valley. Initial monitoring of this fishway will be undertaken next year.

Willow tree mapping was undertaken in the Macquarie River, while the willow removal program continued in the mid-Lachlan at Little Lachlan and Wallaroi Creeks.

The program was put on hold between October and March to provide opportunities for fish migration. It has significantly restored channel capacity and improved the riverine environment. It has also improved water delivery and operational efficiencies.

The Bogan River at Nyngan



Central Area continued to provide advice to the Environmental Flow Reference Group (EFRG) this year. About 25,000ML of tributary flows from the Talbragar River and Coolbaggie Creek were successfully delivered to the Macquarie Marshes under the guidance of an EFRG sub-committee.

State Water actively managed the distribution flows to the north, south and east Macquarie Marshes.

Valuable input was made to the RiverBank Project (administered by DECC) to develop water use plans for the Lachlan Water Management Area and Macquarie River. The project aims to contribute to the rehabilitation and protection of stressed rivers and iconic wetlands in NSW.

In collaboration with DECC, State Water prepared the final draft operating principles and protocols for the management of the water regulating structures on the Macquarie Marshes North Bypass Channel.

At Windamere Dam, the multi-level off-take tower operated successfully to minimise blue-green algae levels downstream in the Cudgegong River.

As part of the NSW Wetlands Recovery Program and in partnership with DWE and DPI, State Water is designing a fish ladder to be retrofitted at Marebone Weir. State Water also provided input to the Decision Support System developed for Central West CMA.

State Water secured funds this year to improve water quality at Lake Brewster. A development application and statement of environmental effects were submitted to Carrathool Shire Council. About 90% of the design work for the lake has been completed.

A site inspection between Forbes and Lake Brewster was undertaken to develop ideas for carp control options at Jemalong Weir, Lake Cargelligo and Lake Brewster. Lachlan CMA and State Water plan to install trial traps and screens within the inlet and outlet channels at Lake Brewster before the next irrigation season.

DWE hydrographers and State Water identified a location for a hydrographic monitoring station upstream of Windamere Dam. The station will manage future translucent environmental releases from the dam.

Coastal Area

Multi-level off-take trash racks were operated at Glennies and Glenbawn dams to maximise the water quality of releases. With water levels receding, the trash racks were continually lowered to suit.

The sliding gate arrangement at Brogo Dam was electrified in 2006-07. This made operation of the variable level intake easier and maximised water quality.

During 2006-07, the Coastal Area successfully managed an event in accordance with the Hunter River Salinity Trading Scheme, this occurred from 8 to 30 June.

In conjunction with DWE, State Water developed off-allocation access rules for Brogo and Toonumbar dams, protecting 50% of flow for the environment.



North Area

State Water successfully delivered environmental contingency allowance water to the Gwydir wetlands in two separate events this year. The first event delivered 5,600ML in December and January, while a second delivery of 5,740ML was made in March.

Tributary environmental flows were also delivered to the Gwydir wetlands. State Water managed a minor supplementary access event in the Gwydir during July, preserving water for the environment.

State Water continued its involvement with the Gwydir Environmental Contingency Allowance Operations Advisory Committee, providing water delivery advice throughout the year.

Environmental releases from Keepit Dam maintained end-of-system flows at Walgett. Water was delivered in July and August, but not in June.

At Pindari Dam, environmental releases were made in accordance with the environmental impact statement rules for minimum releases and stimulus flows.

State Water conducted a bulk water transfer from Split Rock Dam to Keepit Dam using a release pattern approved by DWE. This occurred in close consultation with downstream users and stakeholders.

Multi-level off-takes operated at Split Rock, Chaffey and Pindari dams throughout the year, with trash racks positioned to optimise water quality and operational requirements.

The North Area took advantage of low river levels in 2006-07 to undertake much-needed maintenance of river structures. This involved a number of desilting works on the immediate upstream face of Moomin Creek Offtake, Caroule Creek Offtake and Weeta Weirs to allow continued flow at low river levels.

Low water levels allowed inspections to occur on parts of the structures that are usually under water, revealing areas which required maintenance and other work. This resulted in a series of rock protection projects to improve the stability of structures immediately downstream at Mollee, Gunidgera and Weeta weirs.

Lostock Dam



South Area

Water sharing plans were suspended in the southern valleys as drought conditions continued. Flows in the Lower Darling River were interrupted, with releases from Menindee stopped in May.

Releases from the main dams were conducted on a needs basis and water delivery operations were independent of environmental releases to comply with the DWE sanctions.

A fishway at Wentworth Weir was completed as part of the Murray-Darling Basin Commission's Sea to Hume Fishways Project. Combined federal and state funding was also announced for two new fishways for the Edward River system at a total estimated cost of \$5.7 million. These two fishways will open up some 1,350km of river between Hume Dam and Lock 11 at Mildura.

Extensive work continued with DPI to develop a fish passage strategy for South Area. Automation work was completed at the Balranald Weir fishway and DPI continued to discuss the presentation of data from the remote telemetry.

State Water has extensive involvement in the Yanco Creek Water for Rivers Project and as such, a whole of system and weirs review is being completed. It is expected that multiple weirs will be nominated for removal, in consultation with landholders, as well as reinstating more natural wetting patterns to wetlands adjacent to Yanco Creek channel. The establishment of a fish passage strategy will also be incorporated.

Involvement continued in the Environmental Water Allowance Reference Group as well as an associated technical advisory group to offer advice on the release of environmental water allowances under the regulated Murrumbidgee water sharing plan.

State Water continues to work with DWE and CMA in developing options and completing works associated with fish passages. These programs include a fishway at Burtundy and Weir No 32 on the Darling River.

State Water also committed to work with DWE on the Living Murray Environmental Works and Measures Program. State Water has reviewed Murrumbidgee River operations with the objective of identifying structural options to deliver local and downstream benefits to the Murray River.

The Murrumbidgee River upstream of Gogeldrie Weir



environmental research, planning and investigative projects

Cold Water Pollution

State Water continued its involvement as a key member of the Cold Water Pollution Inter-Agency Group under the State Government's Cold Water Pollution Strategy. In conjunction with the Inter-Agency Group, State Water is developing an investigative and capital works program to mitigate cold water pollution at high priority dams across NSW over the next 10 years.

State Water provided new scientific information to the group on the thermodynamic behaviour of large storages given the highly variable nature of release patterns.

An understanding of this new information is critical in determining the limitations of dam infrastructure and developing best management practices and has been compiled from investigations as part of the Keepit Dam upgrade project.

The group is working with State Water to develop appropriate cold water pollution management conditions which will form part of the water supply works approvals for dams that can actively manage releases to optimise temperature under the *Water Management Act 2000*.

Fish Passage at Keepit Dam

In accordance with the *Fisheries Management Act 1994*, State Water must investigate the potential to provide fish passage past the dam wall as part of the Keepit upgrade project.

While there is a good level of understanding of how fish pass through smaller river structures, such as weirs and regulators, the science and engineering requirements to move fish upstream and downstream past high level dams is evolving.

State Water, DPI, leading fish biologists and fishway designers are developing designs to achieve an upstream and downstream fish passage past Keepit.

The key issues being considered include the behaviour and size of the native fish to be moved, operating and maintenance requirements and linking designs with proposed cold water pollution mitigation measures.

Water Quality Monitoring

State Water undertakes monitoring of stored water in all major reservoirs in line with requirements outlined in the EMP. Water sampling is undertaken on a monthly basis, unless circumstances require more frequent sampling, such as during blue-green algal outbreaks or when a reservoir turns over during autumn.

The parameters measured include:

- depth, dissolved oxygen, temperature and electrical conductivity
- total nitrogen, total phosphorus, turbidity, pH and electrical conductivity
- major ions
- algae.

During summer, low storage levels, weather conditions and in-storage nutrient status, resulted in significant red alert level blue-green algae outbreaks at the following storages: Burrendong, Carcoar, Chaffey, Copeton, Hume, Keepit, Pindari and Windamere dams and Menindee Lakes.

An internal review of State Water's water quality monitoring activities was initiated to address the design aspects, drivers and future water monitoring needs.

The review highlighted the need to develop water quality reporting products for operational decision making and to meet the information needs of regulators and customers. State Water will also confirm with regulators, their requirements regarding monitoring and reporting.

State Water began discussions with DWE for the drafting of water quality related requirements for State Water's Water Supply Works Approval conditions which are required under the *Water Management Act 2000*.

Fish River Water Supply conducts algae counting on a fortnightly basis, depending on conditions. Sediment sampling is proposed for Oberon Dam in the future.

A New Approach to Land Management

A Land Management Policy was adopted this year. This applies to inundated land, dam foreshores, land parcels associated with water management infrastructure and land parcels associated with office accommodation and workshop areas.

The policy is aimed at allowing commercial use of designated land as well as conserving or enhancing the natural and cultural heritage values associated with the land.

State Water will be accountable for managing large tracts of land primarily associated with major water storages. A large proportion of this land is likely to retain important natural and cultural heritage values, particularly the foreshores and adjacent catchment areas.

In the coming years, State Water plans to review land capability, undertake environmental and heritage assessments, develop appropriate site specific conditions and formulate land or foreshore management plans.

These activities will be combined into an integrated land management program to meet State Water's business needs and regulatory requirements.

Heritage Management

Work continued this year to identify heritage management requirements in line with the requirements of the *Heritage Act 1977* and to outline key activities to be rolled out over the coming years.

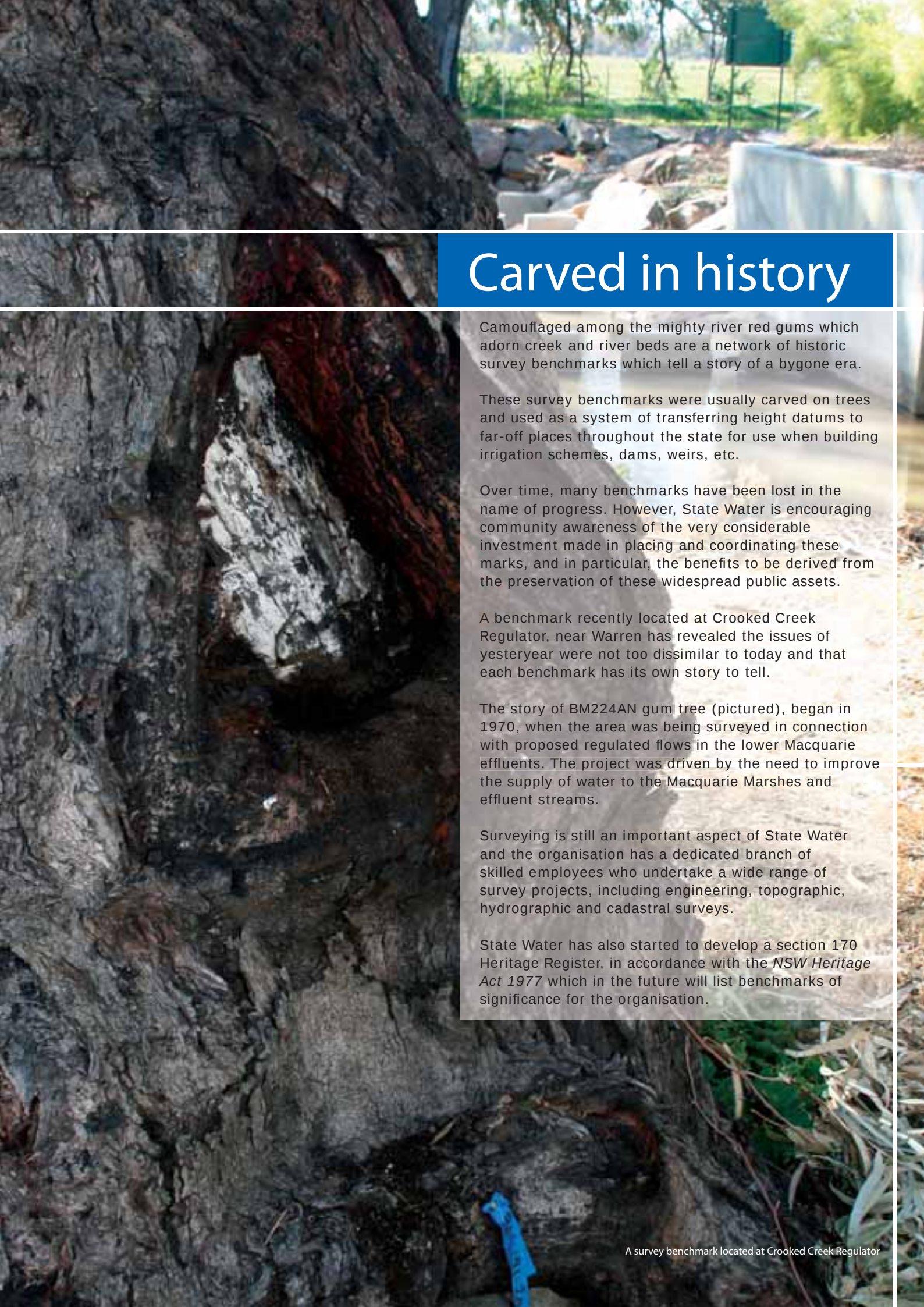
These include finalisation of the Heritage Asset Management Strategy and completion of State Water's Section 170 Register.

Heritage assessment and management was further integrated into the environmental assessment processes and links with the NSW Heritage Office were strengthened.

Through increased liaison with the NSW Heritage Office and other government utilities, State Water has been able to explore potential avenues to ensure the appropriate skills and expertise are obtained to meet the corporation's future heritage management needs.



State Water regards the management of its heritage assets as an integral and core part of its asset management.

A large, textured tree trunk with a carved survey benchmark. The bark is dark and deeply furrowed. A lighter, carved area is visible on the right side of the trunk. In the background, a riverbed with rocks and some vegetation is visible.

Carved in history

Camouflaged among the mighty river red gums which adorn creek and river beds are a network of historic survey benchmarks which tell a story of a bygone era.

These survey benchmarks were usually carved on trees and used as a system of transferring height datums to far-off places throughout the state for use when building irrigation schemes, dams, weirs, etc.

Over time, many benchmarks have been lost in the name of progress. However, State Water is encouraging community awareness of the very considerable investment made in placing and coordinating these marks, and in particular, the benefits to be derived from the preservation of these widespread public assets.

A benchmark recently located at Crooked Creek Regulator, near Warren has revealed the issues of yesteryear were not too dissimilar to today and that each benchmark has its own story to tell.

The story of BM224AN gum tree (pictured), began in 1970, when the area was being surveyed in connection with proposed regulated flows in the lower Macquarie effluents. The project was driven by the need to improve the supply of water to the Macquarie Marshes and effluent streams.

Surveying is still an important aspect of State Water and the organisation has a dedicated branch of skilled employees who undertake a wide range of survey projects, including engineering, topographic, hydrographic and cadastral surveys.

State Water has also started to develop a section 170 Heritage Register, in accordance with the *NSW Heritage Act 1977* which in the future will list benchmarks of significance for the organisation.

strategic asset investment



major capital works program

State Water's capital investment program totalled \$15.1 million for 2006-07 and major capital works projects carried out by State Water in 2006-07 totalled \$12.3 million, as outlined below.

Capital Works Progress Report

Project	Expenditure \$000	Project Status	Comment
Blowering Dam Upgrade	400	Environmental and economic assessment complete Design started	Construction expected to start in late 2008
Burrendong Dam Upgrade	534	95% of investigations complete	Draft report finalising dam safety options completed
Chaffey Dam Upgrade	562	Investigations complete	Upgrade options with or without augmentation selected and funding options developed
Copeton Dam Upgrade	716	80% of investigations complete	Geotechnical investigations complete Preferred option development well advanced
Keepit Dam Upgrade	1,118	95% formal environmental assessment complete	One preferred option and two others together with potential environmental improvements are undergoing formal environmental assessment
Wyangala Dam Upgrade	431	70% of investigations complete	Spillway modelling well advanced Geotechnical investigation complete Staging options being investigated
Major periodic maintenance	2,788	Continuous program	Details in Area reports, see page 92
Environmental compliance	480	Continuous program	Details in Area reports, see page 81
Requirements for improved operating effectiveness and water efficiency	5,260	Continuous program	Details in Area reports, see page 55
Total	12,289		

capital works summary

State Water is undertaking 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 requirements 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 a dam upgrading program. The Dam Safety Upgrade projects were progressed within program budget and timelines during the 2006-07 financial year.

North Area

Chaffey Dam Upgrade

The investigation and evaluation of upgrade options incorporating dam safety upgrades and augmentation of the water storage continued this year.

The Chaffey Dam Community Reference Panel (CRP) recommended both an upgrade and augmentation of the storage. The CRP is also independently pursuing separate funding for the augmentation option.

An environmental assessment of the dam upgrade and augmentation options has commenced, with land acquisition negotiations underway.

Keepit Dam Upgrade

Three dam upgrade options are currently being assessed and the preferred option is likely to be determined as part of an environmental assessment and approval process next year.

Comprehensive investigations into the upstream and downstream fish passage and cold water mitigation approach have been undertaken as conditions of the environmental assessment process.

Preparation of the environmental assessment report is almost complete.

Value management workshops and additional investigations will take place to confirm the final scope of work in specific areas.

Split Rock Dam

During 2006-07, a preliminary investigation of upgrade options and a dam-break study were completed. The assessment of spillway adequacy was also completed, based on the Revised Generalised Tropical Storm Method.

The next phase of investigation will involve optimising the options identified in the preliminary investigation and selecting a preferred option for the detailed concept design.

Copeton Dam Upgrade

Preliminary investigations of the Copeton Dam upgrade have been completed. These included a risk assessment and development of dam safety upgrade options for extreme floods, detailed geotechnical investigations and preliminary environmental investigations of the short-listed dam upgrade options. The option refinement and concept design of stage one is in progress.

Intake tower at Burrendong Dam



Central Area

Burrendong Dam Upgrade

Investigations to finalise flood security upgrade options are nearing completion. A multi-criteria assessment matrix was adopted to rank the shortlisted options, which include major groupings for cost, potential for staging of the works, stakeholder issues, environmental considerations and the constructability of the upgrade.

State Water has worked closely with DPI and other experts to investigate a fish passage and other environmental issues, including the viability of the fish passage, raising the crest, potential construction impacts and likely changes to flow regime.

A model of Burrendong Dam was also created to determine the water flow and other influencing factors.

Wyangala Dam Upgrade

Following the completion of preliminary upgrade options, a detailed geotechnical investigation was undertaken into the possibility of auxiliary spillway sites. Physical modelling was undertaken to determine capacity and flow patterns of the existing spillway.

An investigation was carried out into the options of raising the existing radial gates above the current raised position to increase the flow. The gate raising study, together with a detailed concept design to raise the crest using a crest parapet wall, are part of a staged upgrade investigation.

South Area

Blowering Dam Upgrade

A review of environmental factors was undertaken this year and key stakeholders endorsed a concept design to ensure the proposed upgrade was in accordance with legislative and regulatory requirements.

Geotechnical investigations are complete and a business case was submitted to the Board for approval. A submission will be sent to NSW Treasury for final funding approval. This will allow the project to advance to the detailed design stage.

As part of State Water's due diligence, the process and outcomes were independently reviewed and supported

by the Gateway Review Team. Construction for the upgrade is expected to begin in 2008-09.

Lock 10 Wentworth Weir

The contract to upgrade the navigable pass and build a fishway at Lock 10 was completed this year. A vertical slot fishway was commissioned and put into regular service after the installation of a grid mesh cover.

Fisheries people from NSW and Victoria carried out a number of trapping and tagging exercises to confirm the effectiveness of the fishway, with favourable results.

Lock 15 Euston Weir

Investigations began into the integrity of the lock and weir at Euston. The work also includes considering the potential for raising the upstream pool level to improve the mid-river storage capacity for the Murray River.

These investigations will help confirm the scope of work for a future navigable pass upgrade. Apart from some possible modifications to the existing fishway, the work will be similar to that recently completed at Lock 10.

Small Dams

In 2006-07 State Water continued to provide surveillance services to small dams for the Department of Lands (DoL). Project management services were also provided for capital upgrade investigation works at Bethungra, Moore Creek and Junction Reefs dams. DoL has now assumed responsibility for the maintenance of small dams.

Follow-up works were completed at Junction Reefs Dam in October, with the Moore Creek Dam upgrade contract awarded in February.

Progress on the Bethungra Dam upgrade was delayed due to objections from Junee Shire Council. State Water is working with DoL to resolve the issue.

asset maintenance and river structures rehabilitation

Central Area

Radio networks were upgraded in the Macquarie and Lachlan valleys to extend coverage to upgraded dam structures. A radio site at Mount Edward was upgraded and work began to upgrade the SCADA at Jemalong Weir.

An environmental assessment and heritage survey were completed for follow-up works at the North Marsh Bypass Channel, along with a Section 90 Application. This was submitted to DECC for soil reshaping and other remedial work.

Stage two of the Windamere Dam access road stabilisation works project was completed, improving safety. The access road to the dam passed through two major rock cuttings where rock falls posed a considerable danger in recent years.

The Windamere Dam intake tower was refurbished. Several important valves were also refurbished at Burrendong Dam, including three of the four emergency closure gate valves.

To ensure the continuation of town water supplies to communities downstream of Burrendong Dam, investigations were completed into pumping the inactive storage of the dam. Rainfall in the catchment eased the dry situation slightly and the project was put on hold.

An environmental assessment and detailed design were completed for the Lake Brewster Water Efficiency Project and a development application was submitted to Carrathool Shire Council. Fencing of Lake Brewster channels is 50% complete. Erosion protection works for Willandra, Hillston and Booberoi weirs is underway.

A number of projects were completed at Wyangala Dam, including the refurbishment of the equaliser

beam, bolts and seals for gate seven. Extra handrails have been installed on all gates to reduce OH&S risks. Repairs were completed on the cracked concrete lining of the by-pass penstock and its trash rack was refurbished.

The pipework at the chlorinator pump station at Wallerawang Junction for the Fish River Water Supply (FRWS) was replaced with stainless steel piping to stop the problem of regular pipeline failure.

FRWS is now a member of Dial Before You Dig and is notified of any possible excavations or other work near pipelines, avoiding accidental damage.

Coastal Area

Asset Management programs in the Coastal Area involved the refurbishment of valves and pipe work at Glenbawn, Glennies Creek, Lostock and Brogo dams.

The Toonumbar Dam intake tower lifting structure was commissioned and the trash racks refurbished. At Brogo Dam, the frames and slide gates were refurbished and work started to electrify the gates.

At Lostock Dam, the workshop was replaced and a helipad installed. Two fixed dispersion cone valves were refurbished at Glennies Creek Dam.

Several diving inspections were carried out at Coastal Area dams. Initial steps were taken to install a fibre optic backbone at four dam sites to provide a platform for a future SCADA network.

South Area

Painting was completed on three gates at Hay Weir. State Water employees were involved in this project, allowing them to share knowledge on the removal of the rollers with the contractors involved and also identify leakage problems and modify the bulkhead so the work could be undertaken safely.

Gates on the inlet and outlet regulator of the Tombullen Storage were removed and repainted. New maintenance walkways were completed at Berembend Weir to improve safety.

Designs for new ladder access to the Blowering Dam intake tower have been finalised and fabrication will begin in 2007-08. Designs have been finalised for repairs to an emergency generator building at Burrinjuck Dam that was damaged by fire in 2005.

Employees from Burrinjuck and Hume dams refurbished and painted Burrinjuck Dam's flood gate and two of the fixed dispersion cone valves.

Rock replacement and erosion control work was carried out downstream of Yanco Weir. The innovative solution to refurbishing roller assemblies using a polyurethane coating, as used at Menindee Main Weir, is being undertaken at Gogeldrie Weir and should be completed next year.

A major refurbishment was carried out on the White Elephant Channel System in the Lowbidgee. Refurbishment of Colligen Creek Weir continued. The main aim of the project was to replace the existing drop-boards with a more efficient gated structure. This will advance water delivery efficiencies and improve the safety of the work environment.

State Water is continuing refurbishment works on the Menindee Lakes main outlet weir to improve water efficiencies and reliability. Public comment was sought on a draft report into the Menindee Lakes Improvement Project.

Maintenance activities are continuing at Hume Dam and include the replacement of an electronic surveillance and security system. Investigations into structural, seismic, hydro-dynamic and hydrologic matters are continuing.

A number of investigations are underway into fishways and environmental watering structures for Stevens Weir, Edward River regulator, Perricoota Koondrook Forest and Weir 32.

Underwater inspections and bathymetric surveys were undertaken at Lock 15 for the Life Extension Project.

Piezometers are used to measure water pressure





State Water owns, operates and manages assets with a replacement value of about \$3.2 billion.

North Area

The Moomin and Carole Creek offtake channels were desilted for the first time to improve water delivery efficiencies. Other desilting works were undertaken in the upstream storages of Weeta and Tyreel weirs to improve the regulatory capability.

Major restoration of rock protection works was carried out at Weeta and Tareelaroi weirs. At Gunidgera Weir, repairs were completed to the stone mattresses on the downstream river bed.

The program of grit blasting and painting river control gates and their hoist equipment at the five major weirs was completed this year, with four gates at Boolooroo Weir being repainted for the first time in their 30 years of operation.

At Keepit Dam, internal sections of the spillway gates were patch painted, ending a three-year refurbishment program by dam employees.

As Keepit Dam levels fell to 1% of capacity, intake works to the hydro penstock and dual irrigation penstocks were dewatered for the first time since construction in 1960. The innovative plan was the brainchild of dam employees who carried out repair work and repainting behind a six-metre head of water.

Baulks and trash racks from the multi-level intake towers were repainted at Chaffey, Split Rock and Pindari dams as part of a three-year program.

Valve refurbishment was carried out at Copeton and Pindari dams. Electrical work on Copeton Dam's spillway gantry crane allowed it to comply with the recommendations of a 25-year safety audit.

SCADA was installed at the Split Rock and Pindari dams storage recorders and downstream gauges, improving reliability and providing real-time inflow data.

State Plan Priority - P2

Maintain and invest in infrastructure

State Water's extensive asset base continues to be upgraded to meet modern day dam safety regulations and provide best practice operations with more than \$15.1 million being allocated towards capital investment programs and \$12,289 for major capital works projects in 2006-07.

A major review of dam safety compliance has been completed and a cost-effective program has been prepared to achieve safety compliance across the dam portfolio. This program has been endorsed by the NSW Dams Safety Committee, the State's regulator of dam safety requirements.

A Dam Safety Program approach is being implemented to upgrade seven dams that are safe for day-to-day operations but do not meet modern day safety requirements for extreme events.

The continued drought has also provided opportunities for maintenance on normally submerged infrastructure and State Water has taken advantage of the chance to improve the condition of assets and increase operational reliability.

Hydro Power Summary

More than 61 megawatts of power was generated through hydro-electricity in 2006-07, representing a saving in production of nearly 60,000 tonnes of greenhouse gases.

Ongoing drought conditions have seen a number of sites unable to generate power due to a lack of available head/discharge flows. This was reflected in the amount of power generated, which was half of that produced in the previous year.

Dry conditions continued to delay the installation of hydro power facilities at Glennies Creek and Windamere dams.

Work on a mini hydro facility at Lostock Dam began, with the installation of a transmission line to be undertaken in the next financial year. A review of environmental factors was also completed as part of this process.

Income from hydro-electric power generation in 2006-07 was about \$711,589, including site rentals. An additional sum of \$453,140 was received for back-lease payments for Blowering Hydro, after the completion of vesting orders.

Power Station Locations

Dam	Year Installed	Capacity (MW)
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

Note: These numbers are based on figures received to May 2007.

Proposed Power Station Locations

Dam	Status	Proposed Capacity (MW)
Glennies Creek	Contract in place	0.6
Lostock	Pre-installation construction activities commenced	0.2
Windamere	Contract in place	0.6

developing emergency response and dam safety emergency plans

State Water prepares contingency plans for all aspects of its business and operations, including flood inundation mapping of river valleys downstream of major dam assets.

These plans are used by councils in the preparation of Emergency Risk Management Plans, by the NSW State Emergency Service in the preparation of State and Local Flood Plans and by State Water in its dam safety emergency plans.

This year State Water provided input into and comment on three emergency plans for local councils and two local flood plans. Information was also provided for the preparation of three local flood plain management studies for local councils.

Dam safety emergency plans are in place for all 20 of State Water's major dams. These are regularly reviewed, amended or reissued as required.

State Water prepared a further four plans on behalf of DoL for dams prescribed under the *Dams Safety Act 1978*.

During the year two State Water and four DoL DSEPs were amended and a further four DSEPs were reissued after significant rewriting. Two dam safety emergency plans were tested this year.

An automatic notification system is being introduced to activate response to any dam safety emergency.

State Water is also involved in issues surrounding critical infrastructure protection, as some assets are considered important to downstream communities and from a wider perspective. This work is ongoing as assets are assessed and organisational arrangements change.

State Plan Priority - E2

A reliable electricity supply with increased use of renewable energy

The production of more than 57,500 tonnes of greenhouse gas emissions was eliminated during 2006-07 due to the installation and running of hydro-electric power stations at State Water managed dams.

There are now hydro-electric power stations on 10 of State Water's 20 large dam sites, which have a potential generation capacity of some 248 megawatts of power. Hydro-power stations feed electricity into the NSW power grid, reducing the dependency on environmentally unfriendly sources of power generation.

Hydro power is an environmentally beneficial method of power generation which utilises 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 and electrical transmission losses are minimised when power can be utilised locally and does not need to be transported over long distances.

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

developing and managing assets

Dam safety management, emergency planning and critical infrastructure management within State Water is the responsibility of the Dam Safety and Audit Group.

The group assesses compliance with NSW Dams Safety Committee and Australian Committee on Large Dams requirements by undertaking audits to assess

compliance with technical and safety standards, inspection and reporting frequencies.

Due to resourcing and scheduling requirements, only 19 of the 20 annual dam safety inspections were completed this year. The additional audit will be carried out early in 2007-08.

Year	Audits/Inspections	Percentage
2005-06	Completed 19 annual dam safety inspections for the year	95%
2006-07	Completed 19 annual dam safety inspections for the year	95%

Total Asset Management Plan

State Water's Total Asset Management Plan (TAMP) is a dynamic document, constantly under development with refined assessments under changing dam engineering criteria and practice.

The document backgrounds, principles, processes, information and outcomes of State Water's Total Asset Management Strategy and provides the strategic context for present and future decision-making on asset management and encompasses risk, financial, environmental, heritage, levels of service for water delivery and engineering issues.

In March 2007, a report to IPART on State Water's Asset Management System was submitted as a condition of the Operating Licence.

In December 2006, Phase One of the State Water Dam Safety Compliance Program was submitted and subsequently accepted by the NSW Dams Safety Committee.

The program adopts a staged risk reduction methodology across the State Water dam portfolio over the next seven years. An optimal reduction in risk will be realised while working in the longer term towards full compliance with Dams Safety Committee requirements.

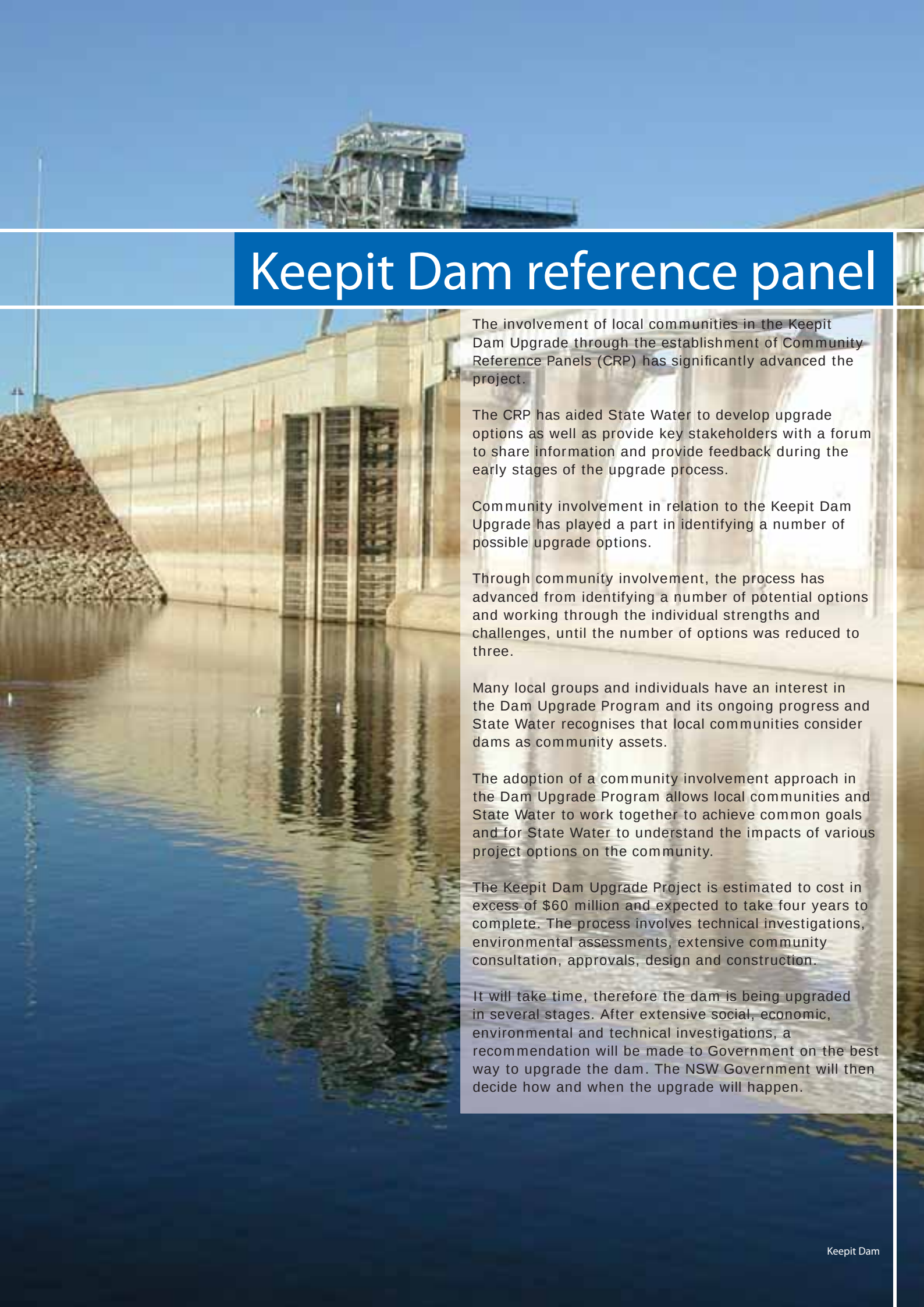
Portfolio risk management actions were undertaken at seven high priority dams and included investigations and option development for future upgrade works.

In particular, the Blowering Dam preferred option has been developed sufficiently to enable detailed design work to proceed on Stage One.

For Keepit Dam, environmental approvals are currently being assessed under the concept approval of Part 3A of the Environmental Planning and Assessment (EP&A) Act, with one option being further developed to permit finalisation of the preferred design.

State Water develops maintenance and surveillance programs, undertakes inspections and audits and five yearly safety reviews to ensure compliance with established procedures, including the requirements of the NSW Dams Safety Committee (*Dams Safety Act 1978*) and NSW Treasury Government Asset Management Committee guidelines.

All programmed annual dam safety surveillance surveys, intermediate surveillance inspections or comprehensive (five-yearly) inspections and 20 annual maintenance audits were completed, as well as surveillance inspections of 65 major river regulating structures and two-yearly maintenance audits.



Keepit Dam reference panel

The involvement of local communities in the Keepit Dam Upgrade through the establishment of Community Reference Panels (CRP) has significantly advanced the project.

The CRP has aided State Water to develop upgrade options as well as provide key stakeholders with a forum to share information and provide feedback during the early stages of the upgrade process.

Community involvement in relation to the Keepit Dam Upgrade has played a part in identifying a number of possible upgrade options.

Through community involvement, the process has advanced from identifying a number of potential options and working through the individual strengths and challenges, until the number of options was reduced to three.

Many local groups and individuals have an interest in the Dam Upgrade Program and its ongoing progress and State Water recognises that local communities consider dams as community assets.

The adoption of a community involvement approach in the Dam Upgrade Program allows local communities and State Water to work together to achieve common goals and for State Water to understand the impacts of various project options on the community.

The Keepit Dam Upgrade Project is estimated to cost in excess of \$60 million and expected to take four years to complete. The process involves technical investigations, environmental assessments, extensive community consultation, approvals, design and construction.

It will take time, therefore the dam is being upgraded in several stages. After extensive social, economic, environmental and technical investigations, a recommendation will be made to Government on the best way to upgrade the dam. The NSW Government will then decide how and when the upgrade will happen.

profitable business growth



Glennies Creek Intake Tower

secure funding for catchment improvement projects

In conjunction with the Department of Environment and Climate Change (DECC), State Water has secured funding from the Federal Government as part of the Australian Water Fund for the NSW Rivers Environmental Restoration Program (RERP).

The Program, worth \$71 million, consists of four sub-programs:

1. Acquisition and management of water for environmental benefit.
2. Enabling better use of environmental water by modelling, monitoring and decision support system.
3. Ensuring better delivery of environmental water using through works and river management measures.
4. Boosting the benefits of environmental water on private land through conservation agreements, and recording Aboriginal culturally significant wetland activities.

State Water will be responsible for undertaking the third sub program, which will investigate a range of environmental water management initiatives across the state, worth approximately \$10 million.

The initiatives include:

- Installation of regulators to reinstate more natural flow regimes.
- Assessment of cold water pollution mitigation measures.
- Cost-effective augmentation of existing fishways to allow native fish migration at key sites.
- Investigate and trial always on/real time flow data management to achieve environmental water recovery and/or more efficient delivery of environmental water
- Weir removal and fish passage to improve the delivery of environmental flows and general riverine environment in the Yanco Creek System.
- Removal of system chokes to improve delivery of environmental flows and secure water savings for the environment.

- Investigation and construction of works to better deliver environmental water to key wetland sites.

The RERP is a three-year project and State Water will be working closely with DECC and the Federal Government during the program's implementation.

Fish rescued from Colligen Creek

Native fish were saved from certain death near Deniliquin thanks to the collaborative efforts of State Water and DPI.

The fish had become trapped in an isolated pond after a small section of the creek was drained in preparations for the major upgrade of the Colligen Creek Weir.

Working with DPI, State Water relocated the fish, which included Murray Cod and the endangered Trout Cod, safely back into the Colligen Creek away from the upgrade construction area.

The fish were carefully caught with nets by DPI employees before they were quickly relocated back into the safe environment of the main creek.

Fourteen Murray Cod and one endangered Trout Cod were returned into Colligen Creek without any incidents.

State Water is upgrading Colligen Creek Weir to fix operational and structural deficiencies to improve water delivery operations.

The upgrade also included the construction of a fishway to allow native fish migration past the weir. DPI predicts that at least 10 species of native fish will use the fishway once the work is complete.

reduce impacts of revenue volatility

IPART's assessment of State Water's efficient level of operating expenses in the 2006 pricing determination is significantly lower than State Water's proposed level of expenditure.

As agreed with the Shareholders in the 2006-07 Statement of Corporate Intent (SCI), State Water must implement efficiency measures to reduce operating expenditure and achieve to the IPART Determined level by 2008-09.

The differences between the IPART level and State Water's submission, and the required savings are shown in the table below.

In order to investigate potential areas for savings and develop the tools required by the business to progress savings strategies, State Water has implemented a Cost Structure Reform Strategy.

The projects included in the strategy are:

- Corporate Management Information Systems Project, including a review of the Information and Financial Management System to ensure the business and managers have access to accurate and reliable financial reports.
- State Water IT Systems and Infrastructure Project to provide State Water with a stand-alone IT platform separate to that of the Department of Natural Resources and ensure all State Water's sites, including remote locations, have appropriate access to IT systems.
- Storage Management Review Project to determine industry best practice standards and investigate areas for efficiency improvements.
- New organisational structure to allow management to focus on the areas which need reform.
- Reviewing customer service levels to ensure that State Water is not providing services levels in excess of customer needs.

2006-09 Operating Expenditure Savings Program

\$M	2006-07	2007-08	2008-09	2009-10	Total \$M
State Water submission	40.9	42.3	42.1	41.8	167.1
IPART Determination	37.4	35.9	35.7	35.5	144.5
Difference	3.5	6.4	6.4	6.3	22.6
Less Transition	3.5	3.2	0.0	0.0	6.8
Required Savings	0.0	3.2	6.4	6.3	15.9



Foreshore Leases

New commercially and environmentally based leasing arrangements have been introduced for the management of foreshores on State Water dams.

State Water is working towards improving land management practices on these public lands as well as establishing a nominal return on assets, through a common leasing arrangement with well-defined conditions and responsibilities for new leases.

Foreshore leases are estimated to generate \$3 million over five years.

The new leases contain a property management plan to ensure environmental, social and economic considerations are taken into account and remove the subsidy provided by water users.

Land management issues have been carefully considered in consultation with stakeholders and are addressed in the Environment Management Plan.

The foreshores of Windamere Dam and Burrendong Dam were the first areas managed under this new

lease arrangement, with the first new leases signed in November 2006.

The property management plan component in the leases aims to achieve a commitment from prospective lessees to maintain and improve the environmental aspects of the foreshores, in particular weed control, as well as maintaining and improving infrastructure, as per any commercial lease.

State Water will also see a \$2.6 million investment by leaseholders in the next five years in environmental and infrastructure benefits through the property management plans.

Soil Services (a Division of the Department of Lands) currently manage the foreshores in the Hunter and North areas, namely Glenbawn, Glennies Creek, Lostock, Chaffey, Keepit, Split Rock and Copeton dams, under agistment arrangements.

State Water will take over the management of these lands from 2008 when these foreshores will come under new commercial lease agreements.



The Murrumbidgee River near Gogeldrie Weir



corporate governance

The information in this section of the report meets State Water's statutory reporting obligations, particularly under the *Annual Reports (Statutory Bodies) Act 1984* and the *Annual Reports (Statutory Bodies) Regulation 2005*. It is provided in accordance with the annual reporting requirements published by NSW 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 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 has two shareholding ministers each holding one equal share.

As at 30 June 2007, those Ministers were The Hon Michael Costa, NSW Treasurer and The Hon John Watkins MP, Minister for Finance.

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,
 - ii) for the purposes of flood management,
 - 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.

State Water Board

The *State Water Corporation Act 2004* provides that the Board consists of no less than three and no more than eight Directors appointed by the voting shareholders, in consultation with the portfolio Minister.

The independent non-Executive Directors of the Board have been appointed for fixed-period, renewable terms. The CEO is an Executive Director of the Board.

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

Directors' Interests

Directors are required to disclose any material contract or relationship with State Water and to disclose all companies or other organisations with which they are professionally involved.

Details of Directors' interests are maintained by the Company Secretary in a register, which is available at every Board meeting.

The constitution provides for 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	Board Meetings		Committee Meetings	
	Eligible	Attended	Eligible	Attended
AG (Tony) Wright (Chairman)	12	12	4	4
Kathleen Bowmer	12	10	7	7
Kathy Ridge	12	12	4	4
Ted Woodley [#]	4	4	-	-
Mike Bennett	12	10	5	4
Don Marples	12	11	4	4
Abel Immaraj (CEO) *	6	6	3	3
Geoff Borneman (A/CEO) *	6	6	3	3

* Abel Immaraj resigned as CEO on 17 December 2006 and Geoff Borneman became Acting CEO.

[#] Ted Woodley's term ended on 30 September 2006.

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 percent superannuation contributions. State Water makes payments to the directors in accordance with these directions under the framework of the organisation's normal payroll system. Out of pocket expenses related to attendance at meetings are reimbursed.

Non-Executive Members Meetings

The Board instigated regular brief meetings of non-executive members before every board meeting this year. These meetings are held without management present and provide a forum that allows for open discussion on Board and management performance.

Board Committees

The Board has three governance committees to consider matters in more details, to assist in decision making, oversight and control and resulting in recommendations to the Board. The committees have delegated authority as specified in their respective Terms of Reference.

Audit and Compliance Committee

Members: Don Marples, Kathy Ridge, Kath Bowmer, Mike Bennett, Abel Immaraj.

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 the Dams Safety Committee, DNR (water supply works approvals), and IPART (interim operating licence and bulk water pricing determination).

Risk Management Committee

Members: Mike Bennett, Tony Wright, Geoff Borneman
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

Members: Tony Wright, Kath Bowmer, Abel Immaraj, Geoff Borneman

- 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 CEO 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

State Water has two Special Interest Committees, comprising of Water Efficiency and Innovation and New Business Development, along with a Marketing and Customer Relations Reference Panel.

State Water also has an IPART Committee that was established to oversee the preparation of current and future IPART submissions, and meets on an ad hoc basis. There were no meetings of the IPART Committee in 2006-07.

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 predetermined retention figure. For general liability that amount is \$25 million and for workers' compensation and property it is \$20 million.

Code of Conduct

To ensure the ethical principles of the Code of Conduct remain a vital part of the day-to-day operations of State Water, a copy of the Code can be located on the State Water intranet.

It is also included for all new employees with their letter of offer, with an explanatory session held at regular orientation days.

No breaches of the Code of Conduct were reported in 2006-07.

Ethnic Affairs Priority Statement

State Water continued to meet the needs of its customer and employee base and promoted the principles of ethnic affairs where possible.

State Water is committed to the principles of multiculturalism and has developed an Ethnic Affairs Priority Statement (EAPS) in keeping with the nature and size of the corporation.

Achievements to date include:

- inclusion of EAPS in the recruitment process
- encouragement of a greater understanding by employees of the cultural needs of State Water's customer base.

Privacy Policy

State Water has in place a Privacy Management Plan in accordance with Section 33 of the *Privacy and Personal Information Protection Act 1998* (NSW). No reviews were conducted by or on behalf of State Water under Part 5 of the Act.

Legal Change

No changes were made to the Corporation's enabling legislation, the *State Water Corporation Act 2004*. State Water has not departed from the requirements of the *Subordinate Legislation Act 1989*.

Land Disposal

State Water did not dispose of any property in 2006-07.

Equal Employment Opportunities

State Water adopted its own EEO Policy and developed an EEO Management Plan in 2006-07. The EEO Management Plan focuses on ensuring a consistent understanding and application of EEO principles by all employees.

The primary aim of the EEO Management Plan is to have a motivated and highly skilled workforce free of harassment and discrimination, to support employees in striving to meet their full potential and to provide equal access to career opportunities.

Programs and actions contained in the EEO Management Plan seek to address the needs of employees by providing a wider range of jobs and training opportunities, a better chance to use their skills and qualifications and the opportunity to gain greater career development and achieve job satisfaction.

In 2007-2008 State Water will continue to implement the six objectives contained within the EEO Management Plan, which is reviewed and reported on annually.

State Water supported more than 25% of our female workforce to attend Women in Leadership Forums facilitated by Workplace Training Advisory Australia.

State Water encourages female employees to consider leadership opportunities and progress their personal and professional development.

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

Employee Assistance Program

State Water provides an Employee Assistance Program, which is a free counselling service available to all employees and their immediate family.

Influenza Vaccination

State Water introduced voluntary flu shots, with the organisation reimbursing employees for the cost of the vaccination. The initiative is aimed at ensuring State Water's employees can remain healthy during winter and reinforces State Water's focus on OH&S as well as the People value of supporting, developing and motivating each other.

Trends in the representation of EEO Groups

EEO Group	Target	2004-05	2005-06	2006-07
Women	50%	17.0%	18.0%	19%
Aboriginal and Torres Straight Islanders	2%	1.7%	1.7%	1.6%
People whose language first spoken as a child was not English	20%	8.0%	7.0%	6%
People with a disability	12%	9.0%	*	*
People with a disability requiring work related adjustment	7%	2.0%	*	*

Trends in the distribution of EEO Groups

EEO Group	Distribution Index			
	Target #	2004-05	2005-06	2006-07
Women	100	92	91	81
Aboriginal and Torres Straight Islanders	100	*	*	*
People whose language first spoken as a child was not English	100	136	127	*
People with a disability	100	98	*	*
People with a disability requiring work related adjustment	100	*	*	*

Note: Based on employee numbers as at 30 June 2007 and excludes casual staff. # A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The Distribution Index is automatically calculated by the software provided by ODEOPE.

* The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.

A woman with long dark hair, wearing a dark grey short-sleeved button-down shirt and a dark grey knee-length skirt, stands on a concrete path next to a river. The river is calm, reflecting the surrounding greenery. A concrete weir or dam structure is visible in the background.

Business awards finalist

State Water's Head Office Aboriginal trainee Amy Naden was selected as a finalist in the Dubbo 2006 Small Business Awards for Trainee of the Year.

For the third consecutive year, State Water engaged an Aboriginal trainee, in line with its EEO Management Plan, which aims to address the needs of people who have been disadvantaged in the past, such as people of non-English speaking backgrounds, Aboriginal and Torres Strait islanders, women, and people with disabilities.

Under the traineeship, Amy gained hands on experience in office procedures and administration and customer service while undertaking a Certificate II and III in Business Services through NSW TAFE.

Amy is a valuable State Water employee and as part of the Corporate Services team, Amy has taken part in training and personal development seminars to increase her knowledge of the organisation.

Amy is also an active member of the Aboriginal Support Network, a program that provides support, career development opportunities and encourages the employment of Aboriginal people as an Aboriginal resource.

The objectives of the Aboriginal Support network are:

- Provide support for Aboriginal employees, especially in relation to racist and discriminatory treatment within and outside government departments.
- Provide a forum within which participants can seek mutual support from other network members.
- Encourage all network members to become actively involved in the promotion of Aboriginal issues throughout government departments.
- Assist management in the development and application of policies affecting Aboriginal people in the workplace.

State Water supports Amy through her contribution to the Aboriginal Support Network.

Freedom of Information

State Water received six Freedom of Information (FOI) requests during 2006-07 and all were completed. No applications were brought forward from the previous reporting year. No applications were discontinued or refused and all applications were granted in full. All documents were provided to the applicants or their legal advisers. No FOI applications were received in the preceding reporting year.

One exemption was claimed on the basis that the documents sought may have affected counter terrorism measures. The applicant accepted the exemption. State Water consulted on one occasion when the documents sought affected the business affairs of a third party. No application was sought for personal records or the notation of personal records.

State Water received \$2,310 in fees for FOI requests and allowed one discount of fees (at 50%) on the basis that the applicant was a public interest group. No fee refunds were sought or made.

Of the six applications received, five were completed within 21 days and one took more than 35 days to complete, with the agreement of the applicant. Five applications were completed within 10 hours and one application took more than 40 hours to complete. There were no applications for an internal review.

Documents held

State Water holds a variety of documents, including business files, legal documents, maps, photographs, plans and publications. State Water's policy documents and annual reports, setting out its functions and responsibilities may be inspected and are available free of charge, at State Water's Dubbo and Parramatta offices. Many of State Water's key documents and a current list of State Water publications are available at www.statewater.com.au.

State Water publishes a Summary of Affairs under the *Freedom of Information Act, 1989* in the Government Gazette every six months, listing all policy documents.

Access arrangements and procedures

Under the *Freedom of Information Act 1989*, State Water is required to make information available whenever possible. However, access may be refused where it can be demonstrated that there is a legitimate need for confidentiality or where another person's privacy may be invaded. Exempted information may include:

- NSW Government Cabinet and Executive Council documents
- documents which are exempt under the Freedom of Information legislation of another jurisdiction
- documents concerning law enforcement or public safety
- documents subject to legal professional privilege
- documents subject to secrecy provisions in other legislation
- documents affecting the personal or business affairs of another person or business; this exemption maintains the confidentiality of information relating to the business affairs of companies made available to State Water
- documents affecting the economy of the State.

Access

Enquiries may be made to the FOI Coordinator:

Telephone: (02) 9354 1043

Fax: (02) 9354 1106

Address: PO Box W16, Westfield
Parramatta NSW 2150

Email: statewater@statewater.com.au

Past and present State Water employees have access to their own file(s) at any time, free of charge.

Cost of FOI Applications

Nature of Application	Application Fee*	Processing
Access to records by natural persons about their personal affairs	\$30	\$30 an hour after first 20 hours
All other requests	\$30	\$30 per hour
Internal review (all circumstances)	\$40	Nil
Amendment of personal details	Nil	Nil

*A 50% reduction in fees and charges applies in some situations, such as pensioners or non-profit organisations experiencing financial hardship.

Controlled Entities

State Water does not control any entities.

Delegations to Management

State Water Corporation has an authorisation manual for use by State Water employees. The manual contains authorisation limits for the Chief Executive Officer and all other employees. The manual covers an extensive range of functions and defines the limits on the exercise of functions and powers for relevant employees.

Executive Remuneration

At the end of 2006-07, State Water had 10 executive officers with remuneration equal to or exceeding the equivalent of the NSW Senior Executive Services (SES) Level One. Of these 10 executive officers, one employee was female. One male executive officer was employed at SES Level Five.

The Chief Executive Officer resigned before the end of 2006-07. At the time of his resignation the remuneration of the Chief Executive Officer was equivalent to SES Level Five:

- Abel Immaraj, Chief Executive Officer, \$244,930 Performance Bonus of \$7,347.90 (3%) paid based on a successful performance assessment by the Chairman of the Board. Last day of duty 17 December 2006

At the end of 2006-07 the Acting Chief Executive Officer remuneration was equivalent to SES Level Five:

- Geoff Borneman, Acting Chief Executive Officer, \$230,826. Appointed 15 December 2006.

In comparison, at the end of 2005-06 there were 11 officers, including one female, employed at or above SES Level One, with one male executive officer being employed at SES Level 5.

Overseas Visits

There were no overseas visits undertaken by State Water employees in the reporting period.

CEO Performance Statement

This year saw a change in Chief Executive Officer (CEO) for State Water after the resignation of Abel Immaraj. Geoff Borneman replaced Mr Immaraj as Acting CEO on 11 December 2006.

During the six months of 2006-07 for which Mr Immaraj led State Water, he demonstrated good performance and sound achievements in the water operations aspects of critical success factors (CSFs) relating to *Excellent Customer Service* and *Efficient Operations*. He led the development of initiatives to improve organisation performance in the CSFs for *Skilled and Dedicated People*, *Strategic Asset Investment* and *Enhanced Riverine Environment*.

Progress on developing State Water's stand-alone commercial systems and completion of the 2005/06 financial report was slow throughout much of 2006-07 but the issues were resolved toward the end of the financial year. This particularly relates to commercial aspects the CSF for *Efficient Operations*, and the CSF for *Supportive Owners and Stakeholders*.

Mr Borneman's focus since taking over the CEO's role in December has been on leading resolution of commercial reporting issues and developing a cost structure reform program, in order to implement the recommendations made by IPART in its September 2006 Bulk Water Price determination. The program will lay the foundations for State Water to proceed into the next phase of its development as a State Owned Corporation.

The Board is satisfied with Mr Borneman's performance and has been particularly pleased with his ability to bring together a team to finalise the 2005-06 financial statements, which were submitted unqualified and, subsequent to the reporting year, to submit the 2006-07 financial statements to the Audit Office on time.

These achievements have been made against the backdrop of an unprecedented drought and the National Plan for Water Security, which have both provided uncertainty and concern for State Water's customers and employees.



A G (Tony) Wright

Consultants

Consultant	Project	\$ Cost
Finance and accounting / tax		
Cooper Consultants Pty Ltd	IFMS Improvement Project - Review of IFMS	82,000
Management Services		
Corporate GIS Consultants	GIS Strategy	30,000
David Hope and Associates Pty Ltd	Storage Management Review	90,708
Total*		202,708

* This figure represents consultancies engaged in 2006-07, not expenditure. All figures are GST exclusive.

Consultants less than \$30,000

During the year, two other consultants were engaged for projects costing less than \$30,000, at a total cost of \$45,100.



State Water Board at a visit to Leeton, AG (Tony) Wright, Kathy Ridge, Don Marples, Mike Bennett, Geoff Borneman - absent: Kath Bowmer

Publications

State Water has a wide range of policy, administrative and information documents that are available to members of the public from State Water offices or via the website.

Those produced during the year include:

- State Water Code of Conduct
- 2004-05 State Water Annual Report
- Who is State Water Information Sheet
- Environment Management Plan Review
- Report to IPART under the Operating Licence - September 2006
- Report to IPART - Complaints Report 2005-06
- Water Balances - 2006-07
- Water Ordering Forms
- How to read your water account statement
- Understanding your water account statement
- Drought Contingency Plans by valley
- Bulk Water Pricing fact sheets
 - Regulatory Asset Base
 - Changes to the Ratio of Fixed and Usage Charges
 - Rebates for Irrigation Companies
 - Premium for High Security Access Licences
 - New Billing Arrangements
 - New Water Prices for State Water services
 - Conveyance Licence Charges
 - Border Rivers
 - Gwydir Valley
 - Namoi Valley
 - Peel Valley
 - Macquarie Valley
 - Lachlan Valley
 - Murrumbidgee Valley
 - Murray-Lower Darling Valley
 - Hunter Valley
 - Toonumbar System
 - Brogo Valley
 - Fee Changes for Water Allocation Assignments
- 2006 Customer Satisfaction Survey Results
- Customer Satisfaction Survey Strategy
- Chaffey Dam Upgrade Options Technical Fact Sheet
- Pesticide Use Notification Plan
- Debt Recovery at State Water Information Sheet
- More than 90 media and customer notices were also issued.

Funds Granted to Non-Government Organisations

State Water did not grant any funds during 2006-07.

Research and Development

A number of projects were undertaken during 2006-07 to further develop State Water initiatives.

University Links

- State Water embarked on a sponsorship program with the University of NSW (UNSW) to grow a new generation of graduates with dam engineering skills. The program will result in the establishment of a five-year position of a Senior Lecturer/Associate Professor of Dam Engineering at the UNSW to foster dam and civil engineering students.

The University's input and leading research will help support State Water in delivering world's best designs and practice in dam engineering projects and the lecturing position will add focus and strength to geotechnical engineering research and dam engineering within the University.

Wyangala Spillway Investigations

- A spillway model study was completed for Wyangala Dam as part of the Dam Upgrade Program. As part of the study, physical modelling was undertaken to determine capacity and flow patterns of the existing spillway.

An investigation was carried out into the options of raising the existing radial gates above the current raised position to increase the flow. The gate raising study together with a detailed concept design to raise the crest, using a crest parapet wall, are now part of a staged upgrade investigation.

Exceptional Movements in Wages, Salaries or Allowances

A 4% pay increase was introduced on 1 July 2006, in keeping with the two Enterprise Agreements. This became effective for all salaries and wages employees on 13 July 2006. Senior employees on contract received a 4% SOORT (Senior Officers and Others Remuneration Tribunal) increase on 1 October 2006.

Consumer Response

State Water is required as part of its Operating Licence to establish and maintain a complaints handling system.

The annual statistics on complaints are submitted to IPART as part of the Operating Licence Report, which is made publicly available on State Water's website.

State Water endeavours to resolve any problems as quickly as possible at the coal face. We encourage our local officers to work with customers directly to resolve concerns.

State Water relies on feedback to continually improve our services to meet our customers' needs and provide the best bulk water delivery service possible. We respect the rights of community members and customers to express their concerns and issues that are directly related to our operations.

During the 2006-07 reporting year, State Water recorded 70 complaints. Using the IPART determined complaint categories, the majority of complaints were in the billing area and water release/operations, which is similar to 2005-06.

The majority of complaints were as a result of misunderstanding State Water's role or rights as a water delivery operator. All concerns and issues raised were dealt with confidentially and in keeping with our privacy policy.

Most complaints were either resolved (36) or referred (30) to the relevant organisation, principally DWE or IPART. A further four complaints were considered completed - State Water provided every possible assistance and information to the complainant, but as the responsibility for resolution rested with another agency, nothing further could be done by State Water to resolve the matter.

Five complaints were raised with our external complaints ombudsman, EWON (NSW Electricity and Water Ombudsman Network). They were all resolved in favour of State Water, as the nature of the complaints with EWON were based on misunderstandings of water charges or the right of State Water to raise bills when water is not delivered.



Gogeldrie Weir steel superstructure on the Murrumbidgee River near Leeton

Energy Management

State Water finalised the development of its Energy Management Plan in 2006-07, which will be implemented the 2007-08.

The plan ensures compliance with the NSW Government's commitment to reducing greenhouse emissions and to meet the targets outlined in State Water's Environment Management Plan.

Nine strategies outlined in the plan provide a means for State Water to achieve reductions in energy consumption where possible, produce improvements in performance and ensure continued progress towards its energy management objectives.

Electricity Usage

During 2006-07 electricity usage at State Water's Head Office's was 435MJ/m² (112,437 kWh over 930m²) and 502MJ/m² (209,070 kWh over 1,500m²) at the Parramatta office. In other buildings, electricity costs are included in lease fees and are not measured.

The tables below depict greenhouse emissions (tonnes) and electricity usage (kWh) combined for Head Office, Coastal, Central, North, South, Parramatta and Fish River.

Fuel Consumption

During 2006-07 fuel consumption for passenger vehicles less than 3.5 tonnes was 11.43L/100km. This is a 3% improvement from 11.78L/100km in 2005-06.

State Water's total fuel consumption and mileage have increased in the past 12 months due to the growth in the number of vehicles under private lease-back arrangements. The overall impact on the environment has probably not changed but has been transferred to State Water from individuals and families who privately use the vehicles.

Green Score

State Water had an average fleet vehicle Green Score of 8.3 at the end of the 2006-07 and is on track to meet its target of an average of 8 or better over a two-year period.

Motor Vehicle Selection

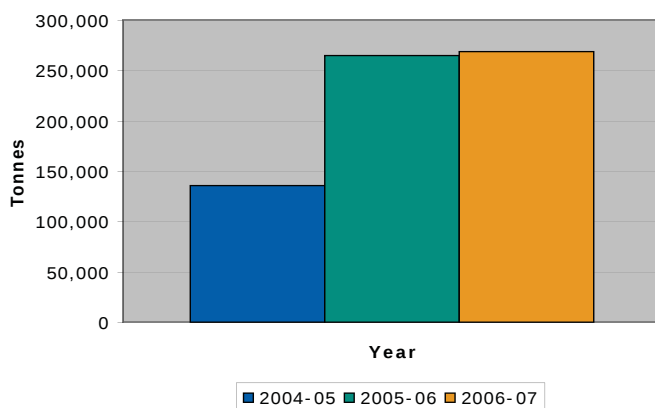
With the introduction of a revised Motor Vehicle Selection Policy State Water is moving towards a "greener" fleet, particularly with the introduction of a Toyota Prius to the selection range and purchase of one of these hybrid vehicles for the Head Office.

Future targets

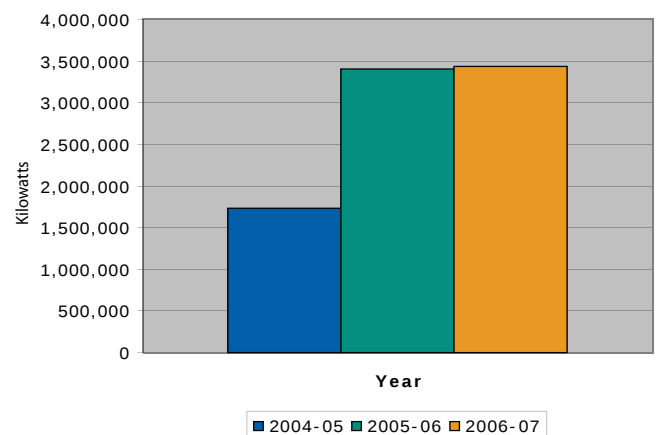
The Energy Management Plan for 2007-08 focuses on the following targets:

- tenanted office buildings – electricity use of 440MJ/m² per annum
- passenger vehicles less than 3.5 tonnes – fuel consumption to be 10L/100km
- an average Green Score of eight or better over a two-year period
- water infrastructure – energy consumption of 1,000MJ/GL of water released per annum.

Greenhouse Emissions (tonnes)



Electricity Usage (kWh)



Waste Management

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

In 2006-07 State Water adopted and began implementing its own WRAPP Plan to further assist the organisation in complying the strategies, targets and performance indicators outlined in State Water's Environment Management Plan.

The WRAPP Plan aims to:

- Detail strategies and action plans to reduce waste
- Establish a base from which future waste reduction can be measured
- Establish a base from which procurement of recycled products can be measured
- Provide a basis for ongoing central agency reporting requirements.
- Raise staff awareness and encourage staff participation and commitment to waste reduction and the purchase of recycled content materials

- Provide a catalyst for the development of new and innovative ideas on ways to reduce waste across State Water.

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

State Water has also increased electronic communication to customers via email, e-newsletters, and SMS text messaging which has significantly reduced paper costs from mail outs and faxing.

Recycling arrangements are in place at State Water's major offices, with dedicated collection bins in place to encourage employees 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.

2006-07 WRAPP Waste Data

Material	Total quantity generated	Total quantity recycled
Year		
<i>Paper and office products</i>		
A4 and A3 white paper	2.4 tonnes	1.75 tonnes
Used toner cartridges	255	219
Computer processing units	67	65

Electronic Service Delivery

State Water website

State Water continues to enhance its presence on the internet through its website: www.statewater.com.au, to provide customers and members of the public with greater access to water delivery and asset information, as well as information on how to pay their accounts and key publications that are available to the public. All media releases and customer notices are placed on the website for easy access.

e-Tendering

State Water has implemented an electronic tendering system, which is aligned with other government organisations and suppliers to create a single entry point to access information and respond to NSW Government business opportunities.

The advantages of the e-Tendering system include providing easy access to information, reducing advertising costs, time reduction in the procurement process, boosting competitiveness by increasing opportunities for the suppliers bidding for state government business opportunities, removing geographical and print release barriers and creating an environmentally friendly process as a result of less paper usage.

Accounts Payable Performance Review

Aged analysis at the end of each quarter

Quarter	Current \$	< 30 days \$	30 - 60 days \$	60 - 90 days \$	> 90 days \$	Total \$
September	11,848,496	4,978,357	376,188	63,140	2,301,014	19,567,195
December	7,975,083	1,470,834	124,711	56,587	1,959,217	11,586,532
March	6,940,488	1,043,246	157,496	136,745	486,897	8,764,832
June	15,174,321	1,981,196	462,580	359,197	414,820	18,392,114
	41,938,348	9,473,633	1,120,975	615,769	5,161,948	58,310,673

Accounts paid on time within each quarter

Total accounts paid on time					
Quarter	Target %	Actual %	Target \$	Total \$	
September	85	60.6	11,848,496	19,567,195	
December	85	68.8	7,975,083	11,586,532	
March	85	79.2	6,940,448	8,764,832	
June	85	82.5	15,174,321	18,392,114	

Credit Card Certification

State Water operates Visa credit card facilities with Westpac Bank.

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. Card usage is closely monitored as part of the audit process.

State Water incurred no late payment fees for 2006-07.

Credit card expenditures during the financial year were considered to comply with best practice guidelines.

Payment of Accounts

State Water's target is to settle all accounts payable within 30 days, or in accordance with the terms agreed with individual vendors.

There was no late penalty interest incurred by State Water for late payment in 2006-07.

Budgets

State Water's 2006-07 budget was approved by the State Water Board on 28 September 2006. There were no changes to the approved budget after this date.

2006-07 Budget	\$M
Sales Revenue from Customers	25.4
Sales Revenue from Government	14.9
SW Sales Revenue	40.3
Pass Through Revenue	7.0
Government Operating Subsidies	10.6
Government CSO	1.9
Other Income	11.5
Total Revenue	71.3
Regulated Operating Expenses	(40.9)
Pass Through Costs	(7.0)
Other Expenses	(11.4)
Earnings Before Interest Tax and Depreciation	12.0
Depreciation and Amortisation	(5.8)
Earnings Before Interest and Tax	6.2
Investment Income	0.2
Interest Expense	(3.0)
Other - Superannuation Movement	0.0
Net Profit Before Tax	3.4
Income Tax Expense	0.0
Net Profit After Tax	3.4
Dividend Payable	(2.5)
Retained Earnings	1.1

Liability Management Performance

All State Water borrowings are through Treasury Corporation, which is the benchmark for borrowing comparison.

Outline 2007-08 Budget	\$M
Sales Revenue	47.0
'Pass Through' Revenue	5.3
Other revenues	15.0
Total Revenue	67.2
Regulated Operating Expenses	(39.3)
'Pass Through' Costs	(5.3)
Other Expenses	(14.3)
Earnings Before Interest Tax and Depreciation	8.4
Depreciation and Amortisation	(6.1)
Earnings Before Interest Tax	2.3
Net Interest	(1.7)
Net Profit Before Tax	0.6
Income Tax Expense	0.0
Net Profit After Tax	0.6
Dividend Payable	(0.4)
Contributions to Retained Earnings	0.2

Investment Performance

Investment Performance Comparison		
Underlying Liability	Rate of Return %	Benchmark Rate of Return %
Treasury Corporation Hour-glass		
Long service leave provision	6.41	14.76
All other liabilities	6.41	6.41
Cash at bank		
All other liabilities	6.05	6.41



More than 90 separate communications were delivered to customers in 2006-07 covering supplementary and off allocation flow access.



financial statements contents

Statement by Members of the Board	122
Independent Audit Report	123
Income Statement	124
Balance Sheet	125
Statement of Changes in Equity	126
Cash Flow Statement	127

Notes to the Financial Statements

1	Statement of significant accounting policies	129
2	Adjustments of allocation in comparatives	144
3	Income and expenses	146
4	Income taxes	151
5	Cash and cash equivalents	153
6	Trade and other receivables	153
7	Property, plant & equipment	154
8	Intangible assets	160
9	Other assets	161
10	Trade and other payables	170
11	Borrowings	172
12	Dividend payable	173
13	Provisions	173
14	Other liabilities	174
15	Share capital	175
16	Contributions by owners	175
17	Dividends	176
18	Notes to the cash flow statement	176
19	Commitments for expenditure	177
20	Contingent liabilities and contingent assets	179
21	Consultants	179
22	Directors	179
23	Related party disclosures	179
24	Financial instruments disclosures	181
25	Auditor's remuneration	183
26	Administered revenue and assets	183
27	Events after the balance sheet date	184
28	Corporation details	184

statement by members of the board

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 have been prepared in accordance with Australian Accounting Standards, 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 2007 and its performance, as represented by the results of its operations and its cash flows 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: 21 October 2007



AG (Tony) Wright

Chairman

21 October 2007



Geoff Borneman

A/Chief Executive Officer

21 October 2007



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

State Water Corporation

To Members of the New South Wales Parliament

I have audited the accompanying financial report of State Water Corporation (the Corporation), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of State Water Corporation as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the Public Finance and Audit Act 1983 (the PF&A Act) and the Public Finance and Audit Regulation 2005.

The Responsibility of Directors' for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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.

Independence

In conducting this audit, the Audit Office has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A 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.

Maria Spriggins
Director, Financial Audit Services

22 October 2007
SYDNEY

income statement

for the year ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
Continuing operations			
Revenue	3(a)	72,536	78,543
Other income	3(b)	-	145
Expenses, excluding finance costs and superannuation actuarial gains	3(c)	(60,175)	(66,100)
Finance costs	3(e)	(2,532)	(4,349)
Profit before income tax and superannuation actuarial gains		9,829	8,239
Income tax on profit before superannuation actuarial gains	4(a)(b)	(1,619)	(1,624)
Profit before superannuation actuarial gains		8,210	6,615
Superannuation actuarial gains	3(d)	5,006	4,724
Income tax on superannuation actuarial gains	4(a)(b)	-	-
Profit for the Year		13,216	11,339
Attributable to:			
Equity holders of State Water		13,216	11,339

The accompanying notes form part of these financial statements

balance sheet

as at 30 June 2007

	Notes	2007 \$'000	2006 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	5	16,502	32,012
Trade and other receivables	6	27,936	32,609
Other	9	157	147
Total Current Assets		44,595	64,768
Non-current Assets			
Property, plant and equipment	7	393,291	345,267
Intangible assets	8	1,044	1,392
Other	9	4,804	1,721
Total Non-current Assets		399,139	348,380
Total Assets		443,734	413,148
LIABILITIES			
Current Liabilities			
Trade and other payables	10	22,691	21,017
Current tax liabilities	4(d)	5,854	4,438
Dividends payable	12	11,884	7,937
Provisions	13	13,177	11,217
Other	14	374	29
Total Current Liabilities		53,980	44,638
Non-current Liabilities			
Borrowings	11	39,197	61,680
Deferred tax liabilities	4(c)	11,697	-
Provisions	13	342	3,972
Other	14	191	-
Total Non-current Liabilities		51,427	65,652
Total Liabilities		105,407	110,290
Net Assets		338,327	302,858
EQUITY			
Share capital (i)	15	-	-
Contributions by owners	16	300,510	300,510
Reserves		28,000	-
Retained earnings		9,817	2,348
Total Equity		338,327	302,858

(i) Share capital comprises two fully paid \$1 ordinary shares totalling \$2 (2006: \$2)

statement of changes in equity

for the year ended 30 June 2007

		Fully paid ordinary shares	Contributions by owners	Asset revaluation reserve	Retained earnings	Total
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2005		-	300,510	-	(1,054)	299,456
Net gain on revaluation of system assets				-		-
Related income tax						-
Net income recognised directly in equity		-	-	-	-	-
Profit for the year				-	11,339	11,339
Dividends for the year	17			-	(7,937)	(7,937)
Balance at 30 June 2006		-	300,510	-	2,348	302,858
Balance at 1 July 2006		-	300,510	-	2,348	302,858
Net gain on revaluation of system assets				40,000		40,000
Related income tax				(12,000)		(12,000)
Net income recognised directly in equity		-	-	28,000	-	28,000
Profit for the year					13,216	13,216
Dividends for the year	17				(5,747)	(5,747)
Balance at 30 June 2007		-	300,510	28,000	9,817	338,327

(i)

(i) Share capital comprises two fully paid \$1 ordinary shares totalling \$2 (2006: \$2)

[The accompanying notes form part of these financial statements](#)

cash flow statement

for the year ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
Cash flows from operating activities			
Receipts from customers		48,797	56,928
Payments to suppliers and employees		(51,336)	(50,845)
Receipt of grants and subsidies from the New South Wales Government		27,446	25,000
Interest received		1,654	2,163
Interest and other costs of finance paid		(3,387)	(3,751)
Income taxes refunded/(paid)		(507)	486
Net cash provided by operating activities	18	22,667	29,981
Cash flows from investing activities			
Payments for property, plant and equipment		(15,077)	(15,403)
Proceeds from sale of property, plant and equipment		762	264
Net cash used in investing activities		(14,315)	(15,139)
Cash flows from financing activities			
Repayments of borrowings		(22,062)	(5,000)
Dividends paid to equity holders of the corporation		(1,800)	-
Net cash from financing activities		(23,862)	(5,000)
Net increase / (decrease) in cash and cash equivalents		(15,510)	9,842
Cash and cash equivalents at the beginning of the financial year		32,012	22,170
Cash and cash equivalents at the end of the financial year	5	16,502	32,012

The accompanying notes form part of these financial statements

Notes to the financial statements

for the year ended 30 June 2007

Corporate Information

State Water Corporation (State Water) is a statutory State Owned Corporation under the provisions of the *State Owned Corporations Act 1989* and was corporatised under the *State Water Corporation Act 2004* on 1 July 2004. State Water's capital comprises two fully paid \$1.00 ordinary shares beneficially owned by the Government of NSW.

State Water's principal function is to capture, store and release bulk water for the benefit of entitlement holders, for flood management, and to meet the needs of the environment in an efficient, effective, safe and financially responsible manner. Entitlement holders include regional communities, primary producers, irrigators, industrial users and local utilities in regional NSW. These functions require that State Water construct, maintain and operate water management works and any other functions conferred or imposed on it by virtue of the operating licence granted to it and under any applicable requirements under the *Water Management Act 2000* or the *Water Act 1912*.

In addition, State Water is a water supply authority under the provisions of Chapter 6 of the *Water Management Act 2000* for the purpose of administering the Fish River Water Supply scheme.

State Water also has a business relationship with the Murray-Darling Basin Commission (MDBC). The MDBC was established as a co-operative venture between the NSW, Victorian, South Australian, Queensland and Commonwealth of Australian governments under the Murray-Darling Basin Agreement to manage the Murray-Darling Basin water flow and usage. Under an agreed formula of that agreement, each of the participating governments directly funds the operating and capital costs of the MDBC. The NSW Government's contribution is approximately 40% of the operating costs and state's share of capital costs of the MDBC.

The MDBC costs form part of the submission that is made to the New South Wales Independent Pricing and Regulatory Tribunal (IPART) for its determination of pricing of water charges to bulk water customers located within the area of operations of the MDBC. The proportion that MDBC costs represent of the total costs covered by the IPART determinations is then applied to revenue from water charges to bulk water customers located within the area of operations of the MDBC, and this amount is passed on to NSW Treasury to help meet the NSW Government's direct funding obligations under the Murray-Darling Basin Agreement. State Water also rents accommodation properties from MDBC for use by its on-site employees.

The MDBC contracts State Water to undertake regular maintenance of its assets, as well as repair work and construction of new or replacement assets. In addition, State Water rents equipment to the MDBC.

1 Statement of Significant Accounting Policies

1.1 Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards, mandates issued by NSW Treasury and other mandatory and statutory reporting requirements including the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2005* and the *State Owned Corporations Act 1989*.

In preparing this financial report, the accounting policies described below are based on the requirements applicable to for-profit entities under this financial reporting framework.

The financial report has been prepared on the historical cost basis, except for property, plant and equipment, which are at the values as stated in Note 1.10. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000), unless otherwise indicated.

1.2 Determination of for-profit or not-for-profit

State Water has applied its judgement in assessing whether it meets the definition of a for-profit or not-for-profit entity for the purposes of the accounting standards. State Water has concluded that the business is a for-profit entity, taking into account the objectives of corporatisation, the governance framework applied, the application of pricing principles to achieve full cost recovery on a commercially sustainable basis, and the registration of State Water Corporation under the National Tax Equivalent Regime.

1.3 Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard (AEIFRS). Compliance with AEIFRS ensures that the financial report, comprising the Financial Statements and Notes thereto, complies with International Financial Reporting Standards.

Except for the decrease in capitalisation threshold for the renewal or refurbishments of major dam components disclosed at Note 1.10, the accounting policies set out below have been applied consistently to all periods presented in the financial report. Where relevant, the accounting policy applied to the comparative period presented has also been disclosed.

1.4 Revenue

Revenue is income that arises in the course of ordinary activities. Revenue is recognised to the extent that it is probable that the economic benefits will flow to State Water and the revenue can be reliably measured. The following recognition criteria must be met before revenue is recognised:

- **Rendering of services**

State Water delivers bulk water to its customers under the conditions of their licences. Revenue from rendering of these services comprises both fixed and variable charges. The fixed component is charged according to each licence entitlement, whereas the variable component is charged according to actual consumption and use by the licence holder. The fixed entitlement charges are recognised proportionally on a monthly accrual basis. The variable usage charges are recognised on an accrual basis when the services are provided. Prices for water delivery are subject to price regulation by IPART.

State Water also provides infrastructure operation, maintenance and construction services to the MDBC and other clients. Revenue for work done by State Water on the operations and assets of other entities and on the provision of contracted services, as covered by service agreements, is recognised on an accrual basis when the services are provided. Revenue for construction services is recognised on an accrual basis by reference to the stage of completion of the contract at the reporting date.

Ancillary services are those provided to customers for administering entitlement transfers, for providing the financial status of licences in preparation for licence sale or transfer, and for the use of water for hydro power generation. Revenue is recognised in respect of these services on an accrual basis as the services are provided.

State Water also provides consultancy services to clients, primarily relating to surveying. Revenue from these services is recorded as sundry revenue and is recognised on an accrual basis when the services are provided.

- **Government grants and subsidy revenue**

Under the funding model agreed to in setting up State Water as a State Owned Corporation and negotiated with the Shareholding Ministers, State Water receives government funding for agreed activities and for past and future capital investment so as to achieve an expected commercial rate of return from its operations.

Grants and subsidies that are receivable for expenses incurred or revenue foregone are recognised as revenue in the Income Statement on a systematic monthly accrual basis over the periods for which the grant or subsidy is to apply. Government grants are recognised as revenue at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

The share of the Government's contributions is determined by IPART through its Bulk Water Pricing Determinations. The amounts of the Government contribution to operations and of the Government operating subsidies are negotiated annually with the Shareholding Ministers through the Statement of Corporate Intent (SCI). There is no provision for adjustment to the quantum of the negotiated amounts. The revenue is accordingly recognised on a monthly accrual basis.

- **Interest revenue**

Interest revenue is recognised as the interest accrues using the effective interest method, which uses the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument.

- **Permissive occupancies and agistments**

Revenue from permissive occupancies and agistments is recognised on a straight-line basis over the period of occupancy or agistment.

- **Rental revenue**

Rental revenue is recognised on a straight-line basis over the lease term.

- **Other Income**

Other income comprises gains arising from the disposal of recognised assets and liabilities.

- **Disposal of property, plant and equipment, assets held for sale and intangible assets**

The net gain or loss on disposal of these assets is calculated as the difference between the carrying amount of the assets at the time of disposal and the net proceeds on disposal and is recorded in the Income Statement in the period of disposal. Gains or losses arising from the sale of property holdings are recognised at the date that the risks and rewards of ownership have been transferred to the purchaser and State Water has no continuing involvement with the relevant property. This is normally considered to be when legal title passes to the purchaser at the date of settlement. Net losses on disposal are reclassified as expenses.

1.5 Expenses

Expenses are recognised in the Income Statement when incurred. Expenses include items that are incurred in the course of ordinary activities as well as various losses that arise from either the disposal of recognised assets or the re-measurement of some items at the reporting date that are required to be taken to the Income Statement under the relevant Australian Accounting Standards. An example of a loss is that arising from the disposal of property, plant and equipment.

Expenses are disclosed in this financial report by nature. (Refer Note 3(c)).

- **Depreciation and amortisation**

Items of property, plant and equipment (including buildings but excluding freehold land) and intangible assets with finite lives, such as computer application software and development costs, are depreciated/amortised on a straight-line basis over their estimated useful lives, making allowance where appropriate for residual values. The lives are reviewed annually, taking into account assessments of asset condition, commercial and technical obsolescence and expected normal wear and tear. The normal life expectancies of major asset categories are as follows:

Depreciable asset categories	Number of years
<i>Property, plant and equipment</i>	
Buildings	
Buildings - cottages and dwellings/office buildings/accommodation	25-83
Water infrastructure	
Dams - structure/concrete works	200
Dams - other civil components	100-200
Dams - mechanical/electrical components	30-200
Weirs and regulators - concrete components & fountain pilings	100
Weirs and regulators - steel structural components	50-100
Channels and structures	40
Plant and equipment	5-15
Other non-current assets	
Furniture and fitouts	10
Scientific instruments	5-10
Marine craft	5
Motor vehicles (2006: 5 years)	5-15
<i>Intangible assets</i>	
Computer application software (2006: 3-5 years)	3-7
Development costs	5-20

Work in progress is not depreciated until the assets are brought into service and are available for use.

- **Operating lease expenses**

Payments made under operating leases are representative of the pattern of benefits derived from the leased assets and accordingly they are recognised as an expense in the Income Statement in the periods in which they are incurred. In most cases, recognition as an expense occurs on a straight-line basis over the term of the lease. Lease inducements are recognised in the Income Statement on a straight-line basis over the lease term in line with lease rental expense.

- **Borrowing costs**

Interest and other borrowing costs, such as Government Guarantee fees payable in respect of State Water's borrowings, are expensed as incurred within finance costs in the Income Statement.

1.6 Taxation

- **Income Tax**

State Water is subject to notional taxation in accordance with the *State Owned Corporations Act 1989*. An equivalent or notional income tax is payable to the NSW Government through the Office of State Revenue. Taxation liability is assessed according to the National Tax Equivalent Regime (NTER). The NTER closely mirrors the *Commonwealth Income Tax Assessment Act 1936* (as amended) and is administered by the Australian Taxation Office (ATO). State Water applies the Balance Sheet method of tax-effect accounting to determine income tax expense and current and deferred tax assets and liabilities.

Income tax expense on the operating result for the reporting period comprises both current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case the income tax is itself recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax represents future assessable or deductible amounts that arise due to temporary differences existing at the reporting date between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (their tax bases). Deferred tax balances are not recognised for temporary differences that arise from the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities provided are based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates (and tax laws) enacted or substantively enacted at the reporting date.

Current and deferred tax assets are offset with current and deferred tax liabilities respectively where State Water intends to settle current tax assets and liabilities on a net basis.

- **Goods and Services Tax**

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included as a current asset or liability in the Balance Sheet. Cash flows of GST are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as cash flows from operating activities.

Commitments are disclosed inclusive of GST where applicable.

1.7 Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of less than three months. State Water currently has no bank overdrafts.

1.8 Investments

Investments in marketable securities with a maturity period of three months or less are classified as cash and cash equivalents (see Note 1.7 above) and those with a maturity period longer than three months are classified as Investments.

Those with a maturity period greater than 12 months are classified under Non-current Assets. All others are classified under Current Assets. State Water currently has no investments other than those included in cash and cash equivalents.

1.9 Trade and other receivables

Trade and other receivables, which generally have settlement terms of 30 days from the issue of the invoice, are recognised and carried at original invoice amount, less any impairment losses recognised by way of an allowance for doubtful debts that represents specific amounts considered to be either doubtful or uncollectible. Recognition at original invoice amount is adopted as this is not materially different to amortised cost, given the short-term nature of these receivables.

The allowance for doubtful debts is recognised when collection of the full amount invoiced is considered to be no longer probable after due consideration of factors such as past recoverability experience and prevailing economic conditions. Known bad debts are written off against the allowance as and when identified.

1.10 Property, Plant and Equipment

- **Acquisitions and Capitalisation**

All items of property, plant and equipment acquired by State Water are recognised initially at the cost of acquisition. Subsequent to this initial recognition, each class of property, plant and equipment is valued in accordance with State Water's valuation policies (see Asset Valuations below).

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire the asset, including costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Expenditure of the following type that will provide future economic benefit and which exceed the thresholds set will be recognised as an asset and capitalised:

- 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 renewals or refurbishments which extend the economic life or service potential of the existing asset.

Each river valley and all its specialised infrastructure assets form a river system asset, and are treated as a primary asset with components. Specialised infrastructure assets are components of the relevant river system primary asset, and are referred to as system assets. State Water's use of the river system delivers the economic benefit.

In respect of system assets constructed by State Water for its own use, cost includes:

- materials used in construction
- direct labour and oncosts
- contractors' services
- major inspection costs
- an estimate, where relevant, of the costs of dismantling, decommissioning and removing the asset and restoring the site on which it is located, and
- an appropriate proportion of overheads.

In respect of major inspections undertaken for system assets, the cost of the inspection is capitalised as part of the cost of the asset if it is probable that future economic benefits will flow to State Water and the cost can be measured reliably.

Any inspection cost so capitalised is recognised as a component asset and depreciated over the period of time until the next inspection. When each major inspection cost is capitalised, any remaining cost or estimated cost of the previous inspection is de-recognised.

The cost of dismantling, decommissioning and removing an asset and restoring the site on which it is located is capitalised when a decision to decommission the asset has been made. This gives rise to the recognition of a corresponding liability as a provision. (Refer also Note 1.17).

System assets are capitalised only when 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 Balance Sheet. Depreciation is not raised until an asset 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 |
| • renewal or refurbishments of major dam components (2006: \$50,000) | \$20,000 |
| • renewal or refurbishments of river structure components | \$20,000 |

- **Asset valuations**

Following initial recognition at cost, each class of property, plant and equipment is stated in the Balance Sheet at fair value less any subsequent accumulated depreciation and accumulated impairment losses. Adopting the fair value model for property, plant and equipment assets, rather than the cost model is a requirement of NSW Treasury's mandates in respect of options to be adopted by NSW public sector entities under AEIFRS. For some classes of assets, re-measurement to fair value is undertaken by way of an asset revaluation. Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the reporting date. The valuation basis that is representative of fair value in respect of each class of assets is detailed below.

When State Water was formed, initial recognition of each class of property, plant and equipment transferred to State Water was at their transferred cost representing their assessed fair value at time of transfer as follows:

- System Assets comprising storages and dams, river regulators, pipelines and associated structures, and associated land and buildings at assessed fair value based on an assessment of their reasonable recoverable amount.
- Non-specialised Assets comprising operational equipment, plant and motor vehicles, furniture and fittings, office equipment, computer hardware and leasehold improvements at cost, less accumulated depreciation.

Non-current assets were transferred from the Department of Energy, Utilities and Sustainability (DEUS) to State Water on 1 July 2004 at a value of \$309.1 million. The non-current assets of the Fish River Water Supply Scheme (FRWS) were transferred at a value of \$51.4 million on 1 January 2005. The combined value of \$360.5 million was agreed to by NSW Treasury, DEUS and The Cabinet Office, based on a Financial Structure Review report commissioned for the purpose of determining a suitable value that would ensure State Water's financial viability as a stand-alone commercial organisation without requiring substantial price increases for its customers.

Subsequent additions have been at cost, less any subsequent accumulated depreciation.

In respect of classes of assets for which there exists an active market, fair value is the amount for which the assets could be exchanged between knowledgeable and willing parties in an arm's length transaction, having regard to the highest and best use of the assets for which other parties would be willing to pay to obtain the most advantageous price or highest possible value.

In respect of classes for which there is no active market due to the specialised nature of the assets, fair value is determined as the estimated depreciated current replacement cost of the assets.

System Assets

System assets transferred upon State Water's formation were carried at the assessed fair value, based on their reasonable recoverable amount, as agreed to by NSW Treasury, DEUS and The Cabinet Office, less accumulated depreciation since the date of transfer.

System assets added since formation are recognised at cost less accumulated depreciation. Considering the specialised nature of these assets, the long effective life of these assets and their recent construction, and the cost to replace would not have changed significantly in the last two years, the depreciated net carrying amount closely approximates their fair value. Fair value for specialised assets is determined as their estimated depreciated current replacement cost.

Generally, depreciated replacement cost is based on estimates of modern engineering equivalent replacement asset (MEERA) values on a whole of facility basis and takes into account condition-based assessments of the assets and their asset lives to determine their remaining service potential.

Subsequent to determining their fair value, specialised infrastructure assets are tested for impairment to ensure their carrying amount is not in excess of their recoverable amount. The recoverable amount is assessed on the basis of the expected cash flows that will be received from the assets, employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

For further details regarding the key assumptions used in determining the recoverable amount, refer Note 7.1.

A rolling program of revaluing assets will be carried out over the next three years, which will enable the depreciated replacement cost to be calculated and disclosed.

Operational Plant and Equipment

Operational plant and equipment, including plant, vehicles, furniture and fittings, office equipment, computer hardware and leasehold improvements are recognised at the cost of acquisition. These assets are not revalued as it is considered that their depreciated net carrying amount closely approximates their fair market value less costs to sell.

For each class of property, plant and equipment subject to valuation, revaluation increments are credited to an asset revaluation reserve within equity in the Balance Sheet.

Where a revaluation decrement or an impairment loss reverses a revaluation increment previously credited to, and which is still in the balance of, the asset revaluation reserve, the revaluation decrement or impairment loss is debited to that reserve. In other cases, the decrement or impairment loss is recognised as an expense in the Income Statement.

Upon disposal of system assets any revaluation reserve balance relating to the particular asset being disposed is transferred to retained earnings.

1.11 Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance. Intangible assets are capitalised initially at cost. Following initial recognition, the cost model is applied as there is no active market that can be referenced for performing revaluations to a market-based fair value.

Useful lives of intangible assets are assessed to be either finite or indefinite. Where they are determined to have finite lives, they are amortised on a straight-line basis and the expense is recognised as part of the depreciation and amortisation line item in the Income Statement. These assets are recognised in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses, where applicable. Computer application software and development costs are typical assets that come under this category.

Where intangible assets are determined to have indefinite lives they are not amortised. However they are tested for impairment as part of the cash-generating unit test applied by State Water in conjunction with other assets. Any resulting impairment losses are recognised as an expense in the Income Statement. Any reversals of impairment losses are also recognised in the Income Statement. These assets are recognised in the Balance Sheet at cost less accumulated impairment, where applicable.

Research and Development

Expenditure on research activities, undertaken with the prospect of obtaining new technical knowledge or understanding, is recognised as an expense in the Income Statement when incurred.

Expenditure on development activities, whereby research findings are applied to the development of substantially new or improved products or processes is capitalised if the product or process is significant, is technically or commercially feasible, will provide future economic benefits and there are sufficient resources to complete development. The expenditure capitalised may comprise direct labour, materials, other costs directly attributable to the development activity and an appropriate proportion of overheads. Such expenditure is tested for impairment at each reporting date, whether or not the intangible asset arising from the expenditure is available for use or in progress. Other development expenditure is expensed in the Income Statement when incurred.

1.12 Leased assets

Leases of property, plant and equipment where State Water assumes substantially all the risks and rewards of ownership are classified as finance leases. State Water does not have any finance leases.

Leases of property, plant and equipment where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Payments made under an operating lease are recognised in accordance with the accounting policy in Note 1.5.

1.13 Impairment of assets

At each reporting date, the carrying values of assets (other than deferred tax assets) are reviewed to determine whether there is an indication of impairment. If any such indication exists, a formal estimate of their recoverable amount is made. (Refer below - Calculation of recoverable amount) Where the carrying amount of an asset is greater than its recoverable amount, the asset is considered impaired.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised as an expense in the Income Statement, unless an asset has previously been revalued through the asset revaluation reserve, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised in the Income Statement. Impairment losses recognised in respect of a cash-generating unit are allocated to reduce the carrying amount of the assets in the unit on a pro rata basis.

Calculation of recoverable amount

Financial assets

The recoverable amount of receivables stated at amortised cost is calculated at the present value of estimated future cash flows, discounted at the original effective interest rate determined at initial recognition of these financial assets. Receivables with a short duration are not discounted. Impairment in respect of these receivables is determined in accordance with the accounting policy in Note 1.9.

Other assets

The recoverable amount of other assets, such as system assets and development costs, is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows from the continuing use and ultimate disposal of an asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows that are largely independent from other assets, the recoverable amount is determined for the cash-generating unit to which it belongs. For specific details of the assumptions behind the cash-generating unit test for system assets, refer to Note 7.1.

Reversals of impairment

Financial assets

An impairment loss in respect of receivables stated at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment was recognised.

Other assets

Impairment losses in respect of other assets, such as system assets and development costs, are reversed if there has been a change in the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.14 Trade and other payables

Trade and other payables are recognised in the Balance Sheet at cost, which is considered to approximate amortised cost due to their short-term nature. They are not discounted as the effect of discounting would not be material for these liabilities.

Trade and other payables are recognised when goods or services have been received and an obligation to make future payment arises, and are usually settled within 30 days from the date of the invoice unless other terms are negotiated with the creditor.

1.15 Borrowings

Interest bearing financial liabilities or borrowings raised by the NSW Treasury Corporation on behalf of State Water are recognised initially at cost, being the fair value of the consideration received less any transaction costs associated with the borrowings. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any issue costs and any differences between cost and the final redemption value, such as discounts or premiums. These differences are amortised to the Income Statement as part of finance costs over the period of the borrowings on an effective interest basis.

Gains or losses are recognised in the Income Statement when liabilities are derecognised, such as through a debt restructuring, as well as through the amortisation process.

1.16 Dividends payable

A liability for dividend payable is recognised in the reporting period in which the dividend is declared. This is considered to be the period in which the dividend has been proposed, targeted and agreed with State Water's voting shareholders through State Water's SCI.

The dividend payable for the current reporting period has been calculated on profit adjusted for certain non-cash items, as disclosed in Note 17.

In the comparative period, dividend payable was calculated on profit without adjusting for the certain non-cash items.

1.17 Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the obligation is to be settled more than 12 months after the reporting date and the effect is material, a provision is determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. This is usually the risk-free rates on Government bonds that closely match the expected future payments, except where noted below. If the obligation is due to be settled less than 12 months after balance date, the provision is stated at the best estimate available and is not discounted.

When some or all of a provision is expected to be reimbursed from a third party, the reimbursement receivable is recognised as an asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

Provisions recognised in the Balance Sheet comprise some employee benefits and other provisions.

- **Employee benefits**

All liabilities for employee benefits are recognised in the Balance Sheet. Employee benefits comprise short-term benefits, other long term benefits, termination benefits and post-employment benefits.

Short-term employee benefits

Short-term employee benefits are benefits (other than termination benefits) that fall due wholly within 12 months after the end of the period in which employees render the related service. They include wages and salaries, sick leave and annual leave. All short-term employee benefits that are payable at the reporting date are measured on an undiscounted basis at the nominal amount expected to be paid.

Expenses for wages and salaries are recognised as services are rendered by employees. Expenses for annual leave are recognised when employees render service that increases their entitlement to future payment of annual leave. Expenses for sick leave, which is non-vesting, are recognised when the absences occur.

Liabilities for wages and salaries are included within trade and other payables while liabilities for annual leave, where applicable, are included within provisions in the Balance Sheet.

Other long term employee benefits

Other long term employee benefits are benefits (other than termination benefits and post-employment benefits) that do not fall due wholly within 12 months after the end of the period in which the employees rendered the related service. In State Water's case, this refers specifically to employee benefits for long service leave.

The liability for long service leave at the reporting date is the present value of the future benefit that employees have earned in return for their service in the current and prior reporting periods, less the fair value of any related assets at that date. The present value of the future benefit is calculated using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up to the final obligation. The discount rate used is the yield at balance date on Government bonds that have maturity dates approximating to the terms of the long service leave obligations.

The liability and expense are recognised when employees render service that increases their entitlement to future benefit for long service leave. The expense is recognised as one net amount that encompasses a number of components, such as current service cost and interest cost.

Termination benefits

Termination benefits are employee benefits payable as a result of an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.

The liability for redundancy benefits for specific employees that have accepted redundancy is measured at the calculated entitlement that will be paid to those employees. This is usually in the following reporting period and thus is not discounted. State Water currently has no general provision for redundancy nor any identified redundancy benefits.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) that are payable after the completion of employment. In the case of State Water, this refers specifically to benefits provided to employees and former employees through superannuation schemes.

- **Defined contribution superannuation scheme**

State Water contributes to defined contribution superannuation schemes in accordance with Superannuation Guarantee Contribution legislation and employment agreements. Obligations for contributions to these schemes are recognised as an expense in the Income Statement as incurred. The liability recognised at balance date represents the contribution to be paid in the following month.

- **Defined benefit superannuation scheme**

State Water contributes to three defined benefit superannuation schemes in the NSW public sector Pooled Fund. These are: State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and State Authorities Non-contributory Superannuation Scheme (SANCS).

State Water's net obligation in respect of these schemes is calculated separately for each scheme by estimating the future benefit that employees have earned in return for their service in the current and previous reporting periods. That benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted.

The discount rate is the yield at the reporting date on Government bonds that have maturity dates approximating to the terms of State Water's obligations. Calculations are performed by the Pooled Funds' actuary using the projected unit credit method and are advised to individual agencies for recognition and disclosure purposes in their financial reports.

Where the present value of the defined benefit obligation in respect of a scheme exceeds the fair value of the scheme's assets, a liability for the difference is recognised in the Balance Sheet. Where the fair value of a scheme's assets exceeds the present value of the defined benefit obligation for that scheme, an asset is recognised in the Balance Sheet.

Actuarial gains and losses are recognised in the Income Statement in the year in which they occur.

- **Other provisions**

Employee benefit on-costs

Costs that are a consequence of employing employees, but which are not employee benefits themselves, such as payroll tax, are recognised as liabilities and expenses when the employment to which they relate has occurred.

Payroll tax payable at balance date in relation to wages and salaries paid during the previous month is recognised as part of trade and other payables in the Balance Sheet, consistent with the classification of any recognised liability for wages and salaries. Payroll tax payable in respect of annual leave or long service leave payments to be made in the future is recognised as part of provisions, consistent with the classification of liabilities for annual leave and long service leave.

Provisions for payroll tax on unpaid annual leave and long service leave benefits are measured at the reporting date based on payroll tax laws that have been enacted or substantially enacted at the reporting date and take into consideration factors such as expected resignations or terminations that would give rise to payroll tax obligations.

Restoration of leased premises

Restoration costs in respect of leased premises are those costs that State Water must incur under the terms of the lease to restore the relevant leased premises back to their original state at the end of the lease term.

Provisions for restoration of leased premises are calculated based on discounted future cash flows using the yield on Government bonds, which is a pre-tax rate that State Water considers to be representative of current market assessments of the time value of money and the risks specific to the liability.

Provisions are recognised at the inception of a lease when such restoration is a condition of the lease. Unwinding of the discount is recognised as a finance cost in the Income Statement, while the restoration costs are separately expensed.

Fringe benefits tax

This provision is used to recognise State Water's obligation in respect of fringe benefits tax for providing employees with fringe benefits that are covered by The *Fringe Benefits Tax Assessment Act 1986*.

Estimates of fringe benefits tax are calculated based on the conditions of current legislation and the nature and frequency of fringe benefits provided to employees. Since the obligation is due to be settled less than 12 months after balance date, the provision is stated at the best estimate available and is not discounted.

1.18 General insurance

State Water maintains a mix of external insurance policies. 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 advisers and loss adjusters.

1.19 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 114 Segment Reporting, and this is reported in the financial statements.

1.20 Accounting standards issued but not yet operative

At the reporting date a number of Australian Accounting Standards and Urgent Issue Group (UIG) Interpretations had been issued but are not yet operative and have not been early adopted by State Water. The following is a list of these standards and interpretations and a description of the possible impact on the financial statements in the first period of their initial application.

AASB 7 AASB 2005-10	<i>Financial Instruments: Disclosure Amendments to Australian Accounting Standards</i> [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, AASB 1038]	AASB 7 locates in one place all disclosures relating to financial instruments. Consequential amendments to other existing standards are identified in AASB 2005-10. These standards will not affect any of the amounts recognised in the financial statements but will impact the type of information disclosed in relation to State Water's financial instruments. These standards are operative for annual reporting periods beginning on or after 1 January 2007.
AASB 8 AASB 2007-3	<i>Operating Segments Amendments to Australian Accounting Standards</i> [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023, AASB 1038]	AASB 8 locates in one place all disclosures relating to operating segments. Consequential amendments to other existing standards are identified in AASB 2007-3. These standards will not affect any of the amounts recognised in the financial statements but may impact the type of information disclosed in relation to State Water's operating functions. These standards are operative for annual reporting periods beginning on or after 1 January 2009.
AASB 101	<i>Presentation of Financial Statements</i>	AASB 101 prescribes the basis for presentation of general purpose financial reports, to ensure comparability both with the entity's financial reports of previous periods and with the financial reports of other entities. Implementation of the changes to this standard will not affect any of the amounts recognised in the financial statements but will reduce some disclosure requirements whilst requiring additional disclosures regarding capital management. This standard is operative for annual reporting periods beginning on or after 1 January 2007.
AASB 123 AASB 2007-6	<i>Borrowing Costs Amendments to Australian Accounting Standards</i> [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116, AASB 138]	Changes to AASB 123 require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use. All other borrowing costs are immediately recognised as expenses. Consequential amendments to other existing standards are identified in AASB 2007-6. These standards are operative for annual reporting periods beginning on or after 1 January 2009. To date State Water has not borrowed directly for the acquisition, construction or production of qualifying assets. However, for the first year of the operation of AASB 123, State Water's current SCI anticipates an increase in borrowing in order to construct qualifying assets which will lead to a capitalising of the borrowing costs.

UIG 4 *Determining whether an arrangement contains a Lease*

This interpretation specifies criteria for determining whether an arrangement is, or contains, a lease. If an arrangement contains a lease, the parties to the arrangement apply the requirements of AASB 117 Leases to the lease element of the arrangement, unless exempted from those requirements by the standard. Implementation of UIG 4 is not expected to change the accounting for any of State Water's current arrangements. This interpretation is operative for annual reporting periods beginning on or after 1 January 2008.

The following Australian Accounting Standards and UIG Interpretations have no impact on any disclosure or reporting by State Water as they relate to transactions or structure that are not undertaken or not applicable to it:

AASB 1049	<i>Financial Reporting of General Government Sectors by Governments</i>
AASB 2007-1 UIG 11	<i>Amendments to Australian Accounting Standards [AASB 2] AASB 2 - Group and Treasury Share Transactions</i>
AASB 2007-2 UIG 12 UIG 129	<i>Amendments to Australian Accounting Standards [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131, AASB 139] Service Concession Arrangements Service Concession Arrangements: Disclosures</i>
AASB 2007-4	<i>Amendments to Australian Accounting Standards [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023, 1038]</i>
AASB 2007-5	<i>Amendments to Australian Accounting Standards [AASB 102]</i>
UIG 10	<i>Interim Financial Reporting and Impairment</i>

2 Adjustments of Allocations in Comparatives

Allocation differences have been identified in the 2006 financial report. The prior year comparatives have been restated to disclose the financial data as if the allocation differences had not occurred as is required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The restatement has impacted the Balance Sheet and the Income Statement but has not affected the profit for the year. These adjustments are disclosed in the reconciliations below.

BALANCE SHEET		Previous at 30 June 2006	Adjustments	Adjusted at 30 June 2006
	Notes	\$'000	\$'000	\$'000
ASSETS				
Current Assets				
Cash and cash equivalents		32,012	-	32,012
Trade and other receivables	2.1, 2.2	4,112	28,497	32,609
Other	2.1	28,457	(28,310)	147
Total Current Assets		64,581	187	64,768
Non-current Assets				
Property, plant and equipment		345,267	-	345,267
Intangible assets		1,392	-	1,392
Other	2.3	-	1,721	1,721
Total Non-current Assets		346,659	1,721	348,380
Total Assets		411,240	1,908	413,148
LIABILITIES				
Current Liabilities				
Trade and other payables	2.2, 2.4, 2.6, 2.8	27,253	(6,236)	21,017
Borrowings	2.10	5,000	(5,000)	-
Current tax liabilities	2.5		4,438	4,438
Dividends payable	2.4		7,937	7,937
Provisions	2.5, 2.7, 2.8	15,696	(4,479)	11,217
Other	2.6, 2.7, 2.9	1,610	(1,581)	29
Total Current Liabilities		49,559	(4,921)	44,638
Non-current Liabilities				
Borrowings	2.10	56,680	5,000	61,680
Provisions	2.3, 2.9	2,143	1,829	3,972
Total Non-current Liabilities		58,823	6,829	65,652
Total Liabilities		108,382	1,908	110,290
Net Assets		302,858	-	302,858
EQUITY				
Share capital		-	-	-
Contributions by owners		300,510	-	300,510
Retained earnings		2,348	-	2,348
Total Equity		302,858	-	302,858

INCOME STATEMENT		Previous for year ended 30 June 2006	Adjustments	Adjusted for year ended 30 June 2006
	Notes	\$'000	\$'000	\$'000
Continuing operations				
Revenue	2.11	75,919	2,624	78,543
Other income	2.11, 2.12	2,828	(2,683)	145
Expenses, excluding finance costs and actuarial superannuation gains	2.12	(67,212)	1,112	(66,100)
Finance costs		(4,349)	-	(4,349)
Profit before income tax and actuarial superannuation gains		7,186	1,053	8,239
Income tax on profit before income tax and actuarial superannuation gains		(1,624)	-	(1,624)
Profit before actuarial superannuation gains		5,562	1,053	6,615
Actuarial superannuation gains		5,777	(1,053)	4,724
Income tax on actuarial superannuation gains		-	-	-
Profit for the year		11,339	-	11,339

Notes to adjustment in comparatives:

- 2.1 Accrued revenue (\$28.300 million) and GST refundable (\$0.010 million) have been re-allocated from Other assets to Trade and other receivables.
- 2.2 GST refundable (\$0.187 million) has been re-allocated from Trade payables to Trade and other receivables.
- 2.3 Approval had not been obtained from NSW Treasury to transfer the balances between the defined benefit superannuation schemes, SASS, SANCS and SSS. The conditions then for set-off, as specified in AASB 119 *Employee benefits*, were not satisfied at 30 June 2006. The presentation has been re-stated to show SASS and SANCS as Prepaid superannuation contributions and SSS as Defined benefit superannuation fund provision.
- 2.4 Dividends payable has been separated from Trade payables.
- 2.5 Current tax liability has been separated from Provisions - current.
- 2.6 Accrued interest (\$1.032 million) and other payables (\$0.410 million) have been re-allocated from Other liabilities - current to Trade payables.
- 2.7 Provision for fringe benefits tax (\$0.031 million) has been re-allocated from Other liabilities - current to Provisions - current.
- 2.8 Accrued salaries and wages (\$0.072 million) has been re-allocated from Provisions - current to Trade payables.
- 2.9 Provision for restoration of leased premises (\$0.108 million) has been re-allocated from Other liabilities - current to Provisions - non-current.
- 2.10 NSW Treasury borrowing (\$5.000 million) has been re-allocated from Borrowings - current to Borrowings - non-current
- 2.11 Infrastructure operation, maintenance and construction to Other Utilities (\$0.672 million), Ancillary services (\$0.495 million), Sundry revenue (\$0.355 million), Rent (\$0.875 million) and Other revenue (\$0.227 million) re-allocated from Other Income to Revenue from continuing operations.
- 2.12 FBT recoveries (\$0.059 million) re-allocated from Other income to Expenses, excluding finance costs and actuarial superannuation gains/losses.

3 Income and Expenses

2007
\$'000

2006
\$'000

Profit before income tax expense has been arrived at after including the following income and expenses:

(a) Revenue from continuing operations

Revenue from rendering of services

Storage and delivery of water		
Regulated water sources	32,571	35,555
Unregulated water sources	403	403
	32,974	35,958
Infrastructure operation, maintenance and construction		
Murray-Darling Basin Commission (i)	6,132	10,904
Other utilities	2,660	2,566
	8,792	13,470
Ancillary services	549	495
Sundry revenue	287	355
	42,602	50,278

Revenue from government grants and subsidies

NSW Government contributions to operations (ii)	14,913	17,100
NSW Government transitional operating subsidy (iii)	10,587	7,900
NSW Government community service subsidy (iv)	1,946	-
	27,446	25,000

Interest revenue

NSW Treasury deposits	1,053	1,811
Bank deposits	292	45
Overdue accounts (v)	229	307
	1,574	2,163

Other revenue

Rent	852	875
Other	62	227
	914	1,102

Total revenue from continuing operations		
	72,536	78,543

- (i) The MDBC contracts State Water to undertake operational activities and regular maintenance of its assets, as well as repair work and construction of new or replacement assets.
- (ii) The NSW Government contributions to operations are provided to:
- meet the costs of certain activities that satisfy community expectations, public benefit or government requirements, eg flood operations, environmental flows, stock and domestic supply
 - finance on a commercial basis the agreed share of past capital investment along with any further capital investment necessary to address pre-1997 dam safety non-compliance conditions and other mandated capital improvements, eg for environmental compliance or to provide fishways at regulatory structures.
- (iii) The NSW Government transitional operating subsidy is provided to explicitly recognise the extent to which there is a shortfall between the agreed revenue requirements of State Water's operations and the revenues generated in an average water supply year from supplying customers and from the agreed Government contribution to operations.
- (iv) The NSW Government has provided an additional subsidy to State Water for the reporting period that forms part of a package of drought assistance measures that it has approved. In the case of State Water, this subsidy is provided to compensate State Water for waiving the fixed entitlement charges for general security irrigators in the Lachlan Valley for the 2006-07 water year.
- (v) Refer Note 6 TRADE AND OTHER RECEIVABLES, Trade receivables - water.

2007
\$'000

2006
\$'000

(b) Other income from continuing operations

Net gains from disposal of:

Property, plant and equipment	-	145
	-	145

	2007 \$'000	2006 \$'000
(c) Expenses from continuing operations, excluding finance costs and actuarial superannuation gains/losses		
Employee related expenses, excluding actuarial superannuation gains/losses (iv)	23,255	21,360
Maintenance services expenses (i)	2,087	8,424
Operational services expenses (v)	10,754	11,286
Depreciation and amortisation expenses	6,011	6,070
Materials, plant and equipment expenses	2,143	1,873
Contribution to MDBC expenses (ii)	6,824	7,339
Operating lease expenses (iii)	1,495	2,001
Electricity and other energy expenses	527	558
Transport expenses (excluding leases)	2,988	3,027
Property expenses (excluding leases)	1,018	784
Data management expenses (excluding leases)	834	1,020
Other expenses from ordinary activities	2,244	2,602
Total expenses from ordinary activities, excluding superannuation actuarial gains	60,180	66,344
Net losses from disposal of:		
Property, plant and equipment	101	-
	101	-
Impairment movement through the income statement:		
Receivables	(106)	(244)
	(106)	(244)
Total expenses from continuing operations, excluding finance costs and superannuation actuarial gains	60,175	66,100

(i) Maintenance services include various services provided to State Water for repairs and maintenance activities carried out on State Water's and MDBC system assets.

(ii) Contribution to MDBC expenses refers to a proportion of revenue from water charges to bulk water customers located within the area of operations of the MDBC, which is passed on to NSW Treasury to help meet the NSW Government's obligations under the Murray-Darling Basin Agreement to directly fund approximately 40% of the operating costs and states' share of capital costs of the MDBC.

(iii) Operating lease expenses represents minimum lease payments only.

	2007 \$'000	2006 \$'000
(iv) Employee-related expenses		
Post employment expenses, excluding superannuation actuarial gains*	1,716	1,749
Other employee-related expenses	25,287	22,663
	<u>27,003</u>	<u>24,412</u>
Less amount capitalised	3,748	3,052
Total employee related expenses, excluding superannuation actuarial gains, included in income statement	<u>23,255</u>	<u>21,360</u>

* Refer Note 3 (d) Post employment expenses

(v) Operational services expenses

Hydrometric services expenses	4,155	4,005
Consultants and contractors	6,154	5,688
Other	3,510	3,320
	<u>13,819</u>	<u>13,013</u>
Less amount capitalised	3,065	1,727
Total operational services expenses included in income statement	<u>10,754</u>	<u>11,286</u>

Operational services include a number of professional services provided to State Water for water quality monitoring, engineering services and support services.

	2007 \$'000	2006 \$'000
(d) Post employment expenses		
<i>Defined benefit plans</i>		
Total expense advised by Pillar Administration (i)	(4,687)	(3,847)
Other movements	73	(521)
	(4,614)	(4,368)
Less amount capitalised	109	88
Total defined benefit plan expenses	(4,723)	(4,456)
<i>Defined contribution plans</i>		
Total expense	1,324	1,393
Less amount capitalised	194	158
Total defined contribution plan expenses	1,130	1,235
Total post employment expense (gain)	(3,593)	(3,221)
Comprising:		
Post employment expenses, excluding superannuation actuarial gains	1,716	1,749
Superannuation actuarial (gains)	(5,006)	(4,724)
	(3,290)	(2,975)
Less amount capitalised	303	246
	(3,593)	(3,221)
(i) For further detail refer to Note 9 Other Assets (ii)		
(e) Finance costs		
Total interest expense	2,270	3,970
Government guarantee fee expense	262	379
Finance costs recognised in the income statement	2,532	4,349

4 Income Taxes

	2007 \$'000	2006 \$'000
(a) Income tax expense recognised in the income statement		
Current tax expense	1,922	1,624
	1,922	1,624
Deferred tax expense		
Origination and reversal of temporary differences	(303)	-
	(303)	-
Total income tax expense in income statement attributable to continuing operations	1,619	1,624
(b) Reconciliation between income tax expense and pre-tax net profit		
Profit before tax from continuing operations, excluding superannuation actuarial gains	9,829	8,239
Income tax expense calculated using the domestic corporation tax rate of 30% (2006: 30%)	2,949	2,472
Increase in tax expense due to:		
Non-deductable expenses	2	30
Timing differences	156	-
Decrease in tax expense due to:		
Deduction for water facility expenditure over 3 years	(1,185)	(867)
Deferred tax liability adjustment	(303)	-
Timing differences	-	(11)
Income tax expense on pre-tax profit excluding superannuation actuarial gains	1,619	1,624
Superannuation actuarial gains	5,006	4,724
Income tax expense calculated using the domestic corporation tax rate of 30% (2006: 30%)	1,502	1,417
Decrease in tax expense due to:		
Timing differences	(1,502)	(1,417)
Income tax expense on superannuation actuarial gains	-	-

(c) Deferred tax balances

	Opening balance	Charged to income	Charged to equity	Closing balance
2007	\$'000	\$'000	\$'000	\$'000
Temporary differences				
Property, plant & equipment	-	(2,484)	(12,000)	(14,484)
Other creditors	-	122		122
Employee benefits	-	2,546		2,546
Provisions	-	58		58
Doubtful debts	-	61		61
	-	303	(12,000)	(11,697)

Presented in the balance sheet as follows:

Non-current

Deferred tax (liability)	(11,697)
Deferred tax asset	-
	<u>(11,697)</u>

2006

State Water had deferred tax assets of \$2.837 million in 2006 which was not recognised. State Water did not expect to generate sufficient taxable profits in the foreseeable future to warrant recognising deferred tax assets. (Refer Note 1.6) This expectation was based on State Water's capacity to access the concessional treatment of capital expenditure relating to eligible water facilities under the tax capital allowance rules set out in Subdivision 40-F of the *Income Tax Assessment Act 1997*. These rules enable State Water to deduct its eligible capital expenditure on water facilities incurred on or after 1 July 2004 in equal instalments over three years.

	2007 \$'000	2006 \$'000
(d) Current tax liabilities		
Income tax payable	5,854	4,438
	<u>5,854</u>	<u>4,438</u>

5 Cash and Cash Equivalents

	2007 \$'000	2006 \$'000
Cash on hand	15	15
Bank operating accounts	2,883	2,418
Short-term investments maturing three months or less:		
Interest-bearing deposits	13,604	29,579
Cash and cash equivalents in Balance Sheet and in Cash Flow Statement	16,502	32,012

Deposits at call are bearing interest rates between 5.83% and 6.87% (2006: 5.57% and 5.84%)

6 Trade and Other Receivables

Current

Trade receivables - water

Outstanding water charges billed (i)	2,465	2,020
Accrued water charges (ii)	21,571	25,718
	24,036	27,738
Less: Allowance for doubtful debts	170	275
	23,866	27,463

Trade receivables - other

Outstanding other service charges billed	1,019	2,398
Accrued other service charges	2,846	2,582
	3,865	4,980
Less: Allowance for doubtful debts	33	35
	3,832	4,945

Other receivables

Goods and service tax refundable	208	201
Other receivables	30	-
	27,936	32,609

- (i) Under the conditions specified in the *Water Act 1912* and with authority from the *Water Management Act 2000*, interest is charged on trade receivable balances for delivery of water that are outstanding for more than 30 days. The interest rate charged is the rate prescribed under the *Civil Procedure Act 2005* with respect to the payment of interest on a judgement debt, and continues to apply until the outstanding trade receivable balance plus interest is fully paid.

Interest is not charged on trade receivable balances that do not relate to the delivery of water.

- (ii) Accrued water charges represent State Water estimates of entitlement and water delivery charges to State Water customers for the year ended 30 June 2007 that remained unbilled at that date. State Water bills customers in one of four geographical areas quarterly in arrears while the other three areas are billed annually in arrears. State Water estimates are based on known entitlement charges and periodic measurements of water deliveries adjusted for additional usage to balance date. Billing of customers based on measured deliveries is completed after year end.

7 Property, Plant and Equipment

	Land at fair value	Buildings at fair value	Water infrastructure at recoverable amount	Plant and equipment at fair value
Balance at 30 June 2007	\$'000	\$'000	\$'000	\$'000
Gross carrying amount				
Balance at 1 July 2006	14,038	2,898	2,943,000	3,888
Additions	-	-	77	528
Re-classifications	-	-	3,135	345
Revaluation recognised in asset revaluation reserve	-	-	261,788	-
Disposals	-	-	-	(147)
	14,038	2,898	3,208,000	4,614
Accumulated depreciation				
Balance at 1 July 2006	-	151	649,000	713
Disposals	-	-	-	(43)
Depreciation recognised in asset revaluation reserve	-	-	98,414	-
Depreciation expense	-	76	3,586	469
	-	227	751,000	1,139
Accumulated impairment				
Balance at 1 July 2006	-	-	1,985,643	-
Impairments recognised in asset revaluation reserve	-	-	123,374	-
	-	-	2,109,017	-
Net carrying amount	14,038	2,671	347,983	3,475
Cost or estimated cost	14,038	2,898	-	4,614
Replacement cost 2007	-	-	3,208,000	-
	14,038	2,898	3,208,000	4,614
Accumulated depreciation	-	227	751,000	1,139
Depreciated cost	14,038	2,671	-	3,475
Depreciated replacement cost	-	-	2,457,000	-
	14,038	2,671	2,457,000	3,475
Accumulated impairment	-	-	2,109,017	-
Net carrying amount	14,038	2,671	347,983	3,475

Computers and systems at fair value	Furniture and fitouts at fair value	Instruments at fair value	Marine craft at fair value	Motor vehicles at fair value	Work in progress - at fair value	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
308	1,839	617	184	5,917	9,279	2,981,968
-	363	-	-	2,875	11,234	15,077
58	-	-	-	213	(4,278)	(527)
-	-	-	-	-	-	261,788
-	-	-	(26)	(991)	-	(1,164)
366	2,202	617	158	8,014	16,235	3,257,142
63	319	105	51	656	-	651,058
-	-	-	(15)	(243)	-	(301)
-	-	-	-	-	-	98,414
83	466	58	30	895	-	5,663
146	785	163	66	1,308	-	754,834
-	-	-	-	-	-	1,985,643
-	-	-	-	-	-	123,374
-	-	-	-	-	-	2,109,017
220	1,417	454	92	6,706	16,235	393,291
366	2,202	617	158	8,014	16,235	49,142
-	-	-	-	-	-	3,208,000
366	2,202	617	158	8,014	16,235	3,257,142
146	785	163	66	1,308	-	754,834
220	1,417	454	92	6,706	16,235	45,308
-	-	-	-	-	-	2,457,000
220	1,417	454	92	6,706	16,235	2,502,308
-	-	-	-	-	-	2,109,017
220	1,417	454	92	6,706	16,235	393,291

7 Property, Plant and Equipment continued

	Land at fair value	Buildings at fair value	Water infrastructure at recoverable amount	Plant and equipment at fair value
Balance at 30 June 2006	\$'000	\$'000	\$'000	\$'000
Gross carrying amount				
Balance at 1 July 2005	14,038	2,109	313,810	3,592
Additions	-	789	526	296
Revaluation recognised in asset revaluation reserve	-	-	2,628,664	-
Disposals	-	-	-	-
	14,038	2,898	2,943,000	3,888
Accumulated depreciation				
Balance at 1 July 2005	-	34	2,108	235
Disposals	-	7	233	1
Depreciation recognised in asset revaluation reserve	-	-	643,021	-
Depreciation expense	-	110	3,638	477
	-	151	649,000	713
Accumulated impairment				
Balance at 1 July 2005	-	-	-	-
Impairments recognised in asset revaluation reserve	-	-	1,985,643	-
	-	-	1,985,643	-
Net carrying amount	14,038	2,747	308,357	3,175
 Cost or estimated cost	 14,038	 2,898	 -	 3,888
Replacement cost 2006	-	-	2,943,000	-
	14,038	2,898	2,943,000	3,888
Accumulated depreciation	-	151	649,000	713
	14,038	2,747	-	3,175
Depreciated cost	-	-	2,294,000	-
	14,038	2,747	2,294,000	3,175
Accumulated impairment	-	-	1,985,643	-
Net carrying amount	14,038	2,747	308,357	3,175

Computers and systems at fair value	Furniture and fitouts at fair value	Instruments at fair value	Marine craft at fair value	Motor vehicles at fair value	Work in progress - at fair value	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
260	1,304	88	114	1,446	4,074	339,835
48	1,535	529	70	4,471	5,205	13,469
-	-	-	-	-	-	2,628,664
-	-	-	-	-	-	-
308	1,839	617	184	5,917	9,279	2,981,968
-	3	11	18	(17)	-	2,392
-	-	23	-	7	-	271
-	-	-	-	-	-	643,021
63	316	71	33	666	-	5,374
63	319	105	51	656	-	651,058
-	-	-	-	-	-	-
-	-	-	-	-	-	1,985,643
-	-	-	-	-	-	1,985,643
245	1,520	512	133	5,261	9,279	345,267
308	1,839	617	184	5,917	9,279	38,968
-	-	-	-	-	-	2,943,000
308	1,839	617	184	5,917	9,279	2,981,968
63	319	105	51	656	-	651,058
245	1,520	512	133	5,261	9,279	36,910
-	-	-	-	-	-	2,294,000
245	1,520	512	133	5,261	9,279	2,330,910
-	-	-	-	-	-	1,985,643
245	1,520	512	133	5,261	9,279	345,267

7.1 Except for State Water system assets (water infrastructure), assets transferred upon State Water's formation are carried at the assessed fair value based on their reasonable recoverable amount at that time, as agreed to by NSW Treasury, DEUS and The Cabinet Office, less accumulated depreciation since the date of transfer. Subsequent additions have been at cost, less any subsequent accumulated depreciation, which closely approximates their fair market value less costs to sell.

An independent valuation undertaken by Department of Commerce of all State Water's system assets at MEERA values was performed as at 30 June 2006, using as its base a previous valuation exercise performed in 2001. This valuation was subsequently converted to Optimised Depreciated Replacement Cost (ODRC) by State Water. These figures now appear in the 2006 comparatives.

During 2007 four major dams were valued at ODRC. The difference between the 2006 and 2007 valuations of the four dams chosen was extended to all State Water system assets as at 30 June 2007.

In assessing impairment of these assets they were assessed against their recoverable value.

Due to the nature of bulk water industry assets, their recoverable amount is determined by the stream of income that can be derived from the use of the assets working together as a cash-generating integrated network, rather than the realisable values of the assets themselves. Accordingly, the cash-generating unit test referred to in the accounting policies calculates the recoverable amount using relevant estimated net cash flows discounted to their present value. In this regard, future cash flows for revenue and expenses are estimated over the average useful life of the assets, and are then discounted to their present value using a discount rate equivalent to State Water's weighted average cost of capital (WACC) calculated on a nominal pre-tax basis.

The net revaluation of State Water system assets at ODRC and subsequent impairment to recoverable amount is an increase in the carrying value of these assets of \$40 million (2006: \$nil).

A timetable for valuations of physical non-current assets at fair value in line with NSW Treasury Policy and Guidelines Paper TPP 07-01 has been agreed. During 2007 four major dams and foreshore land surrounding these dams were valued. The valuations of the dams at ODRC as at 30 June 2007 were carried out by Department of Commerce. The valuations of foreshore land as at 30 June 2007 were carried out by Corporeal Property Valuers.

Key assumptions used for value-in-use calculation

The key assumptions on which State Water has based its cash flow projections to undertake impairment testing of non-current assets are:

- Discount rate - the pre-tax WACCs used to discount future cash flows was 10.42% pa (2006: 9.88% pa).
- Future cash flows - these have been estimated for the next 85 years (2006: 50 years)
- Inflation - this has been assumed to equal 3% pa (2006: 3% pa) over the forecast period.
- Future cash flows have been estimated for the State Water's specialised assets in their current condition and consequently new capital expenditure and enhancements have been excluded from cash outflows. Cash outflows for operating expenditure and any capital expenditure that involves renewal or refurbishment of existing components that are regarded as necessary for the day-to-day servicing of the assets form part of the projections.
- Estimates of future revenues are based on prices determined in September 2006 by IPART, which are applicable up to 30 June 2010, and expected water usage consistent with the 2007-08 SCI (2006: 2006-07 SCI). Real revenue growth rate is then expected to be 3.0% pa for 8 years (2006: 1.5% for 8 years) and not increase in real terms thereafter.
- Cash outflows - these are expected to be in line with State Water's SCI over the next four years and to increase in line with inflation thereafter. The SCI sets State Water's targets in conjunction with its Shareholding Ministers.

7.2 The effective life of motor vehicles has been changed from five years to a range from five years to 15 years.

The effect of this change in 2007 and in future years relative to the values that would have appeared as depreciation expense and accumulated depreciation had the rate not changed is shown below.

These figures have been calculated on existing motor vehicles only; they do not consider new motor vehicles that may be purchased in the future. The figures also assume that the assets are retained until their effective life has expired. Should an asset be disposed of at a date earlier than the end of their effective life then the effect on depreciation expense appearing below will be brought forward to the date of disposal and appear as a profit or loss on disposal of property, plant and equipment.

Year	Effect on depreciation expense	Effect on accumulated depreciation
	Increase (decrease)	Increase (decrease)
	\$'000	\$'000
2007	(501)	(501)
2008	(512)	(512)
2009	(512)	(512)
2010	(447)	(447)
2011	(149)	(149)
2012	544	544
2013	666	666
2014	399	399
2015	190	190
2016	57	57
2017	56	56
2018	54	54
2019	54	54
2020	54	54
2021	14	14
2022	11	11

8 Intangible Assets

	2007 \$'000	2006 \$'000
Computer software - acquired from external parties (i)		
Gross carrying amount		
Balance at start of period	2,088	-
Additions	-	2,088
Balance at end of period	2,088	2,088
Accumulated amortisation		
Balance at start of period	696	-
Amortisation (ii)	348	696
Balance at end of period	1,044	696
Net carrying value	1,044	1,392

- (i) Computer application software that is not an integral part of any related hardware is classified as an intangible asset. Software that is an integral part of related hardware is incorporated within the class computer equipment under property, plant and equipment.

Computer application software is assessed as having a finite life. Accordingly, it is amortised over the expected useful life for the particular software. (Refer Note 1.5)

In 2006 the expected useful life of the computer application software was assessed as three years based on its inherent complexity and difficulty of use. In 2007 the expected useful life was re-assessed to be five years, based on a re-evaluation of the underlying capability of the software.

The effect of this change in 2007 and in future years relative to the values that would have appeared as amortisation expense and accumulated amortisation had the rate not changed is shown below:

	Effect on amortisation expense	Effect on accumulated amortisation
	Increase (decrease)	Increase (decrease)
Year	\$'000	\$'000
2007	(348)	(348)
2008	(348)	(348)
2009	348	348
2010	348	348

- (ii) Amortisation expense is included in the income statement.

9 Other Assets

	2007 \$'000	2006 \$'000
Current		
Prepayments	147	91
Other	10	56
Total current other assets	157	147
Non-current		
Prepaid defined benefit superannuation scheme contribution (i) (ii)	4,804	1,721
Total non-current other assets	4,804	1,721

(i) 2007: refers SSS, SASS and SANCS.

2006: refers to SASS and SANCS only; for SSS refer Note 13 PROVISIONS.

(ii) Post-employment benefits from superannuation plans

All employees are entitled to benefits on retirement, disability or death from superannuation plans administered on behalf of State Water Corporation by Pillar Administration. State Water contributes to defined contribution superannuation plans and to defined benefit superannuation plans.

Defined contribution superannuation plans

Contributions are made in accordance with the Superannuation Guarantee Contribution legislation and employee agreements, and are based on a specific portion of employee's ordinary time earnings. Contributions are expensed at the time of payment and are included in Employee benefits in the Income Statement. There is no asset or liability recognised in the Balance Sheet in relation to the defined contribution superannuation plans.

Defined benefit superannuation plans

State Water contributes to three defined benefit superannuation plans in the NSW public sector Pooled Fund, which holds in trust the investments of these plans.

The plans are:

- State Superannuation Scheme (SSS)
- State Authorities Superannuation Scheme (SASS)
- State Authorities Non-Contributory Superannuation Scheme (SANCS)

Employer contributions are based on various multiples of employee contributions and percentages of employee superable salaries, in accordance with the advice of the plans' actuaries. Funding recommendations are made by the actuaries based on their forecast of various matters, including future asset performance, interest rates, and salary increases. The plans provide defined benefits to qualifying employees, derived in part from a multiple of member salary and years of membership.

All the schemes are closed to new members.

An assessment of the defined benefit plans is made each year by Pillar Administration, the funds' administrator. If a surplus exists in State Water's interest in a fund, State Water may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the fund's actuary. Where a deficiency exists, State Water is responsible for any difference between its share of fund assets and the defined benefit obligation. Actuarial gains and losses are recognised in profit or loss in the year they occur.

The assessment of the funds under existing accounting standards at 30 June 2007 showed the total of all funds to be \$4.805 million in surplus (2006: \$1.410 million net deficit). This asset, after assessment under the asset ceiling test, is disclosed in the Balance Sheet.

Payments made to Pillar Administration towards superannuation liabilities are held in Investment Reserve Accounts. All fund assets are invested by Superannuation Trustee Corporation at arm's length through independent fund managers.

Fund assets

The percentages invested in each asset class at the balance sheet date are:

	30 June 2007	30 June 2006
Australian equities	33.6%	37.4%
Overseas equities	26.5%	27.9%
Australian fixed interest securities	6.8%	9.9%
Overseas fixed interest securities	6.4%	6.8%
Property	10.1%	8.6%
Cash	9.8%	5.0%
Other	6.8%	4.4%

Reconciliation of the present value of the defined benefit obligation

	SASS	SANCS	SSS	Total
For the financial year to 30 June 2007	\$'000	\$'000	\$'000	\$'000
<i>Present value of partly funded defined benefit obligations at start of year</i>	14,200	3,303	31,804	49,307
Current service cost	484	191	418	1,093
Interest cost	825	187	1,878	2,890
Contributions by fund participants	269	-	528	797
Actuarial (gains)/losses	349	8	(1,662)	(1,305)
Benefits paid	(1,022)	(393)	329	(1,086)
Past service cost	-	-	-	-
Curtailments	-	-	-	-
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
<i>Present value of partly funded defined benefit obligations at end of year</i>	15,105	3,296	33,295	51,696

	SASS	SANCS	SSS	Total
For the financial year to 30 June 2006	\$'000	\$'000	\$'000	\$'000
<i>Present value of partly funded defined benefit obligations at start of year</i>	12,057	2,998	30,240	45,295
Current service cost	450	174	542	1,166
Interest cost	719	150	1,757	2,626
Contributions by fund participants	222	-	447	669
Actuarial (gains)/losses	669	44	(419)	294
Benefits paid	83	(63)	(763)	(743)
Past service cost	-	-	-	-
Curtailments	-	-	-	-
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
<i>Present value of partly funded defined benefit obligations at end of year</i>	14,200	3,303	31,804	49,307

Reconciliation of the fair value of fund assets

	SASS	SANCS	SSS	Total
For the financial year to 30 June 2007	\$'000	\$'000	\$'000	\$'000
<i>Fair value of fund assets at start of year</i>	15,435	3,789	28,673	47,897
Expected return on fund assets	1,174	284	2,206	3,664
Actuarial (gains)/losses	900	253	2,548	3,701
Employer contributions	472	185	871	1,528
Contributions by fund participants	269	-	528	797
Benefits paid	(1,022)	(393)	329	(1,086)
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
<i>Fair value of fund assets at end of year</i>	17,228	4,118	35,155	56,501

	SASS	SANCS	SSS	Total
For the financial year to 30 June 2006	\$'000	\$'000	\$'000	\$'000
<i>Fair value of fund assets at start of year</i>	11,817	3,347	22,943	38,107
Expected return on fund assets	901	252	1,761	2,914
Actuarial (gains)/losses	1,627	287	3,105	5,019
Employer contributions	785	(34)	1,180	1,931
Contributions by fund participants	222	-	447	669
Benefits paid	83	(63)	(763)	(743)
Settlements	-	-	-	-
Business combinations	-	-	-	-
Exchange rate changes	-	-	-	-
<i>Fair value of fund assets at end of year</i>	15,435	3,789	28,673	47,897

Reconciliation of the assets and liabilities recognised in the balance sheet

	SASS	SANCS	SSS	Total
At 30 June 2007	\$'000	\$'000	\$'000	\$'000
Present value of partly funded defined benefit obligations at end of year	15,105	3,296	33,295	51,696
Fair value of fund assets at end of year	(17,228)	(4,118)	(35,155)	(56,501)
	(2,123)	(822)	(1,860)	(4,805)
Unrecognised past service cost	-	-	-	-
Unrecognised gain/(loss)	-	-	-	-
Adjustment for limitation on net asset	-	-	-	-
Net liability/(asset) recognised in balance sheet at end of year	(2,123)	(822)	(1,860)	(4,805)

	SASS	SANCS	SSS	Total
At 30 June 2006	\$'000	\$'000	\$'000	\$'000
Present value of partly funded defined benefit obligations at end of year	14,200	3,303	31,804	49,307
Fair value of fund assets at end of year	(15,435)	(3,789)	(28,673)	(47,897)
	(1,235)	(486)	3,131	1,410
Unrecognised past service cost	-	-	-	-
Unrecognised gain/(loss)	-	-	-	-
Adjustment for limitation on net asset	-	-	-	-
Net liability/(asset) recognised in balance sheet at end of year	(1,235)	(486)	3,131	1,410

Total expense recognised in income statement:

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
For the financial year to 30 June 2007				
Current service cost	484	191	418	1,093
Interest on obligation	825	187	1,878	2,890
Expected return on fund assets (net of expenses)	(1,174)	(284)	(2,206)	(3,664)
Net actuarial losses (gains) recognised in year	(551)	(245)	(4,210)	(5,006)
Past service costs	-	-	-	-
Movement in adjustment for limitation on net asset	-	-	-	-
Curtailment or settlement loss (gain)	-	-	-	-
Total included in Note 3 INCOME AND EXPENSES (d) post employment expenses	(416)	(151)	(4,120)	(4,687)

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
For the financial year to 30 June 2006				
Current service cost	450	174	542	1,166
Interest on obligation	719	150	1,757	2,626
Expected return on fund assets (net of expenses)	(901)	(252)	(1,761)	(2,914)
Net actuarial losses (gains) recognised in year	(958)	(243)	(3,524)	(4,725)
Past service costs	-	-	-	-
Movement in adjustment for limitation on net asset	-	-	-	-
Curtailment or settlement loss (gain)	-	-	-	-
Total included in Note 3 INCOME AND EXPENSES (d) post employment expenses	(690)	(171)	(2,986)	(3,847)

Expected rate of return on assets

The expected return on assets assumption is determined by weighing the expected long term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

Actual return on plan assets

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
2007	2,251	537	4,299	7,087
2006	1,932	539	3,647	6,118

Valuation Method

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service cost. The method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Economic Assumptions

	2007	2006
Discount Rate	6.4% pa	5.9% pa
Expected rate of return on assets backing current pension liabilities	7.6%	7.6%
Expected rate of return on assets backing other liabilities	7.6%	7.6%
Salary increase rate (excluding promotional increases)	4.0% pa to 2008; 3.5% pa thereafter	4.0% pa to 2008; 3.5% pa thereafter
Rate of CPI increase	2.5% pa	2.5% pa

Demographic assumptions

The demographic assumptions at 30 June 2007 are those being used for the (current) 2006 triennial actuarial valuation. A selection of the most financially significant assumptions is shown below:

- (i) **SASS contributors** - the number of SASS contributors expected in any one year (out of 10,000 members), at the ages shown, to leave the fund as a result of death, disability, resignation, retirement and redundancy. Promotional salary increase rates are also shown.

2007

Age nearest birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:								Additional promotional salary increase rate
	Death	Total & permanent disability	Retirement		Resignation		Redundancy		
			Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	
									%
Males									
30	4	8	0	0	280	395	150	0	2.90
40	6	10	0	0	150	285	150	0	1.80
50	11	30	0	0	112	172	150	0	0.00
60	30	0	1400	950	0	0	150	0	0.00
Females									
30	2	2	0	0	372	700	150	0	2.90
40	3	6	0	0	175	320	150	0	1.80
50	7	28	0	0	144	270	150	0	0.00
60	18	0	1500	1500	0	0	150	0	0.00

2006

Age nearest birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:								Additional promotional salary increase rate
	Death	Total & permanent disability	Retirement		Resignation		Redundancy		
			Part 1	Part 3	Part 1	Part 3	Part 1	Part 3	%
Males									
30	4	8	0	0	280	395	150	0	2.90
40	6	10	0	0	150	285	150	0	1.80
50	11	30	0	0	112	172	150	0	0.00
60	30	0	1400	950	0	0	150	0	0.00
Females									
30	2	2	0	0	372	700	150	0	2.90
40	3	6	0	0	175	320	150	0	1.80
50	7	28	0	0	144	270	150	0	0.00
60	18	0	1500	1500	0	0	150	0	0.00

- (ii) **SSS contributors** - the number of SSS contributors expected in any one year (out of 10,000 members), at the ages shown, to leave the fund as a result of death, disability, resignation, retirement and preservation. Promotional salary increase rates are also shown.

2007

Age nearest birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:					Additional promotional salary increase rate
	Death	Ill-health retirement	Retirement (R60 for females)	Cash resignation (R60 for females)	Redundancy (R60 for females)	%
Males						
30	4	42	0	178	95	2.90
40	6	54	0	80	140	1.80
50	11	144	0	20	50	0.00
60	30	0	6500	0	0	0.00
Females						
30	2	6	0	204	124	2.90
40	3	21	0	72	105	1.80
50	7	103	0	30	90	0.00
60	18	0	6300	0	0	0.00

2006

Age nearest birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:					Additional promotional salary increase rate %
	Death	Ill-health retirement	Retirement (R60 for females)	water	Redundancy (R60 for females)	
Males						
30	4	42	0	178	95	2.90
40	6	54	0	80	140	1.80
50	11	144	0	20	50	0.00
60	30	0	6500	0	0	0.00
Females						
30	2	6	0	204	124	2.90
40	3	21	0	72	105	1.80
50	7	103	0	30	90	0.00
60	18	0	6300	0	0	0.00

(iii) **SSS commutation** - the proportion of SSS members assumed to commute their pension to a lump sum in any one year.

2007

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	.15	.20
	Widow	Widower
55	.2500	.2500
65	.5380	.5800
75	.4825	.5160
85	.3928	.3728

2006

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	.15	.20
	Widow	Widower
55	.2500	.2500
65	.5380	.5800
75	.4825	.5160
85	.3928	.3728

(iv) **SSS pensioner mortality** - assumed mortality rates (in 2006-07) for SSS pensioners (separately for normal retirement/spouses and invalidity).

2007

Age	Retirement pensioners and spouses and widows		Invalidity pensioners	
	Males	Females	Males	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.1134	0.1268

2006

Age	Retirement pensioners and spouses and widows		Invalidity pensioners	
	Males	Females	Males	Females
55	0.0025	0.0014	0.0081	0.0066
65	0.0070	0.0055	0.0112	0.0125
75	0.0194	0.0157	0.0505	0.0314
85	0.0945	0.0634	0.1134	0.1268

(v) **SSS pensioner mortality improvements** - per annum assumed rates of mortality improvement for SSS pensioners.

2007

Age	Improvement rates (for years post 2006)	
	Males	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

2006

Age	Improvement rates (for years post 2006)	
	Males	Females
55	0.0152	0.0113
65	0.0101	0.0065
75	0.0087	0.0068
85	0.0052	0.0080

Historical information

	SASS	SANCS	SSS	Total
For the financial year to 30 June 2007	\$'000	\$'000	\$'000	\$'000
Present value of defined benefit obligation	15,105	3,296	33,295	51,696
Fair value of Fund assets	(17,228)	(4,118)	(35,155)	(56,501)
(Surplus)/Deficit in Fund	(2,123)	(822)	(1,860)	(4,805)
Experience adjustments - Fund liabilities	349	8	(1,662)	(1,305)
Experience adjustments - Fund assets	(900)	(253)	(2,548)	(3,701)

	SASS	SANCS	SSS	Total
For the financial year to 30 June 2006	\$'000	\$'000	\$'000	\$'000
Present value of defined benefit obligation	14,200	3,303	31,804	49,307
Fair value of Fund assets	(15,435)	(3,789)	(28,673)	(47,897)
(Surplus)/Deficit in Fund	(1,235)	(486)	3,131	1,410
Experience adjustments - Fund liabilities	669	44	(419)	294
Experience adjustments - Fund assets	(1,627)	(287)	(3,105)	(5,019)

Expected employer contributions

	SASS	SANCS	SSS	Total
	\$'000	\$'000	\$'000	\$'000
2007	471	177	676	1,324
2006	421	183	715	1,319

Funding arrangements for employer contributions

The following is a summary of the financial position of the Funds calculated in accordance with AAS 25 - *Financial Reporting by Superannuation Plans*

(a) Surplus / deficit

At 30 June 2007

Accrued benefits
Net market value of Fund assets
Net (surplus)/deficit

SASS	SANCS	SSS
\$'000	\$'000	\$'000
14,895	3,264	30,317
(17,228)	(4,117)	(35,155)
(2,333)	(853)	(4,838)

At 30 June 2006

Accrued benefits
Net market value of Fund assets
Net (surplus)/deficit

SASS	SANCS	SSS
\$'000	\$'000	\$'000
13,600	3,141	26,851
(15,434)	(3,789)	(28,672)
(1,834)	(648)	(1,821)

(b) Contribution recommendations

Recommended contribution rates for the entity are:

	SASS	SANCS	SSS
	multiple of member contributions	% member salary	multiple of member contributions
2007	1.90	2.50	1.60
2006	1.90	2.50	1.60

(c) Funding method

The method used to determine the employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method for 2006 and 2005. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

(d) Economic assumptions

The economic assumptions adopted for the last actuarial review of the Fund were:

Weighted-Average Assumptions	2007	2006
Expected rate of return on Fund assets backing current pension liabilities	7.7% pa	7.7% pa
Expected rate of return on Fund assets backing other liabilities	7.0% pa	7.0% pa
Expected salary increase rate	4.0% pa	4.0% pa
Expected rate of CPI increase	2.5% pa	2.5% pa

10 Trade and Other Payables

	2007 \$'000	2006 \$'000
Current		
Trade payables	1,165	1,516
Non-trade payables and accrued expenses:		
NSW Treasury (i)	11,663	7,339
Other parties	9,863	12,162
Total trade and other payables	22,691	21,017

(i) Value of contribution from revenue payable to NSW Treasury to help meet the NSW Government's obligations under the Murray-Darling Basin Agreement to directly fund approximately 40% of the operations and maintenance costs of the MDBC.

11 Borrowings

Non-current

NSW Treasury Corporation	39,197	61,680
	39,197	61,680

State Water has a matured long term loan of \$5 million that it has converted to a short-term loan with a period of one month with current market rate of interest charged monthly in arrears. The loan is refinanced on similar terms at each maturity.

The balance of State Water's borrowings are long term loans that are negotiated at a fixed rate of interest payable half-yearly in arrears, and with maturities no greater than 8 years. \$7.077 million of these loans will mature within 12 months and are expected to be refinanced at maturity.

Financing facilities:

State Water does not have a bank overdraft facility. State Water has an operating account with its corporate banker and regulates its balance through movements into and out of the deposits placed with the NSW Treasury Hour-Glass Cash facility.

State Water has a 'come and go' facility of \$7 million (2006: \$7 million) with NSW Treasury Corporation, which is available for use as and when required as part of State Water's daily cash management functions. This facility was not utilised at the reporting date (2006: not utilised).

State Water has Treasurer's approval for a credit card facility with its corporate banker of up to \$0.500 million (2006: \$0.500 million).

In respect of longer term borrowing facilities, State Water cannot borrow in its own name. Instead, both new loans and the refinancing of maturing existing loans need to be arranged through the NSW Treasury Corporation, which raises borrowings on State Water's behalf. State Water has no other financing facilities in place.

State Water Corporation has an approval from the Governor of the State of NSW to obtain financial accommodation in accordance with the *Public Authorities (Financial Arrangements) Act 1987*. However, the Treasurer's approval under Section 8 of that Act for the specific terms of its borrowings for the year ended 30 June 2007 was not renewed until 26 June 2007. State Water was therefore in breach of Section 8(2) of the *Public Authorities (Financial Arrangements) Act 1987* from 1 July 2006 until 25 June 2007 as it continued to have borrowings during that period. The Treasurer's approval of 26 June 2007 is for State Water Corporation to hold borrowing facilities with a limit of \$80 million until 30 June 2010.

12 Dividend Payable

	2007 \$'000	2006 \$'000
Current		
Dividend payable	11,884	7,937
	<u>11,884</u>	<u>7,937</u>

An initial payment of \$1.800 million of the dividend payable for 2006 was made by State Water on 28 September 2006. The balance of the dividend payable for 2006 remains payable.

13 Provisions

(a) Carrying Amounts

Current

Short-term provisions:

Employee benefits	3,091	2,688
Employee benefits on costs	631	427
Fringe benefits tax	79	31
	<u>3,801</u>	<u>3,146</u>

Current portion of long term provisions:

Employee benefits	7,685	6,655
Employee benefits on costs	1,691	1,416
	<u>9,376</u>	<u>8,071</u>

Total current provisions	<u>13,177</u>	<u>11,217</u>
--------------------------	---------------	---------------

Non-Current

Long term provisions:

Employee benefits	157	603
Employee benefits on costs	35	128
Restoration of leased premises	150	108
Defined benefit superannuation scheme deficit (i)	-	3,133
Total non-current provisions	<u>342</u>	<u>3,972</u>

(i) 2006: refers SSS only. For SASS and SANCS refer Note 9 OTHER ASSETS.

For an explanation of this deficit refer to Note 9 OTHER ASSETS (ii).

2007
\$'000

2006
\$'000

(b) Reconciliation of movements in carrying amounts

Employee benefits are excluded from the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* which require a reconciliation of movements in the carrying amounts of provisions.

Fringe Benefits Tax

Current

Carrying amounts at start of period	31	13
Payments made from provision	(307)	(153)
Provisions made during the period	355	171
Carrying amounts at end of period	79	31

This provision is used to recognise State Water's obligation in respect of fringe benefits tax for providing employees with fringe benefits that are covered by *The Fringe Benefits Tax Assessment Act 1986*. Estimates of fringe benefits are calculated based on the conditions of current legislation and the nature and frequency of fringe benefits provided to employees. Since the obligation is due to be settled less than 12 months after balance date, the provision is stated at the best estimate available and is not discounted.

Restoration of leased premises

Non-current

Carrying amounts at start of period	108	-
Provisions made during the period	42	108
Carrying amounts at end of period	150	108

This provision is used to recognise State Water's obligation in respect of restoration costs for leased premises, whereby State Water must restore the relevant premises back to their original state at the end of the lease term.

14 Other Liabilities

Current

Unearned received in advance (i)	310	29
Lease inducement release (ii)	64	-
	374	29

Non-current

Lease inducement release (ii)	191	-
	191	-

(i) Income received in advance refers to amounts received for leases charged annually by State Water but whose period partly covers beyond the reporting date.

(ii) The inducements received in respect of the operating lease for State Water's Parramatta offices are recognised initially as a liability and then released to reduce rental expense on a straight-line basis over the term of the lease. These inducements were not recognised in the financial statements for the year ended 30 June 2006.

15 Share Capital

Two (2006: two) fully paid \$1.00 ordinary shares

Authorised capital is two \$1.00 ordinary shares.

State Water's two shareholders are:

- a. the Treasurer, Minister for Infrastructure, and Minister for the Hunter, and
- b. the Deputy Premier, Minister for Transport, and Minister for Finance.

Each shareholder holds one share non-beneficially on behalf of the NSW Government. The shares entitle the NSW Government to a dividend from State Water, the amount of which is determined as part of the annual process of negotiating and agreeing State Water's SCI with the shareholders.

There were no movements in share capital during the period.

16 Contributions by Owners

	2007 \$'000	2006 \$'000
Net asset value transferred from DEUS to State Water effective 1 July 2004, as agreed to by NSW Treasury after converting \$60 million into a loan	249,073	249,073
Net asset value transferred from the Fish River Water Authority to State Water effective 1 January 2005, as agreed to by NSW Treasury	51,437	51,437
Balance at end of period	300,510	300,510

17 Dividends

2007
\$'000

2006
\$'000

The dividend is calculated in accordance with the SCI and TPP02-03 *Financial Distribution Policy for Government Businesses*.

The dividend payable is calculated based on profit before certain non-cash items:

Profit for the year		11,339
Profit before actuarial superannuation gains/losses	8,210	
Dividend payable at 70% (2006: 70%*)	5,747	7,937

Dividend on ordinary shares recognised as a liability at \$2,873,500 per share (2006: \$3,968,650 per share) in dividends payable (refer Note 12).

Under the National Tax Equivalent Regime, State Water is not required to maintain a dividend franking account.

* The revised NSW Treasury-mandated application of the *Financial Distribution Policy for Government Businesses* (TPP 02-3) excludes from profit available for distribution to shareholders any actuarial superannuation gain/loss net of income tax. This new approach to calculating dividends is to apply to the financial years ending on 30 June 2007 and future years. The dividend payable for the financial year to 30 June 2006 was calculated on Profit for the year without adjusting for the Actuarial superannuation gain and Income tax on actuarial superannuation gain/loss.

18 Notes to the Cash Flow Statement

(a) Financing facilities

Unsecured bank credit card facility payable at call

- amount used	203	171
- amount unused	297	329
	500	500

Unsecured loan facilities with various maturity dates through to 2014

- amount used	39,197	61,680
- amount unused	40,803	18,320
	80,000	80,000

	2007 \$'000	2006 \$'000
(b) Reconciliation of profit to net cash flows from operating activities		
Profit for the year	13,216	11,339
Adjustments for:		
<i>Income statement items classified as investing or financing:</i>		
Net loss (gain) on disposal of property, plant and equipment	101	(145)
Depreciation and amortisation	6,011	6,070
Revaluation of borrowings	(421)	(434)
<i>Net movement in Balance Sheet items applicable to operating activities:</i>		
Reclassification of property, plant and equipment work in progress	527	-
Trade and other receivables	4,673	3,408
Other assets	(3,093)	174
Trade and other payables	1,674	10,942
Provisions	(1,670)	(3,027)
Other liabilities	536	29
Income tax assets and liabilities	1,113	1,625
Net cash flow from operating activities	22,667	29,981

19 Commitments for Expenditure

(a) Capital expenditure commitments

Not longer than one year	2,743	144
Longer than one year and not longer than five years	47	-
Longer than five years	-	-
	2,790	144

Amounts disclosed for these commitments include total GST of \$0.254 million (2006: \$0.013 million) that is recoverable from the ATO.

(b) Other expenditure commitments

Not longer than one year	1,319	3,857
Longer than one year and not longer than five years	-	-
Longer than five years	-	-
	1,319	3,857

Amounts disclosed for these commitments include total GST of \$0.120 million (2006: \$0.351 million) that is recoverable from the ATO.

2007
\$'000

2006
\$'000

(c) Operating lease commitments

Payable as lessee

Future operating lease rentals not provided for in the Financial Statements and payable:

Not longer than one year	1,077	1,150
Longer than one year and not longer than five years	2,440	3,037
Longer than five years	-	-
	<u>3,517</u>	<u>4,187</u>

Representing:

Cancellable operating leases	-	-
Non-cancellable operating leases	<u>3,517</u>	<u>4,187</u>
	<u>3,517</u>	<u>4,187</u>

State Water leases primarily property and information technology equipment under non-cancellable operating leases.

Leases for property generally have terms of three to six years with provision to increase rent annually by 3%. All leases allow for renewal at the end of the lease term.

Amounts disclosed for these commitments include total GST of \$0.320 million (2006: \$0.381 million) that is recoverable from the ATO.

Receivable as lessor

Future operating lease rentals not provided for in the Financial Statements and receivable:

Not longer than one year	841	712
Longer than one year and not longer than five years	3,313	2,843
Longer than five years	<u>16,917</u>	<u>17,627</u>
	<u>21,071</u>	<u>21,182</u>

Representing:

Cancellable operating leases	-	-
Non-cancellable operating leases	<u>21,071</u>	<u>21,182</u>
	<u>21,071</u>	<u>21,182</u>

The amounts receivable as lessor were not included in the financial statements for the year ended 30 June 2006.

State Water leases to other parties positions to locate hydro-electric equipment and structures under non-cancellable operating leases. These leases are for terms ranging from 30 years to 75 years with option periods following, ranging up to 75 years. The longest remaining term before option is 70 years. Lease rentals are generally reviewed annually. The lessee does not have an option to purchase the property at the expiry of the lease period.

State Water leases to other parties foreshore land of some of its water storage facilities under non-cancellable operating leases for periods of five years, with two further option periods of 5 years each. Lease rentals are generally reviewed annually. The lessee does not have an option to purchase the property at the expiry of the lease period.

Amounts disclosed for these commitments include total GST of \$1.916 million (2006: \$1.926 million) that is payable to the ATO.

20 Contingent Liabilities and Contingent Assets

There are no known contingent liabilities or contingent assets at balance date.

21 Consultants

The total amount paid or payable to consultants engaged by State Water during the period was \$0.117 million.

22 Directors

The names of persons holding the position of director at any time during the financial year are:

- AG (Tony) Wright (Chairman and non-executive director)
- Abel Immaraj (Executive director, Chief Executive Officer), resigned 11 December 2006
- Geoff Borneman (Executive director, Acting Chief Executive Officer), appointed 11 December 2006
- Kathleen Bowmer (Non-executive director)
- Michael Bennett (Non-executive director)
- Don Marples (Non-executive director)
- Kathryn Ridge (Non-executive director)
- Edward Woodley (Non-executive director), resigned 30 September 2006

Details of Directors remuneration are set out in Note 23(a).

23 Related Party Disclosures

State Water has related party relationships with key management personnel (refer (a) below), their related entities (refer (b) below), and other related parties (refer (c) below).

(a) Key management personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of State Water, directly or indirectly. This comprises:

Directors, excluding Chief Executive Officer

Senior executives:

Chief Executive Officer

All Heads of Branches

	2007 \$'000	2006 \$'000
Key Management Personnel compensation is as follows:		
Short-term employee benefits	1,607	1,616
Post-employment benefits	379	325
Other long term benefits	35	37
Termination benefits	100	-
	<u>2,121</u>	<u>1,978</u>

This comprises compensation relating to:

Directors, excluding Chief Executive Officer	250	273
Senior executives	<u>1,871</u>	<u>1,705</u>
	<u>2,121</u>	<u>1,978</u>

(b) Other transactions with key management personnel and related entities

From time to time, key management personnel may purchase goods or services from State Water. These purchases are on the same terms and conditions as those entered into by other customers or clients and are trivial or domestic in nature.

Any transactions undertaken with entities related to key management personnel are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

During the current reporting period, the following related party transactions with entities related to key management personnel occurred:

A director of State Water, Mr Michael Bennett, was a holder of water licences during the reporting period. Mr Bennett was also a director of Bennett Nominees Pty Ltd as trustee for Bennett Family Settlement No 1 which was a holder of water licences during the reporting period. State Water earned revenue totalling \$32,300 during the reporting period at rates determined by IPART for services rendered under the conditions of these water licences, which were issued by the Department of Water and Energy on an arm's length basis and on commercial terms and conditions in the ordinary course of business. As at 30 June 2007, the revenue earned during the reporting period had not been invoiced to Mr Bennett or Bennett Nominees Pty Ltd and is included in Accrued water charges in Trade and other receivables in the Balance Sheet. Mr Bennett and Bennett Nominees Pty Ltd did not have a current debt with State Water.

Mr Bennett, representing riparian irrigators from regulated streams, is also chairman of the Macquarie-Cudgegong Customer Service Committee (CSC). This is one of a number of customer service committees established by State Water as a condition of its Operating Licence to exchange information with its customers and to develop a positive, constructive and efficient service provider-customer relationship. A CSC can make recommendations to State Water but is not a decision-making body.

(c) Transactions with other related parties

There were no material transactions with other related parties in either the current or previous reporting period.

24 Financial Instruments Disclosures

Exposure to a range of risks arises in the normal course of business operations of State Water. These risks include interest rate risk, credit risk and liquidity risk. These risks are managed by State Water through policies, procedures and controls designed to assist in management of these risks.

State Water does not use derivative financial instruments for any purpose.

(a) Interest rate risk

State Water is exposed to changes in market interest rates. Although there is a small exposure arising from cash and investment portfolios, the main exposure arises primarily from State Waters debt portfolio.

State Water manages this interest rate risk by managing the modified duration rate of its debt portfolio in conjunction with NSW Treasury Corporation.

Interest rate risk tables

In respect of interest-bearing financial instruments, which give rise to exposure to interest rate risk for State Water, the following tables summarise their effective weighted average interest rates at the reporting date and the periods in which they either reprice or mature, whichever is the earlier. Apart from those instruments listed below, all other financial instruments are not subject to interest rate risk.

	Non Interest Bearing \$'000	Repricing or maturing in:						Total \$'000
		Less than 1 year \$'000	1 to 2 years \$'000	2 to 3 years \$'000	3 to 4 years \$'000	4 to 5 years \$'000	More than 5 years \$'000	
2007								
Financial assets								
Cash*	15	2,883						2,898
Cash equivalents - TCorp deposits**		13,604						13,604
Trade receivables	27,223	713						27,936
	27,238	17,200	-	-	-	-	-	44,438
Financial liabilities								
Borrowings (TCorp)***		12,077				12,207	14,913	39,197
Trade & other payables	22,691							22,693
	22,691	12,077	-	-	-	12,207	14,913	61,888

Weighted average interest rate *6.05% **6.41% ***6.37%

2006	Non Interest Bearing \$'000	Repricing or maturing in:						Total \$'000
		Less than 1 year \$'000	1 to 2 years \$'000	2 to 3 years \$'000	3 to 4 years \$'000	4 to 5 years \$'000	More than 5 years \$'000	
Financial assets								
Cash*	15	2,418						2,433
Cash equivalents - TCorp deposits**		29,579						29,579
Trade receivables	32,609							32,609
	32,624	31,997	-	-	-	-	-	64,621
Financial liabilities								
Borrowings (TCorp)***		5,000	18,986			10,548	27,146	61,680
Trade & other payables	21,017							21,017
	21,017	5,000	18,986	-	-	10,548	27,146	82,697

Weighted average interest rate *5.43% **5.66% ***5.77%

(b) Credit risk

Credit risk refers to the risk that indebted counterparties will default on their contractual obligations, resulting in financial loss to State Water. Exposures to credit risk exist in respect of financial assets such as trade and other receivables, cash and cash equivalents and investments in marketable securities.

In respect of trade and other receivables, State Water monitors balances outstanding on an ongoing basis and has policies in place for the recovery or write-off of amounts outstanding.

In relation to receivables, the credit risk is mitigated by the conditions under which water licences are held by customers, wherein a condition that must be met before a sale or transfer of licence can proceed is the settlement of all amounts owing.

In respect of cash and cash equivalents and investments in marketable securities, State Water only deals with creditworthy counterparties and recognised financial intermediaries as a means of mitigating against the risk of financial losses from defaults.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Balance Sheet.

(c) Liquidity risk

Liquidity risk refers to the risk that State Water will be unable to meet expenditure commitments when they fall due. Liquidity risk is managed through the maintenance of extensive short-term and long term cash flow forecasting, and the availability of financing facilities including a long term fixed borrowing facility with the NSW Treasury Corporation.

(d) Fair values of financial assets and financial liabilities

Fair values of financial assets and financial liabilities are determined on the following bases:

- **Cash and cash equivalents**
The carrying amount is considered to be a reasonable approximation of the fair value.
- **Trade and other receivables**
The carrying amount is considered to be a reasonable approximation of the fair value.
- **Trade and other payables**
The carrying amount is considered to be a reasonable approximation of the fair value.
- **Borrowings**
Fair values are determined on the basis of discounted cash flows using valuation rates supplied by independent market sources.
- **Other financial liabilities**
The carrying amount is considered to be a reasonable approximation of the fair value.

25 Auditor's Remuneration

	2007 \$'000	2006 \$'000
Remuneration to State Water's auditor for:		
Audit & review of financial statements of State Water	188	270
	188	270

26 Administered Revenue and Assets (i)**Administered revenues**

DWE - Water Charges	17,575	18,502
NSW Treasury - Pindari Levy	2,020	1,960
YCATAC - Yanco Columbo System Levy	136	184
	19,731	20,646

Administered Assets

Administered cash	2,411	4,481
Debtors and accrued charges DWE	34,304	22,110
Debtors and accrued charges Pindari	1,544	4,524
Debtors and accrued charges YCATAC	50	184
	38,309	31,299

Administered Liabilities

Creditors and accruals DWE	36,124	25,724
Creditors and accruals Pindari	2,043	5,391
Creditors and accruals YCATAC	142	184
	38,309	31,299

- (i) The amounts shown above have not been recognised in the Income Statement and the Balance Sheet, as they arise from agency arrangements with the Department of Water and Energy (DWE), NSW Treasury and Yanco Creek and Tributaries Advisory Council (YCATAC).

Under these arrangements State Water is responsible for billing water licence holders on behalf of:

- DWE for unregulated river and groundwater charges as well as regulated river charges which are shared between State Water and DWE.
- NSW Treasury for the Pindari Dam Levy.
- YCATAC for a levy on irrigators in the Yanco Columbo System.

These charges are payable by State Water to the respective agencies as and when collected.

Accrued charges are based on known entitlement charges and on usage, where applicable. Billing of customers is completed after year end.

The figures for YCATAC were not included in the financial statements for the year ended 30 June 2006.

27 Events after the Balance Sheet Date

The Commonwealth of Australia Government has announced the National Plan for Water. Whilst legislation has not yet passed in relation to this plan and the details are not yet determined, there is a clear undertaking that the plan will involve a significant degree of buy-backs of water licences to increase river flows for environmental and sustainability purposes. When this occurs this will directly affect State Water's revenue for delivery of water. The degree of this risk to revenue is not yet able to be estimated.

At the time of preparing the financial statements there was considerable volatility evident in stock markets around the world which may affect State Water's obligations in respect of defined benefit superannuation schemes. Should there be a sustained fall in value on the stock market, this will adversely affect State Water's obligations in respect of these schemes. The degree of any adverse effect is not able to be estimated at this time.

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

The financial report was authorised for issue on 21 October 2007 by the Board of Directors.

28 Corporation Details

State Water Corporation
ABN: 21 147 934 787

Suites 12-14, Riverview Business Park
36 Darling Street, Dubbo NSW 2830

PO Box 1018, Dubbo NSW 2830

Phone: (02) 6841 2000
Fax: (02) 6884 2603

Email: statewater@statewater.com.au

Website: www.statewater.com.au

End of Financial Statements



State Water made a net profit after tax of \$13.2 million, up by 16.6% on the previous year.

glossary

AWD	Available Water Determination		
CAIRO	Computer Aided Improvements to River Operations	IPART	Independent Pricing and Regulatory Tribunal
CCC	Community Consultative Committee	JCC	Joint Consultative Committee
CEO	Chief Executive Officer	KPI	Key Performance Indicator
CFD	Computational Fluid Dynamics	LTIFR	Lost-time to Injury Frequency Rate
CMA	Catchment Management Authority	MDBC	Murray Darling Basin Commission
CPI	Consumer Price Index	ML	Megalitre (1,000,000 litres)
CRP	Community Reference Panel	MoU	Memorandum of Understanding
CRC	Cooperative Research Centre	MW	Megawatts
CSC	Customer Service Committee	MWh	Megawatt hours
DA	Development Application	MPM	Major Periodic Maintenance
DBBRC	Dumaresq-Barwon Border Rivers Commission	NWI	National Water Initiative
DEC	Department of Environment and Conservation	OH&S	Occupational Health & Safety
DNR	Department of Natural Resource	RAB	Regulatory Asset Base
DoC	Department of Commerce	SCADA	Supervisory Control and Data Acquisition System
DoL	Department of Lands	SCI	Statement of Corporate Intent
DPI	Department of Primary Industries	SCSC	Staff Consultative Steering Committee
DSC	NSW Dams Safety Committee	SES	NSW Senior Executive Service
DSEP	Dams Safety Emergency Plan	SFE	Sydney Futures Exchange
DEUS	Department of Energy, Utilities and Sustainability	SOC	State Owned Corporations
DPI	Department of Primary Industries		
DWE	Department of Water and Energy		
EFT	Effective Full Time		
EIS	Environmental Impact Statement		
EMP	Environment Management Plan		
EWON	Energy and Water Ombudsman of NSW		
EXPLAN	Expenditure Planning (for strategic asset management)		
FEA	Finite Element Analysis		
FMMS	Facilities Maintenance Management System		
FRWS	Fish River Water Supply		
GL	Gigalitre (100 million litres)		
GW	Gigawatts		
GWh	Gigawatt		
HR	Human Resources		
IFMS	Integrated Financial Management System		

index

A

Accountability and Performance	69
Account Enquiries	190
Accounts Payable Performance Review	117
Achievements	6
Annual Report Production	190
Annual Surveillance Inspections	53
Approved Temporary Transfers	45
Asset Maintenance	92
Asset Management	33, 61, 98
Audit and Compliance Committee	106

B

Bega River	61
Benchmark Service, Standards and Best Practice	54
Best Practice Operations	50
Blowering Dam Upgrade	91
Board Committees	106
Board Meeting Attendance	106
Board of Directors	12, 105
Budgets	118
Burrendong Dam Upgrade	91
Border Rivers	56
Bulk Water Pricing	5
Business Awards	101

C

Capital Works Progress Report	89
Capital Works Summary	90
Catchment Improvement Projects	101
Central Area	81, 91, 92
CEO Performance Statement	111
CEO's Message	10
Chaffey Dam Upgrade	90
Chairman's Message	8
Coastal Area	82, 92
Corporate Governance	104
Code of Conduct	107
Cold Water Pollution	85
Community Consultative Committee	41
Community Reference Panels	41

Complaint Handling	24, 114
Compliance Ratings	53
Consultants	112
Consumer Response	114
Controlled Entities	111
Copeton Dam Upgrade	90
Corporate Governance	104
Corporate Plan	17
Corporate Policies and Procedures	53
Corporate Systems Business Analysis	52
Cost of FOI Applications	110
Credit Card Certification	117
Culture Development	75
Customer Satisfaction	25
Customer Service	26
Customer Service Charter and Review	26
Customer Service Committees	39
Customers	23

D

Dam Safety Emergency Plans	97
Delegations to Management	111
Directors' Interests	105
Directors' Remuneration	106

E

Electricity Usage	115
Electronic Service Delivery	117
Emergency Response	97
Employee Assistance Program	108
Employee Survey	72
Energy Management	115
Enhanced Environment	78
Enterprise Agreements	74
Environmental Initiatives	81
Environmental Research, Planning and Investigative Projects	85
Environment Management Plan	79
Equal Employment Opportunities	108
Establishment	105
E-tendering	117
Ethnic Affairs Priority Statement	107

F

Financial Statements	120
Fish Passage at Keepit Dam	85
Fish rescued from Colligen Creek	101
Fish River Water Supply	58
Fish River Water Supply Customer Service Levels	46
Fish River Water Supply Prices	48
Five-Yearly Dam Surveillance Reports	53
Foreshore Leases	86, 103
Freedom of Information	110
Fuel Consumption	115
Functions	105
Funds Granted to Non-Government Organisations	113

G

General Security Water Availability 2006-07	56
Glossary	186
Greenhouse Emissions	115
Great People	68
Green Score	115
Gwydir Valley	57

H

Heritage Management	86
Hunter Valley	61
Hydro Power Summary	96

I

Injury Management Program	72
Insurance	107
Integrated Financial Management System	54
Internal Audit	54
Investment Performance	118

K

Keepit Dam Upgrade	90
Keepit Dam Reference Panel	41, 99

L

Lachlan Valley	58
Land Management	86, 103
Lake Brewster Efficiency Project	67
Land Disposal	107
Legal Change	107
Liability Management Performance	118
Licences	43
Lock 10 Wentworth Weir	91
Lock 15 Euston Weir	91
Lost Time Injury Frequency Rate	71
Lower Darling Valley	61

M

Macquarie Valley	57
Major Capital Works Program	89
Management Team	14
Maintaining relationships with Regulators and Shareholders	66
Maintenance Audits	54
Memoranda of Understanding	65
Ministerial Responsibility	5
Murray Valley	60
Murrumbidgee Valley	60

N

Namoi-Peel Valley	57
North Area	83, 90, 95

O

Operate Effectively and Efficiently	51
Operating Expenditure Savings Program	102
Operating Licence Performance	18
Organisation Structure	16
Orientation Day	77
Our People	35
Overseas Visits	111

P

Payment of Accounts	117
Policies Identified	53
Power Station Locations	96
Privacy Policy	107
Profitable Business Growth	100
Project Delivery System	54
Publications	113
Purpose	16

R

Regulated Customers Billed 2006-07	45
Remuneration and Organisation Development Committee	107
Research and Development	113
Revenue Volatility	102
Risk Management	54
Risk Management Committee	89
River Structures Rehabilitation	92
Roadshow Sessions	73

S

Safe and Productive Work Environment	51
Self Regulation	49
Shared Personal Values	73
Shareholders	5, 105
Shareholder Understanding of Revenue	66
Sick Leave	76
Small Dams	91
South Area	84, 91, 93
Special Interest Committees	107
Split Rock Dam	90
Statement of Corporate Intent	66
State Plan	41, 65
State Plan Priority E1	60
State Plan Priority E2	97
State Plan Priority E4	80
State Plan Priority P2	95

State Plan Priority P3	69
State Plan Priority R4	41
State Plan Priority S8	36
Strategic Direction	16
Supportive Stakeholders	64
Survey Benchmarks	87

T

Temporary Water Transfers	46
Toonumbar Dam	61
Total Asset Management Plan	98
Total Valley Flow (ML)	62
Turnover	76

V

Valley Business Plans	25
Valley Price Comparisons	48
Values	16
Vision	16

W

Wages, Salaries and Allowances	113
Waste Management	116
Water Delivery	30, 51, 55, 62
Water Delivery/Release Efficiency	51
Water Indexes	55
Water Order Shortfalls	51
Water Prices	47
Water Quality: Filtered	46
Water Quality Monitoring	85
Water Quality: Raw	46
Water Resource Management	5
What We Do	5
Who We Are	4
Workforce Plan	70
Works Approvals	43
Wyangala Dam Upgrade	91

office locations

For more information contact your nearest State Water office:

Head Office

Riverview Business Park, 36 Darling St, Dubbo 2830
Ph: (02) 6841 2000

Strategic Asset Services, Technical Services, Strategic Policy and Compliance, Information and Operations

Level 8, 2-10 Wentworth St, Parramatta 2150
Ph: (02) 9354 1000

North Area

66-68 Frome St, Moree 2400
Ph: (02) 6751 2700

Central Area

Suite 12, 36 Darling St, Dubbo 2830
Ph: (02) 6841 2060

South Area

Chelmsford Place, Leeton 2705
Ph: (02) 6953 0776

Coastal Area

Level 2, 160 Bridge St, Muswellbrook 2333
Ph: (02) 6542 4403

Account Enquiries

1800 353 091
billing@statewater.com.au

Business hours at all offices are 8.30am to 4.30pm, Monday to Friday

ISSN 1448-7551

Published October 2007

Design and print management by Inspired Design Studio, Dubbo. Printed on paper that is derived from carefully managed and renewed forests.

This report was produced in hard copy and as a CD-Rom at a cost of \$32,257.50. It is available on the internet: www.statewater.com.au or as a CD by phoning (02) 6841 2000.

Comments or Feedback?

Tell us what you think about this report by sending an email to statewater@statewater.com.au.



Gogeldrie Weir, near Leeton in the South Area, was one of the country locations visited by the State Water Board this year.



Photographic Credits: Vince Bucello, DYP Studio, Earthcraft Photography, Suzie Gaynor, Monique Gill, Beth Mill and James Muddle.

Design and Print Management: Inspired Design Studio - www.inspireddesignstudio.com.au