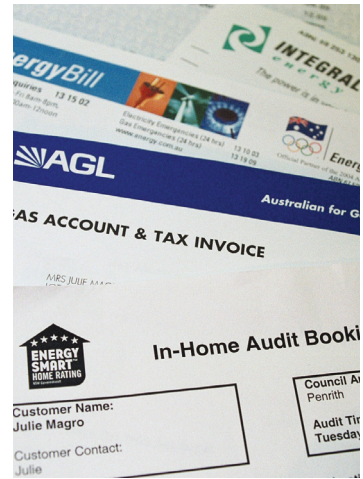




03–04 ANNUAL REPORT

DEPARTMENT OF ENERGY, UTILITIES AND SUSTAINABILITY



DEPARTMENT OF ENERGY,
UTILITIES AND SUSTAINABILITY
NEW SOUTH WALES GOVERNMENT

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**DEPARTMENT OF ENERGY,
UTILITIES AND SUSTAINABILITY**
NEW SOUTH WALES GOVERNMENT

Department of Energy, Utilities and Sustainability

Head Office
Level 17, 227 Elizabeth Street, Sydney NSW 2000
GPO Box 3889, Sydney NSW 2001

Tel: 61 2 8281 7777 **Fax:** 61 2 8281 7799

www.deus.nsw.gov.au

information@deus.nsw.gov.au

Hours of business: 8.30 am to 5.30 pm Monday to Friday



**DEPARTMENT OF ENERGY,
UTILITIES AND SUSTAINABILITY**
NEW SOUTH WALES GOVERNMENT

Leadership in energy and water sustainability
for New South Wales

The Hon Frank Sartor MP
Minister for Energy and Utilities
Level 31
Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Minister

I am pleased to submit the 2003-04 Annual Report of the Department of Energy, Utilities and Sustainability. This Report has been prepared for presentation to the New South Wales Parliament in accordance with the *Annual Reports (Departments) Act 1995*.

The Report outlines the Department's development and implementation of NSW Government objectives for energy, water, utilities and sustainability during the year ended 30 June 2004.

The formation of the Department on 1 January 2004 was a significant achievement for the year. Consisting of the former Ministry of Energy and Utilities and, from 1 July 2004, the former Sustainable Energy Development Authority, the Department's key objective is to promote the sustainable, safe, reliable and affordable supply and use of energy and urban water in NSW.

Other notable highlights during the reporting period have been:

- revision of funding criteria and Best Practice Guidelines for the Country Towns Water Supply and Sewerage Program;
- leading the NSW response to the Moomba gas crisis;
- the corporatisation of State Water;
- achieving national agreement on the formation of the Australian Energy Market Commission and Australian Energy Regulator; and
- formulating new strategies for emerging demand management opportunities, including the development of an Integrated Resource Strategy Framework.

The achievements of the Department during 2003-04 would not have been possible without the commitment and enthusiasm of the Department's staff. I take this opportunity to thank them for their hard work and support.

Yours sincerely

A handwritten signature in black ink that reads 'David Nemtsov'.

David Nemtsov
Director-General

29 OCT 2004

OUR VISION

Sustainable supply and use of energy and water for the people of NSW.

OUR MISSION

Achieve sustainable, safe, reliable and affordable supply and use of energy and water through innovative planning, delivery and management

OUR VALUES

All our dealings with clients, colleagues and each other are undertaken professionally with:

- Flexibility
- Integrity
- Recognition of achievements
- Co-operation
- Openness
- Tolerance and respect

OUR STRATEGIC GOALS

- Achieve a significant improvement in the sustainable supply and use of energy and water
- Achieve safe, reliable and secure energy and water services
- Ensure the supply of energy and water is efficient and affordable
- Invest in the growth of our people and improve our business capacity

OUR OBJECTIVES

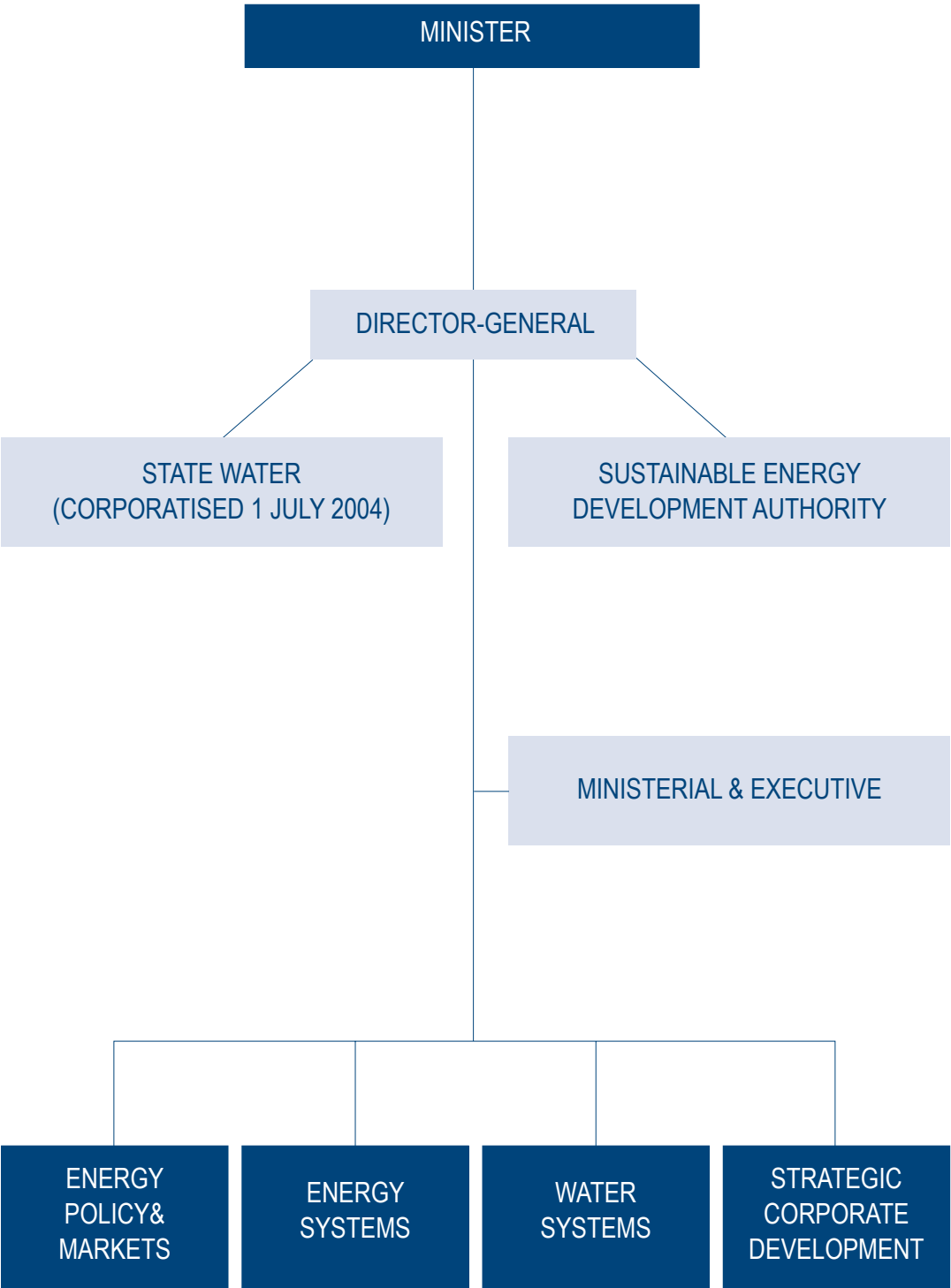
- Enable an increase of installed capacity of low carbon energy sources
- Facilitate the uptake of integrated water cycle management across the water industry
- Improve the energy and water efficiency of homes, businesses and government
- Ensure energy and water utilities provide a safe and reliable supply
- Create plans to minimise the impact of disruptions to supply on the community, economy and environment
- Facilitate the development of infrastructure to deliver secure energy and water supplies
- Reduce the rate of growth in peak demand for energy and water
- Enable the adoption of effective energy and water pricing policies

- Facilitate effective competition in the business and domestic energy and water markets
- Protect and assist customers with secure and affordable energy and water
- Optimise the performance of our people through training, development and performance management
- Encourage a learning environment
- Ensure good corporate governance
- Implement service level agreements to ensure cost-effective service provision
- Assist Departmental integration through internal communication and use of cross functional teams

ACTS ADMINISTERED BY THE DEPARTMENT

- *Aberdare County Council (Dissolution) Act 1982 No 74*
- *AGL Corporate Conversion Act 2002 No 16*
- *Eastern Gas Pipeline (Special Provisions) Act 1996 No 126*
- *Electricity Safety Act 1945 (1946 No 13) (except part jointly with Minister for Commerce, and Minister for Fair Trading)*
- *Electricity Supply Act 1995 No 94*
- *Energy Administration Act 1987 No 103*
- *Eraring Power Station Act 1981 No 107*
- *Gas Industry Restructuring Act 1986 No 213*
- *Gas Pipelines Access (New South Wales) Act 1998 No 41*
- *Gas Supply Act 1996 No 38 (except parts, jointly Minister for Commerce, and Minister for Fair Trading)*
- *Gosford–Wyong Electricity Supply (Special Provisions) Act 1985 No 182*
- *Hunter Water Act 1991 No 53 (except parts, Minister for Natural Resources)*
- *National Electricity (New South Wales) Act 1997 No 20*
- *Northern Rivers County Council (Undertaking Acquisition) Act 1981 No 95*
- *Pipelines Act 1967 No 90*
- *Public Works Act 1912 No 45, sections 34(3) and 34(4) (remainder, Minister for Commerce)*
- *Sydney Water Act 1994 No 88*
- *Water Management Act 2000 No 92, Part 1 of Chapter 5 (remainder, Minister for Natural Resources)*

ORGANISATIONAL CHART – 30 JUNE 2004



DIRECTOR-GENERAL'S OVERVIEW

Since being appointed as Director-General of the new Department of Energy, Utilities and Sustainability, I have been impressed by the scope and level of work undertaken by the Department on a day-to-day basis. The immediate challenges of shaping the Department have been a key priority, and to this end a thorough reorganization and restructure of the former Ministry of Energy and Utilities and Sustainable Energy Development Authority has commenced. I anticipate this process will be largely complete by the end of 2004.

At the same time as the Department's new structure has been developed, the existing work and responsibilities have continued apace and in a number of areas expanded. As Director-General I will continue to encourage the development of a results-driven and customer-focused approach from the Executive and staff.

The Department has been able to deliver its functions and services for the people of NSW under the broad direction of ensuring sustainable, safe, reliable and affordable energy and urban water.

EXPANDING OUR ROLE

Following the March 2003 election, the Department incorporated the State Water business unit and the Town Water Treatment and Recycling Branch of the former Department of Land and Water Conservation. This meant that for all of 2003-04 the Department was responsible for:

- 18 major dams and over 200 weirs and regulators across the State providing water for irrigation, town supplies and environmental flows; and
- the Country Towns Water Supply and Sewerage Program, a major funding program providing assistance to local water utilities across the State to upgrade water supply and sewerage schemes, implement integrated water cycle management planning, and ensure best practice management of these important assets.

THE YEAR IN SUMMARY

Apart from integrating new functions into the Department, major achievements for 2002-03 have included:

Managing Emergencies and Critical Infrastructure Protection

The Department established itself as the lead agency for the establishment of an Energy and Utility Services

Functional Area Committee (EUSFAC) under the State Emergency Management Committee. The Sub-Plan to be prepared by EUSFAC will ensure the provision of energy and utility support to a Combat Agency, and other Functional Areas or organisations involved in an emergency, as well as the co-ordination of the establishment of electrical power, water, sewerage, gas services and petroleum either temporarily or permanently as required.

Achieving Electricity and Gas Network Safety and Reliability

Safe and reliable electricity and gas network performance remains a key function of the Department. During 2003/04 electricity network operators lodged their first plans as required by the *Electricity Supply (Safety and Network Management) Regulation 2002*. The Department also issued a new reporting outline to network operators to further improve their annual performance reports.

There were 8 serious accidents and 3 fatalities involving members of the public during 2003/04, down from a combined 20 in 1999/00. For the first time in five years there was a fatal accident involving a network worker in 2003/04, compared to 14 fatalities between 1991-95.

The Department continued to review the independent safety and operating plans all gas network operators are required to develop and implement. All plans contained sufficient detail to comply with the requirements of the *Gas Supply (Network Safety Management) Regulation 2002*.

The Department took a leading role in coordinating and responding to the Moomba gas supply disruption during January 2004, including via the formation of a NSW-SA Gas Emergency Task Force, a NSW-SA-Vic-ACT Infrastructure Task Force and a NSW Gas Demand Management Task Force.

Administering the Electricity Contestable Works Accreditation Scheme

DEUS continued its role as administrator of the contestable works accreditation scheme. At 30 June 2004, there were a total of 1,145 accredited service providers, compared to 1,143 the previous year, made up of:

- Level 1 (Network Construction): 59 (52);
- Level 2 (Connection Services): 1,024 (1,044); and
- Level 3 (Network Design): 62 (47).

DEUS received an average of 677 telephone calls per month in relation to contestable works, compared with 517 the previous year. DEUS processed an average of 87 accreditation renewal applications per month, compared to 89 the previous year. Additionally 10 applications for initial accreditation were processed per month compared to 5 the previous year.

Developing and Promoting Demand Management

The Department continued to focus on a range of demand management issues during the year. The Demand Management Code of Practice applying to electricity distributors was reviewed during 2004, and a revised Code will be published during 2004/05.

The Department was requested by the Premier to Chair a Demand Management Fund Working Group to further investigate the 2002 recommendation by the Independent Pricing and Regulatory Tribunal for the establishment of a demand management fund. The Working Group will deliver its report to the Premier towards the end of 2004.

The Electricity Network Performance Reports prepared by the four distributors and TransGrid contain reports on Demand Management activities undertaken during 2002/03. A total of \$47.9M in infrastructure expenditure was saved at a cost of \$7.3M, compared to \$22.5M saved at a cost of \$6.0M the previous year.

Improving the Country Towns Water Supply and Sewerage Program

During the year a comprehensive review of the Program was undertaken to investigate efficiency improvements. New Program guidelines were announced in June 2004 to prioritise remaining projects on the basis of environmental, health and social requirements, and ensure a more equitable distribution of the remaining Program funds for smaller Local Water Utilities.

During 2003/04 76,000 people benefited from improved water supply works, 37,000 people benefited from improved sewerage works, 30 new construction projects were commenced and 33 projects were completed.

Providing Essential Support for Drought Affected Communities Throughout NSW

NSW experienced its third year of continuous drought conditions during 2003/04, and the Department again provided technical and financial assistance to Local Water Utilities to maintain essential water supplies. Approximately \$2.1 million in payments and approvals were provided:

- \$306,111 for water cartage of water;
- \$150,000 for up to 50% of the cost of water purchases (in lieu of cartage); &

- \$1,696,900 for up to 50% of the cost for capital works.

The Department also provided subsidies to LWUs for the preparation of drought management plans.

Developing Improved and Streamlined Best Practice Management Guidelines for Local Water Utilities

Revised Best Practice Management of Water Supply and Sewerage Guidelines were prepared by the Department and released by the Minister in May 2004. These guidelines assist Local Water Utilities in identifying the key elements they need to carry out to efficiently and sustainably deliver water supply and sewerage services to the community.

Compliance with these Guidelines is a pre-requisite for eligibility for financial assistance under the Country Towns Water Supply and Sewerage Program.

Encouraging and Expanding Integrated Water Cycle Management Practices

The Department continued to focus on the development and promotion of integrated water cycle management practices, which address the integration of sewage, stormwater and water supply services on a catchment basis. This requires that water services be managed sustainably and with due consideration of natural processes, other water users (including the environment), and broader catchment issues. It also requires that water use be efficient and that waste be reduced to a minimum.

During 2003/04 the Department prepared a guideline document for an integrated water cycle management framework that will be released later in 2004. The Department is also preparing for a number of associated training workshops in partnership with peak industry representative groups.

Effectively Participating in Significant Reforms to the Structure of the National Electricity Market

In 2003/04, the Department was substantially involved in the work programs of the Ministerial Council on Energy related to energy market reform. The Department contributed to the finalisation of a major energy market reform program for Australia aimed at:

- improving the national character of Australia's energy markets;
- reducing the cost and complexity of regulation facing investors; and
- encouraging timely and efficient investment in new infrastructure.

The Department also contributed to the development

During 2003/04 76,000 people benefited from improved water supply works, 37,000 people benefited from improved sewerage works...

of proposals for new and improved energy market governance and institutional arrangements by focusing on effective separation of rule making from rule enforcement functions. This model became a central design feature of the arrangements agreed by the Ministerial Council on Energy at its meetings of August and December 2003 to establish:

- a new Australian Energy Regulator to assume all regulatory functions; and
- a new Australian Energy Market Commission responsible for rule making.

Implementing the Government Energy Management Policy

The Department continued its implementation and policy development functions under the Government Energy Management Program. Many Government agencies have made significant improvements in performance and progress towards meeting their targets. For example:

- building energy use from Government buildings has fallen by 2.3 per cent between 1995–96 and 2001–02;
- building energy costs fell by 5.3 per cent between 1995–96 and 2001–02, yielding savings of over \$7.4 million; and
- office building energy use reduced by 11.2% and associated greenhouse emissions reduced by 21.2% from the base year.

28 out of 115 NSW Government agencies and 12 out of 37 Government portfolios reduced their building energy consumption each by more than 15 per cent compared with the base year, 1995–96 providing a total savings of \$3.7 million.

The Department is working with the NSW Greenhouse Office and other key agencies to develop and implement enhancements to the Policy.

Addressing the Future Electricity Needs of NSW

During 2003–04 the Department increased its focus on the growth of electricity demand in NSW and the associated consequences such as diminishing electricity generation reserve margins, growing greenhouse gas emissions, increasing costs for the network and for consumers, and potentially weakening system reliability.

The Department has begun a number of initiatives as a result, including:

- starting the development of an integrated resource strategy to address various issues relating to the electricity supply-demand balance for NSW;
- undertaking intensive modeling of various electricity demand-supply scenarios; and

- working towards an update of the NSW Statement of System Opportunities to evaluate new and emerging generation options in terms of their fuel sources, locations, sizes and economic viability.

Improving the Greenhouse Performance of NSW Electricity Retailers

Calendar year 2003 was the first compliance year for the NSW Greenhouse Benchmarks Scheme, with liable parties reporting in May 2004. Nineteen electricity retailers licensed in NSW and three other mandatory Benchmark Participants reported. In addition, reports were received from nine companies which successfully elected to manage their own benchmarks and became Benchmark Participants.

In 2003, IPART accredited a total of 113 projects to create certificates from abatement occurring in 2003. These resulted in a creation of a total of more than 6.6 million abatement certificates, well in excess of the number required to achieve compliance by the sector as a whole. In addition, almost a million additional abatement certificates were created from abatement occurring in the period from 1 January to 30 June 2004.

During early 2004 the Department consulted widely on a number of detailed proposed changes to the Greenhouse Gas Benchmark Rules to provide greater clarity in the implementation of the Scheme. Changes to the Generation and Demand Side Abatement Rules were gazetted in June 2004.

Supporting New and Exciting Solar Thermal Energy Research

The Department commenced another round of funding under the Sustainable Energy Research and Development Fund during 2003/04. A public call for project proposals targeted at solar thermal technologies was undertaken and the following projects received funding:

- Study and implementation of solar thermal solid state electron power generators
- Solar Thermal Absorption Cooling
- Solar Thermal Organic Cycle for Distributed Energy Applications
- High Concentration Solar Research Facility and Pre-Commercial Solar Gas Prototype
- Solar Steam Generation at Liddell Power Station

Corporatising the State Water Business Unit

The *State Water Corporatisation Bill 2004* passed through both Houses of Parliament in May and June 2004 and was assented to on 30 June 2004. The Act

office building
energy use reduced
by 11.2% and
associated
greenhouse
emissions reduced
by 21.2%...

established the Department's commercial business unit, State Water, as a statutory State Owned Corporation.

Corporatising State Water helps complete the separation of the Government's water delivery functions from its policy and regulatory functions, which is a National Competition Policy requirement. Changing State Water to a State Owned Corporation exposes it to similar corporate governance structures, disciplines and incentives that apply in the private sector, including an independent and commercial Board of Directors, a capital structure, agreed performance targets with its shareholders and clear, arms-length relationships with Government regulators.

Consolidating Responsibility for Energy Assistance and Concession Schemes

On 1 July 2003 the Department became responsible for the Energy Accounts Payment Assistance (EAPA) Program, which was transferred from the Department of Community Services. The EAPA program distributed over \$8.9 million during 2003/04 in the form of emergency financial relief to low income households experiencing a financial crisis.

The transfer of EAPA to the Department consolidates the major Government energy concession programs within DEUS with the others being the Pensioner Energy Rebate Program and Life Support Rebate Program.

Supporting the Requirements of the Minister's Office and the Broader NSW Government

The Department continued to deliver on its commitment to providing high quality and timely support services to the Minister other government agencies and external bodies.

The Department coordinated and prepared over 2,150 submissions and written responses to Ministerial letters, representing an increase of 20% in correspondence prepared the previous year.

- addressing the electricity supply-demand challenges in a sustainable and affordable manner;
- ongoing improvement in electricity and gas safety, reliability and performance; and
- delivering effective programs and policy approaches in the areas of renewable energy, energy efficiency and demand management.

The new outlook of the Department and our expanded responsibilities will allow us to build on past achievements, and meet the future challenges with confidence and enthusiasm. Finally, I would like to thank all staff of the Department for their dedicated work throughout the past 12 months, and I look forward to continuing our successes in 2004/05.

David Nemtzw

Director-General

October 2004

THE FUTURE

Looking ahead, there are a number of focus areas for the Department in 2004/05 and beyond:

- continuing to implement an appropriate organisational structure for the delivery of our policy, regulatory and program responsibilities;
- enhancing our focus on metropolitan and urban water reforms to ensure greater long-term sustainable water supply and use;
- ensuring the Country Towns Water Supply and Sewerage Program delivers effective funding support to local communities;

MINISTERIAL AND EXECUTIVE UNIT

The Ministerial and Executive Unit was formed as a stand-alone administrative component of the Department in July 2003. The key objectives of the Ministerial and Executive Unit include:

- providing high quality and timely support services to the Minister, Minister's staff, Director-General, Department Executive and Department as a whole;
 - coordinating and/or preparing Ministerial and Director-General's correspondence and Ministerial briefings notes;
 - coordinating Parliamentary business including the Minister's House Folder Notes, Estimates Committee briefing notes, answers to Parliamentary questions, Notices of Motion and the monitoring of Hansard;
 - providing information and assistance sought by other government agencies and external bodies; and
 - providing administrative support for the Director-General and the Executive.
- coordinated the preparation of the Department's 2002-03 Annual Report with support from the Strategic Corporate Development Branch;
 - managed negotiations with Treasury and The Cabinet Office in relation to staffing and budget in relation to the integration of the Sustainable Energy Development Authority into the Department of Energy, Utilities and Sustainability;
 - oversaw the introduction of the *Sustainable Energy Development Authority Repeal Bill 2004*; and
 - took on responsibility for communications management in consultation with staff of the former Sustainable Energy Development Authority.

In consultation with relevant staff the Ministerial and Executive Unit continually monitors and reviews its processes and procedures to ensure a streamlined approach for the delivery of its services and functions.

Key achievements of the Unit during 2003-04 included:

- coordinated and prepared over 2,150 submissions and written responses to Ministerial letters, representing an increase of 20% in correspondence prepared the previous year;

ENERGY SYSTEMS BRANCH

MANAGING EMERGENCIES AND CRITICAL INFRASTRUCTURE PROTECTION

The State Emergency Management Committee (SEMC) has long recognised the desirability of establishing a specialist Energy and Utility Services Functional Area Committee to establish, maintain and implement, when required, an Energy and Utilities Supporting Plan under The State Disaster Plan (DisPlan). At its 17 June 2004 meeting, the SEMC approved the Department to be the lead agency for the establishment of the Energy and Utility Services Functional Area Committee (EUSFAC).

The Supporting Plan to be prepared by EUSFAC will ensure:

- the provision of energy and utility support to a Combat Agency, and other Functional Areas or organisations involved in an emergency;
- the co-ordination (in conjunction with the Engineering Functional Area) of the establishment of electrical power, water, sewerage, gas services and petroleum either temporarily or permanently as required; and
- the co-ordination of the supply of advice to the State Emergency Operations Controller (SEOCON) from Utility and Energy providers in accordance with Utility and Energy Supply continuity plans.

Although the Department, NEMMCO and each industry player have emergency plans in place, and regularly test them in emergency simulations, the establishment of EUSFAC is expected to improve the overall coordination of emergency planning efforts and communications protocols. The SEMC also recognised that establishment of EUSFAC and Dis-Plan would greatly assist the Department in implementing actions that may be required under its emergency plans for electricity, gas, water and petroleum.

This functional area does not effect the management of normal restoration and management work carried out by an energy or utility provider. The purpose of this function is to plan for and co-ordinate a large scale response to an emergency.

The Department has also taken a supporting role for the protection of critical energy and utility infrastructure. Members of the EUSFAC may also be requested to provide advice to the State's Critical Infrastructure Steering Committee.

The commencement of the National Electricity Market (NEM) in 1998 resulted in an agreed jurisdictional approach to the management of electricity-based emergencies affecting the NEM. The Department previously revised its *Electricity Emergency Response Plan & Procedures* in September 2000, and is again updating this plan to ensure its currency and effectiveness in the event of an emergency. The plan defines the roles and management procedures to be adopted by the Department during an industry emergency. It should be read in conjunction with the overarching emergency documents of the National Electricity Market Management Company (NEMMCO). Organisations in the electricity supply industry experience varying degrees of emergency on a regular basis. During the year the Department also maintained emergency plans for ensuring continuity of natural gas and petroleum supply. The Department has also actively participated in several simulated emergency exercises during the year with successful outcomes.

ACHIEVING ELECTRICITY NETWORK SAFETY AND RELIABILITY

One of the Department's Corporate objectives is for "better performing energy and utilities infrastructure in safety and service standards".

Regulatory Framework

The *Electricity Supply (Safety and Network Management) Regulation 2002* (S&NM Regulation) commenced in September 2002. The overarching objective of the S&NM Regulation is to ensure that operators of electricity transmission and distribution networks are publicly accountable for the provision of an adequate, reliable

and safe supply of electricity of appropriate quality. The S&NM Regulation ensures that safety is reinforced as the number one priority, and requires network operators to implement the following plans when required to do so by the Director-General:

- a network management plan to ensure that the electricity network to which it relates provides an adequate, reliable and safe supply of electricity of appropriate quality;
- a public electrical safety awareness plan to warn the public of the hazards associated with electricity networks;
- a bush fire risk management plan to minimise the possibility of fire ignition by electricity lines among other things; and
- a customer installation safety plan to ensure the provision of safe electrical installations for connection to electricity networks, and the safe connection of such installations to the networks.

During the year network operators lodged their first plans under the new Regulation with the Director-General and have published them on their organisational websites.

Performance Reporting

The S&NM Regulation requires network operators to measure and report publicly on network performance and to provide performance reports to the Director-General. Under this framework:

- All network operators published their own 2002/2003 Electricity Network Performance Reports on their websites during December 2003 and January 2004.
- The Significant Electricity Network Incident (SENI) reporting scheme, which was introduced on 1 July 2002, has now provided two years of more detailed accident and incident data. The new system expanded immediate reporting requirements from serious electrical accidents to also include non-electrical network accidents and a range of significant network incidents.
- A new annual performance reporting outline for 2003/2004 was issued to network operators for their preparation of their performance reports for that year. The outline incorporated significant improvements and clarifications in the area of Demand Management reporting and other minor enhancements from the previous outline.

The improved immediate and annual reporting frameworks are expected to lead to the development of

more effective identification and resolution of safety and reliability issues, improved safety and asset management strategies and better targeting of public awareness campaigns.

Safeguarding The Public

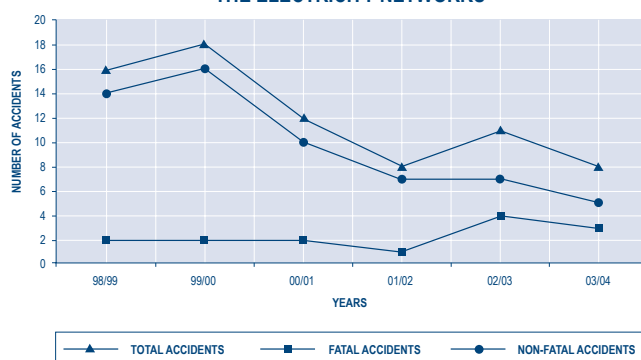
The electricity supply networks are in the public domain. This means they may pose a risk to members of the public and to property at any time. All of the plans required under the S&NM Regulation contribute to improving public safety in relation to electricity networks.

Network operators carry out public electrical safety awareness campaigns to warn the public of the hazards associated with electricity networks. It is clear from the declining accident statistics since 1999/2000 (see table below) that the work of promoting network safety to the public has been successful. The local responsibility for safety awareness allows programs to be better targeted for the risk factors most relevant to each area.

Preliminary data for 2003-2004 shows the number of serious accidents and fatalities involving the public has fallen from 20 in 1999/2000 to 8 in 2003/2004. DEUS is working with WorkCover and other stakeholders to further improve safety outcomes for cranes and trucks, which have been the major factor in recent public accidents. Network operators also regularly review and update their public awareness strategies.

The three public fatalities which occurred in 2003/2004 involved a hand-held pipe contacting overhead mains, a measuring tape contacting the overhead mains and a semi-trailer load tray contacting the overhead mains.

PUBLIC SERIOUS ELECTRICAL ACCIDENTS ON THE ELECTRICITY NETWORKS



Protecting Network Workers

Network inspections by Departmental staff were again upgraded and reviewed during the year, with inspections being conducted in a more effective manner. These inspections play an important role in proactively identifying network operator work practices and other

deficiencies which are likely to increase the risk of serious accidents associated with electricity networks. Our inspections do not limit, in any way, the responsibility of network operators to ensure safe workplaces. New Network Management Plans under the S&NM Regulation were required to be implemented by August 2003, and have contributed to further improving the safety of workers (see graph following). A new requirement for these plans is the inclusion of safety management strategies employed for the purpose of ensuring the safe operation of the network.

In 2003-2004 the Department's Senior Compliance Officers (SCO) spent 178 days in the field, down slightly from 192 days the previous year. The reduction was due primarily to an increased amount of project work and other duties conducted by the SCO's during the year. The SCO's also contributed to a review of inspection policies and processes during the year. Since the review, inspections have been more effective and have received significant stakeholder support.

Major non-conformance issues detected during the year included:

- Employees not signed onto Access Permits (A/P) or Hazard and Risk Assessments (HRA) - 2 instances and 5 instances respectively.
- Worksites without a HRA - several instances
- A/P's not cancelled - 2 instances
- Public Accessibility to a Zone Substation (e.g. gate open) - 2 instances

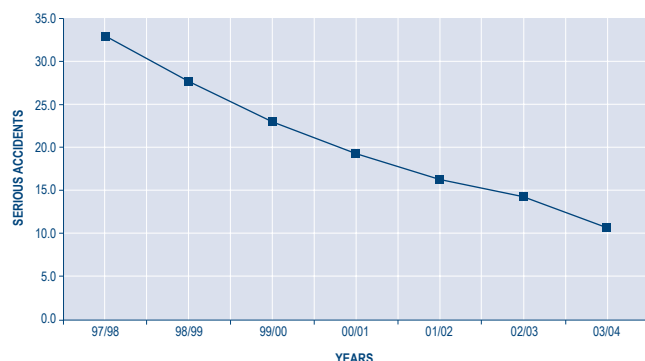
After five consecutive years when there were no fatal electrical accidents involving network workers in NSW, a Country Energy linesman received a fatal shock near Gilgandra in the Central West of the State on 27 August 2003. The Department assisted WorkCover, Police and Country Energy with their investigations into the accident. As is usual for Industry Worker fatalities, the Department subsequently issued a Safety Bulletin. A Coroner's enquiry into the death was completed in July 2004 and the Department is acting on the Coroner's findings and recommendations.

This compares with the period 1991-95 when fourteen network workers died while working on electricity supply networks in NSW.

Serious electrical accidents for network workers have declined by more than 66% in the last 6 years (3 year rolling average on the example chart below). In 2003-2004 there were 10 serious electrical accidents (SEA's), including the worker fatality, compared with 13 SEA's involving network workers in 2002-2003. Whilst this was an increase over the 9 that occurred in 2001-2002, it compares with 21 SEA's in 2000-2001, 32 in 1997-98, and levels of approximately 50 in the early 1990s.

Preliminary data for 2003-2004 shows the number of serious accidents and fatalities involving the public has fallen from 20 in 1999/2000 to 8 in 2003/2004

NETWORK WORKER SEA'S – 3 YEAR ROLLING AVERAGE



For the past two years, the SENI reporting system has also captured serious accidents involving the network, but not involving electricity (SENA's). In the case of network workers, the majority of these accidents involve falls from heights, predominantly (but not only) from ladders. In 2003-2004 there were 7 such accidents compared with 13 the previous year. The fact that there can be just as many such accidents as those involving electricity, demonstrates the advantage of a wider reporting framework. It also suggests that the risk and control measures in place have largely addressed the electrical hazards in the workplace, but that physical hazards (such as working at heights) are also significant. It should also be noted that "injury trauma" from a fall can be much more debilitating and permanent than electric shock or flash burns.

NETWORK RELIABILITY AND QUALITY

The reliability of electricity transmission and distribution systems is generally considered to be of fundamental importance to the economy and to the overall well-being of the community. As well as the obvious economic and job costs of supply interruptions, the lifestyle and other impacts on consumers can be substantial. This is verified by the number of people in NSW who complain to their electricity network operators about poor reliability.

Following implementation of the new national reliability reporting framework for 2002-03, all distributors are investing in upgrades to their asset management and reliability reporting systems. This process will continue over the next few years and is likely to contribute to the appearance of apparently deteriorating reliability performance indices due to more accurate reporting systems, particularly in relation to the numbers of customers affected by any outage. Performance trends need therefore to be cautiously interpreted. The new reliability framework, particularly with improved robustness of reporting systems, facilitates reliability benchmarking and identification of future network investment priorities, which is critical as capital expenditure on the network will increase significantly over the next 5 years.

It is important to recognize that to be effective, distributors need to report their annual performance objectives, criteria & interruption causes consistently. DEUS will closely monitor compliance with the framework. However, DEUS accepts an inevitable transition period, and the framework will present some immediate difficulties where historical trends are required since the procedures for calculating and reporting indices have changed. During 2003-04 the NSW distribution networks were required to report to DEUS their 2002-03 performance as far as possible using the new framework. Reporting requirements for transmission network operators, TransGrid and EnergyAustralia, were unchanged.

Distribution Network Performance

Overall for NSW, there were a total of 1586 complaints concerning distribution reliability during 2002-03, representing 5.3 complaints per 10,000 customers. This compares with 950 complaints reported in the previous year, although the increase is likely to be associated with improved complaints capture and management. Quality of supply complaints during 2002-03 concerned mainly voltage fluctuations, which constituted 78% of the 1089 quality-related complaints, and partly reflects the increasing number of air-conditioners with poor load characteristics.

As for 2001-02, storms & bushfires had a significant impact on reliability during 2002-03, particularly in Integral Energy's franchise area. For NSW the average customer interruption duration was 130 minutes, and customers experienced 1.45 interruptions on average. In the short-term, an apparent deterioration in performance is expected to occur as improved data capture and reporting is implemented. While other distributors have experienced highly variable annual performance, EnergyAustralia's normalised performance remained steady, partly due to the averaging effect of its higher number of connected customers. Only Australian Inland experienced significant reliability improvements in 2002-03, possibly due to significant reductions in bird strikes and bird-related damage to overhead lines associated with a drought-induced reduction in the bird population, more stable weather and reduced road closures.

Planned outages for 2002-03 are in line with previous years. EnergyAustralia's customers were the least affected by planned interruptions, consistent with the extensive interconnection of their network. Network operators identified a total of 79 feeders as unsatisfactory in 2002-03, compared with 101 unsatisfactory feeders in 2001-02, and in most cases improved feeder reliability performance. The majority (66%) of unsatisfactory feeders were categorised as Rural Short. Distributors have identified causes and proposed remedial actions to improve the performance of these feeders in 2003-04, while for 2002-03, 30% of causes were reported as

For NSW the average customer interruption duration was 130 minutes, and customers experienced 1.45 interruptions on average

unknown or other. During 2002-03, the distributors reported steps towards improved reliability performance which generally included one or more of the following:

- Installation along feeders of improved sectionalising and intelligent re-closer control systems;
- Enhanced interruption data capture and reporting systems;
- Improved linking of customers to network assets through customer and geographical information systems using National Meter Identifiers (NMI)

Transmission Network Performance

During 2003-04, TransGrid & EnergyAustralia reported to DEUS their network performance for 2002-03. TransGrid experienced two non-typical outages during 2002-03 which had a significant impact on the higher than usual system minutes lost, and is reflected in the reliability performance figures below. One outage occurred when a normally paralleled circuit was undergoing maintenance, and affected Cadia mine and Orange district, while the other outage was the result of incorrect back-up protection operation, and affected the Lismore area. TransGrid's transmission reliability performance for 2002-03 was:

- Network Reliability (Energy Not Supplied) was 4.40 system minutes, which exceeded the upper limit of TransGrid's annual reliability objective of 2.0 system minutes;
- Circuit Availability was 99.64%, bettering the upper limit of TransGrid's objective of 99.2% availability; and
- Averaged across the transmission network, connection point annual unplanned interruption frequency (AUAIF) was 0.21, interruption duration (AUAID) was 12.81 minutes and restoration time (AUART) was 61.21 minutes. This represents a deterioration (associated with the two atypical events referred to above) of the generally improving trend over previous years.

During 2002-03 TransGrid received 61 reliability complaints relating to supply failure, and accepted 57 claims relating to interrupted supply. EnergyAustralia's transmission network experienced improved performance with no system minutes lost and Circuit Availability of 96.31%, an improvement on the 94.59% of the previous year. Note that EnergyAustralia operates fewer transmission circuits than TransGrid, and for a protracted outage of any single line (in this instance Feeder 203

between Mason Park and Drummoyne), the result will be reflected in a lower Circuit Availability, though customer connections were in fact uninterrupted.

REVIEWING GAS NETWORK SAFETY AND RELIABILITY

Updating Gas Network Safety Regulations

When the *Gas Supply (Network Safety Management) Regulation 2002* was commenced, it referenced a specification for natural gas for purposes of ensuring that natural gas coming into New South Wales, irrespective of its origin, conformed to a pre-determined standard. Its purpose was to prevent any barriers to open competition within the natural gas retail market from occurring.

In January 2003, the Australian Gas Association published Australian Standard AS 4564 – 2003 / AG 864 – 2003: *Specification for general purpose natural gas*. This Standard aligns with the specification in the Network Regulation. The Department now considers that the Standard should be adopted and that the original specification be removed from the Network Regulation.

Another matter that has been considered is that of the connection or reconnection of gas installations to gas networks and the disconnection of gas installations from gas networks.

This work has traditionally been seen as the responsibility of the Network Operator, however Section 19 of the Gas Network Code for Full Retail Competition empowers the Authorised Supplier of natural gas (the Retailer) to physically disconnect and reconnect a gas installation. The Retailer is required to be certified by the Network Operator to carry out this work.

It is considered that the Network Regulation (which deals with matters of safety within gas networks) does not adequately covers the arrangements for Retailers carrying out this work, particularly with respect to the testing of each installation prior to reconnection occurring.

As a result the Department has been developing, in consultation with the industry and other agencies an amendment to the Network Regulation. This amendment will also incorporate changes resulting from the proposed *Gas Supply (Gas Appliances) Regulation 2004* currently being prepared by the Office of Fair Trading.

Reviewing Gas Network Safety & Operating Plans

The *Gas Supply (Network Safety Management) Regulation 2002* requires all gas network operators to develop and implement independently audited safety

and operating plans (SOP's) for their networks. The SOPs are audited annually and copies of the auditors' reports are lodged with the Department together with any amendments to the network SOPs.

During 2003-04 the Department reviewed SOP audit reports for:

- AGL Gas Networks
- Country Energy
- ActewAGL
- Albury Gas
- Allgas Energy
- Elgas Ltd
- Origin Energy LPG
- Wesfarmers Kleenheat Gas

The Department's reviews found that all the SOPs contained sufficient detail to comply with the requirements specified by the regulations with only one minor exception, which did not impact on the adequacy of the SOP.

Given the varying sizes and complexities of each gas network, the relevant SOPs were considered appropriate to meet the requirements of the Regulation. Network operators are continually reviewing their respective SOPs and are implementing improvements identified by the audit process.

All SOP audit reports identified opportunities for improvement. The Department continues to engage in individual consultations with gas network operators to address specific issues associated with their SOP's.

REPORTING GAS NETWORK INCIDENTS

Natural Gas Supply Disruptions

On 1 January 2004 the SANTOS Natural Gas Plant at Moomba, South Australia suffered a major incident resulting in a shutdown of production which impacted on the supply of natural gas to New South Wales, South Australia and the Australian Capital Territory.

The jurisdictions of New South Wales, led by Department of Energy Utilities and Sustainability, South Australia, Victoria and the Australian Capital Territory immediately established emergency arrangements to oversee the management of this significant disruption. These included the establishment of three taskforces namely:

NSW – SA Gas Emergency Task Force

The Task Force's role was to co-operatively manage the allocation of available gas from Moomba. Daily teleconferences were held to monitor the supply of gas available from Moomba and the status of the NSW and SA gas supply / demand balance.

Based on agreed gas sharing principles developed by the Task Force, the available gas from the Moomba plant and underground storage facility was allocated to each jurisdiction on a rolling 7 day forecast.

The Task Force completed its activities 19 February 2004 when the Moomba Gas Plant reached a sustained output of 420 TerraJoules per day which allowed the re-establishment of normal market arrangements.

NSW – VIC – SA – ACT Infrastructure Task Force

The Task Force's role was to assess the short and medium term supply-demand balance for gas in the interconnected states and the current gas market and infrastructure constraints which inhibit connectivity and gas flows within and between States.

The Task Force identified a number of options to remove bottlenecks which existed in the gas supply chain and confirmed that all immediately available options were being actioned by the gas industry.

NSW Gas Demand Management Task Force

The Gas Demand Management Task Force is a joint NSW Government / Gas Industry group with the objective of establishing equitable demand management principles in the event of prolonged gas supply disruptions.

Following extensive consultation, the Task Force has drafted a set of equitable demand management principles for use by network operators in preparing their load curtailment schedules for long term gas supply disruptions. This work is ongoing with further consultation expected during 2004 – 05.

Gas Network Incidents

The Department has worked with network operators to improve incident reporting over the previous year. As with last year, the Department does not consider this indicates deterioration in network safety and this is supported by the fact that for the third year none of the reported gas network incidents involved gas escapes from the network, which resulted in fire, fatalities or injuries.

The following tables detail incidents reported to the Department:

Consumer Service / Gas Meter Incidents, 2003-04

Incident Type	Number Reported		Ignition / Injuries / Property Damage	
	2002 - 03	2003 - 04	2002 - 03	2003 - 04
Third party damage to customer service resulting in gas leak	7	11	0	0
Licensed plumbers damage to customer service resulting in gas leak / ignition	5	3	4	2
Gas meter leaks	5	5	1 (Car Accident)	2 (Both Car Accidents)
Other	2	1	0	0
Total Incidents Reported	19	20	5	4

Consumer Gas Installation Incidents, 2003-04

Incident Type	Number Reported		Ignition / Injuries / Property Damage	
	2002 - 03	2003 - 04	2002 - 03	2003 - 04
Gas leaks	2	2	0	0
Gas ignitions	2	2	2	2 (both licensed gas fitters)
Other	1	0	1 (Bushfire)	0
Total Incidents Reported	5	4	3	2

Gas Network Incidents, 2003-04

Incident Type	Number Reported		Ignition / Injuries / Property Damage	
	2002 - 03	2003 - 04	2002 - 03	2003 - 04
Damage to gas network pipes resulting in gas leak	50	53	0	0
Out of specification natural gas	4	82	0	0
Smell of gas reported but found not to be gas network related	7	6	0	0
Other	1	7	0	0
Total Incidents Reported	62	148	0	0

In relation to the gas network no significant increase in reported gas leaks occurred during the year. There was, as a result of the Moomba Gas Plant incident in January 2004 a significant increase in the number of reports of off specification gas. None of these reports were of a critical or extended nature and were managed by the Network Operators.

In relation to gas installations the number of incidents reported by network operators to the Department showed no significant increase from the previous year. However of the six incidents resulting in gas ignition, injury or property damage, four involved licensed plumbers / gas fitters. This shows a consistent trend with five licensed gasfitters being injured in 2002 – 03. The Department is

liaising with the Office of Building Services – Department of Commerce which is the licensing authority for plumber / gas fitters in NSW.

The other two gas leak incidents both resulted from car accidents where gas meters were hit and damaged.

Gas Network Performance Report

In 2002, as part of its enhanced reporting regime, the Department established a Gas Network Annual Reporting Template which required Gas Network Operators to report on a broad range of performance indicators. These performance indicators covered Asset Management, Network Integrity, Network Reliability and Customer Service.

In relation to the gas network no significant increase in reported gas leaks occurred during the year

NSW Industry Integrity Performance Comparison with Other Jurisdictions

Distribution Networks	Natural Gas			LPG
Key Performance Indicators	NSW Overall Average	South Australia ¹	Victoria	NSW
Unaccounted for Gas (UAFG) %	2.0	2.7	2.5 ²	1.0
Gas Leaks per 10km of Pipe, 3rd Party Reports	4.6	2.4	10.2 ³	3.8
Gas Leaks per 1000 Customers, 3rd Party Reports	12.3	4.9	193	23.6
Leaks Found per 10km of Pipe Surveyed	1.5	2.4	6.2 ⁴	0.7
Mechanical Damage Incidents per 10km of Pipe	1.3	0.4	1.5 ³	0.5

¹ Office of the Technical Regulator (SA).

² Essential Services Commission (VIC)

³ Office of Gas Safety (VIC)

⁴ Four year rolling average which ends in 2001/02, Office of Gas Safety (VIC)

In relation to reliability, the limited comparable information from other jurisdictions does not allow detailed comparisons on all indicators. For those available the report showed NSW natural gas networks performance was consistent with those in other jurisdictions.

NSW Reliability Performance Comparison with Other Jurisdictions

Distribution Networks	Natural Gas		
Key Performance Indicators	NSW Overall Average	South Australia ¹	Victoria ²
Consumer Hours of Un-Planned Supply Lost per 1,000 Consumers	10.2	N/A	4.4
Losses of supply, Un-Planned Number	15	5 ³	45
Incidents/emergencies not responded to within 60 minutes of notification per 100,000 customers	97 ⁵	N/A ⁴	See Note ⁶

¹ Office of the Technical Regulator (SA).

² Essential Services Commission (Vic).

³ This figure is for outages where 20 or more customers were affected.

⁴ The SA reported figure does not include instances caused by 3rd party damage.

⁵ The overall figure for NSW does not include all operators but includes all of the major operators and large networks and is therefore considered representative of the State overall.

⁶ Performance by the three network operators is unable to be combined. The ESC sets a target for metropolitan areas of 95% during business hours, 90% after business hours and 90% for country areas for calls to be responded within 60 minutes.

MANAGING PIPELINES

Reviewing the Pipelines Act 1967

During 2003-04 the Department has been consulting with Department of Infrastructure, Planning and Natural Resources and The WorkCover Authority of NSW regarding the review of the *Pipelines Act 1967*, the regulatory regime for Major Hazard Facilities (MHFs) in NSW and the *Dangerous Goods Act 1975*.

As both these agencies have significant legislation that may impact on the Pipelines Act, the Department has delayed the release of its proposals for a new Pipelines Act until the frameworks for MHF's and Dangerous Goods are clarified. This will ensure a consistent regulatory framework is established for all sectors of the pipeline industry.

Once detailed proposals are agreed the Department will seek Cabinet approval to draft and circulate for comment an exposure draft of a new Pipelines Act. This is expected to occur in 2004-05.

Reviewing Pipeline Safety & Operating Plans

During 2003-04 all pipeline licensees lodged audited Safety and Operating Plans (SOPs), which have been reviewed by the Department. Department reviews found all the SOPs complied with the requirements of the *Pipelines Regulation 2000*.

The Department continues to note improvements in the operation of pipelines through corrective actions implemented by licensees to address auditor's comments and non-conformances.

Pipeline licensees continue to work with the Department to improve their safety management systems.

Granting Pipeline Approvals

During 2003-04 five new applications for pipeline permits or licences were received by the Department. These applications were: -

Sydney Gas Company Rosalind Park Coal Seam Methane Gas Pipeline

On 14 July 2003 Sydney Gas Company applied for a permit for a 500 metre pipeline to connect their proposed coal seam methane plant at Rosalind Park near Camden to the AGL Gas Network Natural Gas Pipeline, which supplies the Sydney natural gas network.

This permit was granted on 15 December 2003 and the subsequent pipeline licence was granted on 19 May 2004. The proposed pipeline can supply in the order of 15 PetaJoules per year to the gas network when the Camden Coal Seam Methane Project is fully developed.

Orica Kooragang Island Nitric Acid Pipeline

On 23 January 2004 Orica applied for a permit for a Nitric Acid pipeline to run from their plant on Kooragang Island to the adjacent Kooragang No2 Wharf. This pipeline if approved will allow the export of nitric acid to Orica's overseas customers.

Processing of the permit has proceeded to the Ministerial Concurrence stage and it is expected that if approved the final licence will be processed during the later part of 2004.

TXU Tallawarra Natural Gas Pipeline

As part of the development of the 400MW Combined Cycle Gas Turbine power station on the site of the former Tallawarra Power Station, on 18 February 2004 TXU Australia applied for a permit for a 2.9 kilometre natural gas pipeline to supply up to 20 PetaJoules per year of natural gas from the Eastern Gas Pipeline to the power station.

Processing of the permit has proceeded to the Ministerial Concurrence stage and it is expected that if approved the final licence will be processed during the later part of 2004.

Hunter Energy Natural Gas Pipeline

On 18 May 2004 Hunter Energy applied for a permit for a 36 kilometre natural gas pipeline to supply natural gas from the AGL Gas Network Natural Gas Pipeline at Seahampton to Kurri Kurri and Rutherford in the Hunter Valley west of Newcastle.

This pipeline is designed to increase the available supply of natural gas to the area including the Hunter Economic Zone.

Granting Pipeline Licence Variations

Marsden to Dubbo Natural Gas Pipeline

In January 2003 the Department received the final information necessary to proceed with the licence area variations for the final pipeline route and pipeline corrosion protection easements for Pipeline Licence No 25 – Dubbo to Tamworth Natural Gas Pipeline. This variation was granted by Her Excellency the Governor on 17 March 2004.

Illabo to Tumut Natural Gas Pipeline

This variation of Pipeline Licence No 28, which was to correct two minor alignment errors which occurred during the construction, was granted by Her Excellency the Governor on 2 June 2004.

Hoskinstown to ACT Natural Gas Pipeline

This variation to Pipeline Licence No 29 was to reduce the easements established for the construction to those required for operation was granted by the Her Excellency the Governor on 17 March 2004.

Renewing Licences

Newcastle and Hunter Oil Pipelines

The renewals for Licence Nos 9, 10 and 11 have proceeded to final licence documents signature stage and are awaiting return of the renewal licence documents from the Newcastle Pipeline Company and the Hunter Pipeline Company. Once returned the Department will proceed to complete the renewal of these licences.

The licensees continue to comply with their statutory obligations including their SOP auditing and performance reporting obligations.

Transfer of Pipeline Licences

Dubbo to Tamworth/Gunnedah Natural Gas Pipeline

On 15 January 2003, the Governor granted Pipeline Licence No 27 to APT Pipelines (NSW) Pty Ltd for the construction and operation of the Dubbo to Tamworth / Gunnedah Natural Gas Pipeline.

This project is also known as the Central Ranges Pipeline Project and was incorporated into a commercial tender process for the supply of natural gas to the Central Ranges region of NSW.

This commercial process was overseen by The Independent Pricing and Regulatory Tribunal (IPART) and the Australian Competition and Consumer Commission (ACCC).

The Department has held Discussions with Europacific and APT regarding transfer of the licence and an application is expected during 2004-05.

Eastern Gas Pipeline

During 2003 – 04 Duke Energy International sold the Eastern Gas Pipeline along with other assets to Alinta. This sale involved the acquisition by Alinta of the two Duke owned companies that hold Pipeline Licence No 26 for the Eastern Gas Pipeline. Since the companies that held the licence have not changed this transaction did not require a formal transfer of the pipeline licence.

Pipeline Permit Extensions

On 2 March 2003 the Minister for Energy and Utilities granted a 2 year extension to BP Australia Ltd for the Banksmeadow to Sydney Airport Jet A1 Pipeline permit. This provides BP Australia further time to develop their pipeline proposal.

Reporting Pipeline Performance

Pipeline Incidents

No pipeline escape or ignition incidents were reported to the Department during 2003-04.

In relation to unplanned events only one unscheduled maintenance event was reported to the Department. This event arose from the pipeline operator's inspection program identifying a situation that required immediate corrective action.

The Department considers this an indication of the sound inspection practices adopted by the licensee. The maintenance work prevented a potential interruption to the pipeline's operation from occurring.

ACCREDITATION SCHEME FOR CONTESTABLE ELECTRICITY WORKS

The *Electricity Supply Act 1995* establishes a policy framework for "contestable works" i.e. distribution and transmission network construction, service connection and metering work and reticulation design work funded by customers. This work was formerly a monopoly distributor function.

Examples of such work include network extension design and construction, network augmentation and installation of services and metering to connect premises or development sites to the network.

The contestability framework enables customers to choose a service provider to undertake works. Service providers must be accredited to undertake contestable work.

DEUS as Accrediting Agency

The former Ministry of Energy and Utilities was recognised on 17 December 2001 as the accrediting agency under the provisions of the *Electricity Supply (General) Regulation 2001*. Previously the Electricity Association of NSW (now disbanded) was the accrediting agency in NSW from April 1998 to December 2001.

DEUS's aim is to continue to administer a safe, consistent, credible and expanding accreditation scheme for contestable works. At 30 June 2004, there were a total of 1,145 accredited service providers, compared to 1,143 the previous year, made up of:

- Level 1 (Network Construction): 59 (52);
- Level 2 (Connection Services): 1,024 (1,044); and
- Level 3 (Network Design): 62 (47).

Significant Events

DEUS provided input to the IPART review of contestable work with the significant change being that streetlight maintenance work is now contestable. This means that the only work funded by customers that is now not contestable is emergency work.

Integral Energy has recognised the availability of external service providers operating in their area and has decided

DEUS's aim is to continue to administer a safe, consistent, credible and expanding accreditation scheme for contestable works

to withdraw from Level 1 and Level 3 work, which is in line with their earlier withdrawal from Level 2 work. Integral Energy now undertakes contestable work only in exceptional circumstances. This decision has therefore freed their in-house staff to concentrate on their own network maintenance and upgrade work.

Activities During The Year

DEUS received an average of 677 telephone calls per month in relation to contestable works, this compared with 517 the previous year. The majority (76%) of calls were from customers requesting lists of service providers accredited to perform contestable work. This compared with the previous year when 80% of enquiries were for lists of service providers and probably reflects the fact that the lists are now available on the DEUS website. Other enquiries were regarding new and renewal applications for accreditation and general contestable works matters.

DEUS processed an average of 87 accreditation renewal applications per month, compared to 89 the previous year. Additionally 10 applications for initial accreditation were processed per month compared to 5 the previous year.

Cancellations of accreditation generally are due to the service provider deciding not to renew and numbered a total of 84 which is a pleasing decline from 102 for the previous year. The trend in scheme numbers now shows a small decrease in Level 2 providers, with a healthy increase in the Level 1 and Level 3 area.

Setting Future Directions

An internal review by DEUS staff of the operation and funding of the scheme is presently underway with the intention to proceed to a formal external review if the need is identified. Aspects of the Scheme which are being reviewed include:

- Service Provider availability;
- Barriers to effective competition;
- Occupational health and safety management plans;
- Network operator authorisation;
- Regulatory framework;
- Technical compliance; and
- Third party auditing.

The review will consider current industry issues and ways to offer improvements in the scheme for customers, service providers and electricity distributors.

DEMAND MANAGEMENT

General

The Electricity Supply Act requires all NSW electricity distributors to investigate non-network or DM options before committing to expand or increase the capacity of their networks. This requirement is also repeated as a licence condition.

DEUS has prepared (in conjunction with Industry) a Code of Practice to provide guidance to distributors on satisfying this requirement. The current Code was 'recognised' by the Director General of the former Ministry and took effect on 10 August 2001. This Code requires a high degree of planning transparency and market testing be adopted by distributors when addressing network constraints.

The DM Code requires that distributors must each year:

- Publish an Electricity System Development Review (ESDR (annually). Distributors must disclose sufficient information on their network augmentation plans far enough in advance to allow customers or DM service providers to develop and implement alternative non-network solutions. The review is to cover a distributor's whole network and detail those parts where a constraint in meeting the demand is forecast within 5 years;
- Issue a Request for Proposals (RFP) to the market to give proponents the opportunity to suggest alternative solutions to address network constraints. An RFP must fully and accurately specify the nature of the network constraint and allowing proponents enough time to develop such proposals;
- Evaluate equally the network augmentation and non-network solutions. The evaluation must take into account all relevant costs and benefits in a way that is consistent with NEC requirements in respect of new investment in network capacity. Distributors must then publicly announce the recommended option and its cost.

Distributors must then report to DEUS on the results of their activities. The summarised results for 2002/2003 are given below. Detailed results are available from each distributor.

Other Developments in Demand Management

The DM Code which commenced in 2001 was subject to a review which was completed in the first half of the 2004 calendar year with the assistance of a review committee of industry, user and regulatory representatives. The principal change is the incorporation of procedures to deal with 'Standard Offers'.

The Ministerial Council on Energy (MCE) has also recognised the potential for improved price outcomes in the National Electricity Market (NEM) from greater levels of participation by end-users in the operation of the wholesale electricity or spot market. The MCE commenced public consultation in March 2004 on a range of options to promote greater levels of demand side participation in energy markets. These options include:

- Development of a demand side responses pool in the NEM;
- Expanding the use of interval meters; and
- Development of guidelines for reform of the structure of electricity tariffs.

Performance of Distributors

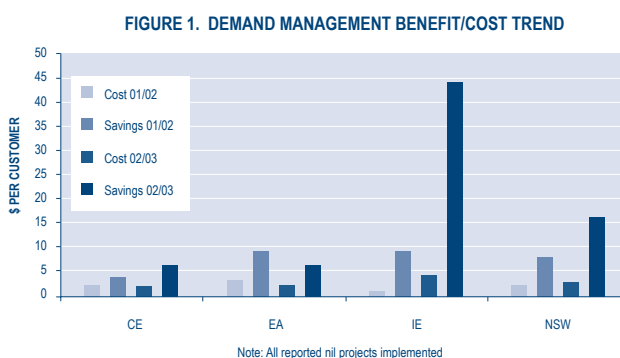
The Electricity Network Performance Reports produced by each of the four distributors and TransGrid include a section on their DM activities. These reports contain the detailed information on each distributor's activity and are contained on their web sites.

Expenditures and savings are expressed in Present Value (PV) terms which enables comparison of projects that defer capital and operating expenditure for varying periods of time and at varying stages in the future. This financial process adjusts the value of future benefits and costs so that they may be added to give an equivalent value in current day monetary values. The PV figure reported thus represents the total amounts of savings or costs no matter at what time they are expended or avoided. The result is also shown expressed as the index of dollars per customer. This eliminates the size of the organisation as a factor and enables a more direct comparison of activity levels.

The NSW total for year 2002/2003 is a saving of \$47.9 million at a cost of \$7.3 million, which compares with the previous year of a saving of \$22.5 million at a cost of \$6.0 million.

This represents a saving for 2002/2003 of \$16.03 at a cost of \$2.45 per customer, which compares with the previous year of a saving of \$7.61 per customer at a cost of \$2.02 per customer.

The benefits and costs for each distributor and NSW are shown in Figure 1:



Nature of Demand Strategies Implemented

The principal DM initiatives utilised were power factor correction installations, either at zone substation locations or distributed throughout the network. The other significant approach remains load shifting, principally by use of storage electric water heaters.

The opportunities offered by minimising or changing individual customer electrical load usage patterns and equipment installed appear to remain under utilised and offer a largely untapped resource. The Integral Energy project at Castle Hill may provide evidence of the potential from this approach.

In addition, the recent IPART review of the treatment of expenditure on DM may also trigger a re-examination of distributors' approaches.

The NSW total for year 2002/2003 is a saving of \$47.9 million at a cost of \$7.3 million, which compares with the previous year of a saving of \$22.5 million at a cost of \$6.0 million

WATER SYSTEMS BRANCH

BRANCH DESCRIPTION

The Branch provides a wide range of services including:

- development and implementation of sustainable urban water policy initiatives in conjunction with other Agencies;
- management of the Country Towns Water Supply and Sewerage Programs which provides technical, management and financial support to the State's 106 local

water utilities local government in the provision of water supply and sewerage to country towns in NSW;

- technical and financial assistance to local water utilities during drought;
- developing and implementing strategies to improve the performance of local water utilities' businesses in relation to pricing, business management and sustainable water resource management;

- safety surveillance of local water utility dams; and
- ministerial support services to the Minister on urban water related matters.

INFRASTRUCTURE AND FUNDING

The NSW Government's Country Towns Water Supply and Sewerage (CTWS&S) Program is managed by the Department. The Program provides technical, management and financial support to Local Water Utilities (LWUs) in the provision of water supply and sewerage services to country towns in NSW.

The Program provides financial assistance to LWUs for water supply and sewerage backlog works. "Backlog" relates to the infrastructure necessary to meet the demand, loads, service standards and regulatory requirements that existed in 1996 when the Program rules were launched by the State Government. LWUs are responsible for capital expenditure to meet growth, asset replacement and changes in standards or requirements after 1996.

Improvements to the Country Towns Water Supply And Sewerage Program

During the year a comprehensive review was undertaken to investigate improvements to the efficiency of delivering the Program. In June 2004, the Minister for Energy and Utilities announced new rules for funding under the Program.

The rules, which take effect from 1 July 2004, will ensure:

- the process of delivering backlog projects will be streamlined and financial assistance will be contingent on LWUs meeting the project milestones on time;
- prioritising backlog projects for funding will be performed by a new inter-departmental committee comprising representatives from DEUS, Department of Infrastructure, Planning and Resources, Department of Health and Department of Environment and Conservation. The basis of determining backlog works remain the same as the 1996 Program rules;
- the distribution of funding to backlog projects will be in a more equitable manner based on the size of LWUs in terms of customer base. Large LWUs will receive less financial assistance than small LWUs because large LWUs have greater capacity to pay for the cost of backlog works.

Achievements Of The Country Towns Water Supply And Sewerage Program

The Country Towns Water Supply and Sewerage Program has, since its inception, significantly improved water supply and sewerage services in country towns in NSW. The Program has provided, and continues to provide, beneficial public health and environmental outcomes for the State's country towns.

Performance of the Country Town Water Supply and Sewerage Program

Quantitative Indicator(s)	Actual Performance				Target 2003-04
	2000-01	2001-02	2002-03	2003-04	
No. of new construction projects started	2	16	37	30	35
No. of Small Towns sewerage projects completed.	4	8	5	3	4
No. of Water Supply & Sewerage Projects completed.	19	18	15	30	30
No. of Grants issued	24	76	101	75	100
No. of people benefiting from improved water supply works	50,000	155,000	81,000	76,000	N/A
No. of people benefiting from improved sewerage works	20,000	68,000	94,000	37,000	N/A

In 2003/04 some targets were not met because the Department and many LWUs directed their resources to drought emergency works. In addition, no grant offers were made for new projects during the period that the Program was under review.

Implementation of the Small Towns Sewerage Program

The Small Towns Sewerage Program is a sub-program of the CTWS&S and enables LWUs to provide sewerage

services to small communities that otherwise would have relied on failing septic systems.

During the year 3 more small town sewerage projects were completed bringing the total to 32. There were a further 9 small town sewerage projects in construction.

Since its inception this program has enabled 14,000 residents to have access to modern sewerage services. It has resulted in the elimination of 6,000 failing septic systems with consequent improvements to environmental and public health.

Performance of the Small Towns Sewerage Program

Quantitative Indicators	Actual 2003-04	Target 2003-04
Number of sewerage projects to be completed.	3	4
Number of innovative solutions adopted.	6	3
Number of new small town sewerage construction projects to be started	2	7
Number of small town sewerage grants issued	8	15
Value of small town sewerage grants to be issued.	\$5.0M	\$14M
Qualitative Indicators		
Local communities acceptance of small town solutions		
Local Water Utilities acceptance of increased funding for socially disadvantaged communities		

Since its inception this program has enabled 14,000 residents to have access to modern sewerage services

In 2003/04 some targets were not met because the Department and many LWUs directed their resources to drought emergency works. In addition, no grant offers were made for new projects during the period that the Program was under review.

Priority Sewerage Projects In Sydney's Water Catchment Area

This is a NSW Government initiative to accelerate the construction of ten priority sewerage projects under the Country Towns Water Supply and Sewerage Program to protect Sydney's drinking water catchment. The estimated total value of the ten projects is \$120M. Sydney Catchment Authority is contributing \$20M over 5 years. This additional government funding enables councils to provide higher levels of treatment and prevent release of untreated effluent to local waterways.

Two projects (Mittagong Regional Sewerage and Goulburn Sewerage Wet Weather Storage) have been completed and eight projects are in various stages of pre-construction. Seven projects (Bundanoon, Bowral, Goulburn Stage 3, Lithgow, Robertson, Taralga and Wallerawang Sewerage Schemes) are expected to be completed by 2006/2007.

SUSTAINABLE WATER POLICY

Drought Management

NSW is currently in its third year of continuous drought conditions. During periods of drought and blue green algae outbreak, the State Government provides technical and financial assistance to local water utilities (LWU) to maintain essential water supplies.

For the year 2003/04 DEUS provided approximately \$2.1 million in payments and approvals.

- \$306,111 - Payment for the approved cartage of water to maintain essential water supplies.
- \$150,000 - Approved subsidy for up to 50% of the cost for the purchase of water to maintain essential supplies (in lieu of cartage).
- \$1,696,900 - Approved subsidy for up to 50% of the cost for capital works required to maintain essential water supplies.

DEUS also provided subsidy to LWUs for the preparation of drought management plans. Regional staff provided technical advice to LWUs to manage depleted supplies and provided the Minister with fortnightly updates on town water status and emerging issues in regional NSW.

IWCM Studies

IWCM is the integration of sewage, stormwater and water supply services on a catchment basis. This requires that water services be managed sustainably and with due consideration of natural processes, other water users (including the environment), and the broader catchment issues. It also requires that water use be efficient and that waste be reduced to a minimum.

This new initiative provides a framework for NSW rural water utilities to combine and utilise government policies with a focus on the COAG reform requirements, including the recent National Water Initiative.

The framework engenders a whole of government approach by creating a partnership between local government and relevant state agencies in the development of sustainable water use strategies.

Community consultation is achieved through the development of a joint government and community project management group. It is the decisions of this group and those of the many direct community workshops that are used to decide on acceptable water service options for each community.

The approach incorporates tools such as demand management, water recycling, stormwater management as a resource, cost recovery pricing, improved business planning and drought management. The framework also utilises innovative approaches to water management and has been responsible for the introduction of rainwater tanks into reticulated town systems, development of return flows, effluent credits for return flows, aquifer injection of treated waters for future supply and demand management modelling. The process also looks at reduction of greenhouse emissions and is currently incorporating energy saving measures.

A number of IWCM studies are currently underway with one for Eurobodalla Shire already completed. Those underway include studies for Broken Hill, Deniliquin, Parkes, Kempsey, Cobar, Walgett, Tweed, Rylstone and Kyogle. A guideline document for the framework has been completed and is soon to be publicly released.

Legislation

Legislation concerning the provision of water supply and sewerage services in NSW is complex and extensive.

The principal legislative instruments are the *Local Government Act 1993* and the *Water Management Act 2000*, but there are many other instruments and policies.

It is a role of the Department to ensure that legislation covering water services provided by local water utilities is appropriate, meets best management practices and is well documented.

During the last 12 months Department staff have been involved in the following areas:

Water Management Act 2000 Amendments

Water Policy and Reform officers in the Department together with staff from the Department of Infrastructure, Planning and Natural Resources identified a number of minor policy and statutory law amendments to the *Water Management Act 2000* relating to local water utilities during the Spring 2003 session of Parliament. The amendments are contained in the *Water Management Amendment Act 2004 No 39*.

Water Management (Water Supply Authorities) Regulation 2002

Water Policy and Reform officers in the Department, in conjunction with staff from the Department of Infrastructure, Planning and Natural Resources conducted public consultation on a new regulation to consolidate six existing *Water Management Act* regulations into a single regulation for the five water supply authorities listed under the Act.

The Water Policy and Reform Branch of the Department of Energy, Utilities and Sustainability (DEUS) coordinated the process which was jointly managed by DEUS and the former DLWC, now part of the Department of Infrastructure, Planning and Natural Resources (DIPNR) until allocation of relevant parts of the *Water Management Act 2000* to the Minister for Energy and Utilities was Gazetted in February 2004.

The draft *Water Management (Water Supply Authorities) Regulation 2004* (the Regulation) and the associated Regulatory Impact Statement (RIS) were published on the DEUS and DIPNR websites in July 2003 with the extended consultation period closing in February 2004.

The Regulation will remake six regulations, with some changes, as a single regulation for the five water supply authorities that operate urban water services. The water supply authorities that will be subject to the Regulation are Gosford City Council; Wyong Shire Council; Cobar Water Board; Australian Inland Energy Water Infrastructure and Sydney Olympic Park Authority - formerly the Olympic Coordination Authority.

The objectives of the Regulation are to define the areas of operation of the five water supply authorities; provide for greater consistency with other authorities undertaking similar functions; provide for, and control activities in, special areas (currently Australian Inland Energy Water Infrastructure only), and promote operational and administrative best practice.

Allocation of legislation

To complement the transfer of responsibilities in 2003 of the former Department of Land and Water Conservation's Town Water Treatment & Recycling Branch to the Department of Energy, Utilities and Sustainability, allocation of relevant parts of Local Government legislation and the *Water Management Act 2000* to the Minister for Energy & Utilities were Gazetted in November 2003 and February 2004 respectively.

WATER INDUSTRY PERFORMANCE AND REGULATION

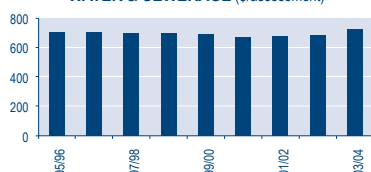
Annual Performance Reporting For 2002/03

The NSW Government provides comparative information to all NSW Local Water Utilities (LWUs) to facilitate performance monitoring and improvement by enabling each LWU to benchmark its performance against similar LWUs. This information is in the form of an annual Performance Monitoring Report which is a comprehensive report for everyone with an interest in the performance of NSW utilities (management, customers, regulators and other utilities).

Data for the report is collected by the Department of Energy, Utilities and Sustainability from each LWU's annual water supply and sewerage performance reporting forms. This data is analysed and a report is prepared. The key performance indicators have been aligned with national and international reporting to facilitate wider comparisons. The performance reporting system has been progressively enhanced to provide a balanced view of the long-term sustainability of NSW water utilities with a triple bottom line (TBL) accounting focus. A summary of the key performance indicators is shown below.

Social Indicators (Charges/Bills, Health, Levels of Service)

TYPICAL RESIDENTIAL BILL – WATER & SEWERAGE (\$/assessment)



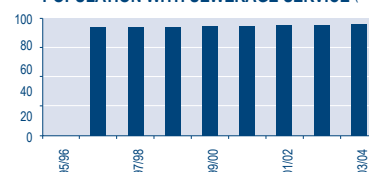
Typical residential bill –
\$720/assessment for water supply and sewerage in 2003/04. This has remained relatively constant in current dollars over the last 9 years. The typical residential bill for water supply has risen slightly to \$340 while the sewerage bill has risen to \$380.

% OF UTILITIES WITH PAY-FOR-USE TARIFF FOR WATER SUPPLY



Pay-for-use water supply tariff –
66 LWUs (60%) had a two-part tariff (ie. an access charge and a usage charge for all water usage) or an inclining block tariff in July 2003. These tariffs comply with the COAG Strategic Framework for Water Reform. The median water usage charge was 73c/kL.

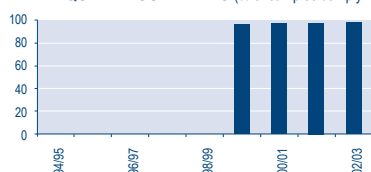
POPULATION WITH SEWERAGE SERVICE (%)



Population with sewerage service –
94.0% of the non-metropolitan urban population (ie. 1,620,000 people) received a reticulated sewerage service in 2002/03. Since implementation of the new Country Towns Water Supply and Sewerage Program in 1996, the population receiving a reticulated sewerage service has increased by 160,000 people ie. from 92.3% to 94.0%.

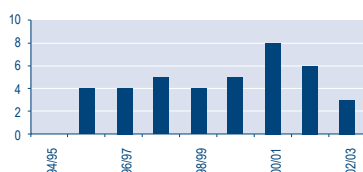
A further 47 utilities (37%) have prepared draft Strategic Business Plans for these businesses

COMPLIANCE WITH MICROBIOLOGICAL (E.COLI) WATER QUALITY GUIDELINES (% of samples complying)



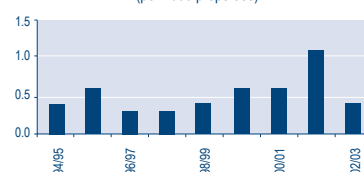
Drinking Water Quality –
Microbiological water quality compliance for E.coli (health related) was 98% on the basis of the 1996 NHMRC/ ARMCANZ Australian Drinking Water Guidelines and was similar to the other Australian utilities. Physical and Chemical compliance were both 96% of samples tested. Over the last 4 years microbiological compliance has increased from 97% to 98%, and physical and chemical compliance have ranged from 95% to 97%.

WATER QUALITY COMPLAINTS (Per 1000 properties)



Water quality complaints –
3 per 1000 properties – similar to the other Australian utilities and
water service complaints –
11 per 1000 properties. Water quality complaints have fallen from 4 to 3 over the last 8 years while service complaints have increased from 7 to 11. Water quality has improved significantly over this period due to the commissioning of new water treatment facilities.

SEWAGE ODOUR COMPLAINTS (per 1000 properties)



Sewage odour complaints –
0.4 per 1000 properties which was lower than the other Australian utilities and
sewerage service complaints –
14 per 1000 properties. Odour complaints have remained relatively constant at 0.4 over the last 9 years while service complaints have fallen from 20 to 14. DEUS is working with LWUs experiencing high odour complaints to develop appropriate control measures.

Environmental Indicators

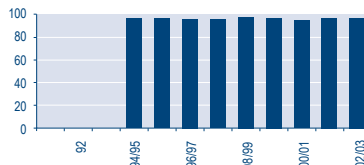
AVERAGE ANNUAL RESIDENTIAL CONSUMPTION (kL/property)



Average annual residential consumption –

220kL/property which was similar to Hunter Water and Melbourne and was lower than the other Australian utilities. Average annual residential potable water consumption has fallen from 330kL/property over the last 12 years due to introduction of pay-for-use water pricing and implementation of water demand management by LWUs.

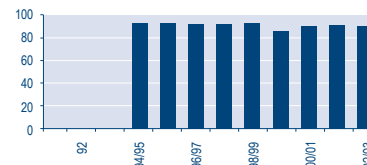
COMPLIANCE WITH BOD IN LICENCE (% of sampling days complying)



Sewage effluent quality –

97% of the sampling days complied with the 90-percentile limits of the Department of Environment and Conservation (DEC) licences for Biochemical Oxygen Demand (BOD). Compliance over the last 9 years has ranged from 95% to 98%. Over this period, licence limits for both BOD and SS have become more stringent for many LWUs.

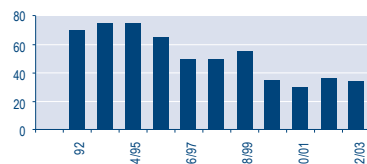
COMPLIANCE WITH SS IN LICENCE (% of sampling days complying)



Sewage effluent quality –

90% of the sampling days complied with the 90-percentile limits of the DEC licences for Suspended Solids (SS). SS and BOD compliance was similar to country Victoria and slightly lower than the Australian Capital City utilities. Compliance over the last 9 years has ranged from 86% to 93%. The major cause of non-compliance is the growth of algae in maturation ponds being measured as SS.

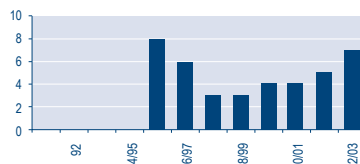
SEWER MAIN CHOKES & COLLAPSES (per 100km of Main)



Sewer main chokes and collapses

34 per 100 km of main, which was lower than most other Australian utilities. This has fallen from 75 to 34 over the last 11 years.

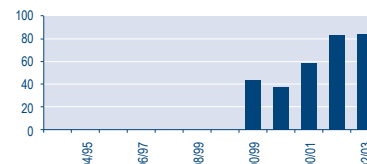
SEWER OVERFLOWS TO THE ENVIRONMENT (per 100km of Main)



Sewer overflows to the environment

7 per 100 km of main, which was lower than most other Australian utilities. This has fallen from 8 to 7 over the last 8 years.

BIOSOLIDS REUSE (% of biosolids reused)

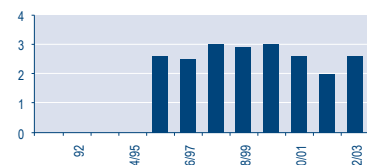


Biosolids reuse

in total, 85% of the biosolids produced was reused in 2002/03. This has increased from 43% in 1998/99.

Economic Indicators (Financial, Efficiency)

ECONOMIC REAL RATE OF RETURN (Water & Sewerage %)

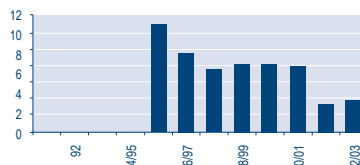


Economic real rate of return –

2.6% for water supply and sewerage, which was lower than the Australian capital city utilities but higher than country Victoria and significantly higher than the last reported values for country utilities in other states. 87 LWUs (69%) had a positive real rate of return.

The real rate of return has remained relatively constant over the last 8 years. The real rate of return for water supply was 2.9% and the real rate of return for sewerage was 2.1%.

DEBT TO EQUITY WATER SUPPLY & SEWERAGE (%)



Debt to equity –

3% for water supply and sewerage, falling from 11% over the last 8 years. LWUs facing significant capital investment are encouraged to make greater use of borrowings to reduce their required Typical Residential Bill (TRB).

WATER SUPPLY & SEWERAGE OPERATING (OMA) Cost (\$/property)



Operating cost

(OMA – operation, maintenance and administration) – \$500/property for water supply and sewerage. The OMA cost per property has increased from \$370 to \$500 (Jan 2003\$) over the last 12 years, largely due to more stringent standards for sewage treatment and to increasing management cost. The operating cost for water supply was \$240/property, which was similar to Sydney Water and lower than the country utilities in the other states. The operating cost for sewerage was \$260/property, which was higher than most other Australian utilities.

WATER SUPPLY OPERATING (OMA) COST (c/kL)



Water supply operating cost –

65c/kL (Jan 2003\$). This has risen from 40c/kL in the last 8 years largely due to higher management costs and reduced water consumption per property.

Sewerage operating cost was 100c/kL (Jan 2003\$).

MANAGEMENT COST WATER SUPPLY & SEWERAGE (per connected property)



Management cost –

\$185/property for water supply and sewerage. The management cost per property has increased from \$110 to \$185 (Jan 2003\$) over the last 12 years. The management cost for water supply was \$95/property and the management cost for sewerage was \$90/property.

EMPLOYEES WATER SUPPLY & SEWERAGE (per 1000 properties)



Number of employees –

2.8 per 1000 properties for water supply and sewerage, which was lower than country Victoria and the last reported values for Sydney and Hunter. This indicator has fallen from a maximum of 3.3 over the last 12 years.

Water supply – the employees per 1000 properties has fallen by over 20% from a maximum of 1.7 to 1.3 and

Sewerage – the employees per 1000 properties has fallen by almost 20% from a maximum of 1.8 to 1.5.

The Minister for Energy and Utilities has released the 2002/03 NSW Water Supply and Sewerage Performance Monitoring Report and an Overview brochure to all NSW water utilities. All 126 NSW LWUs reported their performance in 2002/03. The report and brochure has also been provided to relevant government agencies as

well as the National Competition Council (NCC) and the Independent Pricing and Regulatory Tribunal (IPART). These are also published on the Department's web site (deus.nsw.gov.au/water). well as the National Competition Council (NCC) and the Independent Pricing and Regulatory Tribunal (IPART). These are also published on the Department's web site (deus.nsw.gov.au/water).

Best Practice Management Guidelines

The Minister released the Best Practice Management of Water Supply and Sewerage Guidelines in May 2004. These guidelines will assist LWUs in identifying the key elements they need to carry out to efficiently and sustainably deliver water supply and sewerage services to the community. The purpose of best - practice management is:

- to encourage the effective and efficient delivery of water supply and sewerage services, and
- to promote sustainable water conservation practices and water demand management throughout NSW.

LWUs that comply with these Best-Practice Management Guidelines will have achieved healthy and sustainable water supply and sewerage businesses and compliance with National Competition Policy. In addition, provided that a local government LWU has demonstrated its compliance with these Guidelines, from 2003/04 it may pay an annual dividend from the surplus of its water supply and sewerage businesses to the council's general revenue.

Compliance with these Guidelines is also a pre-requisite for eligibility for financial assistance towards the capital cost of backlog infrastructure under the Country Towns Water Supply and Sewerage (CTWS&S) program. This program is managed by DEUS to assist LWUs in providing water supply and sewerage services.

DEUS is continuing to assist LWUs in implementing the key elements including:

- strategic business planning and long-term financial planning,
- water supply and sewerage pricing and developer charges (including liquid trade waste pricing and approvals),
- demand management,
- drought management,

- annual performance reporting,
- integrated water cycle management (IWCN).

Strategic Business Planning/Financial Planning

In order to deliver efficient and high-quality water supply and sewerage services in non-metropolitan NSW, it is important that Local Water Utilities (LWUs) prepare and implement sound Strategic Business Plans (SBPs).

SBPs detail the levels of customer service to be provided and the management of assets and resources required to achieve those levels of service. As a part of the SBP process, it is important that robust financial planning and asset management planning be undertaken and included in the SBP. The financial plan must disclose the required level of typical residential bills (TRBs) required to meet the target levels of service.

DEUS will continue to assist LWUs to prepare and implement appropriate asset management plans (operation plan, maintenance plan, capital works plan) to efficiently deliver their water supply and sewerage services.

The increasing number of LWUs undertaking and submitting strategic business plans and financial plans indicate that LWUs are moving towards best-practice planning practices.

Over 110 LWUs are now using FINMOD, a financial planning model for their financial planning and have provided very positive feedback on the model.

The FINMOD workshops conducted by DEUS are shown in the following table:

Number	2000/01	2001/02	2002/03	2003/04
FINMOD Workshops	10	12	12	20

Best-Practice Pricing

Best-practice pricing of water supply, sewerage and liquid trade waste services provides appropriate pricing signals to enable customers to balance the benefits and costs of their use of water services.

Such pricing ensures efficient use of water resources and is required for effective management of water supply and sewerage businesses and minimisation of customer bills. The introduction of such best-practice pricing is a key aspect of the COAG Strategic Framework for Water Reform and National Competition Policy.

Comprehensive best-practice Water Supply, Sewerage and Trade Waste Pricing Guidelines were prepared by DEUS and distributed to all LWUs in February 2003. In addition, software for water supply, sewerage and trade

The Minister released the Best Practice Management of Water Supply and Sewerage Guidelines in May 2004

waste pricing has been prepared and provided to LWUs for their use in the review of tariff options together with a help desk to assist LWUs to quickly move to best-practice pricing.

DEUS has encouraged and assisted LWUs to introduce best practice pricing. It has made available senior staff members to provide expert advice and to review options and appropriate strategies with LWUs. This initiative has resulted in the following 14 LWUs having abolished their annual water allowance and adopted pay-for-use water supply pricing and full cost recovery for the 2004/05 financial year. These LWUs are Australian Inland, Bogan, Cobar, Corowa, Gloucester, Griffith, Deniliquin, Harden, Hay, Murray, Orange, Uralla, Wellington and Wentworth.

Developer Charges

In January 2003, the Minister released the Developer Charges Guidelines for Water Supply, Sewerage and Stormwater. The guidelines define the elements of best-practice developer charges and provide guidance on the development, analysis and implementation of appropriate developer charges to ensure that new development meets a fair share of the cost of service provision. The guidelines have been issued to all LWUs in NSW who are now preparing development servicing plans on this basis.

DAM SAFETY

This sub-program addresses the Minister's statutory responsibilities under section 61 of the *Local Government Act 1993* for ensuring the safety of 184 dams owned and managed by over 80 LWUs in non-metropolitan NSW. The program facilitates cost-effective, safe and appropriate surveillance and management of the dams and arranges for the upgrading of any deficient dams, thus proactively avoiding dam failures and protecting the public, the environment and the infrastructure.

DEUS has completed a portfolio risk assessment on 21 deficient dams in NSW. This has identified an appropriate cost-effective program for upgrading these dams to the standards required by the Dams Safety Committee (DSC). A \$25M program of remedial works on 10 priority dams is being implemented with LWUs over the next 5 years.

Operation and Maintenance – As a result of the Department's audits of LWU dams and dam safety surveillance seminars, a marked improvement has been noted in the standards of surveillance, operation and maintenance at LWU dams over the past three years. This has been recognised by the DSC in its annual report.

The Dam Safety activity conducted by the Department is shown in the following table:

Number	2001/02	2002/03	2003/04
Dam Safety Audits	44	70	45
Dam Surveillance Reports	8	13	10
Dam Safety Surveillance Workshops	2	2	2

Dam Safety Emergency Plans (DSEPs)

A key objective of the Dam Safety sub-program is that life is protected in the event of an unpredictable incident by implementation of Dam Safety Emergency Plans (DSEPs). Such plans are required for all High and Significant hazard dams prescribed under the Dams Safety Act.

Currently there are approximately 30 DSEPs in place and another 12 are being finalised. These DSEPs will cover all the high risk LWU dams.

WATER SUPPLY AND SEWAGE TREATMENT

DEUS facilitates best-practice in the operation and maintenance of water and sewage treatment works by undertaking regular audit inspections of the 520 LWU water and sewage treatment works conducts seminars and accredited courses for operators on water treatment and sewage treatment.

DEUS provided technical assistance to NSW Health to enable councils to comply with requirements under the fluoridation of *Public Water Supplies Act 1957* and in certification of fluoridation officers. A fluoridation course was conducted and the fluoridation plants were audited during 2002/03.

In 2002/03 non-metropolitan NSW utilities complied with all sewage treatment licence targets (BOD, Suspended Solids), sewage odour complaints, sewage treatment process failures and sewage treatment works failures.

The audit activity conducted by DEUS is shown in the following table:

Number	2001/02	2002/03	2003/04
Water Treatment Audits	180	180	160
Sewage Treatment Audits	590	600	500
Water Treatment Seminars and Courses	7	6	6
Sewage Treatment Seminars and Courses	6	5	6

TRADE WASTE

Local water utilities in NSW are responsible for approving the discharge of liquid trade waste to their sewerage systems. The approval process includes obtaining concurrence from the Director General of the Department.

In streamlining the approval process, the Department has prepared a Concurrence Guideline for Liquid Trade Waste Discharges to Sewerage Systems that will assist local water utilities to approve certain trade waste to LWU sewers under section 90 of the *Local Government Act 1993*. This has reduced the number of applications being submitted for concurrence, but under the Act all concurrence matters have to be undertaken within the 40 day period prescribed by legislation.

Indicator	2001/02	2002/03	2003/04	Proposed 2004/05
All local water utility trade waste approvals processed within 40 days	100%	99%	100%	100%

ENERGY POLICY & MARKETS

ENERGY POLICY

In 2003-04 a key sustainability issue for energy and water utilities has been the potential contribution of the demand side in the demand/supply equation. DEUS has supported the Minister for Energy and Utilities in his role as Chair of the Demand Management Task Force, established by the Premier to investigate and advise on the potential for a Demand Management Fund and other strategies to promote the uptake of demand management in NSW.

A key policy focus for DEUS has been to promote the further development of a national market for electricity and gas. This has been pursued through a number of inter-jurisdictional fora, including the Ministerial Council on Energy working groups. DEUS is working with other jurisdictions to develop a national licensing framework for retail and distribution in electricity and gas, to promote the development of a national wholesale gas market, to promote demand side responses in the National Electricity Market and the development of a national consumer advocacy mechanism.

National consistency and the promotion of a national electricity market is a key driver behind DEUS's role in facilitating the work of the electricity industry on Business-to-Business (B2B) procedures. B2B transactions between competing retailers and electricity

distributors are information exchanges between those businesses for example to transfer customers or request network services. The efficiency of these transactions can have a significant effect on the level of service experienced by the customer, cost of customer transfers and the effectiveness of competition.

DEUS has worked at both the NSW and national level to promote the adoption of a national, industry-based decision making mechanism which is open and effective. NSW industry has supported a proposed Market Operations Rule which will require all licensed electricity retailers and distributors to participate in an approved B2B scheme. It is intended the initial scheme will be a formalised NSW B2B Steering Committee, to be replaced in 2005 by a national scheme.

DEUS has consulted with customer advocates, retailers and other jurisdictions on the development of a regulatory framework to enable the introduction of pre-payment meters for electricity customers. The intent is to facilitate their adoption on a voluntary basis and with no loss of existing customer safeguards in disconnection.

A draft Public Lighting Code was developed with local councils, electricity distributors and government agencies during 2003-04 to clarify the roles and responsibilities of distributors and councils in the design, operation and maintenance of street lighting. The Code of Practice will

provide minimum service standards and a mechanism to enable councils and distributors to negotiate service levels and choice of lighting types.

ENERGY MARKET REFORM

Overview

A major COAG-sponsored review of energy market reform directions in Australia delivered its final report to Australian Governments in December 2002. Australian Energy Ministers finalised a joint response to its recommendations in December 2003, through the Ministerial Council on Energy (MCE). The Department's Market Strategy Section played an important part in formulating NSW Government positions on these recommendations and in participating in the MCE's deliberations. In joining this debate, the Section sought to:

- effectively participate in and administer relevant forums;
- clearly identify and promote the outcomes sought by our participation; and
- provide clear and timely advice to our key stakeholders.

Effective Participation

During 2002/03, the Department was extensively engaged in managing the reform agenda of the former National Electricity Market Ministers' Forum. In 2003/04, the work of this Forum was taken over by the MCE in order to establish a single energy market governance body for Australia.

The Department was substantially involved in the deliberations of the MCE Standing Committee of Officials and a wide range of specialist groups reporting to it on various issues related to:

- Energy market reform;
- Energy efficiency and greenhouse; and
- Energy security and asset protection.

The Department's involvement contributed to the finalisation of a major energy market reform program for Australia agreed to by all energy Ministers on 11 December 2003. Full details of this program are set out in the *Ministerial Council on Energy: Report to COAG, December 2003* and is available from the MCE website at www.mce.gov.au. In essence, the key elements of the reform program are aimed at:

- improving the national character of Australia's energy markets;

- reducing the cost and complexity of regulation facing investors; and
- encouraging timely and efficient investment in new infrastructure.

Promoting Desired Outcomes

The Department contributed substantially to the development of proposals for new and improved energy market governance and institutional arrangements. Its key contribution was to ensure effective separation of rule making from rule enforcement functions. This model became a central design feature of the arrangements agreed by the MCE at its meetings of August and December 2003. As at 30 June 2004, substantial progress towards this new design had been achieved by means of the passage of establishment legislation in the Federal and South Australian parliaments for:

- a new Australian Energy Regulator to assume all regulatory functions; and
- a new Australian Energy Market Commission responsible for rule making.

Providing Clear and Timely Advice to Stakeholders

The Branch coordinates briefing materials used by the NSW Minister for Energy and Utilities at meetings of the MCE and by the Director-General of the Department at meetings of the Standing Committee of Officials. During 2003/04 there were 3 meetings of the MCE and 6 meetings of officials. A number of teleconferences were also convened amongst officials during the year. For all of these meetings, comprehensive briefing folders providing advice on all items listed for discussion and decision were delivered to deadline.

The Department contributed substantially to the development of proposals for new and improved energy market governance and institutional arrangements

ENERGY ANALYSIS SECTION

Implementing Government Energy Management Policy

The Government Energy Management Policy (GEMP) was introduced in November 1998. It is the NSW response to the requirement in the National Greenhouse Strategy (NGS) for State Governments to reduce greenhouse gas emissions from their own operations. To this end, the NSW Government has set the following goals:

- for all Government buildings throughout the State to reduce their total energy consumption, where cost effective, by 15 per cent of the 1995–96 level by 2001–02 and by 25 per cent of the 1995–96 level by 2005–06; and
- for all Schedule 1¹ agencies to purchase electricity with a minimum component of 6 per cent accredited green power (this requirement applies to contestable sites with appropriate metering – all sites became contestable on 1 January 2002).

Prime responsibility for the success of the policy lies with individual agencies. However, the Department is responsible for the implementation and policy development of GEMP. This includes advising the Department of Commerce (formerly the Department of Public Works and Services) on electricity purchases, and publicly reporting on the Government's aggregate performance against targets.

Encouraged by GEMP, many Government agencies have made significant improvements in performance and progress towards meeting their targets. For example:

- building energy use from Government buildings has fallen by 2.3 per cent between 1995–96 and 2001–02, despite increased demands on quantity and quality of services by several agencies, notably Health, Education and Corrective Services;
- building energy costs fell by 5.3 per cent between 1995–96 and 2001–02, yielding savings of over \$7.4 million;
- office building energy use reduced by 11.2% and associated greenhouse emissions reduced by 21.2% from the base year;
- 28 out of 115 NSW Government agencies and 12 out of 37 Government portfolios reduced their building energy consumption each by more than 15 per cent compared with the base year, 1995–96 providing a total savings of \$3.7 million; and

- 63 NSW Government agencies purchased 78,762 MWh of green power during 2001–02, displacing approximately 75,300 tonnes of greenhouse gases.

The Department is working with the NSW Greenhouse Office and other key agencies to develop and implement enhancements to the Policy.

The Branch supported the implementation of GEMP by:

- maintaining and updating the database of contact details of CEOs, energy managers and energy coordinators in 142 Government agencies and their reported energy consumption and other data;
- developing and providing the agencies with a user friendly web-based data reporting tool – Energy Data Gathering and Reporting (EDGAR), with instructions for its use;
- providing energy managers and energy coordinators from various government agencies training in the use of EDGAR;
- enhancing the features of EDGAR based on the feedback from the agencies;
- providing GEMP policy and other related documents on our website;
- providing technical advice to agencies in response to their queries about the EDGAR and data related issues;
- following up and obtaining data from all the reporting agencies;
- checking, correcting and updating the EDGAR database;
- analysing data and preparing tables and charts;
- preparing the GEMP annual report; and
- presenting data reporting issues and report findings to the Government agencies.

¹ Schedule 1 of the *Public Sector Management Act 1988*

Supporting the Development of Energy Policy

By providing statistics and research, we supported and generally assisted the development of Government energy policies by:

- ensuring the timely provision of quality data and information on energy related matters to internal and external clients;
- regularly collecting, analysing and updating various energy related databases;
- obtaining energy, economic and other data for NSW residential, commercial, industrial and transport sectors from various public and private agencies;
- analysing and modeling data from various sources and reporting through various publications;
- undertaking a peak demand study to analyse the demand profiles for NSW and to develop emergency protocols for electricity rationing;
- preparing the *New South Wales Energy Flows*;
- preparing the *Energy at a Glance* and *Energy in NSW* leaflets;
- producing weekly and quarterly reports on the National Electricity Market (NEM) and monitoring the NEM through specialized software packages (*NEM Watch* and *NEM Review*);
- supporting the development of *NSW Transport Facts 2002* through the Australian Transport Energy Data and Analysis Centre (ATEDAC);
- contributing to the energy chapters of the *NSW Year Book 2004* and the *Australian Year Book 2004* published by the Australian Bureau of Statistics;
- Contributing to the Environment Protection Authority's (now part of the Department of Environment and Conservation) *State of the Environment Report 2003*;
- contributing to the work of the Strategic Energy Supply and Security Working Group (under the Ministerial Council on Energy) in developing and publishing the energy supply and demand scenarios study (*Living in a Turbulent World: Australia at the Dawn of the 21st Century*) and the energy forecast and energy intensity studies (*Australian Energy National and State Projections to 2019-20* and *Trends in Australian Energy Intensity: 1973-74 to 2000-01*);
- assisting in the development and reporting of the Australian Building Greenhouse Rating policy for Government agencies;
- assisting in the development and reporting of the Cleaner Government Fleet Initiative under the NSW Cleaner Vehicles Action Plan;
- assisting the NSW Greenhouse Office in developing the NSW Greenhouse Strategy through various working groups;
- contributing to the National Government Energy Management Group, particularly by developing a web-based national reporting system for energy use; and
- procuring and installing & running of various computer models mainly for the development of the NSW Statement of System Opportunities and electricity and gas supply – demand balances for NSW.

Towards Meeting Future Electricity Needs of NSW

As electricity demand in NSW grows (both on-peak during hot summer days and also year-round) the consequences are several: diminishing electricity generation reserve margins, growing greenhouse gas emissions, increasing costs for the network and for consumers, and potentially weakening system reliability.

The Department therefore started the development of an Integrated Resource Strategy to address various issues relating to the electricity supply-demand balance for NSW. This whole-of-Government approach recognises the consequences of climate change and appreciates the myriad economic benefits of properly managing NSW's rapidly growing demand and to develop an electricity system that integrates choices among demand as well as supply options.

As a first step in developing an IRS, the Department undertook intensive modeling of various electricity demand - supply scenarios. A peak demand study was also undertaken to analyse the growth in peak demand. Various options for implementation of Demand Management have been evaluated.

To enable existing and prospective participants to consider investment options in NSW, the inaugural NSW Statement of System Opportunities (the Statement) was released in 2002. The Statement was referenced by a number of proponents in their project proposals to establish new generating capacity in NSW. A number of potential new options for ensuring the supply-demand balance have emerged whilst several new renewable projects have come on line. A detailed study was undertaken during 2003-04 to evaluate the emerging generation options in terms of their fuel sources, locations, sizes and economic viability. During 2003-04

the Department worked on preparing the first update of the Statement.

GREENHOUSE AND SUSTAINABLE DEVELOPMENT

Improving the Greenhouse Gas Performance of Electricity Retailers

NSW is the only Australian jurisdiction to have applied mandatory greenhouse requirements to its electricity sector. Since 1 January 2003 NSW electricity retailers and certain other parties (Benchmark Participants) have been required to meet mandatory targets for abating the emission of greenhouse gases from electricity production and use for each year until 2012.

Benchmark Participants will have to reduce their emissions of greenhouse gases to the pre-set benchmark levels, or pay a penalty of \$10.50 per tonne of emissions above their targets.

Eligible abatement activities are detailed in the Greenhouse Gas Benchmark Rules and include:

- reduction in the greenhouse intensity of electricity generation;
- activities that result in reduced consumption of electricity;
- the capture of carbon from the atmosphere in forests, referred to as carbon sequestration; and
- activities carried out by elective participants that reduce on-site emissions not directly related to electricity consumption.

The Scheme allows for the creation of abatement certificates by those parties who undertake eligible abatement activities, and whom the Scheme Administrator, the Independent Pricing and Regulatory Tribunal (IPART), accredits to do so (Accredited Certificate Providers). This Scheme is one of the first of its kind in the world in providing a market signal that greenhouse gas abatement has a value. The Scheme is also being implemented in such a way as to minimise compliance costs through a number of means including by establishing a tradable abatement commodity (NSW Greenhouse Abatement Certificates or NGACs) and by allowing the aggregation of smaller abatement projects to be brought to account in creating NGACs.

During early 2004, the Department assisted the Scheme Administrator in the implementation of the Scheme. In addition, the Department has consulted widely on a number of detailed proposed changes to the Greenhouse Gas Benchmark Rules to provide greater clarity in the implementation of the Scheme. Changes to the Generation and Demand Side Abatement Rules were gazetted in June 2004.

Calendar year 2003 was the first compliance year for the NSW Greenhouse Benchmarks Scheme, with liable parties reporting in May 2004. Nineteen electricity retailers licensed in NSW and three other mandatory Benchmark Participants reported. In addition, reports were received from nine companies which successfully elected to manage their own benchmarks and became Benchmark Participants.

In 2003, IPART accredited a total of 113 projects to create certificates from abatement occurring in 2003. These resulted in a creation of a total of more than 6.6 million abatement certificates, well in excess of the number required to achieve compliance by the sector as a whole. In addition, almost a million additional abatement certificates were created from abatement occurring in the period from 1 January to 30 June 2004.

While the abatement task was deliberately set at a modest level for the first compliance period, and there has been a high level of compliance, there has been considerable interest generated by the Scheme with a resulting substantial amount of abatement brought to account through the creation of abatement certificates.

Contributing to the Development of a National Emissions Trading Scheme

Following the implementation of the NSW Greenhouse Benchmarks Scheme, the Premier and Minister for Energy and Utilities wrote to their counterparts in other jurisdictions to seek their agreement to work towards a national greenhouse emissions trading scheme. As a result the Inter-jurisdictional Emissions Trading Working Group was established in March 2004 with all State and Territory Governments but not the Commonwealth Government represented. The Working Group is chaired by NSW through The Cabinet Office, with DEUS also participating.

The Working Group will make a recommendation on a preferred model for a national emissions trading scheme to Ministers by the end of 2004.

Contributing to the Development of the NSW Greenhouse Strategy

The NSW Greenhouse Office was established in late 2003 with a major task to develop a draft NSW Greenhouse Strategy by the end of 2004. DEUS is participating with the Greenhouse Office and other agencies to achieve this objective. In particular DEUS representatives are contributing significantly in the areas of Government policy initiatives to reduce greenhouse emissions from its own operations, initiatives to reduce the emissions from the stationary energy sector, and fugitive emissions.

NSW is the only Australian jurisdiction to have applied mandatory greenhouse requirements to its electricity sector

Managing the Sustainable Energy Research and Development Fund

The Department manages the Sustainable Energy Research and Development Fund (SERDF). The Fund supports research and development projects that aim to encourage the timely development of new and improved sustainable energy technologies and services. In particular, SERDF supports projects which have the potential to reduce the level of greenhouse gas emissions in NSW and to provide economic, social and other environmental benefits to NSW.

A public call for project proposals targeted at solar thermal technologies was undertaken in 2003–2004 and resulted in the following new projects being approved for funding. Details are provided in Appendix 16.

- Study and implementation of solar thermal solid state electron power generators
- Solar Thermal Absorption Cooling
- Solar Thermal Organic Cycle for Distributed Energy Applications
- High Concentration Solar Research Facility and Pre-Commercial Solar Gas Prototype
- Solar Steam Generation at Liddell Power Station

Renewable Energy Options for Lord Howe Island

In January 2004 the Premier approved the establishment of an Inter-Departmental Committee (IDC) to consider renewable energy options for Lord Howe Island. The IDC is chaired by DEUS and will report to the Minister for Energy and Utilities and the Minister for the Environment by the end of 2004. It will consider and assess a range of options to meet the energy service needs of Lord Howe Island including, but not limited to energy efficiency, demand management, wind, solar, wave and thermal storage. The IDC will consider issues including technical viability, risk, economic impact and environmental impacts in the context of the Island's World Heritage status, its isolation, environmental sensitivity, and community acceptance.

Improving Product Energy Efficiency

The National Greenhouse Strategy (NGS) emphasises the role of energy efficiency activities in reducing greenhouse gas emissions. One important NGS activity focuses on improving product energy efficiency through mandatory energy labelling of major household appliances and through the application of mandatory Minimum Energy Performance Standards (MEPS) to a range of appliances and equipment types.

These activities are regulated at the State and Territory level while being coordinated at the national level by the

National Appliance and Equipment Energy Efficiency Committee (NAEEEC), which reports to the Energy Efficiency and Greenhouse Working Group (EEGWG) of the Ministerial Council on Energy.

In NSW, the Department is responsible for the energy labelling program currently applying to refrigerators, freezers, air conditioners, dishwashers, washing machines and clothes dryers. In April 2004 an improved test method was introduced for dishwasher energy labelling which required retesting and relabelling of these products. MEPS apply to refrigerators, freezers, electric water storage heaters, three phase air conditioners (up to 65 kW cooling output), three phase cage induction electric motors (between 0.73 kW and 185 kW) and ballasts for linear fluorescent lamps (for which MEPS were introduced in October 2003).

Significant additions and changes to the product labelling/ Minimum Energy Performance Standards (MEPS) program are scheduled for 2004-05. These include:

- the second round of MEPS for domestic refrigerators and freezers;
- the first round of MEPS for distribution transformers;
- the first round of MEPS for linear fluorescent lamps;
- the first round of MEPS and a revised label format for single phase air conditioners (with more stringent MEPS for single phase and three phase air conditioners to be introduced during 2007); and
- the first round of MEPS for commercial refrigeration cabinets (both remote and self-contained types).

It is planned to seek Ministerial Council on Energy agreement for more stringent MEPS for small (less than 80 litres) electric storage water heater models and for first round MEPS for low pressure and heat exchange water heater models from October 2005. A voluntary energy labelling option is to be included. More stringent MEPS levels for large water heater models (80 litres or greater) and widening of MEPS scope to solar models will also be examined.

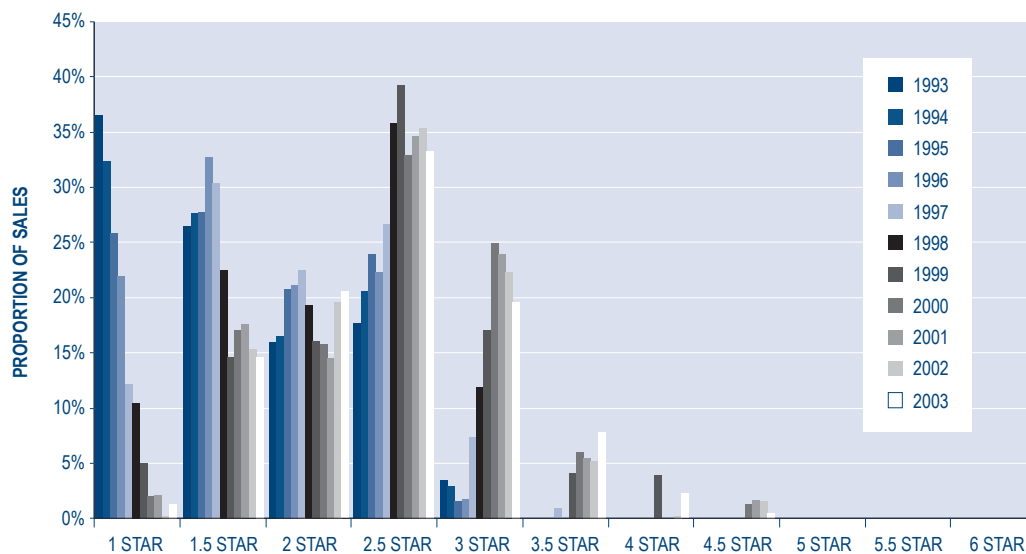
Possible MEPS for other lamp types and televisions are being investigated as are mandatory energy labelling and MEPS for gas appliances. Product profiles are being prepared for a range of products to determine whether regulatory action might be justified. These products include commercial air conditioner chillers, heat pumps, wine coolers and swimming pool pumps. Products which consume significant energy in standby mode are also being targeted and it is expected that standby energy

consumption will be included in the calculation of energy star ratings and the measurement of MEPS compliance.

An important element of the Department's role involves advising industry participants on all aspects of the scheme and monitoring compliance with the requirements of the program. Amongst the labelled products, the greatest energy users are refrigerators. Analysis of refrigerator sales information from 1993 to 2003 reveals a significant improvement in the energy efficiency of refrigerators.

Figure 1 illustrates the results of national monitoring of new refrigerators between 1993 and 2003 and shows the distribution of star ratings. The energy efficiency of these products will improve significantly with the introduction of more stringent MEPS in 2005.

FIGURE 1 REFRIGERATOR STAR RATINGS, 1993-2003



Source: Energy Efficient Strategies Pty Ltd

STRATEGIC CORPORATE DEVELOPMENT BRANCH

BRANCH DESCRIPTION

The Strategic Corporate Development Branch provides the strategic and operational services to ensure the effective functioning of the Department. The Branch responds to the Department's changing needs and priorities by providing relevant support and services in the areas of finance, human resources, business planning & development, risk management, information technology and records management. In addition, the Branch also provides a responsive external face for the Department by providing the first point of contact for stakeholder and customer inquiries through the delivery of customer programs as well as providing administrative and policy oversight for the Government's energy concession programs.

An important focus for the Branch during 2003-04 was responsibility for the effective merger of the Town Water Recycling and Treatment Branch and the State Water business unit from the former Department of Land and Water Conservation into the Department. Although the transfer was announced from 2 April 2003, structural and functional integration was not feasible until the 2003-04 financial year.

To facilitate the merger, the Branch developed and coordinated a Change Management Plan that included a comprehensive review of imminent and business continuity issues, a full functional analysis and the development of structures to support the enhanced organisation. This included an accommodation strategy to consolidate three geographically separated businesses into one organisation, now located in the Sydney CBD.

On 1 July 2003 the SCD Branch became responsible for the Energy Accounts Payment Assistance (EAPA) Scheme, which was transferred from the Department of Community Services. The transfer of EAPA to the Department consolidates the Government's energy concession schemes within DEUS which includes the Pensioner Energy Rebate Scheme and Life Support Electricity Rebate Scheme and the Energy Account Payment Assistance Scheme.

The Branch managed the transfer of corporate service providers from the Department of Information and Technology Management to the Department of Infrastructure, Planning and Natural Resources (DIPNR) on 1 July 2003, and the subsequent change from DIPNR to the Central Corporate Services Unit on 1 July 2004. The change of service provider was undertaken to facilitate economies of scale within the Government sector and was successfully implemented through effective planning, consultation and risk management strategies.

The Department relocated to new premises in Elizabeth Street, Sydney in May 2004. This required the consolidation of three separate offices located at St Leonards and Parramatta as well as the Sustainable Energy Development Authority (SEDA) located in Clarence Street (SEDA officially merged with the Department on 1 July 2004). The relocation was a major exercise in logistics and was planned and executed successfully with minimal disruption to DEUS activities.

The Branch also provided assistance and technical expertise to the State Water business unit throughout 2003-04 and especially IT & Communications, Finance and Human Resource services in relation to establishing State Water as a State Owned Corporation on 1 July 2004.

2003-04 ACHIEVEMENTS

- Continued the Change Management Plan for the merger of the Town Water Recycling and Treatment Branch and State Water business unit from the former Department of Land and Water Conservation into the Department.
- Successfully managed the transfer of transactional finance and human resource services from the Department of Information and Technology Management (DITM) to the Department of Infrastructure, Planning and Natural Resources (DIPNR) on 1 July 2003 and the subsequent change from DIPNR to the Central Corporate Services Unit (CCSU) on 1 July 2004.
- Successfully consolidated three office locations previously at Parramatta, St Leonard's and Clarence Street into a new premise in the Sydney CBD.
- Conducted an operational review of the Pensioner Energy Rebate Scheme which resulted in a revised Guideline being implemented on 1 July 2004
- Commenced an operational review into the effectiveness of the Energy Accounts Payment Assistance (EAPA) Scheme, in consultation with relevant stakeholders.
- Created a new allocation database to facilitate a central, secure and reliable environment to manage the distribution of emergency financial assistance to low income households and to provide audit capabilities and transparency in the distribution of funding for the Energy Accounts Payment Assistance Scheme.

The transfer of EAPA to the Department consolidates the Government's energy concession schemes within DEUS which includes the Pensioner Energy Rebate Scheme and Life Support Electricity Rebate Scheme and the Energy Account Payment Assistance Scheme

- Consolidated the Information Technology and Communication systems of the Parramatta office into the Department's system.
- Launched a new-look website with a total overhaul of content reflecting the enhanced role that the Department now performs.
- A record and electronic document management system was implemented to facilitate records management requirements for each staff member.
- Assisted State Water on corporate service issues during the corporatisation process.

FINANCIAL MANAGEMENT SECTION

The Finance Section oversees the provision of external financial transaction services while directly providing the strategic financial framework, policies and systems necessary to ensure financial accountability and control, effective resource allocation and that financial information is relevant, timely and accurate.

The Department operated within budget in 2003-04 through effective budgeting and monitoring which resulted in desired service delivery outcomes being achieved.

Major financial outlays during 2003-04 included:

- \$61.7 million towards the delivery of backlog water supply and sewerage projects in country towns;
- \$79.8 million for Pensioner Energy Rebates and Life Support Electricity Rebates;
- \$8.9 million for the Energy Accounts Payment Assistance Scheme; and

- \$58.7 million for operating, maintenance, metering and other expenditures in delivering bulk water to rural and regional customers through the State Water business unit of the Department.

During the period in review, major areas of focus for the finance function included fine-tuning internal controls and monitoring systems, improved financial management and concentration on effective stakeholder management.

Extensive work was also undertaken during 2003-04 to consolidate financial data from the State Water business unit and the Town Water & Recycling branch into the Department's accounting, budgeting and reporting regime. This exercise will require further refinement due to the merger of the Department with the Sustainable Energy Development Authority and the de-merging of the recently corporatised State Water, both effective from 1 July 2004.

BUSINESS PLANNING AND PERFORMANCE SECTION

The Business Planning and Performance Section's primary role is to provide advice, direction, and support in the processes of corporate and business planning, performance measurement, monitoring and reporting. The Section was also responsible for Human Resource Management as well as the development, application, and integration of corporate policies and procedures for the Department.

In order to maintain performance levels and deliver the results from our Corporate Plan, DEUS adopted an Integrated Business Management approach to ensure effective corporate governance is constantly achieved. This approach delivers a combination of process, procedure and practice to efficiently implement operational initiatives.

To improve communication throughout the merged organisation, the Intranet was revised to reflect the enhanced role the Department performs. Business systems such as operational policies and procedures were introduced to continually improve the functional performance of the Department.

DEUS has continued to provide staff development opportunities to participate in executive development programs, conferences, workshops, and training seminars.

With the emphasis on organisational merger and re-structuring during the year, a number of courses were conducted to assist with change management.

Our Aboriginal Cadet program continued to support cadets through student allowance when studying as well as providing paid work experience.

The Department's Staff Consultative Committee continued to work closely with staff affected by the organisational re-structure. A People Management Plan was also implemented to assist in delivering continuous improvements in staff performance.

The relocation and merger also impacted on the Department's OH&S Committee. During the year the Consultative Committee was reformed to include representation across the newly merged organisation. This also required supporting management systems,

procedures and work practices to be developed to protect the Department's personnel within the Department's new premises.

The Department's OH&S performance during the year remained strong. However, there were five non-systemic office-related injuries. Of these, one required formal medical treatment and resulted in a worker's compensation claim against the Department.

There were also four work-related motor vehicle incidents. Of these, one was reported to have caused bodily harm and subsequently resulted in a worker's compensation claim upon the Department.

INFORMATION, COMMUNICATION AND TECHNOLOGY SECTION

Information, Communication and Technology (IC&T) provides technical support for computer services, implementation services and advice on strategic initiatives to assist the realisation of business objectives and ensures potential leverage from emerging technologies is achievable. The IC&T section also provides records management services for compliance with regulatory requirements and implements strategies to ensure the organisation's records are appropriately managed.

Information Technology

During the year IC&T staff implemented the following key initiatives:

- A new database was created to facilitate a central, secure and reliable environment for allocation tracking and auditing capabilities in relation to the Energy Account Payment Assistance (EAPA) Scheme.
- A conversion and integration project was successfully undertaken of the Country Towns and Water computer systems and applications. A new system and communication link was implemented to allow data extraction from the previous government agency network along with the transfer of computing requirements and associated information into the DEUS network.
- Enhancements to IT network security and anti-virus detection were implemented along with new anti-spamming functionality in accordance with current Anti-Spam Legislation.

- A new look web site was launched with a total overhaul of content reflecting updated information regarding the newly acquired DEUS functions, including the organisation's name change, as at 1 January 2004. A content management system with embedded workflow was deployed to facilitate version control and empower the businesses to keep information current and factual.
- A detailed business risk impact analysis and associated continuity processes were performed for State Water. Key information systems, business needs, data and licensing requirements were scoped against service standards and stakeholder requirements. Key legacy systems were identified with replacement systems scoped for future implementation. The project identified business requirements, indicative financial costs, proposed best practice methodologies and associated operational support so the business could convert to a State Owned Corporation on the 1 July 2004.
- The organisational merger of three separate physical locations into one new centralised organisation. This project scoped the new building requirements for servicing the technology and voice needs of the organisation and encompassed all associated upgrades, integration, costing, setup and support. This challenge was met with minimal disruption to the business and its stakeholders.

Records Management

- Records management for the consolidated DEUS and its physically disparate branches was centralised within the in-house records management service.
- A business classification scheme, based upon function and activity rather than hierarchy, was developed and endorsed by the business. This scheme formed the basis for future works and the new records management application.
- A Disposal and Retention Schedule was developed for implementation. This incorporated the merged organisation's business functions into a holistic schedule.
- A project was launched to identifying the ownership of current and archival information pertaining to inter-agency records which were created prior to the organisational merger. The project included the Country Towns and Water Branch, State Water and the Department of Community Services (relating to the transfer of the Energy Account Payment Assistance Scheme)
- A records access project was undertaken to identify files for immediate access and those requiring archiving or off-site storage in compliance with the *State Records Act 1998*.
- A record and electronic document management system (DMS) was implemented to facilitate personalised records management. This involved migration of data from two pre-existing systems and encompassed the newly endorsed business classification scheme. The system also provided a new means of tracking and reporting of Ministerial correspondence.

CUSTOMER PROGRAMS AND CONCESSIONS

The Customer Programs and Concessions Section facilitates the Department's external interaction in delivering various regulatory programs, customer information and energy concession schemes. The Customer Program Officers work as a team to deliver programs in a manner that maximises the Department's responsiveness to industry participants, members of public and other stakeholders such as energy retailers, infrastructure owners, electrical contractors, community welfare organisations and the Energy and Water Ombudsman NSW (EWON).

The Section is responsible for implementation of policy and administration of the NSW Government's energy concession schemes. These schemes aim to assist low income households by subsidising energy costs and providing emergency financial relief. The three NSW Government funded schemes include the Pensioner Energy Rebate Scheme, the Life Support Electricity Rebate Scheme and the Energy Accounts Payment Assistance (EAPA) Scheme.

Pensioner Energy Rebates

The Pensioner Energy Rebate Scheme aims to subsidise the cost of gas and electricity to eligible NSW pensioners. DEUS administers the program on behalf

of the NSW Government. The \$112 per annum rebate is delivered by energy retailers on a quarterly basis to eligible pensioners residing in NSW.

Key achievements during the year included:

- Review of the Pensioners Energy Rebate Guideline to ensure the scheme remained efficient and industry participants were complying with the scheme's regulatory requirements; and
- A verification project was launched in collaboration with Centrelink to verify the eligibility of pensioners rebate entitlements.

Life Support Electricity Rebate Scheme

The Life Support Electricity Rebate Scheme is aimed at providing financial assistance to households that are dependent on electricity for the operation of critical life-support medical equipment. DEUS redistributed over \$2.5m during the financial year, on behalf of the NSW Government, to reduce the cost of energy for customers on specific life-support equipment. The rebate is delivered by electricity retailers to eligible customers based on a specific equipment list administered by DEUS in consultation with the Department of Health.

The \$112 per annum rebate is delivered by energy retailers on a quarterly basis to eligible pensioners residing in NSW

Energy Account Payment Assistance (EAPA) Scheme

On the 1 July 2003, administration of the Energy Account Payment Assistance (EAPA) Scheme was transferred from the Department Of Community Services to DEUS. The transfer of the EAPA Scheme consolidates all energy concession schemes within DEUS.

The EAPA Scheme distributed over \$8.9 million during the year, in the form of emergency financial relief to low income households experiencing a financial crisis.

During the year, a comprehensive review of the program's effectiveness was commenced involving consultation with Energy Retailers and Community Welfare Organisations. The review is aimed at improving the administration and monitoring the Scheme's effectiveness. Implementation of the revised guidelines for Energy Retailers and Community Welfare Organisations become effective on 1 January 2005.

Key achievements during the year include:

- Completed an operational review of the Pensioner Energy Rebate Scheme with revisions being implemented on 1 July 2004.
- Completed a regulatory review of the Energy Retailers' EAPA Guideline;

- Commenced a regulatory review of the Community Welfare Organisations' EAPA Guideline;
- Implementation of an EAPA Voucher tracking system (via Energy Retailer reporting requirements) to ensure the Scheme is targeted at low income households and is an effective form of emergency financial relief; and
- Implementation of an allocation database and inventory tracking system to assess voucher shortages and redistribute funding to priority areas /regions.

Customer Programs

The section continued to deliver programs for administration of the *Electricity Safety (Corrosion Protection) Regulation 1998*, Accredited Service Providers scheme, property searches for pipeline permits and licenses under the *Pipelines Act 1967*, and Full Retail Competition information service.

To ensure the Section continues to deliver the Departments customer programs and concession schemes in an efficient and effective manner, the Section works closely with other internal Sections within DEUS. The programs area responded to over 9,000 customer enquiries during the year.

The EAPA Scheme distributed over \$8.9 million during the year, in the form of emergency financial relief to low income households experiencing a financial crisis

STATE WATER

BRANCH DESCRIPTION

State Water is a rural bulk water delivery business responsible for the operation and maintenance of 18 large dams, one small dam and more than 280 weirs and regulators across NSW. State Water also carries out surveillance and monitoring services, under contract, of 12 small rural dams by owned the Department of Lands.

Approximately 6,200 licensed bulk water users are supplied from rivers regulated by State Water storages. The business also monitors unregulated streams and groundwater usage to provide access to a further 15,000 customers.

CORPORATISATION OF STATE WATER

State Water was created as a statutory State Owned Corporation (SOC) on 1 July 2004 under the *State Water Corporation Act 2004*.

The business unit of State Water was transferred from the former Department of Land and Water Conservation to DEUS in April 2003. This was to clearly separate its

operations out from the policy and regulatory functions of the natural resource manager. This transfer was intended to be an interim arrangement while the NSW Government considered a proposal to establish State Water as a State Owned Corporation (SOC).

THE CORPORATISATION PROCESS

From September 2003 until July 2004, DEUS participated in interagency groups with representatives from NSW Treasury, Department of Infrastructure, Planning and Natural Resources and The Cabinet Office, which oversaw the corporatisation process.

In March 2004, the Minister for Energy and Utilities issued a consultation paper *State Water Corporatisation Proposal for Comment* outlining the Government's preferred business model for the corporatised State Water. DEUS received submissions from sixteen stakeholders, including the NSW Irrigators' Council, the Local Government and Shires Associations, and environment groups such as WWF Australia. Stakeholders welcomed the proposal to corporatise State Water as a stand-alone SOC and expressed support for a valley based approach to achieving business objectives.

DEUS provided drafting instructions to Parliamentary Counsel for the *State Water Corporation Act 2004*.

IMPLICATIONS OF CORPORATISATION

By corporatising State Water, the Government aims to improve the businesses transparency and commercial focus, and reduce potential conflicts of interest and budget risks.

The formation of State Water Corporation separates State Water, the bulk water operator, from the Department of Infrastructure, Planning and Natural Resources, the bulk water regulator. A principal driver for this separation was compliance with the Council of Australian Governments requirements.

Corporatisation means State Water will operate as a truly commercial business which will drive innovation, efficiency and business development. This change will drive State Water Corporation to critically examine operating procedures as it seeks to maximise efficiency and to expand the sources of revenue.

State Water's bulk water prices will continue to be determined by the Independent Pricing and Regulatory Tribunal (IPART).

Corporatisation means State Water will operate as a truly commercial business which will drive innovation, efficiency and business development

2003-04 ACHIEVEMENTS

- A high level of open two way communication and consultation with customers.
- Timely access for all customers to information and resource availability/sharing decisions.
- Cost effective delivery of services.
- Continuous improvement in water delivery.
- Increased water delivery operations efficiency throughout the drought.
- Further development and implementation of Total Asset Management Plan and its maintenance.
- Business and Portfolio Risk Management study completed.
- Continued focus on achieving increased compliance with NSW Dams Safety Committee requirements.
- Responsive business planning and development.
- Compliance with IPART, COAG and NCC requirements.
- Competency/motivation based recruitment and training.
- Good communication and consultation with staff.
- Compliance with OH&S requirements at all work sites.

CUSTOMER SERVICE

GOOD COMMUNICATION AND CONSULTATION WITH CUSTOMERS

Regular meetings of all Customer Service Committees (CSC) were held throughout the year. An innovation introduced in 2003/04 was educational field tours to dams and weir structures as a regular part of the CSC

meeting agenda. The CSC meetings were scheduled to synchronise with critical periods for information, and DIPNR Regional Resource Managers were invited to attend and deliver information direct to customers.

The Customer Service Committees have also ensured customer issues are integrated into State Water's IPART

submission through regular meeting agenda items and discussions. Customer Service Officers, in particular, have maintained frequent and regular contact with customers and water users, providing timely and useful information.

In July 2003, the eight Customer Service Committee Chairs were addressed by both the Minister for Energy and Utilities and the Director General of the Department of Energy, Utilities and Sustainability at a meeting in Sydney. A second meeting of chairs was convened in March 2004 to focus on and discuss the proposed corporatisation of State Water.

The Customer Service Committee membership elections were due in mid 2004. Due to State Water's pending corporatisation the elections were postponed and the terms of all sitting members were extended for a further 12 months to June 2005.

ACCESS FOR ALL CUSTOMERS TO INFORMATION AND RESOURCE AVAILABILITY / SHARING DECISIONS

Customer newsletters continued to be circulated regularly by State Water to regulated river customers in two of the four State Water areas. As soon as the Resource Manager decided, State Water sent supplementary water notifications to relevant customers in a timely manner for all events in 2003-04.

State Water storage levels, water allocations, off allocation announcements and media releases were posted on the Internet for access by customers, community and media. Daily storage levels and release information were broadcast and telecast via regional radio and television.

The CSC meetings were scheduled to synchronise with critical periods for information dissemination. Department of Infrastructure, Planning and Natural Resources Regional Resource Managers were invited to attend and deliver information to customers.

Key stakeholders have been kept informed through timely visits or calls from State Water staff at all levels.

COST EFFECTIVE DELIVERY OF SERVICES

Delivery of services is a key function for State Water. During 2003-04:

- Service Level Agreements were negotiated with internal suppliers and customers to define the costs of exchanged services;
- expenditure and cost comparisons were provided to managers to enable effective cost control;
- procedures, guidelines and proformas were developed and implemented to ensure procurement was efficient, cost effective and complied with relevant procedures; and
- The cooperative partnership with NSW Fisheries through a Memorandum of Understanding was continued with several projects successfully meeting Fisheries' requirements at Combardello, Mollee and Macintyre Weirs and the Macquarie reregulation projects.

WATER DELIVERY

CONTINUOUS IMPROVEMENT IN WATER DELIVERY

The Water Ordering and Use (WOU) business critical software system was upgraded to cater for the requirements of the *Water Management Act 2000*, which was due to be implemented on 1 July 2004. Considerable additional functionality has been developed and installed in this system, including a specification for Internet transactions.

A major review of the Computer Aided Improvements to River Operations (CAIRO) software was initiated. The current software is more than ten years old and a lack of

integration with other State Water systems has become a significant overhead.

State Water, in partnership with the Department of Infrastructure, Planning and Natural Resources worked extensively with customers to consult and develop a new set of metering standards to meet the requirements of the *Water Management Act 2000*.

A Water Delivery Forum was held in Dubbo to allow all staff involved in water delivery to be brought up to date on emerging issues, peer review operations and to seek solutions to any operational problems with systems or software.

INCREASED WATER DELIVERY OPERATIONS EFFICIENCY

Throughout the continuing drought period, customers have been encouraged, with considerable success, to place, update and amend water orders. This has greatly improved water delivery efficiencies.

Drought Contingency Planning was implemented in Lachlan Valley and in the Lower Darling where inflows in these valleys have been the lowest on record.

Water delivery in the Gwydir and Namoi Valleys was successfully modified during the year to make substantial savings in transmission losses. The improved water delivery efficiencies were achieved through extensive consultation and cooperation with customers. Water was delivered in set bulk release patterns so that flows and losses were not continuous over the hotter months.

ASSET MANAGEMENT

Further development and implementation of Total Asset Management Plan and its maintenance

The Total Asset Management Plan was significantly reviewed and updated in preparation for State Water's 2004 IPART submission. This included significant enhancements to EXPLAN; the expenditure-planning tool used by staff in planning and recording asset management projects. The State Water Asset Register was significantly expanded and updated with the transfer of assets to State Water after the separation from DIPNR.

State Water now has a complete Heritage and Conservation Register with 24 assets identified as having State heritage significance and 106 assets having local heritage significance. Conservation Management Plans are being developed for individual assets with significant heritage value and a Conservation Management Plan was completed for the Burrinjuck Dam precinct.

State Water's computerised maintenance management system (FMMS) was implemented at all major dams and in three of the four Areas. FMMS is used to manage and track maintenance activities on dams and river structures.

Fieldwork for all major infrastructure assets has been completed as part of an environmental review. A set of environmental protocols has been developed to guide staff in all aspects of project planning.

BUSINESS AND PORTFOLIO RISK MANAGEMENT

The Portfolio Risk Assessment (PRA) focussing on the failure modes of both major and minor dams is complete including a review of the conditional probabilities of piping failure for the major dams. The outcomes of these studies will be used in prioritising staged risk reduction strategies for regulatory approval. A risk management

framework is being developed to assess the river structures.

An Incident Control Room was established in the Parramatta office to manage flood and dam safety incidents. Working with the State Emergency Management Committee and other utilities, State Water now maintains an incident database and commenced a roll-out of security improvements at all dams.

State Water has continued with a progressive dam safety upgrade program. Six projects are in various stages of investigation, development and implementation. Stage 1 interim works for Chaffey Dam was completed in April 2004, with a 1.8m high parapet wall built on top of the existing embankment as an interim risk reduction measure.

Although State Water continues to undertake surveillance and monitoring at 12 small rural dams, these dams are now under the ownership of the Department of Lands.

An extensive on-going program of scanning of engineering diagrams, work as executed drawings, surveys and historic sketches has resulted in more than 200,000 plans being catalogued and safely stored. An additional 1000 documents have been catalogued into the Technical Library, which now contains 3,600 "life of structure" technical documents.

COMPLIANCE WITH DAMS SAFETY COMMITTEE REQUIREMENTS

An extensive program of surveillance, monitoring, surveying and auditing was conducted throughout the year, providing State Water with the confidence that the structures are structurally sound and fit for purpose.

Five yearly surveillance inspections, including safety reviews, were undertaken at two dams (one major, one minor), in accordance with NSW Dams Safety Committee

An extensive program of surveillance, monitoring, surveying and auditing was conducted throughout the year, providing State Water with the confidence that the structures are structurally sound and fit for purpose

requirements. State Water has introduced a program of hydrology and seismic reviews at all major dams. One outcome of this program is revised assessments at Pindari, Copeton, Keepit, Chaffey and Split Rock.

A continuous program of review and update of dam safety emergency planning and four trials of Dam Safety Emergency Plans resulted in improvements to communications with emergency response agencies.

BUSINESS DEVELOPMENT

RESPONSIVE BUSINESS PLANNING AND DEVELOPMENT

In accordance with the State Water Strategic Plan, targets have been set in relation to process improvement activities. The major areas where this has been achieved include the implementation of a HR Training Database. Historical training information was gathered from a number of sources and entered into a database. This will assist when developing Area Training Programs, individual and team work plans.

A number of processes have been streamlined and standardised including payroll documentation and various administrative processes. These improvements have resulted in time and cost savings.

State Water implemented a Motor Vehicle Selection Policy a number of years ago. The aim of the policy was

to reduce operating costs through the standardisation of the fleet. Significant savings were realised and the policy was "fine tuned" during the current financial year.

COMPLIANCE WITH COAG AND NCC REQUIREMENTS

State Water continues to apply full cost recovery and user pay principles in accordance with the relevant IPART Determination. Although the continuing drought had adverse affects on water sales, debt recovery levels have continued to improve. Water delivery charges were increased in accordance with the 2001 IPART determination and preparations are well advanced for the 2005 pricing submission to IPART.

OUR PEOPLE

The Crown Employees (State Water – Storages, Operations and River Infrastructure Staff) Award was implemented during the year. The award was developed with a commercial business focus to meet NSW Government and stakeholders' requirements for cost effective service delivery. The process has been transparent, consultative and independently assessed as 'fair and equitable'.

A Joint Consultative Committee was formed to address issues associated with the implementation of the new award and corporatisation of State Water. The committee includes staff, unions and management representatives.

RECRUITMENT AND TRAINING

The Storages' Staff Training and Accreditation Workbook was enhanced with extensive staff and management interaction. Three Certificate 2 Workplace Assessment courses were run for State Water staff as part of the Storages Staff Training and Accreditation System implementation.

Work commenced on an organisation-wide training policy to be integrated with the planned Communication and Personal Development program.

GOOD COMMUNICATION AND CONSULTATION WITH STAFF

In 2003, State Water commissioned an external market research firm to undertake a staff survey. The survey uncovered issues in the workplace in need of improvement. Training received the lowest rating, followed by Communication, then Supervision and Management.

The Staff Consultative Steering Committee (SCSC) convened a working party to develop a strategy in response to the survey results. As a result of the strategy, State Water has experienced improvements in a number of areas. Regular staff meetings have helped open communication lines between staff and management and a Technical Exchange page on the intranet has

increased the flow of information between area work sites and Asset Services.

The SCSC adopted a new constitution resulting in a new streamlined membership and improvements to process that ensure more accountability and greater resolution of actions. Four meetings of the Staff Consultative Steering Committee were held in 2003-04.

The patronage and reliance of staff on the State Water Intranet Site has significantly increased throughout the year. With the introduction of faxes at many workshops, the remaining 5% of staff without emails now receive "All State Water User" emails by fax. State Water has had a basic presence on the Internet under the DEUS website and will develop an independent presence to deliver improved services to customers, water users and the community.

COMPLIANCE WITH OH&S REQUIREMENTS

State Water continued the development of the Intranet based OH&S Compliance Management System, which was deployed and implemented across the entire organisation. The initial annual system audit and remedial action strengthened the safety culture in State Water and safe work practices were further developed during the year through regular OH&S Newsletters and the commitment of OH&S Committee members.

The development of an audit schedule for all worksites and the nomination of two auditors for each area increased coverage of all sites and further improved safety.

Water delivery in 2003-04 was dominated by the ongoing drought

NSW WATER DELIVERY ANNUAL REPORT 2003-04

Water delivery in 2003-04 was dominated by the ongoing drought. The total State Water storage level in July 2003 was 21% of capacity. This rose to 41% in November 2003, before dropping to 27% by May 2004 and then rising to 28% by 30 June 2004. This was significantly down from a high of 78% in September 2001.

Allocations were restricted in all valleys, except the Hunter. Allocations in the Murrumbidgee and Lachlan valleys equalled the lowest in irrigation history for those valleys. Total water deliveries of 3,600GL in 2003-04 were about 67% of long-term average deliveries.

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

General security customers received various levels of restricted allocations, depending on the water available in the storages in their particular valley. State Water delivered all water ordered by general security customers.

Border Rivers

The Border Rivers started the year with low dam levels and water availability equivalent to only five per cent of entitlement. However, rainfall throughout the year, and large flows in January 2004, boosted storage levels and provided high flows at Goondiwindi, and later at Mungindi.

Gwydir Valley

The Gwydir Valley started the year with Copeton Dam at just 15% of capacity and water availability at less than one per cent of entitlement. General security licences received increments of seven percent in August as well as larger increments totalling 23% in January and February due to very good rains. Copeton Dam finished the year at 24% of capacity and account balances provide some security for cropping in the following year.

Namoi Valley

There was limited irrigation because of the low availability of water at the start of summer. Tamworth's water supply from Chaffey Dam was secure. Allocation balances from the inflows in January 2004 will provide for about 40% of the valley's normal crop areas for 2004-05.

Macquarie Valley

Allocations were 100% for high security and 19% for general security, plus carryover of about 4% in the Macquarie and more than 100% in the Cudgegong Valley. This was the second lowest allocation in the valley's history. The wine grape industry at Mudgee was secure, however there was a substantial reduction in this year's Macquarie cotton crop. The last allocation increase in 2003-04 relied on implementing a Drought Contingency Plan in 2004-05, if drought conditions continue.

The storage reserves in Windamere and Burrendong Dams, in combination with drought minimum inflows, will be sufficient for next year's essential requirements

in the Macquarie Valley and for the Cudgegong Valley's essential requirements and irrigation for the next seven years.

Lachlan Valley

Allocations were 70% for towns and high security irrigation and zero for general security. The Drought Contingency Plan remained in place, as essential requirements were not secure for all of 2003-04. Under this plan, towns will continue to be restricted in 2004-05. There was no general security allocation and some sections of the river stopped running during 2003-04.

Murrumbidgee Valley

Allocations for 2003-04 were 100% for non-irrigation high security, 95% for irrigation high security and 41% for general security. General security carryover from the previous year was equivalent to an additional 3.7% allocation. These allocations were the lowest in the valley's history, being slightly lower than 2002-03.

Murray Valley

Allocations for 2003-04 were 100% for high security and 55% for general security, plus 6% carryover from the previous season. The total availability was more than twice that of 2003-04 so there was enough water for all essential supplies and a small amount of rice.

Lower Darling Valley

Water supplies for Broken Hill were not secure until the rain in January 2004 increased storage levels in the Menindee Lakes, when a flow event in the Darling tributaries made its way to Menindee Lakes. Additional restrictions were placed on upstream irrigators to ensure these flows reached the lakes. Various works and pumping were undertaken to reduce losses and extend water supplies. There was no high security or general security allocation announcement until the January rain. Permanent plantings received limited access until the end of December 2003 to reduce the risk of trees and vines dying.

Toonumbar Dam

Toonumbar Dam experienced record low levels at the start of the year, however an allocation of 20% was made. Dam levels increased significantly in February and March 2004. The dam eventually filled and the allocation was increased to 100%.

Hunter Valley

There were no restrictions in the Hunter Valley and the allocation was 100%. Water use was very high, with most of this being for lucerne and other fodder crops.

Bega River

An initial allocation of 45% was announced. This was the lowest announcement on record and was later increased to 60%.



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

DEPARTMENT OF ENERGY UTILITIES AND SUSTAINABILITY

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Department of Energy Utilities and Sustainability:

- (a) presents fairly the Department's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 45E of the *Public Finance and Audit Act 1983* (the Act).

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

The Director-General's Role

The financial report is the responsibility of the Director-General - Department for Energy Utilities and Sustainability. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows, the program statement - expenses and revenues, the summary of compliance with financial directives and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides reasonable assurance to members of the New South Wales Parliament that the financial report is free of material misstatement.

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

- evaluated the accounting policies used by the Minister in preparing the financial report, and
- examined evidence that supports the amounts and other disclosures in the financial report.

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

My opinion does not provide assurance:

- about the future viability of the Department of Energy Utilities and Sustainability,
- that the Department of Energy Utilities and Sustainability has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the financial report.

Audit Independence

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

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

P.K. Brown

P.K. Brown
Director of Audit

SYDNEY
20 October 2004



**DEPARTMENT OF ENERGY,
UTILITIES AND SUSTAINABILITY**
NEW SOUTH WALES GOVERNMENT

Leadership in energy and water sustainability
for New South Wales

Financial Statements for the Year Ended 30 June 2004

Pursuant to Section 45F of the Public Finance and Audit Act 1983, I state that:

- a) The accompanying financial statements have been prepared in accordance with:
- Applicable Australian Accounting Standards;
 - Other authoritative pronouncements of the Australian Accounting Standards Board;
 - Urgent Issues Group Consensus Views;
 - The requirements of the Public Finance and Audit Act and Regulation; and
 - The Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or by the Treasurer under section 9(2)(n) of the Act.
- b) The statements exhibit a true and fair view of the financial position and transactions of the Department.
- c) There are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

A handwritten signature in black ink that reads 'David Nemtsov'.

David Nemtsov
Director General

19 OCT 2004

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2004

	Notes	ACTUAL 2004 \$'000	BUDGET 2004 \$'000	ACTUAL 2003 \$'000
Expenses				
Operating expenses:				
Employee related	2 (a)	20,687	19,259	15,275
Other operating expenses	2 (b)	62,776	29,210	34,429
Maintenance		9,961	14,109	2,425
Depreciation and amortisation	2 (c)	16,880	17,307	4,272
Grants and subsidies	2 (d)	151,170	162,236	101,787
Other expenses	2 (e)	1,715,081	718	167
Total Expenses		1,976,555	242,839	158,355
Less:				
Retained Revenue				
Sale of goods and services	3 (a)	56,466	61,031	12,494
Investment income	3 (b)	3,687	199	859
Grants and contributions	3 (c)	37,427	4,300	0
Other revenue	3 (d)	580	91	30,197
Total Retained Revenue		98,160	65,621	43,550
Gain / (loss) on disposal of non-current assets	4	5	-	(224)
Net Cost of Services	20	1,878,390	177,218	115,029
Government Contributions				
Recurrent appropriation	5	163,465	166,737	106,188
Capital appropriation	5	17,122	17,122	8,496
Acceptance by the Crown of employee benefits and other liabilities	6	5,264	-	1,645
Total Government Contributions		185,851	183,859	116,329
SURPLUS / (DEFICIT) FOR THE YEAR FROM ORDINARY ACTIVITIES		(1,692,539)	6,641	1,300
Total Revenues, expenses and valuation adjustments recognised directly in equity		-	-	-
SURPLUS / (DEFICIT) FOR THE YEAR	18	(1,692,539)	6,641	1,300
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		(1,692,539)	6,641	1,300

The accompanying notes form part of these statements

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2004

	Notes	ACTUAL 2004 \$'000	BUDGET 2004 \$'000	ACTUAL 2003 \$'000
ASSETS				
Current Assets				
Cash	8	78,401	56,525	55,235
Receivables	9	51,581	49,107	49,107
Other	10	-	30	330
Other financial assets	12	108	-	-
Total Current Assets		130,090	105,662	104,672
Non-Current Assets				
Receivables	11	1,856	1,967	1,967
Other financial assets	12	-	60	60
Property, Plant and Equipment				
- Infrastructure Assets	13	284,211	1,921,597	1,915,824
- Land and Buildings	13	13,179	93,349	91,849
- Plant and equipment	13	3,199	3,026	2,778
Total Property, Plant and Equipment		300,589	2,017,972	2,010,451
Total Non-Current Assets		302,445	2,019,999	2,012,478
Total Assets		432,535	2,125,661	2,117,150
LIABILITIES				
Current Liabilities				
Payables	14	94,845	84,242	84,242
Interest bearing liabilities	17	51	53	53
Provisions	15	3,883	4,958	4,958
Other	16	2,847	3,208	3,208
Total Current Liabilities		101,626	92,461	92,461
Non-Current Liabilities				
Interest bearing liabilities	17	1,952	2,037	2,037
Provisions	15	884	2,040	2,040
Total Non-Current Liabilities		2,836	4,077	4,077
Total Liabilities		104,462	96,538	96,538
Net Assets		328,073	2,029,123	2,020,612
EQUITY				
Accumulated funds	18	328,073	2,029,123	2,020,612
Total Equity		328,073	2,029,123	2,020,612

The accompanying notes form part of these statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2004

	Notes	ACTUAL 2004 \$'000	BUDGET 2004 \$'000	ACTUAL 2003 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments				
Employee related		(18,090)	(17,489)	(11,389)
Grants and subsidies		(151,170)	(162,236)	(102,328)
Other		(80,775)	(54,868)	(30,948)
Total Payments		(250,035)	(234,593)	(144,665)
Receipts				
Sale of goods and services		63,139	61,862	4,681
Interest received		2,208	199	226
GST Refund		12,210	-	-
Other		33,435	14,391	36,533
Total Receipts		110,992	76,452	41,440
Cash Flows from Government				
Recurrent appropriation		166,312	166,737	106,651
Capital appropriation		17,122	17,522	8,496
Cash reimbursements from the Crown		956	-	162
Net Cash Flows from Government		184,390	184,259	115,309
NET CASH FLOWS FROM OPERATING ACTIVITIES	20	45,347	26,118	12,084
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Plant and Equipment and Infrastructure Systems		99	-	37
Purchases of Plant and Equipment and Infrastructure Systems		(22,192)	(24,828)	(7,354)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(22,093)	(24,828)	(7,317)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of borrowings and advances		(88)	-	(17)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(88)	-	(17)
NET INCREASE / (DECREASE) IN CASH		23,166	1,290	4,750
Opening cash and cash equivalents		55,235	10,936	50,485
CLOSING CASH AND CASH EQUIVALENTS	8	78,401	12,226	55,235

The accompanying notes form part of these statements.

PROGRAM STATEMENT - EXPENSES AND REVENUES FOR THE YEAR ENDED 30 JUNE 2004

EXPENSES AND REVENUES	Program 1*		Program 2*		Not Attributable**		Total	
	2004 \$'000	2003*** \$'000	2004 \$'000	2003*** \$'000	2004 \$'000	2003*** \$'000	2004 \$'000	2003*** \$'000
Expenses								
Operating expenses								
- Employee related	9,459	N/A	11,228	N/A		N/A	20,687	N/A
- Other operating expenses	42,084	N/A	20,692	N/A		N/A	62,776	N/A
Maintenance	-	N/A	9,961	N/A		N/A	9,961	N/A
Depreciation and amortisation	85	N/A	16,795	N/A		N/A	16,880	N/A
Grants and subsidies	151,170	N/A	-	N/A		N/A	151,170	N/A
Other expenses	-	N/A	1,715,081	N/A		N/A	1,715,081	N/A
Total Expenses	202,798	N/A	1,773,757	N/A	-	N/A	1,976,555	N/A
Retained Revenue								
Sale of goods and services	1,408	N/A	55,058	N/A		N/A	56,466	N/A
Investment income	3,389	N/A	298	N/A		N/A	3,687	N/A
Grants and contributions	37,427	N/A	-	N/A		N/A	37,427	N/A
Other revenue	555	N/A	25	N/A		N/A	580	N/A
Total Retained Revenue	42,779	N/A	55,381	N/A	-	N/A	98,160	N/A
Gain / (loss) on disposal of non-current assets	-	N/A	5	N/A		N/A	5	N/A
Net Cost of Services	160,019	N/A	1,718,371	N/A	-	N/A	1,878,390	N/A
Government contributions**					185,851	N/A	185,851	N/A
NET EXPENDITURE / (REVENUE)	160,019	N/A	1,718,371	N/A	(185,851)	N/A	1,692,539	N/A
Extraordinary items							-	
NET EXPENDITURE / (REVENUE) FOR THE YEAR	160,019	N/A	1,718,371	N/A	(185,851)	N/A	1,692,539	N/A
	Program 1*		Program 2*		Not Attributable		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Administered Expenses								
Transfer payments								
Other								
Total Administered Expenses	-	-	-	-	-	-	-	-
Administered Revenues								
Transfer receipts								
Consolidated Fund								
- Taxes, fees and fines								
- Other					562	550	562	550
Total Administered Revenues	-	-	-	-	562	550	562	550
Administered Revenues less Expenses	-	-	-	-	562	550	562	550

* The name and purpose of each program is summarised in Note 7.

** Appropriations are made on an agency basis and not to individual programs. Consequently, government contributions are included in the 'Not Attributable' column.

*** Comparative figures are not disclosed as the program structure changed significantly in 2003-04 so as to make comparisons impracticable.

SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES

	2004				2003			
	RECURRENT APP'N	EXPENDITURE/ NET CLAIM ON CONSOLIDATED FUND	CAPITAL APP'N	EXPENDITURE/ NET CLAIM ON CONSOLIDATED FUND	RECURRENT APP'N	EXPENDITURE	CAPITAL APP'N	EXPENDITURE
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ORIGINAL BUDGET APPROPRIATION/ EXPENDITURE								
- Appropriation Act	166,737	162,399	17,522	17,122	87,614	84,359	75	75
- Additional Appropriations								
- s 21A PF&AA - special appropriations								
- s 24 PF&AA - transfers of functions between departments		-	(400)		23,852	20,968	9,295	8,421
- s 26 PF&AA - Commonwealth specific purpose payments								
	166,737	162,399	17,122	17,122	111,466	105,327	9,370	8,496
OTHER APPROPRIATIONS / EXPENDITURE								
- Treasurer's Advance	1,575	1,066			900	861		
- Section 22 - expenditure for certain works and services								
- Transfers to / from another agency (s25 of the Appropriation Act)								
	1,575	1,066	-	-	900	861	-	-
Total Appropriations / Expenditure / Net Claim on Consolidated Fund (includes transfer payments)	168,312	163,465	17,122	17,122	112,366	106,188	9,370	8,496
Amounts drawn down against Appropriation		166,312		17,122		109,396		8,496
Liability to Consolidated Fund		(2,847)		-		(3,208)		-

The Summary of Compliance is based on the assumption that Consolidated Fund moneys are spent first (except where otherwise identified or prescribed).

The Liability to Consolidated Fund represents the difference between the "Amount Drawn down against Appropriation" and the "Total Expenditure / Net Claim on Consolidated Fund".

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Department of Energy, Utilities and Sustainability (formerly the Ministry of Energy and Utilities – renamed on 1 January 2004), as a reporting entity, incorporates the activities of the Energy Corporation of NSW as well as the commercial business activities of State Water. The reporting entity is also consolidated as part of the NSW Total State Sector Accounts.

(b) Basis of Accounting

The Department's financial statements are a general purpose financial report which has been prepared on an accruals basis and in accordance with:

- applicable Australian Accounting Standards;
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB);
- Urgent Issues Group (UIG) Consensus Views;
- the requirements of the *Public Finance and Audit Act and Regulation*; and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer under section 9(2)(n) of the Act.

Where there are inconsistencies between the above requirements, the legislative provisions have prevailed.

In the absence of a specific Accounting Standard, other authoritative pronouncement of the AASB or UIG Consensus View, the hierarchy of other pronouncements as outlined in AAS 6 "Accounting Policies" is considered.

Except for certain investments, land, buildings and infrastructure systems, which are recorded at valuation, the financial statements are prepared in accordance with the historical cost convention. All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency. The accounting policies adopted are consistent with those of the previous year.

(c) Administered Activities

The Department administers, but does not control, certain activities on behalf of the Crown Entity in relation to pipeline licences under the *Pipelines Act 1967*. It is accountable for the transactions relating to those administered activities but does not have the discretion, for example, to deploy the resources for the achievement of the agency's own objectives.

Transactions and balances relating to the administered activities are not recognised as the department's revenues, expenses, assets and liabilities, but are disclosed in Notes 23 to 24.

The accrual basis of accounting and all applicable accounting standards have been adopted for the reporting of the administered activities.

(d) Revenue Recognition

Revenue is recognised when the Department has control of the good or right to receive, it is probable that the economic benefits will flow to the Department and the amount of revenue can be measured reliably. Additional comments regarding the accounting policies for the recognition of revenue are discussed below.

(i) Parliamentary Appropriations and Contributions from Other Bodies

Parliamentary appropriations and contributions from other bodies (including grants and donations) are generally recognised as revenues when the Department obtains control over the assets comprising the appropriations/contributions. Control over appropriations and contributions is normally obtained upon the receipt of cash.

An exception to the above is when appropriations are unspent at year end. In this case, the authority to spend the money lapses and generally the unspent amount must be repaid to the Consolidated Fund in the following financial year. As a result, unspent appropriations are accounted for as liabilities rather than revenue.

The liability is disclosed in Note 16 as part of 'Current/Non Current Liabilities – Other'. The amount will be repaid and the liability will be extinguished next financial year.

(ii) Sale of Goods and Services

Revenue from the sale of goods and services comprises revenue from the provision of products or services ie user charges. User charges are recognised as revenue when the Department obtains control of the assets that result from them.

(iii) Investment Income

Interest revenue is recognised as it accrues. Rent revenue is recognised in accordance with AAS 17 "Accounting for Leases". Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Dividend revenue is recognised when the department's right to receive payment is established.

(e) Employee Benefits and other provisions**(i) Salaries and Wages, Annual Leave, Sick Leave and On-Costs**

Liabilities for salaries and wages (including non-monetary benefits), annual leave and vesting sick leave are recognised and measured in respect of employees' services up to the reporting date at nominal amounts based on the amounts expected to be paid when the liabilities are settled.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

The outstanding amounts of payroll tax, workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

(ii) Long Service Leave and Superannuation

The Department's liabilities for long service and superannuation are assumed by the Crown Entity. The Department accounts for this liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item described as "Acceptance by the Crown Entity of Employee Benefits and other Liabilities".

(f) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred (except where they are included in the costs of qualifying assets).

(g) Insurance

The Department's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self-insurance for Government agencies. The expense (premium) is determined by the Fund Manager based on past experience.

(h) Accounting for the Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where:

- the amount of GST incurred by the Department as a purchaser that is not recoverable from the Australian Taxation office is recognised as part of the cost of acquisition of an asset or as part of an item of expense
- receivables and payables stated with the amount of GST included.

(i) Acquisitions of Assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the agency. Cost is determined as the fair value of the assets given as consideration plus the cost incidental to the acquisition.

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.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the acquisition date. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained.

(j) Plant and Equipment

Plant and equipment costing \$5,000 and above individually are capitalised. Individual items costing less than \$5,000 are capitalised when those assets form part of a previously capitalised network.

(k) Revaluation of Physical Non-Current Assets

Physical non-current assets are valued in accordance with the "Guidelines for the Valuation of Physical Non-Current Assets at Fair Value" (TPP 03-02). This policy adopts fair value in accordance with AASB 1041 from the financial years beginning on or after 1 July 2002. There is no substantive difference between the fair value valuation methodology and the previous valuation methodology adopted in the NSW public sector.

Where available, fair value is determined having regard to the highest and best use of the asset on the basis of current market selling prices for the same or similar assets. Where market selling price is not available, the asset's fair value is measured as its market buying price ie the replacement cost of the asset's remaining future economic benefit. The Department is a not for profit entity.

Each class of physical non-current assets is revalued every five years and with sufficient regularity to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date.

Infrastructure systems, land under infrastructure and plant and equipment were written down to \$300 million representing the recoverable amount using the expected net cash flows discounted to their present value. The write down was undertaken to recognise the commercial focus of the State Water business unit of the Department and to ensure those class of assets reflect fair value.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as a surrogate for fair value.

When revaluing non-current assets by reference to current prices for assets newer than those being revalued (adjusted to reflect the present condition of the assets), the gross amount and the related accumulated depreciation is separately restated.

Otherwise, any balances of an accumulated depreciation existing at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the surplus/deficit, the increment is recognised immediately as revenue in the surplus/deficit.

Revaluation decrements are recognised immediately as expenses in the surplus/deficit, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within the same class of non-current assets, but not otherwise.

Where an asset that has previously been revalued is disposed of, any balance remaining in the asset revaluation reserve in respect of that asset is transferred to accumulated funds.

(I) Depreciation of Non-Current Physical Assets

Except for a limited number of heritage assets, depreciation is provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the department. The applicable depreciation rates of major asset categories are as follows:

Asset Class	Depreciation Rate
WATER INFRASTRUCTURE SYSTEMS	
Dams – Structure/Concrete Works	0.5%
Dams – Other Civil Components	0.5 – 1.0%
Dams – Mechanical/Electrical Components	0.5 – 3.3%
Weirs and Regulators – Concrete Components & Fountain Pilings	1.0%
Weirs and Regulators – Steel Structural Components	1 – 2.0%
Channels and Structures	2.5%
BUILDINGS	
Buildings – Cottages and Dwellings/Office Buildings/Accommodation	2 – 2.5%
PLANT AND EQUIPMENT	
Plant and Equipment	6.7% – 20%
Computers	25%
Motor Vehicles	20%
Marine Craft	20%
Furniture and Major Fitouts	10%
Scientific Instruments	12.5 – 20%

Land is not a depreciable asset. Certain heritage assets have an extremely long useful life, including original artworks and collections and heritage buildings. Depreciation for these items cannot be reliably measured because the useful life and the net amount to be recovered at the end of the useful life cannot be reliably measured. In these cases, depreciation is not recognised. The decision not to recognise depreciation for these assets is reviewed annually.

(m) Maintenance and Repairs

The costs of maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated.

(n) Leased Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases under which the lessor effectively retains all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is recognised as its fair value at the inception of the lease. The corresponding liability is established at the same amount. Lease payments are allocated between the principal component and the interest expense. The Department does not have any finance leases.

Operating lease payments are charged to the Statement of Financial Performance in the periods in which they are incurred.

(o) Receivables

Receivables are recognised and carried at cost, based on the original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(p) Payables

These amounts represent liabilities for goods and services provided to the Department and other amounts, including interest. Interest is accrued over the period it becomes due.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is calculated using the weighted average cost or "first in first out" method.

(r) Other financial assets

"Other financial assets" are generally recognised at cost.

For non-current "other financial assets", revaluation increments and decrements are recognised in the same manner as physical non-current assets (see Para J). For current "other financial assets", revaluation increments or decrements are recognised in the Statement of Financial Performance.

(s) Trust Funds

The department does not receive any money in a trustee capacity.

(t) Other Assets

Other assets including prepayments are recognised on a cost basis.

(u) Interest bearing liabilities

All loans are valued at current capital value; the finance lease liability is determined in accordance with AAS 17 "Leases".

(v) Reclassification of financial information

When the presentation or classification of items in the financial report is amended, the nature and amount of and reason for the representation or reclassification will be disclosed.

(w) Budgeted Amounts (Refer to Note 22 Budget Review)

The budgeted amounts are drawn from the budgets as formulated at the beginning of the financial year and with any adjustments for the effects of additional appropriations, s21A, s24 and/or s26 of the *Public Finance and Audit Act 1983*.

The budgeted amounts in the Statement of Financial Performance and the Statement of Cash Flows are generally based on the amounts disclosed in the NSW Budget Papers (as adjusted above). However, in the Statement of Financial Position, the amounts vary from the Budget Papers, as the opening balances of the budgeted amounts are based on carried forward actual amounts ie per the audited financial statements (rather than carried forward estimates).

(x) Impact of adopting Australian Equivalents to International Financial Reporting Standards

(a) Explanation of how the transition to AIFRS is being managed

The Department will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

The Department is in the process of commencing transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (AIFRS). To manage the transition the Department will assist the Central Corporate Services Unit (CCSU) of the Department of Commerce (as the department's financial transactional service provider) to analyse and identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

The Department has taken the following steps to manage the transition to the new standards:

The Department's Finance Manager is overseeing the transition and input to CCSU. The following phases that need to be undertaken have been identified:

- Scope and identify impact of the changes
- Determine changes to be made to systems, processes, policies.
- Train staff
- Implement changes and review

It is anticipated that all changes including the requisite changes to systems will be completed by the end of November 2004.

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandate of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

(b) Key Differences in Accounting Policies

The department has identified a number of significant differences in accounting policies that will arise from adopting AIFRS. Some differences arise because AIFRS requirements are different from existing AASB requirements. Other differences could arise from options in AIFRS. To ensure consistency at the whole of government level, NSW Treasury has advised the department of options it is likely to mandate, and will confirm these during 2004-05. This disclosure reflects these likely mandates.

The agency's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

- AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB Accounting Policies, Changes in Accounting Estimates and Errors requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balances of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.

- AASB 110 *Events after the balance sheet date* states that only dividends “declared” or appropriately “authorised before the reporting date can be recognised. This is more restrictive than the current approach which is based on ‘valid expectations’. However, this change is not expected to impact on dividend recognition as the signing of the statement of Corporate Intent/Statement of Business Intent before the reporting date to which it relates, “authorises” the dividend and any change in the amount of the dividend after the reporting date constitutes an “adjusting event after the reporting date”.

However, the amount of the dividend may be affected by other AIFRS, such as AASB 139 *Financial Instrument Recognition and Measurement* and AASB 119 *Employee Benefits* (refer below) as these standards may impact on retained earnings (on first adoption) and the amount and volatility of profit/loss.

- AASB 116 *Property, Plant and Equipment* requires the cost and fair value of property, plant and equipment to be increased to include restoration costs, where restoration provisions are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Major inspection costs must be capitalised and this will require the fair value and depreciation of the related asset to be re-allocated.

- AASB 117 *Leases* requires operating lease contingent rentals to be recognised as an expense on a straight-line basis over the lease term rather than expensing in the financial year incurred.
- AASB 119 *Employee Benefits* requires the defined benefit obligation to be discounted using the government bond rate at each reporting date rather than the long term expected rate of return on plan assets. This will increase the amount and the future volatility of the unfunded superannuation liability and the volatility of the employee benefit expenses.
- AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. For profit entities will either apply the current AASB 120 or early adopt a revised AASB 120, based on the grant requirements in AASB 141 *Agriculture*. The current AASB 120 spreads income over the period necessary to match related costs. A revised AASB 120 based on AASB 141 is likely to require revenue recognition when conditions are satisfied. Both of these alternatives may have the effect of delaying revenue recognition.
- AASB 123 *Borrowing Costs* provides the option to expense or capitalise borrowing costs. NSW Treasury is likely to mandate expensing of borrowing costs to harmonise with GFS. Previously, borrowing costs related to qualifying assets were capitalised.
- AASB 1004 *Contributions* applies to *not-for-profit entities* only. Entities will either continue to apply the current requirements in AASB 1004 where grants are normally recognised on receipt, or alternatively apply the proposals on grants included in ED 125 *Financial Reporting by Local Governments*. If the ED 125 approach is applied, revenue and/or expense recognition will be delayed until the agency supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied.
- AASB 132 *Financial Instrument Disclosure and Presentation* prohibits in-substance defeasance. Agencies can no longer offset financial assets and financial liabilities when financial assets are set aside in trust by a debtor for the purposes of discharging an obligation, without assets having been accepted by the creditor in settlement of the obligation. This will have the effect of increasing both assets and liabilities but will have no net impact on equity.
- AASB 136 *Impairment of Assets* requires an entity to assess at each reporting date whether there is any indication that an asset (or cash generating unit) is impaired and if such indication exists, the entity must estimate the recoverable amount. However, the effect of this Standard should be minimal because all the substantive principles in AASB 136 are already incorporated in Treasury’s policy *Valuation of Physical Non-Current Assets at Fair Value*.
- AASB 138 *Intangibles* requires that all research costs must be expensed and restricts capitalisation of development costs. Some previously recognised internally generated intangible assets may need to be derecognised. Further intangibles assets can only be revalued where there is an active market, which is unlikely to occur. As a result, it is likely that any revaluation increments will need to be derecognised and intangible assets recognised at cost.

	ACTUAL 2004 \$'000	ACTUAL 2003 \$'000
2. EXPENSES		
(a) Employee related expenses		
Salaries and wages (including recreation leave)	14,386	10,672
Superannuation	2,472	2,246
Long service leave	1,810	1,514
Workers' compensation insurance	286	63
Payroll tax and fringe benefits tax	1,733	780
	20,687	15,276
In addition to the \$20.687 million, \$8.6 million was incurred in employee related expenses in respect of maintenance works on dams and other water infrastructure (\$4.7m) and grants provided for projects directly undertaken and/or managed by the Department (\$3.9m).		
(b) Other operating expenses		
Operating lease rental expense-minimum lease payments	1,311	781
Consultants and Contractors	890	2,614
Contract Payments	37,161	24,316
Auditors remuneration - audit or review of the financial report	122	103
Internal audit fees	-	16
Bad and doubtful debts	163	26
Insurance	1,858	846
Energy rebate scheme administration costs	536	467
Resource Management Charge	13,230	2,607
Other administration	7,505	2,653
	62,776	34,429
In addition to the \$62.776 million, \$5.8 million was incurred in other operating expenses in respect of maintenance works on dams and other water infrastructure (\$5.0m) and grants provided for projects directly undertaken and/or managed by the Department (\$0.8m).		
(c) Depreciation and amortisation expense		
Depreciation		
Land and buildings	37	10
Plant and equipment	316	253
Water infrastructure systems	16,527	4,009
	16,880	4,272
(d) Grants and subsidies		
Sustainable Energy Research and Development	54	116
Life Support Rebates	2,486	2,202
Pensioner energy rebates	77,383	73,353
Contribution for consultancy on IT systems for energy full retail contestability	-	256
Contribution to Utility Consumer Advocacy Program	250	209
Energy Accounts Payment Assistance	8,902	-
Alternative Funding Subsidy	424	-
Country Towns Water Supply and Sewerage	61,671	25,482
Other grants	-	169
	151,170	101,787

	ACTUAL 2004 \$'000	ACTUAL 2003 \$'000
(e) Other expenses		
Decrement on revaluation of infrastructure assets	1,715,081	-
Loss on revaluation of investment	-	57
National Gas Pipeline Advisory Committee	-	107
Gas Network Safety Reform	-	3
	1,715,081	167
3. REVENUES		
(a) Sale of goods and services		
Pipeline search fees	317	356
Income from water operations	44,954	8,567
Murray Darling Basin Commission works and services	8,302	2,704
Dams business account	529	174
Fees for services	1,382	381
Other	982	312
	56,466	12,494
(b) Investment income		
Interest from bank deposits		
- Sustainable Energy Research Development Fund (SERDF)	40	24
- DEUS Operating Account	3,349	752
Rent	298	83
	3,687	859
(c) Grants and contributions		
Contributions	37,427	-
	37,427	-
(d) Other revenue		
Sustainable Energy Research Development Fund Income	357	79
Funding for transfer of function	-	1,619
Other revenue	223	28,499
	580	30,197
4. GAIN / (LOSS) ON DISPOSAL OF NON-CURRENT ASSETS		
Gain/(Loss) on disposal of land and buildings		
Proceeds from disposal	6	-
Written down value of assets disposed	(34)	-
Net gain/(Loss) on disposal of land and buildings	(28)	-
Net Gain/(Loss) on disposal of plant and equipment		
Proceeds from disposal	93	37
Written down value of assets disposed	(60)	(261)
Net gain/(Loss) on disposal of plant and equipment	33	(224)
Gain/(loss) on disposal of non-current assets	5	(224)

	ACTUAL 2004 \$'000	ACTUAL 2003 \$'000
5. APPROPRIATIONS		
Recurrent Appropriations		
Total recurrent drawdowns from Treasury (per Summary of Compliance)	166,312	109,396
Less: Liability to Consolidated Fund (per Summary of Compliance)	(2,847)	(3,208)
	163,465	106,188
Comprising:		
Recurrent appropriations (per Statement of Financial performance)	163,465	106,188
	163,465	106,188
Capital appropriations		
Total capital draw downs from Treasury (per Summary of Compliance)	17,122	8,496
Less: Liability to Consolidated Fund (per Summary of Compliance)	-	-
	17,122	8,496
Comprising:		
Capital appropriations (per Statement of Financial Performance)	17,122	8,496
	17,122	8,496
6. ACCEPTANCE BY THE CROWN OF EMPLOYEE BENEFITS AND OTHER LIABILITIES		
The following liabilities and expenses have been assumed by the Crown Entity		
Superannuation	3,306	481
Long Service Leave	1,810	1,135
Payroll Tax on superannuation	148	29
	5,264	1,645
7. PROGRAMS / ACTIVITIES OF THE AGENCY		
Program 1: Energy and Water Policy		
Objective: To promote the efficient, equitable, safe, reliable and ecologically sustainable supply and use of energy and water.		
Program 2: Rural Bulk Water Delivery		
Objective: Effective and efficient delivery of bulk water to customers, community and the environment.		
8. CURRENT ASSETS - CASH		
Cash at Bank and on hand	77,383	54,555
Sustainable Energy Research Development Fund	1,018	680
	78,401	55,235
For the purpose of the Statement of Cash Flows, cash includes cash on hand, cash at bank and bank overdraft and short term deposits at call.		
Cash assets recognised in the Statement of Financial Position are reconciled to cash at the end of financial year as shown in the Statement of Cash Flows as follows:		
Cash (per Statement of Financial Position)	78,401	55,235
Closing Cash and cash equivalents (per Statement of Cash Flows)	78,401	55,235

	ACTUAL 2004 \$'000	ACTUAL 2003 \$'000
9. CURRENT ASSETS - RECEIVABLES		
Sales of goods and services	4,151	11,363
Accrued Income - sales of goods and services	39,310	34,607
Provision for doubtful debts	(483)	(375)
Interest receivable	1,805	259
Backlog Sewerage Loan	111	91
Goods and Services Tax	6,682	2,793
Other	5	369
	51,581	49,107
There were no bad debts written off during the year.		
10. CURRENT ASSETS - OTHER		
Prepayments	-	-
Prepaid superannuation contributions	-	330
	-	330
11. NON-CURRENT ASSETS - RECEIVABLES		
Backlog Sewerage Loan	1,856	1,967
	1,856	1,967
12. CURRENT / NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS		
The Department received 902,103 shares in Pinnacle VRB Limited from Unisearch Limited as a royalty payment for an Energy Research and Development Fund grant provided for the development of the Vanadium battery. The reconciliations for the carrying amount of shares at the beginning and end of the current and previous financial year are set out below:		
Carrying amount at the start of the year	60	117
Increase (Decrease) in share value	48	(57)
Carrying amount at the end of the year	108	60
The current market value of these shares at 30 June 2004 was \$108,252.		
13. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT		
Land and Buildings		
At Fair Value	13,295	91,931
Less Accumulated Depreciation	(116)	(82)
	13,179	91,849
Plant and Equipment		
At Fair Value	3,803	8,070
Less Accumulated Depreciation	(604)	(5,292)
	3,199	2,778
Water Infrastructure Systems		
At Fair Value	284,211	2,361,488
Less Accumulated Depreciation	-	(445,664)
	284,211	1,915,824
Total Property, Plant and Equipment at Net Book Value	300,589	2,010,451

Reconciliation of carrying amount of property, plant and equipment at the beginning and end of the current reporting period are set out below:

	Water Infrastructure Systems	Land Other	Land And Buildings	Plant And Equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at the start of the year	1,915,824	90,686	1,164	2,778	2,010,452
Additions	21,690	-	-	502	22,192
Disposals	-	-	(34)	(60)	(94)
Depreciation expense	(16,527)	-	(37)	(316)	(16,880)
Reclassifications	(337)	-	42	295	-
Decrement on revaluation	(1,636,439)	(78,642)	-	-	(1,715,081)
Carrying amount at the end of the year	284,211	12,044	1,135	3,199	300,589

	ACTUAL 2004 \$'000	ACTUAL 2003 \$'000
14. CURRENT LIABILITIES - PAYABLES		
Accrued salaries, wages and on-costs	750	561
Accruals other	38,921	16,593
Creditors	4,816	11,788
Country Towns Water Supply and Sewerage Scheme	50,358	55,229
Sustainable Energy and Research Development	-	71
	94,845	84,242
15. CURRENT / NON-CURRENT LIABILITIES - PROVISIONS		
Employee benefits and related on-costs		
Recreation Leave	3,543	4,575
Long Service leave	-	1,168
Superannuation contributions	-	1,164
Oncosts	1,224	91
	4,767	6,998
Aggregate employee benefits and related on-costs		
Provisions - current	3,883	4,958
Provisions - non-current	884	2,040
Accrued salaries, wages and on-costs (note 14)	750	561
	5,517	7,559
16. CURRENT / NON-CURRENT LIABILITIES - OTHER		
Liability to Consolidated Fund for lapsed appropriation	2,847	3,208
	2,847	3,208

	ACTUAL 2004 \$'000	ACTUAL 2003 \$'000
17. CURRENT / NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES		
Current - Backlog Sewerage Loan	51	53
Non Current - Backlog Sewerage Loan	1,952	2,037
	2,003	2,090
18. CHANGES IN EQUITY		
Balance at the beginning of the financial year	2,020,612	(4,678)
Transactions with owners as owners		
Increase in net assets from administrative restructure	-	2,023,990
Total	2,020,612	2,019,312
Other than transactions with owners as owners		
Surplus/(deficit) for the year	(1,692,539)	1,300
Balance at the end of the financial year	328,073	2,020,612
19. COMMITMENTS FOR EXPENDITURE		
Other Expenditure Commitments		
Aggregate other expenditure for the acquisition of goods and services contracted for at balance date and not provided for:		
Not later than one year	2,321	267
Later than one year but not later than five years	-	-
Later than five years	-	-
Total (including GST)	2,321	267
Operating Lease Commitments		
Future non-cancellable operating lease rentals not provided for and payable:		
Not later than one year	2,351	2,315
Later than one year but not later than five years	2,307	2,451
Later than five years	-	-
Total (including GST)	4,658	4,766
The total commitments above include input tax credits of \$634,000 that are expected to be recoverable from the Australian Taxation Office.		
The commitments above also include commitments amounting to \$2.477m relating to the State Water business unit of the Department which has become a State Owned Corporation from 1 July 2004 and therefore not part of the Department from that date.		
20. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES TO NET COST OF SERVICES		
Net Cash Flows from Operating Activities	(45,347)	(12,084)
Cash Flows from Government/Appropriations	184,390	115,309
Decrement on revaluation	1,715,081	
Net loss / (gain) on sale of plant and equipment	(5)	224
Acceptance by the Crown Entity of employee benefits and other liabilities	4,308	1,484
Depreciation	16,880	4,272
Decrease / (Increase) in provisions	(1,901)	2,183
Recognition of shares		57
Decrease / (Increase) in receivables	(2,411)	(6,994)
Decrease / (Increase) in prepayments	-	146
Increase / (Decrease) in payables	7,395	10,432
Net Cost of Services	1,878,390	115,029

	ACTUAL 2004 \$'000	ACTUAL 2003 \$'000
21. CONTINGENT LIABILITIES AND ASSETS		
Contingent Liabilities	1,400	1,400
	1,400	1,400

The Department may be liable for legal costs arising from claims and other matters subject to litigation. The amounts involved cannot accurately be determined at this stage. Any costs incurred are covered by the Treasury Managed Fund and are not expected to exceed \$1.4 million.

22. BUDGET REVIEW

Net Cost of Services

The major variation between Net Cost of Services to budget relates to the \$1.7 billion non cash write down decrement of water infrastructure and land under water infrastructure to the recoverable amount undertaken in 2003-04. The write down, under AASB 1041 Revaluation of Non-Current Assets, must be recognised as an expense in the Statement of Financial Performance.

Other significant variations within the Statement of Financial Position include:

- Higher than budgeted expenditure in Other operating expenses due to the inclusion of externally funded contributions from Councils in respect of contract payments under the Country Towns Water Supply and Sewerage program. The increased expenditure is offset by increased revenue contributions.
- Lower than budget expenditure in Maintenance for the State Water business Unit which was offset by lower than budgeted retained revenue earnings in respect of water sales due to the drought.
- Lower than budgeted expenditure in Grants and subsidies due to deferred project works under the Country Towns Water Supply and Sewerage program and savings in the demand driven Pensioner Energy Rebate Program.

Asset and Liabilities

The value of total current assets is reported as \$130.090 million in the Statement of Financial Position against a budget of \$105.662 million. The variation is primarily due to an increase in cash relating to greater than budgeted revenue and expenses recorded but not yet paid.

The variation in the respect of non-current assets relates to the write down decrement of \$1.7 billion relating to water infrastructure and land under water infrastructure undertaken in 2003-04 to reflect the recoverable amount.

The value of total current liabilities is reported as \$101.626 million in the Statement of Financial Position against a budget of \$92.461 million. The variation is primarily due to the increase in payables associated with expenses recorded but not yet paid.

Cash Flows

Variances between Actual and Budget contained within the Statement of Cash Flows for Operating, Investing and Financing Activities are due to timing anomalies between when the revenue or expense is incurred and when the corresponding receipt or payment is effected.

The main reason for the variance against budget of \$21.876m in respect of 'Net Increase in Cash' is that a number of expense transactions were recorded in 2003-04 but because of varying reasons the payments were not made prior to 30 June 2004.

23. ADMINISTERED ACTIVITIES

Administered activities are defined as those activities that are carried out on behalf of the Crown Entity. These monies are excluded from the Financial Statement as the Department cannot use them to achieve its objectives.

Administered Revenue		
Pipeline Licences	562	550
	562	550
Administered Assets		
Crown Debtors		
Pipeline Licences	204	432
Total Administered Assets	204	432

	30 - 60 DAYS	61 - 90 DAYS	91+ DAYS	TOTAL
	\$000	\$000	\$000	\$000
24. ADMINISTERED REVENUE - SCHEDULE OF UNCOLLECTED AMOUNTS				
Pipeline licences	16	6	16	38
Total	16	6	16	38

25. FINANCIAL INSTRUMENTS**Cash and interest rate risk**

Cash comprises cash on hand and bank balances within the Treasury Banking system. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (Tcorp) 11am unofficial cash rate adjusted for a management fee to Treasury. The Department's exposure to interest rate risk and the effective interest rates of financial assets and liabilities both recognised and unrecognised at 30 June are as follows:

	Interest bearing		Non-interest bearing		Total carrying amount as per statement of financial position		Average interest rate	
	2004	2003	2004	2003	2004	2003	2004	2003
Financial instruments	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
Financial Assets								
Cash	78,401	55,235	-	-	78,401	55,235	4.06	3.75
Backlog Sewage Loans	1,967		-	-	1,967		10.05	
Shares			108		108		Not applicable	
Receivables			51,470	49,107	51,470	49,107	Not applicable	
Total	80,368	55,235	51,578	49,107	131,946	104,342		
Financial Liabilities								
Backlog Sewage Loans	2,003	2,090			2,003	2,090	10.05	
Accounts Payable	-	-	94,845	84,242	94,845	84,242	Not applicable	
Other			2,847	3,208	2,847	3,208	Not applicable	
Total	2,003	2,090	97,692	87,450	99,695	89,540		

Credit risk

A credit risk is the risk of financial loss arising from another party to a contract or financial position failing to discharge a financial obligation there under.

Receivables

All trade and other debtors are recognised as amounts receivable at balance date. Collectability of all debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised when some doubt as to collection exists. The credit risk is the carrying amount (net of any provision for doubtful debts). No interest is earned on trade debtors. The carrying amount approximates net fair value. Sales are generally made on 30 day terms.

Bank overdraft

The Department does not have any bank overdraft facility.

Trade creditors and accruals

The liabilities are recognised for amounts due to be paid in the future for goods or services received whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made not later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment. No interest was paid during the period. The carrying amount approximates net fair value.

26. AFTER BALANCE DATE EVENTS

There were no after balance date events that would impact on the accuracy of these financial statements.

END OF AUDITED FINANCIAL STATEMENTS



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

PAYMENTS FOR WATER AND SEWERAGE ASSISTANCE

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the Payments for Water and Sewerage Assistance:

- (a) presents fairly the Entity's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 45E of the *Public Finance and Audit Act 1983* (the Act).

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

The Director-General's Role

The financial report is the responsibility of the Director-General - Department for Energy, Utilities and Sustainability. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows, the program statement - expenses and revenues, the summary of compliance with financial directives and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides reasonable assurance to members of the New South Wales Parliament that the financial report is free of material misstatement.

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

- evaluated the accounting policies used by the Minister in preparing the financial report, and
- examined evidence that supports the amounts and other disclosures in the financial report.

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

My opinion does not provide assurance:

- about the future viability of the Payments for Water and Sewerage Assistance,
- that the Payments for Water and Sewerage Assistance has carried out its activities effectively, efficiently and economically,
- about the effectiveness of its internal controls, or
- on the assumptions used in formulating the budget figures disclosed in the financial report.

Audit Independence

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

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

P. K. Brown

P K Brown
Director of Audit

SYDNEY
20 October 2004



**DEPARTMENT OF ENERGY,
UTILITIES AND SUSTAINABILITY**
NEW SOUTH WALES GOVERNMENT

Leadership in energy and water sustainability
for New South Wales

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

PAYMENTS FOR WATER AND SEWERAGE ASSISTANCE ENTITY

Pursuant to Section 45F of the Public Finance and Audit Act 1983, and under the delegated authority of the Minister for Energy and Utilities, I state that:

- a) The accompanying financial statements have been prepared in accordance with:
 - Applicable Australian Accounting Standards;
 - Other authoritative pronouncements of the Australian Accounting Standards Board;
 - Urgent Issues Group Consensus Views;
 - The requirements of the Public Finance and Audit Act and Regulation; and
 - The Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or by the Treasurer under section 9(2)(n) of the Act.
- b) The statements exhibit a true and fair view of the financial position and transactions of the entity.
- c) There are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

David Nemtsov
Director-General

19 OCT 2004

PAYMENTS FOR WATER AND SEWERAGE ASSISTANCE

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2004

	Note	Actual 2003-04 \$'000	Budget 2003-04 \$'000	Actual 2002-03 \$'000
Expenses				
Operating Expenses:				
Grants and Subsidies	2	87,547	89,804	91,090
Total Expenses		87,547	89,804	91,090
Net Cost of Services	9	87,547	89,804	91,090
Government Contributions:				
Recurrent Appropriation (net of transfer payments)	3	87,547	89,804	91,090
Total Government Contributions		87,547	89,804	91,090
SURPLUS / (DEFICIT) FOR THE YEAR		-	-	-
Total Revenues, Expenses and Valuation Adjustments Recognised Directly in Equity		-	-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		-	-	-

The accompanying notes form part of these statements

PAYMENTS FOR WATER AND SEWERAGE ASSISTANCE

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2004

	Note	Actual 2004 \$'000	Budget 2004 \$'000	Actual 2003 \$'000
ASSETS				
Current Assets				
Cash Assets		-	-	-
Total Current Assets		-	-	-
TOTAL ASSETS		-	-	-
LIABILITIES				
TOTAL LIABILITIES		-	-	-
NET ASSETS		-	-	-
EQUITY				
Accumulated Funds		-	-	-
TOTAL EQUITY		-	-	-

The accompanying notes form part of these statements

PAYMENTS FOR WATER AND SEWERAGE ASSISTANCE

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2004

	Note	Actual 2003-04 \$'000	Budget 2003-04 \$'000	Actual 2002-03 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments				
Grants and Subsidies		(87,547)	(89,804)	(91,090)
Total Payments		(87,547)	(89,804)	(91,090)
Cash Flows from Government				
Recurrent Appropriation		87,547	89,804	91,090
Net Cash Flows from Government		87,547	89,804	91,090
NET CASH FLOWS FROM OPERATING ACTIVITIES	9	-	-	-
NET INCREASE IN CASH		-	-	-
Opening Cash and Cash Equivalents		-	-	-
CLOSING CASH AND CASH EQUIVALENTS		-	-	-

The accompanying notes form part of these statements

PAYMENTS FOR WATER AND SEWERAGE ASSISTANCE

SUMMARY OF COMPLIANCE WITH FINANCIAL DIRECTIVES FOR THE YEAR ENDED 30 JUNE 2004

	2004				2003			
	RECURRENT APPROPRIATION	EXPENDITURE	CAPITAL APPROPRIATION	EXPENDITURE	RECURRENT APPROPRIATION	EXPENDITURE	CAPITAL APPROPRIATION	EXPENDITURE
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Original Budget Appropriation/ expenditure								
Appropriation Act	89,804	87,547	-	-	87,461	91,090	-	-
Additional Appropriations	-	-	-	-	-	-	-	-
S21A PF&AA - special appropriation	-	-	-	-	-	-	-	-
S24 PF&AA - transfers of functions between departments	-	-	-	-			-	-
	89,804	87,547	-	-	87,461	91,090	-	-
Other Appropriations / Expenditure								
Treasurer's Advance		-	-	-	3,629	-	-	-
S22 PF & AA	-	-	-	-	-	-	-	-
Transfers from another agency under section 25 of the Appropriation Act								
	-	-	-	-	3,629	-	-	-
Total Appropriations / Expenditure/ Net Claim on Consolidated Fund	89,804	87,547	-	-	91,090	91,090	-	-
Amounts drawn down against Appropriation		87,547				91,090		-
Liability to Consolidated Fund		-				-		-

Notes to the Summary of Compliance with Financial Directions

- (a) The summary of Compliance is based on the assumption that Consolidated Fund moneys are spent first (except where otherwise identified or prescribed).
- (b) Comments on material variations

PAYMENTS FOR WATER AND SEWERAGE ASSISTANCE

PROGRAM STATEMENT - EXPENSES AND REVENUES
FOR THE YEAR ENDED 30 JUNE 2004

	Program 1		Not Attributable		Total	
	2003-04 \$'000	2002-03 \$'000	2003-04 \$'000	2002-03 \$'000	2003-04 \$'000	2002-03 \$'000
Expenses						
Operating Expenses	-	-	-	-	-	-
Grants and Subsidies	87,547	91,090			87,547	91,090
Total Expenses	87,547	91,090			87,547	91,090
Retained Revenue	-	-	-	-	-	-
Total Retained Revenue	-	-	-	-	-	-
Net Cost of Services	87,547	91,090	-	-	87,547	91,090
Government Contributions	-	-	87,547	91,090	87,547	91,090
Net Expenditure/(Revenue)	87,547	91,090	(87,547)	(91,090)	-	-

The name and purpose of each program is summarised at Note: 4

PAYMENTS FOR WATER AND SEWERAGE ASSISTANCE

NOTES ACCOMPANYING AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

1. Summary of Significant Accounting Policies

(a) Reporting Entity

The entity "Payments for Water and Sewerage Assistance" (hereafter referred to as the entity is a separate reporting body). The entity function is the distribution of Government funding to bodies under the control of the Minister for Energy and Utilities.

These financial statements are prepared as a Department controlled by the Minister for Energy and Utilities pursuant to section 45A of the *Public Finance and Audit Act, 1983*.

The reporting entity is consolidated as part of the NSW Total State Sector within the NSW State Sector Accounts.

(b) Basis of Accounting

The entity's financial statements are a general purpose financial report which has been prepared on an accruals basis and in accordance with:

- applicable Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB)
- Urgent Issues Group (UIG) Consensus Views.
- the requirements of the *Public Finance and Audit Act 1983* and Regulation; and
- the Financial Reporting Directions published in the Financial Reporting Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer under section 9(2)(n) of the Act.

Where there are inconsistencies between the above requirements, the legislative provisions have prevailed.

In the absence of a specific Accounting standard, other authoritative pronouncements of the AASB or UIG Consensus View, the hierarchy of other pronouncements as outlined in AAS 6 "Accounting Policies" is considered.

The financial statements are prepared in accordance with the historical cost convention. All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency. The accounting policies adopted are consistent with those of the previous year.

(c) Administered Activities

The entity does not administer any activities on behalf of the Crown Entity.

(d) Parliamentary Appropriations

Parliamentary appropriations are generally recognised as revenues when the entity obtains control over the assets comprising the appropriations. Control over appropriations is normally obtained upon the receipt of cash.

An exception to the above is when appropriations are unspent at year-end. In this case, the authority to spend the money lapses and generally the unspent amount must be repaid to the Consolidated Fund in the following financial year.

Unspent appropriations are accounted for as liabilities rather than revenue. The entity liability to the Consolidated Fund at 30 June 2004 was nil (nil for 2003).

(e) Statement of Financial Position

As the entity is involved in the payment of community service obligations, the entity does not hold assets or liabilities in the Statement of Financial Position.

(f) Impact of adopting Australian Equivalents to International Financial Reporting Standards**(a) Explanation of how the transition to AIFRS is being managed**

The Entity will apply the Australian Equivalents to International Financial Reporting Standards (AIFRS) from the reporting period beginning 1 July 2005.

To manage the transition to Australian equivalents to AIFRS, the Entity will rely on the Department of Energy, Utilities and Sustainability who will assist the Central Corporate Services Unit (CCSU) of the Department of Commerce (as the department's financial transactional service provider) to analyse and identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

NSW Treasury is assisting agencies to manage the transition by developing policies, including mandate of options; presenting training seminars to all agencies; providing a website with up-to-date information to keep agencies informed of any new developments; and establishing an IAS Agency Reference Panel to facilitate a collaborative approach to manage the change.

(b) Key Differences in Accounting Policies

As the Entity's main accounting transactions involve a reconciling receipt and payment process with no carry forward funds or other assets and liabilities it would be expected that the impact would be minimal. The Entity has nevertheless identified some differences in accounting policies that may arise from adopting AIFRS.

The Entity's accounting policies may also be affected by a proposed standard designed to harmonise accounting standards with Government Finance Statistics (GFS). This standard is likely to change the impact of AIFRS and significantly affect the presentation of the income statement. However, the impact is uncertain, because it depends on when this standard is finalised and whether it can be adopted in 2005-06.

Based on current information, the following key differences in accounting policies are expected to arise from adopting AIFRS:

- AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards requires retrospective application of the new AIFRS from 1 July 2004, with limited exemptions. Similarly, AASB Accounting Policies, Changes in Accounting Estimates and Errors requires voluntary changes in accounting policy and correction of errors to be accounted for retrospectively by restating comparatives and adjusting the opening balances of accumulated funds. This differs from current Australian requirements, because such changes must be recognised in the current period through profit or loss, unless a new standard mandates otherwise.
- AASB 120 Accounting for Government Grants and Disclosure of Government Assistance. For profit entities will either apply the current AASB 120 or early adopt a revised AASB 120, based on the grant requirements in AASB 141 Agriculture. The current AASB 120 spreads income over the period necessary to match related costs. A revised AASB 120 based on AASB 141 is likely to require revenue recognition when conditions are satisfied. Both of these alternatives may have the effect of delaying revenue recognition.
- AASB 1004 Contributions applies to not-for-profit entities only. Entities will either continue to apply the current requirements in AASB 1004 where grants are normally recognised on receipt, or alternatively apply the proposals on grants included in ED 125 Financial Reporting by Local Governments. If the ED 125 approach is applied, revenue and/or expense recognition will be delayed until the agency supplies the related goods and services (where grants are in-substance agreements for the provision of goods and services) or until conditions are satisfied.

2. EXPENSES**Grants and Subsidies:**

	2003-04 \$'000	2002-03 \$'000
Grants and Subsidies Comprise:		
Grants for Asset Acquisitions		
Sewer Backlog Program	1,423	2,316
Grants for Recurrent Purposes		
Water and Sewerage Rate Rebates for Pensioners	76,314	78,498
Properties Exempt from Water and Sewerage Rates	8,978	9,602
Blue Mountains Septic Pumpout Service	832	674
	87,547	91,090

3. Appropriations

	2003-04 \$'000	2002-03 \$'000
Total Appropriations Comprise:		
Recurrent		
Total recurrent drawdowns from Treasury (per Summary of Compliance)	87,547	91,090
Less: Liability to Consolidated Fund	-	-
Recurrent appropriations (per Operating Statement)	87,547	91,090

4. Program / Activity of the Entity**Program 1: Water and Sewerage Assistance**

Objective: To provide concessions to pensioners and properties exempt from water and sewerage rates and protection of the environment by supporting sewerage services.

5. Commitments**(a) Capital Commitments**

There were no capital commitments at balance date (nil at 30 June 2003).

(b) Other Expenditure Commitments

There were no other expenditure commitments at balance date (nil at 30 June 2003).

6. Contingent Liabilities and Contingent Assets

The entity is not aware of any contingent liabilities and contingent assets associated with its operations (nil at 30 June 2003).

7. Amounts Written off

No amounts due to the entity were written off during the 2003-04 year (nil for 2002-03).

8. Budget Review**Net Cost of Services**

Actual net cost of services was \$ 2.257m less than budget. This was due mainly to less than projected expenditure on pensioner rebates (\$1.5m) and rebates for exempt properties (\$0.8m).

Assets and Liabilities

The entity held nil assets and liabilities at 30 June 2004. All cash appropriations received during the period were on-paid to the grant recipients prior to 30 June 2004.

Cash Flows

The variation in cash flows were directly related to net cost of services variations as indicated above.

9. Reconciliation of Net Cash Flows from Operating Activities to Net Cost of Services

	2003-04 \$'000	2002-03 \$'000
Net Cash Flows From Operating Activities	-	-
Grants and Subsidies	87,547	91,090
Net Cost of Services	87,547	91,090

END OF AUDITED FINANCIAL STATEMENTS

APPENDIX 1 PREMISES AND HOURS OF BUSINESS

Head Office

Level 17,
227 Elizabeth Street,
Sydney NSW 2000

Tel: 61 2 8281 7777

Fax: 61 2 8281 7799

Hours of business: 8.30am to 5.30pm
Monday to Friday

The office space is leased and occupies
2499 square metres.

State Water

209 Cobra Street,
Dubbo NSW 2830

Tel: 61 2 9895 5909

Fax: 61 2 9895 5918

APPENDIX 2 DISCLOSURE OF CONTROLLED ENTITIES

No controlled entities are associated with
the Department.

APPENDIX 3 PRINCIPAL OFFICERS 2003-2004

Director-General

Mr David Nemtzw

Acting Executive Director Industry Regulation and Performance

Mr Maurice Overy

Acting Executive Director Energy Policy & Markets and Corporate Counsel

Ms Ro Coroneos

Acting Executive Director Strategic Corporate Development

Mr Garry Hodson

Acting Executive Director Water Policy & Reform

Mr Colin McLean

APPENDIX 4 CHIEF AND SENIOR EXECUTIVE SERVICE POSITIONS

Chief Executive and Senior Executive Officers

Number of executive positions at 30 June (V=vacant; A=acting)

	MEU		MEU + TOWN WATER & STATE WATER		DEUS & STATE WATER	
LEVEL	2001-02		2002-03		2003-04	
	M	F	M	F	M	F
6					1	
5	1		1			
4						
3			2		2 (1xA)	
2	2	1	2 (1xV)	1 (A)	2 (1xV)	1(A)
1						
	3	1	5	1	5	1

Chief Executive Officer – David Nemtzw, CES Level 6
(\$240,000 per annum plus recruitment allowance of
\$27,000 per annum)

Statement of Performance of Director-General

Mr Nemtzw was appointed to the position of Director-General of the Department of Energy, Utilities and Sustainability on 16 February 2004.

Since his appointment, Mr Nemtzw has focused on the formation of the new Department including preparation for the merger of the staff and functions of the Sustainable Energy Development Authority from 1 July 2004.

Mr Nemtzw will continue to focus on five areas of performance: leadership, organisational development, management, priority policies and programs, and client service.

Under his leadership the Department continues the success of its predecessor organizations in being a results driven, customer-focused organisation meeting key project milestones on time and within budget.

The Department's achievements during 2003-04 have reinforced the organisation's role as a leading agency in energy, water and sustainability policy, and demonstrated its ability to deliver on key outcomes.

Significant achievements included:

- reform of the Country Towns Water Supply and Sewerage Program
- revision and improvement of the Best Practice Management of Water Supply and Sewerage Guidelines

- management of the Moomba gas disruption
- delivery of reforms to the National Energy Market regulatory framework
- corporatisation of the State Water business unit
- preparation for the integration of former Sustainable Energy Development Authority programs and staff
- delivery of effective drought relief to rural and regional communities

APPENDIX 5 RANGE OF SERVICES

The Department provided the following services in 2003/04:

- policy advice to the Minister and Government on energy and urban water
- policy advice to the Minister and Government on the metropolitan water utilities
- support and coordination services for the Minister's energy and utilities portfolio
- provision of an energy information service
- inspection, advisory and regulatory activities relating to electricity and gas network operators and local water utilities
- regulatory activities relating to electricity and gas supply safety
- pipeline licensing and pipeline conveyancing searches
- funding of energy related research, development and demonstration
- processing of energy efficiency labelling registrations for major appliances
- provision of information and publications on energy issues and statistics
- accreditation of Electricity Service Providers and advising the general public on accredited service providers
- coordination of energy social programs
- bulk water delivery to irrigators, town water supply authorities and the environment
- financial and technical assistance to local water utilities through the Country Towns Water Supply and sewerage Program

APPENDIX 6 GUARANTEE OF SERVICE

The principal role of the Department of Energy, Utilities and Sustainability is to coordinate and oversee the implementation of policies by the Minister for Energy and Utilities. The Minister is therefore the Department's prime customer and our core activities relate to ministerial support. The Department has a secondary role as regulator of energy supply and safety, and provider of funding assistance to Local Water Utilities.

In all its roles, the Department provides services to a variety of customers. As with all organisations, the Department's staff serve the executive, managers and other officers as customers. However, the focus of this Guarantee of Service is external customers. During 203-04 some frontline customer services were provided by the Department of Mineral Resources under contract to the Department. Although the Department liaised with DMR concerning quality of service, the Department was not directly responsible for the actions of DMR staff.

Customers and Services

The Department's customers and the services they receive are:

GROUP	SERVICES PROVIDED
Primary customers - the Minister, Minister's staff and central agencies	Advice, information and support services relating to the development and implementation of Government energy and urban water policy
Energy sector participants	Through its regulatory functions approvals, authorisations and licences - processing applications in a timely fashion, providing advice on the approval processes, and providing information regarding the progress of applications
Water sector participants	Technical advice, financial assistance and regulatory functions, as well as bulk water delivery
Contestable electricity and gas customers and their representatives	Information and advice on energy market reform activities
The general public (including industry associations and educational institutions)	Answers to queries on various energy related issues, statistical information, answers to complaints and responses to correspondence

Apart from its primary customers, the Department interacts with the following specific customer groups:

- consumer and retail associations;
- customers in the competitive gas and electricity markets, and in the bulk water market;
- educational institutions;
- electrical equipment manufacturers, importers & distributors;
- energy and water associations;
- energy consultants and traders;
- energy generators, refiners, carriers, transmission authorities, distributors and retailers;
- general public;
- government departments and agencies - Commonwealth, interstate and NSW;
- industry associations;
- national and interstate regulatory bodies;
- private industry;
- research organisations, including universities;
- state owned corporations;
- testing laboratories and organisations;
- trade unions;
- urban water corporations; and
- Local Water Utilities.

Providing Quality Customer Service

The Department is committed to providing high quality customer service and to improving services wherever possible. To ensure that our services are customer focused, staff participate in working groups or liaise with customers concerning:

- provision of information on the implementation of competitive energy markets and bulk water delivery;
- mitigation of electrolysis corrosion;
- inspection, advisory and regulatory activities relating to electricity and gas supply, and water and sewerage services;
- accreditation of Electricity Service Providers to undertake contestable works;

- audit activities relating to the licences of the metropolitan water bodies and the performance of local water utilities;
- processing of pipeline licences and pipeline conveyancing searches;
- safe use of gas and electricity; and
- processing of energy efficiency labelling registrations for major appliances and dealing with inquiries from industry participants.

In liaising with customers, the Department aims to:

- achieve a better understanding of customer needs;
- improve cooperation and the exchange of information between Department staff and interested organisations and individuals; and
- implement changes based on the feedback obtained, to improve services wherever possible.

Achievements to date include:

- identifying customers' information needs and providing information to address those needs through media, internet, publications, written correspondence, and contact in person and by telephone;
- improving the coordination of tasks between the Department and other Government and private sector agencies to reduce gaps and overlaps in customer service; and
- reviewing service standards to identify opportunities for improvement.

Providing Prompt Service

Pipeline services deal with approvals for cross country pipelines under the *Pipelines Act 1967*:

ACTIVITY	CODE	RESPONSE TIME
		From receipt of satisfactory application until recommendation to the Minister
Authority to survey	s 5F	2 months
Permit	s 8	10 months
Licence	s 19	4 months
Licence renewal	s 16	5 months
Variation	s 19	4 months
Consent to operate pipeline	s 25	2 months
Transfer of permit or licence	s 42	2 months
Pipeline search	s 50A	4 working days when property is unaffected 7 working days when property is affected

The licensed pipelines network has been extended into rural areas not covered by the detailed mapping available for metropolitan areas. This means the times stated for property searches cannot be guaranteed. Nevertheless, they are being met, even for rural searches, which constitute about 20 per cent of total searches.

Cathodic Protection (Electrolysis) services assist the utilities to maintain the physical integrity of their infrastructure, including gas, electricity, petroleum and telecommunications by mitigating the impact of electrolysis corrosion damage on pipelines and cables. We carry out field testing at the request of industry and coordinate electrolysis programs and industry meetings. We promptly assist industry with advice on electrolysis corrosion matters and testing services, and facilitate dispute resolution. Following testing and evaluation, we issue registration certificates for cathodic protection systems.

Accreditation services grant approvals for suitably qualified businesses to conduct contestable works in accordance with the *Electricity Supply Act (1995)* and the *Electricity Supply General Regulation (2000)*.

ACTIVITY	MAXIMUM RESPONSE TIME	TASK
New Application	10 days	Processing an initial application by a level 2 ASP, from receipt of application to response
Renewal	15 days	Processing a renewal form submitted by ASP, including verification of insurance and payment
Upgrade	15 days	Revising an ASP grade, including obtaining supporting information from distributors.

Funding of Energy Research and Development Projects supports industry, universities, research organisations and other entities conducting research into sustainable energy technologies. Project proposals are sought by calling for submissions from the public. When processing research and development funding applications, recommendations regarding the funding of projects are submitted by the Department's Energy Research and Development Advisory Committee within four months of the closing date. Contracts for approved projects are issued by the Department within two months of approval by the Minister.

Frontline Customer Service

General Responsiveness

In everyday dealings with our customers, staff aim to be courteous and responsive, answering telephones and correspondence promptly and politely. Customers can expect the Department to:

- acknowledge general correspondence from customers (by mail, email or telephone) within 10 working days, liaising with customers on a regular basis until their matters are finalised;
- respond to any complaints within 10 working days;
- answer inquiries with prompt, courteous and helpful advice; and
- where possible, provide information in community languages.

Complaint Resolution

The Department tries to resolve any problems so that all customers receive the standard of service to which they are entitled. Most problems can be resolved quickly. People and organisations requiring assistance should contact the Department and explain the problem to the relevant Service Coordinator or Branch Manager (see contact numbers under "Access").

If at any time the Department does not measure up to expectations, customers should contact the Complaints Coordinator on (02) 8281 7706. A response to the investigation will be provided within 10 working days. If a caller wishes to have a matter in dispute considered further, the Complaints Coordinator will refer the matter to an outside investigative agency for legal remedy or alternative dispute resolution procedure.

Access

The head office of the Department of Energy, Utilities and Sustainability is located at:

Level 17,
227 Elizabeth Street,
Sydney NSW 2000

GPO Box 3889,
Sydney NSW 2001

Tel: (02) 8281 7777
Fax: (02) 8281 7799

Email: information@deus.nsw.gov.au
Web: www.deus.nsw.gov.au

Hours of business: 8.30 am to 5.30 pm,
Monday to Friday.

Inquiries: **(02) 8281 7777**

Telephone numbers for service coordinators:

Accreditation inquiries	8281 7705
Electrical safety inquiries (network operators)	8281 7731
Electricity and gas retail competition inquiries	1300 136 888
Electrolysis inquiries	8281 7701
Energy statistics	8281 7448
Energy efficiency appliance labelling	8281 7414
Gas safety inquiries	8281 7437
Petroleum inquiries	8281 7449
Pipeline Licensing inquiries	8281 7449
Pipeline Search inquiries	8281 7702
Energy Accounts Payment Assistance	8281 7712
Complaints Coordinator	8281 7706

APPENDIX 7 CUSTOMER RESPONSE

A complaints coordinator is nominated annually to administer the Department's complaints handling policy. A register of complaints is maintained to provide the feedback needed to measure customer satisfaction with services the Department provides.

No formal complaints were received during 2003–04.

If customers had expressed dissatisfaction with specific guidelines, regulations or legislation administered by the Department during the course of general inquiries, their complaints would have been dealt with according to the complaints handling policy. This involves addressing dissatisfaction and resolving it where possible.

APPENDIX 8 CODE OF CONDUCT

The Code of Conduct is a set of principles guiding staff conduct, particularly in relation to ethical matters. To ensure that it is current and user friendly, the Code of Conduct has been reviewed.

As part of the change management process, the Code of Conduct has been distributed through the DG's Bulletin Publication to all Department employees. The Code will be reviewed and updated following the integration of the Sustainable Energy Development Authority into the Department from 1 July 2004.

The Code of Conduct is used to brief all new employees in an updated induction process.

APPENDIX 9 PRIVACY MANAGEMENT PLAN

The Privacy Management Plan was completed in 1999–00 in accordance with the *Privacy and Personal Information Protection Act 1998*. No reviews under Part 5 of the Act were conducted.

APPENDIX 10 OUR RESOURCES

Employees by gender and status

Department of Energy, Utilities & Sustainability
(excluding State Water)

	MALE		FEMALE		TOTAL
	NO	%	NO	%	
SES	2				2
Perm	87	73%	22	18%	109
Temp	6	5%	3	3%	9
Total	95	78%	25	21%	120

State Water

	MALE		FEMALE		TOTAL
	NO	%	NO	%	
SES	1				1
Perm	194	80%	31	13%	225
Temp	13	5%	2	1%	15
Total	208	86%	33	14%	241

DEUS (excl State Water) – Employees by salary level and EEO group

LEVEL	TOTAL STAFF	RESPONDENTS	MEN	WOMEN	ABORIGINAL PEOPLE & TORRES STRAIT ISLANDERS	RACIAL, ETHNIC, ETHNO-RELIGIOUS MINORITY GROUPS	LANGUAGE FIRST SPOKEN AS A CHILD WAS NOT ENGLISH	PEOPLE WITH A DISABILITY	PEOPLE WITH A DISABILITY REQUIRING A WORK- RELATED ADJUSTMENT
% of total staff at each level									
< \$27,606	*	*			*	*	*	*	*
\$27,606 - \$36,258	0	0	*	*	*	*	*	*	*
\$36,259 - \$40,535	0	0	*	*	*	*	*	*	*
\$40,536 - \$51,293	7	6%	4%	2%	*	*	*	*	*
\$51,294 - \$66,332	30	25%	6%	19%	*	*	*	*	*
\$66,333 - \$82,914	42	35%	28%	7%	*	*	6%	*	*
> \$82,914 (non-SES)	38	32%	28%	4%	*	*	*	*	*
> \$82,914 (SES)	2	2%	2%	*	*	*	*	*	*
Total	119	100%	68%	32%	*	*	6%	*	*

* indicates there are no more than six staff. To avoid identifying individuals, these figures are not included.

DEUS (excl State Water) – Employees by salary level and EEO group

LEVEL	TOTAL STAFF	RESPONDENTS	MEN	WOMEN	ABORIGINAL PEOPLE & TORRES STRAIT ISLANDERS	RACIAL, ETHNIC, ETHNO-RELIGIOUS MINORITY GROUPS	LANGUAGE FIRST SPOKEN AS A CHILD WAS NOT ENGLISH	PEOPLE WITH A DISABILITY	PEOPLE WITH A DISABILITY REQUIRING A WORK- RELATED ADJUSTMENT
% of total staff at each level									
< \$27,606	*	*	*	*	*	*	*	*	*
\$27,606 - \$36,258	48	20%	17%	3%	*	*	*	*	*
\$36,259 - \$40,535	29	12%	12%	*	*	*	*	*	*
\$40,536 - \$51,293	21	9%	4%	5%	*	*	*	*	*
\$51,294 - \$66,332	74	31%	26%	5%	*	*	*	*	*
\$66,333 - \$82,914	52	22%	20%	1%	*	*	*	*	*
> \$82,914 (non-SES)	16	7%	7%	*	*	*	*	*	*
> \$82,914 (SES)	1	0%	0%	*	*	*	*	*	*
Total	241	100%	86%	14%	*	*	*	*	*

* indicates there are no more than six staff. To avoid identifying individuals, these figures are not included.

Source: This information was provided by the Department of Infrastructure, Planning and Natural Resources on behalf of the Department of Energy, Utilities & Sustainability and was current as at 30 June 2004.

APPENDIX 11 ACTION PLAN FOR WOMEN

During the 03-04 year two employees proceeded on maternity leave and one was approved to work part-time on her return to work. The employment of women in the Department has remained stable pending a restructure.

One senior woman was given the opportunity to act in a Senior Executive role and to act as CEO for a period.

Pending the restructure and possible recruitment action all senior staff and managers, plus other staff who were interested, were trained in Merit Selection processes. Position descriptions were revised to ensure that the requirements for each position were not discriminatory.

The Department's study fee assistance program encouraged women to undertake private study and a number of women attended Spokeswomen's training days.

Management training for women was continued with one woman undertaking the Public Sector Management Course, one doing the Executive Development Program and one doing the Graduate Diploma in Public Administration. All training and conference attendance is equally available to women and men.

APPENDIX 12 OVERSEAS TRAVEL

The following officers travelled overseas for official purposes during the financial year.

NAME	POSITION	COUNTRY	PURPOSE	FUNDED
Robert Mitchell	Sewerage System Coordinator	US Study Tour	Evaluation of alternative sewerage strategies	DEUS

APPENDIX 13 OCCUPATIONAL HEALTH & SAFETY

General

The Occupational Health & Safety (OHS) Act requires all NSW employers to provide a consultation forum for employees. The former Ministry of Energy and Utilities (MEU) did this via an Occupational Health & Safety Committee.

During the merger of MEU and the former Country Towns Water Supply & Sewerage business unit from the former Department of Land and Water Conservation, a cross functional team carried out a review of the OHS requirements of the merged entity. This included a comprehensive Risk Assessment of OHS management in the combined organisation.

The outcome of the cross functional team review was a report to the then MEU Executive. The report proposed a new committee structure and the initial oversight by an OHS Steering Group. The report also proposed a number of strategies to be employed to develop an effective OHS management system for the new organisation.

Developments in the Committee

With the merger of SEDA, the now Department of Energy, Utilities and Sustainability (DEUS), has relocated to 227 Elizabeth Street site and combined three of the

previously separate work groups. At the time of this report, a revised committee structure has been agreed with new members due to take up positions.

The new committee will represent various workgroups on different floors in 227 Elizabeth Street. In addition, Elizabeth Street based field inspectors, regional based field inspectors, and regional based staff will also be represented on a workgroup basis.

The Steering Group will oversee the handover and committee set up. The Steering Group membership will be taken from the cross functional team that did the initial work at the time of the merger.

APPENDIX 14 SIGNIFICANT COMMITTEES OF THE DEPARTMENT

State Water Operating Licence Working Group

Function: To develop State Water Corporation's Interim Operating Licence to enable State Water Corporation, in accordance with the *State Water Corporation Act 2004*, to carry out its functions.

Ms Catherine Allen

Department of Energy Utilities and Sustainability

Ms Ro Coroneos

Department of Energy Utilities and Sustainability

Mr Abel Immaraj

Department of Energy Utilities and Sustainability / State Water

Mr Peter Wade

NSW Treasury

Mr Kim Alavarez

Department of Infrastructure Planning and Natural Resources

Mr Paul Percival

Department of Infrastructure Planning and Natural Resources

Mr Tim Nelson

The Cabinet Office

Inter-Departmental Committee on Renewable Energy Options for Lord Howe Island

Function: To report to the Minister for Energy and Utilities and the Minister for the Environment on its consideration and assessment of the range of options to meet the energy service needs of Lord Howe Island including, but not restricted to energy efficiency, demand management, wind, solar, wave and thermal.

Dr David Hemming [Chair]

Department Of Energy Utilities And Sustainability

Ms Madeline Cowley

Sustainable Energy Development Authority

Mr Will Strachan

Department of Commerce

Mr Rick Sondalini

Treasury

Mr Keith Tarlo

NSW Greenhouse Office

Mr Esven Fenton

Lord Howe Island Board

Mr Greg Pierce

Lord Howe Island Board

Mr Geoff Mead

Department of Environment and Conservation

**Energy Working Group for NSW
Greenhouse Strategy****Function:** To assist the Greenhouse Office in developing the "Energy Chapter" of the NSW Greenhouse Strategy**Dr David Hemming [Chair]**

Department Of Energy Utilities And Sustainability

Mr Paul Butler

Department of State and Regional Development

Mr Roy Craddock

Department of Commerce

Ms Katy BradyDepartment of Infrastructure, Planning
& Natural Resources**Dr Yolande Stone**Department of Infrastructure, Planning
& Natural Resources**Ms Helen Lemin**Department of Infrastructure, Planning
& Natural Resources**Mr Kerry Lack**

Department of Environment and Conservation

Mr Rob Fowler

Independent Pricing And Regulatory Tribunal

Mr Michael McGrath

Treasury

Mr Ross Edwards

Treasury

Ms Margaret Campbell

Department of Primary Industries (Mineral Resources)

Mr Chris Thomas

NSW Greenhouse Office

**Local Government Water Supply
and Sewerage Services****Function:** Liaison, information sharing, dispute resolution and other matters related to local water utility water supply and sewerage services.**Mr Colin McLean (Chair)**

Department Of Energy Utilities and Sustainability

Mr Hans Wessling

Department Of Energy Utilities and Sustainability

Ms Phyllis Miller

Local Government Association

Ms Jenny McLellan

Shires Association

Mr Mike Rayner

IPWEA

Ms Stephanie Smith (Secretary)Local Government Association &
Shires Association**Mr Gary Mitchell**

Water Directorate

**Committee on Uniformity of Plumbing and Drainage
Regulation in NSW (CUPDR)****Function:** Liaison, information sharing, preparation of CUPDR guidelines, the Code of Practice Plumbing and Drainage and other matters relating to plumbing and drainage services.**Mr Toop (Chair)**

Department Of Energy Utilities and Sustainability

Mr Lee Hill

Department Of Energy Utilities and Sustainability

Mr Steve Vidot

Hunter Water Corporation

Mr Geoff Vickers

Sydney Water Corporation

Ms Robyn Allen

Sydney Water Corporation

Mr Neil Shaw

NSW Department of Health

Mr Henry Musidlak

Department of Local Government

Mr Tony Travers

Department of Fair Trading

Mr Paul Bennetts

Australian Inland Energy and Water

Mr Gary Cook

NSW TAFE

Mr David Wood

The Association of Hydraulic Services
Consultants Australia

Mr Gary Mitchell

Water Directorate

Mr Hans Schoevers

Institute of Plumbing

Mr Ray Hallatt

Master Plumbers and Mechanical Contractors
Association
Water Services Association

Energy Accounts Payment Assistance (EAPA)**Working Group Members**

Function: A consultation, discussion and reference group for the Energy Accounts Payment Assistance Scheme (EAPA).

Mr Garry Hodson

Department of Energy Utilities and Sustainability

Ms Mona Sahore

Department of Energy Utilities and Sustainability

Mr David Howard

Anglicare

Mr Gary Moore

Council Of Social Service Of NSW

Mr Eric Ellem

St Vincent De Paul Society

Major Marina Randall

Salvation Army

Ms Rosemary Signorelli

Smith Family

Ms Wendy Lockett

Wesley Central Mission

Ms Narelle Brown

Energy Australia

Mr John Moffat

Integral Energy

Mr Paul Clark

Country Energy

Ms Clare Petre (Energy and Water Ombudsman)

Energy & Water Ombudsman NSW

Jim Wellsmore

Public Interest Advocacy Centre

Linda Hearne

Australian Inland Energy

Phil Stefans

Newcastle City Mission

Naomi Rees

Maitland Neighbourhood Centre

Nick Fisk

Emerge Australia

Peter Howard

Gloucester Neighbourhood Centre

Sean Ruddy

The Australian Gas Light Company

NSW Electricity Supply Industry Safety Steering Committee (ISSC)

Function: To identify opportunities to improve electricity network safety in order to eliminate or minimise exposure of people and property to the risk of injury or damage from electricity network hazards."

Mr Maurice Overy (Chair)

Department Of Energy Utilities And Sustainability

Mr Paul Grant (Deputy Chair)

Department Of Energy Utilities And Sustainability

Mr Chris Dalitz (Secretary)

Department Of Energy Utilities And Sustainability

Mr Mr John Eisenhuth

EnergyAustralia

Mr John Wallace

Integral Energy

Mr Ken Stonestreet

Country Energy

Mr Ray Thorn

Australian Inland

Mr Lionel Smyth

TransGrid

Mr David Stuart-Smith

RailCorp

Mr Bernie Riordan

Electrical Trades Union

Mr Bob Carcary

Electrical Trades Union

Mr Paul Marzato

United Services Union

Mr Jim Tinslay

National Electrical and Communications Association

Mr David Jeffcott

Tony Pollard Electrics P/L

Mr John Giles

United Kilpatrick Green

Mr Ian Low

WorkCover

Utility Concessions Steering Group

Function: Established by the Cabinet Standing Committee on Energy to coordinate social policy and advise the Government on energy and water concessions.

Ms Mona Sahore

Department of Energy Utilities and Sustainability

Ms Eija Roti

Department of Community Services

Ms Jennifer Vincent

The Cabinet Office

Ms Kate Lawrence-Haynes

NSW Treasury

Ms Elena Murty

Department of Health

Ms Amanda Hamilton-Forster

Energy & Water Ombudsman NSW

Private Lines Working Group

Function: Prepare and Industry Guideline on the Management of Private Lines

Maurice Overy [Chair]

Department of Energy Utilities and Sustainability

Ray Thorn

Australian Inland

Terry Holmes

Country Energy

Steve McHardy

EnergyAustralia

Ian Robinson

Integral Energy

NSW Business to Business Steering Committee (BSBSC)

Function: The B2BSC's role is to develop and implement standardised business to business procedures in the NSW electricity industry. Business to business procedures relate to transactions that occur between retailers and distributors. The B2BSC is actively involved in developing nationally consistent business to business procedures.

John Hughes (Chair)

Department Of Energy Utilities and Sustainability

Gordon Leggoe

Department Of Energy Utilities and Sustainability

Paul McGlynn

EnergyAustralia

Steve Lette

Integral Energy

Bruce Horlych

Integral Energy

Bernard Curran

Agility

Paula Cribb

AGL

Craig Parr

NEMMCO (observer)

Robert Flood

Country Energy

Michael Janos

Origin Energy

Trevor Barrie

Australian Inland

Randy Pryor

Australian Inland

Representation on Significant Inter-Departmental Committees (including those listed previously)**Mr David Nemtzw**

Ministerial Council on Energy's Standing Committee of Officials

State Water Corporatisation Steering Committee

Natural Resources and Environment CEO Cluster Group,

Demand Management Taskforce

Senior Executives' Committee - Metropolitan

Strategy: Water

Water CEOs

Metropolitan Strategy Environment Reference Group

Mr Maurice Overy

NSW Electricity Supply Industry Safety Steering Committee (ISSC)

State Emergency Management Committee

The Energy and Utility Services Functional Area

Coordinator under State Disaster Plan

Critical Infrastructure Steering Committee

Ms Ro Coroneos

Greenhouse Benchmarks Officers Group

Mr Garry Hodson

Energy Accounts Payment Assistance (EAPA) Working Group Members

Mr Colin McLean

MEU/LGA & SA Committee for Local Government Water Supply and Sewerage Services (Chair)

Local Government Association & Shires Association

Water Management Committee

Mr Abel Immaraj

State Water Corporatisation Steering Committee

State Water Corporatisation Working Group

APPENDIX 15 CONSULTANCIES

The total amount paid by the Department for consultancies in 2003-04 was \$716,617.80. Details are as follows:

Fees exceeding \$30,000

CONSULTANT	NATURE	COST
Frontier Economics	Advice on the development of the wholesale and retail electricity markets	\$301,330.50
Pacific Road Corporate Finance	Business definition study to support the corporatisation of State Water Note: NSW Treasury coordinated this consultancy but the costs were fully paid by DEUS.	\$318,064.55

Fees under \$30,000

NO OF CONSULTANCIES	NATURE	COST
Seven	Energy reform and greenhouse abatement	\$97,222.75

APPENDIX 16 RESEARCH AND DEVELOPMENT

Funding provided in 2003-04 from the Sustainable Energy Research and Development Fund was allocated as follows:

2003-04 PROJECT DETAILS	FUNDING \$
Testing of Natural Gas Vehicle Cylinders	29,000
Direct Solar Steam Generation at Liddell Power Station	25,000
Total	54,000

Funding to be provided in 2004-05 from the Sustainable Energy Research and Development Fund is estimated as follows:

2004-05 PROJECT DETAILS	FUNDING \$
Ultimate Thin Film Silicon Solar Cells	54,711
Solar Thermal Solid State Electron Power Generators	28,432

Solar Thermal Absorption Cooling	175,000
Solar Thermal Organic Rankine Cycle for Distributed Energy Applications	22,925
High Concentration Solar Research Facility & Pre-Commercial Solar Gas Prototype	165,000
Direct Solar Steam Generation at Liddell Power Station	138,302
Total	584,370

APPENDIX 17 FUNDS GRANTED TO NON-GOVERNMENT COMMUNITY ORGANISATIONS

Nil

APPENDIX 18 PUBLICATIONS ISSUED IN 2003-04

PUBLICATION	DATE
NSW Water Supply and Sewerage Monitoring Report 2001-02	July 2003
NSW Reference Rates for Valuation of Water Supply, Sewerage and Stormwater Assets	September 2003
Ministry of Energy and Utilities Annual Report 2002-03	October 2003
State Water Annual Operations Report	October 2003
Licensed Pipelines Performance Report 2001-02	December 2003
Proposal for Comment – State Water Corporatisation	March 2004
Gas Networks Annual Report 2001-02	March 2004
ISSC 28 Guideline for Enclosed Spaces in NSW Electricity Networks	March 2004
ISSC 29 Guideline for Pre-Climbing and Climbing Assessment of Poles	March 2004
Best Practice Management of Water Supply and Sewerage Guidelines	May 2004
Summary of Affairs	June 2004

APPENDIX 19

LEGAL CHANGES AND SIGNIFICANT DECISIONS

Gas Supply (Natural Gas Retail Competition) Regulation 2001

Amendments were made to incorporate Parts 4 and 5 of the *Gas Supply (General) Regulation 1997* which is due for repeal on 1 September 2004. Part 4 deals with processes for reviewing decisions by the Independent Pricing and Regulatory Tribunal (IPART) in making gas pricing orders under the *Gas Supply Act 1996*. Part 5, clause 25 permits the Director-General of the Department of Energy, Utilities and Sustainability to delegate to "any person" the exercise of "all or any of the Director-General's functions made under the *Gas Supply (Natural Gas Retail Competition) Regulation 2001* or any other regulation" under the *Gas Supply Act 1996*.

Gas Supply (Customer Protection LPG and other Gases) Regulation 1997

The Minister agreed to allow the *Gas Supply (Customer Protection LPG and other Gases) Regulation 1997* to lapse on 1 September 2004. This Regulation deals with the establishment of customer councils and a customer service code.

A voluntary Code of Conduct will be prepared by the LPG Association to replace the existing regulatory regime.

Gas Supply (Natural Gas Retail Competition) Amendment (Retailer of Last Resort) Regulation 2004

The Gas Supply (Natural Gas Retail Competition) Amendment (Retailer of Last Resort) Regulation 2004 was gazetted on 28 May 2004. The Regulation amends the Gas Supply (Natural Gas Retail Competition) Regulation 2001 to implement the last resort supply arrangements intended to protect small retail customers if their gas supplier is unable to continue supply.

Electricity Safety (Equipment Efficiency) Regulation 1999

The Regulation, which covers electrical product energy labelling and Minimum Energy Performance Standards (MEPS), was amended twice during 2003/04. On 3 October 2003 the Regulation was amended to introduce, from that date, MEPS for ballasts for linear fluorescent lamps. On 26 March 2004 the Regulation was again amended to introduce, from 1 April 2004, improved test methods for household dishwashers.

First Stage Legislative Changes for National Energy Market Reform

The first stage of the legislative changes required for the Ministerial Council on Energy's energy market

reform program was achieved at the end of the 2003/04 reporting period.

This first stage was constituted by the following events:

- The *Trade Practices (Australian Energy Market) Amendment Act 2004 (Cth)*, establishing the Australian Energy Regulator, and the *Australian Energy Market Act 2004 (Cth)*, applying the National Electricity Market in Commonwealth offshore waters, was assented to 30 June 2004.
- The South Australian Parliament approved the passage of the *Australian Energy Market Commission Establishment Bill 2004* on 1 July 2004 and was granted Royal Assent on 8 July 2004. The *Australian Energy Market Commission Establishment Act 2004* was proclaimed to come into operation on 22 July 2004.

Water Management Act 2000 Amendments

DEUS and the Department of Infrastructure, Planning and Natural Resources identified a number of minor policy and statutory law amendments to the *Water Management Act 2000* relating to local water utilities during the Spring 2003 session of Parliament. The amendments are contained in the *Water Management Amendment Act 2004* No 39.

Water Management (Water Supply Authorities) Regulation 2002

DEUS and the Department of Infrastructure, Planning and Natural Resources conducted public consultation on a new regulation to consolidate six existing *Water Management Act* regulations into a single regulation for the five urban water supply authorities listed under the Act. The Regulation is set for commencement in September 2004.

The objectives of the Regulation are to define the areas of operation of the five water supply authorities; provide for greater consistency with other authorities undertaking similar functions; provide for, and control activities in, special areas (currently Australian Inland Energy Water Infrastructure only), and promote operational and administrative best practice.

Allocation of legislation

To complement the transfer of responsibilities in 2003 of the former Department of Land and Water Conservation's Town Water Treatment & Recycling Branch to the Department of Energy, Utilities and Sustainability, allocation of relevant parts of Local Government legislation and the *Water Management Act 2000* to the Minister for Energy & Utilities were Gazetted in November 2003 and February 2004 respectively.

Corporatisation of State Water

The *State Water Corporatisation Bill 2004* was assented to on 30 June 2004. The Act established State Water as a statutory State Owned Corporation, formerly a commercial business unit of the Department of Energy Utilities and Sustainability. Corporatising State Water helps complete the separation of the Government's water delivery functions from its policy and regulatory functions, which is a National Competition Policy requirement.

The *State Water Corporatisation Act 2004* provides for the transfer of the Fish River Water Supply Scheme to State Water Corporation. The transfer is expected to occur in 2004/2005.

Greenhouse

Greenhouse Gas Benchmark Rule (Generation) No. 2 of 2003 and *Greenhouse Gas Benchmark Rule (Demand Side Abatement) No. 3 of 2003* were amended by gazettal on 10 June 2004. The effect of the amendments was to enable the Rules to operate more effectively by removing some impediments and providing additional opportunities for eligible abatement activities. An important amendment to both Rules allows accreditation of future projects prior to construction thereby providing investor certainty.

Electricity Safety (Corrosion Protection) Regulation 2003

This new Regulation took effect on 1 September 2003. It replaces the *Electricity Safety (Corrosion Protection) Regulation 1998*. The new regulation enhances the previous arrangements for management of corrosion protection by placing the onus of all interference testing with Corrosion Protection system owners, while ensuring they provide information about the performance of their systems in relation to interference.

Pipelines Act 1967

DEUS in consultation with the Department of Infrastructure, Planning and Natural Resources and the WorkCover Authority of NSW is reviewing the *Pipelines Act 1967*, the regulatory regime for Major Hazard facilities and the *Dangerous Goods Act 1975*. This will ensure that a consistent regulatory regime is established for all sectors of the pipeline industry.

Once detailed proposals are agreed DEUS will seek Cabinet approval to draft and circulate for comment the draft of a new Pipelines Act. This is expected to occur in 2004-05.

APPENDIX 20 MAJOR WORKS IN PROGRESS

DESCRIPTION	LOCATION	START	COMPLETE	EST TOTAL COST \$'000	EXPENDITURE TO 30/6/04 \$'000
Blowering Dam Structural Integrity	Tumut	1998	2007	25,631	3,326
Burrendong Dam Flood Security	Lake Burrendong	1994	2007	17,861	2,341
Chaffey Dam Structural Integrity	Bowling Alley Point	1989	2005	15,840	4,844
Copeton Dam	Flood Security Copeton	1994	2007	49,840	3,347
Keepit Dam	Flood Security Keepit	1994	2007	70,952	8,792
Macquarie River Systems at Warren	Warren	1999	2005	6,713	5,852
Major Periodic Maintenance Of Dams Etc	Various	2001	2008	24,036	9,677
River Structures	Various	1999	2008	30,834	17,392
Staff Housing At Dams	Various	2001	2007	7,032	978
Total Asset Management Planning And Implementation	Various	1997	2008	21,598	11,914
Wyangala Dam Upgrade	Wyangala	1998	2006	36,641	2,061

APPENDIX 21 LAND DISPOSAL

The Department and State Water did not dispose of any land during the year.

APPENDIX 22 MAJOR ASSETS

As at 30 June 2004 the major assets of the Department (managed by State Water) were:

- 18 Major Dams
- 278 Weirs and Regulators including some private structures managed by State Water
- 138 Related structures such as bridges, culverts etc
- 548 buildings.

The major dams were revalued as at 30 June 2004 using the Recoverable Amounts Test as required by accounting standards based on the NPV of future cash flows of the business.

Table 1: Change in MEERA Valuation of Major Dams from 1996 to 2004.

ASSET \$M	MEERA 1996	MEERA 2001	AUC AT COST @ 30/6/04	TOTAL 30/6/04
Blowering Dam	160.0	195.8	1.27	21.2
Brogo Dam	22.5	25.5	0.06	2.8
Burrendong Dam	297.5	239.4	0.64	24.7
Burrinjuck Dam	131.7	130.7	0.68	16.7
Carcoar Dam	24.5	32.7	0.03	3.4
Chaffey Dam	72.5	66.7	2.16	7.7
Copeton Dam	220.9	211.1	2.55	23.5
Glenbawn Dam	199.8	213.8	1.02	26.1
Glennies Creek Dam	50.0	51.5	0.44	5.9
Hume Dam	139.0	149.7	1.17	20.9
Keepit Dam	109.9	81.1	2.90	8.8
Lostock Dam	40.9	40.9	0.32	4.4
Menindee Lakes	108.6	100.7	0.23	11
Pindari Dam	92.1	78.9	0.47	10.2
Split Rock Dam	65.3	75.1	0.23	8.4
Toonumbar Dam	29.8	26.5	0.37	2.9
Windamere Dam	87.7	82.3	0.07	9.7
Wyangala Dam	147.8	147.2	0.65	15.9
Total	2000.5	1949.6	15.27	224.2

The weirs, regulators and associated structures managed by State Water were also valued using the Recoverable Amounts Test as required by accounting standards based on the NPV of future cash flows of the business.

Table 2: MEERA Valuation of Weirs, Regulators and Associated Structures

STATE WATER CUSTOMER SERVICE AREA (\$M)	NUMBER OF WEIRS AND REGULATORS	NUMBER OF RELATED STRUCTURES	TOTAL NO. OF STRUCTURES	MEERA 2001	AUC AT COST @ 30/6/04	TOTAL AT 30/6/04
Central	72	72	144	76.7	8.72	5.82
Coastal	32	0	32	4.9	0.09	0.62
North	35	2	37	54.8	6.61	4.41
South	139	65	204	185.2	2.76	15.26
Total	278	139	417	321.6	18.18	26.11

APPENDIX 23

PAYMENT OF ACCOUNTS

Aged analysis at the end of each quarter

QUARTER	CURRENT (IE WITHIN DUE DATE) \$	LESS THAN 30 DAYS OVERDUE \$	BETWEEN 30 AND 60 DAYS OVERDUE \$	BETWEEN 60 AND 90 DAYS OVERDUE \$	MORE THAN 90 DAYS OVERDUE \$
September Quarter	509,511	205	1,665	1,508	202
December Quarter	49,326	92,906	816	2,184	300
March Quarter	217,829	41,951	21,501	161	1,398
June Quarter	210,770	443	1,424		79

Accounts paid on time within each quarter

QUARTER	TOTAL ACCOUNTS PAID ON TIME			TOTAL AMOUNT PAID \$
	TARGET %	ACTUAL %	\$	
September Quarter	90	93.17	37,839,100	39,868,465
December Quarter	90	92.14	54,817,853	57,961,393
March Quarter	90	89.84	57,578,367	58,602,292
June Quarter	90	89.29	87,178,204	88,841,523

APPENDIX 24

ANNUAL REPORT INFORMATION

The total external costs of production — \$15,690 ex GST.

The Annual Report is available on the Department's website at www.deus.nsw.gov.au or on CD by contacting the Department on 8281 7777.

APPENDIX 25

FREEDOM OF INFORMATION SUMMARY STATEMENT OF AFFAIRS

The Department received six applications under the *Freedom of Information Act 1989*. Five applications were determined within the prescribed 21 day period and one was determined within 35 days after advising the applicant that an extension of 14 days was required to complete the application.

The Department gazetted its Summary of Affairs for June 2004. The Statement of Affairs was also revised subject to a further review once the new organisational structure is finalised.

APPENDIX 26

RISK MANAGEMENT AND INSURANCE ACTIVITIES

The Department (the former Ministry) has insurance policies in the following categories under the Treasury Managed Fund:

- Workers Compensation
- Property
- Motor Vehicles
- Public Liability
- Miscellaneous.

Insurance coverage for the 2003-04 financial year reflected the inclusion of the Country Towns Water Supply and Sewerage (Town Water) and State Water business units, formerly of the Department of Land and Water Conservation. The overall claims performance of the Department for the financial year ending 30 June 2004 was satisfactory, with only minor claims against the motor vehicle and workers compensation policies.

All claims were dealt with through the insurer. Details of Town Water and State Water claims for the period were reported through the Department of Infrastructure, Planning, and Natural Resources (DIPNR) statistics.

The future Risk Management plans for the Department will reflect the corporatisation of State Water and the consolidation of Town Water and the former SEDA business into the Department at the Elizabeth Street Sydney address. The period 2004-05 will complete the inclusion of the Town Water and SEDA insurance matters under the Department's policy. State Water will have its own insurance through TMF from 1 July 2004.

APPENDIX 27

WASTE REDUCTION AND RECYCLING ACTIVITIES

The Department is committed to the Governments WRAPP (Waste Reduction and Purchasing Policy). The Department reuses paper and recycles toner cartridges. Waste paper and toner cartridges are collected on a contract basis for recycling purposes. Confirmation of progress and volumes was reported in the 2003 WRAPP report to the Department of Environment and Conservation.

Initiatives

Since consolidating office accommodation in the Sydney CBD, new recycling and waste reduction initiatives are being introduced at 227 Elizabeth Street. In conjunction with the building owners and managers (Colliers), the Department's "Greening Lizzy" program has been launched with improvements in energy consumption, recycling, and waste reduction.

The Elizabeth Street tenancy refit was conducted with a focus on minimal new material use and the reuse of furniture and fittings from the previous three Department tenancies in the Sydney metropolitan area.

During the make good at the Clarence Street tenancy (SEDA), recovered materials from the office fit out were segregated for recycling at approved facilities.

Raising Awareness

The Department Intranet has been expanded to include information, advice, and links to relevant web sites regarding waste reduction and recycling. All staff have been briefed on the greening strategies for the new Elizabeth Street offices ("Greening Lizzie" program) during induction to the new site.

APPENDIX 28

GOVERNMENT ENERGY MANAGEMENT POLICY INFORMATION FOR 2003-2004

In 2001-02, the Department met the GEMP target on "Energy use in Government Operations". At that time, the Department reduced its agency building energy consumption by 17.7% over the 1995-96 year benchmark. As reported in the "Energy use in Government Operations – GEMP report – 2003", this exceeded the target of 15% savings by 2001-02 year.

The latest data is for the 2002-03 year, which indicates the Department further reduced its own energy consumption by 14.5% over the 2001-02 figures.

With the introduction of the "Greening Lizzy" program and other energy saving initiatives such as a new cleaner vehicle policy, further improvements in the Departments' energy consumption are expected for the 2003-04 and 2004-05 period.

Adele Trowbridge	Grant Bell	Paul Beed
Adrian Amey	Hendrik Wesseling	Paul Lee
Adrian Langdon	Hetal Parmar	Peter Keep
Alan Rogers	Ian Burton	Peter Schneider
Allan Charlier	Javier Valderrama	Peter Ledwos
Amjad Adil	Jeff Madsen	Piers Toop
Andrew Lewis	John Hughes	Pradeep Kumar
Andris Rubenis	John McMonnies	Ralph Grimes
Anthony Maiorana	John Speed	Ramona Blacklock
Anthony Poon	John Sukkar	Ratnasiri Wickremaarachchi
Bernard Barnes	John Bourke	Raymond Bradley
Bill Ho	Jonathon Wills	Reginald Longhurst
Blake Maguire	Julia Finn	Richard Scott
Bob Budden	Karin Carter	Ro Coroneos
Bradley Walker	Kathleen Sullivan	Robert Mitchell
Catherine Allen	Kathryn Staggs	Robert Smith
Catherine Dowds	Keith Bancroft	Robert White
Catherine Seal	Kelly Edwards	Roy Quigley
Chris Hennessey	Keri Izzard	Sam Samra
Christian Sorensen	Lee Hill	Samuel Nour
Christopher Dalitz	Leonie Huxedurp	Scott Chapman
Colin McLean	Malcolm Williams	Scott Easton
David Hemming	Mathew Parmenter	Shelley John
David Nemtzow	Matthew Sloane	Shirley Seow
David Stokes	Maurice Overy	Stephen Palmer
David Woodhouse	Michael Cracroft	Stephen Stack
Diana Covell	Michael Partlin	Steven Doan
Elizabeth Stephens	Michael Quartullo	Stuart Sinden
Frank Silvestri	Mona Sahore	Ted Molan
Franki Lee	Nairn Morrison	Terry Call
Garry Hodson	Natalie Geri	Thangamany Balaraju
Gary Marshall	Neville Frappell	Tim Aldrich
George Freeman	Padmini Vitharana	Vicki Marklew
Georgina Connor	Patricia Long	Vincent Barilla
Gidi Azar	Paul Briggs	Warren Woodhouse
Glen Mackintosh	Paul Grant	Warwick Brown
Gordon Leggoe	Paul Heinrichs	Wesley Tuszyński
Graham Whyte	Paul Maddocks	
Graham Campbell	Paul Wong	



**DEPARTMENT OF ENERGY,
UTILITIES AND SUSTAINABILITY**
NEW SOUTH WALES GOVERNMENT

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