

Reforming Rural Water in NSW

Geoff Borneman, Chief Executive Officer, State Water

Address to CEDA, Sydney, 27/08/07

Mike introduced the fact that water is very topical at the moment. In thinking through what I might present today I was travelling back in a taxi from Parramatta and I just happen to mention to the taxi driver that I was in the water business. Well what an interesting conversation. We talked about price, we talked about the nature of how water is used... it was really fascinating. He was Indian, he had worked in the water industry in India, he had a PhD. So it's interesting the type of conversation you can have on water.

What I would like to start with is just a quick overview of who is State Water... what I like to affectionately call 'Who is this masked man State Water?'. State Water is a rural bulk water delivery business. It was created to separate the operator and the regulator. It's been a state owned corporation since 2004 and I guess one of the biggest challenges for us has been that we were taken directly out of a government department and corporatised, there was no commercialisation in the process so that has been a significant challenge for us, so we have a long history as part of various government organisations. We own 20 large dams, 280 weirs and regulators, about \$2.6-\$2.7bl worth of assets. We have approximately 350 people at 44 sites and that creates a fairly significant challenge for us as well. There are 4 geographical areas, we have a head office in Dubbo and we have another fairly major office in Parramatta.

I guess what I wanted to do is put some thoughts to you today. Certainly within State Water we believe that there is still substantial work to be done on the separation of the operator and regulator. I chose not to talk on that today. I rather would like to talk on the type of debate we have within the organisation, I thought that was a more interesting topic. So I'll be talking about pricing, metering, improving efficiency in water delivery and assets. As I said the aim of this talk is to stimulate debate and in the interests of my continued employment I have to put a disclaimer this does not reflect... I've got a board member sitting down the back there so, read that Mike.

Okay, pricing. An interesting thing I found when speaking to a newly elected government minister was that he actually had no concept of the fact that there was no price for the actual water. As we possibly all know the National Water Initiative's principles are about the cost of moving the water, treating it and a commercial return. There's actually no costs or recognition of the actual value of the water itself. One of the things we discussed quite a lot within the organisation is scarcity pricing. As you are probably aware scarcity pricing is handled, at the moment, from the perspective of the temporary and permanent trade market. One of the interesting things, and I was saying to Brett as we were talking outside, that we're getting trades now averaging around \$900 for a temporary trade per megalitre and we've had one trade as high as \$1,400 per megalitre and that's

just stunning. So that's a recognition of the scarcity of water. So scarcity currently is held within that market environment.

The other outcome of the scarcity of water at the moment is that it has been driving State Water to be very efficient in terms of its delivery but it is also... the use side of the business has been, on farm usage, has also driven efficiency. I guess what I'd like to put out there for discussion is should there be scarcity pricing incorporated in the regulated price? Do we need a driver when we come out and get into more normal times, whatever that exactly means at the moment. Do we need to have an indicator to continue that reform? So put, as I said scarcity pricing in the regulated price, maybe as an offset, variable pricing. At the moment State Water's bulk pricing is 60% fixed, 40% variable within the price path it will move from 40%... to 40% fixed to 60% variable. Maybe as an offset and part of the discussion that if we went for the scarcity pricing we'd look at 100% variable in terms of pricing. Just some thoughts on pricing.

Metering. Currently and I think we all recognise that metering is a major issue within the bulk order delivery business. Certainly the types of meters used, the accuracy of the meters, creates significant issues for us as a bulk order delivery business in terms of not only knowing what people use but also knowing when they use it. We have about 5,700 meters around the state (I hate old age you've got to put glasses on... I'm deaf and I have to wear glasses as well).

In other states most of the other water utilities own their meters and it's only South Australia and State Water that doesn't do that. As I understand it electricity and urban water meters are owned by the... aren't owned by property owners either, they're owned by the utilities. So I guess the issues that we need to think about is the quality of the meters in use. In some instances there's no meter at all. The installation issues, which is a major problem for us, we find that while we have a substantial number of customers that have up to date state of the art meters, they're not installed properly and installed too close to bends so the accuracy of those meters is a real issue for us.

The other issue is obviously due to that variability, is the customer's compliance with the national metering standards. Now one way we can go about this is not owning them, just getting them to comply to a metering standard. The other alternative is that State Water own those meters, so we're talking about 5,700 meters. One of the points of discussion is the cost. In one particular site that we've investigated recently in conjunction with a customer, the customer estimated \$300,000 to fix his metering site. That was an exaggeration but our own estimate is about \$100,000 so we are talking quite substantial costs to get metering of the required standard. So the efficiency, if we can get metering of the required standards is real time metering, and there's substantial efficiencies in water delivery from our perspective. One of the themes of our recent operations forum in State Water is that if you can't meter it you can't... if you can't measure it you can't manage it. So there is really quite substantial increases in efficiencies if you can measure things.

Improved efficiency in water delivery. How should we supply stock and domestic supplies? Seems a fairly simple answer if you've got a manmade channel, stick it in a pipe. All right there is a cost issue to reduce evaporation. It's not quite as simple if you're using a creek for stock and domestic replenishments. I'll give you an example in the [Laughlin, Muogamurra Merimageel] creeks 10,000 megalitres to supply roughly a thousand megalitres of stock and domestic replenishment flow. So it seems a fairly obvious thing to do, pipe it, 9,000 megalitres. When we actually did some modelling we found that that 10,000 megalitres very closely resembled the environmental flow that would occur naturally. So the realisation of that water is fairly simple, we get ourselves 9,000 megalitres but it's the expenses of the environment. So when it comes to piping, particularly in creeks, we need to really introduce the element of the fact that the environment is also important.

Shorten the rivers. Again if I can use the Laughlin as the example. Laughlin's been in drought for a considerable period of time now. Our normal losses or operational losses in the Laughlin is about 180 gigitalitres. Through drought management we've managed to reduce that to 125 gigitalitres. How have we done that? We've ceased flow in a lot of the effluents, we've bundled orders in the lower ends of the river and we've ceased flow almost continuously in some of the areas in the lower end of the river. We've had to do extensive negotiations with the customers to get them to agree to that. So the question I would ask is should we do that on a continuous basis? Once we come back to the more normal times, should we be looking at doing that on a continuous basis.

Lastly I'll just give some thoughts on assets. When State Water inherited, for want of a better word, it's portfolio of assets we ended up with assets that, from a perspective of operations the regulatory requirement forced us into a 7 day a week operation. So the surveillance requirements imposed upon us by the Dam Safety Committee make us work 7 days a week. Not all of us, most of us though... considerable cost, a real issue. They don't meet dam safety requirements. I'll give you one example, Wyangala, I seem to be focusing on the Laughlin, maybe I should have used another example. Wyangala, to upgrade that to PMF, we're talking 100... \$120 to \$160million for a new spillway, so we're talking substantial amounts of money. We have fish passage issues. Again in the Laughlin we're in the situation where we've spent \$300,000 on a structure in terms of maintenance which has triggered the need for a fish way. That fish way is going to cost us between \$2 and \$2.5million. We've also got substantial cold water pollution issues with our dams. Now don't think I'm saying that we shouldn't comply with this or stuff the environment in anyway shape or form, I'm just raising the issue that there is substantial costs associated with complying with these regulatory requirements.

One of the things that we are debating quite strongly and we're looking at, particularly in our dam safety upgrades, is a risk based approach. We are also thinking about doing that from a perspective of our operation and surveillance with our assets as well. The aim of this would be to get the best 'bang for our bucks'. We still need to do these works, we still need to comply with regulatory requirements but we need to do it in such a way that's cost effective and can be afforded.

End of transcript

Copyright: This transcription is copyright CEDA 2007

Disclaimer: This is a transcript of the speakers and discussion sessions at a CEDA event. Opinions and statements included in the transcript are solely those of the individual persons or participants at the event, and are not necessarily adopted or endorsed or verified as accurate by CEDA. The transcript may have been edited. CEDA does not warrant that this transcript is free of errors and omissions.

Terms of use: Any use of substantial excerpts from this transcript must acknowledge the speaker and CEDA as the source of the material.