

28 March 2022

Office of the Tasmanian Economic Regulator

GPO Box 770

HOBART TAS 7001

**INVESTIGATION INTO TASWATER'S PRICES AND SERVICES FOR THE PERIOD 1 JULY 2022 TO 30 JUNE 2026  
(PSP4): DRAFT REPORT (FEBRUARY 2022)**

Thank you for the opportunity to make a submission in response to the above report. This submission should be read in conjunction with Federal Group's earlier submissions to you of 22 November 2021 and 6 December 2021.

Our submission is that TasWater should be required to determine charges for the categories of hotels, pubs, licensed clubs and accommodation on the basis of a Standard Discharge Factor (SDF), rather than on the basis of the current ET methodology. A move to an SDF is fairer, more accurately reflects the demand placed on the TasWater infrastructure, and was even highlighted by TasWater itself in PSP3 as potentially being a more accurate measure upon which to base charges.

Federal Group has presented to you well-researched and compelling examples from within our own property portfolio that clearly demonstrate the inequities that arise from the current use of equivalent tenements (ETs) as a charging methodology – particularly in the case of multi-use sites.

Further, the Review of Sewerage and Commercial Trade Waste Charges report, prepared by Jacobs Australia Pty Limited (the Jacobs review) for TasWater found that the ET methodology has limitations, is poorly understood, requires significant effort to administer, and is not supported by a majority of businesses.

Specifically, the Jacobs review notes:

*“TasWater recognised in its third Price and Service Plan for 1 July 2018 to 30 June 2021 (PSP3) that the ET methodology has limitations and there may be alternative approaches used in other jurisdictions that may be better suited to Tasmanian conditions and customer sewerage demand.”<sup>1</sup>*

*“The ET methodology is poorly understood by customers due to its complexity and requires significant effort to administer as land use changes over time.”<sup>2</sup>*

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<sup>1</sup> Review of Sewerage and Commercial Trade Waste Charges, by Jacobs Australia Pty Limited, 12 November 2019, 4

<sup>2</sup> Ibid., 4

*“In developing PSP3, feedback suggested that nearly 60 per cent of businesses supported changing the sewerage charges to an individually calculated methodology such as a volumetric discharge factor ... Many customers held the view that the term ‘equivalent tenement’ was unclear and uncertainty about its meaning was raised regularly.*

*A shift away from the ET method could provide an opportunity for a simpler, cost-reflective and transparent sewerage charging framework.”<sup>3</sup>*

The Jacobs review notes that in recent PSP processes, TasWater has introduced the use of a discharge-based method to determine sewerage charges for caravan parks (PSP2) and offices (PSP3). The Jacobs review states:

*“The arguments advanced by customers fall under a user pays or beneficiary pays approach being preferred by customers, which is underpinned by notions of fairness and economic efficiency.”<sup>4</sup>*

*“These two commercial customer groups [referring to caravan parks and offices] are the advance guard of sewerage customers who do not want to be charged high fixed charges that are not related to their actual discharge or service levels. They provide an example of commercial customer segments intent on the reform of TasWater’s charges in a manner that reflects a sufficiently simple charge (that can be understood) and a level of charging that is based on usage of benefit – increasing fairness.”<sup>5</sup>*

It is our submission that the findings of TasWater’s own commissioned review should be reflected in PSP4. The Jacobs review was finalised in November 2019, and TasWater has had over two years to present a PSP4 that takes into account the significant body of work that the review represents.

If the Jacobs review found that the ET methodology has limitations, is poorly understood, requires significant effort to administer, and is not supported by a majority of businesses, and TasWater itself has highlighted an SDF as potentially being a more accurate measure upon which to base charges for our nominated categories, why is the ET methodology being retained for the categories we have listed in relation to PSP4?

As we have outlined in previous submissions many of our properties are multi-use sites, comprising a mix of offices, bars, dining, accommodation and entertainment spaces. Many of our properties have changed in composition and use over time. It is clear that charging on the basis of ETs is simply not appropriate for these sites, as demonstrated by our analysis following.

Table 1 shows assumed water usage based on ETs and contrasts that with actual water usage across 10 of our hotels. Virtually all our hotel properties are being charged between 50% and 90% more than the cost of the loads they are actually placing on the system.

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<sup>3</sup> Ibid., 29

<sup>4</sup> Ibid., 7

<sup>5</sup> Ibid., 8

**Table 1**

Site No	Current ETs	Assumed annual water usage (if ETs accurate) (kL)	Actual annual water usage (kL)	Discrepancy (kL)
1	13.2	2640	230	2410
2	12.6	2520	2451	69
3	14	2800	1490	1310
4	7	1400	1085	315
5	11.3	2260	1276	984
6	20.3	4060	2084	1976
7	11.2	2240	990	1250
8	13.4	2680	512	2168
9	8	1600	1205	395
10	11.1	2220	1552	668

Table 1 shows that Federal Group has been charged on the basis of the ET calculation for discharging 24,420 kL of water through TasWater's system (assuming 100% discharge), when in fact these 10 properties only used 12,875 kL – a difference of 11,545kL.

Federal Group is more than willing to pay for the load we are placing on the TW system. However, we strongly object to being charged unfairly or inaccurately when the tools and data to charge accurately are readily available to TW to utilise.

TasWater was clearly able to implement similar changes quickly in the case of caravan parks and offices, and without significant disruption to its customers or its operations. TasWater has the resources, skills and information to make these changes and move to a charging system that is fair and equitable.

Further, the changes proposed would affect only a small number of TasWater's overall customer base. The positive impact of such a change, however, for this customer base that has been impacted immensely by the COVID pandemic, would be significant.

When presented with evidence that the current methodology results in overcharging non-residential customers by up to 90%, how can the regulator countenance the current methodology being retained?

It is our submission that the regulator directs TasWater to change the methodological approach to these categories and moves to an SDF for hotels, pubs, licensed clubs and accommodation. We note these changes were implemented for caravan parks and office on the same grounds we are presenting, and no argument has been advanced by TasWater as to why this change cannot be extended to the categories we have nominated.

We again respectfully request the regulator direct TW to move to a SDF as part of the PSP4 review in relation to hotels, pubs, licensed clubs and accommodation as well as multi use sites that are made up of a combination of these categories.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'CDH', written in a cursive style.

Colin Dewhurst

Company Secretary and Chief Financial Officer

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