

28 March 2022

Mr Joe Dimasi
Tasmanian Economic Regulator
Office of the Tasmanian Economic Regulator

Via email: office@economicregulator.tas.gov.au

Dear Mr Dimasi

2022 Water and Sewerage Price Investigation - Draft Report

Thank you for the opportunity to provide a submission on the 2022 Water and Sewerage Price Investigation - Draft Report. This submission has been prepared by the Local Government Association of Tasmania (LGAT) on behalf of the local government sector, all 29 councils.

LGAT is incorporated under the *Local Government Act 1993* and is the representative body and advocate for local government in Tasmania. Councils may make direct submissions to the process to reflect particular issues and perspectives as a customer or community representative. Our submission should be seen as complementing individual council submissions.

If you have any questions or would like further information, please contact Ben Morris, Policy Director at ben.morris@lgat.tas.gov.au or 6146 3740.

Yours sincerely



Dion Lester
CHIEF EXECUTIVE OFFICER

LGAT Submission: *Tasmanian Economic Regulator's Draft Report - TasWater Price and Service Plan 4*

Introduction

This submission is made on behalf of Tasmanian local government, recognising the multiple roles they play – as shareholders, as customers and as representatives of their community. Our submission is focused on those issues that may impact TasWater's ability to provide improved services across Tasmania, and councils as customers where LGAT is aware of concerns of councils. Specific council submissions are likely to highlight customer and community issues.

General Comments

Cost-of-living pressures are forefront for councils, so they recognise the challenge that TasWater faces in limiting price increases against investing in infrastructure that meets customer needs and regulatory requirements. TasWater has recognised this by seeking prices at no more than 3.5 per cent over the Price and Service Plan 4 (PSP4) period in line with their agreement with the Tasmanian Government. In real terms (ie. excluding inflation) this is effectively a 0 per cent increase with CPI running at 3.5 per cent December 2020 to December 2021. This is significantly less than the cost reflective price increase of 2.6 in real terms (6.1 per cent nominal).

The size of the challenge to lift performance remains significant with TasWater's PSP4 (Chapter 6) making it clear the areas where TasWater will invest and how it has balanced these trade-offs. Notwithstanding that councils, like any other customer, would prefer limited increases in their bills, we accept that TasWater's choices and trade-off in its investments and service levels that has been informed by direct customer engagement.

The Tasmanian Economic Regulator's (TER) draft report presents a challenging picture. There is a reduction in TasWater's capital and operating expenditure allowances, yet the TER requires higher performance against service standards in some areas, and additional activities are to be undertaken over the PSP4 period without a commensurate increase in operating expenditure. This imbalance requires a thorough reconsideration.

Capital expenditure

TasWater's infrastructure is at the heart of the services it provides Tasmania with the many kilometres of pipes, treatment plants and numerous pumps. The required investment in this infrastructure, the capital expenditure, is significant to close the gap between what is on the ground and the requirements of regulators and expectations of customers. The proposed \$901.8 million capital expenditure is significant. Of this, 64 per cent is driven by compliance with just nine projects making up \$500 million across environment, water quality and dam safety outcomes.

Delivering these projects to achieve outcomes on the ground has been a priority for TasWater and shareholder councils. So the change in approach to create the Capital Delivery Office (CDO) was welcome, although there were concerns with the impacts on local suppliers and the onerous requirements for smaller programmatic works. Our understanding is that these have largely been addressed through a healthy percentage of the small works being delivered local suppliers. The central concern with the shift to the new model was how quickly the CDO would be able to start-up and deliver the step change in the delivery of capital expenditure over the previous in-house model.

It has taken time for the CDO to develop systems and deliver projects. This time has been a result of the work required to prepare for major projects, such as the Bryn Estyn water treatment plant upgrade, and the unexpected impact of COVID-19. The less than forecast expenditure over the PSP3 period is evidence of this. However, we understand that for the 2021-22 financial year the CDO has gained momentum and is forecasting, with high confidence, that its capital expenditure will be \$242.2 million, exceeding the budgeted amount of \$200.5 million by 21 per cent. The external expenditure reviewer, CCGUS, while noting opportunity for challenges for deliverability with local contractors, expressed confidence¹ in the model to deliver what is proposed:

TasWater's recently improved capital planning and delivery systems and processes under the CDO agreement processes give some confidence in their ability to deliver a significantly larger proposed capital program.

The flexible procurement project size and regionalisation of projects, alongside hands-on and proactive project management techniques used by the CDO, provide support for expansion of the local contractor market from both a capability and capacity point of view, maximising the chances of efficient delivery of a large capital program

It is therefore unreasonable that the TER has reduced TasWater's capital expenditure by 5 per cent for each year of the PSP4 period. A better approach would be to assess the prudence and efficiency for the full proposed expenditure as part of the 2026 expenditure review, as suggested by CCGUS for 'at risk' capital expenditure².

Operating expenditure

The TER's Draft Report reduces the operating expenditure over the PSP4 period by \$46.5 million across three main areas: productivity, strategic initiatives and increases to operating expenditure from capital expenditure (capex-driven opex). Our comments are

¹ CCGUS TasWater expenditure review - Draft Report, available at: <https://www.economicregulator.tas.gov.au/Documents/22%20445%20TasWater%20Expenditure%20Review%20CCGUS%20Draft%20Report.pdf>, page 9.

² Ibid, page 12.

focused on the capex-driven opex. This category of opex includes the additional expense of things like chemicals and electricity that are needed to run larger capacity or more compliant treatment plants, or additional pumping.

The TER has excluded \$20.3 million of capex-driven opex over the PSP4 for all projects that CCGUS has identified 'at risk'. 'At risk' means that CCGUS have agreed the prudence (need, timing), but were unable to determine the efficient expenditure level, due to the early phase of relevant projects. A better approach would be to apply conservative proxies, informed by similar projects where the capex-driven opex is more certain. The current position in essence is saying, there will no additional operating expenditure from these projects, which is clearly false. This is inappropriate and will leave a shortfall that may have to be made up from reducing service levels or other substitutions.

Sewerage charges

Councils as customers and community representatives have previously highlighted how the equivalent tenement factors has impacted community facilities. For example, sporting grounds charges are based the number of amenities (toilet, urinal, shower) and this resulted in charges that did not fairly reflect the use.

We welcome TasWater's changes to the equivalent tenement factors for categories such as sporting grounds and community centres to area-based factors.

We note the TER's intention to undertake an inquiry into alternative sewerage charging systems that would build upon TasWater's work for PSP4. The transition to any new system requires careful customer engagement so that any price changes, whether up or down, are supported.

Trade waste charges

Local government is very aware and has advocated for those small businesses that have found it financially or logistically challenging to meet TasWater's trade waste requirements. We recognise that TasWater has made improvement in how it works with these customers, including improving its communication and engagement and establishing a loan scheme. However, the structure of the trade waste categories and the network protection requirements remained too inflexible.

We welcome the proposed PSP4 changes to trade waste that will make life easier for a number of small businesses, in particular the:

- New Category 0 for low-risk businesses and organisations that have pre-treatment installed but have a similar sewerage system load as a residential house. These customers will no longer pay a trade waste charge, so will see a drop in their bills.

- More flexible site constraint fee, which will allow those customers that would have faced disproportionately high installation charges to now pay a yearly fee instead.

Developer Charges Policy

We are supportive of TasWater’s proposed Developer Charges Policy approach. The Policy is a substantial step forward for infrastructure financing and delivery and will be able to be improved over time, such as how greenfield and infill sites are treated. Our position is informed by the following resolution that passed at the July 2020 LGAT General Meeting:

That LGAT advocate to the State Government and TasWater for the ceasing of the ‘headworks holiday’ for sewer and water infrastructure.

We have been investigating infrastructure contributions systems and legislative frameworks for use by local government, including those implemented in NSW, Queensland, and Victoria. As a result, we have developed a good understanding of the features of best practice infrastructure charging systems, which we will be sharing with councils to inform the sector’s advocacy. The features of these systems include:

- Principles-based that is fairly apportioned, beneficiary pays with consistency and transparency.
- A general charging mechanism that:
 - Accounts incrementally, based on infrastructure demand/capacity consumption.
 - Is applied generally with few exceptions, minimising loopholes for development that increases infrastructure demand and consumes network capacity to evade contributing.
 - Is clear and simple for end users to calculate.
 - Supports planned infrastructure.
- A contingency charging mechanism for any unplanned infrastructure demand that development presents.

TasWater’s proposed approach demonstrates all the features of best practice charging systems. The “Standard Charge” is a general charging mechanism and the “Capacity Augmentation Charge” (or negotiated charge) is a contingency charging mechanism. The combination of the two charges provides certainty, consistency and, where needed, flexibility. This approach provides an important model for Tasmanian local government to consider how growth infrastructure in their municipalities could be funded and delivered.