P1

SUBMISSION to the ECONOMIC REGULATOR SEWERAGE / TRADEWASTE

Thank you for the opportunity to submit the following remarks , with examples of actual bills that have been considered by Taswater with no satisfactory results . The present situation has arisen over several years because there has been insufficient oversight of Taswater action.

We have correspondence , available to the Regulator upon request , which show that despite efforts by our local Member of Parliament to have issues properly considered ---

Successive Ministers have refused to have input on grounds that Taswater and the Regulator are independent bodies and not subject to any form of Ministerial control .

The Auditor General has so far refused to review problems with the accounting procedures .

The A.C.C.C. has so far refused to give consideration to the issues involved despite that they sit on an advisory panel to the Economic Regulator .

The Ombudsman has so far refused to act when approached on our behalf by our local MP . This despite repeated statements by Taswater that they will abide by the directions of the Ombudsman , and we have correspondence from Taswater stating that they will not consider my objections , but directs me to put the issue to the Ombudsman. Efforts will continue, and the contents of this submission will be brought to his attention .

No efforts have been made to this date by the Council Management Committee to support their own small business owners or ratepayers in the problems with Taswater , quite clearly due to their concentration with dividends , which should be seen as a conflict of interest.

There has been no effort – repeat no effort – to put the interests of consumers to the fore , and while this inquiry is most welcome , I suggest that is appropriate that the Regulator actively consult with the above bodies in order to develop an acceptable pricing policy . Each have particular skills and points of view that are very relevant to the Regulator's task , and a joint approach in developing a new pricing policy will reduce the chances of future problems .

EXECUTIVE SUMMARY.

1 The TW pricing policy does not meet the requirement under the Act for the pricing to be commercially competitive .
2 There are significant errors in TW calculations of volume of waste in each E.T., and in the number of ETs attributed to customers.
3 The adoption of volume pricing based on water volume supplied is necessary and will solve most of the problems with the present system.
4 Volume based pricing is cheaply and easily implemented .
5 Compulsory grease traps in Cat 2 is an integral part of the costs imposed on small businesses , has done the most damage , and must be addressed .
6 Issues which affect TasWater costs , and therefore the need to recover them with price increases , should be considered as part of this inquiry .

P2.

CURRENT COMPARISON

The Act stipulates that TasWater pricing must be commercially competitive , and the task of treating residential sewerage and Cat 2 tradewaste is similar elsewhere . The Melbourne Regulator , which is the Essential Services Commission , has recently set the wholesale prices for the next 5 year period with very little change for that period . The retail prices flowing from that include :

A Great Western ; Residential --- uses a fixed sewerage price as does Tasmania , but the price is $506 p/a while Tas. is $706 . This is 40% more despite the fact that the Tas. Govt. supplies TasWater with a payment of $20,000,000 per year to help with infrastructure .

Tradewaste customers using less than 4 kl/day and all food businesses pay only a fixed price per kl equal to the non residential sewerage disposal fee , and based on the volume of water supplied .This is considerably cheaper and much less complicated than the Tasmanian system and so easier for customers to understand .

B City West ; Residential has a $238 connection fee and 79 cents/kl disposal charge . The average residence using 150 kl/a thus pays a total of $358 compared to Tas. $706 . Note that City West sewerage price has dropped by about 8% since this was last brought to your attention while TasWater prices continue to rise at 3.7% p/annum.

Tradewaste for food businesses have a $439 network charge and volume charge of $1.87 disposal charge . The ratio of charges for sewerage and tradewaste add up to the volume of water supplied via the meter . See example business bill supplied to understand the problem Tas. has created by using the ET method for sewerage but a different method for tradewaste .

THE TAS. EQUIVALENT TENEMENT SYSTEM

The ET system historically has been used when water meters were not used , with the average use for a three person household using 150 kl/a as the basis of both water and sewerage use . Meters give an accurate volume measurement and were introduced as a more accurate user pays measure . The present ET system as used by TasWater is described by them as their version of calculating the load customers put on the system , but is clearly inaccurate . When TasWater first started using 200kl/a as the basis of each ET , it was at a time when they were aware that they treated more water into storage than they sell ; this 28% they called “leakage “ { their parenthesis } but in fact is almost totally due to un-metered connections . By including the “leakage “figure they arrived at a figure of 191 kl/a and rounded that off to 200 kl/a. , but this is a volume per KNOWN connection . When correctly calculated , with the unmetered volume accounted for by first deducting the leakage volume from the total volume treated , the actual average household use will be of the order of 150kl/a or a little less , which is similar to most other areas .

While we pay by the meter reading for water consumption , the fixed cost of sewerage pricing contains a 25% error in the assumption of volume and in effect honest customers are being billed for dishonest ones . TasWater has made no effort to solve the leakage issue , and have failed to realise that not only would the average usage drop towards the 150 kl as they are identified , but they would gain by extra connection fees , with an extra income of 25% in connection fees possible.

P3

SMALL BUSINESS ;

Small businesses have their sewerage component calculated by the ET method , and as explained to us by a TW team on site , this involves counting the porcelain fittings , where any given business might have one , two ,three with a disabled , or even four if a staff toilet is used – then multiplying by the floor area as seating capacity, and multiplying this by .008 . The floor area { used as seating capacity } has at times been taken from satellite mapping of roof outlines , and the results are supposed to give a sewerage use figure . This calculation can only give an assumption of volume produced at the full seating capacity every day and is absurdly inaccurate when compared to using the basis of water supplied by the meter – the waste going out cannot exceed the water going in .

Degree of Error ; The Regulator's own reports contain complaints such as one who was billed as 2.4 ETs , that is 480 kl/a , when the water usage { load on the system if it all went to sewerage } was only 28 kl. This was remarked on in the Jacobs Report , and submissions to the Regulator that have been published show a sports ground assessed as 90 ETs more than the meter indicated , and a hotel chain showing an average 50% error across ten sites .

There is a large error in the dollar value of each ET due to the accounting procedure , and then a further error in the number of ETs attributed under this policy , thus the error is multiplied . A further unfair aspect is that any billing procedure contains a figure representing the costs of administration , meter reading etc.as included in each ET , but this means that a customer rated as , say 5 ETs , is paying 5 times as much for those services .

The adoption of a system such as used by City West , with a connection charge that covers the fixed costs of administration , and a treatment charge per kl used as measured by the water used would be fair to all parties as a user pays system as long as the volumes attributed to sewerage and tradewaste added up to the volume consumed . The connection fee , or service charge to cover fixed costs , should be set according to the size of the connection .

DOUBLE DIPPING

Businesses are subject to double dipping in two distinct ways ;

A Sewerage volume is assessed by the ET method and this alone can be more than the volume of water provided , but then the tradewaste volume is normally calculated as 80% of the metered volume , with 20% assumed as used in cooking or drink . Thus tradewaste is only correctly assessed in small cafes that have no toilets . In the bill attached the business has been assessed as 2.5 ETs , which represents 500 of the supplied 550 kl/a for sewerage alone , and then the second substantial figure for tradewaste . This can only be seen as double dipping in that they are charged twice for the same volume of water supplied . The answer is that a proper ratio of the supplied volume is used .

B There is no separate treatment line for the concentrated waste from grease traps – it is simply pumped into the same treatment tanks as sewerage . TasWater has no possible way to calculate the separate costs i.e. the standard treatment cost has always included the cost of treating tradewaste .TasWater calculated a separate tradewaste charge and added it on top , once again this is charging twice for the same waste – to make matters even worse TasWater have indicated that they intend to impose another separate charge for treating the transported concentrate . Triple dipping ??

P4

REGULATOR,S QUESTIONS

1 No it is a totally unsuitable method .

2 A connection charge according to size of connection to cover fixed costs and then a treatment charge per kl supplied is sufficient to cover all food and accommodation businesses , Cat 3 and 4 are already treated individually.

3 Yes , it should be the standard method .

4 Yes , it is certainly double dipping , please refer to P3 for explanation .

5 No , all food tradewaste from small businesses is less harmfull than TasWater has assumed . City West for example does not grade it as tradewaste at all , but charges it as non-residential sewerage . In addition there should be a minimum volume involved before some of the requirements are needed. The view that should be accepted is that if people choose to not cook at home where they do not have a greasetrap , but instead eat at a café , then the net effect on the system is zero.

6 Having looked at some others , it seems that the approach by City West is fair and is easy to understand . It would be simple and cheap to implement as the basic reading of the meter already appears on the bill , and above all else the customer will find it easy to follow the reasoning .

7 As described there should be a connection charge relevant to the size of the connection to cover the fixed costs of administration , but then a cost per kl for the sewerage component and for the tradewaste component . It is easy to arrive at the appropriate ratio -- as used by City West it can be done by mutual agreement , by calculation , or by measurement . Each business has the meter and then the supply diverges to kitchen and bathroom/toilet , either of which can be measured with a $23 meter to give the ratio X + Y = Z . When shown this TasWater simply refused to discuss it .

8/9 The first step in any review of pricing and fixed charges is to examine why those costs are higher than similar providers , and to reduce them if possible . An independent inquiry would certainly do that . The factors affecting the fixed costs that can easily be reduced are covered in more detail on the next page but include the possibility of reducing the fixed costs with a more appropriate loan policy with a longer time frame , making sure that TasWater is not over-capitalised with vehicles , and that having spent money on consultants that they do not simply ignore that advice .

The volume based system would be cheaper and easier to administer and the staff involved in inspection and calculating the ET system are simply not needed .

P5 TW MISINFORMATION and FIXED COSTS

In efforts to promote the existing pricing TasWater has given mis-leading advice to both the public and the Regulator and this makes the decisions based on public support unreliable . Some public forums of stakeholders have had as little as 2 attendees , and their response has been taken after accepting the TasWater spiel .

A TasWater explain that they use the ET system because they cannot measure sewerage by meter . The reality is that waste out cannot exceed the water supplied and it is obvious that the volume method is much more accurate than the present system. TasWater use the meter readings themselves for tradewaste calculations and recently in offices and caravan parks .

B TasWater insists their fixed costs are higher than most because they have more pipeline than others . The reality is that most of the infrastructure is installed by the developer and then gifted to TasWater , meaning they incur no cost until they can charge connection fees and begin charging for usage .

C TasWater claim their prices are fair because the combined water and sewerage fees at the 200 kl/a level is comparable . They are two different issues and calculations – Tas. water is only half the price of Melbourne , and the average residential use when corrected is 150 kl/a in both cases . The attempt at justification in this way simply confirms that they charge twice as much as they should for sewerage -- see P2 for the actual comparison – effectively double .

D Some years ago a consultant report found that TasWater had 300 more vehicles than the industry standard for their task , this being to gauge capital costs . On appeal to the Regulator TW was given an extra 3 years to comply , making 6 years in total . An independent inquiry would insist on a current count , including Paneltec or other sub-contract vehicles . If TW is over-capitalised for their task it means those vehicles are effectively only used to travel to work .

The issue of Council dividends has an effect on costs . At the end of PSP3 , following public comments , the Regulator indicated on the Otter website that it was not acceptable for water revenue { by inference also sewerage } to be used for other purposes, but that is exactly what Council dividends are used for . The Council Management Committee have failed to understand that if the pricing was corrected there would be considerable savings to them on all council owned properties which would offset their reliance on dividends and allow TW to retain $20 mill. /year. In our municipality , we all have a benefit from those dividends to Council but in towns such as Mole Creek , Chudleigh , Meander , and all country areas they have septic tanks and do not contribute to TasWater by sewerage charges . It would be fairer if any shortfall of Council funds were to be made up after price correction was put in place then it should be done with a rate increase which would spread the burden on all who benefit from the dividends .

The fixed costs that have an effect on pricing are also governed by the loan costs incurred by TasWater , which are relatively short period governed by TasCorp , and are not best practice when the infrastructure being funded has a designed life span of 70 years . Simply re-financing over a more suitable time frame , as any other business would do , will reduce the fixed charges that have to be re-couped with price rises .

P6 CONCLUSIONS

The need to meet the requirement to be commercially competitive , to be a "user pays " method , and more easily understood by customers all indicates that a volume based { on water supplied by meter } method is the only viable option . This is supported by the Jacobs findings .

When the billing method is thus corrected there will be a considerable and immediate saving to Municipal Councils on their own properties and it would not be appropriate for dividends to continue. Cross – financing would thus be eliminated and Councils need only look at their rates to cover the difference , with TasWater able to retain $20,000,000 per year to finance infrastructure as originally intended by Parliament.

Immediate adoption of the needed reforms should be considered , as the unfair aspects as well as the likely illegal double dipping involved are of deep concern , and will be more so as customers gain more understanding of the issues . An analogy of the present pricing policy would be ; taking a car to a service station to fill up with petrol and being told that they would not use the pump meter but they count the seats and work it out from that – and by the way some-one has stolen 25% of our petrol and you will have to pay for that as well .

The Regulator should closely monitor TasWater expenditure which impacts their fixed costs, which in turn impacts prices , -- if that cannot be done under the Regulator's terms of reference then there is a need for Ministerial control or an independent inquiry .It is essential that the Regulator should investigate and publish an audited report on the financing of the moving of the sewerage treatment plant in Hobart . The Regulator is aware that the plant was moved not because it was essential to do so , but because it improved the value of surrounding real estate and the Council rates flowing from that . TasWater was to be charged only for a sum equivalent to normal maintenance , with the balance from local or State Government , so as to not impact statewide sewerage prices .

The last year trading profit of $62mill. is excessive , and with a population of half a million , means a profit margin of about $120 for every man , woman and child in Tas.. The underlying $32 mill. profit figure is meaningless in the context that TasWater is the property of the ratepayers { it's customers } and cannot be sold , and just like a Municipal Council , the ideal budget is a balanced one .

M.J.Eastley.