

# TasWater's proposed changes to the water and sewerage regulatory framework for the fifth regulatory period

## Summary of issues raised during a meeting between OTTER and members of the Tasmanian Small Business Council

Meeting date: Monday, 27 May 2024

Meeting time: 2:00pm to 3:00pm

Meeting location: MS Teams

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### About the Tasmanian Small Business Council:

The Tasmanian Small Business Council is an advocacy organisation supporting the Tasmanian small business sector's interests both within Tasmania and nationally.

### Attendees:

Robert Mallet (CEO, TSBC), Geoff Fader (Chair, TSBC), Paul Bottomley (Master Plumbers Association), Nathan Calman (Tasmanian Farmers and Graziers Association) and Bruce McIntosh (Tasmanian Automotive Chamber of Commerce).

### 1. Extension of the regulatory period

Attendees raised the following issues in response to the benefits set out in TasWater's proposal:

- greater certainty for customers - concerns about the ability of TasWater to accurately forecast for a longer duration, with higher levels of uncertainty for the fifth year of the regulatory period. Attendees consider that the value for small business of having price certainty for an additional year is likely to be limited, with most small businesses unlikely to be preparing their budgets five years into the future.
- alignment of the regulatory period - it was queried why TasWater was seeking to have the regulatory period changed to align with its corporate planning period, rather than adjusting its corporate planning period, over which it has full control.
- efficiency gains - it was questioned what efficiencies could be gained in a five-year regulatory period that could not be gained in a four-year period.
- lower costs for TasWater due to less frequent investigations - it was considered that TasWater should already have available the information required by the Regulator for its investigation, to enable it to run its business.

The attendees noted that if the regulatory period was extended, there would be a need for the Regulator to have extra opportunities to intervene if issues arose. OTTER representatives clarified that under the *Water and Sewerage Industry Act 2008*, there are limited circumstances under which a determination can be reopened.

Attendees considered that if a longer regulatory period were adopted, there should be more circumstances under which a determination can be reopened.

The attendees noted that there is a lack of trust regarding TasWater, and its ability to provide its services without scrutiny over a longer regulatory period. TasWater's high level of unaccounted for water was provided as an example, that was only highlighted after the Regulator raised questions about it and reported on it.

## **2. Annual indexation of prices for inflation**

Attendees questioned the appropriateness of using the Consumer Price Index to index TasWater's prices, as the CPI is made up of components including accommodation, clothes and groceries that have no connection to TasWater's costs.

Attendees further noted that wages have a high impact on TasWater's operational costs, with wage rate increases not tied to changes in CPI.

Attendees also considered TasWater should focus on recovering the costs associated with unaccounted for water instead of focusing on inflation and made the point that TasWater could cover increasing costs by becoming more efficient.

In addition, attendees noted that under its current ownership model, there is no mechanism in place for TasWater to return its profits to the community. As such, there is no benefit to the Tasmanian public if TasWater's profits increased due to it having its prices reset to actual inflationary outcomes.

## **3. Annual cost of debt update**

With respect to TasWater's claim that the annual cost of debt update would incentivise efficient investment, attendees noted that TasWater should not need to be incentivised to be efficient.

Attendees also queried what evidence has been provided to support TasWater's claim that windfall gains or losses could be experienced from movements in the cost of debt.

## **4. Regulating prices for Category 3 and 4 trade waste customers**

Attendees noted that the proposed regulation of prices for large customers sat outside the TSBC's constituency which is the small business sector.

However, from their experiences, attendees considered that industrial customers did not necessarily have much negotiating power against TasWater and provided anecdotes that TasWater's negotiations with industrial customers are often one-way, take it or leave it. Attendees also felt that TasWater often forms the view that it doesn't have a responsibility to support industry and that industrial customers' service quality should be protected by regulation.

Attendees further noted that, for some of its members, the disposal of trade waste is governed by the EPA, collected by private providers and shipped to the mainland for treatment, without any involvement from TasWater.

Attendees suggested that modelling should be undertaken to show the price impact of this proposal on the affected customers.

## **5. Whole-of-system outcomes**

Attendees considered that if an investment has benefits for the community, it should be able to be justified on its own and TasWater should be implementing the least cost solution.

Attendees did however provide an example of TasWater only considering its own costs and benefits and not the costs and benefits for the whole state.

Attendees queried how TasWater could show that all customers are willing to pay higher prices for any such investments, because as a monopoly provider, customers who do not support such investments are unable to opt out of paying any associated increase in prices.