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22 May 2024

Mr Joe Dimasi
Office of the Tasmanian Economic Regulator
GPO Box 770
HOBART TAS 7001
Via Email: office@economicregulator.tas.gov.au

Dear Joe,

As an interested party we would like to take this opportunity to provide our thoughts on the “Price and Service Plan Guideline Issue Paper” in preparation for TasWater’s (TW) fifth regulatory period.

Questions for consultation

Duration of Regulatory period

We do not support TW and their proposal to extend the regulatory period from four years to five years. We see no benefit to the customer or the state as whole from the extension of the regulatory period. As we have seen previously, many issues have been raised by TW or customers that need to be resolved prior to the end of the regulatory period. Significant delays to changes in pricing, servicing and standards already occur due to the length of regulatory period. We support the regulatory period remaining a four-year cycle until TW have a proven track record of best practice throughout their business. The four-year regulatory period needs to remain in place to assist TW in their development towards being a best practice provider.

Annual price reset and annual indexation of water and sewerage prices

We agree that having a price reset annually is beneficial to TW operations, however we oppose this proposal. It does not ensure an efficient organisation. TW is mainly a fixed-cost business, with little variability in operational costs. If debt is fixed and energy is fixed (having entered into contracts), their main variable is labour. These are generally enterprise agreements and probably fixed as well. The only question is how many people they employ as there is no “cap”. Therefore, pricing should not need to be reset annually. However, what is not mentioned are TW efficiency gains throughout that same time period. Improvement in

water retention, metering outcomes and water connections need to part of the equation as well as productivity gains. The actual costs to provide the services relating to water and sewerage for the 12-month period, should include 'efficiency gains' as a fair and equitable model to be implemented. Therefore, whatever the Regulator agrees on the yearly change to pricing should have an inbuilt efficiency gain, i.e. Increase – x (where x is the required efficiency gain).

Annual recalculation of the cost of debt

We oppose the proposal for annual recalculation of debt as TW does not face the fluctuations in debt on an annual basis. TW debt profile is fixed, with debt being a long-term proposition of 10- to 20-year periods. We see no net benefit to TW business operations in moving to a floating system. TW risk profile as a monopoly entity providing an essential service to Tasmania is very low. The regulator should consider this fact as part of the risk calculation, and compensation TW receives in the weighted average cost of capital calculation. They effectively pay a margin over Tascorp's borrowing costs. Tascorp can have fixed price debt for long duration.

Regulation of pricing for category 3 and 4 trade waste customers

We strongly agree that trade waste customers 3 and 4 be regulated. These eighty-two customers contribute to the use of fifty-two percent of water used by non-residential customers. Other Tasmanian users can no longer be asked to subsidise this small group of customers. Creating a framework for charging these customers that is unified and fair will be inline with TW direction towards a water conscious customer. Trade waste customers and all customers need to be incentivised for change in practices, to create smarter and more efficient processes, that create less waste. Regulated pricing of these trade waste customers is in line with our position of a user-pays system that is fair and equitable. If some of these category 3 and 4 trade waste customers are identified as being of State significance or are producing large community benefit, then it is the State government that needs to contribute to subsidising the costs and impacts to TW, not the TW customer.

Considering whole-of-system and water outcomes

TW have not identified or shown any evidence in relation to not being able to take this approach under the current regulatory frame work. A whole-of-system and water outcomes approach should already be part of their management system. Capital investments should always be assessed as to whether they are prudent and efficient, and with benefits that can be articulated clearly. TW are not in a position yet to be requesting less regulation of their capital investments when they currently lose almost ¼ of their water from production to metering. They have yet to establish real policies and systems that support their request of customers to

be water conscious. Assessment of capital investment needs to determine who gains the most benefit from that particular investment. TW could be allocating costs to regions as part of the cost of capital works, allowing those who benefit from the investment to pay for it. If the investment is significant and the benefits marginal or long-dated, maybe government needs to pay for that benefit.

We are, as always, willing and happy to provide further information or discuss further.

Yours sincerely
NEKON PTY LTD

Per:

A handwritten signature in black ink, appearing to be 'R. Rockefeller', with a long horizontal line extending to the right.

ROBERT ROCKEFELLER

Director

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