

SUBMISSION:

DRAFT PRICE & SERVICE PLAN GUIDELINE ISSUES PAPER MAY 2024
Office of the Tasmanian Economic Regulator

Date of Submission: 7 June 2024 10:35 a.m.

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To: Mr Joe Dimasi
Tasmanian Economic Regulator
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Dear Mr Dimasi

Submission to Draft Price and Service Plan Guideline Issues Paper 2024 - and 2025-26 Price Determination Investigation

Thankyou for the opportunity to make my Submission to this Draft Price & Service Plan Guideline Issues Paper, including its 2025-26 Price Determination Investigation.

The Regulator has adopted a 'building block' approach in order to fund TasWater's future role in service provision. Under this new framework, a range of costs are summed to arrive at the total costs faced by monopoly water and sewerage provider TasWater. Such costs are proposed to be transferred from TasWater to end-users.

The Draft Pricing Plan included in this framework guideline are:

- 4 to 5 year duration of the regulatory period with annual reset
- 'actual cost' recovery
- annual inflation-linked price increases
- '*efficient*' recovery of TasWater's '*cost of debt*' by transfer annual reset charge to landowners connected to its services
- '*actual costs*' burden of TasWater's activities transferred to the land-owner
- '*compensation*' payments made to TasWater on basis of its '*risk in carrying out it's activities*'
- '*weighted average capital calculation*' (WACC) factored in to TasWater's pricing to customers
- regulated (private) 'negotiable' pricing contracts provided to larger scale or 'boutique' industry businesses for disposal of their high volume wastes into the general sewerage network
- '*costs to serve*' associated with the operation, renewal and maintenance of pipes, pumps and treatment plants
- providing an added *retail margin* to TasWater corporate business structure
- significantly increased introduction charge for individual landowners within localities seeking service introduction
- significantly increased developer charges to fund current water and sewerage treatment plants and future TasWater infrastructure capacity upgrades.

Included in the invitation for submissions from interested stakeholder parties is request for comment on other factors not discussed in this Issues Paper that the Regulator should take into account. I have here provided such by way of historically proven alternative funding model which option is currently under consideration by the Federal Economic Regulator.

Summary

My Submission offers an alternative regulatory framework of debt provision and debt service costing, affording longer-term infrastructure development, in the form of government-directed finance and return on capital. History shows that the competition policy, market-forces, user-pays, corporatised profiteering business model of essential service provision has not worked for improved network and capacity provision nor increased productivity and affordability to the end-user; neither have considerable gross revenues been returned to community benefit. In the last 30 years of introduction in Australia, these market-driven policies appear to have only served to justify public price-gouging and private interest management of essential services. This appears to have been initiated by government technocrats and third-party consultants trained in neoliberalist mindset. Proponents of this policy reversal, away from 1940s government mandates to provide affordable essential services, envision the immense profit opportunity of privatising the assets of such government-run non-discretionary service systems. Public Private Partnerships (PPPs) allow continued taxpayer funding and/or crushing customer charges while retail margins must flow to the managing Corporate 'business', such as TasWater has become.

It is for this reason that my submission detailed below may be deemed somewhat critical of the proposed building blocks costing and provider cost-recovery approach framework. However, please accept my Submission's critical analysis as a refreshing, respectful, alternative view and framework option. I am going to some considerable effort to compile it, and with entirely positive intent.

Position

I wish to affirm another way: a realistic alternative, history-proven funding model which is currently being considered by the Federal Economic Regulator (FER), on the basis of *Recommendation 2, section 5.39*, from the comprehensive Senate Committee's Regional Banking Inquiry (the Inquiry), as cited here:

'The committee recommends that the Australian Government commission an expert panel to investigate the feasibility of establishing a publicly owned bank. In investigating this, the panel should examine options including, but not limited to a stand-alone public bank or one associated with, and using the branch network of Australia Post.'

That is, provision of funding may be made available via a government-owned Public Bank, which may offer fixed term, low interest loans to businesses, face-to-face banking facilities in post offices of regional and metropolitan areas; and may employ its Development Bank subsidiary to build essential infrastructures by offering the

States long-term, fixed interest, low-interest loans backed by its regular returns on increasing productive equity due to resulting population and business expansion.

Debt cost stability would thus be ensured, being more 'efficient', 'prudent' and acceptable to the large cohort of the Tasmanian population who are of average older age cohort, lower wage and higher pensioner and/or social welfare status, likely Australia's lowest average income population. These factors make any rise in cost of living such as TasWater's proposed annual inflation-linked and debt-cost, 'actual' cost, plus weighted average capital calculation (WACC), etc. annual price rises for peoples' non-discretionary water and sewerage essential service provision problematic.¹

Analysis

Please consider the following response to the Economic Regulator's identified issues determining his investigation of pricing:

1. Introduction: My preferred duration of regulatory period is five years, but without the proposed annual TasWater price rises in line with inflation nor actual recovery of the cost of debt or other factors of it's building block framework. However, if the determination of annual price reset is to proceed under the current proposed building block Plan, then an interim two year 'hold' at current service price levels is required, to allow time for the Federal Economic Regulator's needed advice to *Australian Government to commission an expert panel to investigate the feasibility of establishing a publicly owned bank*; to enforce a halt to regional post office closures by Australia Post; and to take urgent measures to legislate and action a Public Postal Bank.
2. Duration of the Regulatory Period

A fixed five year term, but only on basis of fixed public bank low interest loans, would greatly reduce debt costs, allowing capping of prices according to residential customer's ability to pay. Revenues from existing connections will continue to fund TasWater staff's wages and maintenance crews and bonus profit margin. I believe there is no evidence that this is insufficient funding for this, unless corporate management wages are at unreasonable levels.

The integrity of our local municipality's water and sewerage systems has not improved since TasWater's inception in 2013, a decade leading to our rates more than doubling since that time. This week's news item reveals report card of TasWater which cites 400 water leaks due to burst pipes in the past five years '*due to ageing infrastructure*'; and, during the period 2022-2023 TasWater reports loss of 28% of its treated water supply! There is media report of another traffic-stopping, water-wasting water main in street of Launceston today.

Should the perceived wasteful management at TasWater be rewarded? An engineer employee of a TasWater contractor has observed the 'gold-plating' expectations of TasWater's unnecessarily high staffing levels travelling from Hobart and excessive on-site office detailing at the recent Swansea \$2,000,000 pumping station upgrade.

¹ Martin North, Digital Finance Analytics (DFA), DFA Youtube Channel 2024

He is happy to testify to any enquiry, his name and contact details available on request.

I consider the advantages and disadvantages of this preferred regulatory period of 5 years as follows:

- a) Advantages – If access to Public Bank fixed term financing is made available, a longer fixed-interest regulatory period would provide landowner and business certainty of TasWater’s pricing per much lower, fixed debt costs for duration of the five year period; that is, greater stability of reasonable water and sewerage service rate charges for duration of the regulatory term. Annual accounting audit, consultant reassessment and advice costs and/or Regulator’s oversight determination costs could be minimised with only five-yearly resets.
- b) Disadvantage – may penalise TasWater’s ability to recover unexpected/unbudgeted costs arising in other parts of its business model.

However, the premise of such profit-driven framework appears flawed, since such essential services as water and sewerage supply are matters of public health, social justice and government duty. I believe and submit that TasWater should return to a fully government-run subsidiary; accountable to the State.

Other factors not discussed in the Issues Paper that the Regulator should take into account when determining duration of the regulatory period:

Monetary and interest rate policy is still in control of Federal government, in time of economic crisis, such as how to deal with the current housing mortgages difficulties – This is legislated in *Section 9 of The Commonwealth Bank Act 1945 (The Act)*, when the CBA was a public bank, and includes, ‘... *the duty of the Commonwealth Bank ... to pursue a monetary and banking policy directed to the greatest advantage of the people of Australia.*’²

To confirm: Current legislation specifies that Australia’s Treasurer can still override the central bank if the government has difference of opinion on monetary policy. Treasurer, the Hon Jim Chalmers in recent media interview agrees, ‘*people are under pressure*’;

MP Andrew Wilkie declares, ‘*Tassie services are at breaking point*’; a KPMG advisor states, ‘*People trying to get through this increasing interest rate environment have not much left (to live); in any normal circumstance a cut to interest rates would be made..*’. Economic recession or worse is being touted according to the past five quarters’ reducing Per-Capita GDP report, largely due to unaffordable housing mortgages in this, the worst housing bubble per capita in the world.

I therefore believe it is high time for the government to use those powers, sitting dormant for 75 years, to determine lower stable interest rates across the board, instead of the touted tax cuts and energy bill hand-outs. Our government should also return to dedicated public banking for the interests of the country and its people.

With initiation of a State administered arm of an Australian Public Bank, low-interest fixed rate, longer term loans would be provided to essential service providers to maintain and develop new infrastructure. Certainty is provided by a low-interest

² Quoted provision of 1945 Chifley Commonwealth Bank legislation

fixed loans to the provider for at least five year term; revenues from business loans and landowner payments (return on equity) would easily pay for the loan interest; capital repayment paid for over longer duration. Attracting private investors to take up dedicated government infrastructure bonds providing further source of capital, would support investment in future projects and increased returns. Productivity improvements are thus encouraged without the shareholder profit-motive of private banks hindering ongoing capital reinvestment.

3. Annual Price Reset and Annual Indexation of Water & Sewerage Prices:

I do not agree with TasWater's proposed annual price reset and move to a '*real price framework*' for the following reasons:

- a) TasWater's proposed indexation of prices in line with annual inflation will only add to inflation numbers, on compounding basis! The vast majority of Tasmanian consumers can simply not afford to pay such annually increasing prices, therefore prices must be fixed for at least the full five years' duration.
- b) TasWater's proposed annual price escalation model does not guarantee improved infrastructure provision nor essential sewerage provision on long-standing residential areas such as Gravelly Beach and Beauty Point on the West Tamar.

This is borne out by TasWater's April 2024 *Engagement Report Gravelly Beach Service Introduction*, in which the proposed imposition of between \$30,000 to \$80,000 individual compulsory service connection charges and table drop-in strategy instead of town hall style open question/answer, used by the TasWater PR team at the community meeting hall, created anger amongst this low income community, also resulting in rejection of the proposal under these impossible costing terms. Poor community support was thus used by TasWater's to not proceed to essential sewerage service introduction in this long-standing waterside residential community, where raw sewerage is known to leach into the Tamar Estuary.

In addition, TasWater has expressed disinterest in the visible wide brown stain of overflow from the existing, entirely inadequate Exeter based settling ponds sewerage treatment plant which visibly leaks into the Tamar (Kanamaluka) Estuary via a ditch, in event of high rainfall. TasWater representatives say that only crisis management of severe service failures may (or may not) be prioritised for major works funding. It appears that the Servicing Plan is to also initiate '*non-traditional*' mitigation measures such as tree planting in river catchment areas, or costly '*biogas capture for energy production*', '*offset*' against nutrients entering waterways from the sewerage treatment process, a '*net effect*' at '*lower community cost*'; or, '*higher value end-use of biosolids*' which, despite high cost can be sufficiently justified, they I consider mistakenly believe, by '*customer willingness to pay to support*' their chosen environmental balancing '*solution*'.

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TasWater's current '*community engagement opportunity*', '*Your Say*', appears a mere formality or marketing ploy which offers highly restricted multiple choice options to '*accept*' without alternative (which must be numbered in priority). Please forgive

³ TasWater 15 March 2024, *TasWater response to the Draft Price and Service Plan Guideline*, pp. 11,12

my cynicism, but I understand TasWater may also market the 'results' of these tick-box surveys as confirming their service charter and, '*what the consumer wants*' in their '*real price framework*'.

By way of comment, my opinion only, the assumed taxpayer funding of relocation of Hobart's sewerage treatment at Macquarie Point to make way for the nonessential Football Stadium appears to confirm unfairness of corporate profit-based approach, offering no choice in the matter and costing Tasmanian taxpayers dearly, to prime benefit of consortium interests investing in the project; with funds diverted from essential infrastructure replacement and/or capacity growth.

The Issues Paper's proposed *annual price reset calculated on indexed basis* I believe should not be introduced for such essential non-discretionary services. However, if an annual price reset is introduced, the Regulator should not, I hold, reconsider the amount of '*risk*' TasWater is '*compensated for to carry out its activities*'. It is rather a matter for efficiency of management and workforce.

As an essential service provider TasWater Corporation's service charter should be to provide affordable services without expected compensation. If 'risk' is financial risk then this, I believe, should be borne by TasWater Corporation itself due to reliance on alleged inadequate funding model from private banks - whose excessive profiteering is largely based on unregulated banks' high margin, higher-for-longer interest rates. Expansion of financial certainty via a publicly-funded infrastructure development bank would alleviate the pressure on their modelling and offer handsome returns on expanded essential service provision. And please let it be known again that the government still has powers⁴ to override the 'banker's bank' Reserve Bank's interest rate policy and, I claim, must do so immediately.

As the Economic Regulator would be well aware, the capital values and creeping/escalating high interest rates on house mortgages are unaffordable, crushing Australian families at horrifyingly increasing rate⁵. Children are suffering; many people homeless.

If you're proposing compensation, then under the current economic system all Australian's require such relief from unavailable housing, and unaffordable mortgage loans and essential services because the population as a whole is either now debt-enslaved or priced out of the market.

However, any compensation only leads to higher inflation for all, as the handouts during COVID, first home owner grants and housing developer incentives have done, in opinion of well-respected, population survey data analyst, Martin North.

'*If the change is implemented*' is, I believe, an unconscionable statement – '*Actual cost recovery each year*' is simply not possible if the annual cost of building overdue larger scale infrastructure projects is to be factored in. Mains sewer and water connection fees should remain at basic on-site connection contractor fee without factoring in wider debt costs or treatment plant maintenance or expansion etc., which are surely a duty of government.

⁴ Section 9, the *Commonwealth Bank Act 1945*.

⁵ Martin North, DFA 2024

The people of Tasmania and Australia-wide are struggling with the cost of living, increasingly desperate to make ends meet, including going without food, yet interest rates continue to rise. Inflation has become unmanageable due to government policy of low interest rates after GFC, hand-outs during COVID, first home-owner subsidies, rapidly rising interest rates, affordable housing development subsidies and pre-election tax cuts; wages are not keeping pace. We have the worst housing bubble in the world. Just think what government control of interest rate policy could achieve in improving essential housing and infrastructure investment.

Similarly, inflation price adjustment on basis of inflating house building costs, rising rents, shortage of housing in face of increased immigration, housing price bubble, higher-for-longer interest rates, inflationary fuel and food prices, will only add to the inflation problem and unaffordability of essential services such as water and sewerage. Data analyst, Martin North (DFA) conducts impressively large participant surveys across Australia – showing Tasmania’s seasonally adjusted rate of affordable housing approved reducing by 16.1%, the worst in Australia. The current high costs of mains connections, and building materials only add to the issue. Families are resorting to sleeping in their cars, couch surfing or squalid substandard unserviced refuge camps such as the decrepid caravans parked along the waterside near Riverbend Park, with access to distant public toilets only.

The Regulator’s Issues Paper asks, *‘If annual price reset is introduced should other forecast inputs be reviewed and reset each year?’* My answer is bluntly, ‘No’. The State Economic Regulator(TER) is considering how our provider may fund essential services, water and sewerage, which people cannot do without. Sewerage used to be considered a matter for public health not a business proposition!

We have a proven alternative funding model and potential competitor to private banks’ profiteering in the Inquiry’s recommended publicly owned bank proposal; fully feasible by using Australia Post’s still remaining existing buildings and upgraded IT networks throughout regional areas. This, I believe, the Federal Economic Regulator should be urgently and strongly advocating to the *Australian Government (to commission an expert panel to investigate the feasibility of establishing a publicly owned bank.*

4. Annual Recalculation of the Cost of Debt

I do not agree with the TER’s Draft Pricing Plan’s proposal to recalculate the cost of debt on an annual basis, for the reasons given here.

Any consideration of an *‘annual recalculation of the cost of debt’* as well as added *‘compensation for TasWater’s ‘risk’ in the calculation of its weighted average cost of capital’ (WACC)* is really vamping up the pressure dial by over-charging people who are struggling to survive. Highly paid ‘third-party’ consultants may be blamed by some for their perceived uncaring ways, but they are paid by the Economic Regulator seeking their advice. Any alleged bad economic decisions on basis of such advice become a vicious cycle and, it appears, no-one’s to blame.

Let’s return to the good old days of moderate CEO wages paid to those administering government provision of essential services, funded by government low cost debt, and serving in the people’s interest. The service provision may be

remunerated to the government body at a reasonable affordable quarterly rate as it is currently, but it appears obvious that no further escalation of consumer costs can be tolerated in the current economic climate.

Other factors not discussed in the Issues Paper that the Regulator I believe should take into account when considering whether to regulate to adjust TasWater's cost of debt on an annual basis are reiterated here:

The Federal Economic Regulator (FER) has been provided the findings and recommendations of the comprehensive Senate Committee's Regional Banking Inquiry. It has been recommended that banking (and access to cash) be classified an essential service. To combine the essential services of banking, post, government-owned insurances and **dedicated loans to build or maintain power and water/sewerage infrastructure**, all in the one-stop centres of Australia Post's existing wide network of regional post offices would be a win-win-win-win-win initiative, of fiscal benefit to all licensed providers, with strong support of interests of consumers and regional business communities such as throughout Tasmania.

I ask the TER to champion this new government-run funding model in consultation with it's Federal counterpart, in order to assure future essential TasWater infrastructure developments. Please keep in mind that the then government-run Commonwealth Bank funded the Snowy Mountains Scheme and Hydro dams in Tasmania; paid for in the time they took to build. Our renewable hydro power supply is in now high demand by other States and corporate interests.

Historic precedent

A Public Bank would be a useful competitor to the 'Big Four' banks whose prime motive appear to be cost-cutting and shareholder profits, not service to the community, despite the taxpayer funded 'Bail-Out' at time of 2008 Global Financial Crisis (GFC) and low fixed interest government-provided 'Repurchase' (Repo) facility contract a decade later, to prop up the ailing banks. New Zealand's Kiwi Bank is government-owned, currently operating in such useful competition, has been very successful in attracting business, earning encouraging profits which are returned to the community.

In Australia, our precedent, the Commonwealth Bank, founded in 1911 as a people's bank by the Labor Party was, with change of politics, turned into a central bank – a 'banker's bank', starting in the 1920s, reducing capacity to control monetary policy and the banking system for benefit of the nation. However, a Banking Royal Commission in 1936 declared that responsibility for banking policy (such as lending and interest rates) must lie with the government. It was not until 1945 that those wartime regulations of reporting to the government and, *'monetary and banking policy directed to the greatest advantage of the people of Australia'*, became permanent; incredible wartime industrial development and production was possible. Some Tasmanian farmers still remember how those post-war loans made all the difference and helped them get started. However, from 1953, the powers of the Commonwealth Bank were restricted, *'in order to protect the investments of private banks'*, despite it's then even-handed role as a central bank. The CBA was privatised from the 1990s.

A Public Bank must, I believe, be championed again. A quote from former PM John Curtin,

'If the Government of the Commonwealth deliberately excludes itself from all participation in the making or changing of monetary policy, it cannot govern except in a secondary degree'.

5. Regulation of Pricing for Category 3 and 4 Trade Waste Customers:

I am not privy to the detail of private contracts trade waste customers have negotiated with the government so cannot comment on their pricing or servicing. However, stricter regulation of possible or actual inadvertent discharge of toxic industrial or high nutrient products generated by these customers into the environment is required and should be cleaned up entirely at the actual cost of employing any third party or containment method, to be charged to these Category 3 & 4 trade waste customers. A case in point appears to be the costly need for new salmon hatching ponds due to excessive effluent flow into the Derwent River.

Conclusions

Monopoly provider TasWater's water and sewerage prices in Tasmania have considerably increased over time since its inception in July 2013, while remaining marginally affordable to the end-user. Yet, their early promise of replacing crumbling infrastructure has not come to pass.

Any annual recalculation of consumer charges based on: 'efficient' recovery of the cost of debt; on added actual cost recovery of infrastructure maintenance and development; on increased retail margin to be provided to TasWater; factoring in the 'weighted average capital cost calculation'; significantly increased service introduction charges for landowners of relevant residential localities; and/or transfer of 'risk' for which TasWater be paid compensation - appear to be a price-gouging exercise promoted by third party advisors who may have little connection to the reality of the unaffordable cost of living crisis in Tasmanian communities.

My Submission offers a viable alternative funding model of essential service provision for Tasmania and Australia more widely which is hopefully currently under serious consideration by the Federal Economic Regulator.

I urge the Tasmanian Economic Regulator to consult with his Federal counterpart in order to champion the licensing of a Public Bank, which may establish in post office buildings, using the upgraded internet network that licensed post offices currently offer. This would benefit all parties, offer useful competition to private banks in honouring their service charter, and provide ongoing equity returns to communities for improved essential service infrastructures and affordable pricing models.

However, since this may require up to two years to instigate the transition to public banking facilities, I believe a temporary two year interim price freeze of TasWater's pricing to customers at current levels would suffice for now, despite their preferred five year fixed duration annualised indexing Pricing Plan. Over at least the next two

years I maintain that it is fair and reasonable that service prices remain under the former model of affordability.

Thankyou for your consideration of this Submission.

Yours faithfully

C Lerner