

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 Council on the Ageing Tasmania, Salvation Army, and the Tasmanian Council of Social Service

Meeting date: Tuesday, 28 May 2024

Meeting time: 3:00pm to 4:00pm

Meeting location: MS Teams

About the entities consulted:

- The Council on the Ageing Tasmania (COTA Tasmania) advocates for the rights and interests of older Tasmanians.
- The Salvation Army provides a large array of spiritual and social services throughout Tasmania for people in hardship.
- The Tasmanian Council of Social Service (TasCOSS) acts as the peak body for the community services industry in Tasmania and represents the interest of its members and their service users.

Attendees:

Stacey Milbourne (Salvation Army), John Pauley (COTA) and Stephen Durney (TasCOSS).

1. Extension of the regulatory period

TasCOSS noted there may be benefits of increasing the regulatory period but acknowledged that if the assumptions used to forecast outer-years are incorrect, there could be some adverse consequences. It was queried what safeguards could be build into the framework to mitigate this risk.

The Salvation Army considered it beneficial to have increased scrutiny over the operations of TasWater should the regulatory period be extended to five years so that if any adverse event occurs, it could be picked up sooner.

COTA indicated that a five-year regulatory period would be appropriate for the reasons provided in TasWater's submission. TasWater would be provided with more certainty if the length of the regulatory period was aligned with TasWater's strategic plan.

2. Annual indexation of prices for inflation

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

- if the Regulator could consider a cap on how much TasWater's prices could move as a result of an annual update for inflationary outcomes, relative to the prices set in the determination.
- TasWater is not subject to market pressures in the delivery of its services. If TasWater knew that it could pass all of its inflationary impacts directly through to its pricing to customers, it would reduce TasWater's incentive to look for efficiency gains.

Attendees also discussed the possibility of introducing a framework using a CPI-X formula for annual price resets to incentivise TasWater to continue to look for efficiencies. One attendee further explained that this was because TasWater, as a monopoly service provider that has a legislated authority that requires people to

pay an access charge even if they aren't connected to a passing water or sewerage main, must be subjected to a regulatory regime which encourages efficiency to the maximum extent. If in the CPI-X formula, the X component is set to zero, there needs to be clear and transparent justification for such a decision.

3. Annual cost of debt update

The attendees noted that the method used by the Australian Energy Regulator seems to be fair, where the AER takes 10 per cent of the Regulated Asset Base each year and updates the cost of capital against that asset base. It was agreed that this is a fairer method than TasWater's proposal, which suggests that the total Weighted Annual Cost of Capital would be adjusted each year, not just a portion of it.

In addition, attendees noted that the Regulator currently uses a 10-year moving average for TasWater's weighted average cost of debt calculation and considers that there will be a lag between the changes in the interest rates within the year and the changes in the calculated cost of debt.

Attendees further highlighted that it is important to have a discussion around what is the appropriate measure for both the equity return sought under the WACC and the debt indicator used. Again, as a monopoly provider with the legislated authority to apply commercial rates for both equity and debt, TasWater could be overestimating its risk profile resulting in higher than necessary returns.

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

Attendees noted that, given the community groups they represent, they held no strong views on this proposal.

5. Whole-of-system outcomes

Attendees noted that many of the outcomes from whole-of-system investments could potentially be considered as community service obligations. It was further noted that TasWater is already required to comply with environmental regulations for its water and sewerage operations.

Attendees further noted that they are generally not supportive of the whole-of-system approach proposed by TasWater. It was considered that if an investment is not the least-cost solution for TasWater, but that broader benefits could be obtained from the investment, a beneficiary pays system should be put in place rather than the costs being borne by all TasWater customers.

In addition, attendees noted that where a non-traditional investment will have broader benefits, the Board of TasWater should seek Government funding for the project.

The attendees expressed that TasWater should be very mindful of the costs that are passed on to customers. With many in the community already struggling with the cost of living, any additional costs passed on to customers can have a large impact.

Attendees further noted that most of the costs of water are fixed charges. Even major changes in use result in limited cost savings to consumers. As such, those on lower incomes will almost certainly be paying a larger share of their income for this essential service. As such, costs must be kept as low as possible and the operations of TasWater must be kept to the highest level of efficiency. If there are community service obligations beyond the legislated environmental standards that TasWater is required to meet, those obligations should be explicitly funded to keep user costs as low as possible. Attendees also considered there was a need to be ever vigilant that the environmental regulations placed on TasWater do not exceed what is needed to deliver drinking water and remove and treat wastewater.