

ISSUES OUTSIDE THE SCOPE OF THE INVESTIGATION

A number of submissions on the Economic Regulator's Draft Report raised matters that are either:

- outside the Economic Regulator's control;
- not within its legislated responsibility to address; or
- relate to matters of State Government policy.

These issues are discussed in this section to recognise that they were raised during consultation on the Draft Report.

The Economic Regulator will also advise the Treasurer and Minister for Primary Industries and Water that these issues were raised during consultation on the Draft Report.

Affordability

In his submission, Mr Bob Harder referred to the increase in his water and sewerage bills over the last ten years. Mr R Manson's submission referred to excessive water and sewerage bills while TasCOSS also raised concerns about the impact of the proposed price increases particularly for customers on fixed or low incomes.

Discussion

The issue of affordability involves consideration of a range of socio-economic matters and is the State Government's responsibility. The Economic Regulator also notes that a concessions program is already in place for the industry and the level of concession is a matter of government policy.

The Economic Regulator is, however, required to take into account the impact of price increases upon customers whilst ensuring that TasWater is financially sustainable and able to fund the investment needed to address issues in relation to drinking water quality and environmental and dam safety compliance.

Consistent with this obligation, the Economic Regulator has approved maximum prices each year to manage the impact upon customers.

The Economic Regulator's legislated role is to ensure that water and sewerage pricing is rational and equitable and is reflective of efficient costs. The Economic Regulator's role is not to make water and sewerage less expensive; rather it is to ensure outcomes that reflect efficient operations in a competitive market.

It should be noted that current average water and sewerage prices in Tasmania are amongst the lowest in the country (although it is acknowledged that there is a significant degree of variability within this average).

Tasmania generally does not have significant issues in sourcing water. However, this does not mean that water and sewerage prices should, therefore, be lower than the rest of Australia. The majority of the costs of providing water and sewerage services are fixed and are associated with the network and its supporting infrastructure, not in sourcing water. Given this, Tasmania's small and dispersed

population and its topography are likely to mean that some of the costs of providing water and sewerage services may be higher than in some other states.

Dividend payments to council owners

In his submission Mr Harder argued that publicly owned corporations such as TasWater did not need to pay large dividends to owners particularly as councils did not own the water schemes in the first place (ie the schemes were paid for by the users and, in some cases, by government grants).

Discussion

Dividend payments are not a matter within the Economic Regulator's control.

Dividend payments are determined by TasWater's Board in line with the requirements of the *Water and Sewerage Corporations Act 2008*. The Economic Regulator has no role in relation to the administration of this Act. Accordingly, it is not appropriate for the Economic Regulator to comment on level of dividend payments TasWater makes to its owners. Ultimately, it is up to TasWater's Board to decide how funds are to be spent including deciding whether dividends will be paid.

However, the Economic Regulator is responsible for determining TasWater's MARR and has applied a building block approach to making that determination. Under a building block approach TasWater's costs are summed to arrive at the maximum amount of revenue TasWater is able to earn from its regulated activities. As required by legislation, the resultant MARR allows for a return on capital (the WACC). The MARR also incorporates a return of capital (regulatory depreciation) and includes annual allowances for Opex and Capex provided that proposed capital expenditure is both efficient (ie the expenditure represented the lowest cost means of achieving the desired outcomes) and prudent (ie it was necessary to incur the expenditure). The Economic Regulator also appointed an independent expert to review TasWater's proposed capital program in line with these requirements.