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14 November 2017

Mr Joe Dimasi  
Office of the Tasmanian Economic Regulator  
GPO Box 770  
Hobart TAS 7001

Dear Mr Dimasi,

**TASWATER PRICE AND SERVICE PLAN 2018-21**  
**Schedule of Fees and Charges**

We refer to the above and the prospective review of fees and charges for the 2018-2021 period.

As an informed customer who is involved in the industry, we would like to bring to your attention several matters as areas for assessment in your review that require full and proper consideration to take in their nuances.

We would like to particularly focus on a couple of issues on which we have specific knowledge and which require close attention. These matters are:-

- Trade Waste Management
- Calculation of Equivalent Tenements for sewerage services.

We believe that TasWater should be specifically required to answer the following questions on Trade Waste:

- a) Does TasWater comprehensively understand what each Sewerage Treatment Plant (STP) can safely process in relation to volume and material?
- b) If TasWater do not comprehensively understand what they can safely process at their STPs, how can they accurately & fairly charge their customers?
- c) What historical data does TasWater have in relation to STPs and their individual capabilities?
- d) What relevant data has TasWater used to formulate methodologies with relation to the determination of Trade Waste requirements for business and the calculation of Equivalent Tenements (ETs)?

e) Can TasWater safely process the equivalent amounts that they are charging for?

These fundamental questions need to be answered by TasWater as they will reveal the weaknesses in their arguments and their pricing regime and mechanism, where the consumer is taking all the risk and investment, and receives no benefit.

## **Trade Waste Management**

In relation to Trade Waste Management, there are specific trade waste best practice principles. We believe that TasWater fails to adopt many of these principles.

In 2002 the Victoria Water Authority in partnership with the Environment Protection Agency (EPA) created a practical tool in relation to trade waste management and best practices (*Best Practice Trades Waste Management by Water Businesses 2002 EPA Victoria, The Victorian Water Industry Association*). This document took over 18 months to prepare and serves as a guideline. It consists of practical and up-to-date frameworks and practices in relation to successful management of trade waste. After reading through this comprehensive document, along with many others in relation to best practice management of trade waste, we would like to highlight the following areas where we believe TasWater is mismanaging trade waste, and to question why it has chosen not to implement some of these frameworks and practices:

### **a) Creating Production Programs**

Creating meaningful, affordable and cleaner production programs along with initiatives for customers can reduce the need for significant capital into STPs. TasWater have not thought logically or innovatively in reducing the amount of load that goes into the system. Why hasn't TasWater followed the industry philosophy of 'load into the system equals load out'? Tasmania could have made significant inroads into reducing the load they have to process.

- Victoria Water industry created tools to influence their customers to achieve reductions in their trade waste discharge, such as:-
  - best practice guidelines for trade waste, focusing on water management.
  - cleaner production projects
  - waste minimisation and trade waste management training for the industry.

## b) User Pays

TasWater has conveniently highlighted to its customers that Tasmania does not generally have shortages of water, creating a mentality amongst customers that preserving or reducing water use is NOT a priority. They have further reinforced this by pricing water usage low and not with a user-pays methodology. This is an unacceptable practise and should not be acceptable to the regulator because if they had a philosophy of reducing water usage and user-pays, the loads they would have to process would be significantly less.

City	Price Per Kilolitre	State Water Authority
<u>Adelaide, SA</u>	\$2.35 – \$3.63	<u>SA Water</u>
<u>Brisbane, Qld</u>	\$2.658	<u>Queensland Department of Energy and Water Supply</u>
<u>Canberra, ACT</u>	\$2.60 – \$5.22	<u>Icon Water</u>
<u>Darwin, NT</u>	\$1.907	<u>Power Water</u>
<u>Hobart, Tas</u>	\$0.9711	<u>TasWater</u>
<u>Melbourne, Vic</u>	\$2.5877 – \$3.7494	<u>South East Water</u>
<u>Sydney, NSW</u>	\$2.276	<u>Sydney Water</u>
<u>Perth, WA</u>	\$1.518	

## c) Cleaner production programs, practical tools & guidelines for waste generators

Industry specific examples of waste minimization are all commonly used by water authorities to help educate and assist waste generators in reducing their costs and load on the system. This is considered imperative for the smaller retail operators who can contribute up to 80% of fats into the system and cause up to 30% of blockages in some systems. TasWater has been negligent and lazy with this aspect of trade waste management. Its current program of handing out infringement notices and notices for upgrade of systems to small retail operators is clearly a lazy, unproductive approach and is unacceptable. TasWater is not providing its customers with viable solutions. The problem has been amplified over time because of TasWater's inactivity in implementing commonly available best practice solutions and principles.

- TasWater's education in the community is completely lacking. Nowhere has the organisation promoted the basic trades waste generation principle hierarchy: avoidance, reuse, recycling, recovery of energy, treatment, containment and disposal.

**d) Best practice business drivers**

“Where treatment plants upgrades are being considered, it may be more cost effective to work with trade waste generators to reduce discharge loads, rather than invest in treatment plant capital” (*Best Practice Trade Waste Management By Water Businesses, 2002 EPA Victoria & The Victorian Water Industry Association*).

TasWater only have 22,000 non-residential customers who produce almost half the load into the system and almost the entire heavy load of fats and oils. Why are TasWater not spending time with these customers providing waste minimization programs? Why are they not providing the fat traps and recouping costs back in payment over 5-10 years? These would be innovative and cost-effective ways to reduce the load in the system and assist in getting STPs compliant. These could be done at a fraction of the cost that TasWater is considering spending on capital works. TasWater uses a hammer system and has mindset that ‘Other People’s Money’ can be wasted as it costs TasWater nothing. They lack a proper understanding of customer and utility business and the objective of what is for the greater good.

**e) Customer Consultation**

TasWater have shown inadequate customer consultation with their lack of understanding of the task at hand. TasWater half-heartedly consulted key stakeholders and customers on issues such as “service standards, investment decisions, tariffs & pricing and service trade-offs”. This poor effort is offensive and self-serving. The fact they are managing an essential piece of infrastructure that has significant environmental and community consequences for this state, apparently without looking at world’s best practice or even accurately copying successful programs and frame works from other water authorities within Australia is a slap in the face for all Tasmanians. The consultation with customers who have a poor understanding of water usage or trade waste culture is a complete waste of time and money. To believe Tasmania’s water and sewerage management is not in crisis is sticking your head in the sand. The fact that TasWater has not utilized readily-available industry-specific information, one must ask the question “Why haven’t they?”

**f) Customer segmentation**

According to our research, TasWater’s current grouping of customers and the actual loads they are placing on the system does not correlate in any way to what they are paying for. You need not look any further than what a residential customer pays for in water and what they actually use. Trade waste customers are not accurately assessed in the load volumes and types they are placing on the

system. They are charged wrongly and unfairly by TasWater as they are assessed on the amounts they could *potentially* place on the system. Luckily we are not charged this way when we go to a restaurant or bar and are charged for what we could potentially eat or drink. Why are TasWater not applying standard discharge methodologies to waste and trade waste? It is accurate, it is used by many other water authorities, they have the information on hand and it would be fair and equitable way of charging the user.

**g) Planning for future**

As highlighted in State of the Industry Report 2015-16, high trade waste continues to impact on STPs, resulting in TasWater issuing infringement notices (to upgrade their systems or processes) to customers. This is a not a viable solution and is not affordable for many of the smaller retail customers. TasWater need to stop issuing notices and utilize best practices and frameworks available that have been proven effective by other water authorities. They need to begin operating using information that is specific to and data driven for their industry. Forecasting ridiculous capital spends on upgrades to STPs and infrastructure without first looking at the source of the problem (i.e. actual load) is poor business sense and would not occur in any sort of half-successful organization. What also cannot and would not happen in any other organization is the constant crying poor and seeking of Federal & State funding, whilst guaranteeing owners a set profit and dividend each year. This type of behaviour is disingenuous and should be stopped by the regulator.

**Equivalent Tenements**

An area which needs to be totally reviewed by the regulator is the calculation of Equivalent Tenements. The system and calculations are being ‘gamed’ by TasWater which is being lazy and inaccurate in their methodologies and in their philosophies generally. The average usage of a residential connection in Tasmania is 176kL. Why is an Equivalent Tenement not this figure instead of 200kL? Why are we not paying for what we use? Would this occur or be accepted in any other industry or business environment especially when the tools are already in place to be significantly more accurate in charging?

A fundamental flaw in the calculation of ETs is the principle of the measure of the load a property places on the sewerage system. The starting point is “an average” residential

property which was allocated an annual average output of 200kL. This was then the base measure for other property categories. The assumption was that when applied to sewage services there was a relationship between water-in and water-out.

In reality, the average annual consumption of residential properties was 176kLs in 2015-16, this is the figure for consumption, the figure of load going out if we use the commonly applied 85% Discharge factor model for residential, would bring the figure down to 149kL. This clearly highlights the fact there is no relationship between the ET 200kL load we are being charged for and the actual average residential load being placed onto the system. This is a fundamental flaw in the current Equivalent Tenement methodology. Another critical flaw is the use of categories and the determination of categories average loads against measures such as gross floor area.

The principle of using the floor area of a property to calculate the number of ETs has clear short-comings and, from our extensive research, does not correlate in any way to the actual load a property places on the system.

The data used to do the calculation is sourced from multiple databases and methods. There should be a sound, preferably single, consistent basis of doing such calculations to ensure there is fairness across the whole charging regime.

It is not uncommon for there to be multiple uses within single buildings, some of which generate a load on the sewerage system and others that have nil affect. Moreover, the density of human occupation will always be different; some properties having high occupier density (e.g. call centres, hospitals etc.) while others are sparsely occupied (e.g. executive office suites). The number of occupants (or, more importantly, load on the system) will vary markedly, as will discharge quantities based on floor area.

Our own analysis across a range of our properties, shows that ETs calculated on the assumption of 200kLs per ET, compared to actual consumption, vary as much as 59.4ETs to 23 ETs, 28.4ETs to 4.2ETs, and 42.1 ETs to 3.5 ETs. These are some examples that underscore the gross overcharging that is occurring.

The shortcomings of the methodology cannot be ignored any longer. Since we highlighted to TasWater our own current situation of gross overcharging for office space you will notice that TasWater has made amendments to the Pricing proposal 2018 to 'BE04 – Office' changing it to Discharge factor model of 95%. While this is great for our business as our ET count will be reduced by over 300 ETs, it also highlights what a farcical model this is and how grossly overcharged we, along with the rest of TasWater's

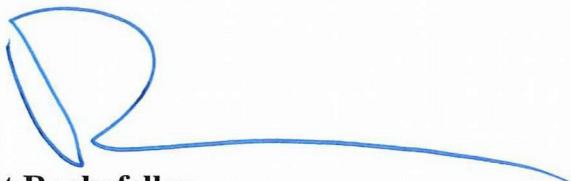
customers, have been. Why are they not applying a Discharge model across the board? Why are they only applying it to the two organizations that have brought to regulators and their attention that the methodology is flawed and grossly inaccurate? Because they are overcharging and misleading their customers with the farcical methodologies and categories, they are then being sufficiently vague about how the pricing system works so that customers do not understand or question it.

The current methodology should have never been allowed to be implemented and if it is thoroughly investigated as to what loads customers were charged for compared to what loads they actually put on the system, the results would be scandalous. In the case of our office space category, we have been charged close to \$200,000 *per year* more than what we would have if they had used the actual loads we placed on the system i.e. Discharge factor. The information is all available. It is used interstate to calculate ETs. It is used for Trade Waste, why can't it be used for ETs? Mostly likely it is because TasWater is lazy and trying to protect its revenue for the shareholders. If they changed this calculation you would get a higher volumetric charge and a lower fixed charge, which will make a fairer and more equitable system. It will benefit the low-income household. It will be a better system and make TasWater work harder to be more efficient. It will place the dividends of the shareholders under more pressure. It will raise the "Vision" of the organisation and commit it to inventing the future instead of making excuses because of the past. We have also looked into other categories such as supermarkets, shopping centres, retail shops and warehouses and found absolutely no correlation between load on the system and the ETs they are currently being charged for. TasWater's Equivalent Tenement methodology charging system is a calculated and a deceptive rort. The regulator needs to enforce change.

We are more than willing to meet with the regulator to discuss our submission in more detail if you desire. We thank you for the opportunity to allow us to make a submission

**Yours sincerely**  
**NEKON PTY LTD**

**Per:**

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

**Robert Rockefeller**

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