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Glenn Appleyard
Chairman, Tasmanian Economic Regulator
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Dear Glenn

The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to comment on the Tasmanian Economic Regulator's (hereafter, the Regulator) *Draft Report* on its 2012 *Price Determination Investigation – Regulated Water and Sewerage Services in Tasmania*.

TasCOSS is the peak body for the Tasmanian community services sector. Its membership comprises individuals and organisations active in the provision of community services to low income, vulnerable and disadvantaged Tasmanians. TasCOSS represents the interests of its members and their clients to government, regulators, the media, and the public. Through our advocacy and policy development, we draw attention to the causes of poverty and disadvantage and promote the adoption of effective solutions to address these issues.

Our interest in the current price investigation for water and sewerage services lies with the essential nature of the services and their contribution to increasing cost of living pressures on low income Tasmanian households.

We have followed the reform of the Tasmanian water and sewerage services sector closely in recent years and have made a number of submissions to the Regulator, the water and sewerage corporations and to the Tasmanian Government throughout the reform process. We have consistently maintained that Tasmanian consumers should not be expected to fully fund the infrastructure required to allow the corporations to meet their regulatory obligations, since the need for significant investment is due to years of neglect and poor management by many of the owners of Tasmania's water and sewerage infrastructure.

While TasCOSS does not have the technical or economic expertise to comment on the details of the Regulator's calculations of revenue limits, sustainable revenue levels and so on for each corporation, we will make some general comments on aspects of the *Draft Report*.

Our major concern with this Draft Determination is that it appears to accept the corporations' contention that consumers must pay for the future infrastructure improvements required by

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all three water and sewerage corporations, and to accept the corporations' proposed price path to that end. It also accepts – and, we suspect, builds into the recommended prices – that there will sufficient profits after tax for the corporations to pay dividends to their owner-shareholders.

Dividends

While we understand that the Economic Regulator has no control over the level of dividends that the corporations will pay their shareholders, we would like to take this opportunity to express our belief that **any and all** profits resulting from the prices paid by consumers must be earmarked for infrastructure improvements necessary to meet regulatory obligations.

To support this contention, we cite the view expressed by the Environment Protection Authority and quoted in the *Draft Report* that

... the limit of available funds for capital expenditure is an obstacle to improved compliance and this obstacle is exacerbated by dividend payments to local government owners before the regulated entities are operating on a sustainable footing (where sustainability also includes meeting regulatory obligations). (p 47)

Indeed, the *Water and Sewerage Corporations Act 2008* that governs dividend payments to owners of the water and sewerage corporations requires the corporations' dividend policies to,

require adequate provision to be made for expected future capital requirements and operational expenditure before the payment of any dividend to members
Part 2 Division 5 - 32(2)(d)

What the corporations decide to do in relation to payment of dividends to their shareholders is unknown, however, the calculations of the 'Regulated entities' expected dividends' in the *Draft Report* (Table 4.32, p 70) is confusing. The percentage of net profit after tax expected to be paid as dividends appears to range from around 40% (Ben Lomond Water in 2014-15) to around 75% (Southern Water in 2012-13). It is our understanding that all three corporations expect to pay dividends of at least 50% of net profit after tax, according to their Shareholders' Letters of Expectations and their Dividends Policies.

In response to the Regulator's request for comments on 'the appropriateness of the level of forecast dividends', we reiterate our contention that all profits after tax should be re-invested by the corporations to ensure that all water and sewerage infrastructure meets health and environmental regulatory obligations as a matter of urgent priority.

Prices

TasCOSS accepts and agrees with the Regulator's decision regarding a single pricing zone for each corporation consistent with its geographic coverage. However, we hope that in years to come, a single pricing zone across the State may be achieved so that all Tasmanians will eventually pay the same amount for the same services. TasCOSS would like to see this introduced along with the amalgamation of the water and sewerage corporations into a single regulated entity covering the State. We understand, however, that this is not a decision for the Regulator to make.

We note that the tariff structure proposed in the *Draft Report* sees a, roughly 80% to 20% apportionment of fixed to variable charges for water and sewerage services. While this is not ideal to encourage water – and cost – savings, we understand that the Regulator has

allowed the corporations to recover a proportion of fixed costs within the variable cost component. If this were not the case, the proportion would no doubt be even less desirable from conservation and cost-savings perspectives.

TasCOSS questions the decision to allow the recovery of some fixed costs from variable costs. The decision seems to contradict a major aim of Tasmanian reforms in this sector which is to ensure cost reflective pricing. It also loads a proportion of fixed costs onto those not responsible for paying fixed costs, that is, tenants in rented properties.

We note that the Regulator suggests that this is appropriate 'to attempt to moderate demand and enable them [the corporations] to defer demand-driven capital investment, thereby allowing regulatory compliance improvement investment to occur' (p 89). This puts the onus on consumers to both moderate their usage and to contribute more than the cost of water supplied in order to allow past under-investment to be rectified.

Such a decision may be appropriate for this first regulatory period as a transitional arrangement but may not be desirable over the long term.

TasCOSS is concerned with the price path proposed by the corporations and approved by the Regulator in this *Draft Report* for those currently paying under the 'target tariff'. A 10% or \$100 annual increase for water and sewerage services, whichever is greater, represents in our view, unacceptably high cost increases given the increases already experienced by consumers since the reform process began. For instance, under the first Interim Pricing Order (IPO) most customers paid 10% more in 2009-10, then another 5% (compounded) in 2010-11 under an amended IPO and, with a further amendment to the IPO in 2011, 10% or \$100 more (again, compounded) in 2011-12 with the latter (\$100) representing up to a 30% increase in some cases.

The continuation of compounded increases of 10% or \$100 per annum will be very difficult for many low income households to manage, and will be particularly difficult for households in situations where a \$100 increase equates to significantly more than 10% since concessions are set to increase by only 10% per annum.

TasCOSS has argued that, given the vastly different prices paid for these services across the State, the government-funded concession for water and sewerage services should be provided as a percentage of the total bill rather than as a flat rate. This would ensure not only that the concession keeps pace with price increases, but also that assistance provided is equitable across the State.

In the absence of effective concession reform in this area, TasCOSS believes that the proposed increase of 10% or \$100 per annum for those under the target tariffs is too high.

In the case of the Burnie area where the Regulator has agreed to allow prices to increase by 15% or \$75 per annum (for water), TasCOSS recommends that Cradle Mountain Water pay particular attention to hardship issues among affected customers in Burnie.

For customers currently paying above the target tariff in other areas, it is clearly unfair to have them to continue to pay more than is required for two years before their costs are reduced to meet the target tariff.

In the view of TasCOSS it is difficult to justify both the proposed price rises and price freezes in the context of the probability that the councils that own the water and sewerage corporations – many of which have also been responsible for chronic under-investment (and

likely mismanagement in some cases) in this area for many years – will receive dividends funded entirely by customers.

Other matters

TasCOSS agrees with the Regulator's recommendation regarding concessions currently provided to not-for-profit organisations voluntarily by the corporations. While TasCOSS would obviously like to see concessions to not-for-profit organisations continue, we agree that they should be re-organised and funded as openly and transparently as possible.

TasCOSS also agrees with the Regulator's decision that the corporations cannot impose variable costs in a situation where a meter is not installed and working, and that fixed charges be levied as if a meter was installed. We agree with the Regulator's belief that the corporations will have had adequate time by 1 July to ensure that all properties are metered.

TasCOSS understands the limitations placed on this investigation by delays in the issuing of the Pricing Regulations. We see it as unfortunate that a more thorough investigation could not be undertaken for the first three year regulatory period. We believe that the delays in settling on prices for these services – including the amendments to the Interim Pricing Order – have caused confusion and concern among many consumers, especially those least able to afford the continuing increases in the costs of water and sewerage services.

TasCOSS urges all of the policy players in this sector, including the Regulator, the corporations, their owners and the Tasmanian Government to remember that water and sewerage are essential services fundamental to health and wellbeing and must therefore remain accessible to Tasmanian households regardless of their income.

We hope our comments on the *Draft Report* are useful.

Yours sincerely

A handwritten signature in black ink that reads "Tony Reidy". The signature is written in a cursive, slightly slanted style.

Tony Reidy
Chief Executive