

16 April 2012

Office of The Tasmanian Economic Regulator
GPO Box 770
HOBART TAS 7001
Email: office@economicregulator.tas.gov.au

Dear Sir/Madam,

Water Consultations 2012 Submission on behalf of Colonial First State Global Asset Management

Urbis has been retained by Colonial First State Global Asset Management (CFSGAM) to advise in relation to the pricing and service plans put forward by Tasmania's three water corporations being; Southern Water, Ben Lomond Water and Cradle Mountain Water.

While Urbis has considered all of the pricing and service plans in a general sense, our review focuses on the submission put forward by Southern Water as both of the CFSGAM shopping centres being Eastlands and Northgate are situated within this region. Our review also considers the equity of the proposed transitional arrangements as they relate to non-residential properties in Tasmania.

By way of background, in 2008 the Water and Sewerage Industry Act (the Act) was introduced into Law, providing a new regulatory framework for Tasmania's water and sewerage industry. The Act is intended to administer the licencing system for the water and sewerage corporations and address the substantial underfunding of Tasmania's water infrastructure with the aim of ensuring a fully funded and sustainable resource.

Historically Tasmania's water corporations have subsidised water services to residential properties. Under the new system the water corporations will apply pricing mechanisms to move to a "user-pays system" to redistribute the rate burden and eliminate the current funding shortfall. To that end, an 8 year transition period (1 July 2012 – 1 July 2020) has been initiated, during which period we understand all corporations will transition to price equity and a full "user-pays system".

In accordance with the requirements of the Office of The Tasmanian Economic Regulator, each of the water corporations is required to prepare a draft pricing and service plan detailing its proposed financial transitional arrangements for the period 1 July 2012 – 1 July 2015.

We note Southern Waters, Price and Service Plan 2012-2015 (S 1.2 - Transition to Price Equity) has the stated goals of:

- Minimising price shocks for customers;
- Introducing two part pricing;
- Commencing the transition to equitable tariffs; and
- Making progress towards unwinding cross subsidies.

Having reviewed the submissions prepared by the three water corporations (Southern, Cradle Mountain and Ben Lomond), we note a “co-ordinated approach” to the transitional arrangements appears to have been adopted as set out in the table below.

Tasmanian Water Pricing Proposals

	Customers Below Target Tariff		Customers Above Target Tariff
	Fixed Charges	Variable (Usage) Charges	Variable & Fixed Charges
Southern Water	Maximum \$50 or 10% increase	Maximum 10% increase	Tariffs to be frozen for 2 years and a 5% reduction applied in 2014-2015
Cradle Mountain Water	Maximum \$50 or 10% increase	Maximum \$50 or 10% increase	Tariffs to be frozen for 2 years and a 5% reduction applied in 2014-2015*
Ben Lomond Water	Maximum \$50 or 10% increase	Maximum 10% increase	Tariffs to be frozen for 2012-2013 then reassess with a view commencing a reduction**

Source : Southern Water, Price and Service Plan 2012-2015; Cradle Mountain Water, Price and Service Plan 2012-13 to 2014-2015; Draft Ben Lomond Water Price and Service Plan 1 July 2012 - 30 June 2015.

**Note current charges are in nominal terms described as a CPI decrease annually.*

*** We note Ben Lomond Water are the only corporation to identify customers above the target tariff as Non-Residential*

What is immediately apparent from these arrangements is the lack of any real intention to wind back cross-subsidisation in the initial 3 year period. Further no specific analysis has been provided relating to non-residential properties.

While we note the requirement to protect the broader residential consumer base from ‘price shocks’ we consider the proposed arrangements do little to commence the transition to equitable tariffs or make progress towards unwinding cross subsidisation, that is a continued reliance by the Tasmanian water corporations on inflated rate charges levied predominantly to non-residential users.

To illustrate the impact of the proposed Southern Water transitional arrangements for non-residential properties we provide the following analysis as prepared by the two CFSGAM centres which compares the existing water charges to that proposed/estimated under the nominated charges for the “user-pays system” if they were applied in full from 2012/2013.

Southern Water - Existing Tariffs vs Target Tariffs

NORTHGATE AND EASTLANDS SHOPPING CENTRE

Target Charges	Northgate	Eastlands
Fixed Water - Target	\$15,414	\$28,901
Fixed Sewer - Target	\$23,974	\$23,052
Variable Water - Charge	\$15,600	\$19,165
Total Target Tariffs	\$54,988	\$71,118
Existing Charges	\$601,200	\$620,301
\$ Variation	\$546,212	\$549,183
% Variation	993%	772%

**Source; Urbis, CFSGAM*

As demonstrated in the above calculations the non-residential properties are unfairly burdened by the existing cross-subsidisation policies (current subsidisation in terms of the two CFSGAM centres is

approximately 722% to 993%). These disparities are completely inequitable and require immediate action.

It is important to note that the current financial burden at the CFSGAM centres (and all other non-residential property subject to net leases) is passed onto retail tenants through the recovery of outgoings and hence the current charges are impacting owners, retailers and ultimately the community.

In our discussions with Southern Water we note that only preliminary modelling has been completed in terms of the further transitional arrangements for the second stage of regulation being the 5 years from 1 July 2015. In these discussions Southern Water indicated its intention to accelerate the transitional arrangements applicable to non-residential property with a view to moving to a "parity level" by the expiration of the regulation period whereby all properties would be charged under the "user-pays system" based on a state-wide pricing policy.

We have raised these issues with the Economic Regulator by phone and now formally request that these matters form part of his current deliberations i.e. providing certainty as to the following requirements:

- The delivery of "parity" by the expiration of the regulation period i.e. all properties must be assessed on a state-wide "user-pays system" by this date; and
- Non-Residential properties to be provided certainty now as to the acceleration of the transition process.

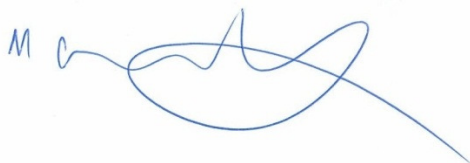
Other negative impacts of the current proposal for the immediate consideration of the Economic Regulator are as follows:

- Creation of a two tiered taxation system whereby older existing developments are charged significantly higher rates than new developments (where new tariffs apply);
- Significant and real impact on asset values with the additional burden of inequitable water rates adversely affecting non-residential asset values; and
- Creates uncertainty with regard to future financial costs adversely affecting the commercial decision making process.

In conclusion we find that the proposed transitional arrangements continue to place a significant financial burden upon non-residential customers and provide no certainty as to application of the further necessary transition post 1 July 2015. Both of these matters must be satisfactorily addressed as part of the current process.

We shall be pleased to provide any further detail if so required and look forward to your response in due course.

Yours sincerely,



Marcus Conabere
Director