

Mr John Feil
Executive Director
National Competition Council
GPO Box 250B
Melbourne Victoria 3001

12th April 2004

Dear Mr Feil

Submission on Tasmania's Water Reform Progress for The 2004 National Competition Policy Assessment .

In preparing our submission for the National Competition Council("NCC") review into Tasmania's water reform progress for the National Competition Policy Assessment 2004 we thought it was appropriate to examine our previous submissions to Messrs Owens, Shadwick, and Ms Cope and state that to date there has been little or no change to the implementation of many of the original COAG guidelines by the Urban Bulk Water Suppliers as well as retailers in Tasmania. We attach our 2003 submission and state that the issues which were suppose to be addressed and committed to from our 2002 submission and stated in the NCC 2002 assessment have still not been implemented by the State and some Local Governments and were effectively a means to stall reform and hope the issues would be forgotten. We recommend that the NCC goes through their files and review these commitments made by the State and some Local Councils in 2002 . It should also be noted that the 2003 assessment failed to address these issues.

The original intentions of the NCC have been severally undermined in Tasmania and little or no benefit has been delivered to the State from the COAG urban water reforms.

It is our opinion from previous discussions and submissions that the NCC accepts the claim that the original Corporatisation Public Benefit Test 1999 for water and sewerage businesses were anything but rigorous and in fact were severally compromised. In addition many of the cost benefit analysis studies into two part tariff pricing were also less than robust in their modelling for many areas of Tasmania.

Consequently given what happened in the past and the size of the Tasmania economy and the issues confronting it compared to the rest of Australia in terms of water and it's importance their is little wonder why we have the situation in Urban Water usage and pricing in Tasmania. The issues which the NCC is trying to address in the 2004 Assessment in most instances are not relevant to Tasmania because Tasmania is still at first principles and the rest

of Australia has moved on. Effectively Tasmania has been left behind in relation to micro economic reform of the urban water and sewerage industry. Can the NCC really say this is a good thing?

It might be argued that this submission does not deal with what is the 2004 Assessment Framework. However we believe that on careful analysis you will identify the issues and determine how the NCC can ensure they are dealt with.

The Current Framework and Why it Does Not Work

While the NCC framework states that it is reviewing the Tasmania institutional framework we believe the review is not going far enough. At present there are 3 bulk water suppliers in Tasmania. These 3 bulk water suppliers are owned by the local councils in the respective region. These councils retail the water and sewerage for their municipality. They then receive each year a dividend from the bulk water authority depending on the quantum of water they purchase from the bulk water authority. Their voting rights are determined on a similar basis. The bulk water authorities are regulated by GPOC. The Government Pricing Oversight Commission. They only regulate the wholesale price of water. No one regulates the retail price of water or the price of sewerage.

What was originally suppose to happen in Tasmania was when the Councils received shares in 1997 in the bulk water authorities the Councils were suppose to transfer their interests in the retailing of water and sewerage to the bulk water authorities . Consequently economies of scale would have been created and an integrated supplier of water and sewerage would have been established. Not dissimilar to the situation in most other States. Consequently GPOC would have been able to regulate these integrated authorities and been an effective regulator. Compared to now, where it only regulates the wholesale price of a commodity. It should be noted that London Economies did a major review of these issues in 1995 and said the savings would be huge to ratepayers and the State of Tasmania if their were integrated water and sewerage authorities .

Presently GPOC is regulating the wholesale price of water and has over the last 3 years been increasing the fixed component of the price of water. **GPOC is ensuring that no price signals are being sent to the retailers or consumers to conserve water.** They are continually increasing the fixed cost each year and reducing the variable component. At the recent Federal Government Water Initiative briefing in Hobart, Cradle Coast Water (a bulk water authority) said this pricing policy was ridiculous but GPOC will not listen.

In Southern Tasmania of the 7 Councils which are supplied by Hobart Water 2 councils have installed water meters. These 2 Councils did not have water restrictions yet all the others had water restrictions even though Hobart Water (the bulk water supplier) said there was plenty of water. As you can perceive from this submission there is a game going on and the regulator is

assisting the game. Southern Tasmania has one of the highest water consumptions in Australia, yet it still has water restrictions even though they are not required. Consumers who try and conserve water obtain no benefit. GPOC does not assist Councils who try and implement water saving policies which are espoused by COAG.

In addition how can GPOC price water effectively when they do not know the real demand as it is reduced each year by artificial water restrictions. These restrictions have absolutely no basis.

GPOC should be taking a serious look at their pricing methods. They should be pricing water like an oil refinery. Oil refineries do not use a fixed price method. They charge on a variable basis. Both businesses have a high fixed component. Oil refineries and water suppliers know people use a set amount of the commodity. It is even easier for a water supplier as they are a monopoly and not competing in an open market. Therefore they price accordingly. Therefore parties which reduce water consumption obtain a benefit. Currently the system ensures the opposite. This is one of the reasons larger Councils stick together and not put in water meters .

In addition because GPOC does not regulate retailers in Tasmania few if any Council actually estimates or calculates their CSOs. They perceive water as free. Is this really how the NCC wants urban water reform to work. Tasmania deserves better. These issues have only perpetuated on the NCC watch which is a real shame. The current audit compliance by GPOC of local governments with State Government imposed obligations on full cost recovery is an absolute joke for water and wastewater services. Some of the reasons are outlined above such as fake water restrictions, no CSOs, incorrect pricing to major water users(to be discussed below) as well as methods used to allocate water(to be discussed below).

We would be happy to meet with the NCC at a convenient time to explain these comments in more depth.

The Current Pricing Regime in Southern Tasmania for Water

It is important to have the real facts before reviewing and commenting on the pricing regime in Tasmania for water and wastewater and not distilled information which does not show what is really happening .The attached chart compares the 4 major councils in Southern Tasmania. (it should be noted this should not be my role in compiling these documents it should be GPOC to look behind the numbers and question what is really happening).

All 4 councils buy water from Hobart Water. All 4 councils allocate water on a different per KL rate for each \$1000 of AAV (assessed annual value). The highest being Glenorchy at 75 KL per \$1000 of AAV and Kingborough at 23 KI per \$1000 of AAV. The net water allocated pursuant to the AAV for Clarence is 9,640 ML, Glenorchy 12,883 ML, Hobart 20,904ML and Kingborough 1,723 ML yet the actual water used after deleting special/excess water users was

8,225 ML for Clarence, 8,848ML for Glenorchy, Hobart 10,781ML and Kingborough 3,688 ML.

Now what does this mean. Well in the case of Clarence it over allocated(did not supply) by 1,415ML, Glenorchy 4,033 ML, Hobart 10,781ML and Kingborough under allocated (over provided) by 1,964 ML. These are all owners of the same bulk water authority, they are all regulated by GPOC and the consumer is all supplied the same water.

This same chart also shows the alarming consumption of residential households at an average of around 460 KL per annum for these 4 councils. Yet the 2 councils which have water meters and are supplied by Hobart Water there consumption is more than 30% less per household. Yet they receive little or no incentive for this because of the pricing policies implemented by GPOC. Go figure this. Was this type of pricing mechanism really one of the objectives of the COAG agreement.

Pricing for Special Consumers and Impact on CSOs and Audits

The Urban Pricing Guidelines have been manipulated by some councils and GPOC have not been diligent in the conduct of there audits. The lack of transparency of CSOs have already previously been mentioned in submissions but is highlighted by the following statement from a Glenorchy City Council into water pricing for special consumers. This is not the only Council in Southern Tasmania who uses these methods.

The attached document "Water Pricing for the year end June 2004" prepared by Simon Bamford dated 10th June 2003. This pricing method is for special consumers which use say 2,000 ML of water per annum . These consumers use excess water day in day out . On page 13 at the bottom of the page labelled 1 the following is stated

"Hobart Water charges Council for Special Consumer water consumption on the same 2 part tariff structure as normal consumers. However, Councils charge structure for Specials is purely consumption based with no fixed component. **This means that if consumption by Special Consumers falls Councils proportional return on Water costs also falls, as the fixed component is constant.**"

Therefore the special consumers pick up no fixed costs. The question is why not. They are using the water all the time. They should be picking up their fair share. The same is for excess water users as all excess water users are businesses and metered and use water as part of their business. If Local Councils want to charge for water this way then the very least they should be, is transparent and allocate it to a CSO which they do not. Furthermore when GPOC does their audits these issues are not addressed. How can you price accordingly and ensure they are getting a fair return on assets. GPOC should have to go behind the numbers not treat them as face value.

Some may argue what does this mean. For example water and sewerage charges work out to \$10 per KL in Glenorchy for shopping centres. They can be over charged by up to \$400,000 per annum. That means that the tenants, property owners and shoppers are subsidising these large(special) water users. Is that fair or reasonable or at the very least it should be transparent?

Do CSOs have an explicit public benefit objective? Are they clearly defined, transparently reported and directly funded, with the cost fully disclosed?

In Tasmania we can guarantee the NCC that the answer is negative on all accounts for all Councils.

Institutional Role Separation

We attach a press release from the Hobart Water authority about water restrictions. It should be noted Hobart Water did not have water restrictions yet they are announcing them . Note, not even all their shareholders had water restrictions only the Councils who do not have water meters. These councils put them in place to minimise usage for budgetary reasons given many do not have water meters. As you can appreciate it is not in the bulk water authorities interest to limit supply when they have plenty of water to sell. Then who is controlling who. If this authority came under the Trade Practises Act then it would be in contravention of the TPA as it is not acting in the best interests of consumers. Some could also argue collusion and misuse of market power. The shareholders actions would also be questioned as they are limiting supply when there is no need. Unfortunately it is excluded. The front of the message says

“Following is a press release advising that stage 1 water restrictions will commence at 12 midnight on 30th November 2003 in the municipalities of Hobart, Clarence, Kingborough, Glenorchy and Derwent Valley”.(It should be noted that Sorrell and Brighton which are shareholders of Hobart water did not have water restrictions)

The point of this is who is in charge. Is Hobart Water actually acting independently. Should the roles not be separated. Hobart Water the bulk water supplier is being manipulated by it's shareholders who are acting in self interest not what is in the best interests of Hobart Water or Tasmania. Institutional Separation is essential in Tasmania. The current framework is little short of the asylum being run by the insane. Governance should be at a significantly higher level in Tasmania.

Summary

The following was our summary to our 2003 submission. Unfortunately it has not changed.

Water reform and the commitment of local government to the principles of NCP is sadly lacking in Tasmania. Fundamental NCC issues are not being addressed. The issues of water reform in Tasmania are significantly different than in most other States because local councils are the retailers of water and sewerage as well as being owners of the bulk water supplier. The Rules of Engagement need to be significantly different by the NCC in Tasmania to handle these problems and overcome the structural resistance to change. As was recently quoted to me "Reform Delayed is Reform Denied".

We desperately need the help of the NCC before your involvement ceases in 2005.

We are willing to meet the NCC at anytime to discuss these issues in depth and illustrate to you the problems and outline the solutions time is running out.

Yours truly

Robert Rockefeller

