

## DRAFT SECOND READING SPEECH

HON. PETER GUTWEIN MP

### *Water and Sewerage Tasmania (Consequential and Transitional Provisions) Bill 2017*

*\*check Hansard for delivery\**

Madam Speaker

This Bill is cognate with the *Water and Sewerage Tasmania Bill 2017* which is currently before the Parliament and contains a further set of measures to implement the Government's plan for reform of Tasmania's water and sewerage industry.

Households and businesses have experienced very significant price increases for water and sewerage services over the past decade. The Government fully understands the impact of these price increases, especially for households under financial pressure.

The Government considers that further price increases should only be needed to the extent that they are necessary to ensure customers receive acceptable water and sewerage services and the industry meets its environmental, public health and other obligations.

Madam Speaker, the current regulatory arrangements require the Tasmanian Economic Regulator to approve a level of revenue for TasWater that reflects a return which a commercial business would expect under competitive conditions. This includes a commercial rate of return on its assets.

It has become clear that this model of economic regulation is not appropriate for a business that will be required to invest at a substantial rate to meet its environmental and other obligations in the decade ahead.

As it becomes more capital intensive in the decade ahead, the business would under the current arrangements be allowed to earn significantly more revenue to provide returns to its owners, which would result in unacceptably large price increases to its customers.

It is unfair to expect Tasmanian households and businesses to face unnecessarily large increases in water and sewerage charges because the investment needed to meet environmental and other obligations is allowed to earn a commercial rate of return.

TasWater recently submitted its draft price and service plan for the third regulatory period. TasWater has recommended price increases of 4.6 per cent each year for the three years from 1 July 2018.

The Government considers that Tasmanian households and businesses should not have to face price increases around twice the likely rate of inflation.

As I explained in my Second Reading Speech in relation to the *Water and Sewerage Tasmania Bill*, TasWater has been providing generous returns to its owner councils, including \$30 million in 2015-16 and 2016-17.

Councils have been benefitting from price increases to TasWater's customers. In 2016-17, for example, for every \$100 TasWater collected from its customers, \$10 was passed on to its owner councils.

The current regulatory model, which allows large price increases that benefit the owners, is not in the best interests of the Tasmanian community. These interests are best served if the Government implements its policy of limiting price increases for water and sewerage services to between 2.75 per cent and 3.5 per cent per year.

The Bill amends the Water and Sewerage Industry Act 2008 by transferring responsibility for pricing in Tasmania's water and sewerage industry from the Tasmanian Economic Regulator to the Treasurer.

The new arrangements for price regulation will apply to the new Government Business Enterprise, to be established under the *Water and Sewerage Tasmania Act 2017*.

A price determination investigation is currently underway, following the recent submission by TasWater of its draft price and service plan for the three years from 1 July 2018.

The Bill allows the current investigation process by the Regulator to continue, with some changes, as a price and service plan investigation. The draft price and service plan prepared by TasWater becomes the submission under the revised investigation.

From 1 July 2018 to 30 June 2021, the new government business will therefore operate under a price and service plan approved by the Regulator. However the pricing component will be outside the control of the Regulator.

Madam Speaker, the Bill requires the forthcoming price and service plan to include a price increase for water and sewerage services of 2.75 per cent in the first year of the plan, and 3.5 per cent per year for the second and third year of the plan.

These increases apply to the vast majority of customers who are currently paying the target prices for water and sewerage services. These are the prices set by the Regulator that are designed to allow all costs to be recovered for the particular services.

The Bill allows the Treasurer to amend the price increases in the second and third year of the plan, on advice from the Economic Regulator. This will enable price increases in those years to be less than 3.5 per cent, if the new business is able to meet its objectives and obligations with a smaller increase in its revenue.

Around 7 500 customers are currently charged prices below the target price, as a result of the very low prices they were charged when councils set water and sewerage charges directly.

Under the current legislation, all customers must reach the target price by 1 July 2020. However, some customers whose current prices are well below target price would face very large annual price increases over the next three years, exceeding 20 per cent in some cases.

To address this issue, the Bill requires the forthcoming price and service plan to set an annual price increase of 7.5 per cent, or \$75, whichever is the higher, for these customers until the prices they face reach the target price.

A small number of customers will remain under the target price by the end of the third price and service plan. The Bill does not set a date when all customers in the same class must face the same prices.

Once the price and service plan is in force, there may be a new Ministerial direction that applies to the government business or requirements in the business' infrastructure investment plan or corporate plan that may not be consistent with the price and service plan. The Bill allows the price and service plan to be amended under these circumstances.

The forthcoming price and service plan will be the final plan under this framework. The Bill establishes a different price regulation regime to apply after the expiry of this final price and service plan. The regime is very similar to the one that currently applies to the Motor Accidents Insurance Board. This model is well understood in Tasmania and has operated very effectively.

This new regime makes the Treasurer responsible for setting maximum prices, which the Government have committed to being in the range of 2.75% to 3.5%, in the form of a pricing order, following a pricing investigation by the Regulator. The Treasurer and the Minister for Primary Industries and Water will set the terms of reference for the investigation.

During the pricing investigation, the Regulator will release a draft report which will be made publicly available and will undertake a consultation process that will include submissions and may include hearings.

The Regulator will investigate the efficiency of the government business' operations and take into account its requirements under the infrastructure investment plan and directions issued jointly by the Treasurer and the Minister for Primary Industries and Water. The Regulator will also assess the adequacy of its revenue to perform its functions and meet its obligations.

The Regulator's final report will contain recommended maximum prices for the range of water and sewerage services provided by the government business. The final report is to be provided to the Treasurer and laid before Parliament.

The Treasurer will consider the Regulator's report and, after consulting with the Minister for Primary Industries and Water, issue a pricing order, which specifies the maximum prices each year for water and sewerage services.

The government business is then required to prepare a price control instrument which will set the prices for these services, which must be at or below the maximum prices in the prices order.

Madam Speaker, this process allows the Government to receive independent, rigorous advice, based on a thorough review of the pricing, investment requirements and the financial sustainability of the government business, and taking into account the pricing principles prescribed in the legislation.

These principles include uniform pricing state-wide, separate charges for water use based on the cost of water supply with no free water allowance and full cost recovery for trade waste services.

These principles were established in earlier reforms of the water and sewerage industry and continue to be supported by the Government.

However, the Bill removes the pricing principle that allows a water and sewerage business to receive a commercial return on its assets, for reasons that I have set out earlier.

The Bill retains many features of the current economic regulatory framework. The Regulator will continue to licence businesses that provide water and sewerage services and remains responsible for setting customer service standards.

The Regulator will also remain responsible for approving certain policies of the government business, including policies relating to infrastructure extension and expansion, connections, service charges, service introduction charges, developer charges, trade waste charges and sub-metering.

It is necessary to amend the Water and Sewerage Industry Act, however, as many of these regulatory tasks of the Regulator are currently undertaken as part of the price determination investigation process. These tasks are now specified in new sections of the Act.

The Bill maintains the current arrangements where the Regulator is required to prepare a State of the Industry Report, to be issued within 18 months before a pricing investigation, or more frequently if required by the Treasurer and the Minister for Primary Industries and Water.

Madam Speaker, the Bill also makes minor consequential amendments to a number of Acts to ensure that references to TasWater are now references to the new government business.

This Bill, in conjunction with the *Water and Sewerage Tasmania Bill*, puts into effect the important reforms to improve water and sewerage services in Tasmania and at lower costs to Tasmanians.

Madam Speaker, I commend the Bill to the House.