LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Thursday 6 December 2012

MEMBERS

Mrs Armitage
Ms Forrest (Deputy Chair)
Dr Goodwin
Mr Hall
Mr Harriss (Chair)
Mr Valentine
Mr Wilkinson

IN ATTENDANCE

Mr Miles Hampton, Chairman, Tasmanian Water & Sewerage Corporation
Mr Andrew Beswick, Acting Chief Executive Officer, Tasmanian Water & Sewerage Corporation (Northern Region) Pty Ltd t/as Ben Lomond Water and Joint General Manager, Onstream
Mr Andrew Kneebone, Chief Executive Officer, Tasmanian Water & Sewerage Corporation (North-Western Region) Pty Ltd t/as Cradle Mountain Water
Mr Mike Paine, Chief Executive Officer, Tasmanian Water & Sewerage Corporation (Southern Region) Pty Ltd t/as Southern Water
Mayor Tony Foster, Chairman, TWSC Statewide Owners Representatives
Ms Carolyn Pillans, Company Secretary, Southern Water and Onstream

The committee resumed at 2 p.m.

DEPUTY CHAIR (Ms Forrest) - Miles, would you like to start?

Mr HAMPTON - Thank you for the opportunity to say a few opening words. We were last before you in December 2010 and much has happened in our space since then. Nearly all of it is good but in a few areas we have not delivered as we would have hoped. Let me start with the positive news. Across the state we have been steadily addressing water quality issues. Plant upgrades, new technology and sometimes just simple things like roofing of reservoirs are making an impact. We have commenced the task of reducing the negative environmental impact of the discharge of treated effluent from our wastewater treatment plants with plant upgrades, new technology and improved monitoring. The risks to customer service from infrastructure failure such as pipe breaks are being addressed and, whilst on a statewide basis the impact to date has been marginal, we are confident that we are building a foundation that will work to improve outcomes. In the financial year just ended we spent in excess of $122 million on capital works. The legislative requirement for the introduction of two-part pricing by 1 July 2012 required the installation of 61 000 meters in properties that were previously un-metered and we upgraded 64 000 existing meter installations. A huge task largely delivered on time and within budget is a credit to our team.

I would like to say we are getting the corporations on a sounder financial footing and we are, but along the way we suffered a setback. The 5 per cent price cap that applied in our first two years created our very own fiscal cliff. Whilst we fully endorse the transition away from the price cap one year earlier than initially planned, it nonetheless created a significant revenue shortfall in the year just concluded. That being said, our finances are being well managed and the transition from the price cap regime aside, we have made considerable progress.

In pricing we have had four main challenges: the gradual withdrawal of the pricing distortions created by the AAV pricing regimes previously applied by councils, the gradual withdrawal of cross-subsidisation between classes of customers, the introduction of universal two-part pricing and the need to increase revenues to enable the corporations to undertake the necessary capital program.

We have put forward plans to address each of these issues and these have been approved by the Tasmanian Economic Regulator in our three-year pricing services plan that commenced on 1 July this year. To demonstrate our commitment to keeping price rises as low as possible we have sought to take costs out of our business with, first, the restructuring of Onstream and second, through the implementation of a CPI minus 1 expense increase objective on a like-for-like basis. I am pleased to report that in FY12 we achieved the targeted outcome and that we expect to do so again in FY13.

In some areas things have not gone quite as well as we would have liked. Over our first two years of operation, bills were often late and sometimes inaccurate. We had no billing system when we started, relying in the first instance on councils and subsequently on a third party provider. The task was extraordinarily complex as we sought to integrate 29 different billing systems into a single system. Further, unforeseen and late changes in pricing caused by government decisions impacted significantly on our billing performance.

From 1 July 2011 we commenced using our new in-house billing system installed within the $3.5 million budget and installed largely on time. Since then both timeliness and accuracy have improved but we recognise that we still have some way to go. However the lateness of bill issuance led to a related problem: the arrears position has been and continues to be unacceptably high. As a result our borrowings are higher than they otherwise should be, causing interest expense to be higher. Equally, our bad debts write-off and our bad debt provisioning is also higher than we would have hoped. However, we are making progress in reducing overdue debtor levels.

At June this year we had 22 750 customers who had debts overdue by more than 90 days, totalling $18.2 million. To put that into context, our annual billing is about $230 million or $240 million. At November just gone, we had reduced the number of customers to 20 475 and the amount of debt that they owed, that is debt beyond 90 days, had been reduced from $18.2 million to $15.2 million.

Another area where performance has not been as we would have hoped relates to our call centre operations. Regrettably, our performance has not been acceptable, with many customers having to wait inordinate periods to speak to a customer service officer. With the benefit of hindsight, it was inevitable that the transition to equitable pricing and the introduction of universal two-part pricing would lead to a dramatic lift in customer queries and 80 per cent of our customer queries have consistently been about billing.

We had anticipated some of the increased demand but our additional resources were unable to deal with the tidal wave of customer contact that swamped us as each new change was implemented. We have sought to overcome the bottleneck with new technology, increased staff numbers in that area of our businesses and more comprehensive training. We expect that the number of calls will gradually diminish and response times will improve as our customers fully understand the approach we are taking to billing. Indeed, over recent months there has been solid evidence of improved outcomes.

We have also not achieved as much as we would have hoped in developing a safety culture across our businesses. We always knew that this would be a major task, but it is proving even more challenging than we had anticipated. Despite a massive investment in, and commitment to, training, we are nonetheless struggling to secure acceptable safety outcomes. Our effort in seeking to ensure safe workplaces and safe work practices will remain a key priority across our businesses.

Finally, we have not done as well as we would have liked in engaging with communities and customers who may be impacted by our projects. We have not consistently engaged in the dialogue with affected customers to ensure their concerns can to the maximum extent possible be taken into account in formulating our way forward. We have sought over recent months to address this shortcoming and have developed a requirement for active engagement with all stakeholders at the commencement of project planning, not towards the end.

Before inviting questions I would like to address one issue that the boards of the four corporations see as extremely important. I have raised the issue in other forums but I would like to take advantage of this opportunity to raise it again, and that is the issue of affordability. When the four corporations were established there was a widely-held expectation that we would be fixing all the problems, delivering an appropriate economic return, paying our owners a reasonable dividend, and that whatever the required increase in revenues was it would be secured by increasing charges to our customers. There was a broad expectation at the time it would be necessary to increase our revenues by 10 per cent per annum, compounding, for 10 years. With that level of increase, the average customer could be seeing an increase in charges over that period of 250 per cent, whilst at the extreme - and remember some of our customers are paying well below average charges - some customers in the community would be facing increases in the order of 600 per cent. Recognising that such an impost was simply not acceptable in any community, let alone a community struggling with cost-of-living issues, the boards, with the support of our owner councils, recommended to the economic regulator revenue increases of the order of 6 per cent per annum compounding over the next three years - that is, the three years that started in July this year. However, even if we managed to keep the annual increase in revenue requirement at 6 per cent over the next 10 years, the increase in charges to the average customer would be approximately 100 per cent, and at the extreme it would be 400 per cent.

The three key drivers of our need to increase target tariffs are the rate of return required from our assets, the capital program and the dividends paid to our owners. Put simply, if we do not find a compromise, we will inevitably face the kinds of increase I have suggested. The owner councils, the regulators, the state government and the board of the new single corporation will, in my view, as a matter of urgency need to engage in a dialogue about what can be done to keep tariff increases to an acceptable level. It would be an incongruous situation for Tasmania, with 12 per cent of Australia's water resources and only 2 per cent of Australia's population, with no fear of water shortages, to end up with amongst the most expensive water in Australia.

The challenge has at times been overwhelming but through the hard work of our teams much has been achieved. Nonetheless, the task ahead remains huge but I am confident that a solid foundation has been laid for the new single Tasmanian Water and Sewerage Corporation. My colleagues and I would be happy to respond to any questions you may have.

[2.15 p.m.]
DEPUTY CHAIR - Thank you, Miles, you have been fairly frank there on some of the challenges and we, as elected members, know because people come to us as well as your call centre, and we throw them onto some other people, as we should.

To start off, I accept your comments about the challenges you face, particularly with your billing that has been a problem, but the management of the debtors has obviously been a challenge and I am interested to know of some of the strategies you are putting in place to deal with that. But effectively, as you say, it is impacting on your capacity to meet your need for capital, and your operating capital clearly doesn't cover your capital outlay at the moment, so increasingly you need to borrow for your investing outlays.

How long can you continue borrowing? I know that Cradle Mountain Water has set the limit and has had an extra injection of capital from the government. I think we have looked into the future a little bit, as a collective of one corporation; at what point will you reach the borrowing limit?

Mr HAMPTON - I might deal with the second part of your question and I might ask my colleague, Andrew Beswick, to talk about the billing.

In relation to our borrowing capacity, yes, today Cradle Mountain Water's debt to equity is about 30 per cent. Ben Lomond Water's is about 6 per cent and I think Southern Water's is about 16 per cent. What is an acceptable level of debt for a corporation in this space? It is probably somewhere in the range of 30 to 40 per cent, but preferably closer to 30 per cent.

If you look down 10 years at the current level, and the level of borrowing that is envisaged, we would end up at about 33 per cent in 10 years' time. So on a merged basis, Cradle Mountain Water will run out of borrowing capacity very quickly. Is that an acceptable level of debt? In my view it is, however, the flow-on effect of that is the funding cost and that is huge and it goes directly through to the revenue requirement.

DEPUTY CHAIR - Thus the pressure on prices continues.

Mr HAMPTON - Yes.

Mr BESWICK - In relation to strategies for the debt collection, one of the key pre-requirements for that was to have a billing system whereby we can issue a reminder and final notice on a reliable and consistent basis, and we achieved that at the end of last year.

We have also resourced the credit management teams in each of the corporations to pursue that debt and to actively manage it. There is a focus on the large amount of overdue debt. We have used a mercantile agent to help pursue and collect that debt.

DEPUTY CHAIR - So have you sold that debt to them?

Mr BESWICK - No, we have not sold that debt; they just manage it. We try in the first instance to use flexible payment plans to recover that debt before we put up any harsher options. But as well as focusing on that core whole debt, we are specifically focusing on the new debt that is becoming overdue in a far more proactive manner because if you can have consumer behaviour so that they pay that debt regularly, on time, earlier on, we will not end up with the cascade effect that we have had in the past from all the debt.

Mr HAMPTON - One of the issues in relation to our accounts' receivable position is it is of considerable cost because today we have $15 million out that we ought to have in; at 7 per cent interest there is $1 million worth of expense that we are incurring that we ought not to, directly. There is also the indirect expense in that we will have a higher bad debt expense and a higher provisioning and, simply, the management effort and the cost of trying to chase the collection.

But I would draw to your attention that one of our difficulties is that, unlike councils who can make a charge against a property for money owed, we do not have that.

Mr FOSTER - We saw it as a shortcoming in the previous legislation and we were hoping to address it this time but it is not being addressed. That is going to be an ongoing issue that we have to deal with, unless there are either amendments to current legislation or new legislation to allow the water corporations to do exactly what the councils could do to recover debt.

DEPUTY CHAIR - Did you discuss that with the government in preparation of this legislation?

Mr FOSTER - No. It is outside the legislation. That sits in another piece of legislation. I think it is the industry act.

DEPUTY CHAIR - Did you have a discussion during that legislation to establish one corporation? That was the time to do it.

Mr FOSTER - I would have to ask Carolyn because she was involved in that.

Ms PILLANS - The speed with which Treasury was able to address the new legislation was appreciated by us. One of the trade-offs for that was their consequential amendments, that were addressed as part of the corporations act, had to be minimised. The message that we had was that the consequential amendments, because of the consultation involved, had to be limited to those directly associated with bringing the corporations act from four corporations into one. The flow-on from that was that anything that looked like a new consultation or a bigger change, including things in the industry act, had to be put aside and need to come through a different process or through the government department or agency that is responsible for those.

In this instance, the scope with which we were allowed to make the changes to the corporations act did not permit us to address the industry act. But it does not remove the need for us to deal with that.

DEPUTY CHAIR - Are you doing that? Are we waiting for the new corporation to be established before that is progressed or is that something that is going on now?

Mr FOSTER - I do not think we need to wait until the new board is in place. I think that we can start the progress again in the new year, and we will.

DEPUTY CHAIR - How much has been written off this debt?

Mr BESWICK - They wrote off $603 000 last year compared to $235 000 the previous year.

Mr HAMPTON - Across the three corporations, we created a provision of $3.6 million. It is going to hit to our bottom line of $4.2 million, in respect of a bad debt provision.

DEPUTY CHAIR - It is not insignificant, is it?

Mr HAMPTON - It is not insignificant particularly when you add the funding costs and the chasing costs.

DEPUTY CHAIR - Have you had to put on extra staff to deal with this?

Mr HAMPTON - In all three corporations we have extra staff. We are using a credit collection agency to chase the arrears. We are focusing on trying to stop the problem in house before it becomes in arrears.

DEPUTY CHAIR - You talked about the extra staff you had to put in the call centre to deal with the volume of calls and extra training you had to undertake. One of the major challenges has been people not being able to get resolution of their complaints quickly when they have gone through the call centre. Hopefully, the additional staff and training will help with that and extra staff to deal with the collection of debts. How many people and how much are we talking about, in additional operating costs, has that added to the costs of running three corporations that are not directly related to supplying water and sewerage services?

Mr HAMPTON - I have a handle on the numbers that, in terms of direct debt, we are chasing. We have probably added, across the state, five people. There is probably $500 000. Maybe we were under resourced in that space but there is an unbudgeted extra cost. In terms of our call centres, I think we have added a total of -

Mr BESWICK - Two and a half.

Mr PAINE - We have added seven people.

Mr HAMPTON - You can see from that we have added 15 people to address the call centre issues.

DEPUTY CHAIR - An average salary of?

Mr HAMPTON - How much of that is attributable to the arrears position as distinct from people calling up to query their bill, to understand their bill? You can say that adding those two numbers together it is a very significant impost. With the call centre, we did not have any real choice. We had to tackle our call centre statistics. Too many people were hanging up, having sat there too long. We have made significant progress in that regard.

Mr KNEEBONE - The resourcing that we have undertaken is not all permanent employees. It is not a permanent increase in overhead to the corporation. It is flexible and as the numbers of calls diminish we can ramp the resources up and down. It is not a permanent increase in resources.

DEPUTY CHAIR - Is that having an impact on the bottom line?

Mr KNEEBONE - Absolutely.

Mr HALL - With regard to your borrowing limit with Tascorp, I think it is $100 million, and you are up round 97.3 at the moment. Where to next?

Mr KNEEBONE - That is for Cradle Mountain Water alone.

Mr HALL - Yes, sorry.

Mr HAMPTON - So Cradle is very close to its limits and over the next year we will get through within that limit, or over the current financial year. I think the other two corporations have significantly more head room and when we are all thrown together on 1 July next, presuming that Tascorp don't change the facility which I consider unlikely -

Mr HALL - Taking on Cradle with that extra liability they have is going to pose some challenges to you. It is not going to help the bottom line. How are you going to cater for that?

Mr HAMPTON - It will increase the overall. The level of gearing will be higher because Cradle is there but there is an offsetting side and my colleague, Andrew Kneebone, may choose to correct me, but our average tariffs on the north-west coast are further behind the statewide targets that we are moving towards. There will be a catch-up in revenue on the north-west coast. It is not all bad.

DEPUTY CHAIR - Something to look forward to.

Mr HAMPTON - It is bad from a balance sheet point of view but the other corporations will get the benefit of the increased revenue flowing through.

Mr HALL - The costs identified associated with the merger. Any details there? Looking forward at this stage.

Mr HAMPTON - The move to a single corporation?

Mr HALL - Have they been identified?

Mr HAMPTON - We have foreshadowed that over a period of time some of which will already have occurred and some will occur in the first year and hopefully most of it by the end of the first year, we would expect to lose about 30 positions. Most of those will be at a senior level and there will be a severance payment due because there is a clear commitment to achieve savings and there is a clear commitment that all positions are, in a sense, declared vacant. That started with the chair position last weekend. If the best person for the job is outside the corporation, no-one inside will take that role.

Mr HALL - You are not feeling under the pump?

Mr HAMPTON - No, I am delighted because I think, at the top, we are setting the right example. We want the right people.

Mr HALL - I spoke facetiously.

Mr HAMPTON - I know. If it had been proposed to the contrary I would have counselled against it because it would have been inappropriate to set a tone at the top that you did not want. We need the best people in this corporation. We think we have some very good people and we think they will match up against the best but time will tell. The redundancy cost for 30 senior people, we could be talking in the order of $1.5 million to $2 million. That will reduce the saving in the first year but we have already lost some key people. Sadly, I expect that in the next six months we will lose a few other key people. We will do our best to get through without replacing them. That would have the benefit of there being no redundancy costs. It will be challenging for us because we think that we still have a lot of things to do, and we are a bit under resourced in some key areas. Other than the severance cost, we are not envisaging significant extra expenses - we have one computer system, not three computer systems, we have one billing system, not three billing systems. We are not going to have balance sheet pain to write off assets.

[2.30 p.m.]
DEPUTY CHAIR - Will you be writing off a lot of the debt? Are you going to take the outstanding debts across? There is not going to be a big write off, just to try to clear it?

Mr HAMPTON - We have provisioned in a very prudent way in each year. The approach we have taken has been consistent across the three corporations and it has been fully endorsed by the Auditor-General as being prudent and sensible. Clearly, with another six months experience, if we have not made significant inroads into the seriously old debtors, we may be facing a more substantial provision or, indeed, a potential large write-off. But I do not contemplate that is likely to be the case. We have not significantly moved to restriction, where we crimp supply to our residential customers. We do not have the capacity with our residential customers to turn off supply - we can only reduce it. With our commercial customers, we have the capacity to take them to credit or legal for recovery; we have the capacity to restrict supply; and we have the capacity to apply interest to their outstanding debt.

DEPUTY CHAIR - When you say 'crimp supply' what do you mean?

Mr HAMPTON - Mike, would you? You would explain it better than I would.

Mr WILKINSON - Sounds like a drip treatment to me.

DEPUTY CHAIR - A lower pressure - a bit like the internet speed when you go over your limit.

Mr PAINE - It is called a restrictor. It is applied to the service connection and it reduces the flow to the property to a very slow trickle. It is very uncomfortable but it does not stop the usual health requirements. It enables toilets to fill up and those sorts of things. Which is why we do not stop supply.

DEPUTY CHAIR - You have to run around in the shower to get wet.

Mr PAINE - Showering is challenging, no doubt. The point is that we have a range of other mechanisms in place and we encourage our customers who are in hardship to talk to us. We have a range of hardship provisions in place. We use third party providers - Anglicare and the Salvation Army - to assist our customers in hardship to get back into a payment program. They recommend to us what the customers can pay and what they cannot pay and we take all of those things on board. We have very comprehensive ways of working with customers when they are willing to pay.

Mr WILKINSON - Whilst we are on customers, they are the ones who are paying for the service in the end. They are paying two ways; they are paying for it in their taxes, and paying for it when they have to pay their bills. What are you doing for consumers to ensure their prices do not get so far out of reach that they cannot afford them?

Mr HAMPTON - In terms of what we can do directly?

Mr WILKINSON - Yes.

Mr HAMPTON - We implemented a target for our management teams that our expenses increase would be no greater than the CPI minus one, on a like-for-like basis. We achieved that in financial year 2011-12, and we have every expectation of achieving it in the current financial year, in terms of what we can directly control. But that is only discretionary expenses. If you take depreciation and interest out of our expenses bill, it is $100 million, if we manage to achieve CPI minus one. That means it is only saving $1 million compared to what it would have been. But we are doing our best to create an awareness of the issue.

The expected capital program for these three corporations, and in future one corporation, of over $1 billion for the period we are talking about, has a huge cost. Every million dollars we spend that is greater than depreciation adds significantly to our costs and therefore to our revenue requirements. Our present aggregate depreciation charge is about $70 million and our expenditure last year was $120 million; we spent $50 million more than we had in depreciation. That has to be funded, and it is done by borrowing. We also have the expense relating to the depreciation, and, most fascinatingly, new plants seem to cost more to run than old plants - maybe it is the technology inside them.

We have made it very clear to the various regulators, and we think our owners have a fairly good understanding of where we are coming from. If there is not a consultation, we will have very substantial price increases. It is more than consultation - there needs to be a compromise. If we are going to keep the need for an increase in revenues to CPI, or something closer to CPI than the present 6 per cent, there will have to be a compromise on the amount we are spending on the capital program. Maybe that could be extended over a period of time. The priority distributions, which we are close to, are approximately $25 million on total shareholders' funds of $1.7 billion. It is a very low return we are giving to our owners. Will our owners be patient with that going up over time? Every message I have from our owners is they would not like to see it reduce, but they do not necessarily want it to double overnight.

The four factors that are the drivers of our price increases are: the demands from the regulator's point of view in terms of the capital program; the economic regulator's expectation that we improve our financial robustness by improving our return on assets; what we do inside the corporation to keep our costs down; and what our owners' expectations are as to dividends.

Mr VALENTINE - The 10.8 per cent bad debts number is a very significant amount over the total of your customers. You have 203 819 customers, as I figured out from the annual reports, and 22 000 bad debts.

Mr HAMPTON - We have not conceded there are bad debts. We have picked 90 days.

Mr VALENTINE - You said 'customers overdue', sorry. That is slightly different.

Mr HAMPTON - So 10 per cent of our customers are overdue. It would be less than that because some customers have more than one property, so it is 10 per cent of accounts that are overdue. Generally speaking, if someone is behind on one account, there is a fair probability they will be behind on another account. As a rough guesstimate, 10 per cent of our customers owe us money beyond 90 days. We would not regard that as ultimately being likely to be written off.

Mrs ARMITAGE - It is quite a substantial number. What percentage of that number are classed as bad debts - people who do not wish to pay or have not paid, or people who are in conflict with you about their accounts? I am assuming a fair number of the bad debts, as we are calling them, are simply people who have disputes with you?

Mr BESWICK - No.

Mrs ARMITAGE - They are not in dispute? They are not paying because they have a dispute?

Mr BESWICK - No, not now. There were in the early days, given we were not issuing reminder or final notices in the first two years. There was the possibility people did not necessarily know their full account balance and therefore did not query it, so there were hidden disputes. Through the credit collection process we have put in place they have been flushed out now and dealt with. We have occasional disputes but not -

Mrs ARMITAGE - We know that a percentage of people are having difficulty paying. You were saying you have payment arrangements with people who are having difficulty paying and you are dealing with Anglicare and others. Of that $603 000, what percentage are having difficulty with payment?

Mr HAMPTON - The bad debt write-off.

Mrs ARMITAGE - Of the bad debt write-off was there a percentage, mentioned earlier, who simply disputed the debt?

Mr KNEEBONE - A number of the write-offs were bankruptcies, deceased estates and ones that were deemed as being very problematic in terms of recovery.

Mrs ARMITAGE - It is such a substantial amount.

Mr KNEEBONE - As I am aware, we do not have a large number of those accounts in dispute, it is more a refusal to pay. Where they are being identified we are actively managing those people. Where we are identifying them or they are self-identifying as being in hardship then we take the appropriate approach and put in payment arrangements and seek other support for them. I don't think there is a large percentage of the outstanding debt that is in dispute.

Mr FOSTER - There is an ongoing concern that the more consumers get to know about the fact that if they do not pay it, under the current situation it gets written off somewhere down the track as a bad debt. When the councils owned it the debt was recoverable, so we had no bad debts under the old system and that is why I think it is imperative that we get an amendment to the industry act to allow the water corporations to recover that debt through the sale of the house or so forth otherwise this is just going to grow and grow and grow.

Mrs ARMITAGE - But you do have the ability to restrict flow. How often do you restrict flow or if you do not, why not?

Mr FOSTER - That is not what we want.

Mrs ARMITAGE - No, but it still gets people to pay.

Mr FOSTER - It is not what the owners want either. The councils never needed that facility because of what we had in place, as you know. We would rather not restrict anyone's water; it is the last thing that anyone would want to do.

Mrs ARMITAGE - I am talking about for recalcitrant people, not the ones who cannot afford to pay but those who are unwilling to pay.

Mr FOSTER - Rosemary, you would not need that if you knew at the end of the day you were still going to be able to recover that debt through the sale of a house or whatever.

Mrs ARMITAGE - That is a fairly big step as well, though, larger than restricting the flow.

Mr FOSTER - But you would only ever recover that when the house was sold, you did not go in and sell up anyone's house.

Mr HAMPTON - We haven't implemented a significant number of restrictions. There are a number of reasons, the first being that we have a process that we have to go through in terms of debt collection and that is the last step. We all took some comfort from having the possibility of restriction but the reality is it is very expensive. We cannot send one person out to do the restriction given the nature of the fact that we have probably gone to someone who knows that they have not paid and we turn up so you have to send out two people. If they do pay their bill you have to go back. It is a very expensive process. You have seen the number of people, 20 000, and let us say that there are 15 000 if you allow for the double account people. We could not crimp that number of properties.

Mr FOSTER - That would be on the front page of the paper, wouldn't it? We do not need that. We have been through all the bad press.

Mr WILKINSON - I know it is an issue of yours as well, Miles, because we have spoken about it and how acutely aware you are of keeping the costs down as much as possible for the consumer. If consumers put in water tanks obviously they would save some of their costs - not the fixed costs but their other costs, their usage costs. Can you suggest any other way that these consumers could save money they would have to pay for water and sewerage?

Mr HAMPTON - If you looked at today's average customer who is paying $900, $700 of that would be fixed charges. There is a debate about whether the fixed charge is too high or too low and the volume that you charge ought to be higher than it is. The volumetric charge has already nearly doubled the long-run marginal cost so if you apply proper economics we are probably already charging too much in the volumetric but there are suggestions that it should be materially higher, in which case that would give our customer the opportunity to reduce their cost by winding back their consumption. It would be a material benefit whereas the benefit is not material today.

[2.45 p.m.]
Mr WILKINSON - So it is not worth putting in tanks as they do in Melbourne. A number of my friends have been putting tanks in and they water their garden from tanks. You say that $700 of the average $900 bill is for fixed charges and only $200 is for the volume used.

Mr HAMPTON - Some people will still put in the tank because in fact they are avid gardeners and they have lots of land. I noticed some new homes going up recently and they all put in a tank, presumably for their gardens. Fundamentally when you look at those sorts of dollars does it really make sense?

DEPUTY CHAIR - There's the cost of your tank and installation costs.

Mr HAMPTON - I remember that the average home consumption of water is materially higher in the south of the state than it is in the north and the north-west of the state.

DEPUTY CHAIR - It has never been metered. They would not have a clue how much they have used.

Dr GOODWIN - This question is going in a slightly different direction but it is a concern that has been raised with me today. It concerns the water quality in the supply for the town of Pioneer. I am wondering if you are able to inform the committee of the issues there and what has been done to address those concerns. I have seen a sample of some water which looks concerning so I am interested to try to get to the bottom of what is going on there and what is being done about it.

Mr BESWICK - Pioneer is one of a number of raw water supplies, of which there are quite a number in Ben Lomond Water's area. The Pioneer water quality has had the additional issue of late of lead contamination. Ben Lomond Water and all the water corporations undertake testing of the water supplies under a regime of the Director of Public Health and his office and we report those test results. We have been doing that since we came into existence. We report those test results to the regulator's office and it is up to the health regulator effectively to make a judgment of whether there is a public health risk. That is not a decision of the water corporation, which has to test it and provide the results.

In November we did get some high, above-Australian water drinking guidelines results for lead at Pioneer and as was the usual procedure, they were reported to the health regulator and they directed us to issue a 'do not consume' notice on that supply. The supply had already been subject to a permanent boil water alert anyway.

Dr GOODWIN - Was that because of the presence of *E. coli*?

Mr BESWICK - Yes. The fact that it has *E. coli* present. That 'do not consume' notice has been issued. We immediately issued that notice and held as quickly as possible a public meeting at Pioneer to inform the residents. We also installed an alternative supply of tank water at Pioneer and did further testing work to try to identify the source of that contamination. We undertook an air-scouring program of that supply as soon as we could achieve it. We are doing further testing and we will supply those results again to the Director of Public Health. If the Director of Public Health is satisfied perhaps we can withdraw that 'do not consume' notice.

It raises the longer-term question of how we address these small town raw water supplies. The Director of Public Health as part of our compliance and communication plan that was approved by the regulators a few years ago identified a number of priority supplies that we were to address and we have agreed to address. Some of those have been completed and a number are in progress but Pioneer was not one of those that was identified at that time on that list.

Dr GOODWIN - So Pioneer is not on the list.

Mr BESWICK - It's not on the priority list at the moment. The priority list traditionally comes from the microbiological testing results because that was the primary concern and these supplies were all on permanent boil water alerts.

Dr GOODWIN - So there is the *E. coli* issue and they were on the boil water alert for that originally. Was that going to continue indefinitely?

Mr BESWICK - Until a resolution is found to how we deal with these very small town water supplies, with very low numbers of consumers. The options range from expensive, full water treatment, and we are talking about seven digit sums here, to perhaps other methods to improve the water quality through not using that supply as the potable supply and having alternative potable supply.

Dr GOODWIN - But there is a priority list for that which Pioneer is not on. We do not know what the time line is for addressing the *E. coli* issue for Pioneer?

Mr BESWICK - No, not at the moment.

Dr GOODWIN - The second issue is the lead contamination matter. Have you been able to identify the source of that contamination?

Mr BESWICK - The test results to date have shown that the only lead we have found has been in reticulation points. We have not found any to date in the dam that feeds the reticulation. They will be doing further testing on that. At the moment it seems to have been accumulated in the sediments in the pipes. That is why we undertook the scouring of the pipes, to remove that sediment.

Dr GOODWIN - It has been suggested to me that because the town of Pioneer is located adjacent to mine tailings, there may be some link there. Is that being explored?

Mr BESWICK - We are doing testing for the system to identify where the contamination source is but we have not identified the source definitively to date, other than where it pre-exists in the system. How it arrived into the system has not been determined.

Dr GOODWIN - You are not sure when they will come off this 'do not consume' notice because it depends on the outcome of further tests?

Mr BESWICK - Yes. It is a matter for the director of public health but they would want to be assured that it is positive - a test result below the guidelines, then suddenly another test result above the guidelines. There is an issue for the communities about switching on/off and the risks in doing that. People do not know whether it is on or off. They would want assurance that it is going to be maintained below the guideline values, I suggest, before those would be removed.

Dr GOODWIN - Going back to this issue of the *E. coli* and the other towns or communities affected by that issue, when it becomes one water corporation will there be a reassessment of the priorities?

Mr BESWICK - As Ben Lomond Water, we have had discussions with the Public Health Regulator about the heavy metal contaminations because it is not restricted to Pioneer. We have had contamination at Avoca and Whitemark. It is a more general problem and the permanent 'boiled water alert' solution does not deal with heavy metal contamination. There needs to be some further consideration of how we will address that and the supplies in the future.

Dr GOODWIN - Across Tasmania, by the sound of it, there would be communities that are affected by *E. coli* contamination. You have said there are other communities affected by lead contamination. Now we have the situation where we have the three water and sewerage corporations becoming one, what will the forward program look like in terms of addressing those issues?

Mr KNEEBONE - We are in a current regulatory period that runs out in 2015. Our next price and services plan submission will have to be made in July 2014. Over the period from June next year to July 2014, we have to engage with the regulators, both in respect to drinking water quality and wastewater quality across the four, in the context of a single corporation, to prepare our next pricing strategy. It is at that point where we address the statewide priorities for drinking water quality and wastewater performance, balanced with the impost on price to customers and in consultation with customers and owners about that whole pricing balance that is put to the pricing regulator in July 2014 as our initial submission. That is the process by consolidating what are currently regional priority settings into a single, statewide one. We are commencing a discussion with the panel of regulators - the DHHS, CPA, Dam Safety and Office of the Tasmanian Economic Regulator - OTTER - in the next month.

DEPUTY CHAIR - Is the minister also talking about the priorities for capital expenditure? You are focusing on the prices.

Mr KNEEBONE - That drives the capital expenditure but this is circular in terms of what Miles was saying earlier, that requirement for improved level of performance is over and above the depreciation that we currently fund. It drives borrowings, it drives interest costs, it drives additional operating costs. It is all part of that balancing act that has to be pulled together in the form of a pricing services, planned submission.

Mr HAMPTON - One of the things that could happen in that combination of the three corporations into one, will be a new priority list. Some high priority items, say in one corporation, that are not on the list when you are looking at it on a statewide basis, may climb up the list. I expect that would happen but equally I would not want to convey the impression that we are just doing what we are doing. We have a plan and we are sticking to it. If tomorrow the health regulator came to us and said, 'You need to do something about this problem now', we would work out with them what we would do about it now.

DEPUTY CHAIR - So another project may get deferred.

Mr HAMPTON - Because we have a three-year program does not mean to say that we want you to infer that we feel locked into that. When we have had issues along the way that needed to be addressed, we found the money. If it meant that we had to take something out of the program, we have taken it out, or we have spent a bit more than we have contemplated.

Dr GOODWIN - Wrapping up the Pioneer issue, at the moment they have an alternative water supply that they are relying on. Is that right?

Mr BESWICK - We have placed two large tanks of water at Pioneer as potable water.

Dr GOODWIN - And that has to continue until you get the clearance but they still have to boil the water after that because of the *E. coli*.

Mr BESWICK - Yes.

Mr WILKINSON - Getting back to the consumer - in relation to the costing, $900 million average costs, $700 million of that is fixed, $200 million is usage, are we able to get an indication as to where that is going to be next year, the year after, the year after that?

Mr HAMPTON - From an average customer point of view, in terms of our price and services plan, you have added 6 per cent for each of the two years in the present price and services plan.

What happens at the end of that period when we go into the next price and services plan is the matter of getting the judgment calls right over the next 18 months because that is when that plan will be finalised. Everybody is hoping that it will not be at 6 per cent, that it will be at a level list on that. That is part of the negotiation of what is the appropriate capital program, what is the appropriate targeted economic return in that period, what is the appropriate dividend and can we do any more in the corporation to keep our own cost increases lower. For the next two years, it is there in black and white, 6 per cent increases from our target point of view.

Mrs ARMITAGE - I have a question regarding the Lilydale water supply and the $7.1 million contract. I acknowledge, Miles, that you have been great. You have been out there many times conversing, like you all have, with the community. I was wondering how that is proceeding because I know a lot of the people at Lilydale were not keen on having the 26 kilometre pipeline and that they all thought that they would like their own water to be purified. Can you let us know if it has started? Back in October it was about to start in a week. How much is proceeding and when it is likely to, or has it started?

Mr BESWICK - It has just commenced and the pipeline is being built starting at both ends and so it will be working towards the middle.

Mrs ARMITAGE - Any idea how long?

Mr BESWICK - It will take the rest of this year and into the next financial year before it will be completed.

Mrs ARMITAGE - And the community were satisfied in the end with the discussions you had?

Mr HAMPTON - I do not think we took all of the community with us. There were some people who did not want treated water. There were some people who were prepared to accept treated water but it had to come from their local supply, and there were some people who were quite happy with what we proposed which was a pipeline from a more reliable supplier.

Mrs ARMITAGE - Do you think it will come in within the budget of $7.1 million?

Mr HAMPTON - The fourth issue was the location of a reservoir near to the rhododendron reserve.

[3.00 p.m.]
Mrs ARMITAGE - Are you satisfied that was a good outcome?

Mr HAMPTON - We believe we satisfied that. We were never going to satisfy the people who did not want treated water. The fundamental issue came down to: should we take the local water and treat it or should we pipe it in? That came down to a range of issues, not just dollars and cents; it came down to reliability because in some years there is not enough water supply for households, let alone for firefighting. Equally as much, the water quality sometimes is quite unreliable. You could take the view that whatever we put in at the treatment plant would have solved that, but it would make it more expensive to manage.

The financial metrics for going for a pipeline were significant. We have been out to tender on all bar the reservoir, which we have to re-tender, and we have saved materially below our estimates in achieving that. Maybe that is reflective of more challenging circumstances and sharper pencils. As Andrew said, the project is underway. We did not take all the community with us. We probably did not help ourselves in the process because we did not engage with the community early enough. Whether we would have reached a different conclusion by engaging earlier I do not know, but at least we would have been seen to have done the right thing.

DEPUTY CHAIR - You say you have learnt your lesson on that one. You said in your opening statement that you have learnt that you need to start much earlier.

Mrs ARMITAGE - In fairness though, you did engage later on with a fair few community consultations and I think that was appreciated by the community.

Mr HAMPTON - If our management teams are bringing forward any projects that have any kind of impact on the community, whether it be a small or large community, the first thing the board will say is: don't talk to us about dollars and cents, don't talk to us about preferred options, talk to us about what you have done in exploring how the community will respond to this issue.

Mrs ARMITAGE - That is good, thank you.

Mr PAINE - I think it is the other mechanism for keeping cost to community in play and put the point to the committee that we have done everything we can to try to access grants wherever they can possibly be accessed.

We were lucky enough to get funding from the federal government for the Huon Valley scheme and the Coal Valley scheme. That money was arranged prior to our start at Southern Water, but we were recipients of a substantial amount. The only program that we have been able to get some funding from was the efficient cities program for the meters project. Across the state we got $10 million - $5 million for the south. The point that I am making is that we have been working very hard in all regimes, including Infrastructure Australia and anywhere else - RDA, you name it. We have been knocking on the door but there are no programs fundamentally for this business.

DEPUTY CHAIR - What is the reason that you are not qualifying or not eligible? Is it because of the structure that it is.

Mr HAMPTON - Yes. If we looked at Infrastructure Australia, firstly they have run out of money, but even if they had money their primary requirement is economic development as distinct from fixing that which needs to be fixed.

DEPUTY CHAIR - The same for RDA?

Mr KNEEBONE - RDA was specifically excluded and it was only local government that could apply.

Mr HAMPTON - We even did our best to explore halfway houses. Could a local council make application under RDA, put in some infrastructure and five years later transfer it across to us?

DEPUTY CHAIR - That sounds a bit below-the-line sort of stuff.

Mr HAMPTON - It was not below the line, it was completely open but in fact we simply will not get there. Regrettably, the establishment of the four corporations has turned off the tap in terms of federal money assistance.

DEPUTY CHAIR - Once it is one corporation, will it be no different?

Mr HAMPTON - I do not expect that it will be any different. That is not to say that the board would not be encouraging continued exploration and we have some significant issues in front of us. Three big issues are in front of us. One is the wastewater treatment plants on the Tamar. The other is the wastewater treatment plants on the Derwent and the final big-picture one - lots of medium-sized pictures - is southern beaches. They are huge, they are lumpy, they will need to be tackled. Whether they can be tackled over a long term -

DEPUTY CHAIR - What is the plan for dealing with those? They are hugely expensive and you do not have any room on your balance sheet at the moment to fit them in somewhere, do you?

Mr HAMPTON - We will fit them into the balance sheet. As I indicated earlier in response to the question of gearing, gearing will be acceptable. The problem is what it will do if we have to borrow the money to the need to increase our revenues and therefore our tariffs for our customers.

Mr VALENTINE - What is the policy when you receive grants? I think we might have even spoken about this earlier. What is the policy of how you deal with it on the books? Say, you receive a grant of $5 million and it is for water meters, does that increase your projects or do you simply take that money and reduce the amount you take from your customers?

Mr HAMPTON - Quite often a grant will be very specific to a specific project and will have been taken into account in the decision to approve that project.

Mr VALENTINE - So it would be new projects?

Mr FOSTER - At the moment, the water and sewerage corporations have to go through the state government to get grants from Infrastructure Australia. They cannot go directly to Infrastructure Australia. They are some of the things we are going to be dealing with.

DEPUTY CHAIR - Will that be the same in the one corporation?

Mr FOSTER - It will be.

DEPUTY CHAIR - It is a strange beast because it is not a state-owned company.

Mr FOSTER - We are in the process now of framing an economic policy, which will be up and running by 1 July next year for the new board. We will be looking at ways of how we hopefully will be able to go directly to the federal government to access grant money.

DEPUTY CHAIR - Is the structure that has been established under the new legislation a barrier to the new single corporation going directly to the commonwealth to seek funding grants?

Mr HAMPTON - It would be fair to say councils in Australia and Tasmania made an art form out of, and were very successful, at accessing grants.

DEPUTY CHAIR - Local councils?

Mr HAMPTON - Yes, local councils that were running these businesses before we were established four years ago made it an art form and were very good at it. They lobbied, pushed and worked hard to try to find -

DEPUTY CHAIR - You had organisations such as the Cradle Coast Authority.

Mr HAMPTON - To also support individual councils in the push. From the day we were established it was made fairly clear to us that we just did not fit the bill.

DEPUTY CHAIR - My point was, though, with this new single corporation will those problems persist?

Mr HAMPTON - Yes, they will persist.

DEPUTY CHAIR - If it had been a state-owned company in the true sense of the word, as opposed to this hybrid beast we have, would that have made a difference?

Mr HAMPTON - I do not think it would have made any different whatsoever. We would be treated in exactly the same way. There is an expectation we will carry the can, which means our customers will end up carrying the can.

Mr VALENTINE - Perhaps if it stayed with the councils they might have been more successful in getting grants.

Mr PAINE - There is no actual funding in RDA for water and sewerage, whether it is council-owned or a GBE.

DEPUTY CHAIR - But Infrastructure Australia could be if it was for new projects that were creating economic development opportunities?

Mr PAINE - Correct. We can apply for those in conjunction with the state government. We have been actively involved with the state government in all applications to Infrastructure Australia since we started.

DEPUTY CHAIR - If you were going to put in a new water treatment plant to facilitate a new industrial development, that may attract Infrastructure Australia funding.

Mr PAINE - It has fairly high hurdles to jump over.

Dr GOODWIN - What did the water meter funding come under?

Mr PAINE - It came out of the efficiency program. A number of projects came out of that; the Coal Valley recycled water scheme originally came out of that. That program was established under the federal government when there was the drought on the mainland and money was being distributed for water-efficient cities. It has closed down now.

Mr WILKINSON - Some people might argue, 'I wish it were as it was years ago, before these three corporations came into being'. What is your answer to that?

Mr FOSTER - You cannot go back, Jim.

Mr WILKINSON - I know that, and that has been my answer. You have to deal with what is in front of you.

Mr HAMPTON - Is your specific question about grants?

Mr WILKINSON - No, it is a broad question. It is about quality of water, service, costs, the whole gamut and I think it is important. There are a lot of myths out there in relation to it and that is why I am asking the question.

Mr FOSTER - Let me give you one example, that just came to mind, of where it is better now than it was before for the consumer. Every reservoir in southern Tasmania is now covered. If they had still been under council control, there is no way that could have happened. A lot of positive things have happened under the water corporations that we just cannot get out there.

Mr KNEEBONE - I have another benefit.

Mr WILKINSON - That is why I am giving you the opportunity. That is obviously a plus that nobody has heard about, but they are hearing about now. What else is there?

Mr KNEEBONE - Equitable pricing of services. We are now required to justify our prices based on their being no more than cost reflective. There has been a lot of emphasis on the price increases to some customers who were paying largely below the cost of supply, but offsetting that is a range of customers who were paying multiples of what they should have been paying - up to 10 and 15 times what they should be paying under a normal cost of supply. Equitable pricing, based on a rigorous analysis of the cost of delivering the service, and an absolute mandated efficiency dividend in the cost of delivering the service, is a great benefit.

Dr GOODWIN - When that occurs, because it is still a while away.

Mr KNEEBONE - The issue with the price increases is a balancing act. It is partially being driven by our capital expenditure, and I agree with that, but it is mostly a rebalancing - bringing into line those people who have been paying below the cost of supply. The cross-subsidies here were quite significant.

DEPUTY CHAIR - They were.

Mr HAMPTON - If you look at our residential customers across the state, and see between $400 and $8 000 being paid for the same supply - what is that reflective of? It is not reflective of the councils doing anything wrong; it is simply reflective of AAV-based pricing. I am not saying the councils did anything wrong but we have to move through that process. Will we end up with, at the end of the day, a better outcome? We will end up with a fairer outcome. In every aspect of our business where we are moving to a fairer outcome, there are winners and there are losers.

Mr VALENTINE - It was also reflective of councils taking different levels of profit. It could be between 2 per cent and 7 per cent. Because of national competition policy, they were told they had to charge more. They had to make it pay and they were told they could put it into other programs and that is what councils were doing. Yes, people were paying $400 to $1 000 for the same service, but bear in mind they were getting other benefits, as a community, back from the councils.

Mr HAMPTON - Rob, I was not bringing a value judgment to that. I do not have a value judgment on it. We have just been charged with moving to equitable pricing. I gave you that example in terms of the residential customer, but the commercial customers are just as extreme. The same activity, say, a caravan park or a small hotel could be paying $1 500 in one part of the state, and four or five times that amount in another part of the state. Is that the right signal if you are trying to encourage economic development? But, again, the challenge is: how do we transition? It is a really difficult transition. It gets particularly complicated in the not-for-profit area. It is a really challenging one in the not-for-profit area because we have the same degree of winners and losers.

Mr VALENTINE - How do you intend to deal with that across the state?

Mr HAMPTON - We inherited 29 different not-for-profit policies and in fact we were obliged to carry on those policies in two regions for three years. So whatever the policy being applied by a council in a particular region, we had to apply it also.

[3.15 p.m.]

On the north-west coast we came to the end of that last year, or 1 July this year. We had a dialogue with our owners on the north-west coast, which now has the most generous of the schemes. I am not saying it is overly generous, I am just commenting that it is the most generous of the schemes. We came to an agreement with our council owners there as to what the policy would be, and we have applied that policy. In the other two regions of the state we have far less generous policies. Knowing that this would become an issue when it moved to one corporation from next July, we raised the issue with our council owners and with LGAT - we asked them to think about what they would like as a policy. The board will have to decide whether they are comfortable with the policy, but we felt it was important that there be a single statewide policy, that had been determined well in advance, so it does not complicate our pricing. I cannot pre-empt what the board might think but if the cost were of the order of the north-west coast and it were translated, it might not be regarded as excessive. What is important is that there be one policy, that it be applied early, but more fundamentally that the rules are clear and simple. Because there is a big question - what is, and what is not, a not for profit. Tony, you have been involved in the consideration of this issue.

Mr FOSTER - This is the most difficult thing we are dealing with in merging the three corporations into one. We have set up a separate working group now and Andrew, you chair that?

Mr KNEEBONE - I do not chair it. I am on it.

Mr FOSTER - You are on it. I am not sure where we will land on that because of the differences right across the state.

Mr VALENTINE - The aim is one at the end of the day.

Mr FOSTER - The aim is to get to one. As Miles said, we really do have to land on one, but I reckon that is months away. It is very difficult.

Mr HAMPTON - But give us one.

Mr FOSTER - We have got to get to one.

DEPUTY CHAIR - It is your job to determine it, is it not?

Mr HAMPTON - If the owners did not express any view, then it is a matter for the board of the new entity. We cannot pre-empt that decision. However, if the owners choose to raise it in the shareholders' letters of expectation, then it becomes a conversation between the owners and the new board, to see if there is a landing place. Without being too unkind, until recently we had 29 different sets of rules as to what was a 'profit' and what was a 'not for profit'. We just want one set of rules because otherwise it is a nightmare.

DEPUTY CHAIR - When is the new board to be appointed?

Mr FOSTER - We are in the process right now of appointing the chairman. There are eight members on the selection committee. Once the chairman is appointed, sometime during January, that chairman will come onto the selection committee and we will appoint the other six members, with all of them to be in place by the end of February. That is our time frame.

DEPUTY CHAIR - From the end of February, the new board will engage with the owners to try to establish some clarity - a nice clear understanding of what a not for profit is?

Mr HAMPTON - And what their entitlement will be. What is done in that area is hugely important to those organisations that are genuine not for profits, working in different areas in the community. Remember they are the same organisations. Some are getting a not-for-profit rebate, some are not, but they are paying water and sewerage charges and some of them are paying well below what they ought to be and some of them are paying well above what they ought to be. Mike, you have an example of two major hospitals.

Mr PAINE - Yes, Deputy Chair, a really good example of the disparity is the Launceston hospital which is paying about twice as much as it should be.

Mr FOSTER - Don't say where they are.

DEPUTY CHAIR - John Kirwan is going to use that.

Mr PAINE - Twice as much as the Hobart hospital, whereas one is half the size of the other. There is this disparity in pricing across the state and it is no different from the residential one we just talked about. It is no different from the clubs, pubs and sporting fields. They are all in this bucket where there is a gradient right through, from too much to nothing and everything in between. That is the equalisation process that we are charged with dealing with.

Mr HAMPTON - At the extreme in the commercial area, we could have some people who are presently paying $5 000 that we might be wanting to move to $25 000.

DEPUTY CHAIR - Which electorates are they in? Let us know because we want to be prepared when they come knocking on our doors.

Mr HAMPTON - Just as we have done with the residential customers, we would transition it over a period of time. It would not surprise you but, as Andrew Kneebone alluded to, there are winners and there are losers. We have asked our winners to be patient because if someone is paying above target tariff, we have frozen their tariff. The economic regulator in the price and services plan, signed off on the fact that they would remain frozen if they were above the target tariff for two years and in the third year they would immediately drop by up to 5 per cent, as long as they stayed above target tariff. What happens beyond that and in what time frame - therefore, you do get equitable pricing and it translates back to our residential customers and it translates through to our not-for-profit customers - is yet to be negotiated.

The winners, as long as the reform is happening, will be patient. But as time has gone on they have generally moved to a hardened position and want to know how quickly we will reduce their tariff. For the economic regulator, fortunately, the guidelines for his decision-making on this are quite clear. He has to take into account price shocks and he has to take into account the financial viability of the corporations going forward. He has supported the propositions that we put forward in terms of the transition pricing.

DEPUTY CHAIR - But the price cap made it very difficult for you in that.

Mr HAMPTON - The price cap did create a difficulty. I used the expression 'fiscal cliff' because if we are reading the newspaper -

DEPUTY CHAIR - I do not know whether Barack Obama would have the same understanding of that fiscal cliff as you.

Mr HAMPTON - If the price cap had gone on for three years, the three corporations would have had a $30 million revenue from the state government and all of a sudden it would disappear because there was no transition plan. We were meant to have the price cap compensation for three years, which would have delivered that $30 million. We went to the government midstream and said this was a nonsense, they were just creating a problem for us, could they bring it to an end sooner rather than later. As it happened, the government were pleased to have us raise that issue because budgetary circumstances meant that they did not really want to give us the money in the first place. Be that as it may, leave that out of the issue. It was more important that we tackle that issue early on so that we did not have as big a problem as we would have had if all of a sudden it was -

Mr HALL - Miles, has a decision been made on where the new headquarters might be and, if not, when might that be made?

Mr HAMPTON - Someone earlier today said Mayor Tony Bisdee will be delighted - Oatlands.

Laughter.

Mr HAMPTON - The direct response to that question is that head office does not appear in my dictionary. The commitment that we have made to our council owners is that pro rata regional employment will be maintained.

DEPUTY CHAIR - But you are going to have some things in one place.

Mr HAMPTON - When Onstream was set up, half of Onstream was here and half of it was in Launceston. I know that it was said at the time by the board that we would have it all in Launceston but it did not evolve that way. Today, we have billing and IT based in Launceston. It has worked perfectly.

Mrs ARMITAGE - The billing has not worked so well but we will not go there.

Mr HAMPTON - We have been there; we have closed that page in the book. What has not been an issue is the fact that it has been in Launceston. The management teams have agreed on exploring what statewide functionality can be put on the north-west coast. If our owners say, 'We want you to name somewhere for a head office', presumably the board of the new corporation will do so. My own view is there is no need to name a head office. What is important is there be pro rata employment numbers. Logically, at the coalface, those people who are fixing pipes and monitoring plants will be pro rata; it has to be, it will go with the population. Building an IT in Launceston delivers pro rata employment in that region. We are working on what we can base on the north-west coast. We are looking quite seriously at a statewide operation control centre based on the north-west coast. The recent appointment of a senior executive on trade waste has been put on the north-west coast. We are trying to live out what we have promised and that is that we will maintain pro rata regional employment. If there were 30 jobs lost across the three corporations in moving to one, we would expect that might be 15, 7.5 and 7.5.

Mrs ARMITAGE - Can I ask you about the jobs and jobs lost? Are you going to contract employment? You are talking about people fixing the pipes and doing those things, so are you keeping people employed or are you putting staff off and going to contract? If you are going to contract, are they still located in each area? Are there going to be direct savings from that?

Mr HAMPTON - I think this question starts from the recent publicity about our plans in relation to our works crew.

Mrs ARMITAGE - I had emails about it. This is related to what I was saying about the staff.

Mr BESWICK - Ben Lomond Water has a dedicated construction crew of seven people, which includes two managerial staff and five frontline staff. That is a model that prima facie we believe does not fit with our capital program going forward and we are going through a process of consultation with our employees to explore the closure of that construction crew. That may relate in redeployment redundancies for some of our staff. This year we are delivering a capital program at Ben Lomond Water of approximately $49 million. The construction crew does about $1 million of that, so most of the capital works is outsourced. Maintenance is in-sourced largely. It is not the maintenance operation side, it is the capital delivery side. It is a different model for this piece we are trying to align and give us the flexibility to deliver the rest of our capital works program through this structural change we are consulting with at the moment.

Mr HAMPTON - We do not have similar capital works crews in the south or the north-west. The decision was taken by Ben Lomond Water some time ago, on the recommendation of our management, that we would ultimately move not to have it. Moving towards a single corporation we came to the view it was no longer sensible to keep putting off what we had decided to do. We knew it would not be helpful in terms of publicity, there would be some affected people, but in moving to an efficient single corporation that is run as efficiently as possible the decision was taken to press ahead.

Mr PAINE - We do not have dedicated construction people. We have operations and maintenance teams and because of the coalface nature of their undertakings we will continue into the new organisation without any drama at all, just as when we were first formed and those people came across.

Mr KNEEBONE - Cradle Mountain Water had a mix of contracts. Kentish Council had a contracted workforce and we took over the contract when we were first established. We do not have any of our own people on King Island. The contract for Kentish has since ceased and we have brought those in-house, but we are in the process of going out to tender for the provision of services on King Island. We have never traditionally had our own workforce there. The predominant mix is in-sourced for maintenance and operations activities.

The committee suspended from 3.30 p.m. to 3.47 p.m.

[3.47 p.m.]

Ms FORREST - I want to deal with the billing system and whether you have a total cost. You have implemented a billing system now?

Mr HAMPTON - It is $3.5 million.

Ms FORREST - It was within budget?

Mr HAMPTON - Yes.

Ms FORREST - I want to talk about the impact of interest rates and how your capital management is planned into the future with interest rates at this stage continuing to come down. We know that interest rates are fairly critical for infrastructure companies because it affects the interest that you pay but also the prices you receive from the regulator and the impairment or re-evaluation of the assets because future income is discounted, to arrive at the present value calculation. What impact could, or will, the falling interest rate have on the WACC calculation, the weight of average cost of capital, and how will it affect your operating profits?

Mr HAMPTON - We can only borrow through Tascorp. Under the new legislation there is a possibility of dispensation not to do so, but I mention that in passing, so we can only borrow through Tascorp. Our borrowing limits are approved by Tascorp and effectively we set, through our borrowing, an age profile so we are managing our debt like any sensible organisation would with the amount of debt that we have over a period of time. We monitor that closely and we try to stick within the nominated parameters. If interest rates drop by one percentage point tomorrow we are not going to get one percentage point benefit because we have taken out debt exposure over a significant period of time which you would expect in a long-term infrastructure asset business. To do it any other way means that you miss out on the short term but you do not take the surprise if it goes in the other direction.

We are not going to get an immediate benefit. If interest rates stay at a low base over an extended period of time, then, as we roll over debt, we would expect to, whether it be one-year debt, three-year debt or five-year debt, get the flow through. It is the timing of the rollover that is important -

Ms FORREST - You do have one, three and five-year rollovers?

Mr HAMPTON - We are going over seven and 10. It is exactly what you would expect in our sort of business. We are managing our interest rate risk over an extended period, given the nature of the assets that we are managing.

Ms FORREST - So it will not have an impact on the value of your assets then?

Mr KNEEBONE - The value of our assets is predominantly driven by the future cashflows associated with that, which is an outcome of the regulatory process. The regulatory process uses a weighted average cost-of-capital approach but it is reset every three years in the current program but it will be every five years. It is taken as a weighted average and takes into account the expected direction of those interest rates over that period.

Ms FORREST - Which is at the moment set much higher than what it actually is.

Mr KNEEBONE - I think 5.2 per cent is the current whack. The regulated rate of return that we can generate on existing assets - assets that were transferred to us - is now being mandated at 2.7 per cent so our rate of return cannot exceed that but the weighted average return on new investment will be limited to 5.2 per cent as it currently stands.

Ms FORREST - There have been claims it could be considered that provides for the organisation a revenue windfall that is potentially not being fed back into the price reduction. I will not express my views on that, but I am wondering, because of the impressions that we talked about earlier, is this an area that you have any control over or is it totally in the hands of the regulator?

Mr KNEEBONE - The regulator sets the whack and the accounting standards set the asset valuation approach and we currently operate on an impaired asset value. Our carrying asset value is significantly below its depreciated optimised replacement cost.

Ms FORREST - Are you saying that there is not really a revenue windfall for you in this?

Mr KNEEBONE - No. It is one of the levers that is utilised to determine what the full cost recovery pricing would be but we are so far below full-cost recovery that it is not an issue.

Ms FORREST - Thanks, Paul.

Dr GOODWIN - I want to touch on an issue that has been an ongoing concern in my electorate and it is something that the ombudsman raised in his annual report as well. It is in relation to sub-metering for strata title properties. There is a two-pronged concern that the ombudsman refers to. The first bit is the one-in, all-in policy so everyone has to agree to sub-metering before that can occur and then there is the fact that the customer has to pay for the installation. That has caused quite a bit of concern amongst my constituents.

Also a related concern was that there was some time which elapsed before people knew exactly what was going to happen, and I understand that may not have been the fault of Southern Water in getting information out there, but nevertheless it created some angst in that people did not quite know what was going on for some time.

We have talked a lot about different policies across council areas and corporations but is there the same policy in relation to sub-metering across the three water and sewerage corporations? If they are different, what will happen when the three become one in terms of that particular policy and what are the implications of that?

Mr HAMPTON - Mike is across sub-metering better than most of us.

Laughter.

Dr GOODWIN - I am sure he is.

Mr PAINE - First, I do not think there is a material difference in the policies across the organisations. It is a historical issue where meters have been installed in various parts of the state other than Southern Water's bigger municipalities for a long time - since the 1960s or so.

That said, to address a couple of your concerns about the time to install: should people be disadvantaged if they want to install it in a year's time or two years' time? For those who are not sub-metered, they can sub-meter at any time in the future.

The one-in, all-in process is about getting something that you can bill. You have to be able to apportion consumption use. If you had one out of four units sub-metered, then there is a whole lot of skewing and other things that go on and it becomes more difficult administratively in terms of getting a billing system that can do those things - quite problematic.

Then there is the issue of the installation costs and that relates to a whole range of things. But, predominantly, what the policy that we have adopted does is: it achieves the aims and goals of what strata-title living is all about. That is about achieving efficiencies of living. For example, a four-unit strata would have one cross-over, one access, one connection point for sewerage and a whole range of things, and one connection point for water. They achieve a whole range of efficiencies. In that case, with the meter size that is technically available to them - that is a 25 millimetre meter, the fixed charge for that is $400 versus the fixed charge for a 20 millimetre meter at $272. The four units then split up the $400 roughly, so it is $100 each, fixed charge rather than $272.

There is a whole range of reasons that this policy is in place that are beneficial to our customers. Our experience is that the majority of customers are happy with not sub-metering and we do not have many who have gone down that track, perhaps a hundred or so.

Dr GOODWIN - Perhaps there was a level of confusion about the fixed versus variable portion of the charges and I do not think it was probably well understood that the fixed charge was going to be quite as significant in the overall scheme of things. People thought they would be able to save quite a significant amount of money by having control over their variable water use and they did not realise that the biggest portion is the fixed charge. By going with just one meter at the boundary, they were going to be better off and I think that has been part of the problem, raising that awareness.

Mr PAINE - With that awareness though has come an understanding and an acceptance.

Dr GOODWIN - Yes. You are not seeing as many complaints about that issue coming through?

Mr PAINE - Definitely not.

Mr VALENTINE - People in one unit, staying away for six months in Queensland, playing bowls, not using any water but paying a charge?

Mr PAINE - If you think about that, if you were in that four-unit development and to be better off with sub-metering, each of the other units would have to have used close to half a megalitre of water before they get a benefit out of the move to sub-metering. I think that is the realisation out there and people can do the maths pretty easily. Half a megalitre of water is a lot of water.

Mr HAMPTON - I think it would be fair to say, however, that we did not communicate in sufficient detail, sufficiently early and it led to a lot of misunderstandings in this space.

Mr VALENTINE - And the rumours do tend to run.

Dr GOODWIN - I appreciate your acknowledging that because it became quite an issue for my office, that people just did not know what was going on. We could not inform them what was going on because we did not have the information because it was not ready. There has been quite a catch-up process to get to the point where you are now, where people are starting to realise that it is probably advantageous just to have the boundary meter.

CHAIR (Mr Harriss**)** - Could I go to a matter, and knock me over if it has been covered, I have been trying to listen while I have been in my office et cetera. For Southern Water, the total return to the owners of $14.6 million or thereabouts, seems to have been available, not through your operating result, but as a direct result of the developer/customer payments. The question is relying on that because of the potential volatility in the market when there is a downturn of a development and you are not getting those developer charges flowing through the system. The first question is: is my observation of that correct and the second one is on the volatility of relying on developments.

[4.00 p.m.]

Mr HAMPTON - This was a matter that was raised in the Auditor-General's report and it would not surprise you that he raised it with us privately, and in finalising our year-end accounts, he did not only raise it in relation to Southern Water, he raised it in relation to the other corporations. We understand the issue. There is no doubt that his analysis is correct - that in the last financial year we paid out, using his measure, materially more. If you took out contributions and headworks charges, we paid out materially more than we should have done.

When we were set up, the Treasurer approved a set of priority dividends that were aimed at acknowledging the profitability that particular councils were making. The $14.612 million is not a magical number. It is the priority distribution. We said to our owners, we will do our best to distribute that to you. The Auditor-General, in his report, raised the question of whether that policy was financially sustainable over an extended period and the likely impact on the financial footing of the corporation if it was continued. He was right to raise it. We do not disagree with his observations. However, first, we have to recognise that we have owners to whom we have given commitments in terms of distributions. Second, looking at FY12, he is looking at a year when we have had a substantial reduction in revenue.

If you applied the same analysis as we have done to the previous year, then his conclusions would have been materially different. In FY11, when we had $8 million more revenue from the price cap compensation, it was a different outcome. In FY13 it will return to a more acceptable outcome, still not completely acceptable, and in FY14 it will return to a situation where he will not be making that commentary, on a normal assumption about headworks and other contributions.

To the second part of your question in terms of volatility - and it can be volatile. Looking at Southern Water in FY11, $12 million; in FY12, $14 million and we are budgeting for $8 million in FY13. That same variability is there in the other three corporations. It is not sustainable if we were to be doing what we ended up doing in respect of FY12 on a long-term basis. We did not ever have that intention and don't have that intention, but to specifically answer your second question, there will be volatility to get around headworks charges. It is an extremely volatile area. I am trying to remember what our budget was for FY12, Mike, but didn't we do substantially better than we thought?

Mr PAINE - Yes, we did. Similar levels to 13 - that is an example of volatility.

Mr VALENTINE - There is one other thing. Now you are coming together as one organisation as opposed to three, the way you intend to deal with the asset life. Is it going to be dynamic so that as you get failures in assets, like pipes in the ground, you know how old that pipe in the ground is, and therefore you know if you have an asset life, say a notional 60 years on pipes, but this one has failed at 50, that modifies the life of the rest of your assets underground. Is that the way you intend to do things or do you do an assessment on an annual basis and your depreciation is modified accordingly?

Mr HAMPTON - When we were established, a very extensive third party evaluation exercise was undertaken. We would intend to undertake that extensive detailed third party review on a five-year basis. In Circular Head recently we had a broken sewer pipeline and we had to replace it, about 20 years before it should have done, and we had to take a write-off immediately of what was no longer an asset. If the evidence emerges in the five-year period that we should do something, we will do it. Other than that we would intend to look at a five-year evaluation. Some people might say five years is a long way but we are talking about intergenerational long life assets and if you are playing with them every five minutes, you are probably over finessing the situation.

Mr VALENTINE - It affects what you put away for depreciation, doesn't it? Quite often corporations gradually increase their percentages through what they do with depreciation. That way they know what they were putting aside for depreciation was accurate because it was continually updated every time they had a failure. With this new corporation, the last thing you want to do is get to a point where you are only putting so much aside but after a certain number of years you might end up finding out that you are only putting away 70 per cent instead of 100.

Mr HAMPTON - I know Mike wishes to say something but the place to which you refer, was probably adopting an approach that was not being consistently adopted across the state.

Mr VALENTINE - That is fair.

Mr HAMPTON - The number one expectation of the current three regional corporations, and, in my expectation, the future single corporation, is that we get the depreciation charge right. It needs to go up because we are seeing evidence that the assets are not lasting as long as we contemplated and we will be expected to take that charge and to be doing asset remediation along the way.

Mr PAINE - I think you have answered all I was going to say. The only other thing that I was going to add was it is also important to understand the renewal process in determining its age and what its replacement costs are. That is something that we are taking into account and actively working on. For example, we are relining our sewers rather than replacing. That is a much more economic approach. Across a much broader spectrum. It is important that we pull all those things together and that is the sort of work that we are doing.

Mr HALL - Miles, I want to go into a discussion about costs. Have you done any benchmarking against any other similar corporations? It was put to us yesterday that the fixed costs in Tasmania are some 70 per cent higher than they are against, say, Barwon Water and Hunter Water - similar authorities. Have you any comment on that?

Mr HAMPTON - We have not done extensive benchmarking exercises. I would like to be able to say that we have. I think that some of my colleagues can comment and I will invite them to do so in a moment. We are extremely conscious of the need for benchmarking, particularly in the monopoly situation. It is the only way that the community can be comfortable that we are doing the job as efficiently as we can. When the current three corporations were created we had to take the workforces that were transferred to us. Whether they had, collectively, the skill sets that we needed or not, I make no value judgment. Some councils had to keep some of the skills that they needed for what they were continuing to deal with and as a result we did not, but we had to employ the people who came to us. We have, as I said earlier this afternoon, instituted a CPI minus 1 so the asset is on. I would have an expectation that one of the early things that the new corporation board will do will in fact be saying that they are one corporation, they want to benchmark their performance across every single measure of operation efficiency that they possibly can. I do not think we have been completely ignoring the issue and I wonder if any of my three CEOs would like to make a comment on that.

Mr PAINE - I am happy to start. We report annually to the National Water Commission on a wide range of indicators and one of those that I think particularly relates to the fixed cost issue is the number of connections per kilometre of property. If you are looking at the two that you talked about, they have intense urban development in a number of areas, which pushes up the number of connections per kilometre.

Mr HALL - I did ask them that question. I did put that to them whether we were comparing apples with apples here and they claimed that they were. But anyway, that is beside the point.

Mr PAINE - I am just telling you how it is. We have in my space around 31 connections per kilometre of pipe. In those other areas there is a little more and I know that in south-east Melbourne and Yarra Valley Water, for example, they are up around 70, so substantially more. There is an indicator that would suggest that your fixed costs would need to be a bit higher because you do not have the number to share it around. It is a linear asset business so it does not surprise that that is the case.

Mr KNEEBONE - It comes down to a mix between fixed and variable, too. My experience in the Victorian water sector was that we were very much being pushed down a path of providing a higher variable charge and a lower fixed charge. We are talking in the order of $2.50 a kilolitre at the peak of the charges. The overall account would equate but it is the mix of fixed and variable that has changed. In terms of overall account I do not think we are out of step.

Mr HALL - In your view is the Victorian model a fairer one for the consumer?

Mr KNEEBONE - They are moving away from that now and it has different drivers. They have scarcity issues to price in and we try to use price very much as a demand management tool whereas essentially we do not have that driver in terms of scarce resource or highly drought-affected resources. They have different drivers.

Mr HAMPTON - And their driver in terms of a higher volumetric charge is significantly around availability of water. We are obviously not in that extreme situation but our thinking on that is as we flagged earlier. I made a comment that our current volumetric charge, 90 cents per kilolitre, is about double the long-run marginal cost. We have pitched it at around that level because we want to encourage less use - not because of shortage but it will enable us to defer the capital program. If we can reduce consumption then we will not have to be investing in larger pipes or more dams or whatever. It is only at the margin but it is significant in a long-life asset business.

Mr HALL - I am surprised with Victoria, given that the north-eastern part is relatively dry. If you look around the state of Victoria, and I know it pretty well, there are significant water reservoirs and holdings and across most of southern Victoria the rainfall is similar to what we have here. Or is it population pressure?

[4.15 p.m.]
Mr KNEEBONE - No, it is not. Before I came to Cradle Mountain Water I worked for Central Highlands Water at Ballarat and the impact of an eight-year drought there had us with almost no supply. We had to put a $90 million pipeline in to bring water from the north in order to supply the city. It was within months of running out of water. Whilst they have had a particularly good recovery in the last year, the long-term projection in rainfall patterns in southern Victorian is not looking good.

Mr HALL - I acknowledge that.

Mr KNEEBONE - It caught fire twice.

Ms FORREST - In the Auditor-General's report he combines the balance sheets of the three corporations. What does the unearned income of $39 million relate to?

Mr HAMPTON - My colleagues, I am sure, will have the detail of their individual corporations but I think there are two broad elements. One is where, for example, volumetric charges had been accrued to the end of the financial year but we have not billed them. The second major component would be where we receive grants from the state government or anybody else that relates to asset infrastructure, say like the $12 million for the Huon. We do not bring that $12 million in as income in the year we receive it, we bring it to account as income over the life of the asset that is constructed with the use of it.

Ms FORREST - So it is money received in advance and not yet spent?

Mr HAMPTON - Yes.

Mr KNEEBONE - It could well be spent. It is how you account for it. It is the matching principle between revenue and consumption of the asset. The unearned revenue is then matched to the expense of the depreciation of the asset over its life. It is effectively creating a matching principle under accounting standards.

Ms FORREST - Were the water meters included in that?

Mr KNEEBONE - Yes, they were. Our portion of the $10 million was accounted for in that way. It will be matched across the 10 or 15-year life of the water meters.

Ms FORREST - The notes on capital expenditure commitment in each of the three annual report indicate what needs to be spent next year: Cradle Mountain Water, $4.5 million; Ben Lomond Water, $11.4 million; and Southern Water, $15.6 million - a total of $31.5 million. Will funds have to be borrowed to do this? Was the cash originally received upfront for this purpose spent on ordinary operating expenses or has it been quarantined?

Mr KNEEBONE - In respect of?

Ms FORREST - The forward capital expenditure commitments.

Mr HAMPTON - They are expenditure commitments. At the end of any financial year the corporation, like any other corporation, is expected to report on commitments it has out there but will have to pay for. We might say our capital program might be $45 million in a year but we have only paid $40 million of it, so there is $5 million due. On the other side, we may have started a project but not finished it and that would sit inside that number. That would simply be part of the capital expenditure in the next year.

Ms FORREST - Do you have to borrow to undertake those planned capital works next year?

Mr HAMPTON - We do not look at a borrowing against a specific project. Our total depreciation is about $70 million and if our total capital expenditure is $120 million, effectively we are funding that $50 million difference either between retained earnings, which we have not had a lot of because the dividend has been at the level it has in the short term, or through borrowings. The bulk of the excess there has been funded through borrowings. A proportion of that will be funded through borrowings, a proportion will be funded through future depreciation.

Mr KNEEBONE - We manage it on a cashflow basis. If the cash is available, it is used to pay the outgoings. If not, we have to borrow.

Ms FORREST - You have to account for it all at the end of the financial year anyway?

Mr KNEEBONE - Yes. In that case we would have had that amount of purchase orders raised but not yet paid.

Mr BESWICK - In Ben Lomond's case, for instance, we had approximately $16 million carry-over capital works.

Ms FORREST - That is work you have not done or not completed, or started and not completed?

Mr BESWICK - No, started but not done.

Ms FORREST -It has been publicly reported in the media how much you think you are going to save in efficiencies with the one corporation. Can we have a bit more detail about how much and how that will be achieved, and why it is only $5 million, if that is the number?

Mr HAMPTON - The number is $5 million. That estimate was reviewed by Deloittes. They came up with a number of $5.8 million, and were therefore happy to sign off on the number that we had put into the public domain of $5 million. Thirty positions, probably at the upper end of our average cost per employee, will significantly account for that. There will be some significant other savings. We have not yet got into negotiation with the regulators about how much they are going to charge one beast rather than three, but we hope they will charge us less. They should.

Ms FORREST - You have not had a discussion yet?

Mr HAMPTON - We have not had that discussion and you may say, 'Why haven't you had that?' We have not wanted to presume what the parliament would decide. If the parliament had decided that we were going to -

Ms FORREST - That is unusual. Not for you, sorry.

Mr HAMPTON - Maybe in other places. But we have not wanted to be seen to presume what the parliament or our owners would do. Realistically, one of the key drivers for my conversation with my boards, and talking with our owners over a year ago about the possible move to a single corporation, was the amount of investment and time and effort in duplicating things.

Ms FORREST - What is duplicated at the moment that will not be under one?

Mr HAMPTON - We will only have one pricing services plan. We will have one set of documents. We will not have three water catchment plans, and three water quality plans. We will have one board and one annual report. The extent of duplication is huge. In building up the data for one annual report, and building up the data for monthly reporting to the board, you will not divide everything by three. There is still going to be an effort in building up the data.

We set out to try to make sure that our policies and processes were the same. For a range of different reasons, they did not end up being the same. For the last two years we have been working really hard to try to make them the same. But, I think, from a board level point of view, and from a senior management point of view, the effort in trying to get consistency and agreement on consistency is huge. Even yesterday we had a Cradle Mountain board meeting based here - normally we have it on the coast - and we were talking about debt collection. Our CEO shared with us that he had been unable to reach agreement with the other two corporations on what the next steps in debt collection might be. I say that without putting a value judgment to it, but as an observation on the kind of processes that we have consistently gone through in trying to move towards the same approach.

We are a small state - developers in one part of the state are working in other parts of the state. Property owners in one part of the state have property ownership in other parts of the state. They are frustrated with differences - even minor differences.

I am very confident that the $5 million I flagged will be achieved. I personally think, over time, it will be materially more. Speaking to third-party consultants who help organisations through this process, there was a widespread expectation that the number would be materially higher. We have not promised that. If our owners choose to give more to not-for-profits, it will reduce what we have to save.

There will be a saving. But perhaps, equally, significantly there will be an operational efficiency in not dealing with the same things three times.

Ms FORREST - A sum of $5 million does not seem like very much when you are talking about 30 staff members, and you look at the size of the salary bill, and employee related expenses and all the duplication you mentioned. One would hope it would be more than $5 million. Are you suggesting that maybe it will? Are you making a conservative assessment? Is that a fair comment?

Mr HAMPTON - I am happy to sit here and say that is perhaps a conservative view as to what the savings will be. Only time will tell and, for example, if we deliver better outcomes to the community, or we can do things faster, that might be regarded as a better outcome from one organisation than from three.

Mr VALENTINE - Do you ever see prices dropping relatively, over time, once your infrastructure is in place?

Mr HAMPTON - For those people who are currently paying too much, they have already dropped.

Mr VALENTINE - Let's say you give them an even platform here?

Mr HAMPTON - Ignoring the pricing transition issue - park that issue - the number one objective of the corporation must be to try to achieve increases of no more than CPI. That has got to be the objective. How quickly we can get there, and how much compromise between the various stakeholder interests is necessary to achieve that kind of outcome, is the big question. If we were able to access some federal funds - and it would not need to be a huge amount - it would go a long way towards helping us achieve that objective. I think that ought to be the objective of the new corporation.

Mr VALENTINE - The capital program is obviously quite significant in these early days, but it will not continue that way well into the future, surely. After the first 10 years, the level of capital expenditure must surely start to taper off.

Mr HAMPTON - I think the original number was a billion over 10 years, some of which is funded by depreciation. Some of it is normal maintenance or replacement, and some of it is replacing stuff that should have been replaced earlier. The overall expectation was 10 years, but that time frame of 10 years is a huge driver of the tariff increase.

Mr VALENTINE - What is happening now, yes.

Mr HAMPTON - If that were 20 years. If stakeholders were prepared to say, 'Rather than spending $50 million beyond depreciation each year on your capital program to fix your problems inside 10 years, you can do that over 20 years, or even 15 years, its effect is quite substantial.

Mr BESWICK - The focus in a couple of works programs has been on compliance and the requirements from the regulators, but that means we have not necessarily being doing the renewals at the right rate, so there is a renewals backlog that will have to be addressed, as opposed to compliance work.

Mr HAMPTON - Indeed the Auditor-General commented on that specifically across the three corporations in the report.

Mr VALENTINE - There is not going to be a lot of relief in the short term.

Mr PAINE - That is where the art of good asset management and having a good understanding of the use of technology will come into play in ameliorating costs, as we go forward.

Ms FORREST - When you look at the employee expenses as a percentage of sales revenue, for each of the water corporations it is about 26 or 27 per cent, and 42 per cent for Onstream, in 2012. You should always try to compare apples with apples, but if you look at Aurora, for example, theirs is 8 per cent. Will efficiencies be created so that we will see that sort of percentage change? That is a huge difference.

Mr HAMPTON - I would not expect that you are going to see that kind of change.

Ms FORREST - Not in one hit, I wouldn't think. No, certainly. But, it is a high percentage of employee related costs, as part of your sales.

Mr KNEEBONE - It depends which is high and which is low. If your revenue is low then your percentage will be high.

Mr PAINE - They have significant pass-on costs. It would be interesting to see what their percentage of employee costs to their retail revenue would be, which is the revenue for their business, and be able to compare them, a few chickens with chickens, because that is how Onstream is fundamentally in that space.

I think that would be a more interesting benchmark to look at.

[4.30 p.m.]

Ms FORREST - Onstream's employee expenditure?

Mr PAINE - No, the point was making sure that you are comparing an income that is related to their business and all the pass-through costs that they have for poles, wires and generation are subtracted whereas we do not have those pass-through costs.

Ms FORREST - Which may explain part of it but it still seems a fairly high percentage. One could suggest that perhaps the CEOs are getting paid too much.

Mr HAMPTON - In a conversation with somebody else on such matters recently, the observation was made that the energy industry is a much higher payer than the water and sewerage industry.

Ms FORREST - As a dollar figure but as far as the revenue they generate, maybe not. I do not know, I have not looked at that figure.

Mr HAMPTON - Until you analyse the two, side by side, one would expect that in the energy space the investment in infrastructure and their depreciation charges would be a lot higher and that, of course, would then push up your revenue requirement.

Ms FORREST - In the water corporations, you mean?

Mr HAMPTON - In the energy space, which would -

Ms FORREST - Oh, their depreciation costs, yes.

Mr HAMPTON - push down that percentage of their wages bill relative to their total revenue. But I am flying by the seat of my pants there and I might be completely wrong.

Laughter.

Ms FORREST - Thank you, Mr Chairman.

Mr FOSTER - With the single board we will have a saving of about $250 000 a year so it is quite substantial.

Dr GOODWIN - I have a couple more issues I would like to chew. Mr Hampton, one is something that you mentioned in your opening address about the safety culture, and you flagged that as a bit of a concern. I wonder if you can elaborate on that?

Mr HAMPTON - The initial common share for the four corporations quite rightly proposed and we had the support of then boards and the executive teams that we were inheriting people from 32 organisations with different approaches to safety and a concern about safety but they also raised this as a way of helping to unify a culture. As a result, the first reporting matter each month at every board meeting for the four corporations is around safety: what we are doing about safety; our safety stats; what injuries we have had in the month. That is for our long-term LTIFR - lost-time injuries frequency rate - a disabling injury frequency rate and despite a huge investment of effort by our executive teams in the four corporations, we are operating at performance stats - in terms of those key measures like LTIFR.

As some of you are aware, I have spent some time on the Forestry Tasmania board. That organisation worked really hard over a long time to get its LTIFR down, which is a key measure of safety performance, and saw a 50-year graph taking it down to well below double-digit and, colleagues, what is your LTIFR? Andrew?

Mr BESWICK - 19.8.

Mr KNEEBONE - 12.

Mr PAINE - 18.8 last month.

Mr HAMPTON - We are not happy with that. Without beating around the bush, there have been some incidents reported to us that could very easily have been a death or a significant injury, and that is not acceptable.

Dr GOODWIN - What is the explanation?

Mr HAMPTON - In my experience, it is a cultural issue. It takes time to inculcate a way of thinking at all levels of an organisation that when you go to the workplace in the morning, whether the workplace is an office or a maintenance store, or the workplace is out in the field, you are thinking safety.

I do not defend our position - none of us likes our position. We have redoubled our efforts over the last nine months to improve awareness. We are getting third parties looking at what we are doing to try to get it right, and we will get it right. It has not lost a priority focus.

Ms FORREST - You want to talk to the mining industry, they have a few ideas about how to change a culture and they do it very well.

Mr HAMPTON - The extent to which we do it is that the directors of the corporations are going out on field site safety visits simply to try to reinforce the message that this is not something that we are talking about; this is something that we are seriously concerned about and doing something about.

In our expenditure on workplaces that we have found to be unsafe - and some of them have been diabolical - we have not scrimped on spending money to fix the workplaces. We have not scrimped on spending money to make sure that our employees have the right sort of equipment that will minimise the risk of injury to them.

Mr PAINE - Correct.

Mr HAMPTON - But we still have not made the progress in getting the stats down. We may be being a bit hard on ourselves but I do not think so because the mining companies just do not tolerate -

Ms FORREST - No, zero tolerance.

Mr HAMPTON - For example, we have been working across the three corporations to implement the alcohol and other drugs policy. We are running into considerable resistance from the unions. Here we are, a corporation trying to make sure that our workplaces are safe. But we will not stop and we will get the numbers down.

Ms FORREST - Which unions do you deal with?

MR KNEEBONE - You name it.

Ms FORREST - Are they the same ones that operate in mining, the AWU?

MR KNEEBONE - Yes.

Ms FORREST - The AWU are very familiar with the mining industry.

Mr HAMPTON - While we might have a number of union employees, it only takes two or three to cause a particular issue to build into something more significant. The boards are committed, and I am sure the board of the new corporation will be committed, to getting the right safety outcomes. It is taking time.

Dr GOODWIN - So there is no particular pattern as to where the injuries are occurring?

MR KNEEBONE - In our particular case, an LTIFR of 12 means that we have three lost-time injuries in a year and they ranged from minor sprains to a cut hand, to something - in our case the severity has been quite low but it still a lost-time injury.

Dr GOODWIN - Obviously the possible death scenario is not a good one.

Mr HAMPTON - We used to find more than a few to do with electricity and I have never liked electricity and it terrifies me when you see an incident relating to malfunction of equipment of some kind. It is an absolute priority of the boards, I know that it is a priority of the executive teams, they are as frustrated as the boards are that we have not made as much traction as we would like but it takes time. We inherited - again, I bring no value judgment to it - a mixed workforce in terms of background and age profile, and you could probably say we inherited a slightly older age profile in our workforce. We cannot take that into account. It is about getting safe work practices and ensuring that we have safe workplaces.

Mr PAINE - To give the committee an example of the level of commitment to this, Southern Water, for example, won the Training Awards employer of the year award this year. That gives you an example of the commitment that we have made to a whole swathe of training including statutory training on safety and site training in a number of places. Not only that, getting our workforce hooked online so we have the Get Online Project, we have a literacy program for people who may not be as literate as they could be. We are doing a whole lot of work with our workforce to get them up to speed and give them the tools to be safe.

MR KNEEBONE - In our environment, my executive team have committed to doing at least one safety interaction a month. That means that they go out and they work with either a person or they do a work place inspection. I personally debrief every incident and the opening statement is: 'How are we going to make sure that this never happens again? What have we learnt from this?'

Ms FORREST - Do you do a root cause analysis in that?

MR KNEEBONE - Yes. There is absolute commitment to this from the executive team level. It is about entrenched behaviour, how people have learnt to do jobs over time and about changing culture. You do not achieve that overnight.

Mr BESWICK - There are a couple of examples from Ben Lomond Water. We follow a similar water regime from the executive but we have recently added another OH&S officer to increase our resource in this area. We have also added an OH&S systems process officer to do more work on the fundamental processes that we are following that need rectification and embedding in our workforce.

Ms FORREST - You can thank the Legislative Council for the workplace health and safety, a new national law, not coming in until the beginning of next year, but that will raise the bar a bit.

Mr KNEEBONE - We are aware of that and we are working on that.

Ms FORREST - You are working with Workplace Standards and is that helping to refocus people in the organisation to take it more seriously?

Mr BESWICK - Yes. We have been publicising it in our organisation and we have the OH&S harmonisation occurring at 1 January and we have had a program of work to become compliant with the new laws and to review our work practices so they fit with the new harmonised laws. There has been an extensive program of work that we have been undertaking and will continue post-1 January.

Ms FORREST - You have had Workplace Standards come in and they are providing a service educating all and sundry as to the implications of the new laws?

Mr KNEEBONE - We have had a range of providers coming in to provide assistance.

Ms FORREST - That has included the engagement of the workforce?

Mr KNEEBONE - Yes.

Mr BESWICK - Yes.

Dr GOODWIN - This question is for Southern Water in relation to the Lauderdale sewerage scheme but it might have broader implications. Reading from the annual report, it mentions that more than 200 property owners have expressed interest in connecting to the network. What is the process around this? Property owners cannot be compelled to connect, can they? Is that an issue?

Mr HAMPTON - It has not been an issue in Lauderdale because we have enough people to make it viable to do what we would like to do now but one can see in other areas of the state, and it may be that the southern beaches are a good example of that, but it could be the limit on whether or not we could justify the program. Our inability to mandate that customers who could be serviced in a particular area and will be serviced, or will pay for it, could become a limiter on our ability to justify undertaking certain capital programs.

Dr GOODWIN - What I have been told is that previously when councils had ownership and were in charge, they did have the capacity -

Mr FOSTER - That is right, we had that power.

Dr GOODWIN - Are you going to try to get it back or what is the plan?

Mr HAMPTON - This issue and the one that we talked about earlier in terms of our ability to secure debts to us against property, are the two major legislative changes that we constantly are butting our head against and would present a significant opportunity to us to have a better business and one we could work with more effectively.

Dr GOODWIN - Clarence has raised this with me. Previously what they were able to do was to offer the residents a no-interest loan or something -

Mr FOSTER - You put in place whatever you wanted to.

Dr GOODWIN - When the property is sold they have to pay it back but there is still that ability to -

Mr HAMPTON - Mike might like to explain to you the options around the Lauderdale project.

Mr PAINE - We have put in place a number of options including an incentive to connect, so there is a $2 000 upfront or early-bird incentive for customers that they take off their contribution. We also have a 10-year time frame over which customers can pay the connection contributions for the scheme. We have been down there recently and we have a shopfront there and we have 314 site inspections booked in, so a large amount of interest and I was talking to the team from there yesterday and they were saying that a number of the customers, whilst appreciative of the time frame to repay, are wanting to sort it out upfront so they do not have to worry about it going forward. We are getting some good traction in that scheme.

Mr HAMPTON - It may be as part of the negotiation to get the capacity to force it. We were obliged to offer agreed discounts for immediate payment, locked in a period over which you could pay it, locked in what interest rates - are we applying interest, Mike?

Mr PAINE - CPI.

Mr HAMPTON - It is not at interest then?

Mr PAINE - No, sorry.

Mr HAMPTON - That may be the trade-off but it might be a better trade-off than the one that we have and it is one that would not cause us a concern.

Dr GOODWIN - So you are working on that?

Mr HAMPTON - I think those are the two significant legislative issues that need at some time to be addressed.

Ms FORREST - Which you are going to work on.

Mr HAMPTON - I have an expectation that the new board will be working on both.

CHAIR - My judgment is that our questions have been exhausted. We thank you all for contributing and my observation is that this has been a refreshing experience without a minister at the table. We might embark on that for other government businesses. Thank you.

The committee adjourned at 4.46 p.m.