

August 1st 2017

Gentlemen

On last weeks walk I was asked for my opinion of the government take over of Taswater so I decided I would ponder this and present my thoughts. It is likely to be a recurrent question as the takeover hots up.

The short answer is that it will cost us ratepayers a good deal of money but likely over a period of time during which we will forget there was an alternative.

If you want the full story then read on.

As you may know I was a director of Hobart Water, the predecessor to Taswater, for some 6 years and in fact until Hobart Water ceased to exist in 2009. Hobart Water only dealt with water supply and only on behalf of the Southern Councils. It was constituted as a Joint Authority under the Local Government Act and hence was owned by the participating councils. Launceston and North West had similar models having copied Hobart Water's success.

In the latter years of my tenure, Hobart Water was asked to manage sewage plants on behalf of Glamorgan Spring Bay and New Norfolk councils. All councils, and the smaller ones particularly, were finding the technical and financial requirements of achieving adequate standards and reliability were daunting.

The State Government also initiated and underwrote an arrangement between Hobart Water and Glamorgan Spring Bay to provide a new clean water supply for Swansea which was at the time subject to a boil water alert. Again the council was not coping and tourism was thought to be in jeopardy.

State government then went further in legislating for three regulated companies to own, upgrade and manage all water supply and sewage treatment in the state. Under the guidance of Miles Hampton these three companies sensibly decided to amalgamate and form a single council owned company, the now controversial Taswater.

I was impressed with the council owned model which had worked well for Hobart Water. I don't think I had influence but I was against a GBE model since that structure seemed to suffer from either excessive political interference or else benign neglect. My case in point was that the Hydro Electric Commission had worked well as a largely independent commission. It had kept a tight reign on costs and produced excellent work. When it was split up into three government owned businesses, Hydro, Aurora and Transend, things became very different. Hydro was used by the government for cash purposes and was not able to plan well for Tasmania's energy future. Transend decided to heavily re-inforce it's system. Aurora proceeded on a wasteful purchase and upgrade of the Bell Bay Thermal station in a futile attempt to have it's own source of electricity. The result of all this was a large waste of capital which still has to be serviced. With now three organizations operating costs have surged and Tasmania has gone from having nearly the cheapest power in Australia to having nearly the most expensive

Other GBE's like Forestry have similarly been managed to the whim of the Minister, the single shareholder, and in my opinion have therefore not been able to properly plan for their future. TFLine has done a little better but it has competition to keep it on the ball.

So what is now going on? Mr Gutwein wants Taswater to become a GBE which he can readily influence. He specifically says he wants the upgrade program accelerated to complete in 5 years on the justification that many sewage treatment plants are still operating on environmental exemptions.

To my knowledge the worst offender, Taroona has been closed and Rosny is no longer smelly, but many regional sewage systems still need to be brought into full compliance. The big ticket items of moving the Macquarie Point plant to make way for development, and separating sewage from stormwater in Launceston, are still pending.

We are however doing reasonably well by world standards and we hear no reports of tourists being offended or deterred. It is hardly a crisis and Taswater claims to have costed plans to complete the compliance work within 10 years while keeping water and sewage price increases close to CPI.

What then does Mr Gutwein really gain by the take over? Aside from any election imperatives I would suggest:

- 1 The opportunity to boost construction activity in the state during his tenure.
- 2 The opportunity to give developers special treatment when he deems necessary (e.g. Mona).
- 3 The opportunity to clear Macquarie point for re-development at ratepayers cost.
4. Borrowings which are off the government's balance sheet.
5. Access to Taswater's charging structure so the ratepayers have to service the additional debt.

He claims it is intolerable to have non-compliant treatment plants and therefore upgrade work has to be fast tracked. But the fast track always means less planning, loose contracts, less efficient working and therefore higher capital expenditure for the same end result. It is justified when there is a future economic benefit or revenue stream which can be brought forward but that is scarcely the case here. He claims his fast tracking will be cheaper but never gets cornered to explain how this might happen.

Perhaps Mr Gutwein is also aware of the frustration the public sometimes feels when dealing with an organization as autonomous as Taswater and wants to be able to intervene on behalf of the public. The smelly treatment plant near Mona might be an example but I sense this could be sorted amicably. The government is never devoid of influence.

We have heard Taswater commit to complete upgrades within 10 years with modest increases over CPI. They asked government to assist by seeking \$400m in federal grant funds for the big ticket items. Government has not been able to help but Taswater's owners have agreed to forgo dividend payments in order to service more debt. I read this as a big commitment on the part of Taswater and its owners and one which we, its customers, should respect and value.

As a GBE Taswater will lose this sense of independent accountability, intangible perhaps, but something that can be enormously important when deciding how hard they struggle to use our money efficiently. Once the minister takes over they will most probably just do an average sort of job, keep their heads down and let the minister explain the final accounting, wouldn't you?

This takeover is then somewhat similar to the restructure of the H E C and likely to be similarly expensive. But, like the Hydro takeover, government knows we will have forgotten what it was all about when interest rates rise and big costs start to be passed down to us.

Lyndon Stephenson

