

WATER AND SEWERAGE INDUSTRY AMENDMENT BILL 2011

SECOND READING SPEECH

Mr Speaker

I have brought this Bill into this place today as a leader who makes and stands by strong decisions that are good for the future of Tasmania.

This Bill builds on the reforms that have been made to Tasmania's water and sewerage sector and recognises the balance that the Tasmanian community expects between securing good health and environmental outcomes for our State in the long term and managing the impact of price rises on Tasmanian households.

This Bill continues our commitment to building a safe, healthy and clean Tasmania.

This Bill balances the many competing interests in water and sewerage reform in Tasmania.

This Bill shows that my Government listens to the needs of ordinary Tasmanians.

Mr Speaker, the case for reform of Tasmania's water and sewerage sector was compelling when my predecessor as Treasurer introduced legislation to create the water corporations and the regulatory framework in 2008. I would like to restate that case, as it is as compelling today as it was then.

Water and sewerage services in Tasmania had, until 2008, been provided by local councils and generally been paid for as part of councils' operating expenses. Councils used a variety of means to recoup the cost of providing these services. The most common sources of revenue were through general rates or through grants and gifts from the Australian Government.

This raises two important points.

The first is that water and sewerage charges are not new and nor is the patchwork approach to charging across municipalities. What has

occurred is that people have become more aware of these issues because separate water and sewerage bills are now being sent out.

Mr Speaker, I acknowledge that receiving a separate water and sewerage bill for the first time may have been a shock to some people, who were previously unaware of the amount that they were paying for these services. No-one likes receiving bills and no-one likes receiving a bill that they have not received before. But charges for water and sewerage are not new and so far the bills sent out by the new corporations have been based on the same approach previously used by councils.

Many Tasmanians have raised with me their concerns about the way water and sewerage charges are set. They have raised questions about bills being based on property values and having very different prices in different municipalities. These issues are not a result of setting up the water and sewerage corporations. The reform process has just made these issues more obvious. And in the long term, our reforms will address these issues.

This is why I have recently approved a consultation draft of an amended interim price order that removes the requirement for the water and sewerage corporations to base their charges on the old council approaches. The new order will allow the corporations to begin to address these issues, but the problems cannot be solved overnight.

The second consequence of councils' approaches to funding water and sewerage services is that, in many cases, the revenue being collected by councils was not enough to pay for the replacement of infrastructure when it eventually wears out. Because a lot of our infrastructure was paid for up-front, current prices do not cover the cost of refurbishment or replacement.

A lot of Tasmania's water and sewerage infrastructure is ageing and will need replacing over the coming decades. It has been estimated that up to one billion dollars will need to be spent on this task, in an industry with assets currently valued at about 2 billion dollars. No provision had been made for this and it was one of the critical drivers of reform of the sector.

With no provision made for replacement of our ageing assets, the health and environmental consequences of asset failures as pipes break and waste water treatment plants fail would be dire.

If Tasmania is to have a water and sewerage industry that meets contemporary first-world standards, we cannot continue to rely on hand-outs and hope to fund it.

Mr Speaker, let me outline some facts about Tasmania's water and sewerage sector as reported by the Tasmanian Economic Regulator in the State of the Industry Report for the 2009-2010 financial year.

Fifteen per cent of Tasmanian drinking water treatment systems failed to meet minimum standards for bacteria, such as e-coli.

Sixteen temporary and twenty-four permanent boil water alerts were required to ensure the reticulated drinking water for some Tasmanians was not a threat to their health.

In one in four drinking water systems, bacteria levels were not even being measured.

Four per cent of the Tasmanian population received reticulated drinking water that did not meet minimum standards. This was ten times the national rate.

About one third of Tasmania's waste water treatment plants were operating above their hydraulic capacity – that is, they had more water put through them than they were built to process, which results in a risk of raw sewage being discharged into Tasmanian rivers and coastal waters.

And seventy-one out of seventy-eight Tasmanian waste water treatment plants failed to meet minimum environmental standards at some time in 2009-2010.

In summarising the performance of the industry in 2009-2010, the Regulator concluded that – and here I am quoting – “the industry continues to pollute the State's rivers and coastal waters with effluent containing significant organic loads, elevated nutrients and faecal bacteria concentrations.”

Mr Speaker, it would be nice to think that 2009-2010 was an aberration. Sadly, the performance of the industry in 2009-2010 had improved compared to the preceding years. And if we don't act now to ensure that assets can be replaced as they age, the performance of the industry will actually get worse.

Mr Speaker, these are the facts. They are unpalatable. In some cases, they are disturbing. But they cannot be wished away and they cannot be

ignored by those who would seek to present only the price impacts of this reform.

It is true that fixing these problems will have a cost. This, too, is unpalatable, but I believe it is preferable to the alternative. I believe that most Tasmanians, when presented with these facts, would agree with me.

Indeed, in 2008 when the water and sewerage legislation was introduced, the members opposite accepted and agreed with this need for action. More recently, the interim report of the water and sewerage Select Committee, with members from all the parties in this place, again acknowledged the need for action to bring Tasmania's water and sewerage sector up to contemporary standards.

Mr Speaker, there is consensus that Tasmania's water and sewerage sector needs significant investment to be brought up to a standard that provides safe health and environmental outcomes. That is no longer in question. The question is how that investment is to be funded and how the impacts on Tasmania's household budgets can best be managed.

Now is an opportune time to reflect on how we are doing this. Over the last two years, we have developed a much better understanding of the problem, and of the work left to be done.

It is now clear that these are problems that were decades in the making, and they will probably take decades to solve. We now know the approach that was laid out in the Water and Sewerage Industry Act in 2008, while based on sound objectives, principles and design, needs to be fine-tuned, to ensure that we deliver the benefits of this vital reform in the long term. We now know that some of our expectations were optimistic.

We know that we must continue to unwind the inequitable and unfair practice of AAV-based charging for water and sewerage services, but that we must manage that process carefully.

We know that the Government has had to reassess the viability of the support it has been providing to the corporations.

We know that the corporations will need to take a longer term view of their capital requirements and how those requirements can be implemented to ensure that there are minimal price shocks.

We know that the Environmental and Public Health regulators will need to accept that many instances of non-compliance will take years, if not decades, to remedy.

We know that it may be uneconomic to provide potable water supplies to some small communities in Tasmania, and in many cases these communities are actively resisting any service provision. The regulators may need to “draw a line in the sand” on the level of service to be provided to certain sized communities, and the timeframe to achieve this.

And, Mr Speaker, we know that the Local Government owners have been reconsidering their expectations on dividends from their corporations.

Mr Speaker, the *Water and Sewerage Industry Amendment Bill 2011* recognises that Tasmanians do not expect to pay, and Tasmania’s local councils do not expect to receive, unreasonable returns from past investments in water and sewerage infrastructure.

Councils were not charging customers at these levels prior to the establishment of the Local Government owned water and sewerage corporations. Further, many of the assets transferred from councils to the corporations were originally paid for by the Australian or Tasmanian Governments. It would not be appropriate for the corporations to be given an investment-grade rate of return on those assets.

For these reasons, the Bill requires that the Tasmanian Economic Regulator, when making a price determination, allows a rate of return on equity invested prior to the establishment of the corporations of three per cent. This is lower than the rate currently stipulated in the Principal Act, which is set at a commercial rate of return.

For that proportion of investments funded by debt, the Regulator will be required to calculate sufficient revenues to cover the interest payments on that debt.

For investments made after the establishment of the corporations, the Bill maintains the current requirements. This ensures that the legislative requirements that were in place at the time when investment decisions were made are preserved.

The Tasmanian Economic Regulator has published advice that, in order to reach a level of revenue that would provide a commercial rate of return as required under the Act as currently drafted, water and

sewerage prices in Tasmania would need to almost double from current levels.

Mr Speaker, the effect of this Bill will be to approximately halve the gap between current prices and the level needed to provide a return to the council owners of Tasmania's water and sewerage assets.

To put this another way, the effect of the Bill is to reduce the level of revenue growth required by the principles in the Act by more than eighty million dollars.

Mr Speaker, notwithstanding this significant reduction in the amount by which prices might need to rise to reach the levels implied by the Act, it was never intended that prices would immediately rise to this level. That is why the legislation has always required the Regulator to have regard to the impact of the rate of change of prices on customers.

However, to remove any ambiguity, the Bill introduces provisions that explicitly recognise that the Regulator is not compelled to approve prices at cost-reflective levels, or at levels that would provide a return to the corporations' owners, if to do so would result in a rate of change of prices that has a significant impact on customers.

The Bill also introduces provisions that explicitly recognise that the Regulator is not compelled to approve prices, such as for high-AAV properties whose charges are currently above cost-reflective levels, if to do so would reduce revenues to the corporations below levels at which they are able to sustainably provide water and sewerage services.

Both of these provisions are transitional and will ensure that the Regulator is able to make a price determination that has regard to the impact of the rate of change of prices on customers, as originally intended.

Mr Speaker, I acknowledge that reducing the rate of return on assets that may be earned by the corporations, and not moving immediately to a level of revenue implied by the principles in the Act, has required the local government owners to accept that the dividends paid by their corporations might be lower than they had previously expected. I am grateful to Tasmania's councils for their cooperation in this matter and I respect the decision they have made to balance the impact of price rises on their rate-payers against their own financial interests.

Mr Speaker, the Bill also addresses some matters of a minor and technical nature. The Bill amends the definition of a water and sewerage

customer to ensure that owners or occupiers of strata title properties are counted as customers. This will ensure that these customers are covered by the customer protection arrangements for the sector and will ensure that the corporations can legally issue water and sewerage bills to these customers when the interim pricing period ceases.

The final matter contained in the Bill relates to the ability of water and sewerage officers to issue infringement notices. The Bill enables water and sewerage officers to issue infringement notices in relation to offences against water and sewerage infrastructure and water restrictions. This will correct the earlier oversight and enable water and sewerage officers to effectively enforce matters for which the existing Act already makes them responsible.

Mr Speaker, this is a Bill that builds on our commitment to protecting the health of Tasmanians and the environment of Tasmania while managing the impact of the cost of that protection on ordinary Tasmanians.

I commend the Bill to the House.