



16 April 2004

Mr John Feil
Executive Director
National Competition Council
GPO Box 250B
MELBOURNE Vic 3001

Dear Mr Feil

2004 Policy Assessment for Water Reform

The Property Council represents the broad interests of the property community, principally those who develop or invest in the built environment to generate economic returns. Membership of the Tasmanian Division includes institutional and private building owners, building managers, service providers to owners and supplies.

Because of unsatisfactory progress with implementation of water reform, particularly in Southern Tasmania, the Divisional Council as recent as yesterday resolved to make a belated submission to the review in anticipation that it will be considered.

The failure of councils in the Hobart metropolitan area to implement water reform is well-documented and understood. Reviews by the independent and expert Local Government Board into each of the councils concerned (the Glenorchy Council report is yet to be released) has noted the lack of progress and made recommendations to redress this situation. Notwithstanding, there has been no significant change.

Moreover, in the course of the current review of the Tasmanian Local Government Act the question of water reform and implementation of two part pricing for water services has been considered. The steering committee overseeing the review received a number of submissions in support of legislating to require reform.

In the report which accompanied the release of the Draft Bill it is commented that " The National Competition Council has stated that if the distortions arise due to AAV based pricing it would be a serious breach of NCP requirements."

The Voice of Leadership

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The Report goes on to include from the Government Prices Oversight Commission (GPOC) report on the *Audit of Local Government Water and Wastewater Businesses* the following:-

“The absence of two part pricing does create inefficiencies and cross-subsidies, irrespective of whether property values, connections size or any other measure is used to allocate fixed charge. However, the cost of these inefficiencies may be less than the cost of administering a metering scheme and thus may outweigh the benefits arising from the introduction of metering.”

The problem PCA has is the veracity of the assessments undertaken on the behalf of councils to determine whether metering is cost effective. PCA has serious misgivings at the criteria, which has been adopted as a prerequisite to these assessments.

The Property Council finds it most discerning that authorities are aware of the disregard councils are having for water reform and the decisions they have taken to avoid compliance, yet are unprepared to take action.

Quite apart from the practices at council or retail level, there are issues with pricing by the bulk water supplier, Hobart Water. Our concern is that the pricing model adopted by Hobart Water places what would ordinarily be considered variable costs into the fixed cost component, which it recovers from councils. This practice is exacerbated by GPOC in its regulatory reviews of the bulk water authority.

As you would be well aware, utilities because of their very nature, are monopoly providers of services and governments have attempted to control the use of their monopoly power by the establishment of regulatory bodies. Consumers of services are entitled to expect that these regulatory bodies will watch over and protect their interests.

Yours sincerely



Stewart Wardlaw
Executive Director (Tasmanian Division)