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TRANSCRIPT OF PROCEEDINGS

INDUSTRY PANEL REVIEW OF THE ICRC'S WATER AND SEWERAGE DIRECTION

MS M. HARTLEY, CHAIR

CANBERRA

11.28 AM, MONDAY, 1 SEPTEMBER 2014

5 MS HARTLEY: Might I just - yes, this is working. Well, welcome everyone to the second part of meeting of the Industry Panel. Most of you, I think, will know us, but for formality's sake, my name is Maryanne Hartley. I'm presiding in terms of the panel, and my fellow panel Sally Farrier and Claire Thomas are at the table here.

10 As with our last meeting, this is an open hearing and it will be transcribed, and the transcript will be uploaded to the Panel's website in due course. I ask that everyone here ensures that they have completed the attendee list at the door, and note that that attendee list will also be published on the website and may be included in the Panel's reports.

15 All contributions made today should be made through the microphone that's placed at the front of the room, and I ask that anyone who speaks also identify themselves before speaking. Obviously it will assist in managing the proceeding if comments can be made through me as the chair of the meeting. Please also ensure, if you haven't done so already, that your mobile phone is on silent or switched off.

20 So I wanted to start by really just putting some context around today's meeting, and to remind people here of the Panel's role. So the first thing I think to note is that this isn't an ordinary price investigation as economic regulator normally do, because it's a review of a price direction that has already been made by an economic regulator, namely the ICRC, in June
25 2013.

30 So rather than starting from a blank sheet, the Panel is aware of a substantial amount of work that has already been done that contributes to the background we draw on. So we're aware of the ICRC's original pricing investigation, and note that that was an extensive process, taking some 21 months.

35 That investigation generated a substantial amount of information, and included many submissions from across the ACT community. The Panel has access to all of that material, and is aware of key issues that were raised in submissions to the ICRC which, as many would be aware, also conducted public hearings as it was required to do.

40 So that's part of the context, and then another part of the context that's of importance also is that we understand that there is a trade-off to be made between comprehensive of analysis and timeliness of process, and what we have been striving to do is to make an appropriate balance between completing this review in a timely fashion, but also have appropriate attention to the task at hand and the information that we need to draw on.
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5 In terms of our role, I do want to remind everyone present that we operate under a statute, and under that statute we have a defined task and powers that are limited to the relevant sections in the ICRC Act and also the terms of reference that have been issued under that act. So we don't start with the power to do whatever we want to do or whatever others would like us to do, but we must work within a statutory framework.

10 I just want to now take a step backwards and remind everyone present of the process to date. We started in June by issuing an approach paper, and that was to establish processes and identify areas of our focus. We then invited feedback from the public and from ACTEW about that proposed approach, and we obtained feedback from both ACTEW and the public on those issues.

15 We responded to that feedback at a directions hearing on 25 July at which we indicated the way we planned to conduct the review. We directed ACTEW to provide a statement of facts and contentions that, amongst other things, was a requirement to include a full list of matters which are the subject of ACTEW's application for review, and we asked for
20 evidence supporting the facts and contentions.

25 ACTEW, as we directed on that occasion, provided its statement of facts and contentions on 31 July, and that was uploaded onto the Panel's website. We accept that the matters raised by ACTEW in their statement of facts and contentions are worthy of consideration, and these are the approach to calculating the rate of return, the return on equity, the two year period between revenue building block resets, and the calculation of depreciation.

30 So that marks a set of issues that we accept are relevant to our inquiry, and then we also sought input from the public on whether any other issues can be identified that should form part of our review, and we invited public submissions to help us in that process. So at the directions hearing on 25
35 July we made a direction about any submissions to be made by any other persons, and that was an opportunity to either respond to the ACTEW statement of facts and contentions or to raise other relevant matters that might form part of the panel's review.

40 In response to that direction, we received five submissions, and I'll speak more about those in a moment, and about how we intend to address the issues in those submissions. We also received a submission from the Rate Payers Association some time before that previous directions hearing, and we noted at that last directions hearing that as it went to matters of substance it would be dealt with at the relevant time, which was in this
45 part of the process, and we certainly have in this part of the process

considered the Rate Payers Association submission along with the five submissions recently received. We note that very few submissions responded to any issue in the ACTEW statement of facts and contentions.

5 We do also want to note that in addition to the processes that I have just outlined, the Panel has been undertaking its own investigations by the engagement of its own independent technical experts who have been providing advice on regulatory issues that the Panel regards as pertinent to the review. The work of these experts includes advising on best practice
10 regulatory techniques and reviewing what happens in regulatory processes elsewhere.

I do just want to go back and speak a little bit more about the Panel's role. The legal framework under which we act imposes obligations on us and defines various matters that we have to have regard to when making
15 decisions. The Panel has to make judgements which involve balancing the many considerations set out in the act and it has to take into account all of those considerations, some of which are inherently contradictory.

20 Given its timelines, the Panel won't be looking at every aspect of the original price direction. Instead, we will be focusing on the matters that are the subject of the application for review, and included in ACTEW's statement of facts and contentions, and those other issues that the Panel feels it needs to examine in order to arrive at the correct or preferable
25 decision. This is informed in part by the submissions we've received from the public ahead of this hearing.

Of course our determinations will also be informed by ACTEW's submission, by sound regulatory practice, and in due course views that are expressed either in writing or at a public hearing once we release our draft
30 report.

While we are empowered to consider some issues as part of this process, there are some topics that are outside our remit, for example because they don't represent part of the regulatory decision-making process. Ultimately
35 our task is to determine if the ICRC decision should stand or, if not, to specify the correct or preferable decision in lieu of the ICRC determination.

40 We need to ensure that the price direction applying to ACTEW is on balance correct for everyone who has an interest in the process, including customers and the shareholder and ACTEW. I do want to emphasise that as this is a regulatory review, there are certain matters that we are not in a position to make recommendations about. Two key categories of matters
45 that we are not in a position to make recommendations about are, first,

5 whether government policies that impact on water prices are appropriate or correct. For example we have no mandate or scope to consider the appropriateness of dividend policies or water abstraction charges. However, to the extent that these policies impact on ACTEW's financial position, we do have an opportunity to consider the impact.

10 A second key area that is outside our remit is any requirement to step into the shoes of ACTEW's management. So while we will examine whether the overall expenditure of ACTEW is prudent and efficient, and that would have to be done by judging it against relevant benchmarks, it's not our role to tell ACTEW exactly what it should be spending on specific items to achieve these efficient and prudent expenditure levels.

15 In terms of work we've done, we have in addition to engaging experts dealing with what is best regulatory practice, we have since the last hearing, and since receiving the ACTEW statement of facts and contentions, undertaking our own scrutiny of the matters raised in that statement, and we have asked ACTEW for further information and we have sought clarification on a number of issues, including actual
20 expenditure information for 2012 and 2013, more detailed information on depreciation matters, and details of concession and hardship arrangements. And anyone who wishes to might examine that correspondence, because it's been posted on our website.

25 So that's all an opportunity to consider context, the statutory framework and steps that have been taken to date. What I now want to turn to is what are we here for today. So today's hearing is a step in our panel processes. It is a completion of the first stage of the review, which is to identify the scope of the review and the areas of focus that we need to have as our
30 investigations continue.

35 The submissions that were provided by the public will be discussed today, and they will be used to assist the panel in its investigations. Putting the current hearing in context, we note that once we are satisfied that we have properly ascertained the issues for consideration, we will prepare a draft report, and that will contain our proposed price direction.

40 That draft will be made public, and it will then be the subject of a further public hearing, at which those present here today and any other members of the public will be able to make submissions. We will also receive written submissions on the draft report. So it will be at that point that the ACT community more generally can have substantial and final input into the review process.

45 You've been given as you've come in a document that is the Panel's

attempt to summarise the issues raised in the public submissions we've received. Many of the issues are multi-faceted, and these will be considered globally by the Panel as we prepare our report. But for now, and for the sake of simplicity what we've done is to assign the various issues according to individual matters. So you will see on the summary that we've prepared we've taken key regulatory key issues on the left-hand side. In the middle we've noted our summary of particular matters that have been raised in individual submissions. And on the right-hand side you will see our initial view or response to those issues.

Just because an issue is included in our table doesn't mean that the Panel necessarily agrees with the assertions that have been made in the submission that has given rise to that entry on the table. What it does mean is that the issue will be considered if it's deemed relevant to the Panel's review.

We found it useful to categorise the issues raised in the public submissions in the following way. First, and what's found its way mostly on the table, are issues that are clearly within our mandate, our statutory mandate, and which we have determined as being appropriate to consider as part of the review.

Secondly, there are issues that are also clearly within our remit, but we feel we cannot deal with adequately in the context of this review, despite the thoughtful and considered way they have been presented to the Panel in submissions, for example because of our proposed deadlines being insufficient to examine an issue in depth. We may nevertheless flag the need for further work in these areas in our public report.

A good example of this is the examination of the structure of water tariffs. We accept assertions made in submissions that the structure of tariffs has a material impact on water consumers. However, in our view a review of tariff structures would require extensive consultation and analysis, and that is not possible within the timeframes we are working towards, nor with the resources that we have at our disposal.

It is of equal significance that other processes have been foreshadowed by the ICRC to review tariff structures, and we're mindful of the need to accommodate any further changes to tariff structures arising from any review that the ICRC undertakes.

The third category of issues arising from the submission are issues that are out of scope because we don't have the legal mandate to look at them, for example issues that are a matter of government policy. So we want to ensure that everyone here has ample opportunity to consider our table.

5 Some people arrived earlier than others, and so some have had a longer opportunity to consider the table than others. What I'd propose is that we have a 10 minute break so that everyone has an opportunity to consider the contents of the table and to consider the response that you want to make to that table.

10 So when we resume, what I will be doing is inviting you to respond to the way in which the issues have been categorised, tell us whether we've missed issues, or whether we've miscategorised them. To the extent that we've omitted things, we are open to submissions that those omitted matters should be included, and we will then consider what else arises from any comments or submissions that people make in that process.

15 So it's now 10 to 12. I propose that we resume at 12 o'clock, at which time I welcome any oral submissions from anyone here, all right?

ADJOURNED

[11.50 am]

20

RESUMED

[11.59 am]

25 MS HARTLEY: Now, ladies and gentlemen, so this is now an opportunity for anyone present to make comments or oral submissions on the way in which we've categorised the issues on the paper that you've been given. Tell us anything that we've missed. Persuade us about anything that we should be considering. And in due course I'll also invite ACTEW, if they wish to respond to any of the issues, to say anything they want to say.

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35 So I open the meeting to anyone who wishes to make a comment, reminding you we would like you to identify yourself and speak from the microphone over there, please.

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40 DR DWYER: Dr Terry Dwyer, Dwyer Lawyers. I'd like to suggest the panel should give priority to section 22A, the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of regulated services, and also look at the importance of greater efficiency.

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45 In looking at an appropriate rate of return, what most people in this industry of regulation, if I can call it that - I call it a common so-called pseudo-industry of bogus economics - what people have forgotten is who is being paid for what. Now, in the ACT a lot of costs are being dumped

on consumers for cross-subsidising of other people. For example, if you build a dam such as the Lower Cotter, which is being told to release 12 gegalitres a year for downstream use, it's quite inappropriate to recover all the costs of that dam from the users in the ACT. Adelaide is not contributing to it. Downstream farmers are not contributing to the costs of storages which serve them. So you really have to apportion the output between users, and no one has ever done that.

Another thing I'd like to point out, as I pointed out in my submission, is when you're looking at a rate of return you normally look at actual investment, not notional investment, and if the Panel is going to look at the question of an appropriate rate of return and look at cash flow requirements and cash flows, the obvious thing to do in looking at a rate of return would be to go back and compute the internal rate of return on actual cash actually invested by the ACT Government before you worked out what they're entitled to.

This system of taking over assets and perpetually revaluing them and saying that you're entitled to return on them has got nothing to do with economic efficiency. It is fundamentally all about tax collection. That's a disguised system of taxation. My view is that it violates section 90 of the constitution, but that would have to wait for another day and another time.

The other thing I'd like to comment on is if you're going to look at the prudence of expenditure, you ought to look at what ACTEW itself said in looking at future water options a few years ago in its paper on options for the new ACT water supply. They mentioned the Tennant Dam could have been built and provided water at an operating cost of about 9 cents per kilolitre, versus the Lower Cotter, which is 14 cents per kilolitre because of the increased pumping costs.

In fact most people don't know the reason for building Bendora Dam was to save pumping costs to Stromlo and let gravity do the job. The business of using the Lower Cotter and bringing it back into service and pushing up costs is only made necessary by political decisions to create larger environmental flows down the Cotter River.

Now, they may be right or they may be wrong, but having made that decision a government should wear the consequences and not dump the costs on the water users. So those are things which ought to be looked at. ACTEW itself wanted the Tennant Dam, not the Cotter, for reasons, and it had to change its preference, and that would have been a cheaper dam with reduced pumping costs.

So those are things that should be looked at, and in terms of the

management of the Lower Cotter and the cost blowouts, that's something which speaks for itself, and I'll just leave my comments there at this stage.

MS HARTLEY: Thank you, Dr Dwyer.

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MR COX: My name is Kevin Cox. I'm from a company White Label Personal Clouds. The couple of things that are, I think, difficult in the areas that you have to address here is that fundamentally I think - - -

10 MS HARTLEY: I'm sorry, just before you go on, Mr Cox, I'm just not sure if everyone's hearing. Is there a problem?

MR COX: There is a problem? Okay. Sorry to hear that.

15 MS HARTLEY: Much better, thank you. Yes.

MR COX: The - I would agree that the issue about rate of returns for monopoly and infrastructure development is not really an appropriate way of being able to work out what prices you should be charging, and I would suggest that this is backed up by the recent financial inquiry in which they have asked for methods whereby we can invent tradeable claims to assist with infrastructure development.

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25 So the financial inquiry has recognised that the way in which we finance infrastructure is lacking. So I just question the whole basis for using rate of return and regulated asset basis as any part associated with the parts which we should be charging.

30 The other part that's missing entirely here is the whole business of raising funds for infrastructure development. The way in which we raise funds now through ...(indistinct)... is, I believe, inefficient, expensive, and puts ...(indistinct)... burden on the community. And in the submission I've made I address those questions.

35 MS HARTLEY: Yes.

MR COX: I think another part that is important is that, you know, I believe the ICRC identified a severe inequity, let's say, associated with the current generation as opposed to the future generations, and they pointed out that under the current method of allocating costs, a person 100 years in the future pays at least one-sixth less than a person today for building the Cotter Dam, and that's simply because of the way in which we arrange and do our calculations, and I think we could do a much better job on those issues.

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5 The other point is that I think ACTEW should be the people who set prices, because their mandate is to use prices - or it should be to use prices as a way of being able to control demand, and if we have price methods to control demand as opposed to restrictions we could well get rid of restrictions.

The issue of course with increasing prices ...(indistinct)... the equity issue, and I have addressed that situation in my paper.

10 MS HARTLEY: Thanks very much, Mr Cox.

MR CRAWFORD: I'm Scott Crawford. I just want to comment about on page 5, the third point in the government policy and government ...(indistinct)... I pick that up in page ...(indistinct)... section.

15 MS HARTLEY: Yes.

MR CRAWFORD: Yes, the ban on all water consumption ...(indistinct)... is only making ...(indistinct)... water prices more efficient ...(indistinct)...

20 MS HARTLEY: Thank you. I should say that demand and demand management is one of the areas of focus for our technical experts and it's something that we will be considering in some detail. It perhaps hasn't - I should have said something about that as I was going through the work we're doing. Are there any other contributions?

MS GERUSSI: Thank you. Marisa Gerussi from UP ...(indistinct)...

30 MS HARTLEY: Yes.

MS GERUSSI: I have to say that it's quite a lot to take in, your table here, and to understand and to analyse. Unlike my earlier colleague, we are really representing ratepayers and consumers, and therefore can only respond to what seems fair and reasonable to us. However, looking at the presentation and the explanation of the Panel's initial view, we were concerned - well, I am concerned, and I'm sure my colleague is also concerned, to see that whilst - to explain the way that you're going to handle something is to point to a particular section of the Act. It doesn't actually say how you are going to - how that particular section of the act is going to be applied in the analysis of those criticisms.

40 One case in point could be on page 4, the level of prices, where you make a statement that this is consistent with section 22G that relates to social impacts, but you know, the comment earlier was that there was little comments in our submissions about ACTEW's statement of facts and

contentions. Most certainly impacts on the consumer and social impacts were not considered at all, and that is one issue that, if that section of the act is going to be applied in this review, we need to understand how you're going to apply it and what you're going to request of it.

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Secondly I am pleased to hear that the Panel is in fact going to have its own technical expertise. Our concerns, however, are, are these technical experts experts in Australian utilities that relate to water and sewerage? We are really concerned that to date what we have read, particularly from ACTEW's case, appears to relate to energy corporations, not the provision of water and sewerage.

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I think they're the two major comments that I've got to make.

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MS HARTLEY: Thank you. I might just say something about that. I think it's very much - - -

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MS GERUSSI: Just one more, yes, sorry, that I had forgotten about. We are also extremely concerned, and I know that you've noted our concern, about having the public informed of this inquiry and review.

MS HARTLEY: Yes.

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MS GERUSSI: We notice that to date, yes, you have made mention of it on the website, but it's a Treasury website, so that unless a person is extremely uniquely interested in water issues and the review, as we are, on behalf of our committee, no one is really able to magically know that something has been posted on a website, and I was very, very concerned that at the directions hearing there were only three members of the public, or representatives of the public, and only five submissions.

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I really feel that this is a travesty on the ACT consumer and rate payer and much better effort should be made in engaging them, because after all, the money is to come out of their pockets. Thank you.

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MS HARTLEY: I might just say two things just on those particular issues that you've raised. The first thing is that the main public hearing, if you like, is the one at which anyone will be entitled to speak about our draft report, and that will be publicly advertised in the press as well as the normal process that we have been engaging in, which is advising the people who have expressed an interest in the process as they have been advised to date. So there will be a public advertisement of that hearing in due course.

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And the other thing that you enquired on, I think it is important to say

something about this. The - first of all the Panel itself - I don't know what was in the mind of the government when it asked us to accept appointments to this task, but I would read between the lines and think that our personal experience in water matters was a relevant factor, so all
5 of the Panel have experience in that field, from different perspectives, but all have had experience in the field of water pricing regulation, and the team of experts that we have assembled we have chosen because they have relevant experience in that field. So I hope that gives you some assurance that we have engaged appropriate people for the task.

10 They are people who draw on standard regulatory experience, and I understand Dr Dwyer challenges whether that's an appropriate kind of experience and whether the structure itself is appropriate, but given our legislative framework in which we work, we have done an appropriate
15 job, I think, in selecting people who have ample experience of working within a similar framework.

So are there any other questions?

20 DR DWYER: I'd like to say a few words about this phrase "demand management". It's one of those nice weasel phrases that has worked its - wormed itself into the economic vocabulary and which has no legitimate reason for existence. In fact, when you talk about demand management you are in fact talking about an abuse of monopoly power, which is what
25 we're supposed to be protected from under price direction 22A.

The mere fact that you can manage demand so as to suppress it is a manifestation of monopoly power. What people don't seem to realise who have come to this issue late, and I've been watching this idiocy for 15
30 years, is that ACT per capita water consumption is now about one fifth of what it was in the 1950s. The ACT was early in Australian jurisdictions in making sure water wasn't excessively used, but even then in ACTEW's own paper, *Future Water Options*, produced in December 2004, at page 3, it's carefully explained that the ACT has abundant water resources. There
35 is no need for demand management.

And if we're going to talk about demand management, I, as a consumer, would like to pay the price that irrigators downstream pay and merely pay
40 ACTEW a price for delivering it from the dam to me. And this is the problem. If water is so scarce you have to suppress demand by pricing and raising prices to incredible levels, why has that not been applied uniformly to all users, including downstream users? It wasn't. Even in the drought, the ACT Government released water over and above any necessary environmental flows for nothing to downstream users. How can
45 you pretend, possibly pretend in any rational sense there is scarcity and a

need for demand management when you're throwing away the stuff? It's absurd, absolutely absurd, and the intellectual dishonesty of it enrages me.

5 The other thing I'd like to point out is that in this whole process we have had an abuse of consumers from go to whoa. What has effectively happened is that water supply has been turned into fundamentally a tax, and there are costs to this, for which the consumers are being made to pay.

10 We used, in 1990, 1,297 kilolitres of water for a family of husband, wife and four children. The kids would run around in the sprinklers, et cetera. You'd kill two birds with one stone on a hot day. The kids would be happy. They wouldn't be screaming or carrying on or getting upset. The garden would be watered. And there would be an air conditioning effect as the breeze went through the cooling water.

15 I used to water, and when we had hot days I used to do what people did in Baghdad in the 18th and 19th centuries. I would put sprinklers on the roof and create a misting effect, and had natural air conditioning, and that wasn't a waste of water. The garden was being watered. The place was being cooled. And the ridiculous thing about it is that because I can no longer do that because of the great wisdom of regulators, what I had to do was basically put in air conditioning. So far from "saving the environment", in inverted commas, I used more energy than I used to.

20 As less and less water has been used by consumers there has been an unnoticed, except by those who do the job, cost to ACTEW in terms of keeping infrastructure maintained. The lack of water flow-through in the sewers and pipes has meant that they have to be cleared more frequently. Take for example the pipe behind the main drain behind our house. That pipe has been cleared I think two or three times in the last few years, whereas it had never been needed any cleaning for about - for ever since we'd moved to the house.

25 So as water restrictions are put in, trees and their roots around the ACT went hunting for any available pipes, so huge expenditure has been created by water restrictions for which consumers have to pay.

30 There's only one consolation about all of this. I've given up. Demand has been suppressed. I no longer water my garden. And you know what satisfaction I get out of it? I watch the dirt going into the drains and think, well, ACTEW will have to pay for that. So congratulations, chaps, you've succeeded. Demand has been suppressed to one fifth of what was normal usage in the 1950s. Gardens have been destroyed. Billions of dollars have been inflicted in costs on the ACT community, and if this is successful regulation, as I have said in my submission, God help us. I

have nothing further to add.

5 MS HARTLEY: Thank you, Dr Dwyer. Any other comments, questions, submissions that anyone wishes to make? I invite ACTEW, who are represented here, if there's any response anyone wishes to make on behalf of ACTEW there's an opportunity to do that. Thank you. Perhaps you could also give your name too, please.

10 MR GRAHAM: Thank you. David Graham, ActewAGL, on behalf of ACTEW. Just firstly, John Knox, managing director of ACTEW, apologises. He couldn't be here today. He's quite unwell, and we don't think he'll be back to work for a couple of days yet, so - - -

15 MS HARTLEY: Thank you, we note that.

20 MR GRAHAM: In terms of looking at the summary of the submissions, ACTEW would say that we've had a good look through them in the 10 minutes available, that it appeared to us that it did identify and particularly pull out the major themes that had come through in the submissions, and we ...(indistinct)... these submissions very closely and ...(indistinct)... catch up while we were reading.

25 In terms of our ...(indistinct)... on the material raised in the submissions, can I just advise that many of these matters were covered extensively in ACTEW's submission and material to the previous ICRC review? So we have substantive commentary on record already, and the Panel would be aware that more recently we've submitted a statement of facts and contentions and the matters we rely on in that. So that also picks up quite a lot of ACTEW's views.

30 MS HARTLEY: Yes.

35 MR GRAHAM: But ACTEW would be very willing to respond formally on the issues considered relevant by the Panel coming out of these submissions as part of their review process.

MS HARTLEY: Thank you, Mr Graham.

40 I perhaps should have done this at the beginning rather than at the end, but the Panel does thank everyone who has provided written submissions to us, and indeed everyone who's come today to participate, and we thank everyone for their comments. It's helpful to us to understand public sentiment about these issues, and I think there's something very laudable about the Australian community's willingness to spend private time on public matters and to put real thought into the comments that - and the

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submissions that they make.

5 I think we were particularly taken by submissions that are proposing new and innovative ways of looking at some of the economic components of pricing, submissions that look in detail at the tariff structures. There were a number of very useful comments made in the submissions, and although in some cases they're comments that we're not going to be able to take up immediately, it certainly is our intention in our final report to pay proper note of those matters and draw them to the attention of those who might
10 be able to do something about them.

15 So if you've spent time thinking of some new way of assembling capital or some new way of reforming tariff structures, please don't think that that will necessarily just disappear after today if we are not able to take it on. It's something that we will draw to the attention of government and other relevant parties in our final report.

20 Now, I just wanted to talk a little bit about next steps from our viewpoint before we finish. What now faces us is the monumental task of preparing a draft report. We had said at our last hearing that we hoped to do that by the end of September. That's looking very challenging at the moment, and we're thinking that early October might be more realistic, and even that is challenging.

25 A lot depends on how quickly our technical team and consultants can complete their analysis, but it also depends in part on the timely receiving of information from ACTEW. We have confidence that ACTEW will set to meet our timelines, but we understand that it - we are making demands that call for substantial information to be provided, and that sometimes
30 that will take a little longer than perhaps the timeframe we were hoping for might require.

35 But what we do want to ensure is that our considerations and reasons are clearly explained in our draft report, and that obviously is another ingredient in the timeframe.

40 After the release of the draft report, there's a mandatory 20 day submission period, and we will hold public hearing in the middle of that period. If the draft report is released in early October, then the completion of the final report by the end of November may still be achievable. But meantime, we will keep everyone informed of our timelines and any changes that may arise from any necessary amendments to the timeframes.

45 So I think the summary of it is we are doing our level best to stick to the initial indications we gave, noting that it is a challenging task, and it's not

entirely in our hands, but we will keep everyone informed of where we get to, and that will be on our website.

5 And obviously that public meeting that I earlier indicated will be advertised is a key opportunity for everyone here to speak in more detail about issues that they wish to raise, and also an opportunity for members of the public who aren't here to make their own contribution.

10 Just before I declare the meeting closed, does anyone else have any comment or submission or question that they wish to raise? Yes, sorry, I'll take Dr Dwyer and then Mr Crawford.

15 DR DWYER: I would just like to ask the Panel in looking at prices and making comments to go back and just look at the optimality of short-run marginal cost pricing. Because what we're seeing in the ACT is a classic paradox of an abusive monopoly destroying itself, its revenues, as well as inflicting dead weight loss on the community.

20 Not only have they destroyed millions and millions of dollars' worth of gardens, they have destroyed their own profitability, and we have created a vicious cycle in pricing. The more prices go up, the less there is consumed, the less the revenues of ACTEW, therefore it fails to meet its target regulatory revenues, therefore it has to push prices up again. We're seeing it also in the electricity industry these days, of course. So what's the result been?

30 You've seen horrible economic inefficiency where ACT consumers have bought thousands and thousands of mini-dams called rainwater tanks for their back gardens, so we've had massive duplication of infrastructure inflicted on the community by the stupidity of not following short-run marginal cost pricing.

35 So I think that is something that we should get back to. If we're going to talk about economic efficiency we should take a cool, long, hard look at these regulatory systems and see whether they are efficient at all. My fundamental submission is that they've created an absolutely dysfunctional system for utilities, and water in the ACT is a classic example.

40 As I said, all that ACTEW have succeeded in doing is having a reticulation system which is underused - so underused they have to go around cleaning pipes that would otherwise flow freely - and with a water system that's so underused that dirt ends up in the drains because people no longer have verges with lawns, and it decreases their maintenance cost, so you see dead weight loss all around. I'd say get back to the

45

fundamentals of economics.

MS HARTLEY: Thank you, Dr Dwyer. And Mr Crawford? Is anyone else in line? Yes, thank you, Mr Cox.

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MR CRAWFORD: I've just got a couple of comments.

MS HARTLEY: Yes.

10 MR CRAWFORD: I'm ...(indistinct)... draft report, it's ...(indistinct)... members of the Panel or someone else might consider ...(indistinct)... or something - something ...(indistinct)... take a few questions before - you know, just to, you know, get the message out there, to ...(indistinct)...

15 MS HARTLEY: Thank you, we'll look into that issue, yes.

MR CRAWFORD: Okay, thank you. Secondly, just in relation to that ...(indistinct)... pricing ...(indistinct)... made a submission about ...(indistinct)... I suppose the idea was that ...(indistinct)... either that or 20 ...(indistinct)... price ...(indistinct)... the price ...(indistinct)... 100% empty or ...(indistinct)... water price you could get for ...(indistinct)... and also for that, just going back to the ...(indistinct)... series ...(indistinct)... 100% ...(indistinct)... zero one one ...(indistinct)... so I was thinking maybe start with zero or 100%. ...(indistinct)... 95% to 100% and then a second one 25 would be 90% to 95% ...(indistinct)... 85% to under 90% and three, four, 30% to under 85%, which is currently where we are now, and so on. And ...(indistinct)... Thank you.

30 MS HARTLEY: Thank you, Mr Crawford. And okay, now I've got Mr Cox, and then the lady next to Mr Cox, and the lady next to the previous speaker. So let's start with Mr Cox, please, and then I think I will draw a line.

MR COX: ...(indistinct)...

35

MS HARTLEY: Yes.

MR COX: I think you'll find it quite difficult to find someone who actually understands what I'm talking about in my submission. The 40 difficulty we have is that people have a particular mindset around the way in which financial calculations are done, and particularly ...(indistinct)... spreadsheets. The way in which we actually do the calculation for rates of return and what have you have all been distorted to make the calculation so that it makes sort of sense that it's actually fundamentally wrong, this 45 whole process of discounted cash flow analysis.

5 There is fundamental problems associated with the way in which it's done
from a systems point of view. My background is - a large part of my
background has been designing optimal problems, you know,
...(indistinct)... solutions to very real problems, and the economy is one of
those very difficult problems, and there's a lot of thinking has gone into
this - in this area in the way in which you can actually try and control
economies, and part of this is the sort of thing that you are trying to
address now, is how to make better use of our financial resources.

10 And I think that a lot of the techniques that are now viable are just not
known out there, and so if you need any assistance in trying to understand
what I'm talking about, please feel free to call on me.

15 MS HARTLEY: Thank you very much, Mr Cox, that is a kind offer.

MS CREBBIN: Thank you. My name is Linda Crebbin. I'm the General
President of the ACT Civil and Administrative Tribunal. The Tribunal
has taken the approach to this matter that we will be happy to provide any
20 information that might be of assistance to the Panel.

And you mentioned that ACTEW have been asked to provide further
information about concessions and hardship.

25 MS HARTLEY: Yes.

MS CREBBIN: The Tribunal deals with applications for what we
describe as hardship relief in relation to water bills, and we collect a lot of
data, including demographic data, about those matters, so we're certainly
30 happy to provide information that you might find useful in relation to
those hardship applications.

MS HARTLEY: Much appreciated. Thank you very much, Ms Crebbin.

35 MS VIDLER: Suzanne Vidler ...(indistinct)... We've had ...(indistinct)...
reference to this ...(indistinct)... process being almost inaccessible and to
calls for feedback from the community at appropriate stages.
...(indistinct)... I have apart from my role as an analytical person has been
gleaned from the Treasury website.

40 I would suggest that publication in *The Canberra Times* would be
enhanced by reference to an ad, articles in the paper, articles in *City News*,
Canberra Weekly, *The Chronicle*, a press release, a city forum, and even
as ...(indistinct)... I'm not a ...(indistinct)... person. I would appreciate
45 information of the draft ...(indistinct)... so I have an opportunity to

communicate the content of that to the ratepayers within UP
...(indistinct)... so I would suggest that there might be some other avenues
...(indistinct)... community for this very, very important review. Thank
you.

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MS HARTLEY: Yes, thank you. I might just respond to that and say that
our draft report will be made available to everyone at the same time. I
don't think there's any basis for anyone having preferential treatment over
the other parties to the review and others with an interest, and I shouldn't
just stay silent in the face of a comment about eligible persons.

10

We haven't made any public statement about that issue, because we have
chosen to err on the side of involving all of the public, but that doesn't
mean that we see that everyone here is an eligible person, because under
the statute there are requirements for meeting a threshold test of eligible
persons, and we have not applied that test to determine who is or who isn't
an eligible person.

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We don't see the need to do it at the moment, but it shouldn't be assume
that we simply work on the basis that everyone here is an eligible person.
I don't think the need will ever arise for us to make that determination
because our next step is a public meeting at which everyone in the public
is entitled to speak. But I just didn't want to stay silent and have anyone
assume that we have made a determination about that, because we
haven't.

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All right. So I think it now remains only for me to thank everyone for
their participation. The transcript of today will be on the website, and we
will ensure that everyone who has been receiving emails from us about
proposed dates will receive an email when we have the next set of dates
available, which will be the date for the publication of the draft report and
the date for the proposed public meeting.

30

And of course as I announced earlier, we will ensure that there is
appropriate advertising of that public meeting in the media, and we've
heard the submissions about other ways in which the public might be
informed, and we'll pay some attention to those other methods as well, so
thank you for that.

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All right, thank you, everyone, for your attendance.

ADJOURNED

[12.44 pm]