

Minister for Primary Industries and Water

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Urban Water Inquiry
Productivity Commission
Locked Bag 2, Collins Street East
Melbourne VIC 8003

14 DEC 2010

Dear Commissioner

In my capacity as Tasmania's Minister for Primary Industries and Water, I wish to make a submission to your inquiry into the urban water and wastewater sector on behalf of the Tasmanian Government.

In 2006, the Tasmanian Government embarked on a process of major reform in the State's water and sewerage industry, with the objective of delivering significant long term benefits to public health, the environment and the Tasmanian economy. Three years later, that project has resulted in a new and comprehensive regulatory framework for the sector, replacing what was very light handed regulation that had failed to deliver the health, environmental and economic outcomes that Tasmanian households and businesses might reasonably expect at the beginning of the 21st Century.

The enclosed submission documents the case for microeconomic reform of Tasmania's water and sewerage sector and chronicles the Tasmanian Government's water and sewerage reforms to date. In doing so, the paper responds to many of the questions posed in the Commission's issues paper, addressing the regulatory and institutional arrangements the Tasmanian Government believed were required to ensure better water and sewerage outcomes and the objectives that guided Tasmania's reforms.

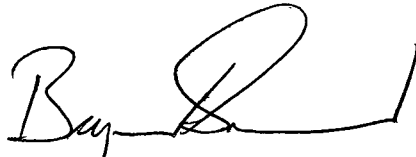
While Tasmania's reforms have been based on sound microeconomic reform principles, it is noteworthy that the process of reform, like all major reforms, has created some uncertainty and concern for various stakeholders. While the Tasmanian Government is committed to the overall policy objectives of the reform, the challenge remains in implementing the reforms to transition the sector to a sustainable footing. In this context, it is important that the Commission, in forming recommendations, takes account of the transitional issues involved in reforming broad-based sectors such as the urban water and sewerage sector.

Although issues such as coping with increasing urban populations and the effects of drought may have been much lower priority issues for Tasmania than in other Australian jurisdictions when contemplating reforms of the sector, many of the issues faced by Tasmania, such as the State's ageing water and sewerage infrastructure, are paralleled in other jurisdictions. I hope, therefore, that an explanation of Tasmania's reform process will provide the Commission with some useful insights when contemplating reform of Australia's water and sewerage sector, just as Tasmania was able to learn from the experiences in other jurisdictions.

I would also direct your attention to the two State of the Industry Reports published thus far by the Tasmanian Economic Regulator, which provide an independent assessment of Tasmania's urban water and wastewater industry in the years immediately prior to reform of the sector (2007-08 and 2008-09). A report addressing the industry's performance in the first year following the reforms' implementation (2009-10) is to be released in February/March 2011. The reports are available online via the Economic Regulator's website (www.economicregulator.tas.gov.au).

Tasmania welcomes the Productivity Commission's inquiry into Australia's urban water sector and I enclose the Tasmanian Government's submission for the Commission's consideration.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bryan Green', with a large, stylized flourish extending from the end of the signature.

Bryan Green MP
MINISTER FOR PRIMARY INDUSTRIES AND WATER

cc: Hon David Bartlett MP, Premier and Hon Lara Giddings MP, Treasurer

**Tasmanian Government submission to
the Productivity Commission inquiry
into
Australia's urban water sector**

November 2010

Introduction

In 2006, the Tasmanian Government embarked on a process of reform in the State's water and sewerage sector, with the objective of delivering significant long term benefits to public health, the environment and the Tasmanian economy. Three years later, that project resulted in a rigorous regulatory framework, including independent price regulation, which replaced very light handed regulation that had not delivered the necessary health, environmental or economic outcomes. As part of these reforms, responsibility for the provision of urban water and sewerage in Tasmania was transferred from 28 local councils and three bulk water authorities to three vertically integrated regional water and sewerage corporations owned by the same local governments that had ceded their water and sewerage assets and staff to the new corporations.

This whole-of-Government submission to the Productivity Commission's public inquiry into Australia's urban water sector presents the case for the micro-economic reform of the water and sewerage sector in Tasmania, and documents the State's progress toward the implementation of the most substantive structural and regulatory reforms of the industry in Tasmania in the last twenty years.

The reforms are yet to be completed, as the corporations are still operating in an incomplete regulatory environment and their revenues are not yet sufficient to recover all costs and fund the necessary infrastructure investment. Already, however, the new corporations are investing in projects that will improve water quality, increase water storage capacity and improve the treatment of wastewater in Tasmania, and the fundamental regulatory and institutional arrangements that have been put in place are consistent with the best practice approach to regulation of a monopoly sector.

As with any substantial micro-economic reform, the benefits of Tasmania's water and sewerage reform will accrue over time. While the Tasmanian Government's objectives in reforming the urban water and sewerage sector will be realised in the long term, external funding support would bring forward many of these benefits by ensuring wider compliance with contemporary environmental and technical standards. Economic reform invariably allocates benefits and costs differently across the community, especially where cross subsidies are unwound and the very significant businesses established by the reforms require substantial increases in their revenues to be sustainable over the long term.

Tasmania is always willing to consider opportunities for micro-economic reform, and welcomes the inquiry into Australia's urban water sector by the Productivity Commission. This inquiry comes at the same time as the Tasmanian Parliament has established a House of Assembly Select Committee to review the efficiency of the industry's governance structure and of the interim pricing arrangements that are assisting in the transition to efficient and cost-reflective pricing within the sector.

Background

Prior to 1 July 2009, Tasmania's water and sewerage services were provided by three regional bulk water authorities and 28 of the State's 29 local governments (councils), all with varying degrees of managerial sophistication and capacity to fund those services. While most councils sourced at least some water from the bulk water authorities, 18 councils (which included councils that received some supply from a BWA) were operating separate water supply services, and collectively were responsible for administering over 90 supply schemes. Reticulated sewerage and waste water treatment services were provided by 27 councils, with those services varying considerably in form, sophistication and service standards. The pricing regimes for water and sewerage services varied very substantially across the councils, with no metering of residential consumption in many of the State's larger municipalities.

In 2007-08, the councils and bulk water authorities were servicing approximately 193 000 water connections and 204 000 sewerage connections, and the total value of Tasmania's combined water and sewerage infrastructure was estimated to be approximately \$1.86 billion, based on valuations available at that time.

The three bulk water authorities were jointly owned by 18 of the councils and returned substantial dividends to their owners. Those dividends were in addition to whatever returns were being generated within each municipality from the water and sewerage charges imposed on customers.

While the rates of return varied widely between councils, in a 2006 review of water and waste water business cost recovery by local government, the Government Prices Oversight Commission reported that the overwhelming majority of councils were earning positive, though generally modest, real rates of return from their water and sewerage services, with the cash flow being used to fund wider council services.

However, subsequent analysis by the Tasmanian Department of Treasury and Finance identified that many councils did not have comprehensive or reliable asset valuations, and that the returns calculated to have been generated on those assets were frequently not reflective of the true cost of maintaining that infrastructure on a sustainable basis. The majority of councils were, therefore, not recovering sufficient revenue from water and sewerage services to meet the cost of providing those services sustainably and the costs involved with providing water and sewerage services were largely invisible to the community.

The municipal model of service delivery also meant that major infrastructure was often and unnecessarily duplicated, with no or limited interconnectivity between neighbouring water and sewerage networks, despite their proximity to one another.

The relatively small populations of many Tasmanian towns and, indeed, municipalities, meant that the sector was characterised by an absence of economies of scale. The small rate-payer bases of many councils rendered the services provided to some population centres inherently commercially unsustainable and smaller councils, in particular, often lacked the critical mass to engage the expertise needed to plan, construct, operate and maintain complex water and waste water treatment systems. Smaller councils also faced difficulty in raising capital for network expansion or infrastructure upgrades or replacement.

As a result, and despite some notable exceptions, in recent years Tasmania's water and sewerage sector was (and continues to be) characterised by infrastructure which was often nearing the end of its useful life and/or had significant amounts of deferred maintenance.

Many water and sewerage services were not compliant with contemporary public health and environmental standards, with 23 Tasmanian towns on permanent boil water alerts (some of which were key tourist destinations in the State). The level of compliance with environmental standards for Level 2 Wastewater Treatment Plants (any plant with the design capacity to treat an average of 100 000 litres of sewage or waste water per day) was also low, with approximately 50 per cent of wastewater treatment plants in Tasmania not always in compliance with their licence conditions.

Around half the State's service providers had not undertaken asset condition assessments and approximately 70 per cent did not have strategic asset management plans. A nationwide assessment of infrastructure in 2005 by Engineers Australia rated Tasmania as having the worst water and wastewater infrastructure in Australia.

The 2007-08 Tasmanian water and sewerage State of the Industry Report published by the Office of the Tasmanian Economic Regulator cited an estimate from a Government review of the industry in 2006 that capital expenditure of up to \$1 billion over the next ten years would be required to meet compliance with relevant environmental and technical standards and accommodate anticipated network growth.

From a regulatory perspective, a report published in November 2007 by SAHA International on the future regulation of the Tasmanian water and sewerage sector (commissioned by the Tasmanian Government's Ministerial Water and Sewerage Taskforce) identified a lack of an *"overarching policy context for the [water and sewerage] sector"* and that this had led to *"siloed development of the elements of the regulatory framework"*.

SAHA found that the regulatory framework that was then in place was not driving service providers to meet standards and that economic regulation of the sector was *"a decade behind that in most other states"*, with service providers (councils) not subject to direct price regulation. There was also very little in the way of performance measurement, benchmarking and reporting.

Tasmania's regulatory system, therefore, was light-handed compared with other Australian states, and offered little in the way of protection for the customers of water and sewerage providers, with neither an independent process for setting prices nor mandated service standards.

As a result, the pricing arrangements adopted across the State by service providers were inconsistent between municipalities, frequently inequitable within municipalities, and confused by cross-subsidisation between different classes of customer. Pricing lacked transparency and often bore little or no relationship to the cost of service and infrastructure provision.

As a general commentary, SAHA characterised the sector as lacking a number of the regulatory elements evident in natural monopoly industries elsewhere around Australia that might be considered to be elements of best practice.

Objectives of the reform

In general terms, the Tasmanian Government embarked on a process of reform in the water and sewerage sector because it would deliver significant long term benefits to public health, the

environment and the Tasmanian economy. More specifically, it was considered that reform of Tasmania's water and sewerage sector needed to be undertaken with a view to:

- improving compliance with environmental standards for wastewater;
- improving compliance with water quality standards;
- increasing revenue flows into the sector to a level that supports self-sustaining investment and the appropriate use of debt funding;
- ensuring that minimum customer service standards exist and drive business decision-making and that customers pay for the services they receive;
- ensuring that customers have a voice, through their explicit involvement in transparent regulatory processes;
- instituting strategic asset management planning; and
- requiring communication between technical regulators (water quality, environment and water resource management) and the economic regulator, so that priorities for asset investment can be agreed and the consequences of regulatory decisions are clear.

While some of the issues faced by Tasmania, such as the State's ageing water and sewerage infrastructure, are not unique to Tasmania, when contemplating reform of Tasmania's water and sewerage sector, issues such as coping with an increasing urban population and the effects of drought were much lower priority issues than in other Australian jurisdictions because of the State's relative abundance of water and its lower rates of population growth.

Based on micro-economic reforms of monopoly industries undertaken in other Australian states and territories, a set of high-level principles was adopted by the Tasmanian State Government to underpin and guide the development and improvement of the regulatory framework for the water and sewerage sector in Tasmania. The principles were developed from the Utility Regulators Forum Discussion Paper titled *Best Practice Utility Regulation* (July 1999).

In a report prepared for the Ministerial Water and Sewerage Taskforce by SAHA International, the following (summarised) principles were considered to be characteristic of best practice regulation in other utility industries as well as directly applicable to the future regulation of water and sewerage in Tasmania.

Communication and Consultation – clear obligations and processes are in place to ensure that stakeholder issues are addressed in a timely and inclusive manner and regulators communicate and integrate their processes.

Consistency – consistent regulatory approach applied across classes of participants with no adverse affect on specific classes of participant, whilst retaining enough flexibility to accommodate specific circumstances in individual decisions.

Predictability – the application of regulation should not change unexpectedly to allow service providers to make long-term investment decisions with confidence.

Independence – when making a determination or carrying out an inquiry, regulators should not be subject to the direction or control of any party that may potentially compromise outcomes.

Effectiveness and Efficiency – regulators must be able to access information held by service providers, should have well defined decision making processes and be staffed appropriately.

Accountability mechanisms – the roles of policy development, regulation and service provision should be specified and separated so that there are adequate checks and balances in the regime.

Affordability – service providers and consumers should not be tied to servicing a standard of infrastructure that is beyond the means or expectations of either, with services to be provided on a user pays basis to ensure full cost recovery, with consumers paying the full economic value of what they consume in order to avoid cross subsidisation.

Transparency in pricing – pricing is transparent with providers fully disclosing the reasons for increases in charges and the elements which were considered when pricing.

Efficiency mechanisms should be utilised - by regulating to allow appropriate performance incentives, service providers can be encouraged to aim for greater efficiency in service delivery.

Incentive and penalty mechanisms should drive behaviour – the awarding of licences by an industry regulator authorises the operation of service providers, commits them to regulatory directives, with the ultimate sanction for non-compliance being the removal of the Board and senior management.

The reform process

The creation of a Ministerial Water and Sewerage Taskforce to investigate the structural and regulatory arrangements in the water and sewerage sector was announced in the 2006 *State of the State* speech. The Taskforce comprised the Treasurer (Chair), the Minister for Primary Industries and Water and the Minister for Tourism, Arts and the Environment.

The Taskforce was supported by a Steering Committee composed of representatives from the Departments of Treasury and Finance, Primary Industries and Water, Tourism, Arts and the Environment and Economic Development. A Water and Sewerage Project Team was also established within the Department of Treasury and Finance.

The Taskforce's Terms of Reference required it to:

- review the adequacy of Tasmania's existing urban and regional reticulated water and sewerage infrastructure and the nature and scope of investment required to meet future needs;
- examine structural, regulatory and other institutional arrangements in Tasmania and in other jurisdictions with a view to identifying a recommended approach for Tasmania;
- identify the likely financial and other impacts on key stakeholders (including councils and water users) and the risks arising from structural, regulatory and institutional reform;
- consult stakeholders, particularly councils, regarding options for a state-wide water and sewerage plan;
- report on the options for a state-wide water and sewerage plan, and develop an implementation timetable; and
- report to Cabinet on the progress and status of the project by the end of March 2007.

The final model for structural reform was endorsed by the Premier's Local Government Council in early February 2008 and on 25 February 2008, State Cabinet approved implementation of the

reforms to Tasmania's water and sewerage sector recommended by the Ministerial Water and Sewerage Taskforce.

The reforms were implemented through the *Water and Sewerage Corporations Act 2008*, which created the three regional corporations and the common services corporation, and the *Water and Sewerage Industry Act 2008*, which sets out an economic regulation framework for the sector that is similar to the arrangements that apply in the Tasmanian electricity sector.

Ministerial responsibilities for the reform process have been shared between the Treasurer and the Minister for Primary Industries and Water, with the Treasurer responsible for pricing related matters (such as administration of the relevant functions of the Tasmanian Economic Regulator, price regulation and metering) and the Minister for Primary Industries and Water responsible for all other functions under the Industry Act, such as issuing interim licences, ensuring that the Economic Regulator performs its functions in accordance with the parts of the Act that are not administered by the Treasurer, and developing/coordinating policies relating to non-price regulation of the water and sewerage industry.

The responsibility for providing public water and sewerage services was transferred from the State's councils and bulk water authorities to three regional water and sewerage corporations on 1 July 2009.

An Urban Water and Sewerage Regulatory Implementation Committee, comprising representatives of the key government areas that have responsibilities for implementing components of the water and sewerage regulatory regime, continues to oversee and manage the implementation of regulatory reform during the transitional period leading up to the first independent price determination in July 2012.

The reforms

To ensure the establishment of sustainable businesses that can build, fund and provide water and sewerage services throughout Tasmania, and improve water and sewerage service provision, it was identified that both structural and regulatory change would be required.

Structural Reform

The Ministerial Water and Sewerage Taskforce which investigated how best to achieve a sustainable urban water and sewerage sector in Tasmania concentrated on the exploration of two possible structural reform options: (1) a single state-wide entity and (2) an enhanced regional model. Both revolved around the concept of amalgamating the water and sewerage functions of the then current providers, rather than combining the providers themselves.

Under either structure, the Taskforce's intention was that the new entity, or entities, would:

- have the delivery of water and sewerage services as a primary business focus;
- have an expert and independent board appointed for its commercial and technical expertise through a formal and transparent process involving consultation between the business(es) owner(s) and the Treasurer;
- be run as a commercial entity(s) and be established as a Government owned company(s) that comply with Australian Corporations Law and enabling legislation;

- operate under formal arrangements that ensure appropriate and workable governance and reporting, including a clear mechanism for the shareholder(s) to clearly and unambiguously provide guidance to the Board on matters that fall beyond the defined scope of the Board;
- have the organisational, management and technical capacity to appropriately respond to a significantly enhanced economic and technical regulatory framework (including the ability to comply with relevant health, water management, environment, pricing regulation and National Water Initiative reporting obligations);
- have the organisational and management capability to appropriately manage transitional and operational business activities (including strategic asset and works management, core support systems, and transitional industrial relations and change management issues);
- have an appropriate and formalised dividend policy, as well as the balance sheet, profit and loss and cash-flow strength to access debt funding of the level needed to support required investment and fund all business activities on a sustainable basis;
- be capable of managing the transfer of all existing water and sewerage services and functions and associated assets and liabilities of relevant bulk water authorities and relevant local government to the new business or businesses in the shortest practical timeframe but within a period not exceeding three years from operational commencement, targeted for early 2009;
- be capable of managing the transfer of all existing water and sewerage employees of the bulk water authorities and local government to the new business(es) on a no-detriment basis; and
- be of sufficient scale to attract and retain high calibre staff and to provide for their ongoing training, skills enhancement and development needs.

The local government-owned regional business model which was ultimately adopted, in preference to state government ownership, has its origins in the ownership arrangements prior to the structural reforms, and was identified as the preferred solution for Tasmania, following significant consultation with local government and other stakeholders. Privatisation of the water and sewerage sector was not considered to be an appropriate option.

Each of the regional water and sewerage corporations is a vertically integrated business, providing bulk, distribution and retail water and sewerage services. While a single State-wide entity was investigated as an option, it was considered that most of the economies of scale that could be achieved by a single provider would still be realised by the three smaller regional corporations. In addition, it was expected that a common services corporation - established under the Water and Sewerage Corporations Act as a wholly owned subsidiary of the three regional corporations - would be able to realise many of the procurement and administrative efficiencies that would be available under a single-entity model.

The corporations are proprietary companies limited by shares, have a commercial focus, and have sufficient size to engage the expertise needed to plan, construct, operate and maintain complex water and waste water treatment systems, access debt finance and realise scale economies. Southern Water, the largest of the three corporations, is, for example, the 13th largest water and sewerage business in Australia, based on the number of connections.

The three businesses (Ben Lomond Water, Cradle Mountain Water and Southern Water) cover the north, north west and the south of Tasmania respectively. They are each owned by the councils that ceded their water and sewerage related infrastructure, assets, liabilities and staff to the corporations, and it is those councils that will receive dividend, tax equivalent and guarantee fee income from the corporations as a return on their 'investment'.

A common service provider subsidiary company, Onstream, provides services to all three businesses wherever there are opportunities to secure economies of scale, avoid duplication and minimise costs for consumers.

From a corporate governance perspective each corporation is established with an independent Board and their members are appointed based on their skills and expertise. Each board is led by a common chair and comprised of six board members, three of whom are common to each board plus two directors specific to each region. While the Chairman held the position of Executive Chair until May 2010, all directors are now non-executive.

The common membership of the Boards ensures that each of the regional corporations considers the state-wide implications of their business decisions; enables a consistent approach across regions; and promotes a collaborative capacity between the corporations, while still ensuring that regional interests are not compromised.

The Boards report to and are answerable to their shareholders (the local councils in their region) and are required to report to those owners against clearly specified performance expectations.

The Board of the common services corporation comprises three non-executive directors, including the common chair of the regional corporations and the CEOs of the three regional corporations.

The governance of the regional corporations is based on the arrangements that apply to State-owned companies and Government Business Enterprises in Tasmania. These arrangements have been adapted to be applicable to a regional structure and local government ownership, and to ensure that the State Government meets its obligations under the COAG inter-jurisdictional agreements, in particular the application of competitive neutrality to public sector businesses.

The corporations are also subject to the Government Business Enterprise Scrutiny Committee on an annual basis. Each corporation is also required to submit a copy of its annual report to the Treasurer and the Treasurer is required to lay those reports before each House of Parliament. The State Government, however, has no ownership stake in the water and sewerage corporations and receives no financial benefit from the new businesses, with all owner returns flowing back to councils.

Any variation to the constitutions of the corporations also requires parliamentary approval – recognition of community expectations that the State Government remains accountable for ensuring that the reforms are correctly implemented.

The structural component of the reforms was effected by the *Water and Sewerage Corporations Act 2008*, which provided for the formation and governance of three regional water and sewerage corporations, as well as the common services corporation. The Act also facilitated the necessary transfer of the water and sewerage related assets, rights, liabilities and staff of councils and bulk water authorities to the new corporations and the common services corporation.

Regulatory Reform

In addition to structural reform, reform was needed to establish a robust economic regulatory framework for the provision of water and sewerage services, and the *Water and Sewerage Industry Act 2008* gives effect to the regulatory elements of Tasmania's reforms.

The key elements of the regulatory regime under the Act include:

- Substantive separation of the policy making, regulatory functions and service provision within the water and sewerage sector;
- The creation of an independent Economic Regulator for the sector, and the introduction of independent price regulation for water and sewerage services. The Economic Regulator has the power to determine prices and pricing guidelines with which the corporations must comply. In making a price determination, the Economic Regulator is bound by legislated pricing principles, including the principle of two-part water pricing for water services. The economic regulator is also required to consider the impact of price increases on customers when making price determinations, as well as the impacts on the sector's efficiency and the intended outcomes of the reforms;
- The implementation of a comprehensive, transparent and fully integrated licensing regime to regulate the ownership and operation of water and sewerage infrastructure for the purpose of providing services in the sector, to be administered by the Economic Regulator;
- The establishment of a customer service standard framework (to replace the self-determined standards that were set by the councils and bulk water authorities) to ensure that minimum levels of service are mandated;
- The establishment of an ombudsman for the sector to address customer complaints; and
- The introduction of mandatory public performance and asset management reporting for corporations.

These elements are designed to achieve the objectives of the Water and Sewerage Industry Act , which are to protect the long-term interests of customers and to provide for the safe, environmentally responsible, efficient and sustainable provision of reliable and secure water services and sewerage services to the Tasmanian community.

Importantly, the pricing principles set out in the Water and Sewerage Industry Act, and which will be further developed in pricing regulations, adopt the National Water Initiative Pricing Principles, which will, over time, transition the industry in Tasmania to best practice price regulation.

Implementation of industry and regulatory reforms

It was recognised that the implementation of the reforms to Tasmania's water and sewerage sector were substantial, and that it would take several years to fully implement the new arrangements.

To assist in transitioning to the new framework, the Water and Sewerage Industry Act provides powers to implement a number of transitional arrangements which ensure that the industry can operate in an incomplete regulatory environment.

Pricing

The first of these powers is the power for the Treasurer to issue interim price orders to transition the prices paid by customers closer to levels they will face under direct price regulation from 2012 and thereby ensure that customers do not face a large price shock when the first regulatory period commences.

In July 2009 an Interim Price Order (IPO) was published. The IPO is reviewed each year and the interim pricing period is scheduled to end on 30 June 2012, after which independent price regulation by the Economic Regulator will begin.

On 30 November 2009, the Government announced a cap of five per cent on the annual increase in the water and sewerage bills for all customers for three years from 2009-10 to 2011-12. The State Government agreed to compensate the corporations for revenue and interest foregone, as well as for certain related administrative costs.

The first independent pricing determination by the Economic Regulator is due to commence from 1 July 2012. Prior to the Economic Regulator making that determination, licensed water and sewerage providers must provide the Regulator with a Price and Service Plan submission, which will set out proposed prices for regulated services and the standards of service to be provided, as well as compliance improvement paths. The Regulator is required to prepare a draft price and service determination and consult publicly on this document prior to the final determination being made.

Licensing

The Water and Sewerage Act also provides for interim water and sewerage operating licences to be issued to persons who own or operate water and sewerage infrastructure for a period not exceeding two years.

On 1 July 2009, the Minister for Primary Industries and Water issued interim operating licences to the three regional water and sewerage corporations to enable these three key service providers to be licensed and subject to performance obligations while the full licence application process and licence conditions are developed.

The interim licences issued to the water and sewerage corporations already take into account some of the anticipated content of the full licences that will be issued to service providers. As such, they are intended to be transitional instruments, to the extent that they facilitate the sector's transition from an unregulated, unlicensed industry, to a fully regulated industry.

The Water and Sewerage Economic Regulator is required to issue full licences to the corporations by 30 June 2011.

Compliance Implementation Plan

The three regional corporations in Tasmania have inherited significant legacy issues from the previous providers of water and sewerage, in the form of ageing water and sewerage infrastructure and systems which, in many cases, are non-compliant with the environmental and public health standards that govern their operation.

Under the terms of the interim licences issued to the regional water and sewerage corporations, each corporation has been required to develop a Compliance Implementation Plan. The plans commit the corporations to a range of agreed processes, outcomes and timelines that will see their compliance with regulatory obligations steadily improve over the next few years. Those plans address issues such as wastewater management planning, asset management, emergency management, drinking water sampling programs, and drinking water quality management.

Over time, it is expected that, through the price and service plan process, the degree of non-compliance with regulatory obligations will diminish. However, this will require a significant

amount of capital expenditure and a significant amount of infrastructure planning, both of which will take time to undertake.

Customer Service

Issued by the Tasmanian Economic Regulator, the Tasmanian Water and Sewerage Industry *Customer Service Code* specifies standards and conditions of service and supply, including transitional service standards, with which regulated entities and their agents must comply in providing regulated water and sewerage services to customers.

Under the Code, Tasmania's water and sewerage corporations are required to meet customer-related standards, procedures, practices and conditions. The corporations are also required to develop, issue and comply with a customer charter which meets the procedural and substantive requirements of the Code, and is the primary means by which customers will be informed of their rights and obligations.

Performance Reporting

As part of the performance monitoring and reporting regime, section 70 of the Water and Sewerage Industry Act requires the Regulator to prepare a State of the Industry Report prior to 1 April each year examining the performance of the Tasmanian water and sewerage industry in the previous financial year.

The State of the Industry Reports perform a significant role in maintaining public accountability of licensed water and sewerage providers within Tasmania. It is a comprehensive independent review of the service, quality, reliability and pricing of the industry in the State. In addition, the Water and Sewerage Industry Act requires the Report to identify opportunities for improved performance across the industry.

In combination with a licensing system that ensures participants are competent to deliver appropriate services, the State of the Industry Report provides information to consumers as to the ongoing capability of the industry and monitors the delivery of appropriate service for cost.