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PRODUCTIVITY COMMISSION

INQUIRY INTO AUSTRALIA'S URBAN WATER SECTOR

**DR W. CRAIK, Presiding Commissioner
DR W. MUNDY, Associate Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT HOBART ON MONDAY, 13 DECEMBER 2010, AT 11.05 AM

Continued from 8/12/10 in Perth

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DR CRAIK: Good morning. Welcome to the public hearings for the Productivity Commission inquiry into Australia's urban water sector following the release of the issues paper on 27 September. My name is Wendy Craik and I'm the presiding commissioner on this inquiry. The other commissioner on this inquiry is Commissioner Warren Mundy.

The purpose of this round of hearings is to get comment and feedback on the issues paper and facilitate public participation in the inquiry process more generally. Prior to this hearing in Hobart we have met with interested parties and individuals throughout Australia and during October we held roundtables in Perth, Sydney and Melbourne, and December in Sydney. Our public hearings commenced in Sydney on 9 November, followed by Canberra on 29 November, Melbourne on 30 November, Adelaide on 7 December and Perth on 8 December.

Today's proceedings will be the end of our public hearings and this phase of the inquiry. We will then be working towards completing a draft report for publication sometime in March 2011, having considered all of the evidence presented at the hearings and in submissions as well as other informal discussions. Upon release of the draft report there will be a further round of public hearings and submissions and a final report is due to the government in July 2011.

We like to conduct all hearings in a reasonably informal manner, but I remind participants that a full transcript is being taken. For this reason, comments from the floor cannot be taken. At the end of proceedings for the day, I'll provide an opportunity for any persons wishing to do so to make a brief presentation. Participants are not required to take an oath, but should be truthful in their remarks. Participants are welcome to comment on the issues raised in other submissions.

The transcript will be made available to participants and will be available from the commission's web site following the hearings. Submissions are also available on the web site. To comply with the requirements of the Commonwealth occupational health and safety legislation you are advised that in the unlikely event of an emergency requiring the evacuation of this building that you should follow the warden's instructions. The assembly point is across the street. Toilets are outside this door on the left.

I would like now to welcome our first participant, Allan Garcia for Local Government Association of Tasmania. Allan, could I ask you to state your name and your organisation for the record, please.

MR GARCIA (LGAT): Sure. I'm Allan Garcia. I'm the CEO of the Local Government Association of Tasmania.

DR CRAIK: Thank you. If you'd like to make a brief presentation, we'd like to hear from you.

MR GARCIA (LGAT): Thank you. The association didn't make a submission to the inquiry, but was invited to appear this morning. In discussions with officers, I suggested that perhaps it would be useful to talk about the reform process. I won't go into detail in regards to the paper I presented, hopefully that can be just taken into evidence. I might just highlight some of the key issues and then perhaps focus on some of the matters around pricing, metering and the like, which is probably more relevant to the inquiry generally. I suppose it's best to start from the beginning, in terms of reform.

The reform was announced by the state government pretty much unilaterally in 2006 during the premier's state address and it was proposed to bring about water reform, and there were a range of reasons for that, on which I will focus: to conduct a high-level review and then broadly assess the adequacy of the Tasmanian existing urban and regional reticulated water and sewerage infrastructure and the nature and scope of the investment required to meet the needs of the future; to examine the structural regulatory and other institutional arrangements in the state and in other jurisdictions with a view to identifying a recommended approach for the state; to advise on likely financial and other impacts on key stakeholders, particularly in relation to local government and water users and any risks arising from any changes that were made; a consultation process, particularly again involving local government and a report and timetable to bring into place that reform.

That was the initial brief given to a taskforce that was chaired by the treasurer. Among the debate that occurred subsequently there was significant concern expressed by local government in relation to the fact that there hadn't been and wasn't going to be any consultation, it was largely going to be a closed state process. After discussions with the premier of the day, local government did become involved and we largely moved from the circumstance of state preference for a state-owned corporation to oversee and run water operations in the state to regionally based, local-government-owned entities where we negotiated profits back to the local government sectors so that they could be used in the community and priorities could be based on community need rather than necessarily a state-government-led process.

Within that, all employees of local government were to be protected for 12 months, in terms of entitlements and their various provisions. Nasty stuff I suppose, in the context of intergovernmental relations, where we got to. Ultimately we agreed on a structure and corporations that actually met both our needs, but became somewhat of a camel, in the sense that probably local government didn't get all that it wanted, state government didn't get all that it wanted, we ended up with three regional entities delivering water and a support corporation, which was

effectively a common services corporation largely doing admin and back office but obviously capable of doing technical services as well.

Some of the requirements also imposed were that instead of having three discrete boards there was a commonality of a board membership as well as some requirements around having to be subject to a parliamentary process through a government business enterprise scrutiny group, which probably we would have preferred not to have done. So ultimately we ended up with a structure that was capable of delivering water in a different way to which councils have done in the past. One of the major reasons behind the government wanting to go down this path was keeping within its requirements under its intergovernmental agreement with the Commonwealth on water.

The regulatory environment under which local government was operating was seen not to be adequate and the new organisations had to lift, I suppose, to a new regulatory environment where they would be far more under scrutiny and required to actually meet those requirements. In addition, there were matters around price. While local government had been provided with guidance on price through the Government Prices Oversight Commission, it wasn't mandatory, there was a suggestive pricing regime. I would suggest that, while councils took note, in the main they did not apply to the maximum, let's say, the pricing structures that could have been afforded to the water product. I think a few councils sought to go higher than others, but what we had, have, is a mishmash of pricing across the state.

One of the other driving forces behind the water reform was to actually have cost-reflective pricing and usage. Presently we have approximately 35 to 40 per cent of the state that has metered water and we have the rest of it fundamentally worked out on the basis of the value of the property. The proposition moving forward is that we move to a 100 per cent metered water usage with cost-reflective pricing. That process is in train, in terms of going through a tender arrangement. I think Southern Water are coming in today, and they may talk about that more. But certainly the intent is that within I think about 48 months to have the entire state metered and actually have a pricing regime that is, if not the same statewide, at least the same regionally. Certainly I don't believe at this stage they're talking nodal pricing.

The initial pricing regime that was brought into effect really took what councils were charging, regardless of whether it was good, bad or ugly, with a proposition that there be a 10 per cent year-on-year increase for three years. I think the alternative was that it be 15 per cent. That was I think the prices oversight commission provided two options and the state government opted for the 10 per cent, to avoid too dramatic a price shock. Once announced of course that 10 per cent became still 10 per cent but was supported by a 5 per cent concession - or, effectively a 50 per cent concession - by the state government, so instead of the 10 per cent to which I thought

we had all agreed we were then 5 per cent.

At the end of three years we have got a situation where it should have been 10 per cent, 10 per cent, 10 per cent, and it has effectively been 5 per cent, 5 per cent, 5 per cent. So I think coming around the corner we have the price shock that everyone was concerned about, and I suppose timing will be dramatic in the context of energy prices, petrol prices and every other cost-of-living price going around. If you couple that with the fact that metering is going to come into effect, people are going to see massive use changes and costs associated with that that are going to be difficult and people are going to reflect on water and sewerage and say, "Terrible, terrible thing, that."

In terms of the pricing, we have the first formal price hearing or review in about 18 months' time. That would provide the corporations with the first opportunity to go to the prices oversight commission and actually make their submissions, in the same way as we see utilities across the country do, to actually demonstrate their costs and what their forward program is. Now, that was done the first time around as an interim but it was pretty fudgy. You're really relying on incomplete data in the main from councils. I suppose that next time around will afford the corporations the real opportunity to get their pricing right. It will also allow them the opportunity to make those judgments on the basis of a real forward program for, say, a decade rather than one that was perceived, so that they've got more of a handle on that.

Possibly in terms of how they've been operating, as I said before, they're local-government-owned and they've only been in place for 18 months. There has been mass criticism from the community, from business, from councils, from literally everyone, but they are a start-up company. They started with no systems; they started with people who were transferred, not recruited; they started with massive gaps in their entities; they started with significant controversy around board payments and chairs and how much they were being paid; and they really were largely directionless. If we were each a board member of one of those companies, we might have been a board member now.

So in that context they have moved along. They have now been able to recruit more adequately, in terms of the skill set required to do what they need to do. Their billing structure remains problematic, I think. There has been lags in terms of when revenues are received when billing has been done, and that has largely been based on a reliance of the former local government billing system. It's not local government's fault, it's just the fact that you start up an entity and you've suddenly got 400,000 customers and you haven't got a system to deal with it and no-one has accorded you any money or afforded you any money to put a system in. So obviously they've been looking at that. So that has been a problem for them in terms of cash flow, in terms

of policies that councils previously had in regards billing and trying to get consistency.

I suppose an issue that they have also had has been the issue of competing demands in relation to what councils possibly formerly expected and communities expected, vis-a-vis what it is that you're able to deliver as now a new corporation probably assigning different sets of values to the infrastructure need based on sort of longer-term strategy and more consistent procurement; so they have had that difficulty. The corporation that I mentioned, it's the support corporation, is called Onstream - I'll call it I suppose the fourth wheel; it's not the hub, because it supports the other three. It has come under constant criticism, in seeking to provide adequacy of service and completeness of service to its three, I suppose, host corporations.

Onstream has found that an easy way to do that is to expand its operations, but in doing so it has moved into the private sector a little bit, not in direct competition but perceived competition with the private sector, and so that has caused some criticism about whether or not they're getting a free ride, whether or not their cost structure is right. It's the same old, same old about allocative pricing and actually getting it correct. But I'm assured by the chairman of the board that indeed their business model suggests that they are appropriately assigning their costs and they're not actually seeking to undercut nor substitute pricing in favour of their corporations to outdo the private sector competition. However, it has been problematic for them.

I mentioned the state-government-funded cap as being a problem, I think that's an issue in terms of perception on pricing around the corner, that will be an issue. One of the bigger issues for local government, as I'm representing local government today, is the whole matter around governance. It's an interesting scenario that when you have controlled an entity and you've controlled an activity and you have set the priorities and you've responded to demand coming from community and complaint, and then it goes over there and even though you continue to own it you don't have any control over it, and I think it takes some time for councils to come to grips with, still haven't come to grips with, the governance regime through an owner's representative and a board arrangement that is actually dealing with strategic issues rather than operational priority.

I think this is a maturity issue that will take some time to work through. I expect probably the proof is in the tasting from the corporations themselves. Once they get themselves mature and they're able to deliver and respond and communicate, some of this other concern will dissipate; I won't suggest it will ever go away. The other issue we have, I talked about the cost of the boards or the perceived costs of the boards, there is a school of thought, "Well, even though we wanted three, perhaps now we should have one, because it would save some money," and I don't think there's a real appreciation that the saving of that little bit of money there, in the

context of that amount of money, is probably not a big saving. So we're still dealing with those issues.

One of the big things here is that there needs to be policy and there needs to be drivers around reform and there needs to be targets in regards to where this whole place is going. The real question is who should do that. The state government has a role I expect in terms of broad policy; intergovernmental agreements at the national level, even international, if it goes that far, and then reflecting those on to the corporations theme. Local government sees that as political interference; and it can be sometimes, it depends how it's delivered, that remains problematic as well. I know that Anglicare aren't turning up today, but I think there are concerns in the community around pricing.

There are concerns in the community around pricing generally. At the present time there is an increase on the base that was there previously. People haven't got a perception of how much water they use currently, because they're not charged on the basis of volume, so that will be problematic in itself for larger families, less fortunate members of the community, concession holders, and I think there is a real concern about how that gets managed in transition. So on a pure pricing model, cost-reflective pricing and the like, we're not moving from a base system to doing something else, we're moving from one to another in what has been a very volatile process anyway, and then there's going to be another one. So I don't know who manages that, whether that's going to be a state one or local or up to the boards themselves. It will probably largely be dealt with through the prices oversight commission.

In the main, I would suggest that the corporations have been working well, given the limitations they have had. They are delivering. They are moving towards dealing with things like the environmental issues. I mean, local government did not have a good record, in terms of a lot of the sewage treatment plants and outflows. I think I put in the briefing there about the number of boiled water alerts throughout the state. It's very difficult to address issues where you have boiled water alerts and only 20 people in the community.

Do you build a water treatment plant to deal with that, or do you do an inline system or what? It was a major driver in terms of the state government process and tourists and the like. Having to have bottled water in major tourist towns is probably not a good thing. So clearly addressing some of those issues around the environment had been a key priority. If there is a major criticism of the corporations and where they are perceived to be, they're not necessarily, from a council perspective, looking at land use, planning and growth; I think they're saying, "Well, hang on, we have got a few other priorities first," but it's about marrying those up. That's probably all I have got to say.

DR CRAIK: Thanks very much, Allan. That was very helpful. The first question I have is, do you think that what has happened here offers lessons for other regions? Could you outline what you see as the key benefits and the key costs of this reform process?

MR GARCIA (LGAT): I'm not sure that there's other jurisdictions that need our advice. I think we were pretty much a laggard in the whole process. I don't know that we have got a lot to offer to anyone who has been before us. If there are people behind us, I think the answer is, "Get on board." Clearly the way in which water and sewerage has been delivered in the past was haphazard throughout the state. There is no doubt that some councils, particularly the larger ones, were able to deliver the service adequately and appropriately. I think some of the pricing signals were not quite in the right place, simply because there was not a mandatory pricing regime, I think there were some regulatory limitations.

In relation to the pain and suffering it caused both state and local government in bringing this reform about, the question I would ask if we were doing it again was were there other ways to have effected this as an outcome? Should not have a state government looked at its own regulatory regime in the first place and contemplated what it might have needed to do to put in place some fundamentals to ensure that local government as a service provider was delivering? I mean what we did here effectively is went the amalgamation route. I think in the long term we will find that it's the right route, I'm not criticising the fact that it's not, because we will get efficiency through scale and economy through scale. However, some of the things that were broken were the regulatory environment and the lack of discipline on the part of the regulators to actually enforce what they had as regulations. So if local government was failing in the area of outflows then either (a) you caned them, or (b) you found a means by which to address the issues, whatever they might have been, rather than simply letting it go on and in every annual report putting a black mark.

So I think one of the big lessons for other places is to look at what you're doing in your regulatory environment. If you want big, best practice regulation, make sure you enforce it and make sure you have the resources to enforce it. To the extent that you're not getting results from it, look at the mechanisms that you might need to use to actually bring into line those who aren't doing the right thing. Structural reform - - -

DR CRAIK: So is that both the health regulators and the pricing regulators?

MR GARCIA (LGAT): I think it's price and I think it's health. Yes, price, public health and environmental health. I think the pricing process, it's - to have a guideline on pricing is a fine thing indeed, but then if you choose to ignore it, well, what's the

point of having it? So what we ended up with here was a situation where there was a guide so, "Look, you can - you should be looking at this." So councils were in a position of saying, "We've looked at that and we don't agree with it and we'll do whatever is a fair thing, because that distorts our rating and that distorts what our community's capacity is to pay." So I think in a pricing sense if you're not going to go to a pure structural - you'll affect your pricing in such a way as to achieve the outcomes you want.

Metering, as an example, it's probably - we're probably unique in this state inasmuch as whilst Melbourne 's, you know, probably largely the eastern seaboard and other dry areas have got water shortages, there is largely not a water shortage in urban areas in this state. There are in country areas, there's no doubt about that, but Hobart has probably got the greatest volume of water running by that you sort of pump out. It's not going to dry up, trust me. That said, getting it from one place to another and dealing with it, there is a cost associated, there is a cost in storage and there is a whole range of things around that. But in the past major councils in the Hobart urban area in particular have done all the work about looking at the cost of metering and done the cost-benefits and have said, "You know what? It does not stack up."

But the broader reform is about - I suppose the broader ideals and principles about reform are about responsible use, actually looking to save water and the like. I expect it's probably a bit foreign that you have little Tasmania sort of just using as much water and hosing down and washing the car and the boat and the like and you have Sydney and Melbourne looking at desalination plants at a billion dollars a pop. So the pricing thing is important, I think in the first instance. If you're going to have instruments like usage instruments then I think here maybe that could have been mandated. If the government wanted to achieve outcomes in that area they could have mandated that at the council level. As I said, in the public health and the environmental health areas as well, you know, it's all very well to get three crosses but if you've got three crosses, "Well, it doesn't matter, we can get a fourth cross or a fifth cross." What are you going to do about it? Unless there was a fines regime, but, you know, what damage was done possibly wasn't necessarily reflective of the - or fine probably wasn't reflective of the damage.

So in other places - I mean if you were going to do this again, if you were going to do it you can take the pain of structure reform. It creates much angst between the layers of government. It possibly, in the longer term, achieves the outcome that's probably the most desirable but there needs to be a lot more goodwill in the process and you need to be talking well in advance of the intent of what you want to do and maybe you need to deal with some of the issues in advance rather - and the structural option being not necessarily the last option but an option where you graduate to it rather than do it all at once. This is all done in two years

and have a new regulatory regime to have a new structural regime to go through due diligence where - I won't say that - the due diligence wasn't a nonsense but the due diligence was extraordinarily difficult when you're coming off such a low base of data and information.

So a lot of the decisions taken were based on presumption and assumption that have placed corporations now in circumstances where based on a lack of detail and the lack of information and the lack of the time and effort and resources put into getting the right data, the expectations were high and the deliverable low. I suppose in a nutshell - if that's answered your question?

DR CRAIK: Yes. No, that's good. Where do you think the greatest savings are going to be in the new arrangements? Do you have an idea?

MR GARCIA (LGAT): Look, I think so. In terms of - if you understand how 29 councils operate in this organisation or in this state or in any other state where you have multiple entities, you can run - as a council entity in this state I will build a treatment plant and infrastructure to deal with the people in my area. My pipe, when it gets to the municipal boundary, might do a U-turn and go straight off somewhere else. I might, with marginal costs - I could probably build a treatment plant 1.1 of the size of mine and actually help out people next door, but I never used to do that, because I'm only interested in what I'm doing. So I think you will see greater efficiency in regards to the bigger treatment, the bigger pieces of infrastructure.

I think also in terms of procurement. When you're a smallish council facing - we have a council in Tasmania called Sorrell Council which has an area - it's sort of east of Hobart, it takes in what we call the southern beach area, areas which largely in the past were shack site areas, but with affordable housing and people shifting out of the city shack sites have turned into sort of homes where four and five people live that rely on tank water and septic tanks in sandy, dune areas. Guess what? The septic tanks are full, the water - it doesn't rain there, that's why people used to have a shack there. You suddenly have a massive demand problem and the supply side issue as well.

In order to be able to deal - the problem facing Sorrell was how could it afford to do everything at once when it was going to have to put in place such a major capital arrangement in the first place. I think in terms of an organisation in southern Tasmania, the ability to be able to look more strategically at how you deal with that growth, even though the growth has happened - you're going to be able to manage coming growth in a better way and you're going to be able to deal with some of those holes in the past in a more strategic way than simply a single council trying to deal with a single problem that they've had. So I think that - I think procurement and some of that broader strategic outlook is probably going to see the most savings, as

well as, I suppose, a lifting of that fundamental skill base. You know, the decision-making process is probably going to be of a higher standard collectively than 29 individual councils; not to say that some of our councils couldn't have done that but as a collective I think we'll see better results there.

DR CRAIK: What has been the impact on local councils?

MR GARCIA (LGAT): There was promise - one of the issues that was most of concern to councils was they received revenue from water, obviously, some even made a profit. Some didn't make a profit and it was subsidised through the general rate. For those that were subsidised through the general rate - - -

DR CRAIK: Did the reverse apply as well? Water was subsidising council activity?

MR GARCIA (LGAT): Yes, absolutely.

DR CRAIK: Yes.

MR GARCIA (LGAT): Absolutely. In fact, one of the issues we faced was that a few of the councils were actually making wonderful profits from water and then were able to translate it over to their other council services, so you'd actually keep your rates relatively low and your water and sewerage charges high. The result of that, of course, is that a few councils, when the reform process came through, still had low rates and were not receiving the subsidy or not receiving the revenue, let's say, to offset the cost of their core services. All would be good if the revenue stream that was previously applicable continued to flow, which was one of the guarantees from the state, right. It was going to be like for like; if you used to earn \$100 before, you'll earn \$100 later.

What translated of course once the corporation was set up was not quite that. We had one council in particular - Glenorchy Council, just to the north of Hobart - that was significantly distressed financially as a result, because they were probably the maximum charger of water in the state. They were actually following the prices oversight commission guidelines, so their water prices were up here. Their rates were relatively lower, and if you compared them to their neighbouring councils it might have been the reverse. In neighbouring councils the rates relatively were higher and the water and sewerage charges were lower.

When Glenorchy Council lost the revenue from water and sewerage, without a guarantee that it would be the same, of course then their rate base is now having to meet all the services that they were previously providing, which has caused them quite some distress, to the extent that they're no longer a member of my association,

due to affordability and a range of other issues. So some councils were stressed by that process. I come back to that issue I mentioned before: if anyone else is doing this, your assumptions and your presumptions, based on possibly modelling that is incomplete or unable to be absolute, and then you start making projections about revenues and funding - you know, put in rubbish out comes rubbish, and I think a lot of that happened there. So Glenorchy Council suffered appreciably.

Have councils suffered generally? Of course there are councils that at a political level still don't support water and sewerage reform, and a range of issue around that. So there are varying responses from councils. In the main, I suppose councils have reluctantly accepted the reform - I won't say jumped on board with the reform, but went through the process; acknowledged the fact that if they didn't participate it would be done anyway; were in part comforted by the guarantees, but in hindsight have been disappointed with some of the outcomes; no-one wants to take it back, because it's going to be too hard to go back, but would now seek to improve it, and we are now looking at models where we can actually look to improve..

On the political interference side, we have got a lower house select committee I think that has just been established to review the whole of water and sewerage, after a whole 18 months, so again we're going to have an opportunity for everybody to have their input. I said there were 29 councils in the state, and I expect the positions will vary considerably in response. From most councils' perspectives, they do see that the longer-term financial flows will ultimately benefit them. They never saw them as being cash cows, because they never really wanted to, if you will, rip off their communities.

The validity of getting the funding above and beyond what is required for the corporations to maintain and expand their infrastructure is that the profits coming back will be reinvested back into the communities that support them, and that was always our position with the state. It's not going to go into a consolidated fund to build new schools and hospitals, it's actually going to go back to the local community that has actually supported the water and sewerage infrastructure over 30 years, and the next 10 or 15 or 20.

I think councils are aware that while their dividend stream may be low at the present time because there's a fixed formula based on your initial returns you would have gotten, after three years it goes to an equity base. So for some councils it suddenly starts to get better, for other councils it will dissipate quite significantly. But I think in the main they see it as being an opportunity that, while probably not supported in the initial stages, has the benefit in the longer term, in terms of improved service and in terms of improved revenues.

DR MUNDY: Just coming back to this Glenorchy question, how is the equity

allocated within the business into which Glenorchy puts its assets? Was it on an engineering valuation? Because Glenorchy's business was obviously worth something, because it generated positive cash flows back to the council. In a normal commercial transaction, businesses which were other would have been invited to pay to have them taken off their hands, and I presume that didn't happen.

MR GARCIA (LGAT): Well, that didn't happen, because it's not the private sector, I suppose. You're right. If I run a newsagency and you run a newsagency and we both have exactly the same outcomes, we have exactly the same turnover but you make 50 per cent more profit, the chances are your business is worth more.

DR MUNDY: Yes.

MR GARCIA (LGAT): In the case of councils, largely it's a capital based valuation, nothing to do with their revenue base. I suppose it comes down to your willingness to charge, right. Now, the problem we might have had with that process was that councils like Glenorchy were running a very profitable water and sewerage business; the counterfactual to that and the argument that could be presented by some councils may be that they weren't running such a profitable other business.

So there would have been a deemed balance between, "You were running a very successful business over here to offset a business you weren't particularly running well over there. Therefore, should you necessarily be rewarded?" From the perspective of moving forward, I think the issue really is about what asset base are you bringing. What is the common equity factor? What is easy, quite frankly, to calculate? Were Glenorchy entrepreneurial, or were they doing something else? But in terms of the business generally, the way after the first three years the dividend allocation will go will be based on the equity they have brought to the process.

In the organisations, the corporations themselves - and I talked about Sorell, let's assume Sorell comes off a fairly low equity base, because it didn't have much to start with. As the business grows its asset base, that equity will be reviewed after periods, let's say a five-year period, and at the end of five years let's make the assumption that now Sorell's southern beaches have been dealt with so the asset base has changed and Sorell will be a beneficiary of that at a later point in time.

I'm not exactly sure how this will work, but it will be almost an actuarial-type calculation, based on asset movements, which will dissipate some of those that were in a strong equity position before - probably not much, it will be a marginal movement down - but will advantage those where there has been little in the past. While that's not a traditional private sector model where out of 100 shares I have 30 and I always have 30, it does acknowledge and reflect the effort and business model of the community moving ahead.

DR MUNDY: Can I just ask one more question on that? I had a lot to do with a similar situation when we set up the National Rail Corporation in the early 90s. I was the Western Australian, and I had the only asset that made money. Are there rights to call upon the shareholders of these three distribution businesses? So if they're sort of cash, can they be called?

MR GARCIA (LGAT): My recollection is yes, because they need to call somewhere. There is an ownership model here. Yes, my recollection is that there is a right to call.

DR MUNDY: The call is proportionate to the current - - -

MR GARCIA (LGAT): Proportionate to the equity.

DR MUNDY: - - - equity. So, say people who have well-maintained assets have bid them in, put them in, and others have put in, let's say, assets that might not have been of such quality, if the company goes bust the guys that put in the good assets get invited to pay again?

MR GARCIA (LGAT): Thanks again, yes.

DR MUNDY: I thought so. Thanks.

MR GARCIA (LGAT): The way it should be.

DR MUNDY: My understanding of the situation is that there was a whole pile of council water businesses and on day one the prices were the prices that they were yesterday and they're allowed to go up 10 per cent - well, actually only up 5 per cent because the government pays that money presumably to the water businesses concerned.

MR GARCIA (LGAT): The water business actually still gets it 10 per cent.

DR MUNDY: Yes.

MR GARCIA (LGAT): So for the purposes of operational - it still gets that operational revenue, but then provides the consumer with that 5 per cent discount.

DR MUNDY: Pays it back.

MR GARCIA (LGAT): Yes.

DR MUNDY: The government pays that 5 per cent?

MR GARCIA (LGAT): Yes.

DR MUNDY: Okay, fair enough. That was presumably a hardship sort of notion. "We can't have prices going up this much, because it will hurt consumers," so that sort of notion.

MR GARCIA (LGAT): I think we were looking at the unpopularity of the reform process and perhaps maybe - God forbid - an election cycle.

DR MUNDY: Yes, so wasn't consideration given to making direct payments to those most in need of assistance?

MR GARCIA (LGAT): There existed a concession arrangement anyway, and so the concession arrangement continued. Under the regime of concessions that local government provide, the state government has always provided a rate concession, on the basis that it's not local government's job to do social security. I don't think it's a state government's job either, but anyway that's the issue. So the government has always provided a concession for ratepayers of local government.

When the businesses were split from core business water and sewerage a deemed percentage went with the water and sewerage. So if you were a concession holder under the regime over here - and I can't recall specifically what that is, but it would be pensions, et cetera - you were entitled to it over here, so it followed. The bigger issue becomes when we move to cost-reflective pricing. If I'm a landlord and you're my tenant, at the present time I pay my water bill on the basis of AAV; I pay it as the landlord, as the tenant you pay rent to cover it. The model moving forward will be that you - - -

DR CRAIK: On the basis of unimproved valuation?

MR GARCIA (LGAT): On the basis of what we call AAV, which is a proxy for rent. So it's not land, it's not capital; assessed annual value, is ours.

DR MUNDY: So it's a capitalised value of the rent essentially?

MR GARCIA (LGAT): It's essentially a proxy rent, yes. When we move to the new regime, you now as the tenant will be charged for your metering and I am no longer in the game, but before I wasn't a concession holder. Let's assume you are a concession holder. So the pool of people who previously might have been concessional holders was this; the pool will move to something quite significant.

One of the issues we had with government was that they were of the view that, given that we now own the business, we should pay the concessions, and we said, "Hold on a minute. When we move to people actually having to pay their own bills, that concession base moves from here right out to here," and the multiples were quite significant. That was the latter reform battles that we waged, and won again. In terms of what you asked before in terms of the concession arrangements and why they might have paid the 5 per cent, it was largely around the fact that there was going to be an upcoming problem with some of these issues.

DR MUNDY: So you're going to go on to a situation that looks - well, which will go after tenants, more than any other jurisdiction in the country?

MR GARCIA (LGAT): That was the proposed policy position, and it's still I think the intended policy position. Yes, the question would be, "If you're my tenant and you're using a million gallons of water a year, how do I as a landlord appropriately charge you?"

DR MUNDY: Just as a matter of fact, the proportion of multi-apartments - flats, that sort of thing - in Tasmania, as a proportion of the rental stocks, I suspect there'd be a much greater preponderance of rented houses in Tasmania than in other states.

MR GARCIA (LGAT): Houses or apartments?

DR MUNDY: Well, either way. I would have thought that Tasmania has relatively more rented housing than rented apartments.

MR GARCIA (LGAT): Yes. Sorry, yes.

DR MUNDY: So you don't have the problems in, say, Sydney, where 30 per cent of people live in multiple occupancy dwellings.

MR GARCIA (LGAT): That would be right, yes.

DR MUNDY: Which is one of the reasons why it's more difficult for them.

MR GARCIA (LGAT): Yes, it's increasing obviously. But you take a city like Launceston, that is a bit like Sydney, in the Paddington area you have all these multitudes of terraces. I own a terrace in Launceston, it's one of four, and they don't meter, they charge on a valuation base; ridiculously, I might add. But there will be issues around that. How you get pure user pricing is going to be the challenge.

DR CRAIK: So was there a cost-benefit study done before it was decided to meter everywhere?

MR GARCIA (LGAT): On a council-by-council basis, as I indicated with Hobart, in the past there was, and some councils have chosen to move to metering. But in the broad - in terms of whether or not, from a state perspective, there should be, there was a study done, and I do recall seeing a study. Whether it was a pure cost-benefit study, I don't recall. I do recall a report being done that underpinned some of the state government's position, and I just don't recall whether it was a pure cost-benefit study or whether it was a report reflecting the merits of metering. I have got an idea it might have gone to some of the options about whether or not it was fully automated - you know, like blue tooth, everything through to guys walking into the place. My recollection is it was possibly more an options paper about metering than a pure cost-benefit study, because the principle was established down here, "There will be user pricing," bottom line.

DR CRAIK: So who paid for the meters?

MR GARCIA (LGAT): Who will pay for the meters?

DR CRAIK: Yes. I mean, will consumers pay, or is it a grant from the NWC or something - - -

MR GARCIA (LGAT): The proposition was that we actually get some funding nationally under the water reform funds. I know that a bid was made. You might ask Southern Water that when they appear today, as to whether or not they have been successful. I think there was an application made for some funding. In my head I'm thinking 10 million, but it might have been less or more. But in the event that there's no support through that process, it would be a consumer pay, and whether or not it was an up-front capital or whether it was a proportion over three, 10 years, I'm not sure.

DR MUNDY: You're saying that in 2012 there is going to be the independent pricing authority, whatever it's called, in this jurisdiction and it's going to open up a Pandora's box.

MR GARCIA (LGAT): That's the one.

DR MUNDY: They'll do what pricing regulators do. Are they the decision-maker, or are they going to make a recommendation to the government?

MR GARCIA (LGAT): My recollection is it's recommendatory. The interim pricing order was recommendatory to the treasurer, and I expect the formal process is the same. I'm not absolutely sure, but, yes, I think it's recommendatory with the minister. I'm not sure whether his position is to accept or reject, or whether he can

actually translate.

DR MUNDY: Yes, what he has got to do with it.

MR GARCIA (LGAT): Yes.

DR MUNDY: Fair enough.

DR CRAIK: What is the difference between the prices oversight commission and OTTER, the Office of the Economic Regulator?

MR GARCIA (LGAT): Same thing.

DR CRAIK: It's the same thing.

MR GARCIA (LGAT): Yes, they're all one.

DR MUNDY: You made an interesting comment about environmental regulation. I presume that the EPA is the regulator.

MR GARCIA (LGAT): It is now, yes. Previously it was within the department of - - -

DR MUNDY: The environment.

MR GARCIA (LGAT): Yes, the various departments of environment, or things like that. I suppose where other jurisdictions have set up, the EPA is now seen as a policeman. Whereas in the past you had the policy and the police in the same place, you now have a policeman. I think the regulatory position around the operation of these corporations has been enhanced significantly. So the EPA, apart from having a better mandate in its own right as a structure, now has a suite of regulations that are probably more definitive, and therefore the policemen have now got something to police.

DR MUNDY: So does the EPA license discharge, or is that done by someone else? I presume you need a licence to discharge.

MR GARCIA (LGAT): Yes, you do.

DR MUNDY: You get that licence from the EPA?

MR GARCIA (LGAT): Yes. But these corporations are subject to a broader licence of operation anyway. So, in trying to answer your question, I'm not sure,

within that broader licence that matter is covered in a generic, and then you might have specifics down here about that particular facility, and I expect that is the case. I think up here there's an adherence requirement as part of your licensing regime. But if you've got one down here that's highly problematic but there's a plan to resolve, I expect you might have an arrangement.

DR MUNDY: So who do they get that licence from, the water utility?

MR GARCIA (LGAT): I expect that's the EPA.

DR MUNDY: That would cover obviously discharge standards and things generically.

MR GARCIA (LGAT): Yes.

DR MUNDY: Perhaps there's some one-offs. Does that also cover water quality issues like your health standard, for example, or does that licence come from the Health Department?

MR GARCIA (LGAT): The monitoring is done by - I'm not sure whether the water corporations do all the monitoring, because there's still some monitoring done by councils. So councils still have a public health requirement. The water authorities have a drinking water requirement. At an operational level I'm not sure how that's actually managed. You really don't have a licence to do anything, as far as not having appropriate water goes. You must have appropriate water. However, I indicated there are areas where you do have boiled water alerts and the council in its monitoring process, if there's some uglies in the water, obviously moves up the scale to, "Oh dear, you'd better boil your water," or whatever it might be. So that's a - I don't think there's a capacity to be able to say, "Well look, don't worry about the water, you'll be right." I think it's more through the monitoring process you move through those standards, if you will, and when you reach a point and you have to go for boiled water then you do that. But in the main, the public health requirements are, "Thou shalt provide potable water."

DR MUNDY: Okay.

MR GARCIA (LGAT): Yes.

DR MUNDY: And potable water presumably is that which is defined at the national drinking water standard?

MR GARCIA (LGAT): Probably the international, but in the national, yes.

DR MUNDY: Given what you said before about the abundance of water in Tasmania I guess questions like the introduction of recycled potable water is something which hasn't been a jurisdictional - you have stormwater capture, recycled sewage, those sorts of - - -

MR GARCIA (LGAT): Look, it has, in part. I think probably not to the extent of human consumption, certainly diversion for irrigation and agriculture purposes there's been some significant projects, one in Clarence out into the Coal River, you know, the farming areas sort of - highly intensive farm area that sort of lacks water. The typical stuff is things on golf courses and that type of thing. So some small scale and some large scale, not significant but certainly not to the point of recycling for human consumption. That hasn't come up as an issue. I think in large part that would go to scale, where most of the population lives in this state there is, generally speaking, a relative abundance of water.

Where there would be considered - the east coast is the classic example of, I suppose, our driest area where the coastline - there are a lot of people on the coast but they're not in aggregated areas. So for a council to actually look at reuse and the cost of that, you know, the spread in terms of per-head cost would be significant, I would think, whereas if we had to do it in Hobart you might get to the point of actually saying, "Well, actually, that's a worthwhile project."

DR MUNDY: This is just on a tangent, but given this relative abundance of water exists in Tasmania, how do you think - well, how would your association react to propositions about piping some of that to the mainland, if it turned out to be economically feasible?

MR GARCIA (LGAT): Yes. Look, I think it depends on the beneficiary of that. I expect if - it depends. So there's - okay, so who owns the pipeline takes the risk. Whose water is it in the first place? Now, at the present time the water is owned by the state. So if the state government says, "We're going to divert water to the mainland and we've got built-in safeguards to ensure that there will be no shortage at all, as soon as there's a shortage we'll turn off that tap to Victoria, regardless of how much money is coming," then I think that we would - you know, we would look at it on its merits.

The issue for us would always be that there has to be sufficient and adequate enough water for the baseload here and projected as well. I think in the state, if you look at how successful Basslink hasn't been - and that has been on the basis of the lack of water, because we've actually had to import electricity at peak prices based on the fact that we've got draining - reserves of water in the places where it has always rained but it hasn't rained. So I think there would be - in regards to a pipeline to Victoria, if that came about, we'd want to understand the risk profile, we'd want to

understand how that impacted on the resource that was here but it certainly wouldn't be frowned upon.

DR MUNDY: It's also, as you say, an issue tied up with the availability of water for electricity generation as well.

MR GARCIA (LGAT): I think that that might be a problem. Where are you going to pipe it from? Are you going to pipe it from the storage? If there is a storage, what's its other - what's the alternative use?

DR MUNDY: Okay. So I guess - you were talking before about this multiplicity of pricing structures. Presumably that means that individual water utilities are administering multiple sorts of pricing. Presumably some of them are rising blocks, some of them are just rates and all that sort of stuff.

MR GARCIA (LGAT): Within a - so the corporations obviously exist in three regions of the state. In large part you'd probably find the north-west they're all largely metered. Largely, but I say - - -

DR MUNDY: So that's Davenport, Burnie - - -

MR GARCIA (LGAT): Yes, Davenport, that north-west coast. The northern, they would find that there's metering in parts but certainly in the rurals there's probably not. But in the south there's a bit of metering but not much. So while there's a mishmash of pricing structures - Southern Water can confirm this when they appear this morning - I would suggest that probably they're dealing with the circumstance of largely unmetered arrangements, but very different sorts of pricing structures and indeed, pricing policies. A lot of councils would charge on a vacant block even though there was no service, whereas another council might not charge. So as a corporation you're trying to find common pricing policies but you're not really there yet. So I think they've had some issues.

DR MUNDY: Do you have any views on how the three regions were ultimately arrived on? I mean were they sensible in what they were trying - were they based on catchments or?

MR GARCIA (LGAT): They were based largely on council district areas. There was no perfect region in the state, there was no perfect regional structural - we in local government believe ours is perfect. But there are other, I suppose, regions; like forestry have a suite of regions that are based on growth of trees. There are a range of various regions people apply but largely the council district arrangements through the regions is the one - it's the one that sort of schools operate on, it's the one that hospitals operate. So a lot of the public utility operates on similar sorts of regions.

In terms of catchment - yes, not untoward in terms of only having three. It's not unreasonable that it's - you could suggest it's around catchment, but because it's so large - you know, there's a lot of catchments in that area. So it's a sense - from our perspective it's sensible. It's sensible from the perspective of the ownership of the corporations rests with those councils that actually are already within that region. So that was our argument from the beginning.

DR MUNDY: So it was sort of - a sensible thing for water supply and then adjusted to keep - make sure councils weren't sitting across two and things?

MR GARCIA (LGAT): Exactly right. I think the overrider was - I mentioned before if my council and your council and running water supplies and we've got a pipe coming to the boundary and then we do a right-angle turn to go away, I think the other thing with the corporations is that they recognise that and they would look at how they would actually do those inter-boundary or close to boundary arrangements. So clearly that's easier with three than it is with a range of people.

DR CRAIK: Why not one for the whole state? I mean it's only 400-odd thousand people living in Tasmania.

MR GARCIA (LGAT): Yes, why not?

DR CRAIK: I mean that's only a fraction of Sydney - - -

DR MUNDY: The Western Australians think it's sufficient.

DR CRAIK: Yes, South Australia - - -

MR GARCIA (LGAT): I think that comes down to the fact that Western Australia thinks it's sufficient because state government thinks it's sufficient and the Tasmania government thought it was sufficient as well. Some people in local government think it was, think it is sufficient and it may very well be in the future that it could be sufficient if local government come to that point.

DR CRAIK: Do you think the board structure is kind of angling in that direction?

MR GARCIA (LGAT): Look, there is potential. I suppose a lot of this - a lot of the - my personal view on this is that we possibly should take some advice from the boards themselves. I think the people on the boards are professional enough and have enough integrity to talk to the owners about what is the best possible workings for this into the future. The three was political. Hard and fast political. "You want reform? You'll get reform. You'll get it on these rules. This is our deal. Will we cut

the deal or not? Do you want to lose an election on the basis of this or not." Pretty simple.

Beyond that, there were a lot of reasons why we thought regional was better. The possibility exists in the future for there to be one; there is no doubt about that. It would be, from our perspective, one locally governed one, but it would need to be demonstrated as to what it would actually deliver in terms of ultimate benefit, rather than the three. There is a saving associated with having one. The real question is, are you replicating or duplicating, or are you actually running three different businesses here. There is no doubt that you would get the same scale as we would have got out of three, we could have arguably got more out of one. Maybe in the future it will be one, but at the moment it's three.

DR CRAIK: Is there some useful competitive tension between the three, even though they have got overlapping boards and all those sorts of things?

MR GARCIA (LGAT): I think this is one of the tests, and I think this is why we need to consider what the board thinks. Because if I was one of the common directors on one of these things, I am actually sitting on the board of three companies. So my north-west company and my north company, I don't know that I can have a favourite, because Corporations Law says I can't; I actually work for each one equally, or each one of them is my priority. So if I see something pretty sexy happening in the north-west that could have a competitive advantage over the south, even though we are regional monopolies, what should I do. I think this is the creative tension around conflict of interest. That is why I say that I think some guidance on this needs to be taken from the boards as to how they believe they are managing that, and is that confronting for them.

DR MUNDY: They are Corps Law companies, are they?

MR GARCIA (LGAT): They are bastardised Corps Law. It is probably, in other jurisdictions, like GBE and state-owned corporations, so you have got some core elements that are Corps Law and then you have got elements that aren't; "Here are some rules, we run around them." Largely they are Corps Law related. In terms of, as a board member, you would have the same duties, ethics, responsibilities.

DR MUNDY: But probably the absence of criminal sanctions.

MR GARCIA (LGAT): Yes.

DR MUNDY: Yes, I take your example. A more profound example might be company 1 wanting to poach the CEO of company 2.

MR GARCIA (LGAT): That is one that's been raised, even to the extent in its start-up, how do we decide who gets which CEO. Is there an application process for three CEOs and three companies and we run them through. If there is the best one, which one should they go to. So they dealt with that. I wasn't involved, but they dealt with that process. But it is exactly that issue. Or what if it's not the CEO, what if it's the chief operating officer; whatever it might be. So from the board perspective, I think it would be interesting - they're not going to talk to you today. But from the perspective of the owners it would be useful to have a conversation in a place, at a time, to say, "So you've been doing this for a couple of years, how do we seek to improve it, from your perspective as the board and our perspective as owners," to get the best outcome.

DR CRAIK: How many of the members of the boards are common?

MR GARCIA (LGAT): There is a common chair, there are three common directors, and then in each region there are two more.

DR CRAIK: So the common members outweigh the non-common members?

MR GARCIA (LGAT): Yes, another requirement of the government.

DR CRAIK: That would be tricky, wouldn't it.

DR MUNDY: Those common members are appointed by who?

MR GARCIA (LGAT): All directors are appointed by the owners' representatives, so the owners' representatives - excuse me. Let's use Hobart, the subregion, as an example: there are 12 councils in the subregion, pretty much four small, four medium, four largish. The owners' representatives are appointed on behalf of those councils. So in the south it just happens they are all council people. I think there are two mayors and a councillor. So the small ones choose their person, the mediums choose theirs, and the large choose theirs, so we have got three owners' reps. We've got three owners' reps for each region; they are sitting over there.

What they're waiting for, in terms of selecting the board, is an independent group that comprises the head of treasury, two august people who have experience in various things - one being, I think, water and sewerage and one being governance - and the other person is chairman of the board. So the chairman of the board is the tough one to start, but, beyond that, the chairman of the board sits on there. I think the chairman of the board chairs what we call the selection committee. They go through a process using a consultant - whichever board consultant they want to use, if they so choose - or they just go through public advertisement.

They get a list of people, they sift through, and then they provide the owners' reps with people of adequacy, professionalism, and all that sort of stuff. So if there is a vacancy, they might suggest there are three, the owners' reps can look at those three people and choose someone, or they can say, "Actually, we're not satisfied, can you give us some more." Now, the selection committee is saying, "We gave you the best three, pick one," so that is the only tension we have. So the owners' reps appoint on the recommendation of at least a group of people that are adequate to - - -

DR MUNDY: So the nine owners' reps across the state appoint the common directors?

MR GARCIA (LGAT): They appoint the commons.

DR MUNDY: Then the three appoint the regionals?

MR GARCIA (LGAT): Appoint the regionals, yes.

DR MUNDY: Okay.

MR GARCIA (LGAT): I can't remember the fundamentals around their requirements. I think they have got to have a knowledge of the region, that sort of stuff.

DR MUNDY: Yes, that sort of stuff; everyone turns the tap on.

MR GARCIA (LGAT): Yes.

DR MUNDY: Just one last question on governance: the parliamentary oversight, what does it do other than haul people in and embarrass them?

MR GARCIA (LGAT): There you go. I didn't appear before them, but the oversight committee invites stakeholders in to have a chat and I appeared before them last week, or a couple of weeks ago. It is a difficult one in water and sewerage, because we have three people that sit on the legislative council and the oversight committee who actually happen to also be - two of them are local government mayors and one is a fairly vocal local government councillor who used to be a mayor. So trust me, in the parliament there is no conflict of interest on these things at all, because you don't even have to declare an interest.

So we have got three people here on the scrutiny committee that are actually owners, and they are actually going to talk to the ownership as well. So, in part, some of it was a bit of dirt stuff, I think, and the intent of the scrutiny committee is to provide the parliament with some comfort that those organisations are operating

effectively, efficiently, transparently, appropriately. In some part there might be embarrassment. I expect that there would be questions that some of the owners might use or have, that they would seek to use. But largely it is supposed to be some accountability to the people, through the parliament. It's not quite like your Commonwealth stuff; it is not that dirty and grubby, but it is a capacity to embarrass. Ideally, it should have a capacity for that entity to highlight the challenges, I expect, more so than anything, but I don't know that they ever get around to that.

DR CRAIK: Just a final question - sorry, we've filled up the time.

MR GARCIA (LGAT): That's okay.

DR CRAIK: It's been very useful, actually. What do you think the next step for further reform is in Tasmania?

MR GARCIA (LGAT): In this space?

DR CRAIK: Yes.

MR GARCIA (LGAT): It is early. I reiterate it's early days. Remember, these things have been in place now for 18 months and only just 18 months. I think we are yet to see what they are capable of delivering. They have really been in start-up in all that time. The future may very well be - we've talked about structure. There might be some structure issues brought into play. We have got some operational or some strategic policy issues: metering, user pricing, I think they are a continuation, but they will be in the immediate future-type reforms, I suppose, still associated with the initial reform. Beyond that I'm not really sure.

I expect one thing that we might see in the future is that, currently the state government is looking at irrigation in the state and has got us an irrigation group and is obviously harnessing harvesting and diverting water in agricultural districts. A question will arise, I think, in the future, as to whether or not there is any crossover. I don't know if it is going to be a reform or just a sensible thing to look at, as to whether or not there are benefits in carrying a pile of water this big, for agricultural purposes, through the place and then you might do things. But I'm not sure that's reform other than sensible engineering.

So at a personal level I am not really seeing anything yet. Because I think there are so many issues that have to be nailed already, that the foreseeable future, I think, for the next three years, is probably getting those things done that still have to be done and then realising how they pan out before we actually move to another level.

DR CRAIK: Has there been any interest from the private sector in getting into any of this, like sewer mining or nutrient mining from sewers, so private sector access?

MR GARCIA (LGAT): No. I was wondering where you were going with that for a moment. One of the big issues was, "Let's not sell the water to the private sector." No, there hasn't been in terms of that secondary value-add.

DR CRAIK: Access regimes.

MR GARCIA (LGAT): No, not that I'm aware of. Whether or not, in the corporations themselves, they are looking at that or whether they have had approaches, I'm not sure. But I haven't heard of anything where there is that sort of secondary benefit process coming through at all.

DR CRAIK: Okay. Thanks. Are you all right?

DR MUNDY: I'm done.

DR CRAIK: Thanks very much, Allan.

MR GARCIA (LGAT): Pleasure.

DR CRAIK: Thanks very much for being available for the whole hour, that's been very helpful. Thanks very much.

MR GARCIA (LGAT): Okay.

DR CRAIK: Now we'll take a break for 15 minutes, until Mike Paine. Thanks very much.

MR GARCIA (LGAT): Pleasure.

DR CRAIK: Thanks, Mike. When you're ready, do you want to give your name and the organisation you represent, for the record. Then if you would like to make a brief presentation, that would be great, and then we will ask you questions.

MR PAINE (SW): You'll ask me questions?

DR CRAIK: We'll ask you questions.

MR PAINE (SW): Good.

DR CRAIK: If you just start with your name and organisation, that would be great.

MR PAINE (SW): Mike Paine, CEO of Southern Water.

DR CRAIK: Would you like to make a brief presentation?

MR PAINE (SW): Thank you. We've made a formal response to the commission, earlier on, signed by the chairpersons of the four water corporations in Tasmania. What I thought I might do is just give a brief introduction and you can ask some questions. In 2006, the state government announced a review of the water industry in Tasmania and, through a consultative process, in 2008 two important pieces of legislation were enacted, the Water Industry Act and the Water Corporations Act, which set out the operation of water industry in Tasmania. It also formed four companies: three regional corporations that serve customers directly and a common services corporation called Onstream that provides common services for the three corporations. Onstream is wholly owned by the three corporations.

The reform of the industry was designed to deliver long-term benefits to Tasmania and essentially took the control of water and waste water services away from 21 councils and three bulk water authorities into the four corporations. The level of reform, as measured by the capital expenditure required to improve services and facilities, was \$1 billion, estimated to be implemented over 10 years. The initial pricing process was set up through an interim pricing order (IPO). The interim pricing order was stated to provide a path towards two-part pricing or other equitable pricing reforms, and allowed increases of up to 10 per cent, depending on the municipality that the customer was in. It also required that pricing be based on the basis that the customer was charged in the year leading up to the commencement of the corporations, which was 1 July 2009.

The IPO also envisaged in the reforms that independent economic regulation would occur and that this would occur from 1 July 2012. The intention of the acts was to create sustainable companies who would provide sustainable services to Tasmanians. Obviously the economic regulators role is to ensure customer

protections, but also sufficient cash for the businesses to undertake the reforms and other services.

What we have noticed since the commencement of operations is that the reforms were justified. So the standard of infrastructure/standard of service that we've experienced met the expectations of the initial work done by the government. But it has also allowed us to relook at service provision without unintended or intended artificial boundaries around local governments. We have also participated and are participating in wider and higher levels of strategic planning to ensure that efficient services are provided, and this is particularly evident in initiatives around regional planning that is also being undertaken by the government and local government.

In the lead-up to the March election we had change in the IPO that limited the increase to individual customers at 5 per cent and provided the corporations with the gap funding for the next three years. This change in IPO severely constrained our ability to move the current inequitable pricing, generally based on the value of the property, away from that to two-part pricing. We also had, in the last three months, a select committee parliamentary review set up to review a number of structural aspects in relation to the water industry in Tasmania as well as our requirement to review the outworkings of the 5 per cent pricing cap when the subsidy is removed in 2011/12. Actually, with that, that is probably a really good background of where we have come from and got to. The rest is in the submission, I suppose.

DR CRAIK: Okay, thank you. Thanks very much, Mike. How do you think implementation of the reforms has gone; has it gone smoothly or not?

MR PAINE (SW): I think there are a couple of aspects to that. Firstly, from the removal of the service from our owners and transfer to the corporations, I think it is fair to say that the structure that we've ended up with isn't necessarily the structure that our owners wanted. That's been clear feedback to me since I've been here. That said, I'm not sure that they fully understand the benefits that we actually derive from shared services, so we try hard with that. I am of the view that if there had have been a larger effort in terms of making us ready for operation on 1 July 2009 it would have been a lot smoother.

DR CRAIK: Do you think there are any lessons, other than that, for anywhere else in Australia?

MR PAINE (SW): I absolutely do, and clearly that is the one; it is how to extricate what is a good cash-generating business from councils that are effectively cash-strapped. It is very difficult for them in that frame, particularly if there is under-investment in the infrastructure that the money is collected for.

DR CRAIK: So what would you do differently, if you had to do it somewhere else?

MR PAINE (SW): I think if it was to be done differently, you would certainly have a different method of compensation for the outcomes. Whilst my understanding is that the councils received an amount of money to fund the costs of the work that they needed to do in preparing for the juncture, the reality is that there was some cost-shifting or some revenue-shifting undertaken in the gap year, between the base year of what you could call the due diligence and the year that we actually started. So revenue shifted out of water and waste water and into general rates and the like, which put some businesses, including mine, under pressure in terms of delivering proper returns.

There may have been an element of over promising on the capability of the organisations and the length of time before sustainable returns would be generated, so I would be very careful about that. In general, the general communications with the community about the rate of change, it does take time to set up a business and it does take time to integrate people, who are from other organisations, effectively, into that business. That is certainly recognised in pricing paths, but it is not recognised in the actual practicality on the ground operation. So perhaps another way, there is an expectation that we will operate as a fully funded, sustainable business without the full funding, and we are at about half the revenue of what that is.

DR CRAIK: You have a board, a fair bit of which is common to the other two water corporations. Does that create problems if one entity decides to be innovative? Has it been a problem?

MR PAINE (SW): My thinking on that is it hasn't been a problem that has prevented us from doing anything in reality. At the start we had a lot of things to develop and it was actually beneficial that there was some overlap, I think. What also was beneficial in that was the attitude of the people in the industry to work together to make sure there were optimal and, where possible, uniform outcomes, in terms of standards and services across Tasmania. What we are starting to find now is that we are starting to become different businesses as we move out of that start-up phase, and the intricacies of the different places that we manage. But that could be - that would be no different - it's no different if you actually take a next-level-down look at the differences between issues at the Huon versus issues at Swansea versus issues in Hobart and all that, which we have to be nimble as well.

DR CRAIK: So do you see instances of sort of benefits from comparative competition or does it not really apply here?

MR PAINE (SW): Exactly. Comparative competition has been very good and an important part of our start-up.

DR CRAIK: Okay.

MR PAINE (SW): As well as what is said with the relationship that we actually have across the industry in terms of sharing knowledge and trust that when someone is allocated to do something that it will get done.

DR CRAIK: Okay, thanks.

DR MUNDY: In the submission you note that in 2009-10 a sum just shy of 70 million was spent on new infrastructure, and that was a significant uplift from before, but earlier on you said that what came out of the set-up process and the investigation was about a billion dollar shortfall over 10 years. So I guess my question is, is there a expected backloading of that capital program or is that 68.7 million all that can be borne? If there has got to be a further ramp-up in the capex program, are the skills available to do the work?

MR PAINE (SW): Again, there's a few things there. The level of capital expenditure before we started was around \$30 million across the state. In our first year we, as we said there, spent close to \$69 million. What you will appreciate in terms of delivering efficient capital works is there's an element of planning that actually has to go on. There was not a lot of regionally-based planning done. By that I mean where there was a boundary, that was the boundary. I can give you two examples of - Southern Water have a small treatment plant at a place called Taroona. We're actually closing that plant and going to pump wastewater into the next city; well, it was called the next city but it's our region now. It's more efficient by about \$3 million for this small plant to do that than upgrade that plant, which was - so \$5 million versus \$8 million to upgrade.

So we've been able to do that element of planning quite quickly. The problem is we have at least eight other of those treatment plants, for example, on the Derwent, that an efficient solution might be one, maybe two, but they're much bigger than that and we obviously need to do a lot more planning. So to answer your question, the billion dollars is absolutely necessary, 10 years is our absolute outside program and yes, we will be loading up the back end to do that.

DR MUNDY: So the delay is you've simply got to work out what to do rather than - - -

MR PAINE (SW): Correct.

DR MUNDY: Is the price cap at the moment a problem in delivery?

MR PAINE (SW): The price cap at the moment isn't a problem in delivery because it actually funds the gap between the revenue that we would have got and what we are getting from customers. The problem with the price cap is when it ceases in 2012 and if we're on a revenue path of 10 per cent nominal increase per year, then there's in excess of 25 per cent revenue to be found from customers in the fourth year. The problem is what do we do there? Do we take the 25 per cent hit effectively or do customers bear a price shock of that level?

DR MUNDY: Are you paying dividends to shareholders at the moment?

MR PAINE (SW): We paid dividends, I think, for the whole of the water industry of about \$17 million to our shareholders in the first financial year.

DR MUNDY: On an asset base of?

MR PAINE (SW): \$2 billion.

DR MUNDY: Okay, fair enough. In 2012 - - -

MR PAINE (SW): Sorry, dividends - that's total return, so that includes tax equivalents and guarantee fees, you know, competition guarantee fees on our borrowing.

DR MUNDY: Okay. So the dividend payments are - - -

MR PAINE (SW): The dividend payments aren't that much, no.

DR MUNDY: Are a much smaller proportion than that?

MR PAINE (SW): It's probably more like half that.

DR MUNDY: Has the regulatory framework for the independent price-setting been established yet? I guess it follows on from that. Is there an expectation that a normal return will be earned on capital employed when it goes to the regulator.

MR PAINE (SW): That's our expectation, that we will propose a weighted average cost of capital on a building block basis to reach full cost recovery.

DR MUNDY: Perhaps with a glide path over time to get there.

MR PAINE (SW): With a glide path over time, yes.

DR MUNDY: Yes. When the independent regulator does its thing, will it actually make the decision or will it make a recommendation to government?

MR PAINE (SW): It's my understanding they make the decision, it's purely independent.

DR MUNDY: Okay, so it's not, for example, like in Western Australia, they do all their stuff and then they make a recommendation, but your model is more like what is in New South Wales where they just make the decision.

MR PAINE (SW): Correct.

DR MUNDY: Have there been any issues around restrictions in Tasmania? It's a common question we're asking people, but you have such an abundance of water.

MR PAINE (SW): Mostly the latter, but there are places, particularly on the east coast, where from time to time restrictions have been applied. There have been a number of pieces of works done in the recent past to secure supplies there though. I don't envisage any restrictions in any of my supply areas in the coming summer.

DR MUNDY: Who makes the decision about restrictions? Do you, or does the government?

MR PAINE (SW): We do.

DR MUNDY: You do. So you presumably make decisions weighing up costs of supply against costs of restrictions.

MR PAINE (SW): That would be the case - - -

DR MUNDY: If restrictions were necessary.

MR PAINE (SW): - - - if they were needed, yes.

DR MUNDY: So it's probably not a huge issue.

MR PAINE (SW): No, it's not a big issue here.

DR MUNDY: Just coming back to pricing, when you go, is it your expectation that you'll go to the pricing regulator with a two-part tariff? Is that where your thinking is at the moment, or has the regulator said that's what it wants to see?

MR PAINE (SW): The legislation actually says that. So we're heading down that path. I could outline that for you. In terms of water supply, a fixed tariff, based on size of connection; and a variable tariff, based just purely on consumption and uniform rate across the region. One of the reason that we want to do that is the administrative simplicity; it's very difficult to explain to neighbours why they're being charged different, even if they're in a different water supply system, and it's not that big. I guess when we talk about postage-stamp pricing, it's not that big a postage stamp.

DR MUNDY: At some point the postage stamp distinction needs to be drawn.

MR PAINE (SW): Yes, exactly. With wastewater, we are just proposing a fixed charge, based on equivalent tenements, so using the household as the base tenement.

DR MUNDY: So just coming back, you said a fixed charge on the basis of the size of the connection. Can you just flesh that out a bit for me? Is that the size of the pipe going into the house?

MR PAINE (SW): Size of the pipe connection. So there'd be a fixed charge for a 20 millimeter connection and a 25, 32, 40, 50 and so on.

DR MUNDY: Is that a reflection of the fact that households are smaller and commercial premises are bigger, or is it just what people happen to have, or is that because you've got agriculture floating around?

MR PAINE (SW): No, our rationale on that is it's based on the useability of the service. So larger connections require proportionately larger infrastructure, so they should pay the fixed cost of that proportionately.

DR CRAIK: Do people choose whether they have a larger connection?

MR PAINE (SW): Mostly in the industrial/commercial areas, yes.

DR MUNDY: Will that price be indifferent to whether there's an industrial or a residential use?

MR PAINE (SW): Yes.

DR MUNDY: Is it your expectation that the regulator will set common prices across all three businesses, or you'll each be treated individually?

MR PAINE (SW): We'll each be treated individually. It's not our expectation that the number will be the same in any of the businesses. It's certainly our expectation

that the structure will be the same.

DR MUNDY: Just going back to capital. Is your board able to approve your capital program and borrow independently or does it need reference either to shareholding councils or to the treasury.

MR PAINE (SW): The corporate planning process requires shareholder sign-off and referral to the treasurer. Part of that process is obviously approving global spends and borrowings.

DR MUNDY: So you'd borrow from Tascorp, not your owners.

MR PAINE (SW): Yes, we are required by legislation to borrow from Tascorp, and, as I said earlier on, the guarantee fees we pay are designed to implement competitive neutrality.

DR MUNDY: So, in principle, the treasurer could curtail your investment program by saying, "Sorry, the state would rather spend its capital budget on some other purpose."

MR KNEEWBOWE: I don't think the treasurer has an approval process.

MR PAINE (SW): Yes, I don't think so.

DR MUNDY: You have just got to tell him that's what you're going to do.

MR PAINE (SW): Yes. I mean, I don't know about telling us, he may influence our owners, if that's possible.

DR MUNDY: But there's no legislative transparency guaranteed, where he will issue an order on a borrowing program decision?

MR PAINE (SW): No. We run the internal business processes to make sure we don't get the junk levels and other things like that and make sure that we run our business - - -

DR MUNDY: Yes, no, it's more a question about capital rationing, across the state as well.

MR PAINE (SW): Yes, no, there's no capital rationing.

DR MUNDY: So there's no formally established borrowing limits, or anything like that?

MR PAINE (SW): We do that with our banker, like I would expect most businesses do. They would look at our income and our ratios and - - -

DR MUNDY: But it's an objective financial process, not an allocation process?

MR PAINE (SW): Yes.

DR MUNDY: Okay. You're comfortable, as your business grows and you're going to need to fund more capital, that you'll be able to finance it, assuming you get a decent settlement from the regulator.

MR PAINE (SW): Yes. Generally our balance sheets are pretty well lowly geared. Even the business with the highest gearings are not in that bad a shape.

DR MUNDY: Okay.

DR CRAIK: You've mentioned you have to prepare these asset management plans. What point will it get the water businesses to? I mean, will there be full cost recovery on all assets, and will they all be at the standard that you want and you'll have no more boiled-water alerts and other dramas?

MR PAINE (SW): That's the plan. Our intention is to deliver to our customers services that are generally expected by most people in this sector. We have a large number of boiled-water alerts, generally serving low population numbers. My business has a proportionately high number of water and wastewater failures per 100 kilometres of pipeline compared to any of the other benchmarks that are out there. So there's a lot of work to be done, in terms of raising or lowering, as the case may be, service levels for our customers, and that's all part of an asset management plan that we're putting together.

DR CRAIK: How are you going to deal with remote areas?

MR PAINE (SW): The opportunity for remote areas is where we see the use of technology and leveraging off the bigger systems that we actually have in the bigger areas.

DR CRAIK: So what do you mean, in practice?

MR PAINE (SW): What we have found is in the smaller towns they don't have anywhere near the level of automation that we actually currently run. In the main city of Hobart, even it doesn't have everything that I'd expect. But what we can do is back-end those systems into those smaller places and give them all of those smarts,

whether it be a phone line or across a radio wave, back to central control and monitoring.

DR CRAIK: One of the submissions we had today - and I can't remember if it was yours, maybe it was Anglicare's - was concern about the cost of setting up the infrastructure in some of the smaller towns and that it might be unreasonable for the individuals to actually meet those costs.

MR PAINE (SW): Yes, a service introduction, or even providing a high level of service in small places is costly, there's no doubt about that. We still know what we have to do. We'll no doubt prioritise accordingly and roll out improvements.

DR CRAIK: Do individuals have to pay those high costs?

MR PAINE (SW): Not where there is currently a service - - -

DR CRAIK: Yes, but where there's not.

MR PAINE (SW): Not at this stage anyway.

DR CRAIK: Even where there's not a service?

MR PAINE (SW): Where there's not a service, we're intending to seek a capital contribution for the services, yes.

DR CRAIK: Is there a tension between the council shareholders and the water businesses?

MR PAINE (SW): Is there a tension?

DR CRAIK: Is that a question of incredulity?

MR PAINE (SW): Yes. I think it varies a lot.

DR MUNDY: Or, perhaps, is it any different to the tension between management and shareholders generally?

DR CRAIK: Yes.

MR PAINE (SW): I think there has been, but it's varied. Some of our shareholders are very happy that we have come along and we have taken away all of their liabilities and issues and are providing them with coherent solutions. Others didn't see the reform as being necessary and were happy to continue with doing what they

have done. It's like any change, is the way I think, and that over time the benefits of the reform for them, as well as customers, will become clear.

DR CRAIK: So that's what you're banking on, a demonstration effect essentially.

MR PAINE (SW): Yes, and we have absolutely delivered on the things that we have said we'd do.

DR CRAIK: Thanks.

DR MUNDY: I just wanted to touch briefly on the non-economic forms of regulation.

MR PAINE (SW): Yes.

DR MUNDY: In other jurisdictions there's issues around potable re-use, which is probably not a huge issue for you, but I guess boiled water is something that's a bit different. What I'm interested in your view about the transparency and efficiency of those regulatory processes, how they perform.

MR PAINE (SW): Historically, regulations have been fairly light-handed, even from the economic regulator. That was understood. As you would imagine, when you've got licences you need to comply with the laws of the land and the regulations and clearly we couldn't comply from day one. So we actually developed what we called a compliance implementation plan process into the licence, it allowed effectively two years to develop compliance plans that were agreed between us and the regulators - so a fairly mature level of work, quite frankly - and then those plans would be measured and monitored by regulators in terms of their implementation towards compliance. We would expect that once implemented the levels of compliance around drinking-water quality, returns to the environment, dam safety and asset management will all be at the levels that are expected elsewhere.

DR MUNDY: So at the end of this two-year period there'll be a review?

MR PAINE (SW): The plans will be fully developed. We have actually developed the plans for drinking-water quality and asset management and a few other things in the first year, but it's the wastewater planning that is the hardest part of our equation.

DR MUNDY: That's informing your capital program also?

MR PAINE (SW): Yes, and it takes a little longer.

DR MUNDY: So that has been worked through with yourselves and the regulator?

MR PAINE (SW): Yes.

DR MUNDY: Who is the regulator in that?

MR PAINE (SW): The environment regulator is the EPA. The water quality regulator is the Department of Health and Human Services. The dam safety regulator is DPIPWE. Asset Management is done by OTTER.

DR MUNDY: So you have got - - -

MR PAINE (SW): A wide variety of regulators.

DR MUNDY: Poking their nose into the same licence.

MR PAINE (SW): Yes.

DR MUNDY: How do they resolve conflicts between themselves?

MR PAINE (SW): Yes, they have set up a regulatory implementation group, or steering committee. My understanding and my experience with that group is that it's working fairly well.

DR MUNDY: Seems to work okay.

MR PAINE (SW): There's still a little tension around the speed of the reforms for some of them and the trade-offs that they need to make between the four of them, but - - -

DR MUNDY: But it seems to be working okay.

MR PAINE (SW): It seems to be working okay, yes.

DR MUNDY: That program to get you to the place where you want to be, was there public consultation around that? Was the community given an opportunity to comment?

MR PAINE (SW): I wouldn't have thought so. We didn't have enough time to do that. It was pretty much done in the three or four months in the lead-up to start off.

DR MUNDY: So is the intention to periodically review the licence; is that the idea?

MR PAINE (SW): The interim licence lasts for two years. The economic regulator

is to issue a new one in the next six months. Hopefully, it's back to us.

DR MUNDY: So the regulator, in doing that, will seek public comment, or will just do it?

MR PAINE (SW): I'm not sure that I know. He normally does actually.

DR MUNDY: But they'll do it in the way that they normally do everything else that they do.

MR PAINE (SW): That's right. I would have thought that they would have consulted around issues that they think need to be or not be in the licence. I mean, it's very prescriptive in the legislation what needs to be in the licence.

MR KNEEWBOWE: Sir, if I may, the deliverables out of each of those plans will be consulted with, in terms of the ultimate price and service plans. So the balancing mechanism is actually seen to be the price and service plan process, and that ultimately go through those processes in the development but also by the economic regulator in that, and then they - - -

DR MUNDY: Yes, could I just come back to the economic regulator, who seems to be doing a few other bits and pieces. When the regulator makes a decision, is there any appeal against that decision, by yourself or any other aggrieved party, if someone thinks it's too expensive? If I'm a consumer and I'm not happy with what he has come up with, to whom do I complain to? Ministers?

MR PAINE (SW): The pricing and services process that we understand will be implemented is a propose and accept with public consultation. So a draft determination will be made with sufficient time before final determination, to take into account those very things.

DR MUNDY: Yes, and after the consultation the final determination, it is what it is and that's the end of the story.

MR KNEEWBOWE: We haven't got those guidelines yet.

DR MUNDY: You haven't got them yet. So there's nothing in statute?

MR PAINE (SW): That's our expectation.

DR MUNDY: But presumably normal, procedural, administrative law would apply in the Supreme Court if some person wanted to go there. Okay.

MR PAINE (SW): That's right.

DR MUNDY: There's no obstruction to normal judicial review. I don't think the High Court lets people do that any more anyway. Yes, okay, that's good.

DR CRAIK: Are there any areas for further reform that would be advantageous? Or are you too focused on the task at hand to look that far ahead?

MR PAINE (SW): Two things I think I'd like to add. One is that it's really just 5 past midnight for us. We have just, for example, finished our first enterprise agreement with our people. That's the sort of level that we're at, for a whole range of things. So in that context we haven't practised the reform structure long enough.

That said, there is a parliamentary review in place, and personally for my business I see great benefit in the joint or shared services that we receive with the other two regional corporations. I have discussed this with them on a number of occasions and if there were structural changes we would not necessarily unwind a lot of the things that we have actually built from the ground up, including a common billing system, including a common payroll system, a common finance system, common IT systems, things like that, because we are absolutely of the view that they provide us with economies of scale that we can't get singularly.

You asked earlier about the board and their role. I think from my experience the way these boards have worked has been - I couldn't have asked for a better board, to tell you the truth, or a better board structure. Very happy with that. The fact that I'm on the board of the Common Services Corporation, some people have seen that to be an issue. I'm not necessarily uncomfortable with how we've actually rolled that out by developing internal - sorry, they were developing service level agreements individually with the Shared Services Corporation; so tensions there are good, but workable and the like. I think we've actually got a pretty good model and one that could easily be rolled out.

DR CRAIK: Has there been any interest from the private sector in access to any of your service - you know, sewer mining, nutrient mining, any of those sorts of things?

MR PAINE (SW): Not that I'm aware of. There has been interest in sharing pipelines with irrigation companies, ostensibly state government ones, and we're in the process of developing a third party access - more sort of a reverse one, really - agreement with the Tasmanian Irrigation Development Board.

DR CRAIK: So what, you're negotiating the pricing, terms and conditions and things?

MR PAINE (SW): Yes. So, you know, usage fee and start and stop fees and who spends capital where, in terms of making the system worked for the time that it's used.

DR CRAIK: Do you think there needs to be a state access regime?

MR PAINE (SW): Sorry?

DR CRAIK: Do you think there needs to be a state access regime? I mean New South Wales has a Water Industry Competition Act. Do you think that's needed here?

MR PAINE (SW): As I said, we haven't actively had any engagement - well, I haven't. We've had the odd grant that has been given by the federal government to schools for large water tanks or something to put under their ovals to water their own facilities and the like, but, you know, it's not material for us.

DR CRAIK: Okay. What do you think the role of the Commonwealth is in further water reform, if any?

MR PAINE (SW): I think they should have their traditional role in terms of allocation of resources where they're most needed.

DR CRAIK: Handing out money?

MR PAINE (SW): Correct.

DR CRAIK: What else?

MR PAINE (SW): Not necessarily to us but, you know, that's what they're good at doing and that. I don't necessarily think that there's actually much more reform that you could actually - or any more regulation that we could actually envisage, if you think about it, for the things that we actually do, tax - the list goes on. You probably expect me to say that anyway.

DR CRAIK: I've heard it before. What would you do here in Tasmania if there did happen to be supply shortages? What would the process be? Who would initiate a process to find some new source of supply? Who would make the decision and all those sorts of things? Is there an arrangement in place to do that?

MR PAINE (SW): The supply of our services, do you mean?

DR CRAIK: If you ran out of water.

MR PAINE (SW): I see.

DR CRAIK: If it looked like happening here what happened on the mainland, looked like you were going to run out of water. What do you do?

MR PAINE (SW): Look, security of supply is an issue that we deal with, and we'll certainly - you know, there's lots of experience that we can actually harness if you know that it has actually happened in the mainland, but it's not an issue for us.

DR CRAIK: No, it's not now.

MR PAINE (SW): Yes.

DR CRAIK: But is there a - there wasn't on the mainland either.

MR PAINE (SW): I know.

DR CRAIK: Who would make the decision to start doing something and who would make the decision to - - -

MR PAINE (SW): That would be our business.

DR CRAIK: What about augmenting the supply, would that be a government decision at the end of the day?

MR PAINE (SW): No. I mean there are regulations and regulators that we have to satisfy. For example, you know, building new storages, all those sorts of things, extraction licenses. We do all of that. There's our plants, you know, there's all sorts of - - -

DR CRAIK: Is there a specified process for dealing with the requirements of supply augmentation?

MR PAINE (SW): There is for extraction, it's through the Department of Primary Industries.

DR MUNDY: So that's groundwater?

MR PAINE (SW): And surface water.

DR MUNDY: And surface water? So they - - -

MR PAINE (SW): There's a fair bit of trade goes on in the state in and out of hydros, dams and the like, so they've got a good process for that.

DR MUNDY: So if you guys, just for the sake of the argument, came to a view that you wanted to capture a pile of stormwater coming off the streets of Hobart and put it back into the potable supply and that was the best economic thing for you to do, you really would need to satisfy the health regulator that the water that was going in met, presumably, the drinking water standard and you'd have to - - -

MR PAINE (SW): The environment regulator for the waste from the treatment plant, all of that.

DR MUNDY: And taking the water didn't upset the environment, but that would be your - other than meeting those regulatory requirements of those regulators that would be your decision to make?

MR PAINE (SW): Yes.

DR CRAIK: What about a desal plant? Would that be your decision to make?

DR MUNDY: Subject to meeting - - -

DR CRAIK: Subject to meeting all of - - -

MR PAINE (SW): Subject to meeting all of those things, absolutely.

DR MUNDY: And of course they would never be fiddled with.

DR CRAIK: And you don't imagine there would be any - - -

MR PAINE (SW): Well, our boards are - the way we operate is - you know, the metering decisions that we have just made was government policy but we went through a really rigorous process to make sure that we shouldn't go back to government to say, "You shouldn't be doing this."

DR MUNDY: Okay.

DR CRAIK: Can the government issue directions to you guys?

MR PAINE (SW): Government can issued directions through regulation and legislation to any organisation.

DR CRAIK: Okay.

DR MUNDY: So they have to go through the normal law-making processes?

MR PAINE (SW): Yes.

DR MUNDY: There's no ministerial power?

MR PAINE (SW): Other than the interim pricing order, which is an interim process.

MR: And the operating licence.

MR PAINE (SW): The operating licence, that's right, is signed by Minister Llewellyn. But again - - -

DR MUNDY: But they're transitional - - -

MR PAINE (SW): No, the operating licence would apply to any organisation that supplies services - - -

DR MUNDY: But your operating licence is going to be reviewed by the economic regulator. Will that then be passed on to the minister for approval or will the regulator stamp it?

MR PAINE (SW): The interim licence is reviewed by the department and reissued by the minister.

DR CRAIK: What about the final?

MR PAINE (SW): The final licence is done by the regulator.

DR MUNDY: So going forward?

MR PAINE (SW): Going forward is - - -

DR MUNDY: So the interim licence was because it had to be set up and we had to get on with it. Then the final licence is - - -

MR PAINE (SW): Yes.

DR MUNDY: So once you've got through this interim period everything will be done by the regulator? Okay.

MR PAINE (SW): That's my understanding.

DR CRAIK: Okay, thanks very much, Mike. Thanks very much for answering all those questions. Thank you and thanks for your submission.

DR MUNDY: No, it's very helpful.

DR CRAIK: Yes, thanks a lot.

DR CRAIK: Now I call on Di Thorley. Di, if you wouldn't mind stating your name and your position to start and then if you'd like to make a brief presentation?

MS THORLEY: Yes, Dianne Thorley, publican now, former mayor of Toowoomba and advocate for recycled water. I'll just give you a quick brief. I mean it was a bit more involved than this but the driver was that the Murray-Darling system start in Toowoomba under a rubbish dump that was built in the 1960s. Toowoomba was identified in 1992 as a major point source of nutrient overload and causing 1100 kilometres of blue-green algal bloom in the Darling system. It also dumped 13 and a half thousand tonnes of dissolved salts into the headwaters through our sewerage plant every year. So these were some drivers of how we were affecting it.

The factor of running out of water became a later issue for me. I think I got in as mayor in 2000 and the driver were those three components. There was a fourth one that was apparent to us, was that the aquifers underneath the Darling Downs were depleted and the dissolved salts in them were increasing. Toowoomba itself was on a fractured basalt aquifer, so you couldn't really hold water under the city. Toowoomba itself had three dams, one built in the 40s, one built in the 60s and one built in the 80s. So our view was there were plenty of dams around, it's just they had no bloody water in them. Of course nobody really wanted to look at that because it's a lot easier to just talk about dams; you know, that's what we know.

So these were the drivers for us, and then what started to happen, and it happened on the mainland everywhere, was the water started to run out. So here we were in 1999 with all our dams overflowing. By the time we started to get to about 2003 and 4 they were going down. Thank God for engineers and experts - because, you know, politicians are pretty stupid - but they're smart enough to go and put together the history of what happens. So what we were able to see was we were still getting an occasional huge event but they were becoming further and further apart. It was interesting to note later on that what we were shown was actually being reflected all over Australia. We were seeing a disconnection from surface water to underground water, and that was becoming further and further apart. So in Toowoomba you would be able to dig down a metre and it was wet. By the time you got to 2003-2004 you were digging down three metres and there was no moisture in that area. So there was total disconnection and we were learning about that.

So Toowoomba starts to lose water. We were lucky, there were three dams, as I said, built, owned by the city. One was on the western escarpment which was totally isolated. That was the one built in the 40s. A dam of, you know, it would be about 12,000 megalitre capacity, nice little dam set off by itself with its own pipeline coming into the city. Then there were two other dams on the eastern escarpment. So Toowoomba itself had really no water because, as I said, the Darling just starts there.

So you can imagine a city of approximately 100,000 people being built where there is absolutely no water. We were 700 metres up from the east, from the eastern seaboard. So for us we were in this position of being right on the edge of the Great Dividing Range.

So the water starts to disappear and we start to have a look at where you're going to get water, and there's all the traditional ways: build a dam. Okay, where do you build a dam? There had been a lot of research, as you're most probably aware, and I know, Wendy, you've been in the water industry a long time. Everybody knew where to build a dam. Everybody wanted a dam built but it was a banana principle, build it anywhere but near me, sort of thing, you know. So we were in that situation. There was a dam to be built at Emu Creek. It was going to cost about 180 to 200 million. The dam had been put off. I personally was not a believer in building more dams, as I said. The whole south-eastern corner was full of dams that had no water in them.

The next place that you can get water outside of coming out of the sky, which we obviously weren't having or weren't having in significant events to be able to get run-off because every time it rained it had to wet up the catchment then it wouldn't rain, the catchment dries out. So you were in this invidious position of never being able to have water there to build up to get into your dams. So you looked under the aquifers, they were at risk. Could you go down to the Great Artesian Basin? Yes, you could. Huge cost and of course the Great Artesian Basin is not going to recharge itself. We have treated it with absolute and true disrespect and my great-great-grandchildren are going to see the results of what we've done with that.

So then we looked at coal seam gas, which was the new you-beaut, great solution. The issue that we had with that was, again, salt, which meant that they were going to be looking at building out on good farming land huge evaporation ponds, non sealed. We'd already seen the experience of Dalby that water went down into the aquifer and within 12 months of bringing not - you know, about 2800 parts per million salt water up, within 12 months that salt had also - in the test scores were showing it had lifted the salt load in the aquifers underneath and was already starting to move under the farming land. So there's a very huge environmental disaster being built up. I mean I'd rather have a nuclear plant next door to my house than an evaporation pond, I can tell you.

So that was the issue that we were looking at. It wasn't that we saw that you actually couldn't clear that water up. It was what you were going to do with the salt load on good farming land. Where were you going to put it? Where were you going to put these hundreds of thousands of tonnes of salt? You could evaporate it out but you still - you had to take it somewhere. You had to move it. You had to - it has to be put in someone's back yard. Somebody has to wear it. So we had that issue, right.

So we looked at that one and went, "Well, dams are a real risk, they're going to take" - because Crestbrook Dam was the second-last dam built in Queensland and that was in the early 80s. So it wasn't easy to get a dam to be built. We believed personally as a collective that it was not the solution for what we needed to do. We looked at underground, we looked at coal seam gas and then of course everybody talked about the you-beaut, wonderful solution of desal that was going to have to be done on the coast. Unfortunately climate change hasn't caught up to Toowoomba yet and it will take a few more years before Toowoomba is the seaport for Brisbane and Brisbane's under water.

So that was an issue that became ridiculous because that was too far away, the pumping cost. Let's take into account that it is about that, it is about the pumping cost and the environmental damage as a result of having to build a power plant to run a pipeline. Of course people's issue is, and I see it a lot, because we - I had everybody come to me from getting a blimp and collecting water from up in the Kimberleys and bringing it down in a blimp; I had truck companies coming to me that they'd backload huge bladders full of water from the Kimberleys; I had a gentleman through my door that suggested if I looked at the globe, Toowoomba was actually downhill from the Burdekin and that we could put a pipe and the water would actually run down into the dam. So there was the outside weird solutions that were coming to me, and I'm sure you've heard all of them.

The other one that I'd been interested in for a lot of years, way, way before I went into local government, was potable reuse. It just seemed so much smarter to do potable reuse. We were looking at - so we started to look at that as a solution. When we started to look at what was happening in Africa, what was happening in Fairfax County in America, what was happening in California, we were starting to see where it was actually a solution, even using old technology, which we must acknowledge that both Fairfax County and Africa were old technology. The technology that we wanted to look at that we didn't want to put any more chemicals anywhere. We didn't want to put any more salt. We didn't want to do any of that. We needed to look at what we could do with the water we had and reuse that water more than once, because everything - every water system in this country run by local authorities or water groups is actually a straight line system. You bring it in one end, you use it, you pour it out the other end, you dump it into a river or a stream or wherever else and it's someone else's problem; or three bends in the river and a mile downstream the water is pure and we're all fine.

So we started to look at - we already had a product. How do we keep that product within our system and make it actually work? We needed to do it without adding any more chemicals to the system and we also needed to find a way to take the salts that were naturally in Toowoomba water to be able to remove them or be able to find a buyer for that. So what we had outside of Toowoomba was

Acland Coal that were currently taking water out of the aquifers out there. They were hosing the coal down, washing it off, to export it overseas. Their water was about 2800 parts per million of salts, dissolved salts. So our view was that we could talk to Acland Coal. They could leave the aquifer alone. We could sell them the dissolved salts from our recycled system, close the loop, take them out of the aquifers. So that was a pretty great solution. They were going to be able to still go on with their business and they were actually guaranteed that they were going to be able to keep their mine going where other mines were at risk, because to try and find water to wash coal down.

So we start investigating membrane technology. Of course membrane technology had been designed and invented by Australians and of course in our usual inimitable fashion we didn't support them and we sold it to America. So we had to then go and look at what they were doing in Orange County. So they were doing it and been putting it under Anaheim for a fair while, since the late 70s. We weren't seeing any people with - you know, where - because I think some of the things were the men's penises were going to shrink, they were going to grow boobs. So we weren't seeing any of that actually happening in these countries and men were suddenly having problems with their physical attributes.

So we needed to go and see long-term places where this was happening. Fairfax County in Washington DC had had - up to 92 per cent of their water was actually going into a dam, which was what we were looking at doing, putting it into Cooby. California, they were actually putting it into the aquifers, which is what WA, of course, is looking at doing. So we came up with - if you look at wherever you can find water, there was only one real solution, because you already had the water, you didn't have to wait for it to rain, you didn't have to steal it out of an aquifer, and you didn't have to do huge evaporation ponds out on the Western Downs and desecrate the farming country. For us, we saw this as a closed loop. It had been done before; we hadn't suddenly come up and invented the wheel. This was being done and had been done since the late 70s, been done very successfully with old technology, and also was being done with new technology from everywhere.

What we were able to do was, with being able to isolate Cooby Dam - I understood that if you had to go out to the public and do a referendum on doing recycled water, it was never ever going to get up. I had many fights in Canberra about this; old age is an absolute blessing, don't ever think it isn't. I'll just give you a little example: I was a young girl in Brisbane and, when Clem Jones put sewerage in Brisbane, people were so afraid to go to the toilet and eat in the same place that they actually concreted their old thunderboxes down the back, they concreted their toilets under their high-rise houses, or they built a porch outside their locked door to go to the toilet, because you couldn't do the same two things together. My argument was that, if you were going to give the community, with absolutely no knowledge of the

science and those that didn't want to understand the science, if you had to go through a process of consultation you would be like we have been with the Murray-Darling system; 18 years later and we are still running around in circles or disappearing up our own behind about it in many ways.

If you could take it that we had Cooby Dam isolated, you do the system, which was only going to cost the rate-payers of the city 23 million - and the money that was going to come from Acland coal in selling the water over a 40-year period was worth, in 2007 prices, 500 million. Great business, right. So if we could separate that dam and we could leave the water in the dam for a five-year period while people swam in it, we checked the fish didn't grow things or whatever, and maybe put all the men in Toowoomba in it, maybe baptise them or something, so we could get the community on board. That was our way of seeing it, because it was absolutely isolated from the whole system. Leave that water in there for a five-year period, even let it run over the walls, so that we could just - in a creek that had run dry, because in all their wisdom they had blocked off a creek in the 40s. So that was our view of how we were going to do it. I think that is kind of it in a nutshell, do you want to hear the rest?

DR CRAIK: Yes, and then what happened?

MS THORLEY: Then what happened: we go to the Water Commission.

DR CRAIK: Queensland's?

MS THORLEY: No, Canberra. We go to all of them and we have this idea, okay. I first got into council in 2000, mayor in 2000, started the process of cleaning up the Murray-Darling, and by the time that we - this project that we took to John Anderson and everyone then started to be added to - to add the components of it. By the way, we also had irrigators downstream that somebody, in all their wisdom, had been smart enough to say that it wasn't their water ultimately and it could be taken back, but they were getting the sewerage water and growing lucerne. So they were pretty influential in Canberra, as you can imagine farmers of quite a good - and with community too; we believe, with the heart, that farmers do it hard, right, and that awful woman was going to take their sewerage water off them. So you couldn't have it. I never quite got over how we could put sewerage on lucerne and the cows could eat it and they weren't going to have problems with their milk, but, anyway, maybe I didn't quite get it.

So what we did was we started to put the project together, the councillors all talked - and I can tell you, at that stage there were eight councillors, myself, and the staff, and it was 100 per cent supported as we went through this process, because it was just quite so simple. My view was we had a challenge and a problem, we had

expert advice, we had some commonsense, supposedly, sitting around a council table, and out came solutions. Simple, isn't it, I thought. So we go to the government, we go to the Water Commission, and they're all going, "This is the best thing we've ever seen," because we had allowed also, into that, that we set a standard of water that was going to be able to be able to go on your tomatoes.

This was the original project: we were going to provide potable water to go onto tomatoes; not so potable water, at a different standard, to go and do your avocados, because it doesn't have to touch it, so it can be underneath. Out at Highfields they could actually grow normal avocados. So you were going to look after a certain part of the agricultural industry, there was going to be water for drinking and there was also going to be a council left with a product that they actually had to handle, there was going to be a coal line that was going to keep operating, and there was going to be a community that was going to become self-sufficient on water.

Because the deal was - and I would like you to think about this - Toowoomba at that stage used about 9000 megalitres a year. We believed that we lost a bit in the system, but we were giving the community subsidies to put in tanks and, my view was, we had to go further and make the community our dam, so they were putting tank water through their household systems. But in that you had to make sure it was going through toilets and washing machines, because if you made it legislative that they had to have tank and a bat flew over and pooped on their roof and they got legionnaires' disease, some solicitor, in all their wisdom, would sue council because we made it mandatory for you to have a tank. So we had to be careful about how we did that. But they could become a repository, and Toowoomba did give a lot of money to people to do water-efficient toilets, tanks, whatever.

Our view was that if we could get them to do that, we would then be able to put more back through the sewerage system and we would be able to, ultimately, with whatever rain that did come - well, you may get 20 mils that will do nothing to your dam but would provide a community with water that would help put it through - you would be looking at, most probably, putting 9000 megs a year back into your system as well as providing Acland coal. If the time came and you were ever lucky enough to be able to get your dams full, you would actually keep your dams full and you would have them overflowing, which would then allow an environmental flow down the rivers, create a great outcome.

So we take it off to the government, the Water Commission came up, flew around, show them the project, the whole thing. Our other solution of course - I missed that - was getting water out of Wivenhoe Dam. You know, you rob Peter to pay Paul-type thing. But that was, we believed, going to be about the highest lift in the world. I would like you to think about this: you were going to have this

metre pipe coming up 700 metres, with three pumping stations on it, and you have to keep that head on that pipe; that pipe has to stay full, if you understand anything about farming, and I'm an old farmer. Because the moment you don't it is going to cost you more power to get that water out and that is inefficient and it is an environmental disaster because you are not achieving anything at the end of the day.

We go off, the commission comes up and signs off and goes to the politicians that this was the best thought-out project, had achieved the greatest environmental outcomes, blah, blah, blah, economic, da, da, da, that they had seen. Totally, fully supported. So off she shoots up to the big house. So we do our constant little visits down there in trying to sell the project. I have to tell you that some of the politicians, you could brief them six times and it went in here and out there. Some of the politicians - and we saw many and varied, from all parties - got so scared I think that they actually burnt rubber trying to get away from me. Some of them were smarter than others and actually understood the project and were strong enough to support it. Some of the senior politicians in the Prime Minister's office were bureaucrats who were very supportive.

We go through the whole process, Malcolm Turnbull comes to Toowoomba. We had a former Mayor, who owned 85 per cent of the developable land inside the Toowoomba city council boundaries, who started the name "Poowoomba" and started to use his vast fortune to put a stop to recycled water. I would beg to think that he wouldn't do it for his own benefit, that it was all about that I was going to poison everybody, but I am little cynical in my old age.

So the politicians were all onside. Before there was any hiccup there was not a politician that was not supportive. Can I repeat, there was not a politician that was not supportive. We go through the process, we have our local politician launch the process, telling us at a public launch in front of the media that it was 99 per cent sure that this would get up. Within one month he had backflipped, within one month the Prime Minister's office's words to us were, "This is not about water, this is about politics," and it became quite obvious. Malcolm Turnbull, as water minister, was fighting a losing battle and in the November he said to me, "You will have to go to a referendum," which I disputed, because a referendum is really about changing the Constitution, it isn't about taking whether you are going to do recycled water or not.

We then fought it until - I think I was on the way to Canberra and I got a phone call saying, "You will have to take this to a referendum. The Prime Minister and I don't want a train wreck." I said, "You, sure as shooting, are going to have one if this has got to go to a referendum." The community at that stage were very supportive, but if you have any smarts at all you know that the community are going to react to fear more than they will react to facts and science. I will give you a couple of examples: the Eiffel Tower was supposed to be a temporary structure and

everybody hated it; the Sydney Opera House, everybody hated it and didn't want it there, now an icon for Australia; and the Sydney Harbour Bridge, nobody wanted it. So if we look at just some of the stuff that is around, people don't too much like change.

So I said, "I don't think this is going to work, gentlemen, but if that's what you are going to do, then that's what we will do." Up till two weeks before the referendum the state government was not - there were bureaucrats and some ministers - health minister and environmental minister in the state government were supportive. Peter Beattie himself was not supportive. He was in a conference with Gorbachev and Gorbachev happened to mention about supporting the woman in Toowoomba that had the right idea and Beattie did a backflip and then came out and said he was supporting it.

I spent a great deal of time having - and this is the most frustrating part. Beattie would tell me, if I could get the feds onside, he would be onside. The feds had told me, if I could get Beattie onside, they would be on -side. So you run around like a mad thing in a rat trap and behind all of that are the different political games and people's own personal political ambitions that you have to try to deal with. So you have to know who's who, who's up who, and who's not paying the rent to be able to find out how you actually try to pull something together.

They wouldn't sit down with you together so you could go through it. They wouldn't even have the guts to tell you that, "This is going to create political suicide for me, our party, or whatever." At least acknowledge it, name it, shame it, but don't shove people around. It wasn't because I was the mayor; they do exactly the same thing to other people. You get pulled here, there, all over the place, and never ever get a solution. Or it is put out, as you have now got to the stage where it has got to go out to the community consultation; the community have got to have a say. If the community don't have a say, it can't happen.

Now that has allowed politicians to abdicate their responsibility about actually making a decision on anything. I sat here and listened about infrastructure being run down. Why is it run down? It's run down because no-one made a decision about going out there, because they are too scared that someone will complain about it. I have sat down here and listened to the arguments about water going through the Huon Valley. Very, very difficult; very difficult to get decision unless politicians are prepared to make them.

So two weeks out, the water was supported about 58 per cent to about 32 per cent. Started on the Saturday night, I think, and every TV station in Toowoomba at every TV ad break there were ads, so you had babies' bottles with toilet paper in them, you had facts coming out - this former mayor got a whole

newspaper printed that he sent out to everybody. He used facts; of course you do, you do them really smart: that 50 per cent of the men in England have problems with their sperm. Not 50 per cent of the people attending fertility clinics in England have problem with their sperm. So everybody is sitting at the pub going, "Holy God, I might not need my sperm any more because I'm old. God Almighty, that bloody Di Thorley is not going to get my sperm, I mean, who is she."

Then I had nurses who were making comments about, "You cannot get rid of any of the chemicals that go from people having treatment for cancer. They go to the toilet; "If you had any idea what goes in the toilet, you would understand." No matter how you try to convince the community, with membrane technology, that it was actually like trying to push a three-storey building through the size of a golf ball; that was very, very difficult for people to understand.

We did a booklet on it and it was on facts. A lot of it most probably has to come back on my head, because I gave my community more credit than I most probably should have, because I believed they didn't need to have a sell program, they didn't need people doing this great PR campaign, that what they needed in this debate was facts. They need those, that they were irrefutable, because where everything falls down is if people can find a flaw in your facts. So all descriptive adjectives were removed and this was a book about pure facts of how this was going to be done, how the water was going to be cleaned up, where it had been done, and how we had a seven-step system before they were going to get anywhere near that water.

The ads went off, Malcolm Turnbull rang me on the morning of the referendum and said, "Jeez, Diana, I hope we're not going to have a train wreck today," and I said, "I can hear a train coming and she's coming around the bend, Malcolm," and it sure as hell was. It was 38 per cent to 62 per cent, "No." If you go to Toowoomba today, other than the rabid people - I think even Clive Berghofer has said, "We just didn't want to be first"; the former mayor. So I have people coming past the pub all the time from Toowoomba and I just can't seem to find the 62 per cent in the year. Over a year, I was still in Toowoomba, after it, you don't find somebody that voted no.

So I think that the exercise, the whole exercise, has been very good, even though Toowoomba lost that opportunity. The water salt is still not going into the Murray-Darling, because it's going to Acland coal. So I don't have nutrient overload or anything else. But it brought to the communities' attention, in Australia, that the primary solution for water is potable re-use. The primary solution for contamination in our rivers and our seas is to put an advanced water treatment plant on every sewerage plant in the world so that local authorities are left with something like that they have to get rid of, not abdicate their responsibilities by pouring it anywhere that

they don't have to see it, and a community who has also abdicated their responsibilities by ignoring what is happening to our environment.

So was it a loss for Toowoomba: yes. For me: no. For the rest of the world, because it was pretty much everywhere: I think, because I was vocal and because I called it as it was, it gave more ability for people to be able to do it, and that was a huge win. It's a huge win for the environment and I think it's a huge win for the solution of using potable re-use to provide water to places - if you are going to accept that climate change is a reality, and I do - that are going to have these times of heaps of water, but you only need seven years of what we had before and they will be right back where they were.

So I have an issue with desal, because I don't think that the government has taken on board the issues of supercharged salt water going back into the sea. I think it is exactly the same as the disrespect shown to rivers and streams and the sea by sewerage outfalls, without having to clean your water up. This is exactly the same thing they're doing with desal. I think I've covered everything.

DR CRAIK: That's great. Thanks very much for that history. Could I ask you, did you have responsibility for making the decision about the water treatment and - - -

MS THORLEY: Yes.

DR CRAIK: Could you have gone ahead and done it or did you need - - -

MS THORLEY: Other than the three that were particular parties, in retrospect the councillors decided we should have done it, we should have gone ahead and just dropped the dozer blade. I think our view was, if I remember right, Wendy, at the time, we were - like, it was pretty much saying to Australia, "Here's your solution." I could never quite get it was the elephant in the room until I started going to conferences. People didn't want to talk about it, and I'd get up and go, "Well, hey, I'm the elephant in the room. Can we talk about potable reuse?"

I think that we were kind of saying, "Well, here's your solution, you guys" - you know, everybody was talking about no water - instead of it being only about us. So we were trying to involve Australia. Our focus didn't narrow on ourselves, which I still don't think was wrong. We thought it was selfish if we just worried about ourselves. We wanted people to talk about it, because if they weren't going to talk about it then it was never going to progress. Nobody would talk about it.

DR MUNDY: So the need to talk to the Commonwealth was - - -

MS THORLEY: They were our partners; a third, a third, a third. The water

commission asked for submissions. If you remember rightly, they were looking for innovative solutions that were going to show use of water; not the same old build a dam, do a pipeline, they wanted innovative projects to come before them that they could support, and our view was that when they were in it then there was no way that the state government could abrogate its responsibilities either. The Queensland state government already had a 40 per cent subsidy, they had it built into their legislation, they could actually do potable re-use, they could actually give us money for it. So again this wasn't about water or their legislation, this was a whole different kettle of fish over here, called, you know, self, getting elected.

DR CRAIK: So what do you think of the SEQ arrangements now and water from Wivenhoe - I mean, there is a pipeline now, as I understand it, from Wivenhoe to Toowoomba.

MS THORLEY: Yes, and the recycled water pipeline is only 100 metres from Wivenhoe water. My predictions, I think it's horrendous environmentally and also for my community. They're not my community now, but I still see them as my community. It's a huge cost to pump water up there, and within not too long it will be take and pay. The community will still pay whether they take it or not, you know that. You can't run your infrastructure if somebody is not paying for it, even if it doesn't have to be used. I think it's to the tune of about 64,000 a week. Was it a good solution? No, it wasn't. But it was the only solution Toowoomba had.

My view was that the way we were going to do it, Wendy - versus what was going to happen coming from Brisbane, if we had started doing that, water was going to become a right for the rich and well-to-do, but it was going to become a privilege for the poor and disadvantaged. My prediction to Howard's office and Beattie and the whole lot of them, every politician I could talk to, was it's going to rain, that I believe we'll end up back in this situation again, because we sure as shooting are, that we will go back to the public health issues of the 1950s.

If old people, disabled people, disadvantaged people, single mums are hit with huge water costs, then you will not have the public hygiene that we have actually currently reached. When you don't have that level of public hygiene, then the diseases of the past are going to become rampant. So the rich will be able to keep themselves away from it, or working people, two people working, whatever. But this level down here is not going to be able to do that. Will it work? It has to work now; there's nothing it can do. But it is a huge cost to that community.

DR CRAIK: Were you pleased to see that Queensland also included a water recycling plant?

MS THORLEY: Yes, and of course I've talked in Perth at conferences, the same

thing, they're doing it over there by 2015. Adelaide is doing their bit, moving around a bit, going into the aquifers. I think the aquifer situation most probably works a lot better than Toowoomba. We couldn't put the water into the fractured basalt aquifer because it would just disappear; we didn't have any idea where it was going to go.

For those that know what their aquifer is, it actually then removes it from people's eyesight. I think that's unconscionable though. I think we as a community have to accept what we have to do. We have the situation too much now, "It's not my fault. I didn't have that accident. It's the government's fault," you know, "I didn't do that. It wasn't me," I think we have gone too far that way. I believe even from that period that people have to acknowledge this is what it is, this is this. It is recycled water.

DR CRAIK: The recycling one, was that the most cost-effective option you had?

MS THORLEY: Yes. It was going to cost \$76 million, versus - to go out and take the water out of the aquifers out on the farming properties out in the Condamine was going to cost about \$120 million, because everybody thinks you just have a bore come up and you put a pipe on it and you send it into town and you put it through a tap. That's not quite how it has got to be. You bring it up, it was already full of salt, you've got to put it into a dam, you've got to do your salt evaporation, you've got to pump when it's economically feasible to pump - not pump all day, when you're paying all that money, then you have to pump it into town to go through a process of being cleaned up before it could go to people's places.

The dam was going to cost \$180 million. Bringing up the water from Brisbane was going to cost \$180 million, versus \$72 million. Blind Freddy could see that it was going to cost you less and you were also going to be able to do the removal of your waste. You need to understand how important that is, because that salt was already adhering to coal and being burnt. Where it was being exported, those burners were already set up to take that amount of salt. So you weren't creating another issue, the issue was still there. That was its uniqueness most probably, I'd say, Wendy.

DR CRAIK: Yes, I wasn't aware of that salt bit.

MS THORLEY: Toowoomba is a great place. That's an issue for an authority that you have where water is coming out of aquifers and everywhere else. There is a natural salt load coming out of our stuff, and then consequently just keeps going through.

DR MUNDY: It has to go somewhere.

DR CRAIK: Are you right?

DR MUNDY: Yes, I'm done.

DR CRAIK: Thanks very much, Di. That has been very helpful.

MS THORLEY: You guys most probably had a bit of thing on it years ago. It was uniqueness, but enough to fire up everyone else, and I think Australia has won in that respect. It will come. We will get over that. I find it amazing, people can smoke and drink; and that was issue, to recycle water. Thank you very much.

DR CRAIK: Thank you.

DR MUNDY: Thank you.

DR CRAIK: So that concludes today's scheduled proceedings. For the record, is there anyone else who wants to appear today before the commission? No? So I adjourn these proceedings. That's it for the hearings for this phase of the inquiry. We'll now be working towards completing a draft report for publication some time in March 2011. Upon release of the draft report there'll be a further round of public hearings and submissions. Thank you.

AT 1.58 PM THE INQUIRY WAS ADJOURNED ACCORDINGLY