

## **2011 Ben Lomond Water Annual General Meeting**

### **Questions and Answers**

At the Annual General Meeting the Chairman advised that the number of questions submitted prior to the meeting was extensive and some required extensive answers. Accordingly he indicated that written responses would be provided the questioners and included on the BLW website. Following are those questions and answers: -

#### **Questions on Notice from Northern Midlands Council**

##### **1. Question**

\$4.9 million in unbilled water and sewerage accounts have not been sent out to consumers for the 2010-2011 financial year. What impact has this billing methodology had on customer tariffs?

##### **Response**

There is no impact on customer tariffs.

The \$4.9m is an accrual for unbilled water consumption. Consumption bills do not all occur as at 30 June so there is a period of unbilled consumption at the end of every financial year. That is an estimate of water consumed between the last six monthly meter read and bill and the end of the financial year. This is normal accounting treatment. In future we would expect this to reduce as we are moving from six monthly meter reading and billing to three monthly, thereby reducing the accruals.

##### **2. Question**

Page 54 of the Annual Report shows expenses:

- Salaries and On-Costs have increased by \$1.6 million or 13 %
- Property costs increased by \$421,000 or 70%
- Motor vehicles increased by \$245,000 or 47%
- Services from On-Stream were \$3.3 million
- Governance and Regulatory costs increased by \$378,000 or 140%

Would customer tariffs been lower if these costs were kept to CPI?

##### **Response**

No. Ben Lomond Water is expected to achieve a reasonable rate of return on our assets. On that basis we are significantly under-recovering. It is also relevant that we are committed to significant capital works programs to meet the compliance requirements of our Regulators. In addition, we have widely varying tariffs across the region charged for the same services and we need to introduce equity.

It is these factors that are necessitating tariff increases.

In our second year of operation we had expected some costs to increase significantly. Excluding depreciation and interest this overall increase from the previous year was 8.5% but this is almost 1% lower than had been budgeted.

Salaries and on-costs had always been expected to increase significantly in FY11. There were many gaps in the existing staff structure that needed filling and the negotiation of a single enterprise agreement was expected to have an impact. It is also relevant that six contract Onstream staff running the call centre moved to BLW. Actual salary and on-costs were slightly lower than the Corporate Plan budget had predicted.

Accounting reallocation is the main reason for such a reportable difference with more specific property costs now captured within O&M. Total property costs did increase by 23% (\$277,000) from the previous year however this is more a result of better cost capture rather than additional costs being incurred.

With motor vehicles there is again an element of better cost capture but also reflects higher maintenance and running costs from some of the aged fleet that we inherited. We need to ensure that all vehicles are maintained in a safe and roadworthy condition. Additional vehicles also had to be purchased to ensure efficient operation of the business.

The services provided by Onstream are integral to the activities of BLW. Overall the cost of services provided by Onstream were well contained, increasing by only 1.5% from the previous year, and coming in under what had been budgeted. However, call centre staff moved to BLW.

In FY11 BLW incurred annual licensing costs from DPIPWE for the first time, the FY11 cost being \$435,000. This will be an ongoing annual cost that has been budgeted for.

### **3. Question**

Page 80 of the Annual Report shows there is currently \$8.9 million in overdue accounts, of this \$3.7 million are over 90 days. "Has this process increased the credit risk of Ben Lomond Water

BLW recognises that it's previous billing system and hence credit control has been less than ideal. With the full implementation of Gentrack which includes an automated credit control cycle, and the engagement of a debt collection agency there will be a significant effort put into collection of overdue accounts. We have also made provision in our budget for up to \$1M of bad debts, but whether this amount is appropriate is yet to be seen.

## **Questions From Mr B Loone**

### **1 Question**

#### **Denigrating the meaning of business**

It is presumed that Ben Lomond prides itself as being a business: if I establish or extend my guaranteed monopoly business at a cost of say \$50M, and I have 50 customers, would it be legal for me to force by imposing fixed demands regardless of usage on customers forcing them to pay all interest and the \$50M capital repayments to guarantee that my business is profitable because it seems to me that that is just what Ben Lomond Water is doing.

Would you agree with me that forcibly imposing demands to finance wasteful and irresponsible spending is not business, would it be more accurate to describe it as, legalised extortion?

#### **Response**

We do not agree.

Our expenditure is neither wasteful nor irresponsible. A significant reason the Corporations were formed was to overcome the very significant capital works backlog across the State and, over time, to move the water and sewerage schemes to full compliance.

Our capital projects will protect the environment and improve public health and are in accordance with the requirements of, and with the full support of, the Regulators. They are also included in our approved Corporate Plan.

It is necessary to increase revenue in order to fund this essential capital works. To date revenue increases have been entirely in accordance with the Interim Price Order issued by the Treasurer. We have, this week submitted our first draft Price and Service Plan and the Economic Regulator will decide on future increases.

As part of the formation of the water Corporations there was an expectation that Council owners would receive dividends, particularly those eligible for priority dividends. The profitability of Ben Lomond Water is necessary to deliver on this expectation.

### **2. Question**

#### **The futility of fitting water meters to raw rapid flow water source.**

There is amazement and bewilderment that clever engineers who would know (besides that I have reminded them on several occasions) that water meters will only operate with clean water have proceeded with their installation on unfiltered water supply at Mole Creek, without any respect for, or consultation with, the local community and ignoring the local progress association's written request for information.

For example on 19 Oct 2011 about two days after a meter was fitted a local farmer Mr Roger Lane finds there is no water coming through the pipe for his stock. On contacting BLW he was asked to hold off until 20th but at lunch time on 20th no one had arrived to clean out the blocked meter so he could provide water for his stock.

## **Response**

As was explained to the recent public meeting at Mole Creek, Ben Lomond Water is required by the State Government to ensure that all water connections are metered by July 2012. We have no choice, whether the water is treated or not.

It is also relevant that we are progressing to fully treated water at Mole Creek as soon as we can, in accordance with the requirements of the Health Regulator.

As was also explained until then, Ben Lomond Water will necessarily clean the meters whenever they become clogged.

There has been a good deal of publicity around the Statewide metering program. In fact in June we wrote to every one of our customers about a range of issues. One was the metering project and we indicated that we would provide further advice around a week before the work was to be done. We then published a Public Notice on 1 October in regard to Mole Creek, indicating work was about to commence, and our contractor is required to letterbox all customers in advance of the installations as noted in the customer letter

In regard to the written request from the Progress Association, the only letter we have received from the Association related to the proposed provision of treatment. We note from the notes provided to us with your questions that the Association is "sending" a letter – we have not yet receive it.

### **3. Question**

#### **\$2.3M treatment system of unknown design or location.**

How can you say that the Treatment and upgrading of the Mole Creek water system is to be \$2.3M when there is no decision or costing as to what has to be done or how you are going to do it?

## **Response**

The estimated cost of the Mole Creek project is \$2.8 m. Whilst the final design of the project is not yet complete, a significant amount of work has been done and a preliminary layout has been prepared. In fact this layout was displayed at the recent public meeting. The estimate is based on this work and this layout and includes a contingency amount because the design has not yet been finalised.

### **4. Question**

#### **Around 300% rise in 3 years = 100% per year**

Is a around 300% rise in water and sewerage costs in three years responsible or acceptable management?

## **Response**

The background to the 300% rise in 3 years claim is not clear. It certainly isn't true. Our side constraints limit increases to \$50 per year per service or 10% whichever is the greater.

Currently customers with both services pay between around \$400 and \$1700 – we need to transition them to similar tariffs over time.

At Mole Creek where we only have water a typical bill this year is around \$260 so a \$50 increase is less than 20% per year.

#### **5. Question**

##### **Unaffordable demands by a monopoly on people who have no alternative.**

Where are the customers who have no alternative but to hand over more and more money going to get another \$14 per week to satisfy these exorbitant ongoing increases?

#### **Response**

As noted in the previous answer, our side constraints are \$100 a year where a customer has both services. That's about \$2 a week. If a customer only has one service, such as at Mole Creek, the increase is \$1 a week.

#### **6. Question**

##### **How can people avoid being forced to pay these never ending ever increasing water and sewerage demands?**

If water or sewerage service is not required (ie other more modern and environmentally advanced self contained systems are installed) will Ben Lomond Water deny those person of their rights and continue to force them to pay extortionate prices for what do not require and do not use??

#### **Response**

We charge customers as they have always been charged by their Council. That is if they have the service they are charged, or if they have access to the service, by the 30 meter rule they are charged.

Ben Lomond Water currently has no plans to construct water or sewerage schemes where none exists.

#### **7. Question**

##### **Questions about borrowings.**

How much of the capital works spending is borrowed?

Who is it borrowed from?

When will the last of the loan be paid off.

What interest rate is being paid?

Is the interest calculated on the original loan amount or is the interest calculated only on the amount of the loan still owing at any given time?

## **Response**

Borrowings vary from year to year depending on capital works, profitability and depreciation. Ben Lomond Water currently pays 50% of after tax profit as dividends. The remainder is used to fund capital works as is depreciation. Typically depreciation is approximately 50% of our capital program.

We are required to borrow from the Tasmanian Public Finance Corporation (Tascorp).

Interest rates vary depending on when the loan is taken up and the period of the loan. Our most recent loans were for 5.04% for a 2 Yr loan, 5.35% for a 4 Yr loan and 5.80% for an 8 Yr loan, not including loan guarantee fees.

The Board has a Treasury Management Policy that requires the loan portfolio to include loans across a range of repayment periods to spread interest rate risk, and the loans are typically interest only. As loans mature they are paid off if cash is available, or refinanced in accordance with the Policy.

## **Second Series of Questions From Mr B Loone**

### **1. Question**

#### **Locals knowledge ignored as arrogant BLW attitude prevails.**

As you would be well aware there are many unresolved problems relating to the connection and supply locations at the Mole Creek country and town water infrastructure.

My question is: why didn't BLW do proper due diligence and seek out local knowledge people to as much as possible locate sub-main routes and points of connection before engaging a contractor to fit water meters instead of playing god and treating local people with local knowledge as of no value?

### **Response**

It needs to be appreciated that we have more than 55 000 customers and the cost of investigating every one of those water connections individually is prohibitive. The apparent piggy back arrangements at Mole Creek are most unusual and unexpected and as we indicated at the recent public meeting, we will resolve the issues over time.

In fact the water meter project has already proven beneficial as it has shown up a number of irregularities. For example we have found water connections that had not previously been billed.

Some of these issues are not straightforward to fix, but we do need to fix them and we will do so, although it may take us some time.

### **2. Question**

#### **Details of two days to bore under narrow road requested.**

My information is that for two days (2011 10 20 and 21) an under road boring rig was employed to bore under South Mole Creek Road.

Can you inform us as to why that operation was undertaken and the total cost including the reported two gangs of BLW employees as well as the cost for the boring rig?

### **Response**

The project referred to was undertaken by a contractor and not BLW employees. Following a competitive process Road Bore Tasmania was engaged at a fixed price of \$7 093 which is well below the budget estimate. The project is to replace a pipeline that had experienced an unacceptable number of failures, impacting on customer service.

### **3. Question**

#### **False economy four payments spin.**

The community is given the clear message that BLW is a elite, secretive organisation that deliberately avoids connecting with communities and any semblance of accountability.

Why is it that BLW does not allow or share its plans, highly visible operations or problems with the community who see themselves as the real owners and stakeholders in the local water infrastructure?

## **Response**

We certainly do not agree that we are a secretive organisation. Let's look at Mole Creek as an example: -

- At last year's AGM we discussed the Director of Public Health's priority project list and discussed our plans for those projects, including Mole Creek;
- Subsequent to the AGM the Director of Public Health's priority list was provided to all Councils;
- In May one of our directors met Mr Loone and discussed a range of questions that he had previously raised;
- On 20 June one of our directors, two Executive Managers and a technical officer met with Mr Loone to travel to the site of the Mole Creek water intake and discuss a range of issues related to the water system;
- In June this year we wrote to every customer detailing our plans to move to quarterly billing and discussing the water metering project;
- On 27 September we issued a media release about the small towns water treatment project and in particular the Community Information Sessions. This gained some coverage on at least ABC radio;
- On 1 October we issued a public notice advising that we were about to begin metering Mole Creek;
- The metering contractor is required to letter box all customers before installing meters; and
- As mentioned previously we recently held a public meeting at Mole Creek where we detailed our plans so far in regard to the water treatment plant. We might be criticised for not doing this earlier, but we believed our plans needed to be sufficiently advanced so as to be able to discuss them. At that meeting we spent an hour and a half answering questions.

This Mole Creek meeting is one of four we have held across the region in the last few weeks.

## **4. Question**

Dividing the annual service demand into four payments adds about \$50 extra to the total amount demanded annually by BLW and imposes a lot of unnecessary work and inconvenience on ratepayers.

The four payments are:

- Wasteful of time and resources,
- Expensive(for both BLW & ratepayers)

## **Response**

The heading for the previous question suggested that four payments is false economy which is not correct. In fact we are required by the Government to move to quarterly billing, which in fact will lead to a cost saving. To date we have issued an annual fixed charge account which allowed four payments - we then issued three reminders – that is four fixed charge account issues and four payments by customers. In addition to this where we have water meters, which is for 95% of our customers we have, also issued two water consumption accounts. This means we are moving from six bill issues a year to four as the quarterly accounts will include both fixed and water consumption charges. The process will actually save money and provide more consistency to customers.

The \$50 increase was announced by the Government in the budget and several months ago BLW issued the Executive Summary of our draft Price and Services Plan seeking input. This included details of the proposed \$50 per service annual increases.

The draft Price and Service Plan, submitted on 31 October will now be considered by the Economic Regulator and that process will include another opportunity for the public to have input.