

Good morning Ladies and gentlemen and welcome to the Annual General Meeting of Ben Lomond Water.

Operating Result

The operating result for the year was a net profit after tax of \$7M compared with \$5.2M in the previous year.

The actual operating result was above the forecast contained in our corporate plan.

Distributions to Owner Councils

Total distributions to Owner Councils in the year under review was \$5,049,000, approximately \$1M above the total distributions forecast in the corporate plan.

This amount does not include the \$40,000 paid to Ben Lomond Water Owner Councils by Onstream.

The priority distribution level in FY11 was \$3,638,000.

Combined Drainage

It is widely understood that in Launceston there is a combined drainage system that services both waste water and storm water for a considerable section of the city.

Evidently at the time the city was established combined drainage was not uncommon, but the practice ceased shortly afterwards.

There are two issues with the combined drainage, one practical, one financial.

In extreme weather flows the waste water treatment plant and pipe network cannot handle the volume and spillage of untreated albeit heavily diluted waste water into the river occurs.

The issue is challenging and there is no easy solution.

The financial issue is that under the current legislative framework it is unclear whether we are able to bill either our customers or the Launceston City Council for the storm water component.

However Ben Lomond Water is required under Legislation to introduce equitable pricing.

The present situation is not equitable with customers elsewhere in the city and region in effect cross subsidising the customers whom we presently cannot charge.

We estimate the revenue loss to your corporation to be significant.

Billing

We have received widespread criticism of the timeliness and accuracy of our billing system.

It needs to be understood that when we commenced operations in July 2009 we did not have billing capability and had to rely on Councils to issue bills on our behalf.

In the second year of operation a number of Councils declined to provide billing services on our behalf and we were obliged to engage a third party provider as an interim measure.

We acknowledge that billing has not been timely nor in some cases accurate, however when compared with benchmark performance for utility service providers the accuracy was well within acceptable limits.

That being said we do not consider our error rate nor timeliness performance acceptable.

During the past year a team of people across the four corporations have worked tirelessly to deliver a new billing system for us.

Delivered on time and within the budget cost of \$3.5M the key functionality is now fully operational.

We will undoubtedly have issues, particularly where we introduce volumetric charging in municipalities where it did not previously exist.

However as the primary interface with our customers we will be doing all that we can to ensure that bills are both issued on time and are accurate.

Price Cap Compensation

When the Corporation was established the Government determined that the maximum price increase allowable in any one year would be 10%.

However shortly after our establishment the government capped price increases at 5% for each of our first three years of operation.

In doing so the government committed itself to providing compensation to the Corporation to make up the difference.

At the time no consideration was given as to how the transition from the price cap phase would occur.

During the year the Corporation initiated a dialogue with both our Owner Councils and the State Government proposing that the price cap be removed from 1 July 2011 and that the price cap compensation expected for 2011/12 be spread over financial years FY12, FY13 and FY14.

The government accepted our first proposition however it reduced the price cap compensation payment from an expected \$7.4M to \$1.5M, with payments of \$1m in FY12 and \$0.5M in FY13.

The shortfall means that our profitability will be substantially less than had been expected in FY12.

Price & Service Plan

The Corporation was required to submit its Price and Service Plan for the three years commencing 1 July 2012 to the Economic Regulator by 31 October 2011.

This has required a huge effort by a significant number of staff and has taken many months to complete.

In the process the Corporation has had to establish both the level of revenues required to efficiently manage the business but also the path whereby customers will be transitioned to equitable pricing and full cost recovery.

In respect of our revenue requirement, we are seeking a 6% increase in revenues in each year of the Price & Service Plan.

In respect of the transition path to equitable pricing and full cost recovery the Price & Service Plan reflects a continuation of the pricing transition path that the government approved in respect of the current financial year.

Customers currently paying below full cost recovery will have their prices increased by a maximum of \$100 or \$50 per service, or 10% whichever is the greater, while customers currently paying in excess of full recovery will have their prices frozen.

Onstream

During the year the directors of the Tasmanian Water & Sewerage Corporations endorsed a significant restructuring of the operations of Onstream.

When Onstream was established it was envisioned that the entity would seek to expand its customer base beyond the three regional Water & Sewerage Corporations.

The Boards of the Corporations determined that whilst this may well be an appropriate objective in the longer term, in the short term it was important to focus on the requirements of the Regional Corporations.

As a result a number of activities initially undertaken by Onstream have been discontinued.

Further to embed the shared services activities within the Regional Corporations and also as part of a cost saving move, it has been determined to relocate the Onstream activities to the premises occupied by the Regional Corporations in Hobart, Launceston and Devonport.

However let there be no misunderstanding, the Corporations are committed to shared services, believing that substantial cost savings have been achieved and will continue to be achieved.

Possible move to a single state-wide corporation

As is now widely understood I have recommended to Owner Councils the merger of the four Tasmanian Water & Sewerage corporations into a single state-wide entity.

Subsequent to my taking on the position as Chairman of the four corporations in January I have met with almost all of the Council Mayors and General Managers across the state.

In those conversations there was one clear message and that was that we are not operating in an affluent community and that Councils have an expectation that we will do all that we can to keep our operating costs as low as possible so that price increases could be kept to a minimum.

It is my view that there are significant savings to be achieved in a move to a single state-wide corporation.

But I also raised this matter because many of our Owner Councils are unhappy about the present governance arrangements.

The present governance arrangements have not been helpful in the establishment of a good working relationship with our Owners and it must be addressed.

A move to a single corporation would enable the concerns of Owner Councils to be resolved.

I do acknowledge however that there are models other than a single corporation that could overcome the governance issues.

But I principally raised this matter to encourage Owner Councils to become engaged in the debate.

For with both major political parties seemingly favouring a single corporation, to not become involved in the debate could well mean that the present governance arrangements are replaced with a model that is even less satisfactory.

However having raised the matter for consideration, at the end of the day this is a matter for our Owner Councils and the government to decide.

I hope that consideration will be conducted in an expeditious manner in order that the uncertainty in our workforce is resolved as soon as practicable, but I understand the importance of there being sufficient time for both Owner Councils and government to properly consider the way forward.

In the meantime it is business as usual at your corporation with both the board and senior management determined to remain focused on the day to day conduct of the business.

Ladies & gentlemen, while we still have much to do, your Board is pleased with the progress that was made throughout past year.

Miles Hampton
Chairman