

CHAIRMAN'S ADDRESS
CRADLE MOUNTAIN WATER AGM
3 NOVEMBER 2011

Good afternoon Ladies and gentlemen and welcome to the Annual General Meeting of Cradle Mountain Water.

Operating Result

The operating result for the year was a net profit after tax of \$1.87M compared with \$0.92M in the previous year.

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

Income was \$2m below the corporate plan forecast, with the shortfall being in usage and developer charges.

Fortunately aggregate expenses were also below the corporate plan forecast.

Distributions to Owner Councils

Total distributions to Owner Councils in the year under review was \$2.517M, approximating the total distributions forecast in the corporate plan.

When distributions from Onstream of \$24,000 are taken into account total distributions to Owner Councils was \$2.541M.

The priority distribution level in FY11 was \$4.909M.

Developer Charges

During the year the Corporation received some negative publicity about our developer charges.

Developer charges were not applied on the North West Coast prior to Cradle Mountain Water introducing them, so they have been seen as a major change.

The legislative framework that established Cradle Mountain Water means that we have no choice, we are obliged to apply developer charges and they must be both cost reflective and equitable.

The approach taken to determining developer charges is similar to that used in a number of mainland states and the same methodology is applied by both Southern Water and Ben Lomond Water.

A number of developers have chosen to challenge the legality of our charges however these court actions have largely been resolved in our favor.

I mention same to observe that the methodology we are applying is transparent and systematic and is reflective of the legislative framework.

However we do recognise that we have an obligation to try not to put hurdles in the way of development proposals and to facilitate development subject to the constraints of user pays and equity.

To that end we encourage developers to work closely with us prior to lodging development applications in order that we can work with them to identify lowest cost solutions.

Where developers and project proponents work with us in this manner it has enabled us to keep both development and trade waste charges for development proposals to the absolute minimum whilst satisfying our legal obligations.

In addition we have developed a range of alternative payment options to further mitigate the financial impact of Developer Charges.

Billing

During the year 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.

As the new system settles in we will undoubtedly continue to 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 \$4.67M price cap compensation expected for 2011/12 be spread over financial years FY12, FY13 and FY14.

The government accepted our first proposal and changed the price cap compensation payment from an expected \$4.67M in FY12 to three payments of \$1.9M in each of FY12, FY13 and FY14.

In aggregate the corporation is \$1M better off, but the timing change will cause our profitability to be 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.

The preparation of this, our first Price & Service Plan has taken a huge effort by a large number of our employees and senior managers.

In the process the Corporation has had to establish both the level of revenues required to efficiently manage the

business but also the pathway 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.

We have proposed that customers currently paying below the Target Tariff will have their prices increased by a maximum of \$100 or \$50 per service,

We have also proposed that customers currently paying above the Target Tariff will not be subject to any price increase.

Onstream

Recently the directors of the four 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 and Launceston.

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 statewide corporation

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