

13 PRICES AND CUSTOMER IMPACTS

This chapter provides an overview of TasWater's and the Economic Regulator's calculations of TasWater's MARR together with the price increases resulting from those calculations.

The chapter also analyses TasWater's proposed price transition and presents the Economic Regulator's assessment of customer impacts arising from the application of TasWater's proposed price increases and from the Economic Regulator's approved price increases.

13.1 The MARR and price increases

As discussed in Chapter 11, regulated prices are set by reference to the MARR. The Economic Regulator has set TasWater's MARR at \$1.071 billion for the third regulatory period and has capped price increases at 4.6 per cent per annum. TasWater's initial calculation of its MARR of \$1.225 billion indicated a potential 7.9 per cent annual price increase.⁹¹

Over the third regulatory period, the final MARR calculated by the Economic Regulator is approximately \$155 million lower than that proposed by TasWater mainly due to the Economic Regulator approving lower rates of return on capital, tax allowances and regulatory depreciation. The Economic Regulator's final MARR is, however, \$172 million higher than the MARR of \$899 million approved for the second regulatory period.⁹²

TasWater calculation of its MARR for each year of the third regulatory period is shown in Table 11.1 (reproduced in Table 13.1).

In its proposed PSP, TasWater put forward annual price increases of 4.6 per cent, which were within customers' expectations (refer to Chapter 2) and which TasWater forecast would result in the regulated revenue, as shown in Table 13.1. As shown in Table 13.1, forecast regulated revenue was below TasWater's calculation of its MARR.

Based on the Economic Regulator's review of TasWater's proposed values for the building block components and key inputs to TasWater's MARR, in its Draft Report, the Economic Regulator recalculated TasWater's MARR as shown in Table 11.4 (reproduced in Table 13.1). Applying this MARR would have resulted in annual price increases, for tariffs, of 4.16 per cent.

TasWater's forecast regulated revenue is shown in Table 13.1 along with TasWater's, and the Economic Regulator's, calculations of TasWater's MARR.

Table 13.1 TasWater's forecast regulated revenue and MARRs (\$'000s)

	2018-19	2019-20	2020-21
TasWater's MARR from its proposed PSP	395 085	410 378	419 722
TasWater's forecast regulated revenue	338 317	356 123	374 857
Economic Regulator's Draft Report MARR	339 878	352 143	368 228
Economic Regulator's Final Report MARR	343 234	355 806	371 694

91 TasWater, *Draft Price and Service Plan 3, 1 July 2018 to 30 June 2021*, page 117.

92 Tasmanian Economic Regulator, *2015 Tasmanian Water and Sewerage Price Determination Investigation*, Final Report, Table 4.27, page 52.

TasWater submitted a revised pricing model for the third regulatory period in response to the Economic Regulator's Draft Report. While reviewing the revised pricing model, the Economic Regulator discovered that the number of water connections in TasWater's pricing model were not consistent with numbers relied upon elsewhere and in past investigations.

On 1 March 2018, in response to a request issued by the Economic Regulator on 14 December 2017, TasWater confirmed that the number of water connections from its demand forecast model were correct, while the numbers in its pricing model and regulatory financial statements contained a calculation error with connection numbers in TasWater's initial pricing model being much higher than those in its demand model. While there is still some uncertainty surrounding the actual number of water connections, the Economic Regulator notes that the number of water connections in TasWater's initial pricing model were not consistent with numbers relied upon in past investigations.

In this Final Report, the Economic Regulator has accounted for the error in TasWater's pricing model relating to the number of water connections.

Together with the other changes made to the Draft Report, and once an adjustment was made for this error, there was potential for annual price increases of around eight per cent. As indicated by TasWater's own consultative process, price increases of this magnitude would be much higher than customer expectations. As a result of this, and given the continued uncertainty around the precise number of connections, the Economic Regulator has decided to cap annual price increases at 4.6 per cent. This is at a level consistent with what TasWater put forward in its proposed PSP.

13.2 Maximum prices

TasWater's proposed prices are set out in Appendix 15 of its proposed PSP. The prices approved by the Economic Regulator are outlined in full in Schedule 1 of its Price Determination (Appendix 1 to this Final Report). The Economic Regulator's approved target tariffs are set out in Section 13.2.1 below.

13.2.1 Target tariffs

The Economic Regulator's approved fixed water, variable water and sewerage target tariffs, based on an annual price increase of 4.6 per cent are presented in Table 13.2, 13.3 and 13.4 respectively below (the 2017-18 target tariffs are also included for comparison purposes). The proposed price transition for customers who, at the end of the second regulatory period, won't be on their respective target tariffs, is discussed in Section 13.4 of this Final Report.

Table 13.2 Economic Regulator's approved target fixed water tariffs per connection for full service customers (\$)

Water Connection Size	2017-18	2018-19	2019-20	2020-21
20mm	329.48	344.64	360.49	377.07

The fixed water target tariff for each connection size is calculated by multiplying the fixed water target tariff for a 20mm water connection by the relevant multiplier*.

Table 13.3 Economic Regulator's approved target variable water charges per kilolitre of water (\$)

	2017-18	2018-19	2019-20	2020-21
Full service (ie water of drinking water quality)	1.02	1.07	1.12	1.17

Table 13.4 Economic Regulator's approved target fixed sewerage tariffs for full service customers per ET (\$)

Number of ETs	2017-18	2018-19	2019-20	2020-21
1 ET	632.24	661.32	691.74	723.56

The target fixed sewerage charge for each connection is calculated by multiplying the target fixed sewerage for one ET by the applicable number of ETs*.

* Water connection size multipliers and ETs are discussed in Chapter 12.

13.2.2 Trade waste fees and charges

TasWater's proposed trade waste charges policy and proposed structure of trade waste pricing were discussed in Sections 4.8 and 12.12 of this Final Report respectively.

For the third regulatory period TasWater proposed the trade waste fees and charges set out in Tables 13.5 to 13.8 inclusive.

Table 13.5 TasWater's proposed trade waste application fee

	2018-19	2019-20	2020-21
Category 1	193	202	211
Category 2A	386	404	422
Category 2B	386	404	422
Category 2C	386	404	422

Table 13.6 TasWater's proposed annual trade waste charges

	2018-19	2019-20	2020-21
Category 1	572	599	626
Category 2A	938	981	1 026
Category 2B	1 316	1 377	1 440
Category 2C	1 974	2 065	2 160

Table 13.7 TasWater's proposed trade waste minor non-compliance fees

	2018-19	2019-20	2020-21
Category 1	1 145	1 197	1 252
Category 2A	1 876	1 962	2 053
Category 2B	2 633	2 754	2 880
Category 2C	3 948	4 130	4 320

Table 13.8 TasWater's proposed trade waste major non-compliance fees

	2018-19	2019-20	2020-21
Category 1	1 717	1 796	1 878
Category 2A	2 814	2 944	3 079
Category 2B	3 949	4 131	4 321
Category 2C	5 923	6 195	6 480

The application fees in TasWater's proposed PSP for categories 2A, 2B and 2C trade waste customers were \$386 while for Category 1 customers was \$193. Given the significant proposed increases in application fees the Economic Regulator sought TasWater's justification for its proposed fees. In response, TasWater advised that the intention was for a single trade waste application fee of \$193 for 2018-19 for all Category 1 and 2 trade waste customers. The Economic Regulator noted that TasWater did not explain the large proposed increase in this fee between 2017-18 and 2018-19 for all categories. The Economic Regulator therefore proposed in its Draft Report that all trade waste fees and charges for 2018-19 increase by 4.16 per cent relative to 2017-18.

13.2.2.1 Issues raised during consultation on the Economic Regulator's Draft Report

In its submission on the Economic Regulator's Draft Report, TasWater stated that it proposed a higher fee in 2018-19 because it recently reviewed the actual time taken to process trade waste applications. Based on this review, each trade waste application takes approximately 2.1 hours to process and is undertaken by staff with a forecast average labour cost of \$91.84 per hour in 2018-19. On this basis, TasWater proposed the trade waste application fee at \$193 (2.1 multiplied by \$91.84) in 2018-19.

TasWater was asked to provide further information on the wage rate per hour since it was significantly higher than the other wage rates per hour in the miscellaneous fees and charges model. TasWater stated that the hourly rate is based on salary data held in its finance system and relates to the particular skills and capabilities required to assess the impact of trade waste on its sewerage system as part of the application process.

Additionally, following the end of consultation on its Draft Report the Economic Regulator identified that TasWater's pricing model did not account for regulated revenue relating to trade waste. This additional revenue reduces the amount of revenue to be recovered through fixed and variable charges.

13.2.2.2 Economic Regulator's decisions

TasWater proposed increasing its trade waste fees and charges by 4.6 per cent for each of the second and third years of the third regulatory period. The Economic Regulator has approved a 4.6 per cent increase in TasWater's trade waste fees and charges for 2019-20 and 2020-21. Table 13.9 outlines the Economic Regulator's approved trade waste fees, target tariffs and charges for 2018-19.

Table 13.9 Economic Regulator's approved trade waste fees, target tariffs and charges by customer category⁹³

Trade Waste Category	Application Fee	Annual Target Tariff	Non-Compliance Charge (Minor)	Non-Compliance Charge (Major)
1	193	572.29	1 144.61	1 716.90
2A	193	938.06	1 876.10	2 814.16
2B	193	1 316.33	2 632.66	3 948.98
2C	193	1 974.16	3 948.37	5 922.57

TasWater also proposed transitioning trade waste customers to target on the same basis as approved for the second regulatory period, that is, by one third of the difference between the customer's bill for 2017-18 and the target for 2017-18. The Economic Regulator accepts TasWater's proposed transition approach for trade waste customers.

⁹³ These charges are to apply in 2018-19. The charges are to be increased by 4.6 per cent in each of the 2019-20 and 2020-21 financial years.

In section 4.3.3 of its proposed PSP TasWater outlined its proposed approach to transitioning Category 3 and 4 trade waste customers to ensure that they are achieving long-term sewer acceptance limits and paying full charges by 1 July 2020. TasWater's approach includes determining fees and charges annually and negotiating a reasonable transition period for the customer to implement appropriate trade waste risk controls. As this approach is largely unchanged from the approach taken during the second regulatory period, the Economic Regulator approves TasWater's approach.

The Economic Regulator requires TasWater to apply the trade waste fees and charges set out in Table 13.9.

The Economic Regulator also accepts TasWater's proposed approach to transition trade waste customers to target for the third regulatory period.

The Economic Regulator approves TasWater's proposed approach to transitioning Category 3 and 4 trade waste customers to cost reflective charges.

13.2.2.3 Trade waste site constraint fee

In its proposed PSP, TasWater stated that some trade waste customers are unable to comply with its trade waste requirements due to heritage or other site constraints at their properties. For these customers, TasWater proposed a new fee to offset the impact on its sewerage systems, as outlined in Table 13.10 below.

Table 13.10 Taswater's proposed trade waste site constraint fee (\$)

	2018-19	2019-20	2020-21
All trade waste categories	1 097	1 148	1 201

The Economic Regulator sought further information from TasWater on the site constraint fee. TasWater stated that the proposed fee is an annual fee in addition to the trade waste annual fee for customers to whom it applies. TasWater noted that category 1 trade waste customers require nil or only minimal pre-treatment and so the site constraint fee is unlikely to apply (ie there is no constraint at their site).

The site constraint fee is set such that the net present value (NPV) of the fee is equal to the NPV of installing and maintaining a pre-treatment device that a typical (non-constrained) trade waste customer would otherwise have. According to TasWater, the intent is to offset the impact on its sewerage systems and also create equity between trade waste customers by ensuring there is no competitive advantage at a constrained site. For the purpose of the NPV calculation, TasWater has estimated the average cost of installing the pre-treatment device to be approximately \$13 000 and the annual maintenance/servicing cost to be approximately \$500.

The Economic Regulator supports TasWater's proposed introduction of a site constraint fee to offset the impact on its sewerage systems since constrained sites are discharging untreated trade waste into TasWater's systems. The Economic Regulator approves TasWater increasing this fee by 4.6 per cent per annum during the third regulatory period.

The Economic Regulator's approved Trade waste site constraint fee is set out in Table 13.11 below.

Table 13.11 Trade waste site constraint fee (\$)

	2018-19	2019-20	2020-21
All trade waste categories	1 097	1 147	1 200

The Economic Regulator accepts TasWater’s proposal to introduce an additional fee, a Trade waste site constraint fee, and approves the proposed level of that fee as set out in Table 13.11.

13.2.2.4 Trade waste macerator fee

TasWater is proposing a new fee for macerators. Macerators are used in aged care facilities to shred disposable paper bedpans prior to discharge to the sewer. However, the proposed charge of \$50 for 2018-19 is well short of the \$500-\$600 charged by mainland service providers for this service. Additionally, TasWater’s proposed PSP gives no indication of the likely transition path or ultimate price for this service.

TasWater stated that it is currently gathering data through its Asset Management Information System on the frequency, severity and costs of managing blockages from these systems. Since TasWater has not had quantitative data on the impacts on its system and costs, customer engagement has been opportunistic only. Given that TasWater is not able to calculate a cost reflective price for waste from macerators, nor has it consulted widely on a reflective charge, TasWater believes that the limited charge provides a signal to customers that there is an impact on its sewerage system and will provide the foundation to engage customers more fully during third regulatory period as part of its overall review of the sewerage charging methodology. Given the additional information provided by TasWater, the Economic Regulator supports TasWater’s proposed introduction of a macerator fee. The Economic Regulator also approves TasWater increasing this fee by 4.6 per cent per annum during the third regulatory period.

TasWater’s proposed macerator fees for the third regulatory period are outlined in Table 13.12.

Table 13.12 TasWater’s proposed trade waste macerator fee (\$)

	2018-19	2019-20	2020-21
Macerator charge	50.00	52.30	54.71

The Economic Regulator’s approved macerator fees for the third regulatory period are outlined in Table 13.13.

Table 13.13 Economic Regulator’s proposed trade waste macerator fee (\$)

	2018-19	2019-20	2020-21
Macerator charge	50.00	52.30	54.71

The Economic Regulator accepts TasWater’s proposal to introduce an additional fee, a macerator fee, and approves the proposed level of that fee as set out in Table 13.13.

13.3 Miscellaneous services

TasWater intends providing a wide range of miscellaneous services during the third regulatory period. The following sections outline TasWater’s proposed fees and charges for these services.

13.3.1 Miscellaneous fees and charges

Under the Price Determination, the miscellaneous fees and charges in TasWater’s PSP approved by the Economic Regulator are maximum prices. TasWater must not charge more than these maximum fees and charges for the miscellaneous services. However, TasWater is able to charge less than the approved miscellaneous fees and charges.

TasWater advised that its miscellaneous fees and charges have been built up based on the various costs it incurs in providing the service.

The Economic Regulator requested that TasWater provide the unit costs of the fees showing how the total cost was derived. TasWater provided the input unit costs, input cost quantities and cost escalation factors and the resultant total costs. For example, in determining the fee for a standard water connection, TasWater has included the cost and quantities of labour, excavation equipment, pipes, plumbing supplies, and supporting tasks such as road opening permits and traffic control.

TasWater proposed that miscellaneous fees increase depending on the relevant escalation factors used in the cost build up (labour - 2.0 per cent and materials and services - between 4.38 per cent and 5.88 per cent). However, based on Arup's recommendations, the Economic Regulator has approved salary opex escalation of 2.25 per cent and materials and services escalation of 3.0 per cent.

The Economic Regulator also identified the following omissions from TasWater's proposed schedule of miscellaneous services:

- Sewerage connection relocation (standard);
- Sewerage connection relocation (non-standard);
- Section 56W consent fee;
- Property Information Plan; and
- Restriction charge.

In response, TasWater confirmed that it intended that these missing services be added to its schedule of Miscellaneous Fees and Charges.

TasWater provided the Standard sewerage connection relocation – under 10 metres cost build up. The Economic Regulator has used salary opex escalation of 2.25 per cent and materials and services escalation of 3.0 per cent to recalculate the fee. The Economic Regulator approves TasWater's Standard sewerage connection relocation – under 10 metres fee as shown in Table 13.14.

Table 13.14 Omitted sewerage relocation charges (\$)

Miscellaneous fees and charges	2018-19	2019-20	2020-21
Relocation			
Standard sewerage connection relocation – under 10 metres	1 535.13	1 578.18	1 622.44
Sewerage connection relocation – greater than 10 metres	POA	POA	POA

TasWater advised that Economic Regulator that it had inadvertently omitted the Section 56W consent fee from its schedule of miscellaneous fees and charges. TasWater proposed that the fee be derived solely from the administrative cost of the transaction based on an hourly rate of \$59.07 in 2018-19 (the 2017-18 rate increased by 2.25 per cent) and the associated time of approximately 0.78 hours. The Economic Regulator therefore approves the Section 56W consent fee of \$46.08, \$47.11 and \$48.17, for 2018-19, 2019-20 and 2020-21 respectively.

TasWater also stated that it had inadvertently omitted the Property Information Plan fee from its schedule of miscellaneous fees and charges. TasWater advised that its data shows that the property information plan requires 0.77 hours of labour to produce with an hourly rate of \$59.07 in 2018-19. The Economic Regulator therefore approves the Property Information Plan fee of \$45.49, \$46.51 and \$47.56, for 2018-19, 2019-20 and 2020-21 respectively.

The Restriction Charge fee had also been inadvertently omitted from TasWater's schedule of miscellaneous charges. The cost build up for this fee was set out in the miscellaneous fees and charges model showing the labour and other costs involved in providing the service. The Economic Regulator therefore approves the Restriction Charge fee of \$105.16, \$107.81 and \$110.52, for 2018-19, 2019-20 and 2020-21 respectively.

Even though the five services listed above were omitted from the list of miscellaneous fees and charges in TasWater's proposed PSP, and therefore not consulted on in the Economic Regulator's Draft Report, none of these services are new services, ie all five services are services consulted on, and approved for, the second regulatory period. The Economic Regulator has therefore approved the addition of these services to TasWater's schedule of miscellaneous fees and charges.

In its proposed PSP TasWater also proposed a new account establishment and closure fee (\$49 in 2018-19). The Economic Regulator asked TasWater to justify this fee in terms of whether it reflected the cost of providing the service. In response, TasWater stated that the account establishment and closure service relates to the open/closure of accounts where TasWater does not do an out of cycle (special meter read) for the last read. The fee includes the administrative time taken to finalise an account and set up a new account. TasWater has retained a separate fee for special meter reads for other meter reads that do not relate to the open/closure of accounts. The fee is based on one hour of administrative labour to undertake this service for customers.

The Economic Regulator requested further information from TasWater since it was not clear which customer scenarios the fee related to, for example, whether it related to a new customer who needs an account set up; an existing customer who needs to close their account; or an existing customer who needs to close their account and open another account.

TasWater stated that the fee recovers the administrative cost of establishing a new customer account or, separately, the administrative cost of closing an existing customer account. To be clear, the fee is described as the "Account closure or establishment" fee.

The following scenarios describe when this fee will apply:

- Property Owner A sells a property to Property Owner B – Property Owner A will incur an account closure fee, and Property Owner B will incur an account establishment fee; and
- Property Owner C sells one property (Property 1) and buys another property (Property 2) – Property Owner C will incur an account closure fee on their final bill for Property 1, and will also incur an account establishment fee on the bill for their new Property 2.

Noting this additional information, the Economic Regulator accepts TasWater's proposed Account closure or establishment fee.

On 1 November 2017, TasWater wrote to the Economic Regulator and stated that it had omitted the Inspection Costs fee from its proposed PSP as the fee had not been applied during the second regulatory period. TasWater stated that it had inadvertently overlooked this fee and that it intended to retain the ability to recover these costs, which are ad hoc and highly variable. The Economic Regulator included the proposed fee in the Draft Report that was released for public consultation.

TasWater noted that the fee relates to when another utility or development may be working around TasWater's pipes and TasWater needs to be on site to ensure that its services are not affected.

TasWater also noted that it is unable to forecast the revenue from this charge given its ad hoc nature and the fact that TasWater does not have any historical data from the second regulatory period.

TasWater noted that this fee is charged on an hourly basis and stated that there are three circumstances where this fee would be applied:

- Development assessments - the process and fees have been streamlined, including bundling of on-site inspections for each category of development. However, TasWater expects that there may be occasions where a customer/developer causes unreasonable delays or requires repeat site visits. An updated Development Application Form will outline TasWater's visit allowances, for example, a maximum of four site visits for a "minor" development application and the hourly charges that may apply for additional visits.
- Work near TasWater's critical or high risk infrastructure - where TasWater personnel are required to supervise work of a developer, utility, or contractor near its infrastructure to ensure that its services are not disrupted.
- Service isolation - turn off/on services to an area to allow third parties to connect or disconnect to its infrastructure. Routine service isolations are done at no charge. It is proposed that charges apply only when time spent, in TasWater's view is unreasonable or irregular.

Table 13.15 sets out TasWater's proposed fees for these services (Arup's recommended salary opex escalation of 2.25 per cent has been used).

Table 13.15 TasWater's proposed Inspection Costs fee (\$/hr)

Description	2018-19	2019-20	2020-21
The recovery of costs for:	59.07	60.40	61.76
<ul style="list-style-type: none"> ▪ Additional on-site time for development assessment above that reasonably allowed (refer to TasWater Development Application form); ▪ On-site supervision of 3rd parties working near our infrastructure to avoid disruption to TasWater's customers; and ▪ Non-routine service isolation. 			

TasWater has proposed increasing the 20mm meter supply and installation fee from \$267 in 2017-18 to \$410 in 2018-19. According to TasWater's, the large increase between the 2017-18 fee and the fees for the third regulatory period is due to an increase in meter costs from a recent tender.

For the third regulatory period, TasWater has proposed a threefold increase in the standard water connection relocation - under 3 metres (from \$444.83 to \$1 490). TasWater stated that the labour, equipment and materials for standard water connection relocations is much greater than it had assumed for the second regulatory period and that, in practice, the relocation of a standard water connection is very similar in cost and effort to that of a new connection (less the purchase of a meter). The Economic Regulator's review of the cost build up for this service, including the salary opex escalation of 2.25 percent rather than 2.0 percent and materials and services escalation of 3.0 percent, suggests that the actual cost for 2017-18 is \$1 422 with \$1 461 in 2018-19 representing a 2.8 percent increase. In light of the evidence provided by TasWater, the Economic Regulator intends accepting the increase in the fee for this service.

The Economic Regulator conducted a benchmarking exercise to compare TasWater's proposed charges with charges imposed by comparable providers on mainland Australia.⁹⁴

In some cases the Economic Regulator was unable to locate a charge for a similar service provided by a comparable provider or other providers charged a similar fee but on a different basis. For example, for a water meter installation Wannon Water excludes the cost of actually installing the meter, which is up to the customer to arrange via their own plumber.

Where services were comparable, the Economic Regulator found that:

- TasWater's proposed Special Meter Read was significantly higher than the charges imposed for these services by the comparable providers, except for North East Water.
- TasWater's proposed Standard Disconnection (water and/or sewerage) was significantly higher than the charges imposed for these services by two comparable providers.
- TasWater's proposed standard water connection fee (20mm connection), Standard 100mm Sewerage Connection fee, Meter Testing (onsite), Pressure and Flow Testing fees were lower or similar to the fees charged for those services by comparable providers.
- TasWater's proposed standard water connection fee (20mm connection) was significantly lower (21 per cent) than Barwon Water's fee for that service (Barwon Water was the only comparable utility for this particular fee).

Based on the outcomes from the benchmarking exercise, the Economic Regulator notes that some of TasWater's proposed miscellaneous fees and charges are higher than fees and charges imposed by comparable providers, others are lower than those charged by comparable providers whilst the remainder are similar to those charged by other comparable providers.

The Economic Regulator also noted that some of TasWater's proposed fees are to be determined on a "price on application" (POA) basis. The Economic Regulator considered this appropriate provided that the fee is determined on a cost reflective basis, as in some cases it is accepted that costs involved may vary due to, for example, the location of the property, the amount of materials required and the time taken to complete the job. The Economic Regulator notes that customers will have the right to query such fees through TasWater's complaints handling process and, if not satisfied, may raise the issue with the Ombudsman.

The Economic Regulator's approved miscellaneous fees and charges for each year of the third regulatory period are set out in Table 13.16.

⁹⁴ The Economic Regulator compared TasWater's proposed fees and charges with those charged by Barwon Water, Goulburn Valley Water, North East Water and Wannon Water.

Table 13.16 Economic Regulator's approved miscellaneous fees and charges (\$)

Miscellaneous fees and charges	2017-18	2018-19	2019-20	2020-21
Water connections				
Standard 20mm connection	2 135.59	2 182.90	2 243.90	2 306.64
Standard 25mm connection	2 330.88	2 395.21	2 462.40	2 531.51
Non-standard water connection	POA	POA	POA	POA
20mm meter supply & installation	266.72	403.47	414.11	425.03
>20mm meter supply & installation	POA	POA	POA	POA
Wastewater connections				
Standard 100mm sewerage connection	1 556.70	1 570.66	1 613.30	1 657.11
Non-standard sewer connection	POA	POA	POA	POA
Disconnection				
Standard disconnection (water and/or sewerage)	444.83	446.98	459.29	471.94
Relocation				
Standard water connection relocation –under 3 metres	444.83	1 461.39	1 502.21	1 544.20
Water connection relocation – greater than 3 metres	POA	POA	POA	POA
Standard residential sewerage connection relocation (under 10 metres)		1 535.13	1 578.18	1 622.44
Sewerage connection relocation – greater than 10 metres		POA	POA	POA
Fire service				
Fire service installation	POA	POA	POA	POA
Water metering fees				
Special meter reads	55.00	59.16	60.62	62.12
Meter testing - onsite	73.95	79.49	81.33	83.30
Meter testing - offsite	POA	POA	POA	POA
Meter downsizing (50mm to 20mm)	359.81	366.54	376.98	387.73
Meter downsizing (all others)	POA	POA	POA	POA
Sundry Fees				
Right to information request ⁹⁵	38.75 (25 fee units)	39.25 (25 fee units)	25 fee units	25 fee units

95 Fee units are indexed annually in accordance with the *Fee Units Act 1997*. The value of a fee unit for 2017-18 was 1.55 ie 25 fee units = \$38.75. For 2018-19, the value of a fee unit was set at \$1.58.

Miscellaneous fees and charges	2017-18	2018-19	2019-20	2020-21
Pressure and flow testing (\$/hour)	97.62	104.99	107.44	110.09
Section 56ZQ request	38.75 (25 fee units)	39.25 (25 fee units)	25 fee units	25 fee units
Inspection Cost fee	53.56/hr	59.07/hr	60.40/hr	61.76/hr
Section 56W consent fee	44.90	46.08	47.11	48.17
Property Information Plan	44.33	45.49	46.51	47.56
Restriction charge	97.70	105.16	107.81	110.52
Account establishment or closure	N/a	48.96	50.06	51.18
Other regulated services				
Private filling stations (\$/kL)	1.0202	1.0671	1.1162	1.1675
Public filling stations (\$/kL)	1.5727	1.6450	1.7207	1.7999
Security deposit (one off fee for public filling stations)	50.00	52.30	54.71	57.22
Public filling stations - 500L tokens (per token)	0.7863	0.8225	0.86030	0.8999
Portable metered standpipes (pro rata for time of use) (\$/kL)	1.0202	1.0671	1.1162	1.1675
e-card credit top up (processing fee)	5.77	6.04	6.32	6.61

13.3.2 Price on Application fees for Miscellaneous Services

As for trade waste revenue, following the end of consultation on its Draft Report the Economic Regulator identified that TasWater's pricing model did not account for regulated revenue relating to services referred to as "Price On Application" or POA.

The price for these services is referred to as POA due to their ad hoc/non-standard nature, for example, a water service relocation of over three metres. The Economic Regulator has assumed that the revenue from these services is the same as the revenue from the corresponding standard service. The amount of additional regulated revenue to be included is, therefore, conservative, as in the majority of cases the non-standard/POA service fee is likely to be much higher than the fee for a standard service.

This additional revenue reduces the amount of revenue to be recovered through fixed and variable charges.

The Economic Regulator approves TasWater's proposed miscellaneous fees and charges as set out in Table 13.16.

13.3.3 Development Assessment Service Fees

TasWater's proposed PSP outlined a number of development assessment service fees it intended charging during the third regulatory period. These fees relate to the costs TasWater incurs in processing development, subdivision and building and plumbing applications. TasWater also provided the unit costs, cost input quantities and escalation factors and the resultant total costs of the development assessment service fees. TasWater stated that its proposed PSP streamlines the development assessment process and simplifies the fees for development customers.

TasWater has proposed replacing separate fees for rezoning, subdivision and non-subdivision (minor, medium, major and significant respectively) with one set of development application fees for minor, medium, major and significant developments. The proposed fees for 2018-19 represent the 2017-18 fees for Development applications - non subdivision increased by 4.6 per cent. To be cost reflective, the Economic Regulator considers that development application fees should increase by the labour cost escalation factor of 2.25 per cent (not 4.6 per cent) given that the input cost data from TasWater shows that the only input is labour.

As explained in Section 4.9.1.3 of this Final Report, the latest set of fees for Certificate for Certifiable Work/Certificate for Compliance and engineering design approval equal the relevant 2017-18 fees combined and increased by 4.6 per cent. To be cost reflective, the Economic Regulator considers that these fees should increase by the labour cost escalation factor of 2.25 per cent (not 4.6 per cent) given that the input cost data from TasWater shows that the only input is labour. TasWater's proposed fees are set out in Table 13.17 together with, where relevant, the 2017-18 fees for comparison purposes.

The Economic Regulator's approved fees are outlined in Table 13.18.

Table 13.17 TasWater's proposed Development Assessment Service fees (\$)

	2017-18	2018-19	2019-20	2020-21
Development Applications⁹⁶				
Minor	232.89	216.49	226.45	236.87
Medium	433.91	359.35	376.88	393.17
Major	781.31	691.24	723.04	756.30
Significant	1 239.00	1 165.99	1 219.62	1 275.72
Certificate for certifiable works/Certificate for compliance (building & plumbing applications)				
Minor	293.74	307.25	321.39	336.17
Medium	380.96	398.48	416.81	435.99
Major	429.11	448.85	469.5	491.09
Significant	541.53	566.44	592.50	629.75
CCW Exemption	38.81	40.60	42.46	44.42
Engineering design approval				
Minor	291.02	304.41	31.418	333.06
Medium	552.63	578.05	604.64	632.45
Major	1 387.88	1 451.72	1 518.50	1 588.35
Significant	1 980.43	2 071.53	2 166.82	2 266.49
Consent to register a Legal Document				
Minor	136.58	148.84	155.68	162.843
Medium	226.94	148.84	155.68	162.84
Major	226.94	148.84	155.68	162.84
Significant	226.94	148.84	155.68	162.84

⁹⁶ Separate fees for the second regulatory period for rezoning, sub-division and non-subdivision have been replaced for the third regulatory period with a single fee for each development application category.

Table 13.18 Economic Regulator's approved Development Assessment Service fees (\$)

	2018-19	2019-20	2020-21
Development Applications			
Minor	211.63	216.39	221.26
Medium	351.28	359.18	367.26
Major	675.71	690.91	706.46
Significant	1 139.79	1 165.44	1 191.66
Certificate for certifiable works/Certificate for compliance (building & plumbing applications)			
Minor	300.35	307.11	314.02
Medium	389.53	398.29	407.25
Major	438.76	448.63	458.72
Significant	553.71	566.17	578.91
CCW Exemption	39.68	40.57	41.48
Engineering design approval			
Minor	297.57	304.27	311.12
Medium	565.06	577.77	590.77
Major	1 419.11	1 451.04	1 483.69
Significant	2 024.99	2 070.55	2 117.14
Consent to register a Legal Document			
Minor	149.20	152.56	155.99
Medium	149.20	152.56	155.99
Major	149.20	152.56	155.99
Significant	149.20	152.56	155.99

The Economic Regulator approves TasWater's proposed schedule of development assessment services.

The Economic Regulator also approves TasWater's proposed development assessment fees as set out in Table 13.18.

13.4 Proposed price transition

TasWater was required to forecast the customer impacts resulting from its proposed price changes to enable the Economic Regulator to assess whether the customer impacts are being effectively managed.

TasWater was also required to demonstrate in its proposed PSP how target tariffs and price transition paths for the third regulatory period will enable TasWater to comply with all pricing principles in the Industry Act by 1 July 2020, the expiration of the "transition period".⁹⁷

TasWater's Final Price and Service Plan for the second regulatory period stated that some customers would not reach the target until 2020:

The tables above show that over 3 000 water and almost 28 000 sewer customers will not reach target by 2018. Further, the tables also show that, under assumptions developed for the draft Price and Service Plan, some water and sewer customers will not reach target by 2020. TasWater will

⁹⁷ The transition period is defined in Regulation 32 of the Pricing Regulations.

propose the pathway by which these customers can be moved to target by 2020 as part of its PSP3 proposal.⁹⁸

TasWater's proposed PSP acknowledged that TasWater is required to fully comply with the Pricing Principles by the end of the Transition Period and, in this regard, notes that:

- 96 per cent of customers will reach target tariffs by 30 June 2018;
- 7 516 customers (4 252 residential and 3 264 non-residential) will not be on target tariffs as at 30 June 2018;
- 61 per cent of the 7 516 customers (4 594 customers) will reach target tariffs by 30 June 2019; a further 11 per cent by 30 June 2020; and the remaining 28 per cent on 1 July 2020.

The Economic Regulator requested further information on the 7 516 customers who are yet to reach their respective target tariffs. TasWater provided a spreadsheet containing de-identified customer level data, including the customer's fixed charges for 2017-18, the 2017-18 target tariffs and each a description of each customer's property end use.

The data shows that around 98 per cent of affected customers (around 7 336 customers) face an increase in their combined fixed charges for water and sewerage of up to 20 per cent in the first year of the third regulatory period, while, a small number of customers will face significant price increases over the third regulatory period in order to reach their respective target tariffs. TasWater proposed that these customers will be assigned a dedicated account manager who will provide early communication and explanation of price increases during the third regulatory period.

TasWater advised that account managers will work with these customers to find an appropriate payment option, including flexible payment plans for those that may have difficulty paying their accounts. In addition, residential customers who are transitioning to target tariffs will also have access to TasWater's Hardship Assistance Program as part of the Financial Hardship Policy.

Of the residential customers not on target tariffs:

- 3 567 (84 per cent) have a difference between their 2017-18 fixed charges and the 2017-18 fixed target tariff of less than \$100 (of those customers 2 542 (58 per cent) have a difference of less than \$50);
- 395 customers have a difference between their 2017-18 fixed charges and the 2017-18 fixed target tariffs of between \$100 and \$200; and
- the remaining 284 customers have a difference between their 2017-18 fixed charges and the 2017-18 fixed target tariff of greater than \$200.

Based on the data TasWater provided to the Economic Regulator, of the 284 residential customers mentioned above, there are some customers with large differences, with 182 customers having a difference between their fixed charges and target tariffs of greater than \$300 and 31 customers whose difference is over \$3 000.

The 3 264 non-residential customers transitioning to target tariffs cover 158 different non-residential property types, including carparks, banks, motels, aged care facilities, schools and supermarkets. For these customers, the differences between their 2017-18 fixed charges and the 2017-18 fixed target tariffs ranges from \$0.04 to \$43 358 with 35 customers having differences greater than \$10 000.

⁹⁸ TasWater's Price and Service Plan 2015-18, page 64.

Based on the legislative requirement for all customers to be on target tariffs by 1 July 2020 TasWater initially proposed the following price transition arrangements for the third regulatory period:

- Where the difference between a customer's actual total bill (water and sewerage) and the target tariffs as at 30 June 2018 is greater than \$300, the difference will close by one third in each year.
- Where the difference between a customer's actual total bill (water and sewerage) and the target tariffs as at 30 June 2018 is less than \$300, the difference will close by up to \$100 per year.

However, after discussions with the Economic Regulator about the complexity of apportioning a single bill increase between an individual customer's water and sewerage prices, TasWater proposed the following revised price transition method:

- If a customer, as at 30 June 2018, is paying less than their respective fixed water and/or sewerage target tariff, and if the difference between what they are paying and the relevant target tariff in period one of the third regulatory period is:
 - less than or equal to \$50 (multiplied by the applicable connection size multiplier and/or number of equivalent tenements), then the customer will move straight to the relevant target tariff in period one of the third regulatory period;
 - greater than \$50 (multiplied by the applicable connection size multiplier and/or number of equivalent tenements), then the customer's prices for water and sewerage respectively will increase each year by one third of the difference between the relevant target tariff in the third year of the third regulatory period and the price they paid at end of the second regulatory period.

TasWater considers that the revised price transition method balances simplicity, fairness and ensuring customers have reached their respective water and sewerage target tariffs by the end of the transition period. The Economic Regulator concurs with TasWater and considers TasWater's revised price transition method provides customers with greater clarity as to the prices they will be charged during the third regulatory period and therefore accept TasWater's revised proposed price transition.

However, the Economic Regulator was concerned about the size of the price increases for some transitioning customers and, in its Draft Report, required TasWater to write to all affected customers prior to 30 June 2018 so that they were aware of the expected price increases.

The formulae for transitioning customers to target tariffs is outlined in Schedule 2 of the Price Determination.

13.4.1 Issues raised during consultation on the Economic Regulator's Draft Report

In its submission TasCOSS stated that it shares the Economic Regulator's concern about customers facing price increases to reach target tariffs but that it does not support the proposed approach of assigning a dedicated account manager and providing access to the TasWater Hardship Program.

TasCOSS stated that individual negotiation with an account manager and the fall back of access to the Hardship Program is inappropriate since none of the customers have contributed in any way to the problem and the issue has arisen because TasWater processes did not identify and transition this cohort of customers along with the majority. TasCOSS stated that a hardship program is not appropriate to address an issue that arises from TasWater billing for reasons that customers could not have been

aware. A hardship program is not designed for this situation and has compliance and potential penalty actions that are not appropriate for this group of customers.

TasCOSS recommends spreading the cost up to ten years with no backdating (ie from the time the customer is made aware); and the creation of an independent expert group, with funded representation for residential and non-residential customers, to assist TasWater to transition the final cohort of customers to target tariffs without placing them into hardship.

TasWater stated in response to TasCOSS's submission that all customers have been transitioning toward a target tariff since reform of the Tasmanian water sector in 2009. TasWater's PSP for the second regulatory period stated that some customers would not complete the transition until 2020 because some customers were paying very little, or nothing, for water and sewerage services at the start of the water reform and were far below the target tariff.

TasWater stated that price increases for these customers have been gradual over time and are now due to reach the target by the legislated deadline of 1 July 2020.

TasWater also stated that during the second regulatory period it wrote to a total of 53 000 customers who had a transition of greater than 10 per cent or \$100 (combined). Of the 7 516 transitioning customers in the third regulatory period, 6 203 (83 per cent) of these customers were contacted as part of customer engagement during the second regulatory period. One hundred and twenty four customers with large increases (more than 30 per cent in any one year) were also contacted by an account manager.

The transitioning customers not previously contacted (1 313) are new because:

- some have had reassessments on their equivalent tenements so they are on transitional prices; and
- others had trade waste and sewerage bundled as at 1 July 2015, which were unbundled in the second regulatory period and had their sewerage remodelled and were put on transition pathways.

TasWater also provided the following additional information on transitioning customers after the release of the Economic Regulator's Draft Report:

- 94 per cent of customers are already at the target tariff.
- Of the 4 252 transitioning residential customers, about 84 per cent have a difference between the fixed charge and target tariff at the end of PSP2 of less than \$100. A further 12 per cent have a difference between \$100 and \$300.
- The remaining 182 residential customers have a difference between the fixed charge and target tariff at the end of PSP2 of greater than \$300. Of these customers:
 - 88 are government owned premises;
 - 89 are multi-unit residences such as apartments, nursing homes, or other institutional housing; and
 - five are single dwelling residential households.

The five single dwelling residential customers face increases of between three per cent and nine per cent on their current bill to reach the target tariff by 1 July 2020.

Noting the Economic Regulator's Draft Report proposal to require TasWater to write to all transitioning customers by 30 June 2018, and following further discussions with TasWater, the timing of this

requirement has been changed to avoid the cost to TasWater from having to conduct a special mail out. Taswater advised the Economic Regulator that most transitioning customers are aware that they are transitioning to target tariffs. TasWater also considered it is more efficient to include a dedicated insert for transitioning customers with their first bill in 2018-19 since TasWater already has the systems, contractor agreements and staffing in place and it avoids the procurement, mailing and internal labour costs that would be required under the Draft Report proposal.

13.4.2 Economic Regulator's decision

The Economic Regulator has decided to retain its Draft Report proposal with respect to transitioning customers. It has made this decision based on:

- The transition period for the application of the pricing principles being defined in Regulation 32 of the Pricing Regulations. Under the legislation the transition period ends on 30 June 2020. The Economic Regulator is unable to change the transition period since it is legislated.
- Most customers are already paying the higher prices for the same services. Therefore, in the interests of equity, these remaining customers should be transitioned to the target tariffs.
- The data from TasWater show that most transitioning residential customers have a small difference between current charges and the target.
- According to TasWater, most customers are aware that they are transitioning to higher charges from the relatively low prices paid prior to the reforms commencing.
- TasWater has stated that its account managers will organise flexible payment plans for those experiencing difficulty paying their accounts. Some customers may qualify for the Hardship Assistance Program as part of the Hardship Policy.
- Noting TasCOSS' submission, there do not appear to be "penalties" in the Hardship Assistance Program. According to the policy, any customer experiencing hardship will be exempt from interest or other debt recovery fees while on the Program. However, a customer can be taken off the program, for example due to continued non-payment, and would then be subject to normal debt collection processes.
- Schedule 2 of the final Price Determination outlines the formulae approved by the Economic Regulator for transitioning customers to target tariffs. The formulae has also been revised, relative to the Draft Report formulae, so that customers transition to the lesser of the target tariff and the amount TasWater decides to charge for the relevant service.⁹⁹

The Economic Regulator accepts TasWater's revised proposed price transition for customers paying less than target tariffs.

The Economic Regulator also requires TasWater to write to all customers affected by the transition to target tariffs, no later than the issuance of their first bill in 2018-19, and inform them of the prices they will be charged in each year of the third regulatory period and the options available to them to assist in managing payments.

⁹⁹ The Economic Regulator's final Price Determination provides TasWater with the flexibility to charge less than the maximum prices stated in the Determination.

13.5 Customer impacts

As required under section 15 of the Industry Act, the Economic Regulator has assessed the impact on customers arising from the application of its proposed price increase.

The Issues outside the scope of the investigation section of this Final Report discusses the submissions that raised affordability as an issue.

Based on the prices for the second regulatory period and the Economic Regulator's decision on prices for the third regulatory period, Table 13.19 shows the cost to customers for a variety of water usage levels.

Under the Economic Regulator's approved price increase, a typical residential customer on target tariffs for both water and sewerage and using 200 kL of water per annum would see their annual bill increase by \$56.

Table 13.19 Impact on customer bills from the Economic Regulator's approved price increases

Water usage Bill component	Second regulatory period			Economic Regulator's approved prices - third regulatory period		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
50 kL/annum						
Water Fixed	329	329	329	345	360	377
Water Variable	49	50	51	53	56	58
Sewerage	563	596	632	661	692	724
<i>Total Bill</i>	<i>941</i>	<i>976</i>	<i>1,013</i>	<i>1 059</i>	<i>1 108</i>	<i>1 159</i>
100 kL/annum						
Water Fixed	329	329	329	345	360	377
Water Variable	97	100	102	107	112	117
Sewerage	563	596	632	661	692	724
<i>Total Bill</i>	<i>989</i>	<i>1 025</i>	<i>1 064</i>	<i>1 113</i>	<i>1 164</i>	<i>1 217</i>
150 kL/annum						
Water Fixed	329	329	329	345	360	377
Water Variable	146	149	153	160	167	175
Sewerage	563	596	632	661	692	724
<i>Total Bill</i>	<i>1 038</i>	<i>1 075</i>	<i>1 115</i>	<i>1 166</i>	<i>1 220</i>	<i>1 276</i>
200 kL/annum						
Water Fixed	329	329	329	345	360	377
Water Variable	194	199	204	213	223	234
Sewerage	563	596	632	661	692	724
<i>Total Bill</i>	<i>1 086</i>	<i>1 125</i>	<i>1 166</i>	<i>1 219</i>	<i>1 275</i>	<i>1 334</i>
400 kL/annum						
Water Fixed	329	329	329	345	360	377
Water Variable	388	398	408	427	446	467
Sewerage	563	596	632	661	692	724
<i>Total Bill</i>	<i>1 281</i>	<i>1 324</i>	<i>1 370</i>	<i>1 433</i>	<i>1 499</i>	<i>1 568</i>