



Office of the Tasmanian Economic Regulator

Statement of Reasons

on

**2012 Price Determination Investigation Final Report
– Regulated Water and Sewerage Services in
Tasmania**

May 2012

Printed May 2012

Office of the Tasmanian Economic Regulator

Street address: Level 5, 111 Macquarie Street, Hobart TAS 7000

Postal address: GPO Box 770, Hobart TAS 7001

Telephone: (03) 6233 6323

Fax: (03) 6233 5666

Email: office@economicregulator.tas.gov.au

Website: www.economicregulator.tas.gov.au

ISBN 978 0 7246 5161 0

Copyright

© Office of the Tasmanian Economic Regulator

TABLE OF CONTENTS

1	INTRODUCTION.....	3
2	SUMMARY OF AMENDMENTS FROM PUBLIC SUBMISSION	5
3	MATTERS OUTSIDE THE ECONOMIC REGULATOR’S CONTROL.....	11
4	REVISED TRANSITIONAL CUSTOMER SERVICE STANDARDS.....	15
5	REVENUE LIMITS	23
6	PRICE REFORM APPROACH	31
7	MISCELLANEOUS.....	51

1 INTRODUCTION

In accordance with the provisions of the *Water and Sewerage Industry Act 2008* (the Industry Act) the Economic Regulator, in March 2012, released its draft Report, and draft Price Determinations, setting out its proposals for the first regulatory period for the Tasmanian water and sewerage industry (to apply from 1 July 2012 to 30 June 2015).

Public comment was sought on the proposals contained in the draft Report. The closing date for submissions, as part of that process, was 16 April 2012.

The following presents a summary of the amendments to the draft Report arising from comments made in the submissions.

The remainder of this Statement of Reasons sets out the Economic Regulator's decisions on the content of the Final Report and Price Determinations after considering comments raised in submissions.

2 SUMMARY OF AMENDMENTS FROM PUBLIC SUBMISSION

Following is a summary of the amendments to the draft Report arising from comments made in the submissions. A reference is included to where these amendments are discussed in this paper.

Reference in this paper	Amendments to draft Report
3.3	Table 4.32 in the Report to be amended to show all expected returns to owners from the regulated entities including dividends, income tax equivalent payments and guarantee fees.
4	Section 3.3.2 in the Report to be updated to reflect the revised transitional customer service standards for the three regulated entities, as approved by the Economic Regulator.
5.4	To assist comparisons between the regulated entities the Economic Regulator has decided to adopt a useful life for Cradle Mountain Waters' new assets of 60 years. The Economic Regulator does not intend recalculating the required revenues as these do not determine prices for the first regulatory period.
5.5.2	Update the tables in section 4.3.3.1 of the draft Report to reflect 2010-11 National Performance Report (NPR) data. Change the relevant tables in section 4.3.3.1 of the Report so that Southern Water is benchmarked against Barwon Water and Cradle Mountain Water is benchmarked against Wannon Water and North East Water.
6.4	Include an explanation of the proposed method of transitioning customers who are currently paying above the target tariff from property value based pricing to two-part pricing in section 5.4.10.1 of the Report.
6.6	Include in section 5.4.6 of the Report a description of the method for adjusting the fixed water charge to account for the applicable fire service charge. Revise the Price Determination for each regulated entity to include the formula for adjusting the fixed water charge to account for the applicable fire service charge.
6.7	Include in section 5.5.7 of the Report a description of the method for adjusting the fixed sewerage charge for category 1 and 2 trade waste

Reference in this paper	Amendments to draft Report
	<p>customers to account for the applicable trade waste charge.</p> <p>Revise the Price Determination for each regulated entity to include the formula for adjusting the fixed sewerage charge for category 1 and 2 trade waste customers to account for the applicable trade waste charge.</p> <p>Remove references to category 3 and 4 trade waste customers from Schedule 4 of the respective Price Determinations.</p>
6.10.1	<p>The final paragraph of section 5.4.11 in the Report to be replaced with the following paragraph:</p> <p><i>“Noting that each regulated entity has provided an undertaking that it will complete the calculation of ETs on or before a customer’s first quarterly account billing cycle of the first regulatory period, the Economic Regulator accepts the regulated entities’ approach with respect to ETs noting in particular that the price constraints will minimise customer impacts”.</i></p>
6.10.2	<p>The second last paragraph of section 5.4.11 in the Report to be replaced with the following paragraph:</p> <p><i>“The Economic Regulator considers it essential that customers have certainty with respect to prices and it is highly desirable for ETs to be set at the beginning of the Price Determination period; and only revised or reset where the usage of the site changes resulting in a change in the number of ETs. Where the ET is revised based on a change in use of the site, the revised ET will apply only from the start of the following billing period.”</i></p>
6.11	<p>Amend the last dot point in clause 2 of the <i>Developer Charges Policy</i> to remove the reference to the calculator providing details of the value of reticulated assets to be gifted or paid for by the developer but include a requirement to make it clear to developers that additional costs may be likely in relation to reticulated assets associated with their proposed development.</p>
6.12	<p>Replace the last paragraph in section 5.4.13 of the Report with the inclusion of a requirement for the regulated entities to include the following undertaking in their Price and Service Plans:</p> <p>(1) subject to (2), customer charges will be imposed in accordance with the transition arrangements, notwithstanding any changes to a customer’s connection arrangement, amalgamation of titles, conversion of strata titles to a single title, or other arrangement.</p> <p>(2) customer charges will be imposed in accordance with prevailing</p>

Reference in this paper	Amendments to draft Report
	<p>target tariffs where there has been a change of use resulting in:</p> <ul style="list-style-type: none"> - a genuine and permanent reduction in water demand resulting in a change in the number and/or size of water connections; and/or - a genuine and permanent reduction in the number and/or size and/or load of sewerage connections.
6.13	Amend section 5.4.13 of the Report to permit regulated entities to move customers directly to the target tariff where a tariff has not previously been charged for a property already connected to water and/or sewerage infrastructure.
6.15	Update Schedules 1 and 2 of Cradle Mountain Water's Price Determination to reflect the formulae agreed to by the Economic Regulator.
6.16.2	Amend Table 5.7 in section 5.4.5 of the Report, and any other miscellaneous references to the previously proposed variable rates, to adopt consistent rates of \$0.9000 for 2012-13, \$0.9234 for 2013-14 and \$0.9474 for 2014-15 across all three regulated entities.
6.16.3	Revise the figures in Tables 5.9 and 5.10 in section 5.4.5 to address a calculation error and account for the adoption of consistent variable charges.
7.2	<p>The conditions as listed in the <i>Service extension, expansion and introduction policy</i> on page A-75 of the draft Report to be replaced with the following conditions:</p> <ul style="list-style-type: none"> ▪ The introduction of water and/or sewerage services is to be commercially viable for [ENTITY NAME] (which may include external funding – e.g. a contribution from owner Councils, government grant(s), customer contributions, or a combination of any of these); or ▪ The absence of water and/or sewerage services is causing significant and/or wide scale environmental harm and/or public health issues, as identified by the local Environmental Health Officer, the Environmental Protection Authority or the Department of Health and Human Services; and ▪ [ENTITY NAME] will consult with the community on any service introduction proposal; and ▪ [ENTITY NAME] will provide to a person, before a service introduction charge is imposed on that person, an estimate of the amount of the service introduction charge; and ▪ [ENTITY NAME] will provide to a person, on whom a service

Reference in this paper	Amendments to draft Report
	<p>introduction charge is imposed, information as to how the amount of the service introduction charge has been determined; and</p> <ul style="list-style-type: none"> ▪ [ENTITY NAME] must be satisfied that there is broad community support before proceeding with a proposed service introduction, unless a compelling public interest reason can be demonstrated.
7.2	<p>The second last dot point regarding the application of service introduction charges, as detailed in the <i>Service extension, expansion and introduction policy</i> on page A-76 of the draft Report, to be replaced with the following:</p> <ul style="list-style-type: none"> ▪ Where an extended payment arrangement is requested by the owner, a consumer credit contract must be entered into. The credit contract will outline the terms and conditions of the arrangement and a requirement for the owner to fully settle the balance with [ENTITY NAME] should the owner sell the property.
7.2	<p>The text concerning the levying of a service charge on new allotments, as detailed in the <i>Service charge policy</i> on page A-63 of the draft Report, to be replaced with the following:</p> <ul style="list-style-type: none"> ▪ [ENTITY NAME] will levy a service charge on new allotments located within [ENTITY NAME]'s serviced land boundaries whether those allotments are developed or not.
7.3	<p>Attach to the Report an amended <i>Sub-metering policy</i> addressing the issues discussed in this Statement of Reasons.</p>
7.4	<p>Revise section 5.5.7 of the Report to reflect the Economic Regulator's requirement that the regulated entities amend their Price and Service Plans to include an undertaking to publish the following material on their websites in relation to trade waste:</p> <ul style="list-style-type: none"> ▪ make it clear why and how the application fee is charged; ▪ explain how the application process integrates with the Trade Waste consent form attached to the Standard Customer Contract; ▪ explain the basis for calculating and imposing exceedance charges, including the limits over which exceedance charges will be applied; ▪ clearly state the threshold characteristics for trade waste which identifies the required pre-treatment outcomes (i.e. provide thresholds for basic characteristics covering particles, fibres, organic load and oil and grease and so on which give rise to the requirement for pre-treatment for category 1 and 2 trade waste customers, and link to pre-treatment and required outcomes for infrastructure, treatment processes, safety and recycling and so on);

Reference in this paper	Amendments to draft Report
	<ul style="list-style-type: none"> ▪ clearly identify the option of category 1 and 2 trade waste customers entering into section 61 contracts with a regulated entity; ▪ explain the interaction between sewerage and trade waste target tariffs and the transitional arrangements; and ▪ make it clear that category 3 and 4 customers will be asked to negotiate a section 61 contract. <p>Amend the Report to include a requirement for each regulated entity to take into account the following high level principles in drafting their standard customer contracts with particular reference to the trade waste consent for category 1 and 2 trade waste customers:</p> <ul style="list-style-type: none"> ▪ trade waste customers should be able to readily self-identify their trade waste category and determine their obligations and liabilities; and ▪ the standard customer contracts should link to, and be consistent with, Schedule 4 of the respective Price Determinations and to the regulated entities' website pages with respect to trade waste. <p>Schedule 4 of each regulated entity's Price Determination should be amended to remove references to category 3 and 4 trade waste customers.</p>
7.5.1 and 7.5.2	Amend sections 5.3.2.1 and 5.4.15 of the Report to reflect the Economic Regulator's consideration of, and decision on, the definition of limited service customers.
7.5.1 and 7.5.2	<p>Section 5.3.2.3 of the Report to be replaced with the following:</p> <p>Regulated entities are required to adopt the following customer classes:</p> <ul style="list-style-type: none"> ▪ full service customers; ▪ limited water quality - customers receiving water from a supply which has a permanent boil water alert in place or customers receiving water from a supply the regulated entity has declared to be non-potable; ▪ limited water supply - customers that: <ul style="list-style-type: none"> - are connected to a water main that periodically does not contain water under positive pressure; or - have a connection designed to provide low or intermittent flow, such as where the customer has been required to install, operation and maintain an individual tank or pump; or - are connected to a non-reticulation water main that is subject to

Reference in this paper	Amendments to draft Report
	<p>significant pressure variations due to either –</p> <ul style="list-style-type: none"> ○ a pumped supply where the low pressure is below 50 kPa and the high pressure is above 500 kPa; or ○ an inlet supply to a trunk reservoir such that when the reservoir inlet valve is open the pressure is below 50 kPa; or <p>- receive a supply the regulated entity determines to be inadequate; and</p> <ul style="list-style-type: none"> ▪ combined limited water quality and limited water supply.
7.5.3	<p>Section 5.3.2.2 of the Report to be redrafted to reflect that regulated entities will not be required to pump out the tanks in their respective STED schemes once every five years in accordance with the <i>Australian Standard AS1547:2000</i>. Rather, that the regulated entities will be required to provide a discount to STED customers of 0.9ET.</p>
7.6	<p>As listed in section 7.6 of this Statement of Reasons.</p>

3 MATTERS OUTSIDE THE ECONOMIC REGULATOR'S CONTROL

A number of submissions to the draft Report raised matters that are either outside the Economic Regulator's control or are not within its legislated responsibility to address. These issues are discussed briefly in this section to recognise that they were raised during consultation on the draft Report.

In most cases there is no action listed as, due to their nature, the Economic Regulator has no control over these matters. However, many of these issues do relate to matters of State Government policy. On that basis, the Economic Regulator will write to the Treasurer and Minister for Primary Industries and Water advising them that these issues were raised during consultation on the draft Report.

3.1 Affordability

Discussion

A number of submissions raised issues around affordability of water and sewerage price, raising points such as:

- prices are too high;
- price increases should be no more than CPI;
- the Price Determination should focus on making water and sewerage prices cheap;
- prices should be lower in Tasmania due to an abundance of water; and
- the Economic Regulator has not taken account of the capacity of consumers to pay water and sewerage charges.

Due to the current varied pricing arrangements, many customers are paying significantly different prices for the same service. Therefore, the issue of affordability in the Tasmanian water and sewerage sector is complex.

The issue of affordability involves consideration of a range of socio-economic matters and is the responsibility of the State Government. It is noted that a concessions program is already in place for the industry and the level of concession is a matter of government policy.

The Economic Regulator is, however, required to take into account the impact of price increases upon customers. Such price increases are necessary to:

- ensure that the regulated entities are financially sustainable;

- be able to fund the significant investment required in the sector to address widespread issues in relation to drinking water quality and environmental and dam safety compliance; and
- begin the transition to equitable pricing arrangements where customers pay the same amount for the same service.

Consistent with its obligation, the Economic Regulator has established caps on the maximum amount that prices can be increased each year to manage the impact upon customers. Whether customers actually face price increases, and the extent of those increases, depends on what their current pricing arrangements are.

It is the legislated role of the Economic Regulator to ensure that water and sewerage pricing is rational and equitable and is reflective of efficient costs. It is not the role of the Economic Regulator to make water and sewerage less expensive, rather it is to ensure outcomes that are reflective of efficient operations in a competitive market.

Finally it is worth noting a couple of issues in response to comments raised in submissions on this issue.

Firstly, it should be noted that current average water and sewerage prices in Tasmania are amongst the lowest in the country (although it is acknowledged that there is a significant degree of variability within this average).

Secondly, it is accepted that Tasmania generally does not have significant issues in relation to sourcing water. This does not mean that water and sewerage prices should, therefore, be lower than the rest of Australia. The majority of the costs of providing water and sewerage services are fixed and are associated with the network and its supporting infrastructure, not in sourcing water. Given this, Tasmania's small and dispersed population and its topography are likely to mean that the costs of water and sewerage services may be higher than in some other states. This will be examined in more detail as part of the second Price Determination Investigation for the sector.

3.2 Concessions

Discussion

Related to issues of affordability, concession arrangements were also raised in some submissions. In particular, Anglicare Tasmania in its submission noted analysis undertaken by the Tasmanian Council of Social Services (TasCOSS), which it claimed showed that the flat rate concession applying in the water and sewerage industry is inequitable, given the varying level of prices currently paid by customers, and was not keeping pace with price increases.

Anglicare did acknowledge that concession arrangements are not a matter for the Economic Regulator. This is correct and the level and design of the concession arrangements to apply to the industry is a matter for State Government policy.

3.3 Returns to owners

Discussion

A number of submissions also expressed concerns with the level of returns being provided to owner councils and the expected growth in these returns. Many of these comments suggested that dividends to owners should be suspended until the regulated entities have addressed the regulatory compliance issues currently facing the industry and equitable pricing arrangements have been achieved.

The regulated entities considered that issues around dividend payments were not a matter for consideration by the Economic Regulator. However, they did consider that, if the Report is to present information on dividends, then it should also present data on expected returns to owner councils from income tax equivalent payments and guarantee fees to ensure a more complete overview of the total returns to owners.

Dividend payments are not a matter within the Economic Regulator's control. Dividend payments are determined by the Board of each regulated entity in line with the requirements of the *Water and Sewerage Corporations Act 2008*. The Economic Regulator has no role in relation to the administration of this Act. The Economic Regulator does, however, have a role in transitioning revenue received by the regulated entities to ensure that an appropriate risk-based return to owners can be provided as well as there being sufficient funds to address regulatory compliance issues. However, these outcomes will take time to achieve fully.

Decision

The Economic Regulator notes that it has no legislated responsibility in relation to the payment of dividends to owner councils. The issue of returns to owners was raised by the Economic Regulator due to interest from stakeholders and to inform public debate. For this reason, the Economic Regulator agrees with the alternative suggestion from the regulated entities that Table 4.32 in the Report should be amended to show all expected returns to owners from the regulated entities including dividends, income tax equivalent payments and guarantee fees.

3.4 Economic development

Discussion

The Mayor of the West Coast Council, Mr Darryl Gerrity, raised in his submission that the reform process was having an adverse effect on investment and economic activity. It is considered that equitable cost-reflective process will promote certainty for investors and will ensure that those who place additional demands on the water and sewerage system meet the cost of doing so.

The Economic Regulator has no statutory responsibilities or powers to attempt to deliver implicit industry assistance through water and sewerage prices. This is a

role for elected governments through direct assistance funded from their revenue sources, such as taxes and rates.

3.5 Regulated entities' governance arrangements

Discussion

Some submissions raised issues with the structure of the regulated entities (whether they should be amalgamated into one state-wide corporation) or raised detailed matters in relation to the make-up and responsibilities of Board members.

Governance and structural arrangements are important issues and have been subject to detailed consideration by a recent Parliamentary Select Committee Inquiry. The proposal to amalgamate the three water and sewerage corporations is currently being debated within the community. However, these matters are governed by the provisions of the *Water and Sewerage Corporations Act 2008* and the Economic Regulator has no powers or responsibilities in relation to such issues.

3.6 Local Government Reform

Discussion

Some submissions also raised comments on the need for local government reform, in the context of the structure of the regulated entities.

This issue is much wider than the regulation of the Tasmanian water and sewerage industry and is not a matter for the Economic Regulator.

4 REVISED TRANSITIONAL CUSTOMER SERVICE STANDARDS

The regulated entities were required to propose transitional customer service standards as part of their proposed Price and Service Plans which establish a transition path to achieving the minimum service standards specified in the Customer Service Code.

In its draft Report, the Economic Regulator recommended accepting the transitional customer service standards, subject to consultation, but noted that a number of the standards proposed appeared ambitious in terms of whether they could be achieved. The Economic Regulator also recommended that the proposed Price and Service Plan for Cradle Mountain Water be amended to remove the inference that it could reassess its transitional service standards during the first regulatory period.

In their submissions to the draft Report, each of the regulated entities has proposed revised transitional customer service standards, acknowledging that some of the standards included in their proposed Price and Service Plans may have been overly optimistic.

The revised transitional customer service standards proposed by each regulated entity are discussed separately below.

4.1 Ben Lomond Water

Discussion

Ben Lomond Water has also proposed widespread changes to its proposed transitional customer service standards based on the same reasons as the other two regulated entities.

The revised transitional customer service standards proposed by Ben Lomond Water are contained in Table 4.1.

Table 4.1 Ben Lomond Water – proposed revised transitional service standards

Service standards	Target minimum service standard	Current performance	2012-13	2013-14	2014-15
Water					
Unplanned water supply interruptions (per 100km of water main)	32	40	39	38	37
Average time taken to attend bursts and leaks – Priority 1 (minutes)	30	45	60	55	50
Average time taken to attend bursts and leaks – Priority 2 (minutes)	120	103	120	120	120
Average time taken to attend bursts and leaks – Priority 3 (minutes)	1 440	91	1 440	1 440	1 440
Average frequency of unplanned water supply interruptions (number)	0.10	0.21	0.25	0.23	0.20
Average frequency of planned water supply interruptions (number)	0.10	0.07	0.25	0.20	0.15
Average unplanned customer minutes off water supply (minutes)	20	14	20	20	20
Average planned customer minutes off water supply (minutes)	15	12	30	30	25
Average duration of unplanned water supply interruption (minutes)	100	N/A	180	170	160
Average duration of planned water supply interruption (minutes)	180	N/A	300	280	260
Unplanned water supply interruptions restored within five hours (per cent)	98	N/A	75	80	85
Planned water supply interruptions restored within five hours (per cent)	95	72	75	78	82
Number of customers receiving more than five unplanned water supply interruptions in a financial year (number)	0	N/A	250	250	250
Unaccounted for water (per cent)	10	N/A	25	25	20
Sewerage					
Sewer breaks and chokes (per 100km of sewer main)	28	63.8	60	55	50
Average time to attend sewer spills, breaks and chokes (minutes)	41	N/A	70	65	60
Average sewerage service interruption (minutes)	150	N/A	240	230	220
Sewerage spills contained within five hours (per cent)	99	N/A	90	90	92
Customers receiving more than three sewerage service interruptions per year	0	N/A	250	250	250
Customers					
Total water and sewerage complaints (per 1 000 properties)	9	N/A	9	9	9
Water and sewerage complaints to Ombudsman (per 1 000 customers)	0.50	N/A	0.50	0.50	0.50

Service standards	Target minimum service standard	Current performance	2012-13	2013-14	2014-15
Water					
Percentage of calls answered by an operator within 30 seconds	90	N/A	70	75	80

In relation to the revised transitional customer service standards proposed by Ben Lomond Water, it is considered that the majority are appropriate as they meet the basic requirements of establishing a service improvement path that is likely to see the minimum service standards targets in the Code met by the end of the second regulatory period.

The two exceptions are shaded in the above table. For both these measures the transitional standards proposed do not show any service improvement over the first regulatory period. However, for similar reasons as raised by Southern Water, it is expected that these service standards will improve significantly in the second regulatory period.

Decision

The Economic Regulator has decided to approve the revised transitional customer service standards proposed by Ben Lomond Water.

4.2 Cradle Mountain Water

Discussion

Cradle Mountain Water has also proposed widespread changes to its proposed transitional customer service standards. The changes reflect an increase in the knowledge of current performance, accepting that this is still based on data with reliability issues, and the fact that the initial standards proposed may have been overly optimistic in terms of their achievability.

The revised transitional customer service standards proposed by Cradle Mountain Water are contained in Table 4.2.

Table 4.2 Cradle Mountain Water – proposed revised transitional service standards

Service standard	Target minimum service standard	Current performance	2012-13	2013-14	2014-15
Water					
Unplanned water supply interruptions (per 100km of water main)	32	70	70	68	65

Service standard	Target minimum service standard	Current performance	2012-13	2013-14	2014-15
Average time taken to attend bursts and leaks – Priority 1 (minutes)	30	49	49	45	30
Average time taken to attend bursts and leaks – Priority 2 (minutes)	120	N/A	120	120	120
Average time taken to attend bursts and leaks – Priority 3 (minutes)	1 440	N/A	1 440	1 440	1 440
Average frequency of unplanned water supply interruptions (number)	0.10	0.142	0.25	0.23	0.20
Average frequency of planned water supply interruptions (number)	0.10	0.07	0.25	0.20	0.15
Average unplanned customer minutes off water supply (minutes)	20	20.1	25	25	20
Average planned customer minutes off water supply (minutes)	15	25.7	30	30	25
Average duration of unplanned water supply interruption (minutes)	100	120	180	170	160
Average duration of planned water supply interruption (minutes)	180	180	200	200	180
Unplanned water supply interruptions restored within five hours (per cent)	98	96	95	95	96
Planned water supply interruptions restored within five hours (per cent)	95	94	90	91	93
Number of customers receiving more than five unplanned water supply interruptions in a financial year (number)	0	N/A	250	250	250
Unaccounted for water (per cent)	10	N/A	25	25	20
Sewerage					
Sewer breaks and chokes (per 100km of sewer main)	28	50	60	55	50
Average time to attend sewer spills, breaks and chokes (minutes)	41	48	70	65	60
Average sewerage service interruption (minutes)	150	165	240	230	200
Sewerage spills contained within five hours (per cent)	99	99	97	97	98
Customers receiving more than three sewerage service interruptions per year	0	N/A	250	250	250
Customers					
Total water and sewerage complaints (per 1 000 properties)	9	0.59	9	9	9
Water and sewerage complaints to Ombudsman (per 1 000 customers)	0.50	0	0.50	0.50	0.50
Percentage of calls answered by an operator within 30 seconds	90	60	60	70	80

In relation to the revised transitional customer service standards proposed by Cradle Mountain Water, it is considered that the majority are appropriate as they meet the basic requirements of establishing a service improvement path that is likely to see the minimum service standards targets in the Code met by the end of the second regulatory period.

The two exceptions are shaded in the above table (these are the same measures that were highlighted for Ben Lomond Water). For both these measures the transitional standards proposed do not show any service improvement over the first regulatory period. However, for similar reasons as raised by Southern Water, it is expected that these service standards will improve significantly in the second regulatory period.

In addition to the above matters, it is noted that Cradle Mountain Water, in its submission to the draft Report, accepted the Economic Regulator's recommendation that its Price and Service Plan should be amended to remove any inference that it can reassess the transitional customer service standards during the first regulatory period.

Decision

The Economic Regulator has decided to approve the revised transitional customer service standards proposed by Cradle Mountain Water.

4.3 Southern Water

Discussion

In its submission to the draft Report, Southern Water has proposed widespread changes to its proposed transitional customer service standards. The changes reflect an increase in the knowledge of current performance, accepting that this is still based on data with reliability issues, and the fact that the initial standards proposed may have been overly optimistic in terms of their achievability.

The revised transitional customer service standards proposed by Southern Water are contained in Table 4.3.

Table 4.3 Southern Water –proposed revised transitional service standards

Service standard	Target minimum service standard	Current performance	2012-13	2013-14	2014-15
Water					
Unplanned water supply interruptions (per 100km of water main)	32	40	40	39	38
Average time taken to attend bursts and leaks – Priority 1 (minutes) ¹	30	35	45	44	43
Average time taken to attend bursts and leaks – Priority 2 (minutes) ²	120	N/A	120	120	120
Average time taken to attend bursts and leaks – Priority 3 (minutes) ³	1 440	N/A	4 320	4 320	4 320
Average frequency of unplanned water supply interruptions (number)	0.10	N/A	0.25	0.25	0.25
Average frequency of planned water supply interruptions (number)	0.10	N/A	0.25	0.20	0.15
Average unplanned customer minutes off water supply (minutes)	20	N/A	30	30	30
Average planned customer minutes off water supply (minutes)	15	N/A	30	30	30
Average duration of unplanned water supply interruption (minutes)	100	N/A	180	170	160
Average duration of planned water supply interruption (minutes)	180	302	300	280	260
Unplanned water supply interruptions restored within five hours (per cent)	98	95	75	80	85
Planned water supply interruptions restored within five hours (per cent)	95	41	50	55	60
Number of customers receiving more than five unplanned water supply interruptions in a financial year (number)	0	N/A	250	250	250
Unaccounted for water (per cent)	10	N/A	25	24	23
Sewerage					
Sewer breaks and chokes (per 100km of sewer main)	28	65	63	61	59
Average time to attend sewer spills, breaks and chokes (minutes)	41	78	75	65	60
Average sewerage service interruption (minutes)	150	N/A	180	180	180
Sewerage spills contained within five hours (per cent)	99	91	92	93	94
Customers receiving more than three sewerage service interruptions per year	0	N/A	250	250	250
Customers					
Total water and sewerage complaints (per 1 000 properties)	9	8.28	9	9	9

Service standard	Target minimum service standard	Current performance	2012-13	2013-14	2014-15
Water and sewerage complaints to Ombudsman (per 1 000 customers)	0.50	0.22	0.50	0.50	0.50
Percentage of calls answered by an operator within 30 seconds	90	67	75	80	85

Notes:

¹ Priority 1 is a burst or leak that causes, or has the potential to cause, substantial damage or harm to customers, water quality, flow rate, property or environment.

² Priority 2 is a burst or leak that causes, or has the potential to cause, minor damage or harm to customers, water quality, flow rate, property or environment.

³ Priority 3 is a burst or leak that causes no discernable impact on customers, property or the environment.

N/A - data is not available

In relation to the revised transitional customer service standards proposed by Southern Water, it is considered that the majority are appropriate as they meet the basic requirements of establishing a service improvement path that is likely to see the minimum service standards targets in the Code met by the end of the second regulatory period.

Five measures have been highlighted in the above table as they either show no compliance improvement in the first period and/or appear unlikely to meet the minimum service standard target by the end of the second period. Southern Water noted that for these measures it is likely to take time to see improvement due to the legacy of infrastructure deficiency or the need to obtain sufficient data from water meters to identify low priority leaks. Southern Water remains confident that these measures will show significant improvement in the second regulatory period and will achieve the minimum service standard targets by the end of that period.

Decision

The Economic Regulator has decided to approve the revised transitional customer service standards proposed by Southern Water.

5 REVENUE LIMITS

5.1 Inflation rate

In its draft Report, the Economic Regulator proposed the regulated entities apply a consistent inflation rate of 2.6 per cent per annum over the first regulatory period.

In their submissions on the draft Report, both Cradle Mountain Water and Southern Water considered the Economic Regulator should justify the use of an expected inflation rate of 2.6 per cent and suggested that, given the CPI forecasts in the Tasmanian Treasury Mid-Year Financial Report (February 2012) are 3.0 per cent for 2012-13 and 2.75 per cent for 2013-14 and 2014-15, the Economic Regulator should adopt an expected inflation rate of at least 2.75 per cent for the first regulatory period.

In addition, they proposed the Final Report discuss the likely treatment in the second price determination of under or over recovery of revenue from charges that were indexed by the expected inflation rate during the first regulatory period.

Ben Lomond Water accepted the Economic Regulator's expected inflation rate of 2.6 per cent, but proposed that the charges be reset at the commencement of the second regulatory period based on the actual inflation rates.

Discussion

There is consensus among Australian regulators to use a single national inflation figure for infrastructure price determinations. The rationale being that it is the general inflation level faced by a notional company operating in a competitive market. Additionally, a single national inflation figure is less influenced by factors such as small sample size that may distort regional inflation figures.

There is, however, no consensus among Australian regulators on the approach to determining long term inflation forecasts with regulators using both market and non-market approaches.

In the absence of access to reliable market data, the Economic Regulator uses the AER methodology which references the RBA's short term inflation forecasts that currently extend out two years, and then adopt the mid-point of the RBA's target inflation band for a further eight years. Based on a geometric mean, this results in an expected inflation rate of 2.6 per cent.

The mechanism, if any, to account for under or over recovery of revenue as a result of the actual inflation rate differing from the expected inflation rate during the first regulatory period, is a matter for the second Price Determination Investigation. Miscellaneous fees will be set on the basis of the recovery of efficient costs at that time.

Decision

No action required.

5.2 Asset values

In his submission, Mr Greg Cooper queried whether the original regulated asset base calculations were correct; whether asset renewal annuity calculations are in line with known infrastructure renewals and upgrades; and whether these figures need to be reassessed by the Economic Regulator.

Discussion

The regulated entities' assets were independently valued during the 2009-10 financial year. The Economic Regulator is, therefore, reasonably confident that the asset values have been determined on an appropriate basis.

The Economic Regulator assessed the regulated entities' proposed asset renewal annuities in terms of both proposed capital expenditure over the first regulatory period and the feasibility of achieving the proposed expenditure profile. The Economic Regulator adjusted all three regulated entities' annuities downwards to correct calculation errors or remove unrealistic expenditure profiles due to the recognition of past under expenditure.

The regulated asset base and asset renewal annuity will not affect pricing during the first regulatory period as prices are determined by the application of price constraints. Both the regulated asset base and the asset renewal annuity will be subject to independent review for the second Price Determination Investigation.

Decision

No action required.

5.3 Contributed assets

In his submission, Mr Mike Griffiths suggested that alternatives to increasing revenues could have been considered including increasing third party capital contributions (developers or government), decreasing costs or a mix of these measures.

Furthermore, Mr Griffiths stated that any return on assets should exclude all past third party contributions. Further, future cash flows for new capital projects should include third party capital contributions and revenues derived only from the customers who benefit from the project.

Discussion

In theory a higher level of third party capital contributions may reduce the need for revenue increases. However, the level of third party contributions is not up to the

Economic Regulator and is a matter for negotiation between the relevant regulated entity and those third parties.

The Economic Regulator acknowledges that some assets transferred to the regulated entities were gifted to the owner councils by developers or were acquired through government grants. However, it is neither feasible nor practical to accurately account for assets provided by third parties prior to the reform process or to determine the current state of those assets.

The *Water and Sewerage Industry Amendment Act 2011* addressed this issue by effectively establishing two separate values for the rate of return on assets; that is, new assets will be subject to a commercial rate of return on assets whilst existing assets will be subject to a lower rate of return on assets. The return on equity component of the return on assets for existing assets is legislated to have a pre-tax value of three per cent.

Therefore, regulated entities will not be able to earn a full commercial return on any assets transferred to them from councils (whether they were gifted or not) until those assets are replaced. Going forward, the Economic Regulator will exclude the value of contributed assets from the regulated asset base so that neither a return on assets, nor a return of assets, can be earned in relation to those assets.

Cash flows for new capital projects include third party capital contributions but the capital expenditure included in the regulated asset base and used to determine the rate of return, is net of third party capital contributions.

Decision

No action required.

5.4 Depreciation

In its draft Report, the Economic Regulator queried the useful life adopted by Cradle Mountain Water for its new assets and consequently the higher depreciation rate applied to those assets.

In its submission, Cradle Mountain Water proposed a revised useful life of 28 years for new assets compared to 60 and 61 years proposed by Ben Lomond Water and Southern Water respectively. This useful life results in a depreciation rate of 3.57 per cent for Cradle Mountain Water compared to 1.67 per cent and 1.64 per cent for Ben Lomond Water and Southern Water respectively.

Discussion

Cradle Mountain Water used an "asset class useful life" over the price determination period to determine its useful life for new assets, which ensures that its useful life reconciles with that reported in its financial statements. In contrast, the useful life of Ben Lomond Water and Southern Water's assets is based on independently

determined Depreciated Optimised Replacement Cost (DORC) asset values and respective asset useful lives.

Decision

To assist comparisons between the regulated entities, the Economic Regulator has decided to adopt a useful life for Cradle Mountain Waters' new assets of 60 years. The Economic Regulator does not intend recalculating the required revenues as these do not determine prices for the first regulatory period.

5.5 Operating expenses

5.5.1 Efficiency

In their submissions Nekon Pty Ltd and Mr Mike Griffiths commented that the regulated entities' operating and maintenance expenditure needed to be reviewed and efficiencies imposed. Mr Griffiths also commented that stricter budgetary controls need to be exerted to reduced operating and maintenance costs by 10 per cent over the next two years.

Discussion

During the first regulatory period, revenue requirements and consequently prices will not be determined based on an assessment of efficient costs i.e. prices will be determined on the basis of constraints on price changes as regulated entities manage both the impact of price changes on customers and the transition to higher levels of cost recovery. Operating and maintenance expenditure will be independently assessed as part of the second price determination investigation.

Decision

No action required.

5.5.2 Benchmarking

The draft Report benchmarked the individual regulated entities' water and sewerage operating costs against comparable mainland providers based on 2009-10 National Performance Report (NPR) data which was the latest available at the time of publication of the draft Report.

In doing so the Economic Regulator noted that it was difficult to identify comparable providers due to the large number of possible comparison criteria.

M Walker queried why the draft Report did not provide comparisons to other communities of similar size elsewhere in the world.

In its submission, Southern Water contended that Cairns Water was not a good comparator as it operated a gravity feed system compared to Southern Water's system which required a significant number of pumping stations and

consequentially, was relatively more expensive to operate. Cradle Mountain Water also considered that the operations of two other mainland providers – Wannon Water and North East Water – were more comparable with Cradle Mountain Water in terms of the number of connected customers, the number of treatment plants and the delivery of services over a wide geographic area.

Discussion

As was noted in the draft Report, it was difficult to identify comparable providers within Australia upon which to benchmark operating costs. These difficulties would have been compounded if comparisons were attempted against international providers.

The Economic Regulator has reviewed the comparability of the mainland providers based on the comments made by the regulated entities. In response, the Economic Regulator has decided to adopt some changes in the criteria for selecting comparable providers i.e. assets, network size and number of treatment plants rather than basing the selection of comparators on assets and population serviced. This has resulted in some changes to the comparable providers used for benchmarking.

With the 2010-11 NPR data now being available, the Economic Regulator has also decided to present the comparisons on the basis of this more recent data.

Decision

Update the tables in section 4.3.3.1 of the Report to reflect 2010-11 NPR data.

Change the relevant tables in section 4.3.3.1 so that Southern Water is benchmarked against Barwon Water and Cradle Mountain Water is benchmarked against Wannon Water and North East Water.

5.6 Capital expenditure

Ms Robyn Gerrity and Mr Mike Griffiths submissions addressed issues relating to the regulated entities' capital expenditure.

Ms Gerrity submitted that, as the draft pricing investigation did not require the corporations to show future capital expenditure, to help alleviate state-wide ratepayers contributing to new water and sewerage expansions a 'Construction Rate' clause should be inserted into the Industry Act as was previously in the *Local Government Act 1993*.

Mr Griffiths submitted that capital expenditure should be justified at the time of commitment (by a discounted cash flow analysis). Future cash flows for new capital projects should include the capital contributions and increased future revenues derived only from the customers who benefit from the project. Mr Griffiths also contends that Southern Water's capital expenditure is unsustainable and suggests that almost all of the increase capital expenditure will be serviced by

cross-subsidisation from existing urban ratepayers. Capital expenditure should be funded by the government if the expenditure is necessary for health reasons.

Discussion

Service introduction and developer charges are location specific and ensure that customers who benefit from the new project finance the project. The remaining prices are consistent across each region. This reflects the fact that significant capital expenditure is required across each region to address widespread problems with existing infrastructure resulting from years of underinvestment in infrastructure. Therefore, the capital expenditure is financed by customers benefitting from the expenditure.

Each regulated entity has an Asset Management Plan and capital expenditure is discussed with other industry regulators, subject to discounted cash flow analysis and supported by a business case.

Decision

No action required.

5.7 Full cost recovery

In his submission, Mr Mike Griffiths suggested that prior to the reforms, the regional water authorities were making a profit such that things should have been left as they were or customer charges reduced. Mr Griffiths went on to state that Southern Water had redefined full cost recovery to refer to revenue sufficient to cover depreciation, operating and maintenance expenses and return on capital whereas, in his view, full cost recovery means returning a net profit.

Discussion

Full cost recovery is a regulatory term and is distinct from financial or accounting concepts of profit. The term has not been redefined by Southern Water or either of the other two regulated entities. These are concepts required under the National Water Initiative (NWI) and are being implemented by the Economic Regulator.

Whilst the former regional water authorities may have been making a profit, the former GPOC investigation into the pricing policies of the regional water authorities found that:

“To achieve the recommended minimum rate of return (i.e. 4.5 per cent on pre 1998 assets and seven per cent on post 1998 assets), the projected revenues would need to be raised by approximately 12 per cent for Hobart Water, 33 per cent for Esk Water and 21 per cent for Cradle Coast” (BULK WATER PRICING POLICIES INVESTIGATION 2007 – FINAL REPORT - page V).

It is, therefore, clear that the previous bulk water authorities were under recovering revenue. Subsequent investigations by the Economic Regulator confirmed that councils were also under recovering revenue as part of the water and sewerage services they provided. Therefore, it is no surprise that the regulated entities are unsustainable at current revenue levels.

Decision

No action required.

6 PRICE REFORM APPROACH

6.1 Water meters

Several submitters commented on different aspects of metering. A number of these submissions related to site specific issues which need to be resolved directly with the relevant regulated entity.

Another submitter, Mr Mike Griffiths referred to previous research undertaken by Hobart Water and questioned whether the water meter installation project in the south of the State was justifiable.

Discussion

The Industry Act requires the regulated entities to implement two-part pricing from 1 July 2012. Moving to two-part pricing requires, in turn, the installation of meters to measure the volume of water used by each customer.

The Economic Regulator notes that the installation of meters in the south of the State was supported by a business case which justified their installation.

Decision

No action required.

6.2 Treatment of customers paying above the target tariff

The regulated entities have the objective of transitioning customers to the various target tariffs as soon as possible although their particular focus varies. Cradle Mountain Water's focus is on transitioning customers to the fixed water and fixed sewerage tariffs by 30 June 2015 whilst Southern Water and Ben Lomond Water both have the primary objective of moving customers to the volumetric target tariff by that date.

In its draft Report, the Economic Regulator noted that not all customers will be transitioned to the target tariff over the first regulatory period due to:

- the extent of price differences and cross-subsidies inherited from councils;
- the current financial unsustainability of the regulated entities due to past revenue under recovery by councils; and
- the need to manage the impacts of price increases upon customers.

For these reasons, the Economic Regulator noted that unwinding cross-subsidies and moving all customers to uniform tariffs is likely to extend well beyond the first regulatory period.

For the majority of customers this involves being moved up to the target tariff in accordance with the proposed price transition arrangements.

However, in the area covered by the Kentish Council, previous charging arrangements by that council mean that the majority of customers are already above the target tariff (in many cases to a significant extent). To achieve Cradle Mountain Water's reform objective these customers need to be moved down to the target tariff. In its draft Report, the Economic Regulator has proposed moving these customers directly to the water target tariff. This decision was made noting the relatively small number of customers involved and, consequently, the relatively small amount of revenue loss for Cradle Mountain Water.

The following submitters raised concerns, from an equity point of view, about customers currently paying above the respective target tariffs continuing to pay above the target tariffs for two of the three years covered by the first price determination:

- Mr John Macleod;
- Mr Tony Hodgson; and
- TasCOSS.

A submitter who requested their name be withheld also commented on this issue.

Mr Macleod also queried whether the reduction for those customers paying above the target tariff could occur at a faster rate.

Discussion

The Economic Regulator is aware of the considerable price differences that exist across the municipalities serviced by all three regulated entities. This is a legacy of the various different pricing methods used by councils prior to the reform of the industry. This situation will be resolved through price reform.

Ideally, those customers paying above the target tariff should be brought down to the target tariff. However, this transition needs to be managed in the context of ensuring the viability of the corporations. In this regard, the regulated entities have also argued that moving customers above the target tariff to the target immediately would have significant adverse impacts upon their revenue and, therefore, financial viability.

The legislated requirement to manage the impact of price changes on customers restricts the ability to achieve tariff reform by decreasing prices for some while increasing prices for others. This means that the tariff reform process will take time. There is also a lack of detailed information about the distribution of customers around the target tariff.

The only other available options would be to adopt higher target tariffs (meaning that some customers that would otherwise have their prices frozen, will face increasing

charges), or through the application of higher price constraints which may lead to price shocks for some customers.

In summary, due to the issues outlined above, the Economic Regulator considers that the proposed treatment of customers currently paying above the target tariff to be the most appropriate way to achieve tariff reform in the first regulatory period whilst managing the impact of price increases on customers in general.

However, in terms of the transition period specified in the Industry Act, it is intended that cost reflective pricing will be fully implemented by 30 June 2020. Achieving this outcome will require customers above the target tariff to be transitioned down to the target tariff by the end of the second regulatory period.

Decision

No action required.

6.3 Cross-subsidies

6.3.1 Non-residential customers

Urbis and the Property Council of Australia both raised concerns about non-residential customers continuing to cross-subsidise residential customers through the imposition of water and sewerage prices based on property values.

Urbis's submission refers also to the Tasmanian water corporations' continued reliance on inflated charges levied predominantly on non-residential customers and to the apparent lack of intention to address this situation during the first regulatory period.

Discussion

The Economic Regulator recognises there are significant inequities in the current pricing arrangements. Reductions in charges will commence in the third year of the first regulatory period and the ultimate objective is to have the same price apply for the same service.

This will take time, due to the need to manage price increases on customers and maintain the financial viability of the corporations.

Whilst it is highly desirable and the ultimate aim of the industry reforms to move those customers paying above the target tariff down to the target tariff, to do so immediately would likely lead to the regulated entities becoming unviable.

The Economic Regulator understands that during the transition to equitable cost reflective pricing, there is likely to be price disparities between existing and new non-residential customers. To some extent such disparities in price have always existed due to the varying pricing regimes implemented by councils. As noted above in section 6.2, it is intended that these disparities will be resolved by the end of the transition period on 30 June 2020.

Decision

No action required.

6.3.2 Customers with adequate infrastructure paying for customers with inadequate infrastructure

Three submitters (Mr Mike Griffiths, M Walker and a submitter who requested their name be withheld) raised concerns about customers who have paid for completely adequate water and sewerage systems in their areas being expected to subsidise those in other areas who had paid little or nothing in the past.

Discussion

As noted in the 2010-11 State of the Industry Report (SOIR), regulatory compliance issues are widespread and there is no area within the State that has completely adequate water and sewerage system which complies with all regulatory compliance obligations.

Service introduction and developer charges are location specific and ensure that customers who benefit from the new project finance the project. The remaining prices are consistent across each region. This reflects the fact that significant capital expenditure is required across each region to address widespread problems with existing infrastructure resulting from years of underinvestment in infrastructure. Therefore the capital expenditure is financed by customers benefitting from the expenditure.

Decision

No action required.

6.4 Transition from property value based pricing to two-part pricing

Submissions from Mr Michael Loughland and Mr John Macleod suggested that the draft Report had not clearly explained how the regulated entities intended transitioning customers from property value (i.e. AAV) based pricing to two-part pricing where those customers were paying above the respective target tariffs.

Discussion

Property value based pricing covers both fixed and variable components. However under this pricing methodology, the variable component is not explicit. With the transition to two-part pricing, water bills issued to customers after 1 July 2012 will clearly differentiate between the fixed charge and the variable water usage charge.

To convert to two-part pricing from property based pricing, it is necessary, therefore, to separate the water bill into fixed and variable components. The regulated entities propose to do this by reducing each customer's 2011-12 water charge based on the average expected regional water usage multiplied by the \$0.90/kL usage charge

and then charging customers for the water they actually use. For a 20mm connection the average expected regional water usage per household will be 200kL per annum. This amount is scaled up for larger connection sizes using the connection size usage ratios (CSUR) adopted for fixed target tariffs.

The variable water usage charge will be determined by a water meter measuring the volume of water actually used.

The same approach is proposed where a customer's 2011-12 water charge is above the 2012-13 target tariffs. For example, if a customer's 2011-12 water bill is \$1 500, it will be reduced by the assumed variable component of \$180 (200kL at \$0.90/kL). As the balance of \$1 320 exceeds the fixed water target tariff, the fixed component will be maintained at that level for 2012-13 and 2013-14 before reducing by five per cent in 2014-15. If the customer uses more than the assumed regional average of 200kL, further variable charges will be imposed at the rate of \$0.90/kL.

Decision

Include an explanation of the proposed method of transitioning customers who are currently paying above the target tariff from property value based pricing to two-part pricing in section 5.4.10.1 of the Report.

6.5 Removal of free water allowances

Derek Walter submitted that a volume of water equivalent to the average daily consumption for basic drinking, cooking and cleaning purposes should be supplied free of charge to each residential property.

Discussion

A number of councils provided free water allowances whereby customers were not charged a variable charge for water usage up to a defined limit.

Whilst described as "free water allowances", these allowances are better described as "compulsory water allowances" as the cost of providing this volume of water is recovered through the fixed charge, regardless of actual water usage. The existence of free water allowances therefore creates a cross-subsidy where low water volume users subsidise high water volume users.

The pricing principles require the regulated entities to move to two-part pricing from 1 July 2012 which means that, under law, the free water allowances inherited from the respective councils must be removed.

Decision

No action required.

6.6 Fire service charges

The draft Report and draft Price Determinations outlined the fire service target tariffs proposed by each regulated entity.

In its submission, the Property Council of Australia raised concerns that the regulated entities were intending to impose the proposed fire service charges as an additional impost on top of existing fixed water charges.

Discussion

The Economic Regulator concedes that the draft Report and draft Price Determinations did not explain how each regulated entity intended removing existing fire service charges from the fixed water charges and, for this reason, fully appreciates the Property Council of Australia's perspective on this issue.

The issue of transition was, however, covered in each regulated entity's submission on the draft Report with each submission providing the following explanation as to how existing fire service charges were intended to be removed from the fixed water charges as follows:

- by reducing the current fixed water charge by the applicable fire service target tariff; and
- if the current fixed water charges do not allow the full fire service target tariff to be split out, fixed water and fire service charges will be increased by the greater of [(\$50 x CSUR) or 10 per cent].

The Economic Regulator considers the proposed approach appropriate and is satisfied that adopting this methodology will ensure that the fire service charge is not levied as an additional charge.

Decision

Include in section 5.4.6 of the Report a description of the method for adjusting the fixed water charge to account for the applicable fire service charge.

Revise the Price Determination for each regulated entity to include the formula for adjusting the fixed water charge to account for the applicable fire service charge.

6.7 Trade waste

The Department of Primary Industries, Parks, Water and Environment's (DPIPWE) submission noted that the standard customer contract did not address how each regulated entity intends transitioning existing trade waste customers to the proposed new trade waste target tariffs.

DPIPWE also queried whether the proposed trade waste charges to be imposed on category 1 and 2 trade waste customers were additional to standard sewerage charges for those customers.

Submissions lodged by DPIPWE and by the regulated entities also indicated that the references to category 3 and 4 trade waste customers in Schedule 4 of each regulated entity's Price Determination should be removed as these customers were subject to section 61 trade waste agreements rather than operating under regulated trade waste tariffs.

Discussion

The Economic Regulator does not consider that the standard customer contract should address how each regulated entity intends transitioning existing trade waste customers to the proposed new trade waste target tariffs; i.e. this issue is better dealt with in the Price Determinations.

In this regard, each regulated entity has provided the following explanation in their submissions on the draft Report as to how it intends removing existing trade waste charges from sewerage charges and applying new trade waste charges from 1 July 2012:

- new trade waste customers will move directly to their applicable trade waste tariffs;
- for existing categories 1 and 2 trade waste customers who receive a trade waste service but who historically have not been levied a separate charge for a trade waste service the following transition process will apply:
 - trade waste charges will be introduced by reducing the actual sewerage service charge by the applicable trade waste target tariff.
 - in the event the current sewerage charges do not allow for the full trade waste target tariff to be split out, the resulting sewerage and trade waste charges will each increase under the applicable price constraints (i.e. the greater of \$50 or 10 per cent multiplied by the number of ETs assessed for the property).

The Economic Regulator considers the proposed transition approach for trade waste customers to be appropriate.

The Economic Regulator agrees with the proposal to remove references to category 3 and 4 trade waste customers from Schedule 4 of each regulated entity's Price Determination.

Decision

Include in section 5.5.3 of the Report a description of the method for adjusting the fixed sewerage charge for category 1 and 2 trade waste customers to account for the applicable trade waste charge.

Revise the Price Determination for each regulated entity to include the formula for adjusting the fixed sewerage charge for category 1 and 2 trade waste customers to account for the applicable trade waste charge.

Remove references to category 3 and 4 trade waste customers from Schedule 4 of the respective Price Determinations.

6.8 Annual price increases

In its draft Report and draft Price Determinations, the Economic Regulator proposed accepting the regulated entities' proposal to increase target tariffs by six per cent per annum for the first regulatory period.

In response, the following submitters suggested that water and sewerage prices should not increase annually by more than CPI:

- Northern Midlands Council;
- Mr Mike Griffiths; and
- Mr Daryl Gerrity.

Discussion

Increasing prices at CPI will not allow the regulated entities to earn sufficient revenue to become financially sustainable; to fund the significant capex required to address non-compliance with regulatory requirements and would prevent the necessary reforms to achieve equitable cost reflective pricing.

Price increases of the proposed magnitude are required to remedy decades of under-investment in water and sewerage infrastructure.

Decision

No action required.

6.9 Reform timeline

Submissions from Urbis Valuations and M Walker raised concerns about the reform timeline; Urbis seeking a faster transition to price parity to remove the cross-subsidisation provided by non-commercial customers by the end of the second regulatory period (i.e. 30 June 2020) whilst M Walker suggested that a reform timeline of three years was too short.

Discussion

It is not intended that pricing parity will be achieved by the end of the first regulatory period; i.e. it will take much longer than that due to the extent of the differing pricing structures inherited from councils and the need to manage the impact on customers.

Longer term price transition paths are not a matter for this price determination. This is an issue for future price determinations when the factors prevailing at that time can be taken into account.

However, in terms of the transition period specified in the Industry Act, it is intended that cost reflective pricing will be fully implemented by 30 June 2020. To achieve this will require customers above the target tariff to be transitioned down to the target tariff by the end of the second regulatory period.

Decision

No action required.

6.10 Equivalent Tenements

The assessment of Equivalent Tenements (ETs) forms the basis for calculating and imposing sewerage and trade waste charges and may vary according to the use of the property.

The draft Report made specific reference to the requirement for ETs to be set at the start of each financial year and not be changed partway through a financial year in the interests of providing certainty to customers.

6.10.1 Assessment of ETs by 30 June 2012

The Economic Regulator's draft Report required, in the interests of providing certainty to customers, an undertaking from the regulated entities to have assessed all ETs by 30 June 2012.

Discussion

In their submissions each regulated entity proposed that this requirement be reworded so as there was an undertaking that ETs be assessed/calculated prior to the start of the billing cycle.

The Economic Regulator considers the proposed undertaking to be appropriate in that it still provides certainty to customers noting that ETs may change partway through a year due to a change of use of the property.

Decision

That the final paragraph of section 5.4.11 in the Report be replaced with the following paragraph:

“Noting that each regulated entity has provided an undertaking that it will complete the calculation of ETs on or before a customer’s first quarterly account billing cycle of the first regulatory period, the Economic Regulator accepts the regulated entities’ approach with respect to ETs noting in particular that the price constraints will minimise customer impacts”.

6.10.2 Change of ETs partway through a financial year

In their submissions, the regulated entities accepted the requirement that ETs not be changed partway through a financial year other than where a property underwent a change of use.

Ben Lomond Water and Cradle Mountain Water suggested the following rewording of the reference to ETs in section 5.4.11 of the Report:

“The Economic Regulator considers it essential that customers have certainty with respect to prices and it is highly desirable for ETs to be set at the beginning of the Price Determination period; and only revised or reset where the usage of the site changes. Where the ET is revised based on a change in use of the site, the revised ET will only apply from the start of the following billing period.”

Southern Water submitted that where there is a significant change of use partway through the year, it would amend the ET immediately. Southern Water’s proposal does not refer to when it would impose charges based on the new ET, i.e. as soon as the change was made or the next billing period.

Discussion

Reassessing, and charging on the basis of revised ETs, where there has been a change of use during a financial year is appropriate in terms of applying a user pays principle. If a property is placing more demand on the infrastructure then the customer should cover the additional costs of meeting that demand.

The Economic Regulator therefore accepts the regulated entities’ proposals to reassess ETs where there is a change of use partway through a financial year.

However, the Economic Regulator considers Southern Water’s suggested use of the phrase “significant change of use” to be problematical in that “significant” is open to interpretation. Instead the Economic Regulator considers that the reference should be to a change of use that necessitates a change in the number of ETs.

For administrative ease and given that the standard billing period is defined in clause 5.1.1 of the Customer Service Code to be not less than one month and no more than three months, the Economic Regulator considers that billing based on the revised ET should start from the beginning of the next billing period following the reassessment.

Decision

That the second last paragraph of section 5.4.11 be replaced with the following paragraph:

“The Economic Regulator considers it essential that customers have certainty with respect to prices and it is highly desirable for ETs to be set at the beginning of the Price Determination period; and only revised or

reset where the usage of the site changes resulting in a change in the number of ETs. Where the ET is revised based on a change in use of the site, the revised ET will apply only from the start of the following billing period.”

6.11 Calculating the value of reticulation assets to be gifted or paid for by a developer

The Pricing Regulations required the regulated entities to develop, by 30 June 2015, a means of allowing developers to ascertain, prior to commencing a development, the likely developer charges they would have to pay.

The Guideline suggested that this requirement could be met by providing an on-line calculator which allowed a developer to calculate:

- estimate the number of equivalent tenements that relate to their potential development;
- ascertain the headworks charge per equivalent tenement for each headworks zone; and
- the value of reticulation assets that would need to be gifted or paid for by the developer.

Discussion

In their submissions on the draft Report, the regulated entities stated that it was not possible to ascertain the value of reticulation assets that would need to be gifted or paid for prior to commencing a development as this value is determined on a case-by-case basis following detailed discussions between the regulated entity and detailed design by the developer’s engineers at a later stage in the process.

As a result, the regulated entities have proposed amending the draft *Developer Charges Policy* by deleting the reference to this requirement.

The Economic Regulator accepts that it is not practicable for the calculator to provide this information at the point in time specified.

The Economic Regulator requires, however, the *Developer Charges Policy* to make specific reference to this aspect so as it is clear to developers rather than simply deleting the reference as proposed by the regulated entities.

Decision

Amend the last dot point in clause 2 of the *Developer Charges Policy* to remove the reference to the calculator providing details of the value of reticulated assets to be gifted or paid for by the developer but include a requirement to make it clear to developers that additional costs may be likely in relation to reticulated assets associated with their proposed development.

6.12 Revenue protection

During the Price Determination Investigation, the regulated entities raised concerns about the possibility of customers (particularly non-residential customers) requesting a new water connection thereby gaining the benefit of paying the relatively lower target tariffs that are proposed to apply from 1 July 2012.

In response, the regulated entities proposed that charges will be imposed in accordance with the transition arrangements, notwithstanding any changes to a customer's connection arrangement, amalgamation of titles, conversion of strata titles to a single title, or other arrangement.

The Economic Regulator recognised that these types of changes posed revenue risks for the regulated entities but was concerned that the regulated entities' proposal would disadvantage a customer changing their connection for a genuine reason and would thereby prevent the customers benefiting from placing less demand upon water and/or sewerage infrastructure.

As a result the Economic Regulator sought input on appropriate arrangements to prevent revenue loss associated with changed arrangements undertaken by customers solely for the purpose of reducing bills.

Discussion

In their submissions, the regulated entities proposed the following rewording in relation to this issue:

Customer charges will be in accordance with the transition arrangements, notwithstanding any changes to a customer's connection arrangement, amalgamation of titles, conversion of strata titles to a single title, or other arrangement except where there has been a significant change of use resulting in genuine changes to connections arrangements, resulting for example in:

- *a genuine and permanent reduction in water demand causing the number and/or size of water connections; and/or*
- *a genuine and permanent reduction in the number and/or size and/or load of sewerage connections.*

In such circumstances, the customer will, following the change of use, be charged the respective prevailing target tariffs.

This is considered appropriate however the Economic Regulator has adopted slightly different wording to improve clarity.

Decision

Replace the last paragraph in section 5.4.13 of the Report with the inclusion of a requirement for the regulated entities to include the following undertaking in their Price and Service Plans:

- (1) subject to (2), customer charges will be imposed in accordance with the transition arrangements, notwithstanding any changes to a customer's connection arrangement, amalgamation of titles, conversion of strata titles to a single title, or other arrangement.
- (2) customer charges will be imposed in accordance with prevailing target tariffs where there has been a change of use resulting in:
 - a genuine and permanent reduction in water demand resulting in a change in the number and/or size of water connections; and/or
 - a genuine and permanent reduction in the number and/or size and/or load of sewerage connections.

6.13 New customers

In their proposed Price and Service Plans, the regulated entities listed a number of instances where they intended moving customers directly onto their respective target tariffs (or new customer target tariffs in Cradle Mountain Water's case). The draft Report accepted the following instances where this could occur:

- an existing customer changes their property's predominant use;
- an existing customer requires altered connection arrangements; and
- previously unconnected properties connect to water and/or sewerage infrastructure (including new sub-divisions).

Discussion

In their submissions on the draft Report, the regulated entities proposed adding the following instance of where a customer may be moved directly to the target tariff in Southern Water and Ben Lomond Water's case or the new customer target tariff in Cradle Mountain Water's case:

- where a tariff has not previously been charged for a property already connected to water and/or sewerage infrastructure.

The Economic Regulator accepts the proposal to move directly to the relevant target tariff those customers already connected to a regulated entity's infrastructure where a tariff hasn't been charged in the past.

Decision

Amend section 5.4.13 of the Report to permit regulated entities to move customers directly to the target tariff where a tariff has not previously been charged for a property already connected to water and/or sewerage infrastructure.

6.14 Level of price constraint

As part of their proposed Price and Service Plans, each regulated entity was required to submit three price constraint scenarios – a preferred price constraint and a lower and higher price constraint either side of the preferred price constraint. The regulated entities proposed the following price constraints:

- lower price constraint scenario - where prices will increase by the greater of five per cent or \$25 per service per annum; and
- preferred price constraint scenario - where prices will increase by the greater of 10 per cent or \$50 per service per annum; and
- upper price constraint scenario - where prices will increase by the greater of 15 per cent or \$75 per service per annum.

In its draft Report, the Economic Regulator proposed adopting the preferred price constraint of the greater of 10 per cent or \$50 per service for customers currently paying less than the target tariff.

TasCOSS and Anglicare each submitted that the preferred price constraint was too high. TasCOSS and Anglicare considered this to be the case particularly given the price increases already approved under the Interim Price Orders (IPO).

The exception to the preferred price constraint scenario is the Burnie council area, where the extent of the existing free water allowance means that Cradle Mountain Water either has to increase prices for Burnie customers by a greater extent than the price increases applying to other customers in its region to remove the free water allowance applying in this area by 1 July 2013 or retain the free water allowance for a further year and substantially reduce the variable charge.

For the Burnie council area, the Economic Regulator proposed in its draft Report applying a higher price constraint of the greater of 10 per cent or \$75 for customers in the Burnie council area. In its submission, Cradle Mountain Water noted that its Board was of the view that the Economic Regulator's proposal would disadvantage Burnie customers, would add further complexity to the billing and customer service processes and considered the benefits of the Economic Regulator's proposal would not outweigh the costs. TasCOSS also recommended that Cradle Mountain Water pay particular attention to hardship issues for Burnie customers due to the higher price constraints.

Discussion

The Economic Regulator considers that the level of the preferred price constraints provide an appropriate balance between managing the impact on customers, addressing regulatory compliance issues, improving each regulated entity's financial sustainability and achieving tariff reform.

As discussed in section 5.4.8 of the draft Report, adopting the lower price constraint scenario would be unlikely to achieve the desired price reform or address the

regulated entities' current financial unsustainability. Whilst adopting the upper price constraint scenario would address these issues, the annual increases in price permitted under this scenario may represent a significant price shock to some customers.

The Economic Regulator does not, therefore, intend altering the preferred price constraint of the greater of \$50 or 10 per cent per service.

With respect to Burnie customers, the Economic Regulator notes the concerns expressed by Cradle Mountain Water's Board, however it considers the higher price constraint scenario to be preferable to Cradle Mountain Water's alternative proposal of maintaining the free water allowance for an additional year and reducing the variable rate to such an extent that it represented just 15 per cent of the cost of supplying water to those customers.

The Economic Regulator does not, therefore, intend altering the higher price constraint of the greater of \$75 or 10 per cent per service for Burnie customers.

Decision

No action required.

6.15 Transition of Cradle Mountain Water customers to water target tariffs

Cradle Mountain Water is proposing a different methodology compared to the other regulated entities in moving customers towards the target tariffs as it is focusing on getting customers to the fixed charge target tariff as quickly as possible. Cradle Mountain Water proposes transitioning customers to the target tariffs by applying a price constraint of the maximum of 10 per cent or \$50, whichever is the greater, to the customers total water service charge (fixed and variable water charges) and sewerage charge from the previous year (i.e. 10 per cent or \$100 for both services). In contrast, Southern Water and Ben Lomond Water are applying a price constraint of the maximum of 10 per cent or \$50, whichever is the greater, to the customers fixed charge water charge and sewerage charge from 2011-12.

Cradle Mountain Water was unable to satisfy the Economic Regulator about the accuracy of its methodology and formulae for transitioning its customers to its proposed water target tariffs in time for publication in the draft Report and draft Price Determinations. As a result the Economic Regulator was left with no option other than to substitute its own formulae to meet the publication timeframes.

Cradle Mountain Water had concerns with these formulae and subsequently submitted revised Schedules 1 and 2 formulae which detailed how it intended transitioning customers to its proposed water target tariffs.

Discussion

The Economic Regulator reviewed Cradle Mountain Water's revised formulae and determined that they did not explicitly provide for customers' water service charges to be capped at the applicable price constraint.

Specifically, the revised methodology lacked a mechanism to determine if a customer's water charges in any year increased by more than the applicable price constraint and, if so, adjust either the variable or fixed charge to ensure that the price constraint was not breached.

The Economic Regulator, therefore, requested Cradle Mountain Water review its formulae and provide a methodology which incorporated a mechanism to ensure customer's water charges are capped at the applicable price constraint in each year of the first regulatory period.

Cradle Mountain Water subsequently provided the requested formulae and upon review, the Economic Regulator has established that the latest version meets its requirements.

Decision

Update Schedules 1 and 2 of Cradle Mountain Water's Price Determination to reflect the formulae agreed to by the Economic Regulator.

6.16 Fixed and variable water charges

In its draft Report, the Economic Regulator proposed adopting a number of fixed and variable water charges for each regulated entity.

Whilst the variable water charges proposed by each regulated entity were similar (see section 6.16.2 below), the fixed water charges varied as they were based on the regulated entity's assessment of its costs of delivering water to its customers.

A number of submitters raised concerns about different aspects of the proposed fixed and variable water charges as outlined in the following sections.

6.16.1 Level of fixed and variable water charges

Nekon Pty Ltd and the Property Council of Australia submitted that the proposed fixed water charges are too high and the proposed variable water charges are too low.

Both submitters considered that the proposed fixed and variable water charges transfer the risk from the regulated entities to consumers whereas a lower fixed charge and higher variable charge would leave the risk with the regulated entities and encourage them to operate more efficiently as well as giving customers control over their bill by moderating their water usage.

Nekon Pty Ltd also considered that reducing the fixed charge and increasing the variable charge better justified the installation of water meters.

Discussion

Whilst the Economic Regulator has not conducted an independent review of the regulated entities' costs of delivering water to customers (see 6.16.3 for further discussion on this point), the Industry Act requires prices to be cost reflective. The majority of the costs associated with providing water and sewerage services are fixed.

Lowering the fixed charge and recovering fixed costs through an increased variable charge would result in large water user customers (such as industrial customers, hospitals and schools) subsidising low use customers (residences, car parks and office blocks). This would have the effect of creating a cross subsidy and would not be consistent with cost reflective pricing.

As discussed in section 6.16.3 below, the Regulator has allowed for some fixed costs to be recovered from variable costs in this Price Determination as part of a longer term transition to cost reflective pricing. However, the proposed variable rates are in the low range compared to comparable mainland providers (see Table 5.11 in section 5.4.5.2. of the Report) and, as far as possible, have been set to reflect the cost structures and resource endowment of the Tasmanian water sector. The Economic Regulator notes that the installation of meters in the south of the State was supported by a business case which justified their installation based on Southern Water's proposed quantum of fixed and variable charges.

Based on the preceding discussion, the Economic Regulator does not intend changing the levels of fixed and variable water charges expressed in the draft Report.

Decision

No action required.

6.16.2 Variable rate

In their proposed Price and Service Plans, the regulated entities proposed similar variable water usage rates of around \$0.90/kL. The proposed rates were not, however, consistent between the three regulated entities.

Discussion

In their submissions on the draft Report, Ben Lomond Water and Cradle Mountain Water have proposed adopting the same variable rate put forward by Southern Water for the first regulatory period as adjusted by the Economic Regulator in its draft Report for an annual inflation rate of 2.6 per cent, i.e. \$0.9000 for 2012-13, \$0.9234 for 2013-14 and \$0.9474 for 2014-15.

The Economic Regulator considers it highly desirable for all customers to pay the same variable rate for water usage irrespective of the region they live in and accepts Ben Lomond Water's and Cradle Mountain Water's proposal in this regard.

Decision

Amend Table 5.7 in section 5.4.5 of the Report and any other miscellaneous references to the previously proposed variable rates to adopt consistent rates of \$0.9000 for 2012-13, \$0.9234 for 2013-14 and \$0.9474 for 2014-15 across all three regulated entities.

Adjust the Price Determinations for Ben Lomond Water and Cradle Mountain Water to reflect the above revised variable rates.

6.16.3 Recovery of fixed costs through variable water charges

In their proposed Price and Service Plans each regulated entity noted that, based on their proposed variable water charges, they would be recovering varying amounts of fixed water costs through variable water charges.

In its draft Report, the Economic Regulator considered it appropriate for the regulated entities to set variable charges above costs to attempt to moderate demand and enable them to defer demand driven capital investment, thereby increasing the capacity to undertake investment in regulatory compliance improvement.

TasCOSS questioned whether the draft Report's proposal to allow the regulated entities to recover some fixed costs through variable charges which were set above the apparent cost of delivering the service contradicted the aim of implementing cost reflective pricing.

In its submission, Nekon Pty Ltd also noted that the short run marginal cost (SRMC) of supplying water to customers is unsubstantiated and, therefore, should not be relied upon until independently verified.

Discussion

Regulation 16 of the *Water and Sewerage Industry (Pricing and Related Matters) Regulations 2011* allows fixed costs to be recovered through variable charges in certain circumstances.

The Economic Regulator recognises that setting variable charges at levels above cost results in large water users (such as industrial customers, hospitals and schools) subsidising low use customers (residences, car parks and office blocks). This has the effect of creating a cross-subsidy and is inconsistent with the pricing principles in relation to cost reflective charging.

The Economic Regulator agrees that allowing the recovery of fixed costs through variable charges is not desirable in the longer term. However, given the extent of capital investment required by the regulated entities to achieve regulatory

compliance, the Economic Regulator considers it appropriate for the regulated entities to set variable charges above costs to attempt to moderate demand and enable them to defer demand driven capital investment, thereby allowing regulatory compliance improvement investment to occur during the first regulatory period.

The Economic Regulator did not review the regulated entities' costs of delivering water to customers given that costs and asset values were not independently assessed as part of this Price Determination Investigation (i.e. price constraints will determine prices not asset values and costs) and has, for this Determination, relied on the SRMC figures provided by the regulated entities in their proposed Price and Service Plans.

Although the Economic Regulator has not reviewed the SRMC figures provided by the regulated entities as part of the Price Determination Investigation, it is noted that the pricing policies of the former bulk water authorities were investigated by the former Government Prices Oversight Commission (GPOC). The last GPOC investigation found the 2004-05 SRMC for the Hobart Regional Water Authority and Esk Water to be \$0.20/kL and \$0.30/kL respectively (*Investigation into the Pricing Policies of Hobart Regional Water Authority, Esk Water Authority and Cradle Coast Water - Final Report - June 2007*). Escalating for inflation these two figures would equate to approximately \$0.2587/kL and \$0.3881/kL respectively which are not dissimilar to Southern Water's and Ben Lomond Water's stated figures of \$0.2966/kL and \$0.3700/kL for 2012-13.

The Economic Regulator does not intend changing the extent to which the regulated entities will be permitted to recover fixed costs through variable charges that exceed the costs of delivering water to customers.

In reviewing the calculations of the extent fixed costs are recovered through variable charges, the Economic Regulator has identified a calculation error in relation to Southern Water which will be rectified in the Final Report.

Decision

Revise the figures in Tables 5.9 and 5.10 in section 5.4.5 to address the calculation error and to account for the adoption of consistent variable charges.

No further action required.

7 MISCELLANEOUS

7.1 Water usage

7.1.1 Assumed 200kL usage

In its draft Report, the Economic Regulator proposed accepting the regulated entities' assumption of average water usage per household of 200kL per annum.

The Economic Regulator did not consider this to be an issue for the northern or north western regions as those regions are mostly metered and reasonably accurate and reliable water usage data is available. The Economic Regulator was, however, concerned about the adoption of the 200kL usage figure for the southern region on the basis that water usage in those areas that are metered (primarily Sorell and Brighton) may not be indicative of usage across the region as a whole particularly in the Hobart, Kingborough, Glenorchy and Clarence residential areas.

The Economic Regulator's draft Report also noted that if actual usage exceeds the estimated 200kL, customers will be subject to price increases above the greater of the \$50 or 10 per cent price constraint.

Given these concerns the Economic Regulator sought feedback on the proposal to accept 200kL as the assumed average usage for the southern region.

The following submitters commented on Southern Water's assumption of average water consumption by residential customers of 200kL per annum:

- Nekon Pty Ltd;
- Mr Wally Prokopiec;
- M Walker;
- Ms Cynthia Christian;
- Property Council of Australia; and
- Mr Greg Davoren.

A submitter who requested their name be withheld also commented on this issue.

Each of these submitters considered Southern Water's assumption of water usage of 200kL per household per annum to be too low.

Nekon Pty Ltd suggested that, based on ABS data and the usage data reported in the various State of the Industry Reports (SOIR), Southern Water's assumed usage should be set at 350kL for 2012-13, 300 kL for 2013-14 and 250kL for 2014-15.

A number of these submitters also referred to Brighton Council, Sorell Council and Huonville Council data which suggested average residential usage in those municipalities of 295kL, 396kL and 300kL per annum, respectively. Several submitters also suggested that the Economic Regulator had relied on mainland water usage data to arrive at the 200kL figure.

Discussion

Whilst the Economic Regulator took into account interstate measures of average annual indoor water usage per person, it relied on water meter usage data for the north and northwest of the State in setting the 200kL average annual water usage per household.

Whilst noting the concerns raised in the submissions on this topic, the Economic Regulator does not see any reason for the water usage profile in the south to differ from the north and north-west of the state where meters have been in place for some time. Any difference in actual usage by households reflects either water use practices or leaks within customer properties. Both these aspects are within the control of the customer and metering and usage charges encourage customers to address these issues.

Data reported for Australian Bureau of Statistics/SOIR purposes is considered to be unreliable for the southern region as, until such time as the southern region is fully metered and consumption patterns analysed, water consumption in the region is very much based on estimates.

For the reasons outlined above, the Economic Regulator does not intend adopting a different water usage volume for the southern region.

Decision

No action required.

7.1.2 Water demand forecasts

The regulated entities' proposed Price and Service Plans provided details of the customer numbers, population growth and water demand volumes used to estimate revenues for the first regulatory period.

DPIPWE's submission queried the discrepancies between the water consumption figures reported in the 2010-11 SOIR and the water demand forecasts each regulated entity has adopted in calculating its expected revenues for the first regulatory period. DPIPWE suggested that an explanation of the reasons for this variation was warranted as consumption above the water demand forecasts would likely result in revenue exceeding that estimated in the respective Price and Service Plans.

Discussion

The following table summarises the water demand and water supply figures reported by each regulated entity:

	2010-11 SOIR: Total water sourced (gL)	2010-11 SOIR: Total water supplied (gL)	2012-13 proposed Price and Service Plan: Forecast water demand (gL)
Ben Lomond Water	19.300	19.100	12.747
Cradle Mountain Water	15.030	16.200	15.000
Southern Water	41.500	35.115	32.065

The Economic Regulator did not seek an explanation from Cradle Mountain Water as its 2010-11 SOIR water supplied figure and its forecast water demand figures were relatively similar.

The Economic Regulator ascertained that the variation for Southern Water was attributable to Table 5.1 of the 2010-11 SOIR reporting the volume of sourced water i.e. the volume of supplied water was not reported in the 2010-11 SOIR. Southern Water's total water supplied as reported in the 2010-11 SOIR is relatively similar to its forecast water demand for 2012-13. From its proposed Price and Service Plan, the Economic Regulator understands that the difference between Southern Water's sourced water volume and its supplied water volume in the 2010-11 SOIR was due to assumed leakage of 20 per cent. Southern Water has also advised the Economic Regulator that, until water meters are installed and are operational, it is only able to supply estimates of water supply volumes.

When queried by the Economic Regulator on the reasons for the substantial differences in its figures, Ben Lomond Water advised that it had concerns about the veracity of the water demand figures and had adopted a conservative approach in arriving at the quantity of water sold at 12.7g/L by dividing 2009-10 variable charge revenue by the relevant regional variable charges.

Whilst the Economic Regulator understands Ben Lomond Water's rationale, it is noted that this results in assumed usage by non-residential users of just 393kL per annum (i.e. total of 2.632g/L across 6 701 customers after deducting residential usage of 10.115g/L across 50 574 customers) compared to 1 185g/L and 1 422 g/L for Cradle Mountain Water and Southern Water respectively. Whilst Ben Lomond Water's average non-residential usage appears low compared to the other two regulated entities, the Economic Regulator does not have information about a number of factors affecting these estimates including, for example, the volume of water that large customers extract directly from water sources and the volumes of water typically used by different types of non-residential customers.

Variations between actual and forecast water demand may impact on the level of total revenue received by each regulated entity but will not impact on prices paid by individual customers which are determined by the application of price constraints and their individual water demand.

Decision

No action required.

7.2 Service charges, service introduction charges and the definition of serviced land

As discussed in the draft Report, the regulated entities were required to provide a series of policies as attachments to their proposed Price and Service Plans.

One such policy was in respect of service charges, which are charges levied where there is an ability to access a service even if there is not yet a physical connection to a regulated entity's infrastructure. Such a policy was to set out the circumstances in which the regulated entity would impose a service charge in relation to serviced land, and the amount of, or the method to be used in determining the amount of, that service charge.

Another of the policies was to outline the circumstances in which, and the terms and conditions under which (including the levying of service introduction charges where appropriate), the regulated entity would extend, expand or introduce its water and/or sewerage infrastructure. As outlined in the draft Report, service introduction charges are a temporary charge (in addition to the standard fixed and variable charges) levied on property owners to help recover some of the capital cost of extending the water and/or sewerage infrastructure to those properties.

The Economic Regulator assessed these policies for regulatory compliance, identifying a number of issues. As a consequence the policies were redrafted to ensure that they were legally effective, compliant with the relevant regulatory and legislative provisions, understandable to the reader, and consistent in their drafting structure and use of terminology.

The Economic Regulator subsequently proposed that the redrafted policies, which were provided at Appendix 2 to the draft Report, be adopted by each of the three regulated entities.

As discussed in the draft Report, all three regulated entities proposed a service charge comprising the full fixed water target tariff and 60 per cent of the fixed sewerage target tariff. The Economic Regulator proposed adopting those water and sewerage service charges, noting that the normal price constraint transition arrangements will apply to customers paying service charges.

Matters concerning the service charge, charges for service introduction and extension of service were outlined in submissions provided by Ms Robyn Gerrity, DPIPWE and the Property Council of Australia (PCA). Some minor comments on the *Service extension, expansion and introduction policy* were also provided by the three regulated entities.

Ms Gerrity and the PCA highlighted concerns with the levying of a service charge on properties which have no connection to infrastructure, irrespective of whether they are within a serviced land area.

DPIPWE commented on the conditions, as outlined in the *Service extension, expansion and introduction policy*, which must be satisfied before service introduction can proceed. Specifically in reference to the second and sixth of these conditions which are outlined below:

- (2) *The absence of water and/or sewerage services is causing significant and/or wide scale environmental harm and/or public health issues, as identified by the Environmental Protection Authority or the Department of Health and Human Services.*
- (6) *[ENTITY NAME] must be satisfied that there is broad community support before proceeding with a proposed service introduction.*

DPIPWE noted that condition number two should not always need to be satisfied and that the sixth condition might not need to be satisfied, i.e. where a significant public health risk has been identified.

In addition, DPIPWE considered that local Environmental Health Officers are well placed to be involved in determining if a public health reason for introducing a reticulated service exists, and therefore, reference to these officers should be included in the second condition. DPIPWE further noted that the term 'service area' within the *Service extension, expansion and introduction policy* is not defined and could be confused with the term 'serviced land'.

DPIPWE also suggested amendments to the list of conditions by adding 'or' after condition number one and then 'and' after conditions two through to five. The inclusion of such terms means that not all of the conditions have to be satisfied before water and/or sewerage services will be introduced.

DPIPWE also detailed the need for increased clarity with the definition of 'serviced land' within the *Service charge policy* as well as the application of service charges on new allotments within serviced land boundaries.

The three water and sewerage corporations also touched briefly on the *Service extension, expansion and introduction policy* in their submissions. Namely, the corporations suggested that the policy be amended to:

- clarify that the service introduction charge will reflect the connecting customer's chosen payment period; and
- alter the payment arrangement instrument.

Discussion

The Economic Regulator notes concerns regarding the levying of a service charge on properties which have no connection to infrastructure. However, such matters are beyond the control of the Economic Regulator as charging a service fee for vacant land is provided for under the Industry Act.

The Economic Regulator notes and supports the recommendations of DPIPWE with respect to the conditions of the *Service extension, expansion and introduction*

policy. The Economic Regulator agrees that local Environmental Health Officers are well placed to be involved in determining if a public health reason for introducing a reticulated service exists and, therefore, sees value in extending condition two of the policy to reflect such. The Economic Regulator acknowledges that there may be circumstances where condition six might not need to be satisfied, for example, where a significant public health risk has been identified. The Economic Regulator also agrees with the proposed inclusion of 'or' and 'and' in the list of conditions so that not all of the conditions have to be satisfied before water and/or sewerage services will be introduced.

Upon review of the *Service extension, expansion and introduction policy*, the Economic Regulator concedes that there may be some confusion concerning the meaning of the terms 'service area' and 'serviced land' as defined in the *Service charge policy*. However, 'serviced land' is a term defined in the Industry Act and is not within the Economic Regulator's control to alter.

The Economic Regulator does, however, agree that matters concerning the application of service charges on new allotments within serviced land boundaries be better explained and supports amendments to the policy to facilitate this.

The Regulator also agrees that there is value in amending the *Service extension, expansion and introduction policy* to clarify matters concerning a customer's chosen payment period and altering the payment arrangement instrument.

Decision

The *Service extension, expansion and introduction policy* and *Service charge policy* is to be redrafted as follows:

- The introduction of water and/or sewerage services is to be commercially viable for [ENTITY NAME] (which may include external funding – e.g. a contribution from owner Councils, government grant(s), customer contributions, or a combination of any of these); **or**
- The absence of water and/or sewerage services is causing significant and/or wide scale environmental harm and/or public health issues, as identified by **the local Environmental Health Officer**, the Environmental Protection Authority or the Department of Health and Human Services; **and**
- [ENTITY NAME] will consult with the community on any service introduction proposal; **and**
- [ENTITY NAME] will provide to a person, before a service introduction charge is imposed on that person, an estimate of the amount of the service introduction charge; **and**
- [ENTITY NAME] will provide to a person, on whom a service introduction charge is imposed, information as to how the amount of the service introduction charge has been determined; **and**

- [ENTITY NAME] must be satisfied that there is broad community support before proceeding with a proposed service introduction, **unless a compelling public interest reason can be demonstrated.**

The *Service extension, expansion and introduction policy* is also to be amended to clarify matters concerning a customer's chosen payment period and altering the payment arrangement instrument, as follows:

*"Where an extended payment arrangement is requested by the owner, a **consumer credit contract must be entered into. The credit contract will outline the terms and conditions of the arrangement and a requirement for the owner to fully settle the balance with [ENTITY NAME] should the owner sell the property.**"*

The *Service charge policy* is also to be amended to provide further clarity with respect to the application of service charges on new allotments within serviced land boundaries as follows:

*"[ENTITY NAME] will levy a service charge on new allotments located **within [ENTITY NAME]'s serviced land boundaries** whether **those allotments** are developed or not."*

7.3 Sub-metering

Mr John Mills submission regarding Redwood Village, Kingston, addressed the difficulty with sub-metering in existing strata schemes. Redwood Village comprises seven separate strata schemes with Southern Water proposing three options in terms of water metering:

- (3) one main meter for each strata scheme;
- (4) sub-meters; or
- (5) one meter to service all strata schemes.

Based on Southern Water's initial proposed *Sub-metering policy*, Mr Mills concedes that option 2 is unlikely to eventuate given the requirement for unanimous agreement of all owners, but, any decision other than option 3 would result in an inequitable outcome as, under option 1, each scheme would be paying a different fixed charge depending on the number of lots and the size of the meter installed for each strata scheme.

In his submission, Mr David Keyes proposed amendments to the proposed *Sub-metering policy* in the draft Report. Mr Keyes proposes that multi-unit properties have a master meter and individual sub-meters supplied and installed by the regulated entity at no cost to the multi-unit property owner. The property owner will be billed for the fixed charge for all meters, whilst the unit occupant/s will be billed the volumetric charge as determined by the unit's sub-meter.

The three regulated entities' submissions proposed revisions to the *Sub-metering policy* contained in the draft Report as follows:

- remove the power to recover the cost of master meters where sub-meters are in place; and
- insert the power to bill the body corporate rather than individual lot owners.

The three regulated entities' submissions also proposed a formula to be included in the Determinations to take into account the scenario where strata lot owners who were previously charged a one part water charge move to two part pricing, but there is only a boundary meter installed on the property (i.e. no sub-metering). In this circumstance, the regulated entities proposed that each individual lot will have their existing fixed water charge reduced by their proportion of expected usage for their boundary meter size (the proportion will be based on unit entitlements or allocated equally where such information is not available).

Discussion

Redwood Village appears to be a relatively unique situation that would be difficult to address within a generalised regulatory framework. The Economic Regulator suggests that this is a matter to be resolved between Redwood Village and Southern Water. The situation, does however, highlight the difficulty of finding a pragmatic and equitable solution to legacy issues.

The Economic Regulator notes Mr Keyes' suggested amendments to the proposed *Sub-metering policy*. However, Regulation 3(1) of *Water and Sewerage Industry (Customer Service Standards) Regulations 2009* states that an account must be issued to a customer and a customer is defined in section 3 of the Industry Act as:

- (a) an owner and occupier of a property that is connected to a regulated entity's water infrastructure or sewerage infrastructure; or
- (b) an owner (but not an occupier) of a property that is connected to a regulated entity's water infrastructure or sewerage infrastructure; or
- (c) an occupier of a property that is connected to a regulated entity's water infrastructure or sewerage infrastructure and is liable for service charges; or
- (d) an owner or occupier of a property that is not connected to a regulated entity's water infrastructure or sewerage infrastructure but to which a regulated service is available from a regulated entity and the regulated entity imposes a service charge;

Therefore, a regulated entity can only bill an occupier (but not owner) of a property if sections (3)(c) or 3(d) apply.

Section 56ZB(1) of the Industry Act allows the regulated entity discretion in whether to install a meter and section 56ZB(4) enables the regulated entity, where a meter is installed, to charge for the meter and the cost of installation.

The owner of a multi-unit property may, however, enter in to a private agreement with the regulated entity for the provision of sub-metering.

The Economic Regulator noted that additional changes to those mentioned above had been made in the regulated entities revised proposed sub-metering policies, namely:

- removing the obligation to supply sub-meters to owners of multi-unit properties at no cost;
- removing, for multi-unit properties, the obligation to provide a bill which includes volumetric and fixed charges for both sub-meters and the master meter where sub-meters have been installed;
- adding the option for strata lots to be connected individually to the regulated entities main with the regulated entities approval;
- adding 'unit entitlement allocation' to the definitions which allows for three options with regards to apportioning charges for the common property and excess water to be among the lot owners of a strata scheme;
- adding 'excess water' to the definitions; and
- adding the words 'downstream of a master meter' to the definition of sub-metering.

The Economic Regulator identified the following issues in the revised proposed sub-metering policies:

- there are a number of minor differences between the policy submitted by Cradle Mountain Water and the other two regulated entities. The Economic Regulator requires a single policy be adopted by all three regulated entities;
- under the Industry Act the regulated entity can only bill a customer as defined in section 3. The body corporate only owns the common property therefore the regulated entities can only bill the body corporate for fixed and volumetric charges relating to the common property;
- use of the phrase 'common usage' and 'common area' in the body of the text whilst using the phrase 'common property' in the definition;
- use of the phrase 'unit entitlements' in the body of the text but use 'unit entitlement allocation' in the definition;
- the policies are not explicit in how the charges for common property in a strata scheme with a manifold assembly will be apportioned;
- the language and layout of the policy is inconsistent;
- the terms and language used may not be understandable to the reader without further clarification for example 'independent water service connection';

- clarifying whether the default position is a manifold assembly and if this is unsuitable then a master meter with sub-meters;
- in the text 'sub-meter' is missing from the first paragraph under the heading 'New strata schemes';
- it is unclear as to the approvals required to connect individual lots in an existing strata scheme directly to the main;
- not being explicit as to how an independent water service connection will be billed;
- clarify the regulated entities position if an existing strata scheme's body corporate is silent on the installation of sub-meters;
- does not explicitly provide for existing strata schemes or multi-unit properties that are already sub-metered; and
- Southern Water and Ben Lomond Water do not state how the bill will be apportioned for existing strata schemes that install sub-meters – missing 'apportioned by the unit entitlement'.

The formulae presented in the draft Report were found to be deficient in that the definition of unit entitlement was confusing and did not produce the intended result where unit entitlements were not equally shared.

The Economic Regulator has decided that a single amended *Sub-metering policy* be adopted addressing the above issues.

Decision

Attach to the Report an amended *Sub-metering policy* addressing the issues discussed in this Statement of Reasons.

7.4 Standard customer contracts and trade waste customers

Each regulated entity submitted proposed standard customer contracts as part of their proposed Price and Service Plans. During the course of the Price Determination Investigation, the regulated entities made various alterations to these standard contracts following discussions including adding a trade waste consent form and making associated changes to the standard contract to accommodate trade waste customers.

In its submission DPIPWE referred to concerns it had about the adequacy of the standard customer contracts in terms of providing clarity and certainty to trade waste customers. The Economic Regulator sought details of these concerns with DPIPWE providing the following list of specific issues:

- it is not clear from the standard customer contract why the application fee is charged;

- it is unclear how the application/classification process integrates with the deemed contract (i.e. the Trade Waste consent form);
- trade waste customers should be able to self-identify their trade waste category and be able to readily determine their obligations and liabilities;
- the proposed standard customer contract doesn't clearly identify the option of trade waste customers entering into section 61 contracts with a regulated entity;
- the basis for calculating and imposing exceedance charges is not clearly explained; and
- to assist in determining compliance and non-compliance, there should be clear threshold characteristics for oil and grease which identifies the required pre-treatment outcomes.

In discussions with the regulated entities, it was also noted that Schedule 4 of each entity's Price Determination should be amended to remove reference to category 3 and 4 trade waste customers as these are managed under section 61 contracts which are outside the scope of the Determinations.

Discussion

Whilst noting DPIPWE's concerns, the Economic Regulator does not consider that its statutory responsibilities extend to the detailed regulation of trade waste. This is a matter for DPIPWE. The Economic Regulator does, however, have an interest in the customer service aspects of trade waste arrangements.

The Economic Regulator considers that a number of the issues raised by DPIPWE are issues best dealt with outside the customer contract itself; i.e. there are a number of issues that could be addressed in the material published on each regulated entities' website and/or be dealt with as undertakings in the final Price and Service Plans.

However, it is considered that some of the issues raised by DPIPWE are matters that should be clearly spelled out in the customer contract so that trade waste customers are adequately informed of their contractual rights and obligations.

The Economic Regulator agrees that Schedule 4 of each regulated entity's Price Determination should be amended to remove reference to category 3 and 4 trade waste customers.

Decision

The Economic Regulator requires the regulated entities to amend their Price and Service Plans to include an undertaking to publish the following material on their websites in relation to trade waste:

- make it clear why and how the application fee is charged;

- explain how the application process integrates with the Trade Waste consent form attached to the Standard Customer Contract;
- explain the basis for calculating and imposing exceedance charges, including the limits over which exceedance charges will be applied;
- clearly state the threshold characteristics for trade waste which identifies the required pre-treatment outcomes (i.e. provide thresholds for basic characteristics covering particles, fibres, organic load and oil and grease and so on which give rise to the requirement for pre-treatment for category 1 and 2 trade waste customers, and link to pre-treatment and required outcomes for infrastructure, treatment processes, safety and recycling and so on);
- clearly identify the option of category 1 and 2 trade waste customers entering into section 61 contracts with a regulated entity;
- explain the interaction between sewerage and trade waste target tariffs and the transitional arrangements; and
- make it clear that category 3 and 4 customers will be asked to negotiate a section 61 contract.

Amend the Report to include a requirement for each regulated entity to take into account the following high level principles in drafting their standard customer contracts with particular reference to the trade waste consent for category 1 and 2 trade waste customers:

- trade waste customers should be able to readily self-identify their trade waste category and determine their obligations and liabilities; and
- the standard customer contracts should link to, and be consistent with, Schedule 4 of the respective Price Determinations and to the regulated entities' website pages with respect to trade waste.

Schedule 4 of each regulated entity's Price Determination should be amended to remove references to category 3 and 4 trade waste customers.

7.5 Customer classes

As discussed in section 5.3.2 of the draft Report, there are instances where differing service levels or product quality are provided to customers by the regulated entities. Different customer classes were proposed to reflect those varying customer service levels or quality of product supplied.

Matters in respect of customer classes were canvassed in the submissions provided by the three regulated entities. The regulated entities were satisfied with the customer classes which the Economic Regulator proposed, however, they did recommend amendments to the definition of two of the classes. The regulated entities also submitted a revised proposal for customers operating Sewerage Tank Effluent Disposal (STED) systems.

7.5.1 Limited water supply customers

The regulated entities disagreed with the Economic Regulator's proposal that customers receiving a flow rate of less than 15 litres per minute be treated as 'limited water supply customers'. Rather, the regulated entities agreed that the minimum flow rates remain the water flow rates which were provided as at 1 July 2009 (at the time of their commencement of operations) and that the class of customer referred to as 'limited water supply customers' be amended to be those who:

- are connected to a water main that periodically does not contain water under positive pressure; or
- have a connection designed to provide low or intermittent flow, such as where the customer has been required to install, operate and maintain an individual tank or pump; or
- are connected to a non-reticulation water main that is subject to significant pressure variations due to either –
 - a pumped supply where the low pressure is below 50 kPa and the high pressure is above 500 kPa; or
 - an inlet supply to a trunk reservoir such that when the reservoir inlet valve is open the pressure is below 50 kPa; or
- where the corporation determines the supply to be inadequate.

Discussion

The Economic Regulator notes the regulated entities concerns regarding the proposal to classify 'limited water supply customers' as those who receive a flow rate of less than 15 litres per minute. The Economic Regulator initially considered that a defined limit was required, however, it acknowledges that acceptable minimum flow rates can be difficult to determine given the variance in flow rates according to topography, system design and timing during the day or year.

In light of this, and upon consideration of the representations made, the Economic Regulator is satisfied that a defined limit for minimum flow rate not be adopted in respect of classifying 'limited water supply customers'. Rather, that a more detailed definition of 'limited water supply customers' be included in the final Report. The Economic Regulator agrees to the definition as proposed by the regulated entities including the regulated entity having discretion to '*determine the supply to be inadequate*' as any exercise of this discretion is to the customer's benefit in terms of pricing.

Decision

The Report will be amended to reflect the Economic Regulator's consideration of, and decision on, the definition of limited water supply customers as discussed above.

7.5.2 Limited water quality customers

The regulated entities also proposed defining 'limited water quality customers' as customers receiving water from a supply which has a permanent boil water alert in place or where the supply has been declared by the regulated entity to be non-potable.

Discussion

The Economic Regulator notes that the definition of 'limited water quality customers' proposed by regulated entities varies from the definition proposed in the draft Report. The Economic Regulator is, however, satisfied with the proposal to amend definition to refer to customers receiving water from a supply which has a permanent boil water alert in place. The Economic Regulator also supports the regulated entities having the discretion to declare a water supply to be non-potable as any exercise of this discretion is to the customer's benefit in terms of pricing.

Decision

The Report will be amended to reflect the Economic Regulator's consideration of, and decision on, the definition of limited water quality customers as discussed above.

7.5.3 Sewerage Tank Effluent Disposal (STED) customers

In their submissions, the regulated entities proposed that they would provide a discount to Sewerage Tank Effluent Disposal (STED) customers given that the corporations would be unable to access private property to pump out septic tanks every five years as originally proposed.

Discussion

As discussed in the draft Report, differing service levels are provided to customers of STED schemes. Under these schemes the septic tanks are required to be pumped out periodically and, when this is done at the owner's expense, the service provided is below that ordinarily provided in a standard sewerage scheme. The regulated entities had initially indicated an intention to meet the cost of pumping out the tanks once every five years in accordance with the Australian Standard AS1547:2000, *"On-site domestic wastewater management"*. On that basis, customers using STED schemes would receive an equivalent service to those receiving a full standard sewerage service. The Economic Regulator agreed with this position, proposing, in the draft Report, that the corporations adopt that approach.

However, in their subsequent submissions to the Economic Regulator, the regulated entities identified that they would not, in fact, be able to access private property to pump out septic tanks every five years. As an alternative, the regulated entities proposed that they provide a ten per cent discount to STED customers i.e. the sewerage charge for STED customers is based on 0.9ET. The Economic Regulator has confirmed that the annual ten per cent discount on the fixed sewerage charge approximates the cost to an owner of having to pay to have their septic tank pumped out every five years and has, therefore, decided to approve this proposal.

Decision

The Report will be amended to reflect that regulated entities will not be required to pump out the tanks in their respective STED schemes once every five years in accordance with the *Australian Standard AS1547:2000*. Rather, that the regulated entities will be required to provide a discount to STED customers by being assessed as being 0.9 of an ET.

7.6 Other

The following minor corrections have been identified from submissions and through the Economic Regulator's review of the draft Report and draft Price Determinations:

Reference in draft Report	Description of issue	Action
Executive Summary / 5.4.10.3	The draft Report proposed a price constraint for customers in the Burnie municipality of the greater of \$75 or 10 per cent. There are several instances in the draft Report where the price constraint has been mis-stated as the greater of \$75 or 15 per cent.	Replace all references to 15 per cent with 10 per cent with respect to the application of the higher price constraint for customers in the Burnie municipality.
Executive Summary	In its draft Report, the Economic Regulator proposed moving customers in the Kentish municipality that are above the target tariff directly to the relevant fixed water target tariff from 1 July 2012. The Executive Summary does not make it clear that this proposal related only to the fixed water target tariff.	Amend the Executive Summary so that it refers to customers in the Kentish municipality that are above the target tariff moving directly to the fixed water target tariffs from 1 July 2012.
4.3.3	The regulated entities considered that the definition of operating and maintenance expenditure (OM) should include regulatory costs, both charges by the Regulators and internal	Expand the definition of OM to include a reference to 'regulatory costs'.

Reference in draft Report	Description of issue	Action
	costs incurred in complying with their regulatory obligations.	
4.3.3	The calculation of Ben Lomond Water's OM expenditure in Table 4.11 needs to be revised as the Economic Regulator applied its labour productivity and efficiency factors to figures that Ben Lomond Water had already indexed i.e. Ben Lomond Water's indexation should have been removed before the Economic Regulator applied its own indexation.	Revise the figures in Table 4.11 to reflect the correct calculations for Ben Lomond Water
4.5.1	The regulated entities disagreed with the draft Report's reference to the level of dividends being the result of negotiations between the respective Boards and council owners and suggested the inclusion of the following replacement sentence: "The Board determines the dividend level and does so with reference to the financial circumstances of the business and taking into account the shareholders expectations."	Replace the sentence in the draft Report with the sentence suggested by the regulated entities.
4.5.1	There is no obligation on the regulated entities to pay dividends under Division 5 of the Water and Sewerage Corporations Act; there is, however, a requirement for the regulated entities to have a dividend policy.	Replace the reference to the requirement for the regulated entities to pay dividends to their owners with a reference to the regulated entities being required to have a dividend policy.
5.3	The tables listing the various types of water and sewerage services contain minor errors.	Update Tables 5.2 and 5.3 to correct errors.
5.4.5.2	The references to water usage of '0-200kL' for the regulated entities are misleading as they suggest that there are steps in the variable rates	Replace the references in Table 5.11 to '0-200 kL' with references to 'all usage'.
5.4.8.2	The calculation of the percentage of Cradle Mountain Water's customers on the target tariffs for each year of the first regulatory period has not been weighted between residential	Update section 5.4.8.2 and Table 5.14 to reflect the revised figures for Cradle Mountain Water.

Reference in draft Report	Description of issue	Action
	and non-residential customers and, therefore, does not accurately reflect the expected outcomes.	
5.4.8.4	It is not clear from the draft Report and draft Price Determinations that the regulated entities' preferred price constraint of the greater of \$50 or 10 per cent per service relates only to standard 20mm water, and 100mm sewerage, connections.	Include a new sentence to clarify that the regulated entities' preferred price constraint of the greater of \$50 or 10 per cent per service relates only to standard 20mm water and 100mm sewerage connections and that the price constraint for customers with larger connections must be calculated having regard to the connection usage size ratio (CSUR) and the applicable sewerage ET.
5.4.10.2	The draft Report fails to clearly explain that fixed water charges will transition to the fixed water target tariffs once any free water allowance has been removed.	Include the following sentence: "Fixed water charges will transition to the fixed water target tariffs once any free water allowance has been removed."
5.5.2	The formula for the calculation of the 'Upfront charge (headworks charge)' is incorrect as it adds the 'present value of the amount recovered through periodic bills' to the 'cost of providing assets' rather than subtracting that amount.	Substitute "-" for "+" in the second of the two formulae in section 5.5.2 of the Report.
Various	The draft Report contains inconsistencies in terms of how revenue and prices are expressed.	Express all references to revenue and revenue growth in real dollars. Express all references to prices in nominal dollars.
Glossary	There are a number of terms used in the draft Report that are not included in the Glossary.	Update the Glossary to include the missing terms.