



TW HPE ref: 19/74533

31 May 2019

Mr Joe Dimasi

Tasmanian Economic Regulator
Office of the Tasmanian Economic Regulator
GPO Box 770
Hobart TAS 7001

Dear Mr Dimasi

TasWater submission to Tasmanian Water and Sewerage Industry 2021 Price Determination Investigation: Draft Price and Service Plan Guideline

I write to provide TasWater's response to the Draft Price and Service Plan Guideline for the fourth regulatory period (PSP4 Guideline).

We are pleased that the Draft PSP4 Guideline reflects some of our feedback from the review of the 2018 Price Determination Investigation, such as providing additional detail of the information requirements. We accept, and appreciate, the extension of the regulatory period to four years, aligning with the conclusion of the price cap under our Memorandum of Understanding with the Tasmanian Government (MoU).

Our feedback is on the following key areas, with detailed comments provided in the attached table:

- The concept of Notional Allowable Revenue is not explained, or justified, in comparison to the previously required Maximum Allowable Regulated Revenue (MARR). In line with the MoU we will not seek price increases above the price cap, however it is important that we calculate the MARR to demonstrate our progression towards full regulatory financial sustainability
- We intend to build upon and extend our PSP3 consultation approaches to develop a PSP that delivers the benefits that customers and regulators value most. However, the consultation requirements, as they are written, suggest extensive and wide-ranging consultation, which may not be cost effective with limited benefits for customers
- We believe that consideration of a Guaranteed Service Level Scheme is premature given the focus of our Long Term Strategic Plan on compliance for the first ten years
- We will be developing our proposed PSP4 through FY2019/20, so we will only have the first year of the current regulatory period, FY2018/19, to use as the base year for demand forecast and operating expenditure
- Some of the information requirements for capital expenditure are unclear
- We welcome the combining of your Office's template with our regulatory financial model, and
- We seek clarification of other minor matters.

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We welcome the increased clarity the PSP4 Guideline provides of your expectations, and that of your officers, of the contents of our PSP4 document. This should increase the efficiency of the investigation process and result in reduced costs that are ultimately borne by our customers. To support this, forward estimates of your Office's costs would greatly support our budgeting.

In regard to the conduct of the investigation process, we look forward to building upon the open and honest relationship built with your office through PSP3. We think there is an opportunity to avoid any errors of fact by permitting us to review the Draft and Final Determination, and the external operating and capital expenditure reviews, before they are finalised.

We would be pleased to discuss any matters raised in this submission with you or your officers. If you wish to discuss, or have other queries, please contact Ben Morris, Manager Regulation and Strategic Policy on 6237 8445 or ben.morris@taswater.com.au.

Yours sincerely

A handwritten signature in black ink that reads "Dean Page".

Dean Page
Chief Financial Officer

Draft PSP4 Guideline Feedback

Chapter / Section	Comment
<p>Chapter 3 – Price determination process and timeline</p>	<p>Section 3.1 - Notional Allowable Revenue (NAR) is a new term that is not adequately explained and appears to be different to the Maximum Allowable Regulatory Revenue (MARR) used in PSP3.</p> <p>We presume that the NAR has been introduced to reflect the price cap under our MoU with the State Government, yet this is not stated or explained how it is different to the MARR. As Section 2.3 of the Guideline notes <i>“There are no statutory provisions enforcing this price capping arrangement and the Regulator is not constrained by these arrangements in determining maximum prices for the next regulatory period”</i>. Should the NAR actually be different to the MARR, in that it is just the revenue needed to reach the price cap, then Chapter 9 would need reconsideration.</p> <p>In line with the MoU we will not seek price increases above the price cap. However, it is important that we calculate the MARR to demonstrate to our owners and stakeholders our progression towards full regulatory financial sustainability. Similar to PSP3, we intend to calculate our MARR, and apply cost-reflective prices up to the price cap for PSP4. Should the MARR exceed the price cap, then this quantifies the gap between our revenue and full cost recovery revenue, in line with the principles of the <i>Water and Sewerage Industry Act 2008</i> that reflect the objectives of the National Water Initiative.</p> <p>We feel the introduction of the NAR to replace the MARR is likely to create confusion with some stakeholders, and is not necessary.</p>
<p>Chapter 4 - Consultation</p>	<p>Our intention for PSP4 is to build upon and extend the customer and stakeholder engagement we undertook in PSP3 and to more deeply investigate areas where customers, through other channels, are asking for change. We will target our engagement by drawing upon our customer feedback and complaint information, along with three significant pieces of customer and stakeholder engagement we have undertaken since the commencement of PSP3. We know, for example, that the frameworks for, sewerage charging and commercial trade waste are of significant interest.</p> <p>We will be applying the engagement principles of the International Association for Public Participation (IAP2) through the process. The IAP2 public participation spectrum, ranges from ‘inform’ (we will tell you what we are doing and help you to understand) right through to ‘empower’ (we will implement what you decide). We intend that our consultation will range from ‘inform’ through to ‘involve’ on some matters, such as sewerage charging and developer charges. Yet the approach to each topic is shaped by regulatory constraints, the capacity for customers to provide meaningful feedback and the cost-effectiveness.</p> <p>We are concerned that the Guideline lists all components of the PSP4 for consultation, yet is silent on the depth required.</p>

Chapter / Section	Comment
	<p>This suggests an expectations that all matters in our proposed PSP4 can be changed through consultation and that they all require the same level of consideration in the engagement process. This would be an expensive proposition with benefits for customers unlikely to be outweighed by the cost of the exercise.</p> <p>Further, some matters to inform the development of our PSP4 are open ended or very complex to engage customers on, and require clarification, including:</p> <ul style="list-style-type: none"> • Customer protections in the Code – please clarify what is expected, as this is an instrument of the Tasmanian Economic Regulator, not TasWater. While our PSP can propose amendments to the Code, protections more broadly are a matter for the Office to consult on • Capex decisions – it is unclear whether this refers to the projects we propose to invest, or how we make our Capex decisions, for example through our audited Strategic Asset Management Plan and the asset management system • Opex decisions – it is unclear whether this concerns why we have allocated operating expenditure in a certain way, or selected certain escalation factors, which are both examined by the external prudency/efficiency review, or does this refer to how we make these decisions • Return on Capital – this area is a topic that is unlikely to be of interest for customers, nor is it likely to be understood without work to educate customers on what the various components mean. This consultation element will not be cost effective and do not believe there is value in consulting on this element • Demand forecasts – our demand forecasts are based upon external data sources such as the Department of Treasury and Finance’s population projections and local government strategic planning. It is unclear which aspect we would be consulting on • Proposals to introduce services – under our Service Introduction Policy, proposals to introduce services can come from the community or from a relevant state or local government agency on environmental or public health grounds. There are several steps for any proposal to pass through before the project will proceed. We are concerned that unrealistic expectations may be created if we flag unconfirmed projects before the process has been completed, and would prefer to limit these to confirmed projects <p>We request that further consideration is given to the consultation requirements to ensure they are clear, reasonable and cost effective. We understand the purpose of consultation is for us to demonstrate broad customer support for our proposals and where there is change proposed that we specifically engage customers on their views and reflect this, or otherwise explain why</p>

Chapter / Section	Comment
	<p>we have not.</p> <p>We would also value clarification on whether pre-existing consultation and customer feedback and complaints may be used, as the Draft Guideline states that: <i>“TasWater to consult with its customers, stakeholders and interested parties (customer consultation) during the development of its proposed PSP”</i>.</p>
Chapter 5 – Customer Service Standards	<p>Historical performance data – please specify the starting date of this data.</p> <p>Guaranteed Service Level Scheme (or similar) – the Long Term Strategic Plan (LTSP) priorities were agreed in principle by all of the technical regulators as part of PSP3, which included a focus in the first ten years on compliance rather than renewals or increasing service standards. At this time we do not think it is appropriate to introduce such a scheme while our infrastructure program is focused on compliance.</p>
Chapter 6 – Demand forecast	<p>The requirement for actual information from the current regulatory period – the proposed PSP4 will be developed during FY2019/20, therefore the latest complete financial year will be FY2018/19, the first year only of PSP3.</p>
Chapter 7 – Operating Expenditure	<p>Base year for operating expenditure forecasting – the proposed PSP4 will be developed during FY2019/20, and therefore the complete financial year will be FY2018/19. This is proposed to be our base year, which we will adjust and then forecast through to the end of the PSP4 regulatory period.</p> <p>The following statement is unclear: <i>“forecast Opex for each year of the next regulatory period in accordance with the Regulator’s requirements”</i>. Is this referring to the MS Excel spreadsheet that we will be reporting our yearly operating expenditure? It could be read that we are to use the Regulator’s method for forecasting our opex. We request that this is clarified.</p>
Chapter 8 – Capital Expenditure	<p>Section 8.2 – Some of the information requirements around major capital projects are excessive and is likely to generate information overload. In particular, for ‘alternative solutions considered’, considering that we have well in excess of 100 ‘major’ capital projects, then with each of these we are likely to have a number of solutions in addition to a ‘Do Nothing’ option. For each of the potential solutions there will be consideration of our strategic risks, and then different types of risks will be considered for each of these solutions. We understand the reason for this information, however it may be better managed through the deeper, selective examination through the operating and capital expenditure review process, where a sample may be reviewed and assessed.</p> <p>Order of priority – as the reasons why we undertake capital projects is varied it is difficult to provide an absolute priority list. However, within compliance areas, like environment, we could sort the capital projects by the key measure for that compliance area: for example, by contribution to statewide effluent compliance.</p>

Chapter / Section	Comment
	<p>Section 8.3 – States that long term plans should cover at least 10 years. While we appreciate the intent, our Asset Management System has a range of different strategies and plans with different time horizons. Rather than the plans, this section could refer to the Asset Management System with a time horizon of more than 10 years.</p>
<p>Chapter 11 – Financial Model</p>	<p>We welcome the combining of your Office’s template with our financial model. We note that in Table 3.1 (page 10) the TER intends to publish the financial model. This is a change from the approach in PSP3 where neither the TER’s building blocks template, nor our Pricing Model, were required to be published. We do not support the publishing of the model, as this is of very limited use to customers and has the potential to be misinterpreted by users given the complexity of regulatory economics. We would welcome a discussion on how a summary version could be made available.</p>
<p>Chapter 13 – Additional requirements</p>	<p>Section 13.5 – Wastewater recycling (reuse) is implemented where it is the most cost effective solution that meets the multiple objectives, including risk, and is different for each project. In some locations where wastewater recycling is the only option, as EPA will not permit the disposal of effluent into the waterway. In that context it is unclear what this section is seeking to establish.</p> <p>Section 13.6 – this section may be more useful towards the front of the document to frame the requirements that are then set out in the Guideline.</p>