



INQUIRY INTO THE LEVEL OF
TASWATER'S SERVICE CHARGES

DRAFT REPORT

AUGUST 2023

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Printed August 2023

Office of the Tasmanian Economic Regulator

ISBN (only required for Final Report)

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The Tasmanian Economic Regulator invites written submissions from interested parties on the matters discussed in this Report.

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The Regulator will not publish submissions which contain material that the Regulator believes is, or could be viewed as, derogatory or defamatory.

Submissions must be received by close of business on Friday 13 October 2023.

To make it easier to publish submissions on OTTER's website, submissions by email are preferred.

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If you require any assistance in preparing a submission, please contact OTTER at the above email address or by telephone: (03) 6145 5899.

EXECUTIVE SUMMARY

In addition to charging the owners or occupiers of properties connected to its water and sewerage networks for water and sewerage services, TasWater levies service charges on the owners of properties that can connect to these networks but are not connected, usually because the properties are undeveloped (i.e. vacant land) or the owners have chosen not to connect.

Service charges on unconnected properties have historically applied in most parts of Tasmania, having been imposed by the majority of local councils until 2008, the three regional water corporations from 2009, and then TasWater from 1 July 2013.

The *Water and Sewerage Industry Act 2008* (Industry Act) allows TasWater to impose service charges on unconnected properties that TasWater will permit to be connected to its water and/or sewerage networks. Service charges are intended to reflect the costs that TasWater incurs in maintaining, renewing, and operating its water and/or sewerage systems, but recognise that unconnected properties do not contribute to variable costs related to the consumption of water or discharging sewerage into the network.

Under the Industry Act, the Tasmanian Economic Regulator (the Regulator) is responsible for determining prices, including service charges, for regulated water and sewerage services in Tasmania. In its *2022 Water and Sewerage Price Determination Investigation Final Report*, the Regulator accepted TasWater's proposal to continue imposing service charges on owners of vacant and unconnected properties. However, given regular customer feedback about the imposition and level of service charges, the Regulator decided to review, during the fourth regulatory period, the level of TasWater's service charges.

The water service charge for an unconnected property is currently 100 per cent of the fixed charge that is applied to a property connected via a standard 20mm connection. In 2022-23, the water service charge was \$367.39. The sewerage service charge for an unconnected property is currently 60 per cent of the fixed charge applied to a standard residential property. For 2022-23, the sewerage service charge for an unconnected property was \$423.02.

The Regulator has reviewed TasWater's current service charges policy and has made a number of draft findings and recommendations, which are consolidated in Chapter 8 of this Report.

In summary, the Regulator's draft findings are that:

- the imposition of service charges on unconnected properties within serviced land areas is consistent with the pricing principles prescribed in the Industry Act;
- TasWater's service charge policies are comparable to the majority of major and large water and sewerage utilities in other Australian jurisdictions;
- there is no overlap between service charges and service introduction charges;
- there is some potential overlap between service charges and developer charges as a result of the inclusion of incremental capital expenditure from the third regulatory period in the calculation of the Shared Infrastructure Contribution Charge, which applies to new developments from 1 July 2023;
- the alternatives to TasWater's current service charges policy are either inconsistent with the pricing principles, a disincentive to development, or do not necessarily better reflect the costs

of providing the necessary infrastructure to service potential customers compared to the current policies; and

- while TasWater's current service charges policy is consistent with the pricing principles, it is not clear how accurately the current level of TasWater's service charges reflect the costs that are directly attributable to the provision of services to unconnected properties within serviced land or whether they adequately reflect the avoided costs from not having these properties connected to its infrastructure.

The Regulator's draft recommendations are that TasWater:

- review and recalculate its fixed and variable water and sewerage costs during the development of its price and service plan for the fifth regulatory period. Data gathered from its implementation of activity-based costing may assist in this task;
- establish the appropriate costs that are relevant to servicing unconnected properties within serviced land, including costs that are avoided from not having these customers connected to its infrastructure, and use these to inform and justify its proposed water service charge and sewerage service charge for the fifth regulatory period; and
- review the calculation of the Shared Infrastructure Contribution Charge, which is applied to new developments, during the development of its price and service plan for the fifth regulatory period to consider whether the inclusion of incremental capital expenditure during the previous regulatory periods is appropriate.

Interested parties are invited to make a written submission in response to this draft Report by close of business on Friday 13 October 2023. After considering submissions, the Regulator will publish a final report on 1 December 2023.

The Regulator expects TasWater's proposed price and service plan for the fifth regulatory period to account for the findings of this Inquiry. To this end, the Regulator's price and service plan guideline will set out the Regulator's expectations with respect to service charges.

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1 INTRODUCTION

1.1 Background

Australian water and wastewater services are provided by a large number of water utilities, councils and private providers. In 2021-22, over 10 million residential and non-residential properties (or over 25 million people) were connected to the water supply of Australia's 81 retail water utilities and local councils¹. In addition to providing services to properties connected to their water and sewerage networks, many of these service providers levy service charges on properties that can connect to their water and sewerage networks, but are not connected. Properties may not be connected for a variety of reasons, including because they have not been developed (i.e. they are vacant land) or because property owners have chosen not to connect.

Service charges on unconnected properties have historically applied in most parts of Tasmania, having been imposed by the majority of local councils until 2008, the three regional water corporations from 2009, and then TasWater from 1 July 2013.

The Industry Act allows, but does not require, a regulated entity (TasWater, in this case) to impose service charges for water and sewerage services on owners of property within TasWater's serviced land, based on the entity's description of serviced land. Those liable to pay service charges fall within the definition of customers under the Industry Act and are therefore covered by TasWater's customer contract.

Under the Industry Act, the Regulator is responsible for determining prices and service standards for regulated water and sewerage services in Tasmania, including for service charges.

As part of the Regulator's price determination process, TasWater is required to submit a price and service plan for regulated services, and section 68A of the Industry Act requires a price and service plan to include a policy that sets out the circumstances in which it will impose service charges and the amount, or method of determining the amount, of such charges.

In its price and service plan for the fourth regulatory period (from 1 July 2022 to 30 June 2026), TasWater proposed to continue to impose service charges on owners of vacant and unconnected properties. The Regulator accepted this proposal in its *2022 Water and Sewerage Price Determination Investigation Final Report*. The Regulator also accepted TasWater's proposal to continue to impose service introduction charges and to re-introduce developer charges.

However, given regular customer feedback about the imposition and level of service charges, the Regulator decided to review, during the fourth regulatory period, the level of TasWater's service charges.

This Inquiry into the level of Taswater's service charges is undertaken under Section 12(j) of the Industry Act, which provides that one of the Regulator's functions is to undertake inquiries, including such inquiries as may be required by the Minister, in relation to the regulation of the water and sewerage industry.

¹ Data from the *National Performance Report 2021–22: urban water utilities*

1.2 Terms of Reference

The Regulator established and published Terms of Reference for the Inquiry on 21 September 2022.

The Terms of Reference provide that the Regulator, in conducting the Inquiry, will consider the following matters:

1. the current basis for calculating and setting the level of service charges;
2. whether there is any overlap between current service charges, service introduction charges and developer charges;
3. the level of service charges levied by utilities in other Australian jurisdictions;
4. whether the calculation of the service charge is consistent with the pricing principles;
5. the customer impact of the current level of service charges; and
6. any other matters the Regulator considers relevant.

The Terms of Reference are included, in full, in Appendix B of this report.

1.3 Approach to the Inquiry

The Regulator has consulted with TasWater and water and sewerage industry regulators in Tasmania and in other Australian jurisdictions, during the preparation of the Draft Report.

The Regulator invites written submissions from interested parties on the matters discussed in this Report. Submissions must be received by close of business on Friday 13 October 2023.

After considering submissions, the Regulator will publish a final report on 1 December 2023, which will set out the Regulator's findings on the level of service charges.

The Regulator expects TasWater to implement any revised service charge arrangements from the start of the fifth regulatory period on 1 July 2026. To this end, the Regulator's price and service plan guideline will set out the Regulator's expectations with respect to service charges.

1.4 Structure of this report

This report is structured as follows:

- Chapter 2 describes of TasWater's current service charges and their basis, including their history and rationale;
- Chapter 3 summarises the arguments for and against the imposition of service charges;
- Chapter 4 describes of TasWater's service introduction charges and any overlap between service charges and service introduction charges during the lifecycle of a property;
- Chapter 5 describes of TasWater's developer charges and any overlap between service charges and developer charges during the lifecycle of a property;
- Chapter 6 outlines the pricing principles prescribed in the Industry Act and assesses whether TasWater's current approach to service charges is consistent with the pricing principles;

- Chapter 7 summarises the service charges levied by similar water and sewerage service providers in other jurisdictions;
- Chapter 8 outlines and analyses alternative service charges models and customer impacts; and
- Chapter 9 consolidates the Regulator's draft findings and recommendations.

Additional information, including a glossary, terms of reference, additional detail on service charges in other jurisdictions and modelling can be found in the appendices.

2 TASWATER'S SERVICE CHARGES

2.1 Introduction

A water or sewerage service charge is a charge levied on a property owner where there is an opportunity to access a service even if there is no physical connection between the property and TasWater's water and sewerage infrastructure. TasWater currently imposes service charges on customers with properties not connected to TasWater's water and sewerage infrastructure that are within serviced land. As explained further in section 2.4, serviced land is land TasWater will permit to connect, via a standard connection, to its water or sewerage infrastructure.

When TasWater installs infrastructure in an area, it builds enough capacity in the network to accommodate all potential customers. TasWater currently recovers the costs of making water and sewerage services available from:

- owners of properties that receive water and/or sewerage services; and
- owners of properties on serviced land if they can connect to the water and/or sewerage network, but choose not to do so.

During the Regulator's 2022 Water and Sewerage Price Determination Investigation, TasWater forecast revenue of \$1.8 million in 2022-23 from water service charges on 4 907 unconnected properties and \$5.0 million from sewerage service charges on 11 738 unconnected properties². The 2022-23 financial year has been used for illustrative purposes throughout this Report to allow the comparison of TasWater's service charges with those of utilities in other jurisdictions.

Revenue from service charges accounts for around two per cent of TasWater's total revenue³.

2.2 Water service charges

The water service charge for an unconnected property is 100 per cent of the fixed charge that is applied to a property connected via a standard 20mm connection. In 2022-23, the water service charge was \$367.39.

2.3 Sewerage service charges

The sewerage service charge for an unconnected property is 60 per cent of the fixed charge of applied to a standard residential property (one equivalent tenement, or ET).

The service charge for sewerage is less than 100 per cent of the fixed sewerage charge because unconnected sewerage customers do not discharge sewage into the network. This means that TasWater does not incur costs associated with transporting, treating and disposing of sewage in relation to these customers.

In 2022-23 the sewerage service charge for an unconnected property was \$423.02.

² TasWater's Price and Service Plan for the fourth regulatory period - pricing model.

³ 2022 Water and Sewerage Price Determination Investigation - Final Report (page 128).

2.4 Serviced land

Serviced land is land where TasWater will permit a standard connection to its water or sewerage infrastructure.

Section 56U(1) of the Industry Act requires a price and service plan to include a description of the land, whether identified by individual title or by locality, that TasWater will permit to be connected to its water or sewerage infrastructure.

Land titles are defined as water serviced land by TasWater⁴ when they meet all of the following criteria:

- they can be supplied with treated water;
- they are within 30 metres of the water reticulation main;
- they can receive the minimum flow and pressure at the connection point as described in the TasWater Supplement to WSAA Water Supply Code of Australia (MRWA Edition);
- connection to the reticulation network would not cross a land title owned by a third party; and
- the physical characteristics or location of the property are not such as to require the application of unusual or unusually costly infrastructure, design, or installation techniques in order for the connection to be made.

Land titles that do not meet these criteria are unserviced for water.

Land titles are defined as sewer serviced land by TasWater⁵ when they meet all of the following criteria:

- they are within 30 metres of TasWater's sewer reticulation main and can be serviced via gravity connection;
- connection to the reticulation main would not require installation of infrastructure on land owned by a third party beyond distances set out in the TasWater Supplement to WSA 02-2014-3.1 WSAA Gravity Sewerage Code of Australia version 2.0, section 5.2.8;
- the physical characteristics or location of the land title are not such as to require the application of unusual or unusually costly infrastructure, design, or installation techniques in order for the connection to be made; and
- they are not otherwise considered unserviced land.

Land titles that do not meet these criteria are unserviced for sewerage.

TasWater's *Land Development Policies 1 July 2022* outlines the circumstances in which it will consider allowing properties in unserviced land to connect to its network. Links to maps of serviced land for water and for sewerage can be found at www.taswater.com.au/accounts-billing/fees-charges/serviced-land.

⁴ TasWater's *Water and Sewerage Network and Charges Policy - 1 July 2022*.

⁵ Ibid.

3 ARGUMENTS FOR AND AGAINST SERVICE CHARGES

3.1 Introduction

As part of its preparation of its price and service plan for the third regulatory period (1 July 2018 to 30 June 2021, and subsequently extended to 30 June 2022), TasWater undertook customer consultation and found that the majority of customers (59 per cent) supported the retention of service charges for connected and unconnected properties within serviced land. TasWater stated that, overall, the consultation found that 44 per cent of customers supported the principle of charging owners of vacant land who are permitted to connect to water and sewerage services and that the current charging arrangements should be retained. Another 15 per cent disagreed with the principle but thought the charges should remain⁶. The Regulator understands that this consultation included, as a majority, TasWater customers who are connected to water and/or sewerage services. The Regulator is not aware of any consultation that involves only those TasWater customers who pay service charges but are unconnected to the water and/or sewerage services.

TasWater did not include service charges in its customer consultation and engagement process during the development of its price and service plan for the fourth regulatory period.

The following section outlines the arguments for and against the imposition of service charges.

3.2 TasWater's Price and Service Plan

TasWater's price and service plan for the fourth regulatory period summaries its position with regard to service charges⁷:

TasWater is required by law to permit connection and supply services to properties within 10 business days of an application being approved. To ensure service and supply to all properties within serviced land, TasWater incurs expenditure associated with the operation, renewal and maintenance of its pipes, pumps and treatment plants. There are significant public health and environmental benefits associated with piped, tested drinking water and sewage removal and treatment, and these give rise to associated increases in property values of land within serviced areas.

TasWater's approach is to share the costs between properties that currently use the services and those that may use these services in the future. If this was not the case, properties currently connected would carry the burden of those not currently connected.

⁶ 2018 Water and Sewerage Price Determination Investigation Final Report (page 84).

⁷ TasWater's Price and Service Plan for the Fourth Regulatory Period (page 80).

3.3 Arguments supporting service charges

As described in Chapter 7, service charges are applied by the major and large utilities in most Australian jurisdictions (although not all of the utilities apply service charges), and there are a number of arguments commonly used by service providers and/or regulators to justify the imposition of service charges.

A common argument in support of service charges is that they allow regulated entities to recover the cost of complying with a regulatory requirement to make services available to all properties within specified areas. As discussed in Chapter 6, the *Tasmanian Water and Sewerage Industry Customer Service Code (Version 8) 1 July 2022* (Customer Service Code) requires TasWater to permit an owner of land that is within its serviced land area to connect a property to its infrastructure within 10 business days or an agreed later date.

From a service provider's perspective, the most efficient way to meet this requirement is to build sufficient capacity in the network to accommodate all potential customers in a service area, even though a portion of that service area may initially contain vacant or unconnected lots.

Such a requirement to service all potential customers is not unique to Tasmania. For example, in Queensland, water and sewerage service providers are required under section 164 of the *Water Supply (Safety and Reliability) Act 2008* (Qld) to ensure that all premises in a service area are able to be connected to the service providers infrastructure. Section 165 of that Act allows the service provider to recover from a customer the reasonable cost of complying with section 164 for the customer's premises.

Section 68(1)(a) of the Industry Act provides that TasWater is to be provided with a reasonable opportunity to recover the efficient costs that it incurs in providing a regulated service and complying with a regulatory obligation. TasWater is therefore, able to recover the efficient cost of ensuring that its networks have sufficient capacity to service all properties within its serviced land.

Another argument, canvassed in the discussion of service charges in Regulator's *2015 Price Determination Investigation - Regulated Water and Sewerage Services in Tasmania - Final Report* is that, if costs were not shared between properties that currently use the services and those that may use these services in the future, there would be cross-subsidisation whereby connected customers would be required to pay for the additional capacity provided to potentially service unconnected customers. As part of the development of its price and service plan for the third regulatory period, TasWater estimated if the unconnected customers did not pay the service charge, connected customers would have to pay an additional cost of \$15 per year during the third regulatory period⁸. Chapter 8 and Appendix E of this Report illustrate the estimated financial impact on customers of a range of alternative models for the 2022-23 financial year.

Finally, it has been argued, both in the Regulator's previous pricing investigations and in other jurisdictions that annual service charges are offset by an increase in an unconnected property's value arising from the property's potential to access water and sewerage infrastructure. That is, owners of all properties within serviced land, including unconnected properties, receive a benefit that is in addition to the direct benefit from the convenience of reticulated water and sewerage services.

⁸ TasWater's *Draft Price and Service Plan 4* (page 191).

3.4 Arguments against service charges

During the Regulator's pricing investigation for the third regulatory period, a review of service charges across Australia identified several arguments against water and sewerage service charges.

TasWater's Price and Service Plan for the second regulatory period noted that:

The issue of service charges generally was one of the key themes/issues that was raised through consultation undertaken by TasWater in 2014. It was also raised as part of consultation undertaken by the Economic Regulator during its investigation... a number of submissions discussed this issue and the responses shared a common view that the charges should either be wholly removed, with customers able to opt out from receiving a reticulated supply as is the case with other utilities such as gas, telecommunications, or electricity⁹.

The primary argument made by customers who are subject to service charges is that they are charged for a service that they do not receive and that they are unable to opt out of.

Unconnected customers typically compare TasWater's policy to that of other network service providers, such as those that provide electricity and gas. Tasmanian electricity and gas retailers do not charge unconnected customers for these services. Rather, the cost of these networks is borne by connected customers.

Further, owners of unconnected properties in previously unserved areas may also argue that they have invested in their own water and/or sewerage facilities (rainwater tanks and septic systems, for example) and they should not also have to pay service charges when TasWater introduces services to which they do not connect.

In NSW, the Independent Pricing and Regulatory Tribunal (IPART) sets the maximum prices for water and sewerage services in Sydney, the Blue Mountains, Illawarra, the Hunter, Central Coast and Broken Hill. IPART has taken the view that¹⁰:

- properties that are not connected to the water or sewerage system are not directly imposing costs on the Council's network, and
- properties that have been disconnected due to non-payment of fees should not continue to be levied water or sewerage service charges.

As a result, IPART has set the maximum service charge (for both water and sewerage) at \$0. IPART expressed the view that prices would be more cost-reflective if developer charges applied to new connections, rather than annual water and sewerage service charges, and then annual service charges applied to properties that are connected.

⁹ TasWater's Price and Service Plan 2015-18 (page 82).

¹⁰ IPART, Review of Central Coast Council's water, sewerage and stormwater prices to apply from 1 July 2019, July 2019 (page 133).

4 SERVICE INTRODUCTION CHARGES

4.1 Introduction

TasWater levies service introduction charges when it introduces reticulated water services and/or sewerage services to localities that were not previously receiving these services. Service introduction charges are intended to reflect the reasonable costs of constructing water and/or sewerage infrastructure, less what would be recovered from customers in the new service area through ongoing annual water charges and/or sewerage charges.

TasWater's *Service Introduction Charges Policy* and Chapter Six of its *Water and Sewerage Network and Charges Policy - 1 July 2022* outline the circumstances and the terms and conditions under which TasWater will introduce water and/or sewerage services and the charges that will apply.

TasWater will consider introducing water and/or sewerage services to a locality that is not receiving those services when a proposal is put forward by:

- a community or council on behalf of the community; or
- the relevant council's environmental health officer, the Environmental Protection Authority (EPA) or the Department of Health who have identified that the absence of these services is causing significant and/or wide scale environmental harm and/or public health issues.

When it receives a service introduction proposal, TasWater conducts initial consultation with the affected community. This consultation includes high level preliminary design work and estimated service introduction charges per title. In order to progress to the next stage of consultation the service introduction proposal must be commercially viable. Consideration of service introduction will only proceed if at least 50 per cent of the community supports the proposal.

A detailed design and business case for the proposed service introduction will then be developed, providing a more accurate estimate of the project costs and the service introduction charges. For the proposal to proceed to the procurement and construction stage, at least 80 per cent of the owners of developed land¹¹ within the proposed service introduction area must enter into an agreement committing to connect to the system and pay the service introduction charge.

TasWater does not impose service introduction charges on land owners when a local council, the Environment Protection Authority or the Department of Health has directed it to introduce water and/or sewerage services to a locality.¹²

¹¹ Developed land means land titles where there is an existing development and/or use that would reasonably be expected to require or receive reticulated drinking water services and/or sewerage services. This may include, but not be limited to, a residential dwelling and commercial premises. It would not include other uses that do not require drinking water, for example, irrigation or stock watering.

¹² TasWater advised that it is not clear that the Department of Health or a council's environment health officer have the ability to issue such a proposal or direction. This element of TasWater's Service Introduction Charges Policy will require review during the development of TasWater's Price and Service Plan for the fifth regulatory period.

4.2 Calculation of service introduction charges

TasWater's policy is that service introduction charges are based on the net present value (NPV) of the cost of providing the infrastructure specific to the service introduction, less the present value amount that would be recovered from the actual percentage of committed customers¹³ through ongoing annual water charges and/or sewerage charges. Any third-party funding contributions are subtracted from the NPV calculations.¹⁴

Service introduction charges are levied on the owners of land that have signed a contract committing to a connection and are levied from the date on which the property is able to connect to TasWater's infrastructure. The owner of each property may elect to pay the service introduction charge over a period of not less than 12 months, or over a lesser period if the owner requests.

In addition to the service introduction charges, a connection charge for water services and/or sewerage charges is payable by the owner when each property is connected and ongoing fixed and variable charges will apply once the property is connected and service provision has commenced.

Owners of land within the service introduction area who do not enter into an agreement committing to connect to the system and pay the service introduction charge during the development of the proposal are not required to pay the service introduction charge.

Owners of land who are able to connect to TasWater's services in the newly serviced locality who choose not to do so become liable to pay service charges following the completion of works and availability of water and/or sewerage services.

4.3 Legislative basis for service introduction charges

Regulation 8 of the *Water and Sewerage Industry (Pricing and Related Matters) Regulations 2021* (the Pricing Regulations) provides that a price determination may require a price and service plan to include a policy in respect of service introduction charges that:

- specifies how service introduction charges are to be determined;
- permits an owner of a property to which a service introduction charge relates to pay the charge over a period of not less than 12 months or at the owner's request, over a period of less than 12 months;
- requires the entity to provide to a person, before a service introduction charge is imposed on the person, an estimate of the amount of that charge that may be imposed on the person; and
- requires the entity to provide, to a person on whom a service introduction charge is imposed, information as to how the amount of the charge has been determined by the regulated entity.

Regulation 11 provides that a cost of providing a regulated service to a customer must not be included in a charge imposed on the customer if the cost has been, or is to be, recouped by the imposition on the customer of another charge. That is, there is to be no "double-dipping".

¹³ TasWater's practice is to net off the present value of the amount that would be recovered from all customers through ongoing annual water and/or sewerage charges, not just the amount that would be recoverable from committed customers.

¹⁴ TasWater's *Water and Sewerage Network Charges Policies 1 July 2022* (page 18).

4.4 Overlap between service charges and service introduction charges

There does not appear to be any overlap between service charges and service introduction charges.

Prior to the introduction of water services and/or sewerage services to a locality, property owners are not subject to service charges.

When water services and/or sewerage services are to be introduced to a locality, property owners that commit to connect are subject to service introduction charges, and service charges for the period between the service becoming available and connection of the property to those services. Service introduction charges are reduced by the amount that will be recovered from customers in the new service area through ongoing annual water charges and/or sewerage charges. Therefore, there is no overlap between service charges and for customers that commit to be connected during the development of a service introduction.

When services are introduced to a locality, property owners that have not agreed to connect are not subject to service introduction charges. When the service becomes available, owners of unconnected properties are subject to service charges. Therefore, there is no overlap between service introduction charges and service charges for customers that do not agree to be connected during the development of a service introduction.

4.5 Finding

There is no overlap between service charges and service introduction charges.

5 DEVELOPER CHARGES

5.1 Introduction

Developer charges are cost recovery charges levied on developers (either as a charge or via the giving of water and/or sewerage infrastructure to TasWater by the developer) to cover the cost of expanding water and/or sewerage infrastructure to enable water and sewerage services to be provided.

In its price and service plan for the fourth regulatory period, TasWater proposed and the Regulator approved a new developer charges policy to commence on 1 July 2023. As a consequence of this new policy, revenue from developer charges is forecast to increase from \$92 160 in 2022-23 to \$9.8 million in 2023-24. Gifted assets are forecast to increase from \$29.2 million in 2022-23 to \$29.5 million in 2023-24¹⁵.

This chapter summarises TasWater's developer charges policy, which is published in its *Land Development Policies 1 July 2022*.

5.2 Calculation of developer charges

TasWater maintains growth and capacity plans (GCPs) that detail the long-term infrastructure needs of each of its water and sewerage systems. GCPs are updated periodically and are used as the basis for determining whether there is sufficient capacity available in the relevant system for a proposed development¹⁶.

The type of developer charge levied on a new development is largely dependent on whether the development is covered by TasWater's GCPs, as discussed below.

A Shared Infrastructure Contribution Charge will be applied to all developments that are included in GCPs. Developments that fall outside TasWater's GCPs and are materially different in terms of size, cost or timing will have a Bulk Infrastructure Capacity Charge (bulk charge) applied.

5.2.1 Shared Infrastructure Contribution Charge

From 1 July 2023, all new developments that are within the areas covered by TasWater's GCPs (i.e. where existing and/or planned infrastructure can accommodate the demands of the proposed development) will be subject to a standard state-wide developer charge, referred to as the Shared Infrastructure Contribution Charge (standard charge). This standard charge aims to cover the incremental costs associated with expected capacity upgrades (i.e. not system extensions) driven by new customers, net of costs to be recovered through ongoing water and sewerage charges levied on those customers. For each of the 2023-24, 2024-25 and 2025-26 financial years the standard charge is \$3 514 per new ET. For water-only or sewerage-only connections, 50 per cent of the standard charge will apply.

¹⁵ TasWater's Price and Service Plan for the fourth regulatory period - pricing model.

¹⁶ TasWater *Land Development Policies 1 July 2022* (page 105).

The methodology used to set the standard charge is described in detail in Marsden Jacob Associates' *TasWater - Methodology for estimating the shared infrastructure charge*.¹⁷

Summarising that methodology, net incremental costs (over the assessment period to 2041-42) are calculated as:

$$= \frac{\text{incremental capex PSP3} + \text{NPV incremental capex} + \text{NPV incremental opex} - \text{NPV incremental revenue}}{\text{forecast new ETs}}$$

5.2.2 Bulk Infrastructure Capacity Charge

Developments that fall outside of TasWater's GCPs and are materially different in terms of size, cost or timing will have a bulk charge applied, in addition to the standard charge.

The bulk charge for a specific development will be based on the net incremental costs per ET of the capacity augmentation required for the individual development. The bulk charge for each development will be calculated based on the NPV of incremental capital expenditure associated with the network capacity upgrade required for the development plus the NPV of forecast operating expenditure driven by new customers, less the NPV of forecast revenue from new customers projected to connect to the network capacity upgrade¹⁸.

TasWater's policy is that all works that are internal to the development are paid for by the developer, as are external works required to connect to TasWater's existing mains. Where an expansion of TasWater's infrastructure is required, the application of a bulk charge will depend on its the bulk charge policy described above.

This bulk charge per ET will apply to all subsequent developments that connect to the capacity upgrade included in the bulk charge. Where the bulk charge is applied to subsequent developments it will be charged in addition to the standard charge.

5.3 Serviced and unserviced land

TasWater's *Land and Development Policies 1 July 2022*¹⁹ provides the following advice with regard to developments within serviced land:

- where the existing and/or planned water and/or sewerage infrastructure can accommodate the demands of the development/use (capacity), the standard charge will apply; and
- where existing and/or planned water and/or sewerage infrastructure cannot accommodate the demands of the development/use (capacity), the developer will be required to pay the bulk charge for the additional capacity upgrade plus the standard charge.

For developments outside serviced land:

- where capacity is available within an existing system, the developer may access the available capacity in that system and pays the standard charge and the costs of extension, including connection, to that system;

¹⁷ *Investigation into TasWater's Prices and Services for the Period 1 July 2022 to 30 June 2026 - Final Report* (Attachment 4).

¹⁸ *TasWater Land Development Policies 1 July 2022* (page 108).

¹⁹ *TasWater Land Development Policies 1 July 2022* (page 108).

- where capacity is not available within an existing system and no works are planned, the developer pays the standard charge and the costs of extension, including connection, to that system plus a bulk charge for the additional capacity upgrade; and
- where they are isolated developments, all cost are paid by the developer.

5.4 Legislative basis for developer charges

The legislative basis for developer charges is detailed in regulations 7, 18 and 19 of the Pricing Regulations.

Regulation 7 provides that a price determination is to require a regulated entity's price and service plan to include a developer charges policy, which specifies the method by which developer charges will be calculated and includes information that enables a developer to calculate an estimated amount to be payable in respect of a proposed new development. The developer charges policy is also to require a regulated entity to provide to a developer an estimate of the amount of a developer charge and information on how the amount has been determined.

Regulation 18 provides that a regulated entity may impose a charge that relates to the installation, alteration or utilisation of its assets so as to enable the provision of regulated services to a new development.

Regulation 19 provides that the amount of a developer charge is to be sufficient (but no higher than necessary) to recoup the reasonable costs incurred by the entity in respect of the proposed new development. Reasonable costs are those directly attributable to installing, altering, or utilising assets, in a reasonably cost-efficient manner. The amount of a developer charge may, if the regulated entity agrees, be reduced by the value of any contributed assets to be provided to the entity by the developer.

Regulation 11 provides that a cost of providing a regulated service to a customer must not be included in a charge imposed on the customer if the cost has been, or is to be, recouped by the imposition on the customer of another charge. That is, there is to be no "double-dipping".

5.5 Overlap between service charges and developer charges

There is some potential overlap between service charges on land that is within TasWater's serviced land and developer charges.

The owner of undeveloped land that is within TasWater's service land has made a contribution to TasWater's annual capital expenditure through annual service charges (which reflect TasWater's capital and fixed operating costs), either with regard to a single lot or multiple lots, depending on whether, and how long, the land has been subdivided prior to development.

When land is developed, the property owner will be subject to the standard charge for each ET (plus a bulk charge in some cases) from 1 July 2023. Calculation of the standard charge includes incremental capital expenditure during the third regulatory period (2018-19 to 2021-22) in addition to forecast incremental capital expenditure over the assessment period (2022-23 to 2041-42).

TasWater's consultant, Marsden Jacob Associates, noted that the inclusion of historical assets from the third regulatory period is consistent with IPART and the Victorian Essential Service Commission's (ESC) frameworks, although they all allow for a longer period of historical capex²⁰.

However, IPART states that under its incremental cost approach to the assets included in the calculation of the capital charge component, new customers make an upfront contribution to the cost of existing assets, to the extent that these assets form part of the servicing solution for the new development²¹.

While the owners of undeveloped property in TasWater's serviced land make an annual contribution to TasWater's capital investment and therefore its existing assets, this is not necessarily the case in NSW and Victoria. IPART has set the maximum level of service charges at nil, and some of the largest utilities subject to the Victorian ESC's price determinations also do not levy service charges on undeveloped land. Thus, many NSW and Victorian owners of undeveloped property do not pay service charges and therefore have not contributed to historical capital expenditure.

It is reasonable to take the view that the policy of including existing assets in IPART's framework has arisen because owners of undeveloped land have not otherwise made a contribution to those assets through annual service fees.

The inclusion of incremental capital expenditure during the third regulatory period in the calculation of the standard charge has a significant impact on the quantum of that charge.

While this issue has the potential to increase developer charges, revenue from developer charges is included as an offset to the Regulated Asset Base, which reduces water and sewerage charges generally (including service charges).

There is no overlap between developer charges and service charges where land is outside of TasWater's serviced land, because such land is not subject to service charges.

5.6 Finding

The inclusion of incremental capital expenditure from the third regulatory period in the calculation of the standard charge creates some overlap between service charges on land that is within TasWater's serviced land and developer charges. However, there is no overlap between service charges where land is outside of TasWater's serviced land and developer charges, because such land is not subject to service charges.

5.7 Recommendation

That TasWater review the calculation of the standard charge during the development of its price and service plan for the fifth regulatory period to consider whether the inclusion of incremental capital expenditure during the previous regulatory period is appropriate.

²⁰ Marsden Jacobs Associates - *TasWater - Methodology for estimating shared infrastructure charge* (page 2).

²¹ IPART's methodology excludes assets commissioned prior to 1970 - IPART's *Maximum prices to connect, extend or upgrade a service for metropolitan water agencies* (page 23).

6 PRICING PRINCIPLES

6.1 Introduction

Section 68 of the Industry Act sets out pricing principles that apply in relation to the price for the provision of a regulated service.

Further, TasWater, as the regulated entity, is to be provided with a reasonable opportunity to recover the efficient costs that it incurs in providing a regulated service, and in complying with a regulatory obligation or requirement, except where the Act otherwise provides.

The price is to provide for efficient pricing by:

- applying two-part pricing for water services based on the recovery of fixed costs and variable costs by way of a fixed charge and a variable charge (with the variable charge determined by the volume of water used as measured by a water meter); and
- reflecting the costs of servicing particular customers or classes of customers in different locations, regions or schemes.

The price is to provide effective incentives, with respect to a regulated service to:

- promote economic efficiency;
- reduce costs; or
- otherwise improve productivity.

The price is to allow for a return to TasWater on assets used in providing a regulated service and, to the extent that it is commercially and technically reasonable, the price charged to a particular customer or class of customers is to reflect at least the costs that are directly attributable to the provision of the regulated service to that customer or class of customers.

In addition to the pricing principles set out in the Industry Act, the Pricing Regulations contain additional pricing principles in relation to:

- pricing zones (if there are significant differences in the costs of providing a regulated service to different areas of service land);
- the structure of service introduction charges;
- the calculation of developer charges;
- the treatment of contributed assets; and
- the basis for setting fixed and variable charges.

The Pricing Regulations also provide that a cost of providing a regulated service to a customer must not be included in a charge imposed on the customer if the cost has been, or is to be, recouped by the imposition on the customer of another charge. I.e, there is to be no “double dipping”.

6.2 Assessment

The Customer Service Code, issued by the Regulator in accordance with section 57 of the Industry Act, imposes a regulatory requirement on TasWater to permit an owner of land to connect a property that is owned or occupied by a person to its infrastructure within 10 business days, or such later date as agreed between the TasWater and the person, if the property is on the serviced land as defined in the TasWater's price and service plan and provided that a range of conditions are met.

To comply with this regulatory requirement, TasWater needs to ensure that there is sufficient capacity in its water and/or sewerage infrastructure so that all property owners within its serviced land can connect upon request.

Section 68(1)(a) of the Industry Act provides that a regulated entity is to be provided with a reasonable opportunity to recover the efficient costs which the regulated entity incurs in providing a regulated service and complying with a regulatory obligation or requirement or making a regulatory payment under the Act, except where the Act otherwise provides. TasWater is therefore, able to recover the efficient cost of ensuring that its networks have sufficient capacity to service all properties within its serviced land.

It is, therefore, considered that the imposition of service charges on unconnected properties within serviced land (which it is required to connect to within 10 business days upon request) is consistent with the Industry Act and the pricing principles.

However, the question of whether the current level of TasWater's service charges adequately reflects the costs that are directly attributable to the provision of services to this class of customers (customers within serviced land that have not connected to TasWater's network) is less clear.

TasWater's service charges attempt to reflect the cost of building and maintaining its infrastructure such that it can service all potential customers in its service land. Historically, TasWater has reflected these costs by setting the level of its service charges to approximate its fixed costs.

For water, the service charge is 100 per cent of the fixed charge for connected water services (standard 20mm connection). The extent to which TasWater has reviewed its fixed and variable costs, and the associated prices in its price and service plan for the fourth regulatory period is unclear.

For sewerage, the service charge is 60 per cent of the charge for connected sewerage services (per ET). This approximation of TasWater's fixed sewerage costs was submitted by the three regional water corporations as part of the Regulator's pricing investigation for the first regulatory period (1 July 2012 to 30 June 2015) and does not appear to have been reviewed since. It is not clear that it accurately reflects TasWater's fixed sewerage costs.

The Regulator recommends that TasWater update the calculation of its fixed and variable costs for each service. However, this alone is not sufficient to establish whether TasWater's fixed costs per connection/ET adequately reflect the costs of servicing this class of customers. The Regulator recommends that TasWater establish the appropriate cost of servicing unconnected customers within serviced land. This may include an examination of all avoidable costs, including those that may be avoided by delaying investment in system upgrades until there is sufficient demand for services.

6.3 Findings

The imposition of service charges on unconnected properties within serviced land (which TasWater is required to connect within 10 business days upon request) is consistent with the Industry Act and the pricing principles.

However, it is not clear how accurately the current level of TasWater's service charges reflect the costs that are directly attributable to the provision of services to unconnected properties within serviced land or whether they adequately reflect the avoided costs from not having these properties connected to its infrastructure.

6.4 Recommendations

That TasWater review and recalculate its fixed and variable water and sewerage costs during the development of its price and service plan for the fifth regulatory period. Data gathered from the implementation of activity-based costing may be useful in this task.

That TasWater establish the appropriate costs that are relevant to servicing unconnected properties within serviced land, including costs that are avoided from not having these customers connected to its infrastructure, and use these to inform and justify its proposed water service charge and sewerage service charge for the fifth regulatory period.

7 INTERJURISDICTIONAL COMPARISON

7.1 Introduction

In Australia, water and wastewater services are provided by a large number of water utilities, councils and private providers. In 2021-22, over 25.3 million people were connected to the water supply of Australia's 81 retail water utilities and councils²². Approximately 90 per cent of these people were serviced by Australia's major and large retail water utilities and councils, which included TasWater.

The Bureau of Meteorology's (BoM) *National Performance Report 2021-22: urban water utilities* defines major utilities as those with more than 100 000 connected properties and large utilities as those with 50 000 to 100 000 connected properties. TasWater is considered to be a major water utility and has approximately 219 000 water connections²³.

To ensure that the comparison of TasWater's service charges to those in other jurisdictions is manageable, the Regulator has limited this comparison to the major and large utilities identified by the BoM. These utilities are of significant scale and service the majority of Australia's population.

7.2 Overview of service charges in other jurisdictions

As the largest water utilities in NSW and Victoria do not levy service charges, many customers in those jurisdictions are not subject to water service charges or sewerage service charges on unconnected properties.

In NSW, IPART sets the maximum prices for water and sewerage services in Sydney, the Blue Mountains, Illawarra, the Hunter, Central Coast and Broken Hill. IPART has taken the view that properties that have been disconnected or never connected to the water and sewerage network do not directly impose a cost to a utility's network and a service charge should, therefore, not be levied²⁴. As a result, IPART has set the maximum service charge (for both water and sewerage) at \$0.

In Victoria, water utilities can levy water and sewerage service charges provided they are equal to or lower than the ESC's regulated maximum price for that year. Nevertheless, Victoria's two largest water utilities do not levy water or sewerage service charges.

In Queensland, most major and large water utilities levy water and sewerage service charges. The *Water Supply (Safety and Reliability) Act 2008* (Qld) places an obligation on Queensland-based water utilities to provide vacant or unconnected properties with access to water and sewerage services.

²² *National Performance Report 2021-22: urban water utilities* (data set).

²³ *TasWater Annual Report 2021-22*.

²⁴ IPART, *Review of Central Coast Council's water, sewerage and stormwater prices to apply from 1 July 2019*, July 2019, (page 133).

The two major water utilities in Western Australia and South Australia both levy water and sewerage service charges. Power and Water Corporation, the largest water utility in the Northern Territory, does not levy water service charges but does apply sewerage service charges.

Additional details on the basis for water and sewerage prices and application of service charges in each Australian jurisdiction (excluding Tasmania) are included in Appendix C.

Table 1 includes information on the water and sewerage service charges pricing regimes of Australia's 27 major and large utilities (including TasWater). Greater Western Water's former service areas of City West Water (CWW) and Western Water (WW) have been treated separately throughout this chapter due to the different treatment applied to unconnected properties that are able to connect to its water and/or sewerage infrastructure.

Table 1: Service charges by utility

Jurisdiction	Utility	Service charge as a proportion of the water fixed charge	Service charge as a proportion of the sewerage fixed charge
NSW	Central Coast Council	na	na
NSW	Hunter Water Corporation	na	na
NSW	Shoalhaven City Council	100%	100%
NSW	Sydney Water Corporation	na	na
VIC	Barwon Region Water Corporation	na	na
VIC	Central Gippsland Region Water Corporation	50%	50%
VIC	Central Highlands Water	50%	25%
VIC	Coliban Region Water Corporation	na	na
VIC	Goulburn Valley Region Water Corporation	50%	50%
VIC	Greater Western Water (previously City West Water)	na	na
VIC	Greater Western Water (previously Western Water)	100%	100%
VIC	North East Region Water Corporation ²⁵	na	na
VIC	South East Water Corporation	na	na
VIC	Yarra Valley Water Corporation	na	na
QLD	Cairns Regional Council	100%	80%
QLD	City of Gold Coast	100%	100%
QLD	Logan City Council	100%	75%
QLD	Redland City Council	100%	100%
QLD	Toowoomba Regional Council	60%	50%
QLD	Townsville City Council ²⁶	100%	90%

²⁵ Under North East Water's Sewerage Schemes, it levies a sewerage service charge (at half the annual rate of connected properties) for vacant properties in the rural townships of Oxley, Milawa, Tungamah, Glenrowan and Moyhu.

²⁶ Townsville City Council's fixed charge for water is based on its Water Watchers Plan which is typically provided to properties that use less than 297 kL of water per annum.

Jurisdiction	Utility	Service charge as a proportion of the water fixed charge	Service charge as a proportion of the sewerage fixed charge
QLD	Unitywater ²⁷	100%	100%
QLD	Urban Utilities	na	na
WA	Water Corporation ²⁸	100%	75%
SA	South Australian Water Corporation (including Adelaide) ²⁹	100%	100%
TAS	TasWater	100%	60%
ACT	Icon Water	100%	100%
NT	Power and Water Corporation	na	100%

7.3 Water service charges

Sixteen out of 27 of the major and large service providers levy water service charges. For those that levy water service charges, they range from 50 to 100 per cent of the fixed charge at an average rate of \$235 per annum. TasWater's annual water service charge of \$367 is \$132 higher than the average.

TasWater's water service charge is the second highest of the assessed utilities, behind Townsville Council's water service charge of \$411. Most of the water utilities that do levy a water service charge do so at a rate of 100 per cent of the charge for a connected residential property, which is consistent with TasWater's policy.

Chart 1 displays the annual water service charge and the estimated annual residential water charge (fixed plus volumetric, based on 200 kL³⁰ water use) for each assessed utility that levies a service charge.

As a proportion of its estimated annual water charge (62 per cent), TasWater's water service charge is the highest of the assessed utilities. This reflects TasWater's relatively high fixed charge and relatively low volumetric charge for residential properties.

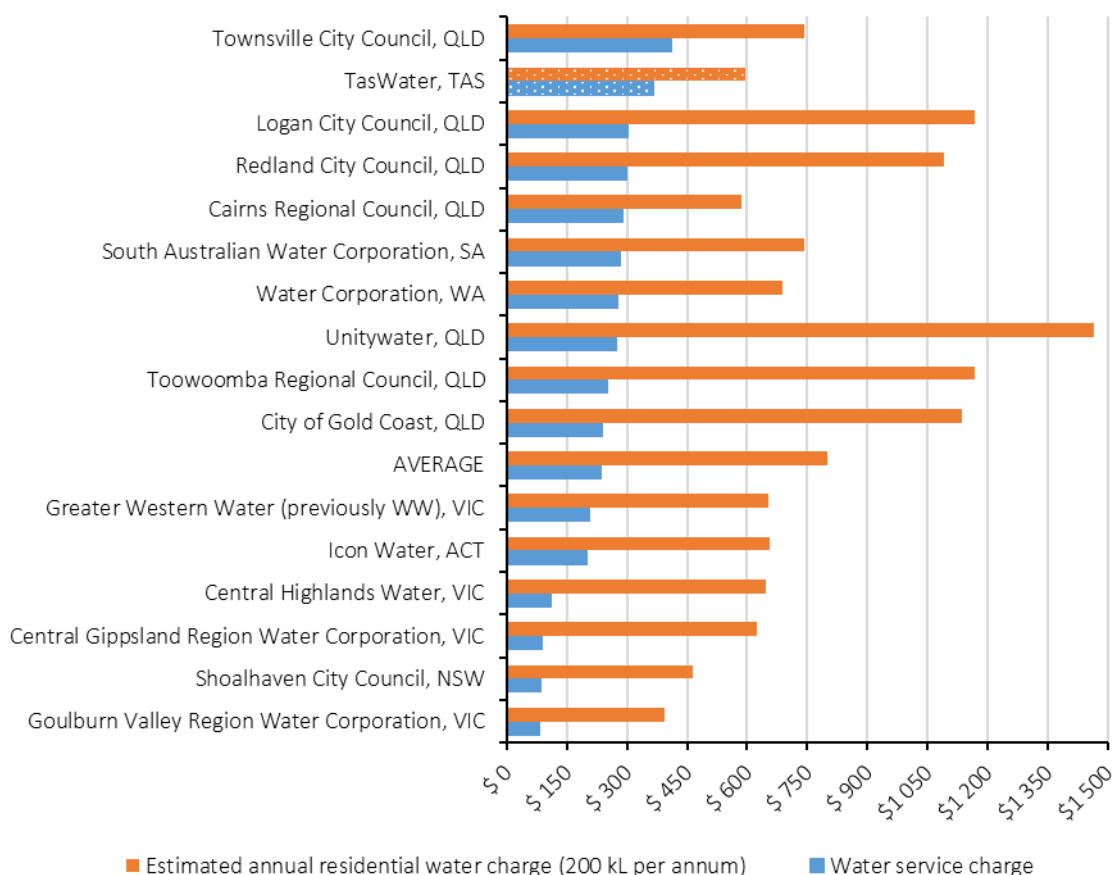
²⁷ Unitywater's charges are based on those that apply to the Sunshine Coast and Noosa.

²⁸ Sewerage charges are based on the minimal annual charge.

²⁹ South Australian Water Corporation and South Australian Water Corporation - Adelaide are separate corporations but are listed as one entity due to their consistent pricing and treatment of vacant land.

³⁰ The BoM in its *National Performance Report 2020–21: urban water utilities* compares annual water bills for residential customers across Australia using a 200 kL of water usage per annum.

Chart 1: Estimated annual residential water charge and water service charge, 2022-23



7.4 Sewerage service charges

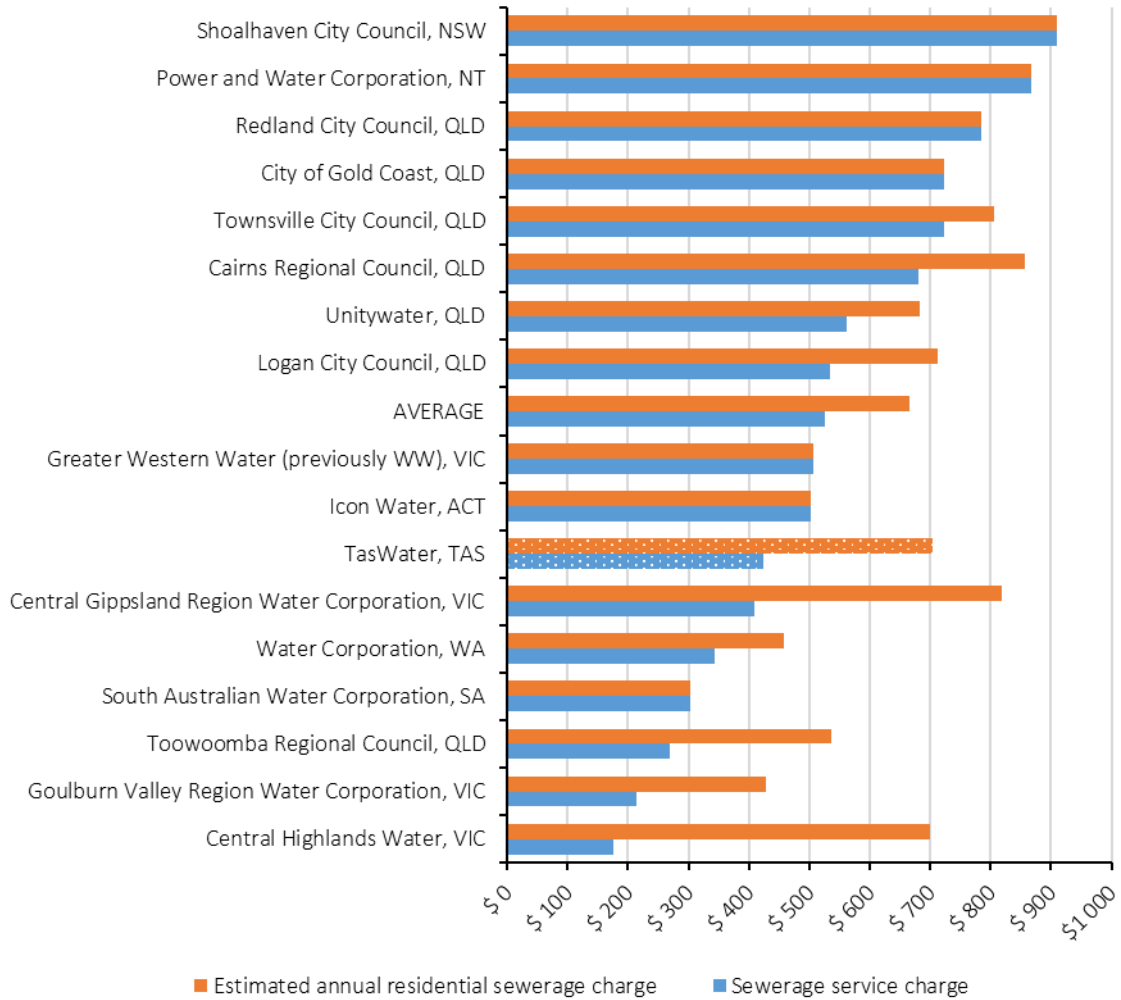
Seventeen out of the 27 major and large service providers levy sewerage service charges. For those that levy sewerage service charges, they range from 25 to 100 per cent of the fixed charge for a connected property at an average rate of \$526 per annum. TasWater’s annual sewerage service charge of \$423 is \$103 lower than the average.

Most utilities that levy a sewerage service charge do so at a rate of 75 per cent or more of the fixed charge for a connected residential property. By comparison, TasWater’s sewerage service charge is 60 per cent of its fixed charge for a connected property.

Chart 2 displays the annual sewerage service charge and the estimated annual residential sewerage charge (fixed plus volumetric charge based on 200 kL of water use per annum where applicable³¹) for each assessed utility that levies a service charge.

³¹ Greater Western Water (previously CWW), South East Water Corporation, Yarra Valley Water Corporation and Unitywater levy a volumetric charge based on annual water use. For the purpose of this analysis, we have estimated 200 kL of water use per annum.

Chart 2: Estimated annual residential sewerage charge and sewerage service charge, 2022-23



7.5 Findings

TasWater’s service charges policies are comparable to the majority of major and large utilities in other jurisdictions.

TasWater’s water service charge policy of levying 100 per cent of its fixed charge for water is consistent with 12 of the 26 other utilities examined. However, the level of TasWater’s service charge is the second highest of the 16 utilities that levy a water service charge as a result of its relatively high fixed charge and relatively low volumetric charge.

TasWater’s sewerage service charge policy of levying 60 per cent of the charge for connected properties is below the average of those utilities that apply sewerage service charges. Consequently, its sewerage service charge is also below average.

8 ALTERNATIVE MODELS

8.1 Introduction

There are a number of alternative models available for consideration, which include:

- abolishing service charges (reduce to nil) and shifting the cost to connected customers;
- abolishing service charges (reduce to nil) and shifting the cost to developer/connection charges;
- revising the level of service charges based on a recalculation of TasWater's fixed water and sewerage costs and charges and an examination of the efficient cost of providing services to unconnected properties within serviced land; and
- revising the level of service charges based on alternative percentages of TasWater's fixed water and sewerage charges.

For the purposes of this analysis, it has been assumed that:

- TasWater's total regulated revenue is not impacted by changes to service charges (i.e. any changes are revenue neutral);
- revenue from each regulated service category (fixed water, variable water, sewerage, trade waste, and miscellaneous services) is not impacted by changes to service charges;
- only fixed water and sewerage charges are subject to change - variable water charges, trade waste and miscellaneous services are not subject to change (except in the option to abolish service charges in favour of increased developer charges);
- the ratio of fixed water charges for limited service and fire connections to the fixed water charge for a 20mm connection set out in the Price Determination for the fourth regulatory period is unchanged; and
- illustrative impacts have been presented for 2022-23 to be consistent with the presentation of information on TasWater and other utilities' service charges elsewhere in this report.

8.2 Abolish service charges and increase costs to connected customers

For 2022-23, water and sewerage service charges are, together, forecast to raise \$6.8 million. Abolishing service charges and shifting the cost to connected customers is estimated to increase the water fixed charge for a standard 20mm connection by \$6.74 and increase the sewerage charge per ET by \$20.17. For a standard residential customer, the annual water and sewerage bill would therefore increase by \$26.91. Owners of unconnected properties within TasWater's serviced land would save \$790.41 (\$367.39 water service charge and \$423.02 sewerage service charge).

Connected customers would experience a 2.1 per cent increase in their total bill (assuming the average 178kL water usage). However, this increase would be on top of any annual increase in TasWater's prices in the year of introduction.

This option would be less consistent with the pricing principles than the current arrangements because the prices would not reflect the cost of providing services (i.e. TasWater's infrastructure has been built so that unconnected properties can be connected within 10 working days on request) to unconnected customers. It would shift the burden of funding such infrastructure to connected customers.

8.3 Abolish service charges and increase developer charges

From 1 July 2023, TasWater has introduced a standard charge for new developments, which aims to cover the incremental costs associated with expected capacity upgrades (excluding system extensions) driven by new customers, net of costs to be recovered through ongoing water and sewerage charges levied on those customers. The standard charge has been set at \$3 514 per new ET (connecting to both water and sewerage services) for the remaining three years of the fourth regulatory period.

An option is to increase the standard charge to replace annual service charges. It is estimated that the standard charge would need to be raised from \$3 514 per new ET to \$6 350, an increase of \$2 836 or 80 per cent, to be revenue neutral.

This option would shift a part of the incremental costs of expected capital upgrades from an annual charge per unconnected property to a contribution when the property is developed and/or connects to TasWater's infrastructure. However, the increased standard charge may be a disincentive to development. Further, developer charges do not apply to the connection of existing unconnected residences to water and sewerage services, and owners of such properties would no longer contribute to TasWater's costs to meet the regulatory requirement to service all properties within its serviced land.

8.4 Revise level of service charges based on activity-based costing and an examination of efficient costs

As discussed in Chapter 7, TasWater's current service charging policy is considered to be consistent with the pricing policies prescribed in section 68 of the Industry Act, although it is not clear how accurately the current level of TasWater's service charges reflect the costs that are directly attributable to the provision of services to customers within serviced land that have not connected to TasWater's network.

The extent to which TasWater has reviewed its fixed and variable costs, and the associated prices in its price and service plan for the fourth regulatory period is unclear and the estimation of its fixed costs per sewerage ET (60 per cent of the total cost per ET) used for the calculation of the sewerage service charge is unchanged since this ratio was first proposed by the three regional water corporations as part of the Regulator's 2012 price investigation. While the current policy of setting service charges to reflect fixed water and sewerage costs is assessed as being consistent with the pricing principles (see Chapter 6) it is not clear that the estimation of TasWater's fixed costs for the purpose of service charges is reflective of its actual fixed costs.

TasWater has conducted a pilot activity-based costing program, ahead of the implementation of activity-based costing across all of its activities for the 2024-25 financial year. The outcomes of activity-based costing are expected to inform TasWater's price and service plan for the fifth regulatory period.

As outlined in Chapter 6, the Regulator recommends that TasWater review and recalculate its fixed and variable water and sewerage costs during the development of its price and service plan for the

fifth regulatory period and establish the appropriate costs that are relevant to servicing unconnected properties within serviced land, and use these to inform and justify its proposed water service charge and sewerage service charge for the fifth regulatory period.

8.5 Alternative percentages of fixed charges

The following tables illustrate the impact on connected customers and unconnected customers of a range of options to change the level of service charges (as a percentage of current fixed charges for each service).

For example, a reduction in the water service charge from 100 per cent of the fixed charge to 50 per cent of the fixed charge would reduce the water service charge by \$182.02 and increase fixed water charges to connected customers on a standard 20mm connection by \$3.34. A reduction in the sewerage service charge from 60 per cent of the current fixed charge to 40 per cent would reduce the service charge by \$138.37 and increase the sewerage charge to connected customers by \$6.60.

While any one of these scenarios may appear attractive to owners of unconnected properties, they do not necessarily better reflect TasWater's costs of providing the necessary infrastructure to service potential customers compared to the current policies.

Table 2: Water service charges scenarios

Scenario	100% (current)	75%	50%	25%	0%
Fixed charges					
Water service charge (not connected)					
Current 2022-23	367.39	367.39	367.39	367.39	367.39
Scenario	367.39	276.79	185.36	93.11	0.00
% change		-24.7	-49.5	-74.7	-100.0
\$ change		-90.60	-182.02	-274.28	-367.39
Water (per 20mm connection)					
Current 2022-23	367.39	367.39	367.39	367.39	367.39
Scenario	367.39	369.05	370.73	372.42	374.13
% change		0.5	0.9	1.4	1.8
\$ change		1.66	3.34	5.03	6.74
Water limited service (per 20mm connection)					
Current 2022-23	330.65	330.65	330.65	330.65	330.65
Scenario	330.65	332.14	333.65	335.18	336.72
% change		0.5	0.9	1.4	1.8
\$ change		1.50	3.01	4.53	6.07
Fire service (per 20mm connection)					
Current 2022-23	91.85	91.85	91.85	91.85	91.85
Scenario	91.85	92.26	92.68	93.11	93.53
% change		0.5	0.9	1.4	1.8
\$ change		0.42	0.84	1.26	1.69

Table 3: Sewerage service charges scenarios

Scenario	80%	60% (current)	40%	20%	0%
Fixed charges					
Sewerage service charge (not connected)					
Current 2022-23	423.02	423.02	423.02	423.02	423.02
Scenario	558.85	423.02	284.65	143.67	0.00
% change	32.1		-32.7	-66.0	-100.0
\$ change	135.83		-138.37	-279.35	-423.02
Sewerage (per connected ET)					
Current 2022-23	705.04	705.04	705.04	705.04	705.04
Scenario	698.56	705.04	711.63	718.36	725.21
% change	-0.9		0.9	1.9	2.9
\$ change	-6.48		6.60	13.32	20.17

8.6 Findings

It is not clear how accurately the current level of TasWater's service charges reflect the costs that are attributable to the provision of services to unconnected properties within serviced land, or the costs that are avoided by not having these customers connected to its infrastructure. However, the alternatives to TasWater's current service charges policy are either inconsistent with the pricing principles, a disincentive to development, or do not necessarily better reflect the costs of providing the necessary infrastructure to service potential customers compared to the current policies.

9 FINDINGS AND RECOMMENDATIONS

This chapter consolidates the Regulator's draft findings and recommendations.

9.1 Pricing principles

9.1.1 Finding

The imposition of service charges on unconnected properties within serviced land (which TasWater is required to connect within 10 business days upon request) is consistent with the Industry Act and the pricing principles.

However, it is not clear how accurately the current level of TasWater's service charges reflect the costs that are directly attributable to the provision of services to unconnected properties within serviced land or whether they adequately reflect the avoided costs from not having these properties connected to its infrastructure.

9.1.2 Recommendations

That TasWater review and recalculate its fixed and variable water and sewerage costs during the development of its price and service plan for the fifth regulatory period. Data gathered from its implementation of activity-based costing may assist in this task.

That TasWater establish the appropriate costs that are relevant to servicing unconnected properties within serviced land, including costs that are avoided from not having these customers connected to its infrastructure, and use these to inform and justify its proposed water service charge and sewerage service charge for the fifth regulatory period.

9.2 Interjurisdictional comparison

9.2.1 Findings

TasWater's service charges policies are comparable to the majority of major and large utilities in other jurisdictions.

TasWater's water service charge policy of levying 100 per cent of its fixed charge for water is consistent with 12 of the 26 other utilities examined. However, the level of TasWater's service charge is the second highest of the 16 utilities that levy a water service charge as a result of its relatively high fixed charge and relatively low volumetric charge.

TasWater's sewerage service charge policy of levying 60 per cent of the charge for connected properties is below the average of those utilities that apply sewerage service charges. Consequently, its sewerage service charge is also below average.

9.3 Service introduction charges

9.3.1 Finding

There is no overlap between service charges and service introduction charges.

9.4 Developer charges

9.4.1 Finding

The inclusion of incremental capital expenditure from the third regulatory period in the calculation of the standard charge creates some overlap between service charges on land that is within TasWater's serviced land and developer charges. However, there is no overlap between service charges where land is outside of TasWater's serviced land and developer charges, because such land is not subject to service charges.

9.4.2 Recommendation

That TasWater review the calculation of the Shared Infrastructure Contribution Charge during the development of its price and service plan for the fifth regulatory period to consider whether the inclusion of incremental capital expenditure during the previous regulatory period is appropriate.

9.5 Alternative models

9.5.1 Finding

It is not clear how accurately the current level of TasWater's service charges reflect the costs that are attributable to the provision of services to unconnected properties within serviced land, or the costs that are avoided by not having these customers connected to its infrastructure. However, the alternatives to TasWater's current service charges policy are either inconsistent with the pricing principles, a disincentive to development, or do not necessarily better reflect the costs of providing the necessary infrastructure to service potential customers compared to the current policies.

APPENDIX A: GLOSSARY

Term	Meaning within the context of this Report
Bulk charge	Bulk Infrastructure Capacity Charge
Customer Service Code	<i>Tasmanian Water and Sewerage Industry Customer Service Code (Version 8) 1 July 2022</i>
CWW	City West Water (Victoria)
ESCOSA	Essential Services Commission of South Australia
ERA	Economic Regulation Authority (WA)
ESC	Essential Services Commission (Victoria)
ET	Equivalent tenement
Expansion	The augmentation of water infrastructure and/or sewerage infrastructure to accommodate the development or connection of a property that cannot be catered for by a current water system's capacity and/or current sewerage system's capacity
Extension	The lengthening of water infrastructure and/or sewerage infrastructure to enable connection of a property to an existing water system and/or sewerage system
External works	Infrastructure that is external to a development site, for extension and/or expansion, required to service the development
Fourth regulatory period	1 July 2022 to 30 June 2026
Fifth regulatory period	From 1 July 2026 (duration yet to be determined)
GCPs	Growth and capacity plans
NPV	Net present value
ICRC	Independent Competition and Regulatory Commission (ACT)
Industry Act	<i>Water and Sewerage Industry Act 2008</i>
Internal works	Infrastructure that is within a development site
IPART	Independent Pricing and Regulatory Tribunal (NSW)
Isolated development	Land that is proposed for development/change in use that is not designed to connect to TasWater's existing infrastructure
OTTER	Office of the Tasmanian Economic Regulator
Pricing Regulations	<i>Water and Sewerage Industry (Pricing and Related Matters) Regulations 2021</i>
QCA	Queensland Competition Authority
Regulator	The Tasmanian Economic Regulator appointed under the <i>Economic Regulator Act 2009</i>
Second regulatory period	1 July 2015 to 30 June 2018
Serviced land	Land that TasWater will permit to be connected to its water infrastructure or sewerage infrastructure. Serviced land is identified by individual title, in accordance with Section 56U(1)(b) of the Industry Act
Standard charge	Shared Infrastructure Contribution Charge
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
Third regulatory period	1 July 2018 to 30 June 2022

APPENDIX B: TERMS OF REFERENCE



Inquiry into the level of TasWater's service charges

Terms of Reference

The Tasmanian Economic Regulator is conducting an inquiry under Section 12(j) of the *Water and Sewerage Industry Act 2008* into TasWater's current approach, and the approaches in other Australian jurisdictions, to calculating and applying service charges.

Background

Under section 68A of the *Water and Sewerage Industry Act 2008* (Industry Act), TasWater's proposed price and service plan must set out the arrangements it proposes using to calculate and apply service charges. TasWater's plan must also set out conditions that must be met if a service charge is to apply.

In its 2022 Water and Sewerage Price Determination Investigation Final Report, the Regulator accepted TasWater's proposal to impose service charges on owners of vacant and unconnected properties.

The Regulator also accepted TasWater's proposal to continue to impose service introduction charges and to re-introduce developer charges. However, given regular customer feedback about the imposition and level of service charges, the Regulator decided to review, during the fourth regulatory period, the level of TasWater's service charges.

Scope of Inquiry

The Regulator, in conducting the Inquiry, will consider the following matters:

1. the current basis for calculating and setting the level of service charges;
2. whether there is any overlap between current service charges, service introduction charges and developer charges;
3. the level of service charges levied by utilities in other Australian jurisdictions;
4. whether the calculation of the service charge is consistent with the pricing principles;
5. the customer impact of the current level of service charges; and
6. any other matters the Regulator considers relevant.

In conducting the Inquiry, the Regulator will carry out public consultation and liaise directly with key stakeholders, including TasWater and members of the OTTER Customer Consultative Committee.

The Inquiry will not include a detailed assessment of service introduction charges and developer charges. However, the Inquiry will consider whether there is any 'double dipping' between

service charges for vacant and unconnected properties and service introduction charges and developer charges (see Scope #2).

Outputs

A draft report setting out the Regulator's draft findings on the level of service charges.

A final report setting out the Regulator's findings on the level of service charges.

The Regulator expects TasWater to implement any revised service charge arrangements from the start of the fifth regulatory period on 1 July 2026.

Timelines

On 28 June 2023 the Regulator approved revised target dates to align the release of the draft and final reports with the release of equivalent documents for the Sewerage and Trade Waste Inquiry, as follows:

Milestone	Target dates	Revised target dates
Regulator releases terms of reference	21 September 2022	-
Regulator conducts research and liaises with TasWater and other state and territory regulators	November 2022 to May 2023	-
Regulator releases Draft Report for consultation	30 June 2023	31 August 2023
Consultation on Draft Report	1 July 2023 to 15 August 2023	1 September 2023 to 15 October 2023
Regulator releases Final Report	29 September 2023	1 December 2023

APPENDIX C: SETTING SERVICE CHARGES IN OTHER JURISDICTIONS

C.1 New South Wales

In NSW, IPART sets the maximum prices for water and sewerage services in Sydney, the Blue Mountains, Illawarra, the Hunter, Central Coast and Broken Hill. IPART does not set retail water or wastewater service prices for other rural or regional areas. IPART's most recent price determinations for its regulated entities (Sydney Water Corporation, Hunter Water Corporation, Water NSW, Essential Water, the Water Administration Ministerial Corporation and the Central Coast Council) set the maximum service charge that may be applied to unconnected or vacant properties to \$0.

IPART notes that properties that have been disconnected or never connected to the water and sewerage network do not directly impose a cost to a corporation's network and should not be levied a service charge. Prior to implementation of IPART's 2019 price review of the Central Coast Council³², owners who sought to connect their property to the Council's water or sewerage network were levied a developer charge in addition to an annual service charge which applied before a connection was made. In these instances, it is IPART's view that water and sewerage service charges were operating as de-facto developer charges. IPART considered that:

*prices will be more cost-reflective if developer charges applied to new connections, rather than annual water and sewerage service charges, and then annual service charges applied to properties that are connected.*³³

NSW water utilities that are not regulated by IPART may levy water or sewerage service charges on unconnected or vacant properties that are within their service land area, as stipulated under the *Water Management Act 2000* (NSW). Shoalhaven Council, a large utility not regulated by IPART, levies water and sewerage service charges on this basis.

C.2 Victoria

The ESC sets maximum water and sewerage charges that may be levied by water utilities in Victoria. Under the *Water Act 1989* (Vic), water utilities are to determine whether service charges are to apply to vacant or unconnected properties. However, any such charge must be equal to or lower than the ESC's regulated maximum price for that year.

OTTER's analysis indicates that those Victorian water utilities that have a greater number of properties for every km of water main do not levy service charges. Victoria's two largest metropolitan water utilities, South East Water and Yarra Valley Water, collectively service 3.8 million people and do not levy service charges. Greater Western Water services 1.3 million people and does not levy service charges in its metropolitan areas that were previously serviced by CWW. Victoria's

³² IPART, *Review of Central Coast Council's water, sewerage and stormwater prices to apply from 1 July 2019*, May 2019, (page 134).

³³ Ibid.

rural water utilities do not consistently apply service charges but are more likely to apply them than Victoria's metropolitan-based utilities.

North East Water does not levy water or sewerage service charges on unconnected properties in all of its service areas but does levy a sewerage service charge (at half the annual rate of connected properties) for unconnected and vacant properties in Oxley, Milawa, Tungamah, Glenrowan and Moyhu. This service charge reflects each town's sewerage scheme and is designed to incentivise connection to address onsite wastewater management issues, reduce the impact on the stormwater systems and minimise the risks to public health and the environment³⁴.

C.3 Queensland

In Queensland, section 164 of the *Water Supply (Safety and Reliability) Act 2008* (Qld) requires water utilities to ensure all properties within its serviced land can connect to its water or sewerage network. Section 165 of the Act allows utilities to recover the reasonable costs associated with section 164 compliance.

The Queensland Competition Authority (QCA) has previously observed that, as the Act places an obligation on Queensland-based water utilities to provide vacant or unconnected properties with access to water and sewerage services, vacant land owners should, in principle, meet a share of the service costs for water and sewerage where it is available for connection³⁵.

In determining the level of service charges that utilities can apply to unconnected and vacant properties, QCA suggested that the fixed charge applied to connected properties could be an appropriate estimate for the costs to be recovered from vacant land. This charge reflects that the benefit to vacant land owners of the available water connection is the same as that applying to water users.

Urban Utilities is Queensland's largest water utility. It services 1.6 million people and is Queensland's only major or large service provider that does not levy service charges on vacant or unconnected properties that are not or have never been connected to its network.

C.4 Western Australia

Under the *Water Services Act 2012* (WA), the Economic Regulation Authority (ERA) issues licences for the delivery of water and sewerage services but does not have a role in setting prices for the Water Corporation.

Water Corporation is owned by the WA Government. As such, water and sewerage prices, including those that apply to unconnected and vacant properties, are set by the Department of Water and Environmental Regulation (WA).

The Water Corporation levies a water service charge and sewerage service charge on properties that can access its water or sewerage services, even if there is no connection. These charges contribute to the cost of providing and maintaining water and sewerage services.

The water service charge is a uniform fixed charge that applies to all properties, including those that are not connected. However, the sewerage service charge is based on the rateable value or gross

³⁴ North East Water, Sewerage Scheme Fact Sheets for Oxley, Milawa, Tungamah, Glenrowan, Moyhu.

³⁵ QCA, *Position Paper, SEQ Long Term Regulatory Framework - Pricing Principles*, March 2014, (page 49).

rental value of a property, with minimum charges in 2022-23 of \$344.33 for vacant land and \$457.95 per residential connection.

In 2013, the ERA recommended that the Water Corporation's fixed wastewater charge should be based on the average annual cost of service as it would be more cost-reflective than its existing property based prices³⁶. This recommended change has not been implemented.

In Water Corporation's serviced land, vacant lots created by subdivision receive an exemption from service charges for up to 12 months from the approval date. The exemption ends if the property is sold within the 12 month exemption period or a water/sewer connection is made to the property.

C.5 South Australia

The South Australian Water Corporation can impose charges in respect of land that is adjacent to, or abutted to, its infrastructure, under a practice known as "rating on abuttal". The practice of rating on abuttal is provided for through a Gazette notice issued under section 115 and regulation 38 of the *Water Industry Act 2012 (SA)*. Local government water entities have similar powers under the rating provisions of the *Local Government Act 1999 (SA)*. However, private water entities cannot levy a charge on vacant or unconnected land near their infrastructure.

While SA Water and local government water entities may levy a charge on vacant and unconnected properties adjacent to their infrastructure, these landowners are not considered customers of a retail service under the Water Industry Act. As a result, the rating on abuttal charge is not regulated by the Essential Services Commission of South Australia (ESCOSA)³⁷.

ESCOSA's inquiry into reform options for SA Water's drinking water and sewerage prices included an examination of the removal of the rating on abuttal charge. ESCOSA found that:

*Customers that choose not to connect to SA Water's network should not be required to pay a fixed charge to SA Water.*³⁸

Among other reasons, ESCOSA's findings were formed on the basis that the payment for water and sewerage services should only be required from a customer when they receive that service. In addition, the rating on abuttal charge entrenches monopoly supply by directly disadvantaging any potential competitive supplier due to the existing annual charge for all properties.

C.6 Australia Capital Territory

Icon Water is the Australian Capital Territory's only provider of water and sewerage services and has its prices, including those that apply to unconnected and vacant properties, set by the Independent Competition and Regulatory Commission (ICRC) in accordance with the *Independent Competition and Regulatory Commission Act 1997 (ACT)*.

Icon Water levies supply charges on parcels of land, including carparks, that are not connected to supply infrastructure that has been made available to the land. Separate supply charges apply for

³⁶ ERA, *Inquiry into the Efficient Costs and Tariffs of the Water Corporation, Aqwest and the Busselton Water Board*, January 2013, (p. 26).

³⁷ SA Department for Environment and Water, *Review of the Water Industry Act 2012*, September 2020, (p. 20).

³⁸ ESCOSA, *Inquiry into reform options for SA Water's drinking water and sewerage prices*, December 2014, (p. 65).

water services and sewerage services. These charges relate to the availability of these services regardless of whether or not a premise is yet to be physically connected.

C.7 Northern Territory

In the Northern Territory, water and sewerage prices are regulated by the NT Government through a pricing order issued in accordance with the *Water Supply and Sewerage Services Act 2000* (NT). The pricing order that applied from 1 July 2022 to 30 June 2023 stipulates that a fixed annual charge of \$867.92 may apply to residential properties with between none and two sanitary fittings.

The Power and Water Corporation levies a fixed sewerage charge on unconnected and vacant properties in accordance with this pricing order. The Power and Water Corporation does not levy a water service charge.

APPENDIX D: LEGAL BASIS FOR SERVICE CHARGES

This appendix outlines those sections of the Industry Act, the Pricing Regulations and the Customer Service Code that are relevant and discussed in this report.

Service charges

Section 68A of the Industry Act provides that a price and service plan submitted to the Regulator for approval must include a policy that sets out the circumstances in which the regulated entity will impose a service charge in relation to serviced land, and the amount of, or method of determining the amount of, the service charge in relation to water or sewerage infrastructure or water or sewerage services.

68A. Service charges

(1) A price and service plan submitted by a regulated entity for approval under section 65 must include –

(a) a policy that sets out the circumstances in which the regulated entity will impose a service charge in relation to serviced land; and

(b) the amount of, or method of determining the amount of, the service charge, in relation to water infrastructure or sewerage infrastructure or water services or sewerage services.

(2) A regulated entity may determine that a service charge applies in relation to water services or sewerage services to land referred to in subsection (1) if –

(a) a water service or sewerage service is provided through a connection to a pipe or sewer that is not owned by the regulated entity; or

(b) a water service or sewerage service is available through a regulated entity's water infrastructure or sewerage infrastructure but is not connected to a water system or sewerage system; or

(c) a water service or sewerage service is provided other than through a connection point.

(3) The owner of any land to which –

(a) a service charge applies under a price and service plan approved by the Regulator under section 65 ; and

(b) a service rate or service charge applies under section 95 of the *Local Government Act 1993*, immediately before the commencement of this Division –

is liable for the payment of the service charge.

(4) Subject to subsection (7), a regulated entity may not charge a service charge under this section, unless notice is –

(a) served on the owner of the land; and

- (b) published in a newspaper circulating generally in the area in which the land is situated.
- (5) A regulated entity must cause a copy of the notice under subsection (4) to be available for inspection at its offices and on its website.
- (6) A notice under subsection (4) must –
- (a) define the locality to which it applies; and
 - (b) specify the services available; and
 - (c) generally identify the land to which the services are available; and
 - (d) fix a date on and from which the service charge will be payable, being a date not less than 3 months from the date of the notice.
- (7) A regulated entity may, without written notice, charge a service charge in respect of land that was the subject of a service rate or service charge under section 95 of the *Local Government Act 1993*, immediately before the commencement of this Division, in the same amount and on the same terms and conditions that applied immediately before the commencement of this Division or as otherwise adjusted by an interim price order made under section 88.
- (8) A service charge specified in subsection (7) applies until a price and service plan is approved by the Regulator under section 65.

Section 3 of the Industry Act provides definitions for **customer**, **water service**, **sewerage service** and **serviced land**:

Customer means a person who is –

- (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.

Water service means a service that is provided in connection with the collection, storage, treatment, conveyance, reticulation or supply of water and includes a retail service for the supply of water, but does not include –

- (a) supply or use of water for irrigation purposes; or
- (b) supply or use of water in connection with the generation of electricity.

Sewerage service means –

- (a) a service that is provided in connection with the collection, storage, treatment, conveyance or reticulation of sewage and includes a retail service for the collection of sewage; or
- (b) any other service declared to be a sewerage service by the Minister by order.

Serviced land means land referred to in section 56U(1)(b):

56U. Connections

(1) A price and service plan submitted by a regulated entity for approval by the Regulator under section 65 must include –

(a) a policy that sets out the circumstances in which the regulated entity will permit an owner of land to connect, or relocate or adjust a connection, to the regulated entity's water infrastructure or sewerage infrastructure; and

(b) a description of the land, whether identified by individual title or by locality, it will permit to be connected to the regulated entity's water infrastructure or sewerage infrastructure.

Paraphrasing section 56U, **serviced land** means land described in a price and service plan, whether identified by individual title or by locality, that the regulated entity will permit to be connected to the regulated entity's water infrastructure or sewerage infrastructure.

Regulation 3 (Interpretation) of the Pricing Regulations states that a **fixed charge** means a charge, which is recurrent, for the provision of a regulated service to a customer, but does not include a variable charge for the service, and regulation 14 provides that a fixed charge is to reflect costs to the regulated entity that are reasonably attributable to providing the service to the property and are not recouped through a developer charge or service introduction charge.

14. Fixed charges

(1) A fixed charge for a regulated service is to reflect the costs to the regulated entity that –

(a) are reasonably attributable to providing the service to the property to which the charge relates; and

(b) are not recouped through a developer charge or service introduction charge.

(2) A fixed charge for a regulated service in relation to a property must not be imposed on a person in relation to residential premises situated on the property unless the person is an owner of the residential premises.

Clause 2.2 of the Customer Service Code requires TasWater to permit an owner of land to connect a property to its infrastructure if the property is within serviced land and a range of conditions are met.

2.2. Obligation to connect

2.2.1. A regulated entity must permit an owner of land to connect a property that is owned or occupied by a person to the regulated entity's infrastructure within 10 business days, or such later date as agreed between the regulated entity and the person, if:

a. the property is on the serviced land as defined in the regulated entity's price and service plan; and

b. the person requests permission to connect the property to the regulated entity's infrastructure; and

c. the person has paid, or has agreed to pay, all applicable fees for connection; and

- d. the person has complied with all reasonable terms and conditions of connection imposed by the regulated entity; and
- e. the connection is required to be made by the connection policy contained in an approved price and service plan of the regulated entity; and
- f. the physical characteristics or location of the property are not such as to require the application of unusual or unusually costly infrastructure, design, or installation techniques in order for the connection to be made; and
- g. no plan of subdivision, or other instrument of a type approved by the Regulator, specifies that connection to the regulated entity's infrastructure, or provision of regulated services by the regulated entity, will not occur.

Pricing principles

The Industry Act prescribes pricing principles and provides that regulations may prescribe additional pricing principles.

68. Pricing principles

(1) For the purposes of this Division, the following pricing principles apply in relation to the price for the provision of a regulated service:

- (a) a regulated entity is to be provided with a reasonable opportunity to recover the efficient costs which the regulated entity incurs in –
 - (i) providing a regulated service; and
 - (ii) complying with a regulatory obligation or requirement or making a regulatory payment under this Act, except where this Act otherwise provides;
- (b) the price is to provide for efficient pricing through –
 - (i) two-part pricing for water services based on the recovery of fixed costs and variable costs by way of separate charges through voluntary metering, mandatory metering or in such other manner as determined by the Regulator; and
 - (ii) variation between locations, regions or schemes to reflect the costs of servicing particular customers or classes of customers;
- (c) the price is to provide effective incentives to promote economic efficiency, reduce costs or otherwise improve productivity with respect to a regulated service;
- (d) the price is to allow for a return to the regulated entity, on assets that are required in the provision of the regulated service to which that price relates, in accordance with subsection (1A) ;
- (e) to the extent that it is commercially and technically reasonable, the price charged to a particular customer or class of customers is to reflect at least the costs that are directly attributable to the provision of the regulated service to that customer or class of customers.

(1A) For the purposes of subsection (1)(d) , the determination of the return to a regulated entity on assets is to take into account the following assumptions:

- (a) that the regulated entity has, in relation to assets, required in the provision of a regulated service, that are transferred to the regulated entity under Part 3 of the Water and Sewerage

Corporations Act 2008 before 1 July 2011, the ratio of debt to equity that would be expected of a prudent business of a similar kind and scale to that of the regulated entity;

(b) that the return to the regulated entity on those assets of the entity –

(i) that are referred to in paragraph (a) ; and

(ii) in relation to which the entity is to be taken under paragraph (a) to have incurred debt –

is to take into account the prevailing rate of interest for commercial loans that a business of a similar kind and scale to that of the regulated entity would be required to pay to service that debt;

(c) that the return to the regulated entity on those assets of the entity –

(i) that are referred to in paragraph (a); and

(ii) in relation to which the entity is to be taken under paragraph (a) to have equity –

is to be taken to be a pre-tax rate, not taking into account inflation, of –

(iii) 3%; or

(iv) if another percentage rate is determined in regulations for the purposes of this paragraph, that percentage rate;

(d) that the return on those assets of the regulated entity, required in the provision of a regulated service, that are not referred to in paragraph (a) is to be not more than a rate that reflects the regulatory and commercial risks involved in providing the regulated service.

(2) The regulations may prescribe additional pricing principles in relation to the provision of a regulated service.

The Pricing Regulations prescribe one pricing principle that is relevant to this report:

11. No double-dipping

A cost of providing a regulated service to a customer must not be included in a charge imposed on the customer if the cost has been, or is to be, recouped by the imposition on the customer of another charge.

Developer charges

The Pricing Regulations contains provisions with regards to TasWater's developer charges policy and the amount of developer charges.

7. Developer charges policy

(1) A price determination is to require a regulated entity's price and service plan to include a policy in respect of developer charges (a ***developer charges policy***) that complies with these regulations.

(2) A regulated entity's developer charges policy is to specify the method by which the amount of a developer charge will be calculated by the entity.

(3) A regulated entity must ensure that the entity's developer charges policy includes information that enables a person to calculate the amount of the developer charge estimated to be payable in respect of a proposed new development on a property in a region or location.

(4) A regulated entity's developer charges policy must be published on the entity's website for the period for which the policy is to apply.

(5) A regulated entity's developer charges policy is to require the entity to provide an estimate of the amount of the developer charge that is to apply, in respect of a property, to a person who –

(a) proposes a new development in respect of the property; and

(b) provides, to the entity, sufficient information as to the proposals for the new development to enable an estimate to be determined; and

(c) requests that an estimate be provided to the person.

(6) A regulated entity's developer charges policy is to require the entity to provide information, as to how the amount of a charge has been determined by the entity, to a person –

(a) on whom a developer charge is imposed; and

(b) who requests the information to be provided to the person.

18. Developer charges

A regulated entity may impose, in respect of a property to which a proposed new development relates, a charge that relates to the installation, alteration or utilisation of assets by the regulated entity so as to enable the provision by the entity of regulated services for the purposes of the new development.

19. Amount of developer charges

(1) The amount of a developer charge to be imposed by a regulated entity in respect of a property to which a proposed new development relates is to be sufficient to, but no higher than is necessary to, recoup the reasonable costs incurred by the entity in respect of the proposed new development.

(2) For the purposes of subregulation (1), the reasonable costs incurred by a regulated entity in respect of a proposed new development –

(a) are those costs directly attributable to installing, altering, or utilising assets, in a reasonably cost-efficient manner, so as to be able to provide a regulated service in respect of the proposed new development; and

(b) may reflect variations in the costs of servicing different locations or regions; and

(c) may include an excess capacity cost; and

(d) are not to include an amount attributable to increased external demand by existing customers.

(3) For the purposes of subregulation (2)(c), an excess capacity cost is an amount that is –

(a) attributable to –

(i) the cost of installing, before the proposed new development came into existence, assets which had an excess capacity such that regulated services are able to be provided in respect of the new development without altering the assets; and

(ii) the cost of altering or utilising assets that were installed before the proposed new development came into existence so that regulated services are able to be provided in respect of the new development without installing new assets; and

(b) proportional to the amount of that excess capacity that is to be utilised in providing the regulated services in respect of that new development.

(4) For the purposes of subregulation (2)(d), an amount is attributable to increased external demand by existing customers if it is attributable to installing, altering, or utilising assets so as to meet increased demand, for the regulated service, that is –

(a) from a connection, or connections, made before the new development to which the charge relates was completed; and

(b) greater than anticipated in relation to that connection, or those connections, at the time of the installation, alteration, or utilisation of the assets.

(5) The amount of a developer charge to be imposed in respect of a property by a regulated entity may, if the regulated entity agrees, be reduced by an amount that –

(a) is equivalent to the value of a contributed asset to be provided to the regulated entity by a person in respect of the property; and

(b) would have otherwise constituted all or part of the amount of the developer charge.

(6) A regulated entity must not unreasonably refuse to agree under subregulation (5) to a reduction in the amount of a developer charge.

Service introduction charges

The Pricing Regulations contains provisions with regards to TasWater's service introduction charges policy and the amount of service introduction charges.

8. Service introduction charges policy

(1) A price determination may require a price and service plan for a regulated entity to include a policy in respect of service introduction charges (a service introduction charges policy) that complies with these regulations.

(2) A regulated entity's service introduction charges policy is to specify how service introduction charges are to be determined by the entity.

(3) A regulated entity's service introduction charges policy is to permit an owner of a property to which a service introduction charge relates to pay the charge –

(a) over a period of not less than 12 months; or

(b) at the owner's request, over a period of less than 12 months.

(4) A regulated entity's service introduction charges policy is to require the entity to provide to a person, before a service introduction charge is imposed on the person, an estimate of the amount of that charge that may be imposed on the person.

(5) A regulated entity's service introduction charges policy is to require the entity to provide, to a person on whom a service introduction charge is imposed, information as to how the amount of the charge has been determined by the regulated entity.

13. Service introduction charges

(1) A service introduction charge must not be imposed on a person in relation to a property unless the person is an owner of the property.

- (2) The amount of a service introduction charge imposed on a person in relation to a property is not to be more than is necessary to recoup the reasonable costs incurred by a regulated entity in installing, altering or utilising its assets so as to be able to provide a regulated service to the property.
- (3) For the purposes of subregulation (2) , the reasonable costs incurred by a regulated entity are –
 - (a) the costs directly attributable to installing, altering or utilising its assets in a reasonably cost-efficient manner so as to be able to provide a regulated service to the property; and
 - (b) to be calculated so as to reflect variations in the costs of providing the regulated service to different locations or regions.
- (4) A service introduction charge may be imposed on a person in addition to a fixed charge.

APPENDIX E: MODELLING

Model preparation

OTTER prepared a model to calculate the impact on customers of alternative service charge options. The model was reviewed by TasWater officers with regard to approach, assumptions, data and calculations.

Data and assumptions

The model was based on data from TasWater's [Price and Service Plan 4 pricing model](#) (public version). That model is publicly available on the OTTER website.³⁹ Data on was taken from the NAR Build-Up sheet.

Table E.1: modelling data

Proposed actual revenue build up (\$'000s)				
Financial Year	2022-23	2023-24	2024-25	2025-26
Proposed actual revenue	357 367	373 275	389 886	407 205
Proposed actual revenue build up by line item				
Financial Year	2022-23	2023-24	2024-25	2025-26
<i>Water supply</i>				
Tariff (\$ per 20mm connection) - full connection	367.39	380.25	393.55	407.33
State-wide Connections (20mm Charge Equivalent)	255 685	257 836	260 010	262 210
Tariff (\$ per 20mm connection) - limited service	330.65	342.22	354.20	366.60
State-wide Connections (20mm Charge Equivalent) - limited service	1 495	1 495	1 495	1 495
Total Water Supply Revenue (\$'000s)	94 430	98 552	102 858	107 354
Variable Price \$ per kL	1.14	1.18	1.22	1.26
Demand (ML)	62 958	63 259	63 564	63 872
Limited water supply - \$ per kL	0.91	0.94	0.97	1.01
Demand (ML)	516	514	513	511
Variable Revenue (\$'000s)	72 093	74 970	77 964	81 080
Tariff (\$ per 20mm Fire connection)	91.85	95.06	98.39	101.83
State-wide Connections (20mm Charge Equivalent)	41 512	43 718	45 756	47 646

³⁹ Available at www.economicregulator.tas.gov.au/water/pricing/price-determination-investigations/2022-water-and-sewerage-price-determination-investigation

Total Fire Service Supply Revenue (\$'000s)	3 813	4 156	4 502	4 852
Sewerage				
Tariff (\$ per ET)	705.04	729.71	755.25	781.69
State-wide ETs	246 190	248 934	251 717	254 538
Total Sewerage Revenue (\$'000s)	173 573	181 651	190 110	198 969
Service charges (unconnected titles in serviced land)				
Tariff (\$ per title of unconnected land)	367.39	380.25	393.55	407.33
Water - State-wide unconnected titles	4 907	4 945	4 983	5 021
Water Service Charges (\$'000s)	1 803	1 880	1 961	2 045
Tariff (\$ per title of unconnected land)	423.02	437.83	453.15	469.01
Sewer - State-wide unconnected titles	11 738	11 875	12 014	12 155
Sewerage Service Charges (\$'000s)	4 965	5 199	5 444	5 701
Other revenue \$'000s				
Trade Waste (\$'000s)	3 556	3 721	3 894	4 075
Water	1 088	1 081	1 069	1 051
Water - Shared	732	760	789	810
Wastewater	610	574	533	485
Wastewater - Shared	704	732	762	784
Miscellaneous services (\$'000s)	3 134	3 145	3 153	3 130

Although some updated data is available, it was found to not have a material impact on the illustrative customer impacts under the scenarios considered. TasWater updated some of the demand data during the conduct of the 2022 price investigation, and the Regulator approved slightly different prices for some elements in the final determination (TasWater's prices assume 3.5 per cent annual growth, consistent with the 2018 Memorandum of Understanding between it and the Tasmanian Government).

OTTER elected to utilise data from TasWater's published pricing model (which includes 2022-23 prices that are consistent with TasWater's published prices for 2022-23), rather than alternative data that would not all correspond to published sources.

The model was designed to illustrate the impact on customers of changing the level of the water service charge (as a percentage of a standard 20mm connection price) and the level of the sewerage service charge (as a percentage of the per ET price).

It was assumed that:

- TasWater's total regulated revenue is not impacted by changes to service charges (i.e. any changes are revenue neutral);
- revenue from each regulated service category (fixed water, variable water, sewerage, trade waste, and miscellaneous services) is not impacted by changes to service charges;

- only fixed water and sewerage charges policies are subject to change - variable water charges, trade waste and miscellaneous services are not subject to change;
- the ratio of fixed water charges for limited service and fire connections to the fixed water charge for a 20mm connection set out in the Price Determination for the fourth regulatory period is unchanged; and
- although TasWater's pricing model forecasts revenue and demand to 2025-26, illustrative impacts have been presented for the 2022-23 to be consistent with the presentation of information on TasWater and other utilities' service charges elsewhere in this report.

Scenarios

A range of scenarios has been illustrated. For water, the impact of reducing the current service charge in 25 percentage point steps (from the current 100 per cent of the fixed charge per standard 20mm connection) has been illustrated - both in terms of the service charge and the corresponding increase in fixed water charges for standard 20mm connections, limited service connections and fire service connections.

For sewerage, the impact of increasing or reducing the current service charge in 20 percentage point steps (from the current 60 per cent of the fixed charge per ET) has been illustrated - both in terms of the service charge and the corresponding impact on the charge per connected ET.

Table E.2: Water service charge scenarios

Scenario	100% (current)	75%	50%	25%	0%
Fixed charges					
Water service charge (not connected)					
Current 2022-23	367.39	367.39	367.39	367.39	367.39
Scenario	367.39	276.79	185.36	93.11	0.00
% change		-24.7	-49.5	-74.7	-100.0
\$ change		-90.60	-182.02	-274.28	-367.39
Water (per 20mm connection)					
Current 2022-23	367.39	367.39	367.39	367.39	367.39
Scenario	367.39	369.05	370.73	372.42	374.13
% change		0.5	0.9	1.4	1.8
\$ change		1.66	3.34	5.03	6.74
Water limited service (per 20mm connection)					
Current 2022-23	330.65	330.65	330.65	330.65	330.65
Scenario	330.65	332.14	333.65	335.18	336.72
% change		0.5	0.9	1.4	1.8
\$ change		1.50	3.01	4.53	6.07
Fire service (per 20mm connection)					
Current 2022-23	91.85	91.85	91.85	91.85	91.85
Scenario	91.85	92.26	92.68	93.11	93.53
% change		0.5	0.9	1.4	1.8
\$ change		0.42	0.84	1.26	1.69

Table E.3: Sewerage service charge scenarios

Scenario	80%	60% (current)	40%	20%	0%
Fixed charges					
Sewerage service charge (not connected)					
Current 2022-23	423.02	423.02	423.02	423.02	423.02
Scenario	558.85	423.02	284.65	143.67	0.00
% change	32.1		-32.7	-66.0	-100.0
\$ change	135.83		-138.37	-279.35	-423.02
Sewerage (per connected ET)					
Current 2022-23	705.04	705.04	705.04	705.04	705.04
Scenario	698.56	705.04	711.63	718.36	725.21
% change	-0.9		0.9	1.9	2.9
\$ change	-6.48		6.60	13.32	20.17

Shared Infrastructure Contribution Charge

Table E.4 illustrates the increase in the standard charge necessary to raise an additional \$6.8 million (to replace \$6.8 million from the abolition of service charges) from the standard charge on new developments in 2022-23 (assuming the standard charge had commenced in that year). Data on the number of standard charges is sourced from TasWater's State-wide incremental cost model - June 2021 (developer charges model).

Table E.4: Increase standard charge to replace service charges

	Charge (\$)	Number	Revenue (\$)
Standard charge			
Charge per water connection	1 757	2 670	4 690 803
Charge per ET	1 757	2 103	3 695 508
Total	3 514	4 773	8 386 311
Service charges			
Water	367	4907	1 802 808
Sewerage	423	11738	4 965 418
Total	790	16645	6 768 225
Total revenue			15 154 536
Revenue from increased standard charge			
Charge per water connection	3 175	2 670	8 476 550
Charge per ET	3 175	2 103	6 677 995
Total	6 350	4 773	15 154 545
Increase in total standard charge	2 836		

