



Tasmanian Water and Sewerage Industry 2025-26 Price Determination Investigation Draft Price and Service Plan Guideline

December 2023

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INVITATION TO MAKE SUBMISSIONS

The Tasmanian Economic Regulator (Regulator) invites written comment on this document and encourages all interested parties to provide submissions addressing the issues raised in the draft guideline.

It is the Regulator's policy to publish all submissions on the Office of the Tasmanian Economic Regulator's (OTTER) website unless the author of the submission requests confidentiality in relation to the submission (or any part of the submission). Those parts of a submission that are requested to be confidential should be submitted as an attachment to that part suitable for publication.

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

Submissions should be received by close of business on **15 March 2024**.

To facilitate the publication of submissions on OTTER's website, submissions by email are preferred. Submissions and enquiries may be made to:

office@economicregulator.tas.gov.au

or to:

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ACRONYMS & GLOSSARY

Term	Meaning within the context of this Guideline
Asset disposals	The sale or decommissioning of assets that are no longer required to provide regulated services. Asset disposals reduce the value of the RAB.
Biosolids	Organic matter collected from the wastewater treatment process.
Capex	Capital expenditure on new assets related to the provision of regulated services.
CPI	Consumer Price Index
Current regulatory period	The period between 1 July 2022 and 30 June 2026 inclusive.
Customer Service Standards Regulations	<i>Water and Sewerage Industry (Customer Service Standards) Regulations 2019</i>
Developer charges	Include headworks charges; assets gifted by developers; and cash payments made by developers to a regulated entity for the construction of new reticulation works.
EPA	Environment Protection Authority Tasmania
Industry Act	<i>Water and Sewerage Industry Act 2008</i>
MoU	Memorandum of Understanding
NAR	Notional allowable revenue
Next regulatory period	The period commencing on 1 July 2026
NRET	Department of Natural Resources and Environment Tasmania
Opex	Operating and maintenance expenditure related to the provision of regulated services.
Penultimate regulatory period	The period between 1 July 2018 and 30 June 2022
PSP	Price and service plan
Pricing Regulations	<i>Water and Sewerage Industry (Pricing and Related Matters) Regulations 2021</i>
RAB	Regulated asset base, namely the value of assets used for the provision of regulated services.
Regulator	The Tasmanian Economic Regulator established under the <i>Economic Regulator Act 2009</i>
Re-use	Treated effluent from wastewater treatment plants.
Service introduction charges	A charge relating to the installation, alteration or utilisation of assets by a regulated entity so as to provide a regulated service to the property but does not include a connection charge, a fixed charge or a developer charge.
Service replacement	Service replacement involves replacing reticulated services with other arrangements, such as water tanks.
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
Third party capital contributions	Third party capital contributions are assets contributed by third parties and include developer charges, gifted assets, service introduction charges and government grants. Third party capital contributions are deducted from the RAB and are therefore not factored into regulated prices because TasWater is not permitted to receive a return on capital, or a return of capital, on assets that it did not pay for.

Term	Meaning within the context of this Guideline
WACC	Weighted average cost of capital, namely the approved return on assets in the RAB.

I INTRODUCTION

The Regulator is responsible for determining prices and service standards for the regulated water and sewerage services TasWater provides in Tasmania.

The Regulator does this by making a price determination. A price determination is a legally binding document that specifies the maximum prices, or how they will be determined, and the service standards that will apply during the next regulatory period.

Prior to making a determination, the Regulator must conduct a price investigation to determine the efficient cost of providing regulated services, taking into account TasWater's regulatory obligations and the long-term nature of infrastructure assets.

To enable the Regulator to carry out a price investigation, the Regulator requires information about TasWater's business operations. Information about its operations is to be provided by TasWater in its proposed price and service plan (PSP) or, separately, as supplementary information to the Regulator.

The proposed PSP and the subsequently approved PSP will be made publicly available and will provide customers, stakeholders and other interested parties with information on future prices and regulated services and how those prices and service standards were determined.

TasWater must clearly and succinctly identify and explain in its proposals what outcomes will be delivered to customers in return for the prices they pay, and how its proposed prices, services, and service levels reflect feedback from customer consultation.

TasWater is encouraged to prepare its proposed PSP with its target audience, the Regulator, in mind.

If it chooses, TasWater can communicate its proposals and provide more information to customers and stakeholders through other methods such as fact sheets.

I.1 Purpose of the guideline

The purpose of this guideline is to set out the minimum information that TasWater must provide for the price determination investigation that starts on 1 July 2025. The information in the proposed PSP and in other documents and models provided to the Regulator must apply to the regulatory period starting on 1 July 2026 (the fifth regulatory period).

This guideline also provides information on the price determination investigation process and specifies the actions TasWater must take in preparing and submitting its proposed PSP.

2 PRICE DETERMINATION INVESTIGATION PROCESS AND TIMELINE

2.1 Price determination investigation process

The Regulator will review and analyse the information contained in TasWater’s proposed PSP and in other documents provided to the Regulator. Specifically, the Regulator will:

- review TasWater’s performance during the current regulatory period including comparing forecast Opex, Capex, customer numbers, demand and service standards to actual outcomes;
- review and confirm the regulated services and service standards that TasWater proposes to deliver during the next regulatory period;
- assess efficient and prudent forecast Opex and Capex for the next regulatory period;
- assess if forecast demand and the number of connections are reasonable;
- assess whether the other industry regulators’ requirements are met, or satisfactory progress is made towards meeting their respective requirements;
- review and determine the parameters used to calculate the building blocks used to determine the notional allowable revenue (NAR);
- determine maximum prices for the next regulatory period by applying forecasts of demand and number of connections to the NAR;
- determine whether TasWater’s proposed prices satisfy the pricing principles in the Industry Act and the Pricing Regulations and are no greater than the maximum prices determined by the Regulator;
- ensure TasWater’s policies meet statutory requirements; and
- ensure regulated services meet requirements in the Customer Service Standards Regulations.

To ensure TasWater’s NAR for the next regulatory period is based on efficient and prudent Opex and Capex, the Regulator intends engaging expert third party advisors to assist in reviewing TasWater’s Opex and Capex. The Regulator will liaise with TasWater on the timing of the review to ensure TasWater has adequate and appropriate resources available.

In assessing TasWater’s proposed regulated prices the Regulator will consider the impact of the rate of change of prices for customers and review any proposals by TasWater to manage the impact of price changes on customers.

Where the Regulator considers that the information in TasWater’s PSP is deficient or does not comply with the:

- Industry Act,
- the Pricing Regulations,
- the Code; or

- this draft PSP Guideline,

the Regulator will require TasWater to make changes to its PSP and / or submit additional or revised information.

TasWater will also be required to provide further information to the Regulator following the submission of its proposed PSP during the course of the price determination investigation.

The Regulator will publish a draft report that contains the Regulator's draft decisions on TasWater's proposed service levels, NAR, NAR components, demand forecasts, prices and policies. The Regulator will also publish a draft determination which sets out the draft maximum prices for the next regulatory period.

After consulting publicly on the draft report and draft determination, the Regulator will publish a final report and determination. The final report will set out the Regulator's decisions on TasWater's proposed service levels, revenue requirement, demand forecasts and maximum prices for the next regulatory period taking into account any additional or revised information submitted by TasWater, and after considering issues raised in submissions on the Regulator's draft report. The final report will also summarise and provide responses to the issues raised in submissions.

2.2 Information required for the price determination investigation

In determining whether to include the information in the proposed PSP or in separate documents, TasWater is required to apply the following principles:

- the proposed PSP must include those matters specified in Section 65(3) of the Act (see Appendix D.1);
- the proposed PSP must include details relating to TasWater's proposed Opex and Capex for the next regulatory period;
- the proposed PSP must include sufficient information to justify TasWater's proposed prices, service standards and policies, including all forecasts;
- the proposed PSP must include the feedback received during customer consultation and details of how the feedback from consultation is included in the proposed PSP;
- detailed analysis of outcomes within the current regulatory period and past regulatory periods may be provided in documents separate from the PSP;
- economic modelling and explanatory information and analysis may be provided in documents separate from the proposed PSP; and
- technical data and analysis of that data that may not be understood by a non-specialist may be included in an appendix to the proposed PSP, or in separate documents, unless the information is required to be in the proposed PSP to satisfy one or more of the principles listed above.

The proposed PSP must include a reference / source for any values contained within it. Similarly, the proposed PSP must reference the sections in this guideline that the PSP is addressing (see Appendix B).

2.3 Price determination

The final price determination will include information that TasWater must include in its PSP prior to its approval by the Regulator. The determination may also require TasWater to make other changes to its

PSP prior to its approval by the Regulator. The determination will also specify the maximum prices that TasWater can charge for regulated water and sewerage services during the next regulatory period. In accordance with regulation 7 of the Pricing Regulations, the determination will require TasWater's PSP to include anticipated changes in prices during the regulatory period.

2.4 Duration of the regulatory period

Section 65(13) of the Industry Act requires the Regulator to declare the duration of the regulatory period (that is, the period covered by a price determination made by the Regulator).

In 2009, the then Treasurer fixed the minimum duration of each subsequent regulatory period (i.e. after the first regulatory period) to be three years.

There are costs and benefits of increasing the duration of a regulatory period. Price determination investigations require considerable resources and are therefore costly both from TasWater's perspective and from the perspective of the Regulator and his Office. A longer regulatory period may reduce these costs in addition to providing TasWater with more certainty in some areas.

However, a longer regulatory period may increase the risks to TasWater should circumstances change or if outcomes are materially different to those forecast during the period. Should TasWater's overall direction need to be altered, which may be due to events outside TasWater's control or as a result of important new information, it would take longer to implement these changes. Furthermore, the changes required may be greater or more disruptive the later they can be implemented.

In determining an appropriate length for the next regulatory period, the Regulator will therefore consider the relative advantages and disadvantages of continuing with a four-year regulatory period or declaring a longer regulatory period.

Section 65(14) requires the Regulator to make a declaration not less than 2 years before the end of the current regulatory period (30 June 2026). The Regulator will therefore declare, in accordance with section 65(13) of the Industry Act, by gazettal notice, the duration of the next regulatory period before 30 June 2024.

2.5 Consultation by the Regulator

The Regulator will consult on the draft report and draft determination in accordance with its [Consultation Policy and Procedures \(February 2021\)](#). All documents, including TasWater's proposed PSP, will be published on the Regulator's website (www.economicregulator.tas.gov.au). The Regulator's consultation expectations for TasWater are set out in [Chapter 3](#) of this Guideline.

The Regulator will also consult with the other industry regulators (the Department of Natural Resources and Environment, the Dam Safety Regulator, the Director of the Environment Protection Authority Tasmania and the Director of Public Health) before and during the price determination investigation.

2.6 Investigation timetable

The following table shows the proposed timetable for the next water and sewerage price determination investigation.

Table 2.1 Proposed timetable for the next price determination investigation

Action	Due date
Regulator publishes draft PSP Guideline	8 December 2023
Consultation on draft PSP Guideline closes	15 March 2024
Regulator publishes PSP Guideline and issues notice requiring TasWater to submit its proposed PSP	30 June 2024
Regulator engages third party advisors for review of TasWater’s Opex and Capex	31 May 2025
TasWater submits its proposed PSP to the Regulator, including the financial model and supplementary financial information relating to the 2022-23 and 2023-24 financial years	30 June 2025
Regulator publishes TasWater’s proposed PSP and supplementary information	July 2025
Regulator publishes notice of intention to make a price determination after conducting a price determination investigation	31 July 2025 (i.e. 11 months before expiry of determination)
TasWater submits its financial model and supplementary financial information for the financial year ending 30 June 2025 to the Regulator	30 September 2025
Third party advisors complete their review and submit their draft report to the Regulator (after discussing draft findings and recommendations with TasWater)	December 2025
Draft third party advisors report, draft price investigation report and draft price determination released for public consultation	Mid-February 2026
Consultation on draft price investigation report and draft price determination closes	Mid-March 2026
Final price investigation report published, and final price determination gazetted	30 April 2026
TasWater to submit revised PSP reflecting price determination and final report	31 May 2026
Regulator approves PSP	Mid-June 2026
TasWater publishes prices that will apply from 1 July 2026	Mid-June 2026
Next regulatory period commences	1 July 2026

3 CONSULTATION

3.1 TasWater’s consultation on proposed price and service plan

The Regulator requires TasWater to consult with its customers, stakeholders and interested parties during the development of its proposed PSP. While it is TasWater’s responsibility to determine its approach to consultation, the Regulator expects TasWater to take into consideration the cost effectiveness of its consultation approach. As such, TasWater should conduct efficient, meaningful consultation on issues that it considers likely to affect the prices for regulated services.

Matters for consultation are to include:

- current customer service standards, any proposed changes to those standards and any proposals to introduce new customer service standards including the associated costs or / and savings;
- proposed Capex;
- proposed Opex;
- price and service trade-offs;
- fees and charges for existing services including developer charges;
- proposed tariffs, fees and charges for new services;
- demand forecasts;
- if applicable, the proposed method of managing the impact of the rate of change of prices on customers (price transition mechanism and timeframe);
- proposals to change product quality (for example, moving from untreated to treated water supply);
- proposals to introduce or replace reticulated water and / or sewerage services; and
- requirements as specified in the Regulator’s inquiries into the level of service charges, TasWater’s calculation of regulatory depreciation for new assets and TasWater’s approach to sewerage and trade waste charging.

The Regulator also requires TasWater to consult with other industry regulators during the preparation of its proposed PSP and describe the outcomes of the consultation in its proposed PSP. In particular TasWater’s proposed PSP must include details of consultation with industry regulators in relation to its:

- wastewater management plan;
- drinking water quality plan; and
- dam safety management plan.

To maximise the opportunity for customers to participate in the preparation of the proposed PSP, TasWater must provide clear and accurate information to customers in plain English during consultation. TasWater must also inform customers of:

- the purpose of the consultation;
- the price impacts of any proposals; and
- how TasWater will use the information provided.

3.2 Information required for the price determination investigation

Noting the discussion in Section 3.1, TasWater must provide:

- justification for the cost effectiveness of its consultation approach;
- details of how the feedback from customer consultation has been incorporated into its proposed PSP and the effect on prices;
- a summary of the methods used for consultation prior to and during the preparation of the proposed PSP;
- evidence that TasWater has sought feedback from a range of customers from across the State;
- details of issues consulted on, including information provided to customers and other stakeholders during consultation and the link to prices for regulated services;
- details of how the information used during consultation was obtained and / or calculated;
- a summary of feedback received during consultation; and
- details of instances where TasWater has decided not to address issues of customer interest and the reasons for not addressing those issues.

4 CUSTOMER SERVICE STANDARDS

Customer service standards define what customers can expect from TasWater regarding the quality and reliability of service provided. Service standards cover both responsiveness (for example, service restoration times) and customer satisfaction measures (for example, communication quality).

Customer service standards and the levels at which they are set affect the cost of providing regulated services and therefore the prices customers pay for regulated services. In determining minimum service standards and service standard levels, the Regulator will assess the trade-off between prices and service standard levels and consider customer feedback on proposed service standards.

TasWater is required to justify proposed changes to its minimum service standards and any related targets, and if applicable, propose new minimum service standards and targets. The Regulator will revise the minimum standards during the price determination investigation taking into consideration outcomes of TasWater’s customer consultation and TasWater’s customer service performance outcomes during the current regulatory period.

4.1 Regulator’s approach to assessing service standards

As part of the price determination investigation, the Regulator will assess whether the proposed service standards and service levels:

- are consistent with the agreed service standards framework;
- are based on available information on actual performance;
- are supported by proposed Capex and Opex;
- reflect customer preferences (especially any identified priorities for service standard improvement); and
- are measurable and the data to measure performance is available and reliable. If the data is not currently available, the Regulator will take into consideration the time and resources required to obtain the required data.

The Regulator will consider and, when satisfied, approve TasWater’s proposed minimum service standards and targets during the price determination investigation. The Regulator will require TasWater to include the revised minimum service standards and targets in its final PSP.

4.2 Information required for the price determination investigation

TasWater must:

- specify proposed minimum service standards and the respective minimum service levels;
- include any proposed changes to minimum service standards or minimum service levels;
- explain both the rationale for each proposed service level and what data will need to be collected to enable monitoring of performance against each service standard;
- explain and justify any proposed changes from the service standards which apply during the current regulatory period;
- identify any changes in Opex, legislative requirements or other factors that may affect the setting of service standards for the next regulatory period; and
- outline the outcomes of consultation on proposed service levels and how these outcomes are factored into service standards.

TasWater is required to seek customer feedback on reducing service levels, maintaining current service levels and / or improving service levels. For each proposed change in service level TasWater must provide the associated change in costs and prices to deliver that level of service and provide data as to how the costs and resulting prices associated with each service level change were calculated.

TasWater is also required to specify the costs and benefits and its capacity to achieve the minimum service levels arising from any proposed changes to service standards.

The Regulator will, as part of the price determination investigation, review TasWater's performance against the service standards that apply for the current regulatory period as reported annually under the performance reporting framework.

5 DEMAND FORECASTS

Demand forecasts are used in conjunction with the NAR to determine regulated prices. Demand forecasts are also used in forecasting Opex and Capex.

In order to assess the veracity and reasonableness of the demand forecasts the Regulator requires TasWater’s proposed PSP to include historical demand values and sufficient information to enable the Regulator to understand how the forecasts were derived.

5.1 Information required for the price determination investigation

For the current regulatory period TasWater must provide:

- actual numbers of water and sewerage connections by size, revenue and customer class for each year of the period;
- actual numbers of miscellaneous service transactions and revenue from each miscellaneous service for each year of the period;
- actual revenue from customers with section 61 contracts, service introduction charges and developer charges for each year of the period;
- actual volumes of water supplied by connection size, revenue and customer class for each year of the period;
- a comparison of forecast demand in TasWater’s current PSP with actual demand; and
- an explanation for any variation between the forecasts in TasWater’s current PSP and actual demand.

For the next regulatory period TasWater must provide:

- a forecast of the number of water and sewerage connections by size and customer class and revenue for each year of that period;
- a forecast of the number of miscellaneous service transactions and revenue from each miscellaneous service for each year of that period;
- a forecast of the revenue from section 61 contracts, service introduction charges and developer charges for each year of that period;
- a forecast of the volumes of water, provided by connection size, customer class and revenue for each year of that period;
- an explanation of the method, key inputs, and assumptions used in determining the proposed forecast values for that period; and
- a discussion of the main factors that could impact on the proposed forecast values during that period.

The same values must be used for calculating proposed regulated prices and forecasting Opex and Capex for the next regulatory period.

6 OPERATING EXPENDITURE

During the price determination investigation, the Regulator will assess whether TasWater’s proposed forecast Opex is prudent and efficient. Opex will be considered prudent if the expenditure is necessary for providing regulated services and will be considered efficient if the expenditure is demonstrated to be the lowest long-term cost of providing regulated services.

TasWater must identify and exclude Opex used in providing unregulated services. The basis for excluding this expenditure must be justified in the information provided to the Regulator.

As discussed in section 2.1, the Regulator will engage independent third-party advisors to review TasWater’s Opex for the current regulatory period and determine if the proposed Opex for the next regulatory period is prudent and efficient.

6.1 Information required for the price determination investigation

TasWater must provide:

- forecast Opex for each year of the next regulatory period in accordance with the Regulator’s requirements. Expenditure should be provided in nominal dollars;
- an explanation of how forecast Opex was determined including what methods were used;
- an explanation of the assumptions made, and what risks are associated with the forecast Opex, including how TasWater proposes to manage cost uncertainty during the next regulatory period;
- details of any proposed efficiency program/s for the next regulatory period and how these are factored into forecast Opex;
- actual Opex for 2022-23, 2023-24 and 2024-25 and budgeted Opex for 2025-26. The data should be presented in nominal dollars;
- a comparison between forecast Opex for the fourth regulatory period as set out in its current PSP and actual Opex for 2022-23, 2023-24 and 2024-25 and budgeted Opex for 2025-26 together with an explanation of any differences. The data should be presented in nominal dollars;
- information to justify that its Opex for the last full financial year prior to the commencement of the next pricing investigation (i.e. 2024-25) represents an efficient level of Opex;
- details of efficiency programs and the outcomes from those programs during the current regulatory period;
- an updated labour force plan as part of the supplementary information provided with the proposed PSP; and
- details of TasWater’s consultation with customers on its proposed Opex and its components, specifically the outcomes relating to the trade-off between costs and service standards and any proposed significant changes in Opex compared to Opex for the current regulatory period.

TasWater must also:

- quantify and explain any change in total Opex from the impact of Capex on its infrastructure;
- identify and explain the key drivers of differences between Opex for the current regulatory period and forecast Opex for the next regulatory period;
- identify and exclude Opex used in providing unregulated services from the Opex used to provide regulated services; and
- explain how the Opex used in providing unregulated services was calculated.

7 CAPITAL EXPENDITURE

Capital expenditure (Capex) is the amount invested in new assets for the provision of regulated services and includes expenditure funded through third party capital contributions such as service introduction charges, developer charges and government grants. Capex is included in the Regulator’s estimation of the value of TasWater’s Regulated Asset Base (RAB).

The Regulator and its third-party advisors will review TasWater’s Capex for the current regulatory period to determine if the expenditure was prudent and efficient. The Regulator will subsequently include the prudent and efficient Capex in the RAB roll forward for the current regulatory period as discussed in [Chapter 8](#) of this guideline.

In assessing TasWater’s proposed forecast Capex for the next regulatory period the Regulator will determine if the proposed Capex is prudent and efficient and whether, based on past experience and TasWater’s capital projects delivery processes, the timeframe for delivering the proposed Capex program is reasonable. The Regulator will also consider:

- how TasWater has prioritised Capex projects after taking into account TasWater’s longer-term plans;
- the other industry regulators’ requirements; and
- whether TasWater’s asset planning and asset management reflect best practice.

The assessment of proposed Capex will include establishing whether the expenditure is supported by a business case or other relevant information that demonstrates the proposed expenditure is both prudent and efficient, and consistent with TasWater’s compliance obligations and longer-term plans.

7.1 Classification of Capex

Capex should be split between regulated water and sewerage services and classified on the basis of one or more of the following cost drivers:

- Growth: increasing the capacity of assets or construction of new assets, to meet growth in demand or to provide additional security of supply;
- Renewal of existing infrastructure: replacing existing assets and generally maintaining service levels;
- Improvements: improving service levels and reliability to meet customer preferences; and / or
- Compliance: meeting regulatory obligations.

Where Capex has more than one cost driver, expenditure should be allocated on the basis of the main driver and be consistent with the business case or other relevant information that supports the expenditure.

7.2 Information required for the price determination investigation

TasWater must:

- provide annual forecasts of its proposed Capex, for the delivery of regulated services, during the next regulatory period (in nominal dollars);
- categorise Capex based on the cost drivers set out in section 7.1 of this guideline;
- describe and estimate the changes in Opex associated with major capital projects. For the purposes of this guideline, a major project is defined as a project:
 - where the total expenditure over the project’s life is expected to exceed \$10 million;
 - that impacts on a significant number of customers; or
 - that has been identified as a high priority compliance issue in the relevant industry regulator’s priority list or management plan.
- explain and quantify any capital delivery efficiency programs for the next regulatory period;
- explain how Capex projects are assessed including details of how projects are prioritised, the methods used to determine costs, how risks are factored into the assessment and how it has assessed alternative solutions to the issue being addressed;
- provide details of the business case for major capital projects proposed for the next regulatory period, including the project name and scope (including reason for project, cost, alternative solutions considered, level of delivery risk);
- explain any differences between forecast Capex and actual and budgeted Capex for the current regulatory period;
- explain how cost uncertainty will be managed;
- identify any external sources of funding for Capex; and
- provide details of TasWater’s consultation with customers and its dealings with industry regulators on its forecast Capex, particularly major Capex projects.

7.3 Longer-term plans and strategy

The Regulator requires TasWater to explain how the proposed Capex in its proposed PSP is consistent with its longer-term plans and strategy. In particular TasWater, must provide:

- a summary of its long-term strategy which must include a discussion on asset: acquisition, operation, maintenance, renewal and disposal;
- an explanation of the assumptions in the strategy;
- an explanation of the risks identified and how those risks will be mitigated;
- justification for major Capex projects; and
- details of how the strategy will enable TasWater to meet its compliance obligations at least cost, while providing customers with regulated services at the required service standards.

8 REGULATED REVENUE

In determining prices for regulated services the Regulator must have regard to the pricing principles in the Industry Act and Pricing Regulations.

The Regulator proposes continuing to use the building block post-tax method to determine TasWater's notional allowable revenue (NAR). Under the building block approach, the NAR is the sum of the following costs ('building blocks') that are incurred in providing regulated services:

- a return on capital which is also referred to as the cost of capital, comprising the cost of the debt and equity that together make up the total amount of capital invested in providing regulated services;
- a return of capital through regulatory depreciation;
- operating and maintenance expenditure; and
- a tax allowance (see section 8.10 below).

The value of capital is deemed to be the value of the regulated asset base (RAB) i.e. the assets used to provide regulated services. The return on capital is derived by multiplying the capital invested (RAB) by an appropriate weighted average cost of capital (WACC).

8.1 Regulated asset base

TasWater must have separate RABs for water and sewerage assets.

In addition, assets must be split between assets transferred to the previous regulated entities before 1 July 2011 (referred to as existing assets) and assets purchased or constructed by the previous regulated entities and subsequently TasWater on or after 1 July 2009 (referred to as new assets). Consequently, TasWater must maintain four RABs.

The RABs for existing assets must be updated each year to allow for asset disposals, inflation, and regulatory depreciation.

The RABs for new assets must be updated each year to allow for: third party contributions, asset disposals; inflation; regulatory depreciation and the prudent and efficient Capex required to provide regulated services.

8.2 Asset disposals

Given the lack of detailed information regarding existing assets, for the existing asset RABs, the Regulator will use asset disposal values that equal asset sale proceeds. For the new asset RABs, the Regulator will use asset disposal values that equal the value at which the disposed asset was recorded in the RAB as adjusted for depreciation and indexation.

TasWater must include in its proposed PSP details of actual and forecast asset disposals used in the RAB roll forward, together with forecasts of annual asset disposals for the next regulatory period.

8.3 Third party capital contributions

TasWater must include in its proposed PSP details of actual and forecast third party capital contributions used in the RAB roll forward and forecast annual third-party capital contributions for the next regulatory period.

8.4 Regulatory depreciation

The Regulator requires TasWater’s depreciation to be prepared in accordance with the Regulator’s findings and decisions set out in Chapter 5 of the 2023 Inquiry into the calculation of regulatory depreciation allowance - Final Report.¹

The Regulator also requires TasWater to determine regulatory depreciation for the existing asset RABs using straight line depreciation and the value weighted average approach with regulatory depreciation based on the opening balances for 2022-23.

Noting Chapter 5 of the depreciation inquiry report², TasWater must provide to the Regulator:

- justification for the method used to calculate depreciation for new assets;
- the depreciation calculations for both existing and new assets and all supporting information;
- the relevant models;
- the relevant asset register / s;
- a schedule of asset categories and assets lives;
- the justification for the asset categories and asset lives used;
- documentation of the process used to calculate regulatory depreciation allowances for both existing and new assets; and
- documentation to substantiate its calculation of depreciation relating to pre-1 July 2018 capex.

TasWater must show, in the financial model required in accordance with [Chapter 10](#) of this guideline, the proposed depreciation used in calculating the NAR and for roll forward of the existing and new asset RABs.

TasWater must include a table in its proposed PSP showing the proposed regulatory depreciation calculation for the current and next regulatory period for both existing and new asset RABs. The proposed regulatory depreciation values in this table must reconcile to the values in the financial model.

With regards to depreciation on Capex, the relevant start date for projects is defined in Chapter 5 of the depreciation inquiry Final Report³ as:

“...for the purposes of calculating regulatory depreciation, is the date the project receives final approval from the board or a board sanctioned delegate. In addition, if there are any changes to

¹ [Tasmanian Economic Regulator, 2023, Inquiry into the calculation of regulatory depreciation allowances for TasWater's new assets - final report, page 20-21.](#)

² *ibid*, pages 20-21.

³ *ibid*, page 20.

the original project (excluding cost increases relating to the original project scope) that require board or board delegated senior management approval, the Regulator will treat those changes as constituting the commencement of a new project with the approval date for those changes treated as the commencement date for that project.”

8.5 Inflation

In the preparation of the proposed PSP, the Regulator requires TasWater to roll forward the RABs by indexing according to inflation as measured by the change in the CPI (weighted average of eight capital cities) published by the Australian Bureau of Statistics from March 2024 to March 2025.

Forecast inflation values must be the “CPI inflation” value for the furthest future period as presented in the output growth and inflation forecasts, of the Reserve Bank of the most recently published Australia’s *Quarterly Statement of Monetary Policy*.

8.6 RAB roll forward for existing assets

The opening RAB value in each financial year is equal to the closing balance from the previous financial year.

Therefore, to determine the applicable opening RAB for existing assets for the next regulatory period, the closing RAB from the second year of the penultimate regulatory period is rolled forward using actual values of asset disposals and inflation for the first three years then updated with forecast values for the final year of the current regulatory period.

The applicable regulatory depreciation must be calculated as set out in section 8.4 of this Guideline.

The opening RAB as at 1 July 2026 must be rolled forward for each year of the next regulatory period using:

- forecast asset disposal values;
- forecast inflation; and
- regulatory depreciation calculated as set out in section 8.4 of this guideline.

TasWater must show the RAB roll forward and forecast RAB calculations in its financial model and in a table in its proposed PSP.

8.7 RAB roll forward for new assets

To determine the applicable opening RAB for new assets for the next regulatory period, the closing RAB from the second year of the penultimate regulatory period is rolled forward using actual values for asset disposals, inflation, third party contributions and prudent and efficient Capex for the first three years and updated forecast values for each of these components for the final year of the current regulatory period.

The applicable depreciation must be calculated in accordance with section 8.4 of this guideline.

The opening RAB as at 1 July 2026 must be rolled forward for each year of the next regulatory period using:

- forecast Capex;

- asset disposal values;
- inflation;
- third party contributions; and
- regulatory depreciation calculated as per section 8.4 of this guideline.

The forecast Capex in the RAB roll forward must equal the Capex values provided in accordance with the requirements set out in Chapter 8 of this Guideline.

TasWater must show RAB roll forward and forecast RAB calculations in its financial model and in a table in its proposed PSP.

8.8 Treatment of assets used to provide unregulated services

In accordance with Clause 3 of the *Water and Sewerage Industry Declaration Order 2011*, the following activities have been declared to not be regulated services:

- the collection or use of stormwater;
- providing a service for the recycling of water; and
- providing a service for the re-use of water.

These services are therefore unregulated services as is providing water for irrigation.

The value of assets, or parts of assets, used to provide unregulated services must be excluded from the RAB. The costs of, and return on, these assets is not to be recouped from revenue received from the provision of regulated services.

While providing a service for the re-use of water is not a regulated activity, this does not preclude some or all of the Capex and Opex associated with the re-use of water being included in the cost of providing regulated sewerage services, so long as the prudence and efficiency tests are satisfied with respect to the provision of those regulated services i.e. in instances where re-use represents the least cost effluent disposal method.

TasWater's proposed PSP must clearly identify each unregulated service it expects to provide. TasWater's PSP must also explain how the associated assets and Opex are allocated between regulated and unregulated services.

8.9 Weighted average cost of capital

The WACC is the sum of the weighted average of the cost of debt and the cost of equity. The Regulator proposes to continue to use a WACC to determine the return on capital for both new assets and existing assets. The WACC is calculated as the weighted average of the pre-tax cost of debt and the post-tax cost of equity. The formulae for the WACCs for new and existing assets are provided in Appendix A.

TasWater's proposed PSP must include its proposed WACCs and justification for the proposed values for the individual WACC parameters.

8.10 Tax allowance

The use of a post-tax nominal WACC necessitates calculating an explicit tax allowance that is included in the build-up of the NAR. The tax allowance is effectively an estimate of corporate income tax expense that a benchmark efficient private business would pay.

Following amendments made to the *Water and Sewerage Corporation Act 2012* in 2018, from 1 January 2019 TasWater is no longer subject to the National Tax Equivalent Regime and is therefore no longer required to make tax equivalent payments to its council owners.

Consequently, for the fifth regulatory period and for the purposes of this guideline, TasWater must use a tax rate equal to zero that will result in the tax allowance component of its NAR build-up also equalling zero.

9 PRICE REGULATION

The Regulator will assess the prices set out in TasWater’s proposed PSP against the pricing principles specified in the Industry Act and in the Pricing Regulations.

9.1 Section 61 contracts

TasWater’s proposed PSP must provide:

- details of revenue received from customers with section 61 contracts for each year of the current regulatory period;
- forecast annual revenue from customers with section 61 contracts for the next regulatory period; and
- evidence that the relevant contract provides for the recovery of the full cost of providing the service to the customer.

TasWater must include forecast revenue from customers with section 61 contracts when calculating proposed regulated prices.

9.2 Service Introduction charge

TasWater must, having regard to the requirements in regulation 14 of the Pricing Regulations, explain in its proposed PSP its approach to calculating and imposing service introduction charges for the next regulatory period and provide details of customer consultation on any proposed changes to the calculation or imposition of service introduction charges.

TasWater must also explain and justify any changes it proposes to how it calculates or imposes service introduction charges.

TasWater must provide in its proposed PSP:

- details of revenue received or a forecast of the revenue it expects to receive from service introduction charges for each year of the current regulatory period; and
- proposed forecast annual revenue from service introduction charges for the next regulatory period.

TasWater must not include revenue from service introduction charges when calculating proposed prices for regulated services as these charges are classed as third-party capital contributions.

9.3 Developer charges

TasWater must explain in its proposed PSP its approach to calculating and imposing developer charges for the next regulatory period and provide details of customer consultation on any proposed changes to its current approach.

TasWater’s proposed PSP must also take into account the findings and decisions with regards to developer charges in the Regulator’s level of service charges inquiry final report. TasWater must explain and justify any changes it proposes to make to how it calculates or imposes developer charges.

TasWater must provide in its proposed PSP:

- details of revenue received or a forecast of the revenue it expects to receive from developer charges for each year of the current regulatory period; and
- proposed forecast annual revenue from developer charges for the next regulatory period.

TasWater must not include revenue from developer charges when calculating its proposed prices for regulated services as these are classed as third-party capital contributions.

9.4 Customer classes

TasWater’s proposed PSP must specify its proposed customer classes for the next regulatory period and provide details of customer consultation on the proposed customer classes.

TasWater must justify any changes to its current customer classes and specify the effect of any changes on prices for regulated services.

9.5 Fixed, variable and miscellaneous charges

TasWater must:

- calculate water and sewerage charges in accordance with the decisions and findings set out in the Regulator’s inquiries into sewerage and trade waste charges and its inquiry into the level of service charges;
- provide a schedule of proposed water and sewerage services and prices, including fixed and variable components if applicable, for each year of the next regulatory period;
- provide a schedule of proposed miscellaneous fees and charges and the proposed prices to apply in each year of the next regulatory period;
- explain⁴ and justify any changes to its current schedule and / or current approach to determining water, sewerage⁵ or miscellaneous charges and provide details of customer consultation on any proposed changes including, but not limited to, a summary of responses provided during consultation;
- if proposing a new miscellaneous fee or charge, explain how the new fee or charge has been calculated;
- if proposing to apply a variable sewerage charge, include the method used to calculate a variable sewerage charge;
- include a schedule of proposed sewerage charges for different industries/property use types;
- if the proposed sewerage variable charge rates are greater than the cost of delivering water or removing sewerage from a property, quantify and justify the additional costs to be recovered through the variable charge noting the requirements in regulation 15 of the Pricing Regulations;

⁴ Include a comparison between the current and proposed methods of determining charges.

⁵ Noting the outcomes from the Regulator’s inquiry into sewerage charges.

- explain and justify any proposed price constraints or other means for managing the impact of the rate of change of prices for customers; and
- include the financial impacts of the proposed price changes on annual bills for a 20mm connection for a range of usages (e.g. 50kL, 100kL, 150kL, 200kL, 250kL).

10 FINANCIAL MODEL

In accordance with section 65(4)(d) of the Industry Act, the Regulator requires TasWater to provide a financial model (e.g. Excel spreadsheet) that shows how its proposed prices for regulated services have been calculated. The model must include:

- RAB roll forward and forecast RAB for existing and new assets for each regulated service;
- total assets, unregulated assets and regulated assets;
- regulatory depreciation for existing and new assets;
- calculation of the individual building blocks and the resulting NAR;
- demand forecasts;
- Opex for each year of the current and next regulatory period;
- Capex for each year of the current and next regulatory period;
- revenue from section 61 contracts;
- a schedule of the tariffs, fees and charges; and
- revenue from each of the proposed tariffs, fees and charges for each year of the current and next regulatory period.

The model must demonstrate that applying the proposed demand forecasts to the proposed regulated prices plus the revenue from section 61 contracts will result in regulated revenue not exceeding the NAR.

Service introduction charges and developer charges are to be shown separately to the NAR.

The values in the financial model must be the same as those provided in the proposed PSP.

In determining how much of the financial model will be made publicly available, the Regulator will take into account any issues identified by TasWater.

II REGULATORY COMPLIANCE

The Tasmanian industry regulators are:

- the Director of Public Health, who is responsible for regulating water quality and fluoridation;
- Dam Safety Regulator;
- the EPA, which is responsible for regulating wastewater treatment plants; and
- NRET, which is responsible for water licence allocations and dam safety.

Each individual industry regulator is responsible for enforcing TasWater’s compliance with its regulatory obligations.

TasWater must consult with each industry regulator during the preparation of its proposed PSP to ensure that its proposed compliance improvement initiatives over the next regulatory period meet the expectations of the relevant industry regulator.

II.1 Approach to reviewing compliance

The Regulator will consult with other industry regulators to ensure any agreed upon compliance improvement requirements are reflected in TasWater’s proposed Opex and Capex.

The Regulator may require changes to the PSP to ensure that the statutory responsibilities and the priorities of each industry regulator are addressed to their satisfaction.

II.2 Information required for the price determination investigation

TasWater must provide:

- details of each industry regulator’s priority lists and expected outcomes for the next regulatory period;
- an explanation of how the agreed outcomes are reflected in TasWater’s proposed Capex and Opex;
- copies of wastewater management, drinking water quality management and dam safety management plans agreed with the relevant industry regulator as at the time of submission of the proposed PSP.

12 ADDITIONAL REQUIREMENTS

12.1 Serviced land

TasWater’s proposed PSP must include a description of serviced land that complies with the Industry Act and the Code, and which is sufficiently detailed to be able to identify individual titles.

TasWater must also explain in its proposed PSP how it determines what land is included in its serviced land.

12.2 Service charges

TasWater’s proposed PSP must account for the findings and recommendations set out in the Regulator’s Inquiry into the Level of TasWater’s Service Charges Final Report.

12.3 Policies

TasWater’s proposed PSP must include its proposed policies with regard to:

- connections;
- service charges;
- trade waste charges;
- sub-metering;
- extension and expansion;
- service introduction charges; and
- developer charges.

TasWater’s proposed PSP must also provide details of customer consultation including a summary of responses on its proposed policies.

TasWater must highlight and justify any differences between its current policies and the policies it is proposing for the next regulatory period.

The Regulator will review the policies and may require TasWater to make changes to the policies prior to approval. Once approved, TasWater must publish these policies and any supporting documentation on its website.

12.4 Customer contract

TasWater must include a proposed customer contract in its proposed PSP and provide details of customer consultation on its proposed customer contract.

If the proposed customer contract differs from its current customer contract, TasWater must highlight and justify any changes.

12.5 Service replacement proposals

The Regulator does not require specific service replacement proposals to be submitted for approval as part of TasWater’s proposed PSP. However, TasWater’s proposed PSP must identify areas where preliminary analysis and community consultation has been carried out on potentially replacing an existing service.

12.5.1 Information required for the price investigation determination

TasWater must:

- explain its service replacement policy and process and justify any proposed changes to the service replacement process approved for the current regulatory period; and
- include feedback from customer consultation on its current and proposed service replacement policy and process.

12.6 Re-use

TasWater must provide information on the additional assets, Capex, Opex and revenue associated with re-use activities, including the production and sale of biosolids, as they relate to a sewerage service. In cases where these re-use activities are undertaken, TasWater must provide information on the overall impact on its costs and revenues, relative to alternative solutions as they apply to regulated sewerage services.

12.7 Executive summary

In accordance with section 65(4)(d) of the Industry Act, TasWater is required to include an executive summary in its proposed PSP to assist customers’ understanding of the information in the proposed PSP and to encourage customers to participate in the price determination investigation process. The executive summary should include;

- the services TasWater proposes to provide and the proposed prices;
- a summary of the changes proposed for the next regulatory period;
- a summary of proposed Opex and Capex, including, respectively, the main reasons for any material increases in costs and the main drivers for major capital projects;
- a summary of customer consultation and how the feedback provided has been included in the proposed PSP;
- the impact of the price changes on customers; and
- a sample bill if TasWater is proposing to change its bills for the next regulatory period.

12.8 Compliance checklist

TasWater’s proposed PSP must be accompanied by a Compliance Checklist (see the format set out in Appendix B).

12.9 Chief Executive Officer Declaration

TasWater's proposed PSP must be accompanied by a signed Chief Executive Officer Declaration in the format set out in Appendix C.

APPENDIX A - WACC FORMULAE

The Regulator proposes using the following formula to calculate the Weighted Average Cost of Capital (WACC) for new assets:

$$WACC_{NEW} = R_d G + R_e (1-G)$$

Where:

$$R_d = \text{Pre-tax cost of debt}$$

$$= \text{RFR} + \text{DRP} + \text{debt issuance costs}$$

$$\text{RFR} = \text{Risk free rate}$$

$$\text{DRP} = \text{Debt risk premium}$$

$$G = \text{Gearing percentage}$$

$$R_e = \text{Post-tax cost of equity}$$

$$= \text{RFR} + \beta_e \text{MRP}$$

$$\beta_e = \text{Equity beta}$$

$$\text{MRP} = \text{Market risk premium}$$

The Regulator proposes using the following WACC formula to calculate the WACC for existing assets:

$$WACC_{EXISTING} = R_d G + \text{EXISTING } R_e (1-G)$$

Where:

$$\text{EXISTING } R_e = Z[1-t(1-\gamma)]$$

$$Z = \text{Statutory nominal pre-tax return on equity} = 3\%$$

$$t = \text{Corporate tax rate} = 0\%^6$$

$$\gamma = \text{Gamma (value of imputation credits)}$$

⁶ Refer to Section 8.10.1 of this Guideline.

APPENDIX B - COMPLIANCE CHECKLIST

Draft Price and Service Plan Guideline reference	Reference in TasWater’s proposed Price and Service Plan

APPENDIX C - CHIEF EXECUTIVE OFFICER'S DECLARATION

In accordance with the Tasmanian Economic Regulator's *Price and Service Plan Guideline* of June 2024, I declare:

- the information provided in our proposed Price and Service Plan is the best available information of TasWater's financial and operational affairs and has been checked in accordance with the Guidelines; and
- there are no circumstances of which I am aware that would render the information provided to be misleading or inaccurate.
- that TasWater's proposed Price and Service Plan has applied the outcomes from each of the Regulator's inquiries into TasWater's approaches to regulatory depreciation, sewerage charging, trade waste charging and the level of service charges.

Certified by the Chief Executive Officer:

George Theo

Chief Executive Officer

Date: __/__/20__

APPENDIX D - LEGISLATIVE REQUIREMENTS

D.I Water and Sewerage Industry Act 2008

Section 66(1) of the *Water and Sewerage Industry Act 2008* (the Industry Act) requires the Regulator to make a price determination that applies to a regulated entity in respect of a regulated service. TasWater is the only regulated entity in Tasmania.

In making a determination, the Regulator is required, under section 66(2), to:

- (a) adopt an approach and methodology which the Regulator considers will best meet the objective of this Act; and
- (b) determine prices, terms and conditions, including developer charges, for water services and sewerage services in accordance with the pricing principles referred to in section 68 or any principles prescribed by regulations under that section; and
- (c) consider any proposed price and service plan submitted under section 65; and
- (d) consider any customer contract; and
- (e) ensure that the price determination takes into account and clearly articulates any trade-offs between costs and service standards; and
- (f) not take into account a change in a rate, prescribed in a regulation for the purposes of section 68(1A)(c)(iv), that comes into force at any time –
 - (i) after a regulated entity is required to submit to the Regulator a proposed price and service plan that may be approved by the Regulator after the price determination is made; and
 - (ii) before the price determination to which the proposed price and service plan relates is made; and
- (g) have regard to any matters contained in the regulations.

Section 65(3) states that a proposed PSP must include:

- (a) proposed regulated services to be provided to customers; and
- (b) any customer contract; and
- (c) standards and conditions of service which are in compliance with the customer service code; and
- (d) proposed prices for each regulated service; and
- (e) any other matter required under this Act.

Section 65(4) states that a proposed PSP may include:

- (a) proposed annual revenue requirements; and
- (b) projected capital and operational expenses; and
- (c) supply and demand forecasts; and
- (d) such other matters as required by the Regulator in guidelines issued under subsection (7).

Section 65(7) of the Industry Act states:

The Regulator must issue guidelines to a regulated entity for the preparation of a proposed price and service plan.

Section 65(8) states:

The guidelines referred to in subsection (7) may –

- (a) specify the requirements for a regulated entity to comply with when submitting a proposed price and service plan to the Regulator for approval; and
- (b) specify the process for the preparation and approval of a proposed price and service plan, including the extent of public consultation and timelines and the subsequent publication of prices for each regulated service.

With regard to approving a proposed PSP, section 65(5) states that:

The Regulator must approve a proposed price and service plan for a regulated entity if the Regulator is satisfied that the proposed price and service plan fulfils the requirements for a price and service plan as set out in guidelines issued under subsection (7) and any relevant price determination under section 66.

Consequently, TasWater may need to amend its proposed PSP to ensure it meets the requirements in the PSP guideline and may also need to include additional information or / and make changes to its proposed PSP as required by the final price determination.

Section 57 states that the Regulator must issue a customer service code for regulated services, while Section 58 requires that a required entity develop a customer contract that is in accordance with the customer service code.

In making a determination, section 66(2) requires the Regulator to have regard to the requirements in the:

- *Water and Sewerage Industry (Pricing and Related Matters) Regulations 2021* (the Pricing Regulations); and
- *Water and Sewerage Industry (Customer Service Standards) Regulations 2019* (the Customer Service Standards Regulations).

D.2 Pricing principles

The Regulator must determine prices for regulated services in accordance with the pricing principles contained in the Industry Act and the Pricing Regulations.

D.2.1 Pricing principles in the Industry Act

Section 68 of the Industry Act states that the price for a regulated service must:

- give a regulated entity reasonable opportunity to recover the efficient costs it incurs in providing those services and complying with its regulatory obligations;
- provide for efficient two-part, cost-reflective pricing for regulated water services;
- provide effective incentives to promote economic efficiency, reduce costs, or otherwise improve productivity;
- allow a regulated entity to receive a return on assets used in providing the regulated service; and
- to the extent that it is commercially and technically reasonable, reflect the costs that are directly attributable to a particular customer or class of customers.

D.2.2 Pricing principles in the Pricing Regulations

Part 3 of the Pricing Regulations sets out the following additional pricing principles:

- full cost recovery from certain contracts;
- no double dipping;
- the structure of service introduction charges;
- the imposition and calculation of developer charges;
- the treatment of contributed assets;
- the price determination must require a price and service plan to include all miscellaneous fees and charges; and
- the basis for setting fixed and variable charges.

D.3 Prices to apply during next regulatory period

Under section 66(3A) of the Industry Act, the Regulator will make a price determination which sets the maximum prices for regulated services that will apply during the next regulatory period.