

3 REGULATORY COMPLIANCE IMPROVEMENT

This chapter describes the Economic Regulator's understanding of the actions that are being taken by Tasmania's water and sewerage industry regulators and TasWater, to ensure that TasWater continues to improve the extent to which it complies with its regulatory obligations during the third regulatory period. This includes the industry regulators' expectations of TasWater, their responses to the proposed Price and Service Plan, arrangements in place to manage compliance, and areas identified as necessary to improve progress towards achieving full regulatory compliance.

The Economic Regulator's decisions to improve TasWater's regulatory compliance are at the end of this chapter. A detailed description of the roles and responsibilities of each of Tasmania's water and sewerage industry regulators is included in Chapter 1 of this Report and Chapter 6 discusses TasWater's capex program, which has shifted focus from growth to compliance.

3.1 Regulatory compliance

TasWater is currently facing a number of challenges in relation to regulatory compliance, particularly in respect of wastewater management. This was acknowledged during the first and second price determination investigations. Due to the legacy issues that were inherited by the previous regulated entities, and now TasWater, full compliance may not be achieved for many years.

It is essential to ensure that TasWater will ultimately achieve full regulatory compliance and operational efficiency. Effective long-term planning provides strategic direction and a basis for assessing whether capex is prudent and efficient. While improvements in regulatory compliance are usually achieved through capex, they may also be achieved through improved efficiencies in opex.

TasWater's proposed capex and opex for the third regulatory period must, therefore, reflect its long-term plan and the outcomes agreed with the industry regulators responsible for enforcing its compliance. Management plans and programs are put in place to ensure that the industry regulators' expectations are met.

3.2 Consultation undertaken by the Economic Regulator

In its PSP Guideline, the Economic Regulator undertook to consult with industry regulators to ensure that the compliance improvement outcomes agreed with TasWater are reflected in its proposed Price and Service Plan. The Economic Regulator may require changes to TasWater's proposed PSP to ensure that the statutory responsibilities of industry regulators, as well as their compliance improvement expectations, are appropriately addressed.

The Economic Regulator expects TasWater to consult with industry regulators during the preparation of its proposed Price and Service Plan.

The Economic Regulator has held quarterly meetings with industry regulators since September 2016. In September 2017, a workshop was held with Arup so that industry regulators could discuss the preliminary findings from Arup's review of TasWater's capex and opex. The workshop included a discussion on TasWater's LTSP and its regional strategies for water and wastewater networks. The LTSP aims to outline the investment necessary to meet the regulatory and compliance standards, as well as the arrangements required to achieve the standards. It is available on TasWater's website.

3.3 Responses from the industry regulators

This section provides the Economic Regulator's understanding of how each of the industry regulators has responded to TasWater's proposed Price and Service Plan. It describes whether, and to what extent, TasWater's proposals meet their expectations for continued improvement, the arrangements they have in place with TasWater to ensure compliance, as well as opportunities for expediting progress towards achieving full compliance and operational efficiency.

3.3.1 Director of Public Health

3.3.1.1 Response to TasWater's proposals

The Director of Public Health supported the proposals contained in TasWater's proposed Price and Service Plan. In particular, the Director noted the following.

- TasWater has achieved a progressive reduction in public water supplies subject to boil water alerts or public health alerts, and a corresponding reduction in the number and proportion of consumers of public water supplies who receive water that is non-compliant with microbiological health guidelines. Less than one per cent of the population receives a microbiologically non-compliant drinking water supply from TasWater.
- In anticipation of all non-compliant small water supplies being addressed by August 2018, TasWater intends shifting towards a long-term focus of activity and investment that addresses the risks identified through assessments of each catchment and drinking water supply system.
- The risk assessment approach required given the priorities for the third regulatory period will, to some extent, open possibilities for regional improvements, integration and efficiencies for TasWater's drinking water supplies, including many to small and relatively remote populations.
- TasWater has given an undertaking to progressively address various shortcomings of the sewerage infrastructure, which, in some instances, will serve to reduce public health risks associated with recreational water and exposure to aquaculture.

TasWater consulted with the Department of Health and Human Services (DHHS) on its proposed Price and Service Plan in early 2017 and DHHS' priorities for regulatory compliance improvement have been incorporated.

In March 2017, the Director of Public Health provided TasWater with a list of six priorities to guide its activities and investments, to address both current and long-term risks to human health associated with the shortcomings of drinking water supply systems. The intention was to provide guidance to TasWater for its capital works planning and, in turn, capex for inclusion in its proposed Price and Service Plan. The list was developed following extensive discussions with TasWater. The six priorities are:

1. Remove boil water alerts and public health alerts in drinking water systems.
2. Identify and implement critical control points in accordance with the *Australian Drinking Water Guidelines 2011* (updated November 2016) (ADWG) framework.
3. Increase knowledge of surface waters through catchment risk assessments, and improve source protection through capital investments designed to reduce or eliminate public health risks.
4. Identify opportunities to improve disinfection management and maintain suitable chlorine residuals in reticulation networks.

5. Improve fluoridation performance through compliance with the *Tasmanian Fluoridation Code of Practice*.
6. Identify and implement strategies to remove and reduce disinfection by-product formation to levels below those specified in the ADWG.

The Director of Public Health has advised the Economic Regulator that its expectations for regulatory compliance improvement have been met by TasWater's proposed Price and Service Plan.

3.3.1.2 Monitoring compliance

DHHS' arrangements with TasWater are provided for under the *Public Health Act 1997*, the *Fluoridation Act 1968* and associated regulations. The Economic Regulator understands that the Tasmanian code of practice relating to the fluoridation of public water supplies is currently being updated and is due for completion by 30 June 2018.

DHHS administers the *Tasmanian Drinking Water Quality Guidelines 2015* (TDWQG), which require TasWater to develop and implement, update annually, and have externally audited every two years, a Drinking Water Quality Management Plan (DWQMP). Its purpose is to highlight the risks and issues associated with the shortcomings of drinking water supply systems and to prioritise improvement projects and programs. The current DWQMP applies for 2015-18. The Economic Regulator has been advised that the first audit of the DWQMP is due to be completed in early December 2017. The Economic Regulator has also been advised that the current DWQMP is expected to continue, with revisions as necessary, during the third regulatory period and for future regulatory periods.

DHHS has advised that the TDWQG closely aligns with the best practice management principles outlined in the ADWG. The Economic Regulator understands that, where necessary, DHHS and TasWater continue to liaise on reviews and updates of both the ADWG and TDWQG.

The Economic Regulator also understands that TasWater's compliance is monitored and enforced under the DWQMP which also contains the requirement for risk-based monitoring, reporting and management activities to be carried out. DHHS actively engages with TasWater about notifications of potentially non-compliant water, monitors its operational response and results, and responds as necessary. Results are provided to the Director of Public Health annually by TasWater, as required under the TDWQG. Information must also include, amongst other things, a summary of capital investment in relation to the drinking water supply system and a summary of planned capital investment in relation to the drinking water supply system for the next reporting period.

The Economic Regulator is aware that TasWater was preparing a drinking water quality strategy relating to the third regulatory period. However, TasWater has confirmed that, given the commitments contained in its proposed PSP and LTSP, and the pending audit and update of the DWQMP, this strategy will not be progressed further at this stage.

3.3.2 Director, Environment Protection Authority

3.3.2.1 Response to TasWater's proposals

The Director, EPA has advised the Economic Regulator that the EPA broadly supported the proposals contained in TasWater's proposed PSP.

The EPA and TasWater have entered into a *Memorandum of Understanding on Public Wastewater Management* (November 2016) (MOU). The MOU is a high level document that aims to prioritise projects, largely relating to Level 2 WWTPs, to deliver the greatest environmental performance and compliance improvement over a three year period, by focussing on the highest volume plants and key environmental risks. It is available on the EPA's website. The MOU recognises that full compliance is not possible within the term of the MOU, or the third regulatory period.

The Economic Regulator has been advised that the EPA expects that TasWater will improve compliance with its regulatory obligations and manage key environmental risks over the third regulatory period, given that the MOU focusses upon a specific set of priority Level 2 WWTPs. For the term of the MoU, the EPA will regulate non-priority Level 2 WWTPs to ensure environmental performance does not drop below current levels to allow TasWater to focus on the following:

- "Big 13" - those WWTPs that account for 70 per cent of all treated wastewater from TasWater's network;
- "Top 20" - the key, localised environmental risks associated with Level 2 WWTPs;
- trade waste - enhanced state-wide control of trade waste, tankered waste and leachate inputs to TasWater's network; and
- other state-wide projects that seek to optimise wastewater infrastructure function through better control of inputs, or divert outputs to reuse rather than direct discharge to the environment.

The EPA indicated that the capex projects included in TasWater's proposed PSP and LTSP reflect the priorities identified in the MOU. Under the MOU, TasWater has committed to completing projects at 33 wastewater treatment plants, many of which do not require significant capex. The EPA is comfortable that the contents of the proposed PSP, together with the more detailed commitments provided in Appendix 1 of the LTSP, provide TasWater with sufficient flexibility to pursue and achieve the required gains in environmental performance.

The EPA noted that the current MOU will expire during the third regulatory period and confirmed that discussions have commenced with TasWater to extend the MOU to align it with the timing of the third regulatory period.

The EPA confirmed that TasWater's existing Wastewater Management Plan 2015-18 has largely been set aside for the early stages of the MOU, although it aligns with many of the priorities in the MOU. The EPA also confirmed that TasWater has proposed the preparation of an updated wastewater management plan for 2018-21. The Economic Regulator understands that this plan will align with the proposed Price and Service Plan and the MOU, and will provide additional detail on projects, estimated costs and timeframes for completion. TasWater confirmed its intention to provide an updated version to the EPA by December 2017.

The Economic Regulator understands that TasWater was also preparing a wastewater strategy to relate to the third regulatory period. However, TasWater has confirmed that this will not be progressed further given the commitments in its proposed Price and Service Plan, LTSP and pending updated wastewater management plan.

The EPA is also supportive of the development of a regional/scheme-based approach to the management of assets within TasWater's state-wide planning framework. The EPA has also noted the positive direction provided by TasWater's LTSP and indicated that incorporating regional/scheme-based strategies would assist decision making in relation to asset management for the long-term.

However, the EPA continues to have concerns about delays in the completion of some projects by TasWater, particularly during its internal project approval phase. The EPA is considering how it may be able to alter its assessment and regulatory processes to incentivise TasWater to reduce or better meet its project timeframes thereby more efficiently delivering improved environmental outcomes.

The Economic Regulator understands that the EPA was consulted about TasWater's proposals, primarily through the development of its LTSP.

The Director, EPA has advised the Economic Regulator that his expectations for regulatory compliance improvement have been broadly met by TasWater's proposed Price and Service Plan.

3.3.2.2 Monitoring compliance

Under the EMPCA, WWTPs cannot operate without authorisation, provided in the form of permits or Environment Protection Notices, both of which are subject to conditions. The EPA regulates Level 2 WWTPs.

The EPA advised that it has a Compliance and Enforcement Plan for the period of the MOU and also applies all regulatory enforcement tools available to it under EMPCA, as necessary. This represents a strengthening of the EPA's enforcement approach and reflects that its focus is on the priorities identified in the MOU. To allow TasWater to complete these priority projects, the EPA is regulating non-priority wastewater treatment plants to a standard that specifies no drop in current performance. The EPA expects that, under the MOU, TasWater will improve the level of state-wide compliance with its regulatory obligations with six monthly progress reviews conducted against the compliance improvement and project milestones.

The EPA suggested that more frequent and transparent reporting of sewage compliance information would be beneficial given that other key reports, such as the EPA's annual reports and the Economic Regulator's water and sewerage state of the industry reports, are published annually. The EPA is currently negotiating with TasWater to improve the frequency and timeframes for TasWater's compliance reporting to the EPA. The EPA is hopeful that this will be resolved during the third regulatory period, or prior to it commencing.

3.3.3 Delegate for Dam Safety Regulation

3.3.3.1 Response to TasWater's proposals

The Delegate for Dam Safety Regulation supported the proposals included in TasWater's proposed Price and Service Plan. The Delegate for Dam Safety Regulation also noted that TasWater's proposed Price and Service Plan is consistent with TasWater's Dam Safety Management Plan Annual Progress Report 2016/17 which was recently approved by the Delegate for Dam Safety Regulation.

However, the Delegate for Dam Safety Regulation indicated that TasWater did not have a state-wide strategic plan for town schemes including water supply dams. This has delayed decisions in relation to, for example, whether dams in interim risk reduction measures that have been accepted by the Delegate for Dam Safety Regulation, should be decommissioned, retained or upgraded. The Economic Regulator understands that DPIPWE intends working with TasWater during the third regulatory period to finalise these plans, to ensure that these delays are not extended.

The Economic Regulator also understands that DPIPWE is working with TasWater to improve its reporting processes.

The Economic Regulator is aware that TasWater is preparing a dam safety improvement program for the third regulatory period. The Delegate for Dam Safety Regulation has indicated that its approval of this document is not necessary from a regulatory compliance perspective, as TasWater's dam safety obligations are being met through the existing annual reporting requirements.

The Delegate for Dam Safety Regulation has advised the Economic Regulator that its expectations for regulatory compliance improvement have been met by TasWater's proposed PSP.

3.3.3.2 Monitoring compliance

The Delegate for Dam Safety Regulation monitors TasWater's performance against its dam safety obligations through annual progress reports, which are required by agreement with TasWater. Annual progress reports provide a business-wide, risk-based framework for the management and mitigation of dam safety risks, to ensure they do not pose an unacceptable level of risk to the public.

The *Water Management Act 1999* and the *Water Management (Safety of Dams) Regulations 2015* provide the key legislative requirements while TasWater applies the Australian National Committee on Large Dams' *Guidelines on Risk Assessment 2003* and *Guidelines on Dam Safety Management 2003* to manage its risk assessment process.

The Delegate for Dam Safety Regulation advised that it is satisfied with its arrangement with TasWater and noted that TasWater has reduced the risk (tolerability) across the dams it is responsible for through decommissioning and upgrades. It is satisfied that TasWater has programs in place to reduce the number of dams above the level of tolerability.

The Economic Regulator noted that separate dam safety management plans were prepared previously for the northern, north western and southern regions, and that during the second regulatory period, in consultation with DPIPWE, these have been consolidated into one plan.

The Economic Regulator understands that TasWater is in its second year of a five year task of registering all dams (as defined by the Water Management Act) it is responsible for, which includes water and wastewater storages, lagoons and weirs. This number has increased by more than half and is currently in excess of 300. This process includes a consequence category assessment of each dam to quantify individual risk and identify the appropriate business response.

3.4 Arup's Draft Report

Arup's Draft Report acknowledged TasWater's recent shift to a long-term capital planning approach, noting that this will provide a robust framework for future planning. Arup also highlighted the importance of combining this with regional planning, as a regional perspective will allow TasWater to make objective assessments about investing in its assets to avoid the risk of inefficient outcomes such as redundant or stranded assets.

Arup also highlighted the delays and overspending, respectively that had occurred during the second regulatory period with, for example, the Tolosa Dam decommissioning and the Kingborough Sewerage Strategy - Treatment and Network projects. Chapter 6 of this Final Report discusses TasWater's capex for the second and third regulatory periods together with Arup's findings from its review of that actual and forecast expenditure.

3.5 Economic Regulator's Draft Report proposals

3.5.1 Longer term planning

Based on advice from the industry regulators and Arup, the Economic Regulator concluded that TasWater had made considerable effort to improve its strategic planning framework for regulatory compliance improvement. Further, TasWater's LTSP appears to be generally in line with the industry regulators' expectations for regulatory compliance improvement and the arrangements they have in place with TasWater to work towards achieving full compliance.

The industry regulators also acknowledged the progress that has already been made by TasWater towards improved compliance with its regulatory obligations. In relation to drinking water quality, the Director of Public Health considered TasWater's progress to be noteworthy. Quality issues in the remaining non-compliant regional town supplies are planned to be addressed by August 2018, at the commencement of the third regulatory period. The Economic Regulator understands that this will then allow TasWater to shift its activity and investment to addressing the risks identified through assessments of each catchment and drinking water supply system, potentially leading to further improvements, integration and efficiencies.

The EPA noted that the MOU was developed in recognition that step-change improvement in environmental performance and compliance at Level 2 wastewater treatment plants was required. While it is premature to comment on progress, there are some promising early signs of improvement. For example, state-wide flow weighted compliance has improved from around 42 per cent at the time the MOU was signed. Using the TasWater linked limits calculation method, the rolling year to date average (September 2016 to September 2017) is currently 51 per cent, with a peak for May 2017 of 57 per cent.

In addition, improvement site assessments have been completed for 17 wastewater treatment plants out of the "Big 13" and "Top 20". These site assessments are being followed up with improvement action plans (for 11 WWTPs) and operational control points (for three WWTPs). The assessments have delivered on-the-ground improvements, such as the desludging and renewal of diffusers in the aeration chambers at the Rosny wastewater treatment plant, which was completed in September 2017.

The Delegate for Dam Safety Regulation also noted that TasWater had reduced the risk (tolerability) across its dam portfolio through decommissioning and upgrades, and is satisfied that programs are in place to reduce the number of dams above the level of tolerability.

However, there were some concerns about TasWater's ability to deliver the agreed capex as scheduled, so that the agreed compliance improvement outcomes can be achieved. For example, it was recognised that the LTSP provides direction, but in some areas it lacks sufficient focus on regional/scheme-based asset management to assist long-term decision making. As a result, and as pointed out by Arup, TasWater might be incurring capex now and during the third regulatory period, on assets that, ultimately, may no longer be required. The challenges appear to be more complicated in relation to wastewater management, where a regional/scheme-based asset management approach was supported by Arup and the EPA.

The Economic Regulator recognises that TasWater's strategic planning framework has been notably improved by its LTSP. It also acknowledges that TasWater has taken, and continues to take, opportunities to rationalise assets. It is understood that opportunities are identified through its overarching Asset Management System which is supported by strategies and plans, and that projects are prioritised through its LTSP Optimisation Model.

The Economic Regulator considered however, that long-term asset rationalisation strategies to achieve full compliance and operational efficiencies were still lacking. To be able to effectively assess efficiency, the Economic Regulator proposed requiring TasWater to justify its proposed capex for the fourth regulatory period, in the context of a long-term plan to achieve full regulatory compliance and operational efficiencies. This would build upon TasWater's existing strategic planning framework and would take account of Arup's findings and the approach supported by the EPA.

The Economic Regulator also noted that in a recent performance audit to assess whether the reform of Tasmania's water and sewerage industry had delivered the intended outcomes, the TAO found that:

Although TasWater has begun identifying rationalisation opportunities for water and sewerage facilities, no overarching rationalisation strategy is in place.⁹

and

A structured approach to asset rationalisation is not in place as evidenced by the absence of a rationalisation strategy.¹⁰

On this matter the TAO recommended that TasWater finalises its rationalisation strategy to support rationalisation projects."¹¹

The Economic Regulator acknowledged that achieving full compliance and efficient operations will take many years, but is firmly of the view that long-term compliance and efficiency planning are essential to achieving this. Once this planning had been completed, the Economic Regulator also suggested in its Draft Report that TasWater should re-run its LTSP Optimisation Model to take account of the new priorities and long-term objectives set out in the relevant strategies.

3.5.2 Capital project reporting

In its Draft Report the Economic Regulator proposed requiring TasWater to provide more detailed information on the status of scheduled and complete projects. In requiring public disclosure of this information, the objectives were to provide greater transparency about TasWater's capital program and make TasWater more accountable for the delivery of that program.

3.5.3 Management Plans and MoUs

While TasWater's proposed PSP provided the information required in response to the Economic Regulator's PSP Guideline in relation to regulatory compliance improvement, copies of management and improvement plans were not included with the proposed PSP. However, these documents were subsequently made available to the Economic Regulator.

Each industry regulator has given a commitment to ensuring that plans or agreements are in place to reflect their respective compliance improvement expectations and that they will be updated and replaced when necessary, either before or during the third regulatory period. In its Draft Report the Economic Regulator noted that the key documents and TasWater's intentions with respect to each were as follows:

- Drinking Water Quality Management Plan 2015-18 to be audited during late November - early December 2017 and reviewed as necessary and extended to cover the third regulatory period.

9 Tasmanian Audit Office, *Water and sewerage in Tasmania: assessing the outcomes of industry reform*, November 2017, page 68.

10 Ibid, page 69.

11 Ibid, page 69.

- Revised wastewater management plan to align with the third regulatory period to be submitted to the EPA by 30 June 2018.
- Dam Safety Management Plan annual progress reports to be submitted to DPIPWE in October each year.

The Economic Regulator's Draft Report acknowledged the important direction that these documents provide for TasWater and acknowledged that the finalisation of these documents may result in changes to the detail of TasWater's capex program for the third regulatory period.

In its Draft Report the Economic Regulator noted that it intended requiring TasWater to consult with relevant industry regulators and to finalise, and provide to the Economic Regulator, an updated drinking water quality management plan and an updated wastewater management plan by no later than 30 June 2018.

In response to the Delegate for Dam Safety Regulation's concerns about the lack of a state-wide strategic plan, the Economic Regulator's Draft Report also required TasWater to develop, and provide to the Economic Regulator, a new strategic plan for town dam schemes, by no later than 30 June 2018.

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

In their respective submissions in response to the Economic Regulator's Draft Report, the EPA and TasCOSS supported the Economic Regulator's proposal to require TasWater to justify its proposed capex for the fourth regulatory period in the context of a long-term plan and appropriate long term strategies.

In its submission TasWater noted that it understood the scope of the proposed longer term plan to be as follows:

- Be commensurate with the level of data available to TasWater to develop the plan (i.e., it will necessarily require assumptions and contain greater uncertainty in its initial version, and evolve over time to have more detail and accuracy)
- Demonstrate how regional strategies and planning are taken into account within TasWater's overarching asset management framework
- Identify systems, treatment plants or other major assets that may be impacted by future rationalisation opportunities
- Identify timing and indicative cost estimates for more detailed studies or projects that are planned or underway to confirm the viability (or otherwise) of rationalisation opportunities and
- Be used to provide justification that capex proposed in PSP4 and beyond is not creating a risk of stranded and/or operationally inefficient assets.¹²

¹² TasWater, 2018 *Water and Sewerage Price Investigation, Response to the Tasmanian Economic Regulator's Draft Report*, 25 January 2018, page 32.

After the consultation period closed, and in response to a request from the Economic Regulator, TasWater delivered presentations to OTTER staff and to the Water and Sewerage Industry Regulators Forum outlining its asset management and longer term regional planning approaches. In particular, TasWater explained that its approach involves the development of System Strategic Master Plans (SSMPs) for each of TasWater's 180 water and sewerage systems. TasWater has explained that the purpose of the SSMPs is to:

... apply a system-level focus to the identification of requirements, risks, opportunities, and responses to one (or more) water and/or sewerage systems within the TasWater network.

... focus on defining the problem and articulating the prudence through alignment with our interventions over a 30 year timeframe that meet the requirements, minimize the risks, and take advantage of any opportunities while minimizing the long-term costs associated with the system. Additionally, where appropriate, the [SSMPs] will consider multiple systems and their possible operation across system boundaries.

The ... output is the identification of a proposed suite of long term options (including possible rationalisation) and selection of a preferred long-term approach.¹³

As part of these presentations TasWater also gave an undertaking to develop a plan, ahead of the start of the fourth regulatory period that will:

- demonstrate how regional strategies and planning are taken into account within its overarching asset management framework;
- identify systems, treatment plants or other major assets that may be impacted by future rationalisation opportunities; and
- identify timing and indicative cost estimates for more detailed studies or projects to confirm the viability (or otherwise) of rationalisation opportunities.

The Economic Regulator acknowledges that the development of this long term plan (or plans) will need some lead time. By raising this issue in this Final Report, the Economic Regulator's objective is to ensure TasWater is aware of the requirement and can start developing this plan or plans during the third regulatory period. The Economic Regulator will require the development of this plan or plans through other regulatory mechanisms and expects that TasWater will justify its proposed capex for the fourth regulatory period in terms of this plan or plans.

The EPA's submission also supported the introduction of more frequent reporting on the status of scheduled and completed projects on the basis that this reporting will complement the objectives of the MOU. The EPA also noted that it had recently agreed with TasWater to extend the MOU, which currently expires on 31 December 2019, to align with the end of the third regulatory period. The Economic Regulator's intention with the MOU is for TasWater to obtain the EPA's approval and then submit the approved MOU to the Economic Regulator by 21 January 2020 as discussed with TasWater and the EPA.

In its presentation to the Water and Sewerage Industry Regulator's Forum on 14 March 2018 TasWater provided an example of the more detailed reporting of capex project delivery in response to the Economic Regulator's proposed additional reporting requirement.

More recently, TasWater advised the Economic Regulator that it had completed its Drinking Water Quality Plan 2017-21, its Wastewater Management Plan 2017-21 was on track for submission to the

¹³ TasWater, *Asset Management System Approach, Draft V1.2*, 9 March 2018, page 28.

EPA by 30 June 2018 and its annual progress report on its 2017-18 Dam Safety Management Plan was on track for submission to the Delegate for Dam Safety Regulation in October 2018.

With respect to the Wastewater Management Plan 2017-21 and the annual dam safety management plans, the Economic Regulator's intention is for TasWater to first obtain the approval of the relevant industry regulator. Once approved by the EPA, the Economic Regulator requires TasWater to submit the Wastewater Management Plan 2017-21 to the Economic Regulator by 14 July 2018 as discussed with TasWater and the EPA. The Economic Regulator also requires TasWater to submit its annual dam safety management plan progress report within 30 days of the Delegate for Dam Safety approving the respective annual report as discussed with TasWater and the Delegate for Dam Safety.

The Delegate for Dam Safety Regulation, following consultation with TasWater, also advised the Economic Regulator that references in the Economic Regulator's Draft Report to the "strategic plan for town dam schemes" should instead refer to the "annual progress report on TasWater's dam safety management plan, including consideration of long term plans for dams with interim risk measures in place". TasWater also advised that the annual progress report on its dam safety management plan will be informed by its SSMPs such as, for example, the SSMP being developed for the Greater Hobart water supply system.

3.6 Economic Regulator's decisions

Having considered the views of the industry regulators and the advice received from Arup and TasWater, the Economic Regulator has made the following decisions in relation to regulatory compliance improvement.

The Economic Regulator intends to require TasWater, during the third regulatory period, to more clearly set out its long term plans to achieve compliance and operational efficiencies to avoid investing in redundant or stranded assets.

The Economic Regulator will amend the Tasmanian Water and Sewerage Industry Performance and Information Reporting Guideline (November 2016) to require TasWater to report annually against the key customer outcomes identified in its final Price and Service Plan for the third regulatory period.

The Economic Regulator will also direct TasWater, under Clause 5.1 of the licence issued under the Water and Sewerage Industry Act, to report on the status of scheduled and completed capital projects on a quarterly basis commencing from 1 July 2018 (first report to relate to the period 1 July 2018 to 30 September 2018 inclusive).

TasWater is required to provide a copy of the updated wastewater management plan for the period 1 July 2018 to 30 June 2021, as agreed with the EPA, to the Economic Regulator by no later than 14 July 2018.

TasWater is also required to provide a copy of the updated Memorandum of Understanding on Public Wastewater Management, as agreed with the EPA, to the Economic Regulator by no later than 21 January 2020.

TasWater is further required to provide a copy of annual dam safety management plan progress reports to the Economic Regulator within 30 days of the Delegate for Dam Safety Regulation approving the respective reports.

The Economic Regulator expects that these actions will build upon the significant progress that TasWater has made with its strategic planning practices and will allow the Economic Regulator to assess whether TasWater's proposed capex for the fourth regulatory period is prudent and efficient.