

**EPA comments on the Tasmanian Economic Regulator's draft Price and Service Plan Guideline, May 2016, for the regulatory period commencing 1 July 2018.**

1. *TER requires TasWater to provide information on how it will address regulatory non-compliance issues, including the amount of capex allocated for improved regulatory compliance and details of specific projects that will improve compliance during the period of the third Price and Service Plan (P&SP3). TasWater is expected to consult with regulators to negotiate agreed outcomes. TER seeks feedback on requirements in the draft guideline in terms of regulator consultation and regulatory compliance.*

- 2016 Draft P&SP Guidelines (12.0) - EPA consultation with TasWater on Wastewater Management Plan (WWMP)/P&SP priorities is generally undertaken on a one-to-one basis. Effort towards co-ordinating engagement across the regulatory framework (i.e. economic, environmental, public health, dams) has dropped away over the last couple of years. A collaborative approach to priority setting involving all regulators could assist in the development of more realistic regulatory expectations for compliance-focused capital expenditure. The EPA understands TasWater is open to engaging in this manner.

**Recommendation 1: TasWater should be required to pursue more regular engagement with all industry regulators by convening joint discussions on P&SP priorities.**

- 2016 Draft P&SP Guidelines (12.1) - While agreed priorities and outcomes in the WWMP for the period of P&SP1 reflect EPA & TasWater agreement on the appropriateness of expenditure proposals, State of Industry Reporting since the 2009 reforms reveals a falling compliance trend for wastewater treatment plants managed by TasWater (and its predecessors). Barriers to improved compliance appear to have been significant delays to proposed projects, and overall capital expenditure not reaching the amount originally planned. This may indicate problems in managing the short and long term capital program, and within the framework for strategic asset management planning, business case preparation and procurement.

**Recommendation 2: In terms of the review of capital expenditure in P&SP2 (Guidelines 12.2) TasWater performance reporting on management of the capital program focused on program/project delivery factors such as time and cost, is desirable. This could be used for benchmarking to demonstrate improved project delivery capacity over time.**

- 2016 Draft P&SP Guidelines (12.2) – A summary of regulators' expectations is required for P&SP3. EPA experience for P&SP2 (2015-18) was that consultation with TasWater on the WWMP for that period was not concluded until December 2015, some six months after commencement of P&SP2. This suggests potential for a disconnect between capex commitments in the P&SP and those agreed with the EPA in the WWMP. Significant and ongoing changes to the draft WWMP and multiple reviews, (July 2014, March 2015, September 2015, December 2015), delayed agreement. Discussions were largely focused on wastewater treatment plant upgrades and associated capex. It should also be noted that there is no statutory requirement for the development or implementation of the WWMP.

**Recommendation 3: A mechanism is required to ensure that regulator consultation is completed before the Price and Service Plan is finalised.**

2. *TER seeks comments on proposed three-year duration of 3<sup>rd</sup> P&SP period.*

- Past delays in planning and delivery of wastewater treatment plant upgrades are indicative of the lack of certainty associated with TasWater's capital works program. While the EPA supports a longer term strategic plan for TasWater's capital works, a shorter regulatory timeframe (i.e. three years) is appropriate as it should allow more detailed business planning based on more accurate information.

**Recommendation 4: EPA supports proposed three year duration of the third regulatory period.**



**John Mollison**

**Deputy General Manager, EPA Division**