



## Fact sheet

# Split of fixed and variable water charges

This fact sheet provides an overview of the key issues around TasWater's proposed split between fixed and variable water charges. It also explains the reasons for the Tasmanian Economic Regulator's proposed decision on this issue.

### What are fixed and variable water and sewerage charges?

In Tasmania, the costs of water services are recovered through a combination of fixed and variable charges (two-part pricing).

A fixed charge is an annual charge that should reflect the costs of providing the service to a customer. A fixed charge does not change as the usage of a service changes.

Variable water charges must at least cover the cost of supplying water to a property. The costs involved in sourcing water are a major driver of these costs. Variable water charges are imposed based on the volume of water a customer uses as measured by a water meter.

### Background

For the first regulatory period (2012-15), TasWater and the previous regional water and sewerage corporations recovered a higher proportion of their revenue from fixed charges compared to variable charges. This reflected the fact that the majority of TasWater's costs are fixed.

The split between fixed and variable charges has generated considerable community interest as a relatively higher fixed charge means that reductions in water consumption result in only modest reductions in water and sewerage bills.

### TasWater's proposal

In its proposed price and service plan for the second regulatory period (2015-18), TasWater states that it does not intend to alter the current split between fixed and variable charges. TasWater also notes that it intends to continue to recover a higher proportion of its revenue through fixed charges compared to the amount recovered from variable charges, again reflecting its cost structure.

TasWater's notes that its fixed costs are higher than its variable costs because water can be readily sourced readily in most cases and that, as an infrastructure business, TasWater has mostly long-life assets.

TasWater also notes that its proposed charges represent a 60/40 split between fixed charges and variable charges. This compares with TasWater's estimate that 70 per cent of its costs are fixed and the remaining 30 per cent are variable.

TasWater also states that changing the mix to favour variable charges would:

- place revenue at risk;
- complicate the price transition of TasWater's customers to target prices; and
- impede TasWater's ability to undertake the capital investment program required to improve compliance outcomes.

### **Economic Regulator's proposed decision**

The Economic Regulator proposes accepting TasWater's arguments for maintaining the existing split of fixed and variable charges so that it can recover costs it would not otherwise be able to.

The Economic Regulator also proposes approving TasWater charging a variable charge of around \$1.00 per 1 000 litres of water (1 000 litres is a kilolitre (kL)).

The Economic Regulator considers that this charge represents a fair balance between reflecting the underlying fixed and variable costs of providing water services and providing a price signal that may allow TasWater to defer some demand based capital expenditure, thus allowing it to continue to address its significant compliance issues.

### **Next steps**

If you would like more information on fixed and variable water prices, or would like to comment on TasWater's proposals, please see sections 5.3.10 and 5.3.11 the Economic Regulator's Water and Sewerage Price Investigation Draft Report, available at <http://www.economicregulator.tas.gov.au>