

# Review of TasWater's Operational Expenditure

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DRAFT Report for the Office of the Tasmanian Economic Regulator (OTTER)

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15 January 2025



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# Glossary

<b>Abbreviation</b>	<b>Stands for</b>
ABC	Activity Based Costing
AER	Australian Energy Regulator
Atkins	AtkinsRéalis
BOD	Biological Oxygen Demand
BST	Base, Step, Trend approach to assessing operating expenditure
CAM	Cost allocation methodology
CAGR	Compound annual growth rate
CCGUS	Carisbrooke Consulting Group, Utilities Regulation Advisory and Strategic Infrastructure Planning and Advice
CPI	Consumer price index
CSC	Customer service code
EPMO	Enterprise Portfolio Management Office
EA	Enterprise agreement
ET	Equivalent tenement
FY	Financial Year
FY<YY>	The financial year ending 30 June of the year. For example, FY25 refers to the period 1 July 2024 to 30 June 2025
GL	General ledger
ICT	Information and communications technology
Industry Act	<i>Water and Sewerage Industry Act 2008</i>
LCC	Launceston City Council
LRMC	Long run marginal cost
LST	Launceston Sewerage Treatment
MWh	megawatt hour
NEM	National Electricity Market

NWI	National Water Initiative
O&M Fee	Operations and Maintenance fee
OTTER	Office of the Tasmanian Economic Regulator
RBA	Reserve Bank of Australia
Regulations	<i>Water and Sewerage Industry (Pricing and Related Matters) Regulations 2021</i>
Regulator	The economic regulator as established under <i>Economic Regulator Act 2009</i>
TER	The Tasmanian Economic Regulator
P&L	Profit and loss statement
PSP	Price and Service Plan
PSP4	The fourth PSP period from 1 July 2023 to 30 June 2026
PSP5	The fifth PSP period from 1 July 2027 to 30 June 2030
SRMC	Short run marginal cost
STP	Sewage Treatment Plant
WPI	Wage price index
WTP	Water treatment plant
WWTP	Wastewater treatment plant (aka sewage treatment plant)

## Executive summary

We have been engaged by the Tasmanian Economic Regulator (TER) to conduct a review of the prudence and efficiency of TasWater’s proposed operating expenditure (opex) for its price and servicing plan (PSP) for the fifth PSP period (PSP5) from 1 July 2026 to 30 June 2030 inclusive.

The scope of our work includes:

- reviewing TasWater’s opex in the current regulatory period
- reviewing TasWater’s proposed opex for each financial year (FY) of PSP5, including a review of TasWater’s proposed Activity Based Costing (ABC) model used to allocate opex between regulated and non-regulated services.

## Current period expenditure review

The current period expenditure review covers the fourth PSP period (PSP4) from 1 July 2022 to 30 June 2026, including actual expenditure in FYs 2022-23 (FY23) to 2024-25 (FY25) and forecast expenditure in FY26. A summary of this opex against the PSP4 forecast is provided in Table S1 below. While TasWater spent less than its PSP4 forecast in FY23, due to higher spends in FY24 and FY25 it has spent \$12.3 million (1.9%) more than its PSP4 forecast over the FY23 to FY25 period. Inclusive of FY26, it is forecast to exceed its PSP4 forecast expenditure by \$28.7 million (3.3%).

Table S1: Opex spend vs forecast, nominal terms

	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>Total FY23-FY25</b>	<b>FY26* forecast</b>	<b>Total PSP4*</b>
PSP4 Forecast	\$205.1m	\$211.7m	\$219.1m	<b>\$635.9m</b>	\$226.8m	<b>\$862.7m</b>
Actual/forecast opex	\$202.0m	\$218.8m	\$227.3m	<b>\$648.2m</b>	\$243.1m	<b>\$891.3m</b>
Variance to forecast \$	-\$3.0m	\$7.1m	\$8.2m	<b>\$12.3m</b>	\$16.3m	<b>\$28.7m</b>
Variance to forecast %	-1.5%	3.4%	3.7%	<b>1.9%</b>	7.2%	<b>3.3%</b>

Note: In comparing forecast versus actual opex we have used the same scope of expenditure considered in developing the PSP4 forecast. As discussed in Section 4.3.1 of this report, for PSP5 there are material variations compared to PSP4 in the scope of expenditure considered relating to leave, allocation of costs to unregulated activities, and responsibility for costs associated with customer connections. \*The FY26 actuals using the PSP4 methodology was not supplied by TasWater. It has been estimated for the purposes of this table based on TasWater’s modelled increase in expenditure from FY25 to FY26.

In conducting the comparison, there are several factors to consider. When adjusted for the difference between actual and forecast inflation, TasWater’s opex across FY23 to FY25 is similar to the PSP4 forecasts. Despite this, it is likely that total spending across PSP4 will exceed forecasts, as TasWater’s projections for FY26 are higher than the PSP4 forecast. Other considerations include that:

- Customer numbers were higher, but water volumes lower, than forecast.

- Although TasWater made commendable levels of improvement against its minimum service standard requirements, it did not meet around half of these service standards in FY25. Presumably, had it met these standards, opex would have been higher.
- High-level benchmarking showing that with the exception of wastewater operating costs per property, TasWater's performance in the last part of the third PSP and the first two years of PSP4 does not show improvement relative to its peers
- Greater levels of salary capitalisation may have reduced opex relative to the PSP4 forecasts.
- In relation to salaries, which comprise around 45 per cent of TasWater's opex, increases in employee compensation have been well above national averages from FY23-25. However, these higher costs per employee have been offset by greater labour productivity, with average FTE numbers in FY25 1.3 per cent lower than those in FY22 despite a 2.7 per cent increase in customer numbers.
- Our observations from interactions and discussions with senior TasWater management are that there is a genuine focus on efficiency across the business.

At an overarching level, and considering TasWater's operating environment and historical context, we are broadly satisfied that TasWater's opex in PSP4 reflects that which:

- could be reasonably expected or required by an operator exercising good industry practice, and/or
- is consistent with delivering / meeting the required service levels, outputs and regulatory obligations over the relevant regulatory period.
- is required to deliver a desired outcome or result consistent with an operator exercising good industry practice. That is, opex is efficient if represents the most cost-effective way of providing services.

Nevertheless, there are specific areas where we consider that opex in the base year FY25 does not necessarily provide the best basis for PSP5 forecasts.

## **Future expenditure review**

TasWater has adopted a form of the base-step-trend (BST) approach to forecasting opex for PSP5. This is a commonly applied revealed-cost approach to estimating opex, which involves:

- using the opex from a base year (in this case FY25) and making appropriate adjustments to establish a normalised expenditure
- making additional step adjustments, incremental increases or decreases in opex that have not been incorporated into the base year
- making trend adjustments to account for inflation, growth, and efficiency, which in TasWater's case have been applied before making the step adjustments.

In reviewing the PSP5 opex, there are a few matters of context to consider.

- The broad scope of, and key requirements for, the services TasWater provides has not materially changed from PSP4. While there has been a recent update to TasWater's Customer Service Code, TasWater has not indicated the update will have a material impact on its costs.

- TasWater’s strategy and regulatory commitments are shifting in focus: having largely achieved compliance in relation to drinking water standards, TasWater aims to improve its sewerage environmental compliance. While this change in focus largely involves capex projects, there are some opex implications that have been considered.
- During PSP4 TasWater undertook a significant investment in customer engagement, describing it as its largest and most innovative engagement ever.

## **Base year opex**

In determining the base year opex there are several matters to consider relating to:

- the scope of expenditure that is considered opex for regulated services
- TasWater’s use of the FY25 budget and adjustments

### **The scope of opex considered**

There are several notable scope issues.

First, in PSP4 (and other prior submissions) TasWater had incorrectly excluded the expense of paying employees while on leave. TasWater proposes to correct this in PSP5, resulting in an additional annual cost of \$11.4m. We agree this adjustment is required.

Second, TasWater has proposed an increase to the regulated cost base to cover the costs it incurs in providing a new customer with a connection. These costs were not included in PSP4 as it was intended that customers engage with and pay contractors directly for connection services. However, under a revised approach TasWater pays the contractor and recovers the cost (with no mark-up) from the customer. We have assessed that it is simpler and more appropriate to treat the customer connection costs as an unregulated service. Doing so removes any risk associated with incorrectly forecasting the costs and revenue without impacting TasWater’s revenue.

Third, TasWater includes bad and doubtful debts as an opex cost to be recovered. However, in our opinion it is more accurate and appropriate to consider bad and doubtful debts as an adjustment to the revenue.

Finally, in PSP4 TasWater had allocated expenses between regulated and unregulated services primarily based on the revenue obtained by service. As required by the Regulator, TasWater developed and applied an activity-based costing (ABC) exercise to cost allocation. This led to an increase in the allocation to unregulated services. We reviewed this the ABC modelling and made further adjustments that, in total, increased the allocation to the unregulated services in the base year by \$4.52 million. These included the following adjustments to unregulated services:

- an increase in the allocation to the Trade Waste 3&4 and Tankered Waste services
- an increase in the allocation to Stormwater services
- a reduction in the allocation to Recycled Water services.

Of note, TasWater’s approach is to treat customers who are unregulated but charged regulated customer prices (these are known as “Other Section 61 Contracts”) as if they were regulated customers for the purposes of cost allocation. We agree that such an approach is reasonable, but care is required

to ensure the demand from these customers (in terms of connections and volume) is included when prices are determined.

### FY25 budget and adjustments

TasWater has proposed aligning its base year expenditure to an adjusted FY25 budget, rather than its FY25 actuals. This is an unconventional approach that TasWater has justified by arguing that, although the adjusted FY25 budget was greater than the FY25 actuals, several adjustments were required to the FY25 actuals that meant the FY25 budget was a conservatively low base to use. We have adopted the conventional approach of using the FY25 actuals and making adjustments that we considered are appropriate to determine a normalised base year expenditure.

A summary of the approaches to determine the base year opex is provided in Table S2. TasWater begins with an adjusted FY25 Budget and makes no further adjustments other than to use its ABC model to determine the allocation to unregulated services. In contrast we begin with the FY25 actuals then remove the opex for connections and allowance for doubtful debts, make some additional adjustments and then apply our version of the ABC to determine the regulated base year expenditure. The net result is we use a base year opex that is \$13.46 million less than TasWater, about half of which is attributable to the non-revenue adjustments associated with the connections and doubtful debts.

Table S2 – Construction of base year opex – TasWater and Sapere

	TasWater	Sapere	Variance
Starting point	Adjusted FY25 Budget	FY25 Actual	
<b>Total (regulated &amp; unregulated)</b>			
Opex (includes doubtful debt allowance)	\$252.15m	\$251.23m	-\$0.92m
Connections adjustment		-\$5.79m	-\$5.79m
Doubtful debts adjustment		-\$0.39m	-\$0.39m
<b>Opex subtotal</b>	<b>\$252.15m</b>	<b>\$245.04m</b>	<b>-\$7.11m</b>
Adjustments to normalise base year		-\$1.98m	-\$1.98m
<b>Subtotal</b>	<b>\$252.15m</b>	<b>\$243.07m</b>	<b>-\$9.08m</b>
<b>Allocation to unregulated services</b>	<b>-\$15.88m</b>	<b>-\$20.25m</b>	<b>-\$4.38m</b>
<i>Regulated base opex</i>			
<i>Including connections &amp; doubtful debts</i>	<i>\$236.27m</i>	<i>\$228.96m</i>	
<i>Excluding connections &amp; doubtful debts</i>	<i>\$228.99m</i>	<i>\$222.81m</i>	
<b>Base Year Opex</b>	<b>\$236.27m</b>	<b>\$222.81m</b>	<b>-\$13.46m</b>

Note: The connections cost varied significantly between FY25 budget and actuals. TasWater determined the adjusted FY25 budget by removing \$2.9m of non-recurring expenditure from the unadjusted FY25 budget of \$255m.

## Trend adjustments

The trend adjustments include changes to account for inflation, growth and productivity. A summary of TasWater’s proposal and our adjustments to determine the prudent and efficient opex is provided in Table S3.

The key change we have made is an increase in the productivity target. TasWater has proposed a productivity target of 1 per cent of controllable costs, arguing that:

- 1 per cent is at the high end of regulatory efficiency factors applied elsewhere
- TasWater is already at the efficiency frontier
- Historically the productivity growth for major Australian urban utilities was 0.3 to 1 per cent.

In our view a 1.5 per cent efficiency factor is more appropriate. A key issue is that TasWater has proposed \$22 million across PSP5 (~2% of TasWater’s proposed opex) for Strategic Initiatives funding, with a specific focus on efficiency improvement and innovation. In addition, TasWater has proposed significant investment in Information Systems which is expected to provide efficiency gains. Furthermore, TasWater has provided no evidence to suggest that it is at the efficiency frontier.

Table S3: Summary of trend changes proposed and impact

	<b>TasWater proposal</b>	<b>Sapere adjustment</b>	<b>Impact of adjustment on total \$PSP</b>
Inflation	CPI & cost-pool specific changes to Power, Insurance, & Salaries	Adjustments to cost pool specific rates	See individual cost pools
Growth rate	50% x forecast growth of 0.95% per annum on controllable costs	No change	N/A
Productivity	1% of controllable costs	1.5%	-\$17.0m

## Step changes

TasWater has proposed several step changes across multiple cost-pools. The impact of these, and our adjustments, are summarised in the table below. There are several reasons for variation between our estimate and that of TasWater. A common issue with many of the proposed step changes was that TasWater had not allocated costs to the unregulated services. Other notable reasons for variation relate to:

- postponing the timing of some major investments in information systems (ICT)
- cutting back on the investment in non-revenue water
- cutting back the water conservation program.

Table S3: Summary of trend changes proposed and impact

Step change category	Total PSP5 expenditure over PSP5		
	TasWater proposal	Sapere estimate	Variation
Opex from non-ICT capex investment	\$11.0m	\$8.4m	-\$2.6m
Major ICT system upgrades	\$13.3m	\$4.5m	-\$8.8m
Other ICT	\$11.3m	\$7.5m	-\$3.8m
Non-revenue water program	-\$4.8m	-\$1.1m	\$3.7m
Other miscellaneous	\$14.5m	\$12.8m	-\$1.7m
<b>Total</b>	<b>\$45.3m</b>	<b>\$32.1m</b>	<b>-\$13.2m</b>

## Summary

A summary of our adjustments to TasWater's proposal is provided in Table S4 below. As shown in the table we consider a reduction in TasWater's proposal of \$115.6 million (10.4%) is necessary to establish a prudent and efficient opex forecast. This includes adjustments associated with the base (\$53.8m), Trend (\$48.5m) and step (\$13.2m). However, \$27.0 million (23%) of the adjustment relates to modifications (the treatment of connections and doubtful debt) that are revenue neutral in terms of the impact on TasWater.

Table S4: Summary of adjustments to TasWater's proposal

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5	% of TasWater Proposal
<b>TasWater proposal</b>								
Base	\$236.3m	\$236.3m	\$236.3m	\$236.3m	\$236.3m	\$236.3m	<b>\$945.1m</b>	85.1%
Trend	-	\$11.8m	\$18.7m	\$25.7m	\$33.8m	\$41.6m	<b>\$119.8m</b>	10.8%
Step	-	\$4.6m	\$11.9m	\$10.0m	\$11.0m	\$12.4m	<b>\$45.3m</b>	4.1%
<b>Total</b>	<b>\$236.3m</b>	<b>\$252.7m</b>	<b>\$266.9m</b>	<b>\$272.0m</b>	<b>\$281.0m</b>	<b>\$290.3m</b>	<b>\$1,110.2m</b>	100%
<b>Sapere adjustment</b>								
Base	-\$13.5m	-\$13.5m	-\$13.5m	-\$13.5m	-\$13.5m	-\$13.5m	<b>-\$53.8m</b>	-4.8%
Trend	-	-\$4.7m	-\$7.5m	-\$10.5m	-\$13.6m	-\$16.9m	<b>-\$48.5m</b>	-4.4%
Step	-	\$0.0m	-\$4.2m	-\$2.9m	-\$2.6m	-\$3.5m	<b>-\$13.2m</b>	-1.2%
<b>Subtotal</b>	<b>-\$13.5m</b>	<b>-\$18.2m</b>	<b>-\$25.2m</b>	<b>-\$26.8m</b>	<b>-\$29.7m</b>	<b>-\$33.8m</b>	<b>-\$115.6m</b>	-10.4%
<b>Total</b>	<b>\$222.8m</b>	<b>\$234.5m</b>	<b>\$241.6m</b>	<b>\$245.2m</b>	<b>\$251.3m</b>	<b>\$256.4m</b>	<b>\$994.6m</b>	<b>89.6%</b>

A break down the adjustments by cost pool is provided in Table S5.

Table S5: Summary of TasWater proposal and Sapere adjustments by cost pool (\$ million)

	TasWater proposal				Sapere adjustment				Revised amount
	Base	Trend	Step	Total	Base	Trend	Step	Total	
Salaries	460.0	71.4	0.0	<b>531.4</b>	-12.8	-28.1	0.0	<b>-40.9</b>	<b>490.6</b>
Materials & Services*	155.1	12.9	4.0	<b>172.0</b>	-24.2	-4.5	-0.8	<b>-29.5</b>	<b>142.6</b>
Chemicals	40.1	3.3	2.0	<b>45.5</b>	1.1	-0.7	-0.2	<b>0.2</b>	<b>45.7</b>
Power	50.7	3.1	4.4	<b>58.2</b>	0.3	-1.1	0.7	<b>0.0</b>	<b>58.1</b>
Royalties	12.0	1.2	0.0	<b>13.2</b>	-0.4	0.0	0.0	<b>-0.4</b>	<b>12.8</b>
Facility Management	38.2	3.2	0.0	<b>41.4</b>	0.4	-0.7	0.0	<b>-0.3</b>	<b>41.1</b>
Information Systems	45.9	3.8	24.6	<b>74.3</b>	-4.0	-1.1	-12.6	<b>-17.7</b>	<b>56.6</b>
Administration & Other*	16.0	1.3	0.0	<b>17.4</b>	-2.1	-0.4	0.0	<b>-2.5</b>	<b>14.8</b>
Motor Vehicles	16.8	1.4	0.0	<b>18.1</b>	-2.2	-0.5	0.0	<b>-2.6</b>	<b>15.5</b>
Water Sampling	15.6	1.3	0.0	<b>16.9</b>	-0.2	-0.3	0.0	<b>-0.5</b>	<b>16.5</b>
Consultancy	31.8	2.6	0.0	<b>34.4</b>	-4.0	-0.9	0.0	<b>-4.9</b>	<b>29.6</b>
Regulator Costs	12.8	1.3	4.9	<b>19.0</b>	-2.2	-0.2	0.2	<b>-2.2</b>	<b>16.8</b>
Customer Collection	13.0	1.1	2.8	<b>16.9</b>	-0.9	-0.3	-0.4	<b>-1.6</b>	<b>15.3</b>
Insurance	12.7	1.4	2.5	<b>16.6</b>	-0.9	-0.7	-0.3	<b>-1.8</b>	<b>14.8</b>
Governance	5.2	0.4	0.0	<b>5.6</b>	-0.5	-0.1	0.0	<b>-0.6</b>	<b>5.0</b>
Community Relations	6.6	0.6	0.0	<b>7.2</b>	-4.1	-0.4	0.0	<b>-4.5</b>	<b>2.6</b>
Strategic Initiatives	12.4	9.5	0.0	<b>21.9</b>	2.8	-8.5	0.0	<b>-5.6</b>	<b>16.2</b>
<b>Total</b>	<b>945.1</b>	<b>119.8</b>	<b>45.3</b>	<b>1110.2</b>	<b>-53.8</b>	<b>-48.5</b>	<b>-13.2</b>	<b>-115.6</b>	<b>994.6</b>

Note: \* Materials & Services and Administration & Other include the adjustments related to connections and bad debts which do not affect TasWater's revenue.

# 1. Introduction

## 1.1 Scope

On 30 September 2025 TasWater submitted its price and servicing plan (PSP) for the fifth regulatory period (PSP5) from 1 July 2026 to 30 June 2030 inclusive. We have been engaged by the Tasmanian Economic Regulator (TER) to conduct a review of the prudence and efficiency of TasWater's proposed operating expenditure (opex) for the PSP5.

The scope of our work includes:

- reviewing TasWater's opex in the current regulatory period (PSP4) including review of:
  - actual opex for the period 1 July 2022 to 30 June 2025
  - budgeted opex for the period from 1 July 2025 to 30 June 2026
- reviewing TasWater's proposed opex for each financial year (FY) of PSP5, including:
  - identifying and recommending efficient base year (2024-25) opex for the next regulatory period
  - identifying adjustments to the base year opex to account for efficiencies, incremental step changes and cost escalation methodologies
  - allocating expenditure between regulated and unregulated activities.

A concurrent review is being undertaken by AtkinsRéalis on the prudence and efficiency of TasWater's proposed capital expenditure (capex) for PSP5.

## 1.2 About TasWater

TasWater was established in 2013 by the *Water and Sewerage Corporation Act 2012* as a proprietary company (incorporated under the *Corporations Act*). TasWater is jointly owned by the 29 councils, with the State Government a minor shareholder.<sup>1</sup> TasWater was formed through the amalgamation of three regional water corporations and a common shared service corporation. These corporations had been established in 2008 following significant reforms of Tasmania's water industry.

TasWater is vertically integrated. It manages all aspects of the water supply including provision of bulk supply from dams and reservoirs to the distribution to customers' property and all aspects of the sewerage service from the customers sewer connection to wastewater treatment and disposal.

Relative to mainland utilities of similar size (in terms of revenue and population served) TasWater services a highly diverse area that spans the entire state (including services on King Island, Flinders Island and Bruny Island).

The cost of providing services is also affected by the age and condition of TasWater's network assets, which were originally 'inherited' from local government almost two decades ago. These contribute to

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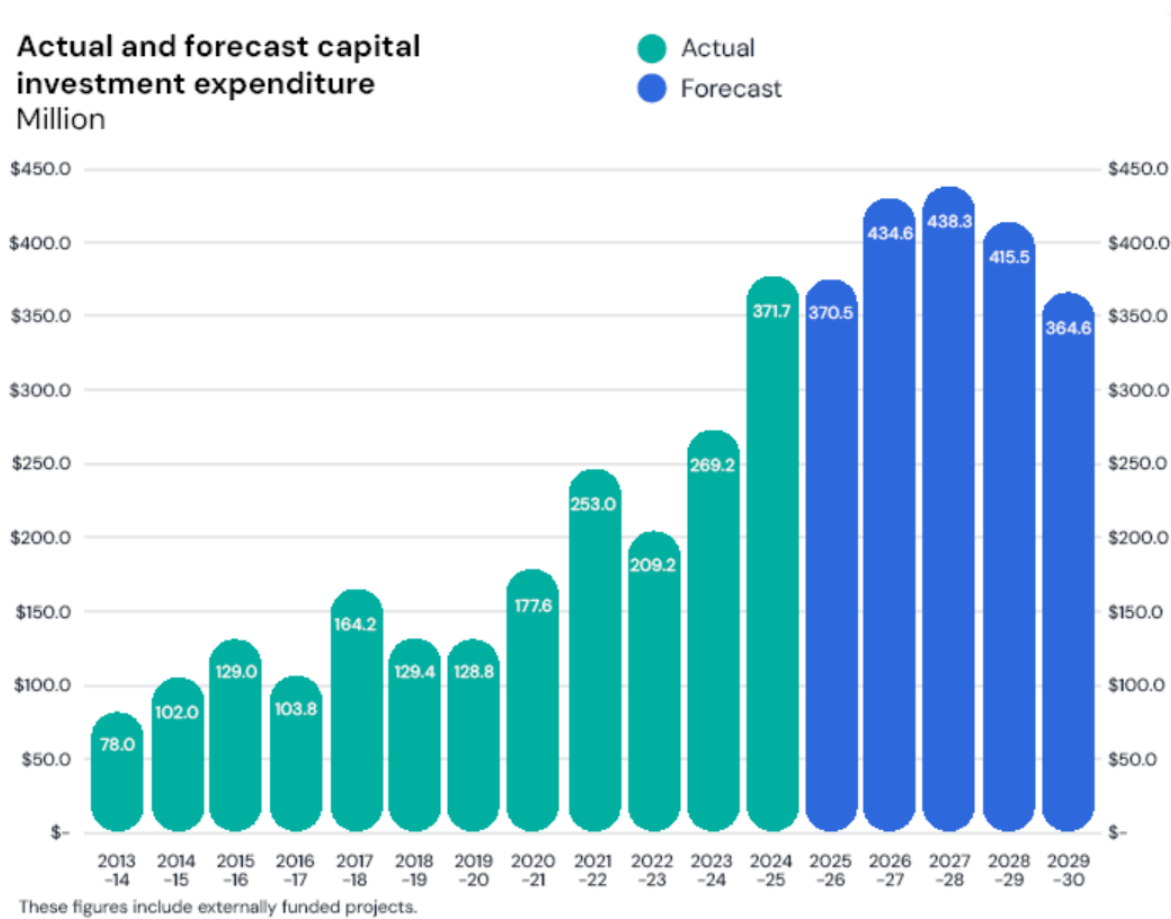
<sup>1</sup> In contrast, on the mainland, the comparable water utilities are usually state-owned corporations. There are some council-owned and/or operated water utilities, but these are typically small entities and not subject to economic regulation.

unplanned interruptions, high levels of leaks and bursts, and hence the need for significant investment in renewals.

TasWater is undertaking substantial investment to address its challenges. Its most recent (2024-25) annual report highlights (see Figure 1) an increasing level of capital expenditure over the last 10 years to 'catch up' on legacy issues and proposes an additional surge in investment in the next 5 years. In the annual report, TasWater (p. 64) records compliance and renewals drove 62 and 22 per cent respectively of the investment in the last year, with just 16 per cent allocated to growth and improvements. TasWater's corporate plan 2026-2030 (p. 15) forecasts that compliance and renewal will drive 48 and 27 per cent respectively in the next five years with 25 per cent being driven by growth and improvements.

TasWater's investment and activities are important considerations in assessing the opex spend and its performance. While some investment can lead to great efficiencies, greater compliance can also come with a higher opex spend.

Figure 1: TasWater actual and forecast capex



Source: TasWater 2024-25 annual report (p. 12).

## 1.3 Regulatory environment

The economic regulatory framework for the Tasmanian water and sewerage sector is established through the *Water and Sewerage Industry Act 2008* (the Industry Act). The Industry Act gives the TER<sup>2</sup> a range of functions and powers to conduct the economic regulation of water and sewerage services in Tasmania. The Regulator is supported by staff of the Office of the Tasmanian Economic Regulator (OTTER). Separate health and environmental regulation are conducted by the Director of the Environment Protection Authority, the Director of Public Health and the Secretary, and the Department of Natural Resources and Environment Tasmania.

The Regulator has the functions 'to regulate prices, terms and conditions for regulated services' and 'to make price determinations and determinations generally'. Other important functions include administering the licensing system, establishing and administering the customer service code (CSC) and conducting performance monitoring and reporting.

The Industry Act (Division 5) and the associated *Water and Sewerage Industry (Pricing and Related Matters) Regulations 2021* (the Regulations), include requirements and guidance on the making of a price determination. These include requirements that the Regulator conduct a price determination investigation in preparing a price determination and that the regulated entity (i.e. TasWater) prepare a PSP.

The regulatory process is well established. This report is supporting the Regulator in preparing a determination for the fifth regulatory period (PSP5). Consistent with the regulations, the Regulator required TasWater to submit to the Regulator, its proposed PSP that sets out, amongst other things, its proposed opex.<sup>3</sup>

In undertaking the price determination, the Regulator is guided by the Industry Act, which specifies that in performing its functions it must:

- seek to achieve the object of the Industry Act to:  
*protect the long-term interests of customers and to provide for the safe, environmentally responsible, efficient and sustainable provision of reliable and secure water services and sewerage services to the Tasmanian community.*

and

- have regard to a range of matters including:
  - 'the promotion of efficient pricing for regulated service',
  - 'the promotion of efficient long-term investment',
  - the 'impact of the rate change of prices for customers', and
  - 'the maintenance of appropriate service standards'.

The investigation for the PSP5 began in 2023. The Regulator released its Draft Water and Sewerage PSP Guideline in December 2023. In response, TasWater provided a submission that proposed material changes to how it is regulated. The Regulator sought public input on these proposals with

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<sup>2</sup> Established under the *Economic Regulator Act 2009*.

<sup>3</sup> As required by the Regulator, TasWater submitted a draft PSP on 30 June 2025 and an update PSP on 30 September 2025, with updated data.

the release of an issues paper in May 2024. Following receipt of submissions and additional consultation, the Regulator released a [Statement of Reasons](#) in which it concluded that ‘a deeper and broader review of the current and alternative regulatory approaches will need to be undertaken before such significant changes could be made to the regulatory framework.’

In October 2024, the TER published its Final PSP [Guideline](#) (Regulator Guideline) for PSP5. In the guideline the Regulator indicated its intention to engage expert third party advisors to assist in reviewing TasWater’s opex (this review) and capex (the review by AtkinsRéalis) to ensure that notional allowable revenue that it determines is based on efficient and prudent opex and capex.

The guideline also set out the minimum information TasWater must provide for the price determination investigation and the investigation timetable. Key dates include:

- By 30 June 2025, TasWater submit its proposed PSP to the Regulator and by 30 September 2025, a revised plan, financial model and supplementary information that relies on actual data for 2024-25.
- December 2025, third party advisors (i.e. Sapere and AtkinsRéalis complete their review and submit their draft report to the Regulator
- Mid-February 2026, the draft third party advisor reports, draft price investigation report and draft price determination are released for public consultation
- Final price investigation report published, and final price determination gazetted 30 April 2026.

## 1.4 Structure of this report

This report is structured as follows:

- Chapter 2 discusses our approach to undertaking the review
- Chapter 3 reviews the expenditure in the current period (i.e. PSP4)
- Chapter 4 reviews the forecast expenditure in for PSP5.

As part of this project, we conducted a review of TasWater’s Activity Based Costing (ABC) methodology. This is provided as a separate attachment.

## 2. Approach

### 2.1 Assessing prudence and efficiency

As described by the Regulator in its guidance, 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.

In assess the prudence and efficiency of TasWater's proposed opex, we have also considered the following definitions of the prudence and efficiency used by the Regulator in its PSP4 report:

- **Prudent** expenditure is expenditure that:
  - could be reasonably expected or required by an operator exercising good industry practice, and/or
  - is consistent with delivering / meeting the required service levels, outputs and regulatory obligations over the relevant regulatory period.
- **Efficient** expenditure is the minimum level of expenditure that is required to deliver a desired outcome or result consistent with an operator exercising good industry practice. That is, opex is efficient if represents the most cost-effective way of providing services.

Consistent with the above, we assess prudence as whether the expenditure is driven by the need to provide regulated services. Expenditure on unregulated services (including an appropriate share of common activities) is excluded.

In assessing prudence and efficiency we also consider the planning horizon beyond the relevant regulatory periods. In assessing the prudence and efficiency of past decisions we consider the circumstances facing TasWater at the time the decision was made. That is, we consider what a prudent and efficient entity would be expected to make.

Finally, our assessment has taken place in the context of TasWater proposing an annual 11.2 per cent nominal increase in its revenue requirement across each year of PSP5<sup>4</sup>, of which TasWater proposes to recover 8.8 per cent per annum during PSP5 (deferring some recovery to later periods). As TasWater has acknowledged, cost and price increases of this size will place a significant burden on customers. Given this, it is perhaps more incumbent on TasWater to clearly justify opex increases than would be the case if flat or decreasing prices were proposed.

### 2.2 Issues in assessing prudence and efficiency

#### 2.2.1 The use of the base step trend (BST) approach

As was used in PSP4 and is common in other jurisdictions, we have followed a base step trend approach for assessing the forecast expenditure in PSP5. This approach reflects a revealed expenditure

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<sup>4</sup> <https://www.economicregulator.tas.gov.au/water/pricing/2026-water-and-sewerage-price-determination-investigation>

approach, whereby it is assumed that most recent year's actual expenditure (known as the base year) is a useful foundation for determining the efficient future expenditure.

## 2.2.2 Use of benchmarking

In theory, a guide to the efficient level of expenditure might be obtained through comparison of TasWater's expenditure with that of comparable water utilities. However, comparisons are inherently challenging due to the differences in the environments in which each water utility operates and the limitations of the available data to adjust for these differences. For this reason, in our opinion it is not practical to solely use benchmarking to assess the efficiency of water utilities. Nevertheless, some comparison and benchmarking can be useful to provide context and identify potential opportunities for improvement.

## 2.2.3 Assessing priorities and variations in services levels

There are a number of decision tools and processes that can be used to determine the prudence and efficient expenditure.

### 2.2.3.1 The role of customer engagement

The support of customers, as evidenced through customer engagement, is a consideration in assessing the prudence and efficiency of expenditure. This is particularly the case for material increases or decreases in spending, and spending on new initiatives. We note that the Regulator's guidance states that:<sup>5</sup>

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 will affect the prices for regulated services.

However, we are cognisant of the issues in customer and community engagement. Most significant is the issue of 'uniformed respondent' bias whereby those people have a strong tendency to provide a response even when they are not sufficiently informed. Furthermore, there is strong evidence that people are biased in their responses and opinions, influenced by the information provided to them.

Consequently, we place limited weight on customer and community engagement on matters where the respondents have not had the time, resources, and skills to do the necessary research to be

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<sup>5</sup> The guidance listed matters to be included for consultation. Of relevance to this review, these included

- 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 opex and capex
- proposals to change product quality.

sufficiently informed. Our approach is consistent with that of the Ofwat (the regulator in the England and Wales) who, in a dispute with the some of the water companies it regulated, summarised:<sup>6</sup>

*...customer engagement was not intended to replace either the role or judgement of Ofwat ...*

*...there are areas where customers are not best-placed to determine whether a company's business plan is appropriate*

*...customer research varies in quality and can only ever imperfectly capture customers' actual preferences*

*[...] broad indications of customer preference obtained as part of an engagement process should certainly serve to shape company business plans. But they do not relieve the companies of the need to evidence either the need for or efficiency of their proposed expenditure.*

That is, in assessing prudence and efficiency for levels of services beyond that required, we look to other evidence (where possible, cost benefit analysis, CBA) that demonstrates that proposals are in the interests of consumers. The value customers place for outcomes (e.g. avoidance of disruptions) should be reflected in such analysis.

Unfortunately, in our opinion, much of the customer engagement undertaken in preparation of PSP5 was not well focussed and/or suffered from the problem of uninformed response bias.<sup>7</sup> Based on our understanding of the time and resources available we do not expect it was feasible that the community panel had sufficient information at hand to weigh up the benefits and costs of – for example – a water conservation program or conducting a large trial on digital meters.

In our opinion, the value of customer and community engagement needs to be more focussed on:

- Gathering information that only customers can provide. For example:
  - the value they place on avoiding disruptions to their service.
  - moral issues, such as what is fair and acceptable when there is change in pricing structure
- Using customers to challenge decisions (i.e. to correct for bias)
- Stakeholder management. Building trust with the community.

Nevertheless, we consider the problem of unfocussed customer engagement is endemic across regulated entities; that is, we consider TasWater's engagement to have been typical of common practice. As discussed in Section 4.2.3, we recommend that future engagement is more focussed.

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<sup>6</sup> Ofwat. (2020, pp. 43-45). *Reference of the PR19 final determinations: Introduction and overall stretch oncosts and outcomes – response to cross-cutting issues in companies' statements of case*. Accessed 20 Nov 2025 at <https://assets.publishing.service.gov.uk/media/5eb15fa7e90e0723b3636e74/001 - Reference of the PR19 final determinations Introduction and overall stretch 002 .pdf>

<sup>7</sup> For a discussion of the bias see Tooth (2024), *Utility customer engagement and the uninformed response bias* <https://srgexpert.com/wp-content/uploads/2024/10/Richard-Tooth-informed-or-uninformed-engagement-August-2024-v2.pdf>.

### 2.2.3.2 Use of economic analysis and other decision analysis

We expect that most significant decisions for additional expenditure would be justified by economic analysis which values and compares the costs and benefits of alternatives to meet objectives. We recognise that in many cases, such analysis is not practical because, for example, the decision is not significant (i.e. does not justify analysis), some benefits or costs cannot be feasibly quantified, and/or there is no practical alternative.

## 2.3 Administrative matters

### 2.3.1 Use of cost pools

Consistent with previous submissions, TasWater has reported its opex categorised across 17 cost pools which are largely an aggregation of general ledger (GL) codes.<sup>8</sup>

The cost pools are generally a useful categorisation for analysing expenditure; however, for some services it is also necessary to consider a functional split, particularly as salary and related expenditure is its own cost pool. For example, expenditure on information systems activity includes external expenditure captured in the 'Information Systems' cost pool and excludes the internal expenditure such as wages for TasWater information systems staff (which is included in the salaries cost pool)

Table 1: Cost pools

Cost Pool	% of PSP4 forecast	Description
Salaries	46.6%	Salaries and related remuneration (e.g. leave) and other employee expenses (e.g. travel related costs, recruitment, training etc)
Materials & Services	15.6%	Materials (e.g. minor tools) and contract services to connect customers and support the ongoing delivery of regulated services
Power	7.7%	Primarily electricity costs, primarily associated with pumping
Chemicals	5.0%	Chemicals used in the treatment of water and sewage
Facility Management	4.4%	Council rates and land tax on TasWater owned properties, services such cleaning services, grounds and general maintenance, other ad hoc facilities expenses and some related compliance activities
Information Systems	3.9%	External costs to support the ongoing operation, maintenance, and enhancement of information systems
External support	3.6%	Engagement of external specialist resources
Strategic Initiatives	2.1%	The management and funding of strategic projects, including operating the Enterprise Portfolio Management Office

<sup>8</sup> Except for the Strategic initiatives cost pool (which includes salary costs, and other costs), the cost pools do not overlap in terms of the GL codes.

<b>Cost Pool</b>	<b>% of PSP4 forecast</b>	<b>Description</b>
Administration Other	2.0%	Corporate and transactional support costs (e.g. tax advice, bank fees etc). TasWater include the debt-written-off to this cost pool
Insurance	1.6%	All insurances (except those relating to motor vehicles)
Motor Vehicles	1.5%	All costs associated with motor vehicles including insurance and petrol/diesel
Regulator Costs	1.4%	Operating licence fees, treatment plant licences, and regulatory price investigations
Royalties	1.4%	Cost to extract water from Tasmanian waterways
Customer Collection	1.3%	Printing and posting invoices, receipting and other billing fees and debt collection costs.
Water Sampling	1.3%	Sampling and laboratory testing for drinking water and wastewater compliance and treatment performance requirements
Governance	0.6%	Audit fees (external and internal), some consultancy and board-related expenses
Community Relations	0.1%	External costs of donations and sponsorships, public relations, and events
<b>Total</b>	<b>100%</b>	

### 2.3.2 Allocating expenditure between capex and opex

A relevant consideration in examining the TasWater opex is the approach to capitalisation; that is, the approach to determining whether expenditure is recorded as opex or capitalised and recorded as capital expenditure (capex). Whereas charges are set to recover opex in the year the opex is incurred, the capex is recovered over the life of the asset.

TasWater has established Capitalisation Guidelines that seek to ensure that costs are treated in accordance with Australian Accounting Standards, whereby expenditure is considered:

- opex if it is on good or services consumed immediately in operations (or within one financial year) and
- capex if it is on physical assets that will provide service over more than one financial year.

Broadly TasWater guidelines require that for physical assets expenditure is classified as opex prior to completion of the business case and once the asset can begin to be operating. Expenditure on employees is allocated to capital project based on time recorded on timesheets<sup>9</sup> and a capitalisation

<sup>9</sup> TasWater note that 'a minimal number of employees are allocated at an overhead level that work across multiple projects (for example GM Project Delivery, Head of Major Projects).'

rate used to determine the amount wages to be capitalised.<sup>10</sup> We understand that the capitalisation rate includes some corporate overheads including some direct overheads (e.g. telephony) and costs relating to the capital delivery office.

We have adopted TasWater's allocation between capex and opex.

### **2.3.3 Allocation of costs between regulated and unregulated services**

The allocation of costs to be recovered between the regulated and unregulated services was a concern in the previous price determination. For PSP4, the Regulator accepted TasWater's approach to determining its unregulated opex base which was largely based on applying the proportion of unregulated revenue to total revenue (3.6%) to its total opex.

However, TasWater had not provided adequate justification for the revenue TasWater receives for its unregulated services. The Regulator noted that the revenue received should closely mirror the costs involved in providing the services and that TasWater had not provided any analysis on the costs. To address this concern, the Regulator subsequently required TasWater to implement an activity-based costing (ABC) model to support PSP5. The ABC model allocates operating costs to regulated services and unregulated services which are as follows:

- Regulated services:
  - (Regulated) Water
  - (Regulated) Sewer
  - Trade waste 1&2
  - Developer Charges (more accurately named Development Services)
  - Other (laboratory services)
- Unregulated services:
  - Irrigation
  - Recycled Water
  - Trade Waste 3&4
  - Tankered Waste
  - Stormwater (provided to the Launceston City Council, LCC).

We conducted a review TasWater's ABC approach and models<sup>11</sup> having consideration to economic theory, regulatory precedent and good business practice. Our review report (completed 7 July 2025) is provided as an attachment to this report.

The broad approach applied by TasWater follows standard practice in allocating costs, where possible, directly to services and allocating the remaining indirect costs based on drivers, which include the directly allocated amount, volumes (water supplied and sewer volumes) and other measures. We

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<sup>10</sup> As advised by TasWater, this capitalisation rate comprises of different components as per the following calculation method. *Capitalisation rate = (Base salary rate + Super + On costs) × (1 + direct cost contribution).*

<sup>11</sup> The ABC is implemented through three spreadsheet models (for years FY23, FY24 and FY25) and is accompanied by a report ('the ABC Report') documenting the approach and methodology.

considered the broad approach to be reasonable but had some concerns with its application, most notably relating to:

- the allocation of sewer costs between the regulated services (Regulated Sewer and Trade Waste 1&2) and the non-regulated services (Trade Waste 3&4 and Tankered Waste). None of the operations costs are allocated to the non-regulated services. Furthermore, several other costs are allocated based on weighted sewer volume, which includes a weighting to the unregulated services that has not been adequately justified
- the allocation of costs to the unregulated Recycled Water service. This may be excessive where it is the lowest cost solution
- the allocation of costs to Stormwater (LCC). We note that that allocated costs are significantly less than the fee TasWater receives (albeit established in 2016) that was based on its reasonably efficient costs to provide the service (exclusive of overheads).

Consistent with the above assessment, we have made adjustments in our review of the base year expenditure as discussed in Chapter 4.

TasWater's ABC modelling (and consequently our review in July 2025) did not discuss the costs and revenues associated with unregulated customers ('Section 61 contracts') known as:

- 'Waysiders' – TasWater customers that receive their water services via bulk water infrastructure
- Pressure sewer schemes – unserviced land but are connected customers and are classified as full sewerage service customers.

TasWater advises that while unregulated, both customer types are charged as if they are regulated customers. Furthermore, TasWater advises that the cost to serve these customers is similar to that of normal regulated customers and consequently for convenience the revenues and costs associated with these customers are treated as regulated revenue and costs. We agree that this is a reasonable approach. However, implementing this approach requires that the demand (in terms of connections and volumes) used in calculating prices includes the demand from these Section 61 contracts. Of note the revenue associated with these customers is significant – TasWater forecasts they will contribute \$4.5 million over PSP5.

TasWater's ABC work also involved determining fixed and variable costs, which is potentially useful in forecasting how costs change in response to changes in demand and other factors. However, the value of the analysis is diminished as it appears the analysis has been developed without a clear articulation of purpose. Specific issues include the narrow definition of 'fixed' and 'variable' adopted by TasWater and inconsistencies in the adopted approach.

### 3. Current period expenditure review

As noted in Chapter 1, our scope includes reviewing TasWater’s opex in the current regulatory period (PSP4), including a review of:

- actual opex for the period 1 July 2022 to 30 June 2025
- budgeted opex for the period from 1 July 2025 to 30 June 2026 (FY26).

The key reason to review opex in the current period is to help form a view as to whether opex, and particularly opex in FY25, is prudent and efficient and can therefore be used as a base for forecasting opex in PSP5.

We have reviewed opex in PSP4 by:

- comparing TasWater’s overall opex outcomes against what was deemed by the Regulator to be prudent and efficient levels of opex in PSP4, and considering the nature and reasons for material variations
- comparing TasWater’s opex against that of similar Australian water entities through high-level benchmarking
- identifying specific cost areas where there have been material increases or decreases in expenditure, and the understanding reasons for those changes.

#### 3.1 Forecast opex in PSP4

A summary of the Regulator’s decision on TasWater’s opex for PSP4 is provided in the table below. The Regulator’s draft opex forecast was \$46.5 million, (5.5% less) than that proposed by TasWater. However, in its final report, the Regulator approved an opex forecast for the PSP4 of \$862.7m, \$22.3 million greater than that proposed by TasWater.

The primary reason for the difference between the draft and final reports was a significant increase in the inflation forecast.<sup>12</sup> If not for this inflation adjustment, the final approved opex would have been \$18.7 million (2.2%) less than TasWater’s proposed opex. In its final report the Regulator also provided TasWater with an additional allowance over the period for higher regulatory costs (\$0.57m) and strategic investments (\$6.96m).

Table 2: Regulator’s assessment of TasWater’s regulated opex for PSP4

	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>	<b>Total</b>
TasWater’s proposed opex	\$200.1m	\$206.1m	\$213.5m	\$220.7m	\$840.4m
Regulator’s draft adjustment	-\$7.0m	-\$10.1m	-\$13.7m	-\$15.7m	-\$46.5m
Regulator’s draft opex forecast	\$193.1m	\$196.0m	\$199.9m	\$205.0m	\$793.9m
Inflation adjustment to draft	+\$7.3m	+\$9.2m	+\$11.8m	+\$13.1m	+\$41.0m

<sup>12</sup> The Regulator used the latest available Reserve Bank of Australia (RBA) inflation rate forecasts in its reports.

	FY23	FY24	FY25	FY26	Total
Other adjustments to draft	+\$4.7m	+\$6.5m	+\$7.5m	+\$8.7m	+\$27.7m
Regulator's final opex forecast	\$205.1m	\$211.7m	\$219.1m	\$226.8m	\$862.7m
Variance to TasWater's proposal	+\$5.0m	+\$5.6m	+\$5.6m	+\$6.1m	+\$22.3m

Source: Table 5.1 of the TER's 2022 Final Report into Investigation of TasWater's Price and Services (TER 2022).

## 3.2 Actual PSP4 opex compared to the PSP4 forecast

In comparing forecast versus actual opex we have used the same scope of expenditure considered in developing the PSP4 forecast. As discussed in Section 4.3.1, for PSP5 there are material variations compared to PSP4 in the scope of expenditure considered relating to leave, allocation of costs to unregulated activities, and responsibility for costs associated with customer connections.

Consequently, in conducting a comparison of actuals received and PSP4 determination we have:

- excluded costs associated with leave
- applied the previous approach to allocating costs to unregulated activities. This approach involves allocating on average 3.6 per cent of costs to unregulated activities
- excluded the additional costs associated with customer connections.

TasWater's (actual/planned) opex for FY23 to FY25 relative to its PSP4 forecast is shown in 4 below. While TasWater spent less than its PSP4 forecast in FY23, due to higher spends in FY24 and FY25 it expects to spend \$12.3 million (1.9%) more than its PSP4 forecast over the FY23 to FY25 period.

TasWater has not developed a budget for FY26 using the PSP4 methodology. For modelling purposes, it has forecast a 7 per cent growth in regulated expenditure (after the adjustments made discussed in Section 4.3.1) from FY25 to FY26. Applying this growth rate to the FY25 actual spend, leads to a forecast variance to the PSP4 forecast in FY26 in nominal terms of \$16.3 million (7.2%) and a total variance across all of PSP4 of \$28.7 million (3.3%).

Table 3: Opex spend vs forecast, nominal terms

	FY23	FY24	FY25	Total FY23-25	FY26* forecast	Total PSP4*
PSP4 Forecast	\$205.1m	\$211.7m	\$219.1m	<b>\$635.9m</b>	\$226.8m	<b>\$862.7m</b>
Actual opex spend	\$202.0m	\$218.8m	\$227.3m	<b>\$648.2m</b>	\$243.1m	<b>\$891.3m</b>
Variance to forecast \$	-\$3.0m	\$7.1m	\$8.2m	<b>\$12.3m</b>	\$16.3m	<b>\$28.7m</b>
Variance to forecast %	-1.5%	3.4%	3.7%	<b>1.9%</b>	7.2%	<b>3.3%</b>

Note: \*The FY26 actuals using the PSP4 methodology was not supplied by TasWater. It has been estimated for the purposes of this table based on TasWater's modelled increase in expenditure from FY25 to FY26.

### 3.3 Reasons for the variations in forecast versus actual opex

There are several external factors that influence TasWater’s expenditure and can cause actual expenditure to differ from forecast expenditure. These include:

- Actual inflation differing from forecast inflation
- Demand for services (including customer numbers and delivery volumes)
- Service levels
- Other factors influencing individual cost pool categories.

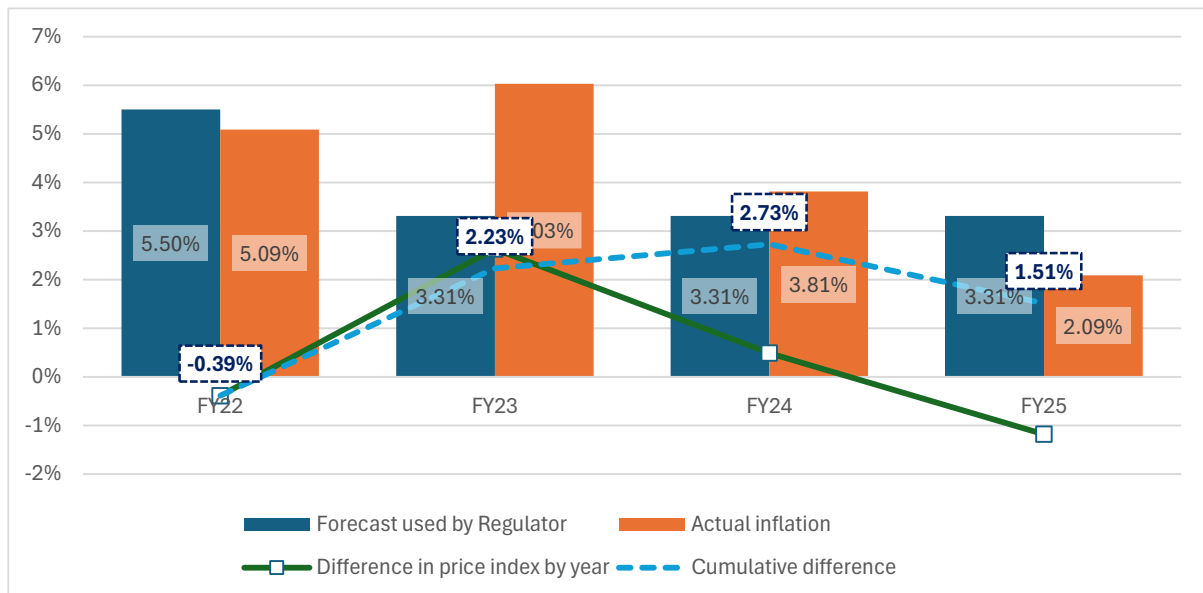
Each of these is discussed below.

#### 3.3.1 Actual versus forecast inflation

In developing the PSP4 forecast, the Regulator forecast inflation based on a Reserve Bank of Australia (RBA) forecast. As shown in the Figure 2 below, outturn inflation (as measured by the consumer price index, CPI) has proven to be materially higher than that forecast in the last regulatory review.

The escalation of some specific costs, including materials and other construction-related costs, has been even higher than the general rate of CPI inflation. These are discussed below.

Figure 2: Forecast vs actual inflation FY22-FY25



Forecast inflation used by the Regulator was based on RBA forecasts of national CPI for year ended June released in the May 2022 statement. Actual inflation is based on national CPI (ABS 6401.0 Consumer Price Index, Australia; Series ID: A2325846C).

The higher outturn inflation means that in cumulative terms prices were 1.51 per cent higher in March 2025 compared to the forecast used to inform the PSP4 forecast. The difference corresponds to general price levels increasing 18.1 per cent from March 2021 to March 2025, compared to a forecast increase of 16.3 per cent.

The CPI is widely used as an indicator of input cost changes for utilities by regulators, despite it being an imperfect measure for this purpose. In part this is because the CPI measures the costs for end consumers, rather than infrastructure businesses. However, it is worth noting that the CPI cost categories that are arguably most relevant to TasWater had some quite different price changes from March 2021 to March 2025 compared to the overall price increase of 18.1 per cent:

- Clothing and footwear (3.7%)
- Housing (which relate to rent and other property costs) (20.2%)
- Furnishings, household equipment and services (11.4%)
- Telecommunications (2.2%)
- Transport (17.7%)
- Insurance and financial services (18.6%).

Table 4 below shows compares TasWater’s opex spend relative to a PSP4 forecast adjusted for outturn inflation. As show in the table, TasWater’s actual opex over FY23 to FY25 was less than this inflation-adjusted PSP4 forecast. Nevertheless, based on the FY26 forecast it still expected to spend more than the inflation-adjusted forecast over all of PSP4.

Table 4: TasWater opex spend vs the PSP4 forecast adjusted for actual inflation

	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>Total FY23-25</b>	<b>FY26* forecast</b>	<b>Total PSP4*</b>
<i>Inflation adjustment</i>	2.23%	2.73%	1.51%		1.51%	
Inflation adjusted PSP4 forecast	\$209.6m	\$217.4m	\$222.4m	<b>\$649.5m</b>	\$230.2m	<b>\$879.8m</b>
Actual opex spend	\$202.0m	\$218.8m	\$227.3m	<b>\$648.2m</b>	\$243.1m	<b>\$891.3m</b>
Variance to forecast \$	-\$7.6m	\$1.4m	\$4.9m	<b>-\$1.3m</b>	\$12.9m	<b>\$11.6m</b>
Variance to forecast %	-3.6%	0.6%	2.2%	<b>-0.2%</b>	5.6%	<b>1.3%</b>

Note: \*The FY26 actuals using the PSP4 methodology were not supplied by TasWater. It has been estimated for the purposes of this table based on the modelled increase in expenditure from FY25 to FY26.

### 3.3.2 Demand for services

The volume of services provided, as measured by the number of customers and the volume of water delivered and wastewater discharged, has an influence on opex. If customer number and volumes are higher than forecast, then it is reasonable to think that TasWater’s opex might be higher than forecast, all other things being equal, as more customers and higher volumes will lead to higher costs in areas including power, chemicals, and customer billings and communications.

Actual outcomes, compared to forecasts, tell a mixed picture. While customer numbers have exceeded forecast (by 1.6% for water and 2.1% for sewer across the first three years of PSP4), water usage has been 5.7 per cent lower than forecast. This would generally point to customer communications and billing expenditure being higher than forecast, all other things equal, and energy and chemicals expenditure being lower. However, it is not clear whether the cost reduction would outweigh the

increase, and this will partly depend on where the variations in volume have occurred, as different systems have significantly different energy and chemical costs.

Table 5: TasWater demand forecast versus actuals

	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>Total FY23-25</b>
Water connections (full and limited standard connections) PSP4 forecast	262,074	264,258	266,466	792,798
Water connections (full and limited standard connections) PSP4 actual	264,569	272,984	268,060	805,613
Variance to forecast %	1.0%	3.3%	0.6%	1.6%
Sewer connections (ETs) PSP4 forecast	253,256	256,041	258,858	768,155
Sewer connections (ETs) PSP4 actual	258,865	262,026	263,631	784,522
Variance to forecast %	2.2%	2.3%	1.8%	2.1%
Water usage (GL) PSP4 forecast	64.05	64.35	64.66	193.06
Water usage (GL) PSP4 actual	58.31	63.75	60.09	182.15
Variance to forecast %	-9.0%	-0.9%	-7.1%	-5.7%

Source: TasWater, Office of the Tasmanian Economic Regulator

### 3.3.3 Service levels

It is essential that price determinations reflect the trade-off between costs and service standards. More specifically, expenditure should be consistent with and reflect the achievement of service standards. If outturn expenditure is at or above forecast, but service standards are not being achieved, then regulated entities are not meeting their end of the regulatory compact.

TasWater’s services levels are set out in the Tasmanian Customer Service Code (CSC). These were amended by the Regulator to reflect revised minimum service standards for PSP4 following the completion of the previous price investigation. Version 9 took effect on 1 July 2025.<sup>13</sup>

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<sup>13</sup> Changes in the CSC code can be found at <https://www.economicregulator.tas.gov.au/water/regulatory-framework/customer-service-code/water-and-sewerage-customer-service-code-amendments>

TasWater’s performance against the service standards set out in CSC is provided in Table 6 below. TasWater argues in its proposal that it has made significant progress on some metrics but acknowledge – as reflected in the table – that there are still significant performance gaps.

TasWater recently (following submission of its PSP) released its annual performance report for FY25. Data from this report has also been used to populate the table below. We note that while still falling short on roughly half the measures in FY25, there is a clear trend of improvement – from FY24 to FY25, TasWater has improved on the majority<sup>14</sup> of service standards.

While the improvements are commendable, we note that the service standards are expected minimum standards.

Table 6: TasWater’s performance against PSP4 service standards

Performance metric	Type	FY23	FY24	FY25	FY26
<b>Water</b>					
1. Number of water main breaks, bursts and leaks per 100km of water main	Target	33	32	31	30
	Result	47.17	42.8	34.1	
2. Percentage of response times within 1 hour to attend Priority 1 bursts and leaks	Target	90%	90%	90%	90%
	Result	100%	93.80%	96.6%	
3. Percentage of response times within 3 hours to attend Priority 2 bursts and leaks	Target	90%	90%	90%	90%
	Result	92.6%	92.6%	95.7%	
4. Percentage of response times within 3 days to attend Priority 3 bursts and leaks	Target	90%	90%	90%	90%
	Result	91.8%	90.9%	92.8%	
5. Number of unplanned water supply interruptions per 1,000 properties	Target	170	169	167	165
	Result	239.2	324.7	234.1	
6. Percentage of unplanned water supply interruptions restored within 3 hours	Target	80%	80%	80%	80%
	Result	84.3%	81.0%	87.7%	
7. Percentage of unplanned water supply interruptions restored within 5 hours	Target	94%	94%	94%	95%
	Result	93.6%	93.2%	97.9%	
8. Percentage of planned water supply interruptions restored within the time nominated to affected customers	Target	90%	95%	95%	95%
	Result	88.4%	85.7%	89.2%	
9. Percentage of planned water supply interruptions restored within 5 hours	Target	90%	90%	90%	90%
	Result	58%	62.1%	68.7%	
10. Percentage of unaccounted for water (of total sourced potable water)	Target	20%	19%	18%	17%
	Result	28%	25%	22.6%	
11. Real losses: water lost per km of water main per day (kL)	Target	9	8	7.5	7
	Result	10.6	7.6	6.4	

<sup>14</sup> Except for a minor reduction in “18. Percentage of calls resolved upon first contact” and 13 “Percentage of sewer spills, breaks and chokes responded to within 1 hour”.

Performance metric	Type	FY23	FY24	FY25	FY26
<b>Sewerage</b>					
12. Number of sewer main breaks and chokes per 100km of sewer main	Target	40	40	39	38
	Result	48.1	63.9	63.0	
13. Percentage of sewer spills, breaks and chokes responded to within 1 hour	Target	90%	90%	90%	90%
	Result	83.4%	79.8%	75.7%	
14. Percentage of sewage spills contained within 3 hours	Target	99%	99%	99%	99%
	Result	99%	92.7%	99.3%	
15. Number of critically notifiable sewage spills	Target	2	2	1	1
	Result	15	12	9	
<b>Customers</b>					
16. Number of water complaints per 1,000 properties	Target	6	6	6	6
	Result	7.47	6.99	5.31	
17. Number of sewerage complaints per 1,000 properties	Target	1.3	1.1	1	1
	Result	1.7	2.03	1.95	
18. Percentage of calls resolved upon first contact	Target	90%	90%	90%	90%
	Result	95%	95%	94.3%	
19. Customer satisfaction score*	Target	70%	72%	74%	75%
	Result	72.3%	72.4%	79%	

Source: Sup. B PSP5 Outcomes and service standards, TasWater Annual Performance Report 2024-25.

Note: \*We understand that the targets and results for customer satisfaction are based on different methodologies and that the targets would not be met if based on the same scale. We are advised that the target was based on a 0-10 rating scale (with a score of 8 to 10 indicating satisfaction) but that results are based on a 1-5 rating scale (with 4,5 indicating satisfaction) and that the actual results based on a 0-10 scale are: FY23 = 60.9%; FY24 = 56.6%; and FY25 = 65.0%.

### 3.3.4 Differences in expenditure for individual cost pools

Several individual cost pools have experienced changes in expenditure (both compared to the PSP4 forecasts as well as in absolute levels) beyond that which can be explained by general inflation being higher than forecast, different demand, or changes in regulatory requirements.

A breakdown of the variance in expenditure by for the period FY23 to FY25 by cost-pool<sup>15</sup> is provided in Figure 3 below. As reflected in the figure there has been significant differences in several cost pools.

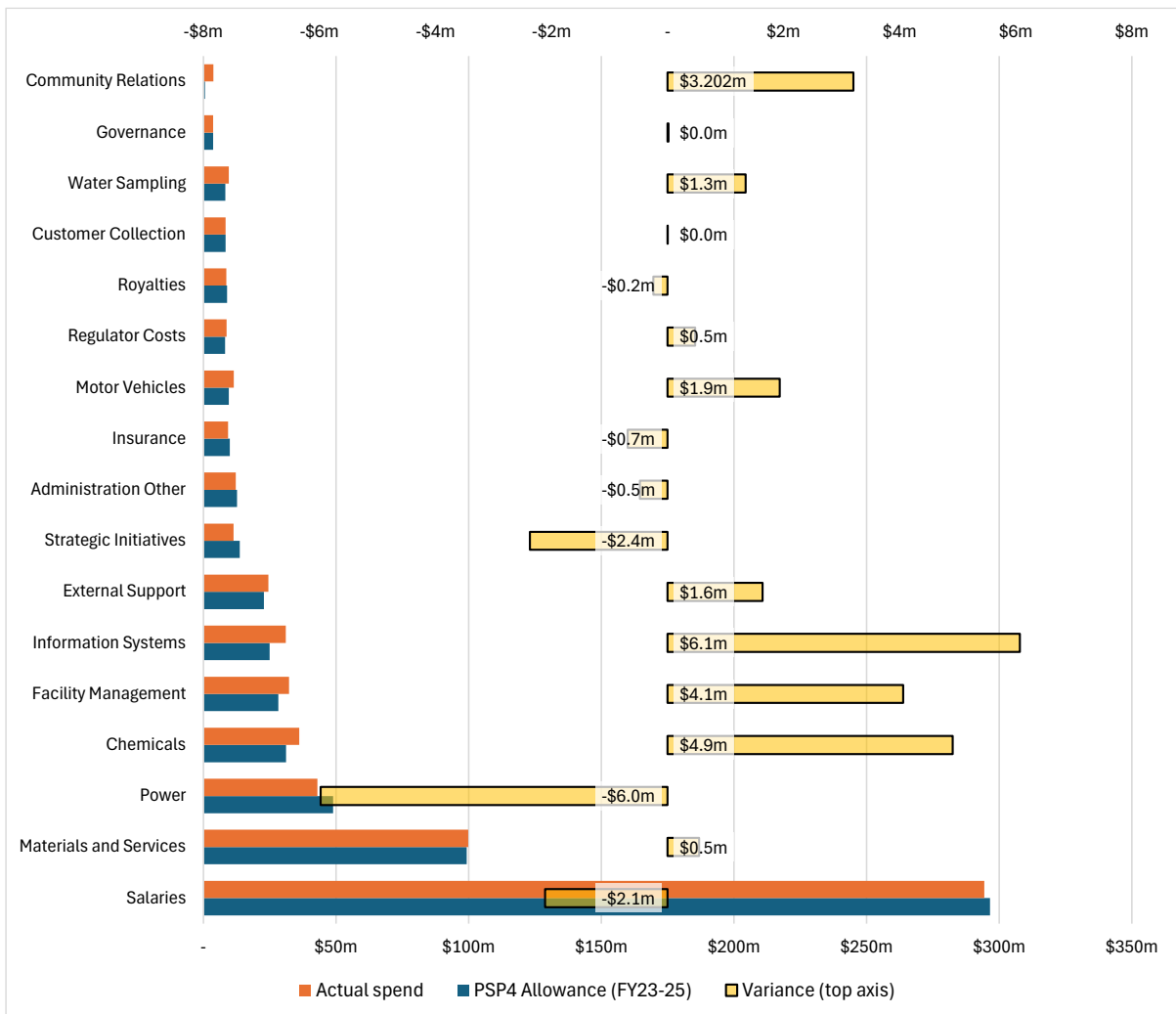
TasWater has noted it has experienced 'excessive' inflation (i.e. above CPI) in several cost pools (including Chemicals, Facility Management, Information Systems, Motor Vehicles and Water Sampling). In addition to this cost pool category inflation, TasWater has provided a range of reasons for the variations.

<sup>15</sup> As illustrated in the table there are 17 cost pools plus an additional category 'non labour productivity' that has relevance only for the FY25 budget.

A discussion of the major cost pools and those cost pools with a substantial cost variance is provided below.

Importantly, actual expenditure reported below is calculated on a consistent basis to the PSP4 forecast and thus applies the PSP4 approach to allocating costs to unregulated activities and exclude the additional costs associated with leave and customer connections. Differences between actual and forecast expenditure shown below are thus not the same as those set out in TasWater’s PSP5 proposal, which has generally presented actuals without these adjustments.

Figure 3: Opex spend regulated vs PSP4 forecast by cost pool \$m (FY23 – FY25)



Note: Actual spend is based on PSP4 allocation and approach.

### Salaries

The Salaries cost pool is by far the largest, accounting for around 45 per cent of TasWater’s opex.

Overall, there was a small underspend on salaries, relative to the PSP4 forecast, of \$2.1 million (1%) over FY23-FY25. However, this small overall change masks some differences between the PSP4 assumptions and the outturn spending.

First, there was a significantly higher capitalisation of wages in PSP4 than forecast, which shifted opex to capex. The FY25 capitalisation of wages was \$24.7 million, more than double than the \$11.6 million capitalised in FY21 (on which the PSP4 Forecast was based). TasWater has attributed this higher capitalisation to a greater capital works program and improved time-tracking of resources to capital projects. TasWater were unable to provide a breakdown of how much of the increase was due to improved time-tracking. However, we assume the impact is small as the percentage growth in capitalisation from FY21 to FY25 (119%) is only slightly more than the growth in capex over the same period (109%, derived from Figure 1 on page 2).

Second, FTE (full time equivalent) numbers have generally been lower than those assumed for PSP4, particularly in FY24 and FY25.

Table 7: TasWater FTEs

	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
PSP4 forecast FTE	929	928	924
Actual average FTE as at 30 June	939.2	892.2	898.4
Variance to forecast %	1.1%	-3.9%	-2.8%

Source: TasWater response to RFI 44 (for actuals) and TasWater table 4-3 of Att F.17 – PSP Opex Justification – Salaries (for PSP4 forecast).

Third, while the number of FTEs was lower than forecast, wages increases were well above the 3.31 per cent (nominal) forecast in PSP4, particularly in FY25. Payment increases noted by TasWater are summarised in the table below.

Table 8: TasWater wage increases in PSP4

	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
EA wage increase	3%	3%	5.1%
Pay point progression	1%	1%	1%
Superannuation guarantee increase	0.5%	0.5%	0.5%
<b>Total</b>	<b>4.5%</b>	<b>4.5%</b>	<b>6.6%</b>

Note: In September 2024 employees were granted a 5.1% pay increase, effective from that time. Employees also received a \$1,400 sign-on bonus, which had the effect of giving the 5.1% an annual impact (rather than applying for only 9/12 of the year)

The annual increase in the ABS wage-price index<sup>16</sup> for June 2023 and June 2024 was 3.6 per cent and 4.1 per cent respectively, which are broadly consistent with the TasWater increase of 4 per cent

<sup>16</sup> Wage-price index as shown in RBA Statement of Monetary Policy for year ended 30 June.

(including the pay point progression but excluding the superannuation guarantee increase, which is not part of the wage-price index). However, TasWater's FY25 increase of 6.6 per cent is well above the wage-price index increase of 3.4 per cent.

Other salary-related matters of note include:

- Termination payments totalled \$4.3 million from FY23-FY25, peaking at \$2.4 million in FY24
- Maternity leave payments increased as a result of a change in policy to provide males with the same leave entitlements as females.

## **Material and Services**

As the second highest cost pool (behind salaries) Materials and Services expenditure was \$0.5 million or 1 per cent higher than the PSP4 Forecast. As might be expected, within this overall change were significant year to year differences in individual spending categories, but overall, the difference between forecast and actual spend was small.

More broadly we note that TasWater has sought to drive savings through better use procurement procedures and relationships with suppliers.

### **Power**

The Power cost pool shows a reduction of \$6.0 million (12%) for FY23 to FY25 relative to the PSP4 forecast.

TasWater attributes the underspend to factors including improved management of commodity price risk through a program of electricity supply contracts with retailers that has progressively replaced its exposure to spot prices. Other factors, including lower water and sewerage treatment volumes also contributed to the reduction, more than offsetting higher than forecast electricity usage associated with the upgrades to Bryn Estyn water treatment plant (WTP).

### **Chemicals**

The Chemicals cost pool expenditure was \$4.9 million (16%) higher than the PSP4 forecast. Expenditure was around \$1.5 million higher in FY23 and this differential was largely maintained across the next two years.

TasWater has attributed the increase to a combination of both higher-than-expected chemical usage and prices for key chemicals that increased above inflation.

- Increased usage:
  - at the new plants, Longford sewage treatment plant (STP) and Bryn Estyn WTP,<sup>17</sup> required for calibration and Longford inflow quality issues
  - at several existing plants due to process optimisation to ensure that environmental outcomes are achieved
  - at several northern WTP existing plants due to floods resulting in higher chemicals requirements

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<sup>17</sup> These came into operation during FY23 and FY24 respectively.

- Significant increases in chemical prices particularly in FY23 and FY24 for aluminium sulphate, hydrated lime, magnesium hydroxide, chlorine and soda ash.

We agree that there were significant price increases in some chemicals earlier in PSP4 and that TasWater has limited leverage to drive better pricing outcomes due to its size and geographic location. We also observed from our interviews that TasWater displayed a high degree of application to drive chemical procurement efficiencies where potential exists.

### **Facility Management**

The Facility Management cost pool expenditure was \$4.1 million higher (14%) than the PSP4 forecast over FY23-FY25.

The increase is attributed to two main factors. First, TasWater advises there has been a significant increase in council rates and land taxes due to higher prices and a land valuation reassessment. We note that in FY25, these costs accounted for 29 per cent of facilities management expenditure and have grown by between 8 per cent and 12 per cent each year from FY21 to FY25.

Second, there has been a change in how TasWater has managed its facilities. Prior to FY25, facilities were managed by a small in-house team coordinating over 200 contractors. TasWater advises that it has recently transitioned to an outsourced model whereby it has engaged a prime facilities contractor to manage work on its behalf. This change has led to a catch-up and thus significant increase in compliance-related work. Consistent with this explanation, TasWater's annual expenditure on the services under the contract (including management, ground maintenance and cleaning services) was reasonably stable from FY21 to FY24 (and was budgeted to be reasonably similar in FY25) but grew by \$2.75 million from FY24 to FY25.<sup>18</sup>

### **Information Systems**

Information Systems is the cost pool with the largest increase in expenditure compared to the PSP4 forecast – an increase of \$6.1 million or 24 per cent. TasWater attributes this to factors including:

- Software cost escalations including agreements for the Microsoft suite of products, Maximo licences, and cloud hosting services.
- Additional operational expenditure on cyber security arising from requirement to meeting Security of Critical Infrastructure (SOCI) Rules 2023 which commenced on 17 February 2023.
- Other applications and software to manage non-revenue water.

We do not question the prudence of the expenditure in PSP4 and in respect of efficiency we note that software cost increases have been ubiquitous. However, we are surprised that the impact of the SOCI Rules that came in force in 2023 were not included in the PSP4 forecast given the lengthy and extensive consultation process that preceded the rules coming into effect.

### **External Support**

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<sup>18</sup> TasWater also notes there was an over-accrual (\$250,000) of cleaning services in FY25. We understand this would affect the timing of expenditure within PSP4

Spending on External Support (consulting services) was \$1.6 million (7%) higher than forecast for PSP4. TasWater has justified the excess spend on several additional one-off projects. These include an asset information roadmap (\$0.26m), dam infrastructure support (\$0.22m), master plan development (\$0.22m), a review of the cash to meter process (\$0.25m), and meter reading route optimisation (\$0.13m).

### **Strategic Initiatives**

Spending on strategic initiatives was lower than forecast for PSP4 – by \$2.4 million or 17 per cent - due to lower than forecast spending in FY23 and particularly FY25. According to TasWater, the FY25 underspend reflected a longer than expected transition to a new Enterprise Portfolio Management Office (EPMO) which has been designed to improve the efficiency, effectiveness and strategic value of its investments. The EPMO was set up in FY24, alongside a specific innovation management program.

In addition, the Strategic Initiatives cost pool was artificially boosted by spending of approximately \$2.4 million on regulatory activities, most of which occurred in 2024-25. Had this spending not occurred then Strategic Initiatives underspend would have been around \$4.8 million or 35 per cent.

### **Insurance**

Insurance spending was lower than forecast for PSP4 by (\$0.7m, 7.0%) primarily due to a decision by TasWater in FY23 to cease taking out contractors' works insurance.<sup>19</sup>

### **Motor vehicles**

TasWater attributed spending significantly more on the Motor Vehicle cost pool (\$1.9m, 20%) than the PSP4 forecast primarily due to higher fuel costs, which represent around half of motor vehicle opex.

We note that average diesel prices in the FY23-25 period were around 59 per cent higher than in FY21 (the previous base year used).<sup>20</sup>

We also note ongoing reductions in TasWater's vehicle fleet across PSP4.

### **Regulatory**

TasWater's spending on its Regulatory cost pool was greater in each year of PSP4 than forecast, and across FY23 to FY25 was \$0.5 million or 6 per cent higher. TasWater attributed the higher spending in the Regulatory cost pool to:

- in FY23, unexpected costs from the Regulator related to PSP4 inquiries
- in FY24, further unexpected costs from the Regulator related to PSP4 inquiries plus a higher-than-expected increase in operating licence fees
- In FY25 higher-than-expected operating licence fees.

As noted above, substantial additional regulatory costs were also funded from the Strategic Initiatives cost pool, including \$0.18 million in FY23, \$0.49 million in FY24 and an estimated \$1.64 million in FY25.

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<sup>19</sup> TasWater notes the principal contractor is responsible for the insurance coverage.

<sup>20</sup> Source: Historical ULP and Diesel TGP Data available from the Australian Institute of Petroleum at <https://www.aip.com.au/historical-ulp-and-diesel-tgp-data>. TasWater

These costs largely related to the preparation of TasWater's PSP5 submission. When this spending is taken into account, the actual regulatory spending was \$3.1 million or 38 per cent higher than forecast.

### **Water sampling**

Spending on the Water sampling cost pool was \$1.3 million or 16 per cent higher than the PSP4 forecast. Reasons cited by TasWater for the increase include:

- in FY24, \$165K in expenditure for additional PFAS testing mandated by the EPA
- in FY25, \$900k for a temporary change in contract pricing with the Australian Water Quality Centre (AWQC). AWQC increased prices by 68.5 per cent for a one-year extension to TasWater's water testing contract. TasWater has since retendered the contract
- in FY25, a more comprehensive groundwater sampling, testing and reporting program, which added \$0.2 million to costs.

### **Community relations**

Despite being one of the smallest cost pools, the community relations cost pool was the source of the third-largest increase in spending compared to the PSP4 forecast (\$3.2m or 568%). The increase in costs is due to substantially greater customer engagement activities than forecast, particularly in FY25.

TasWater indicated the large investment in customer engagement and community relations was consistent with its strategy and its requirements to support the Regulator's guidance for engagement. TasWater explained that in FY24, it adopted a 'renewed strategic focus on placing customers at the centre of all business operations.' that 'drove increased investment in public relations, with a strong emphasis on engaging meaningfully with our customers, community, and stakeholders.'

We note the level and type of engagement conducted is consistent with that of many other similar sized water utilities on mainland Australia (particularly those in Victoria and NSW).

We recognise that there is a general perception that high levels of customer engagement are considered by some as good practice, and that to date there have not been strong voices from Regulators and industry to raise concerns over the nature and level of engagement.

However, as discussed in Section 4.2.3, we do not consider that TasWater's customer engagement program necessarily provided value for money. The expenditure is further explored in Section 4.6.17.

### **Other cost pools**

There were some minor variations in spending compared to forecast in other cost pools:

- Administration and Other – a \$0.5 million (4%) underspend with cost increases compared to forecasts in some components and some years of this cost pool more than offsetting underspends.
- Governance – no material difference

- Royalties – a \$0.2 million (3%) underspend largely due to Department Of Primary Industries, Parks, Water And Environment<sup>21</sup> increasing the royalties cap by less than inflation in FY24
- Customer collection – no material difference.

### 3.4 Benchmarking TasWater's opex

In reviewing TasWater's PSP4 opex it is helpful to compare TasWater's expenditure and level of service with that of other Australian water utilities.

Benchmarking across water utilities is inherently difficult due to the significant variation in the factors that drive costs by utility. This is particularly the case for TasWater, which services a larger and more diverse geographic area than most Australian utilities. Furthermore, as TasWater did not participate in the most recent WSAA benchmarking exercise, any recent comparison needs to rely on the National Performance Reports (NPR) dataset, which, while comprehensive in terms of utilities, is much less detailed when it comes to opex. The latest version of the NPR was published in March 2025 and is for the 2023-24 year. We strongly recommend TasWater participates in future WSAA benchmarking exercises as our experience suggests they can provide valuable insights.

Nevertheless, some comparative analysis is useful in providing an understanding of trends and to provide useful context. In comparing the expenditure, we have focussed on comparison with utilities of similar size (in terms of connections). For our main analysis, we have compared TasWater to 'major' utilities (those servicing at least 100,000 connections) but excluded Sydney Water (on the basis of size), and the Melbourne metropolitan utilities on the basis of scope.<sup>22</sup>

#### 3.4.1.1 Water opex

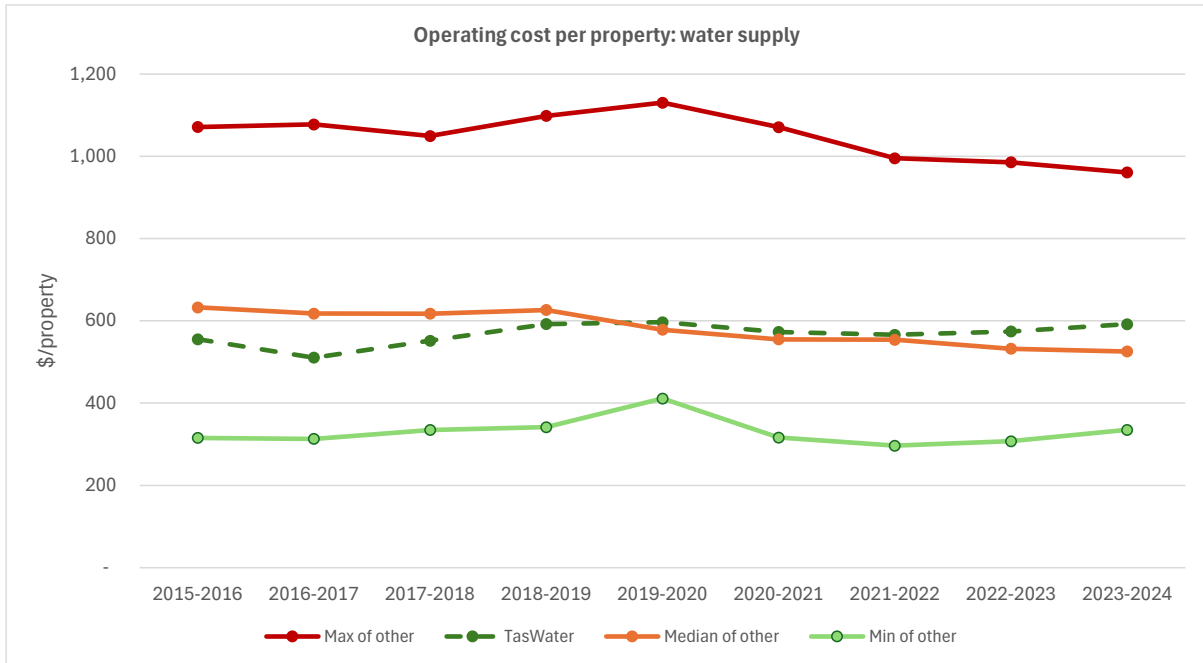
TasWater's opex per property for water supply relative to comparable utilities is shown in Figure 4 below. As illustrated, TasWater's cost per property is comparable with the median of other major utilities. However, there is a noticeable difference in trend: since FY21 TasWater's opex per property has increased by 3 per cent since 2015-16 while the median has fallen by 5 per cent.

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<sup>21</sup> Now the Department of Natural Resources and Environment Tasmanian.

<sup>22</sup> The utilities included for comparison are Barwon Region Water Corporation, Central Coast Council, City of Gold Coast, Hunter Water Corporation, Icon Water, Logan City Council, South Australian Water Corporation, Unitywater, Urban Utilities, Water Corporation – Perth. Sydney Water was excluded as it has around 10 times as many connections as TasWater. The Melbourne metropolitan utilities are excluded as they differ substantially to TasWater in that they are not vertically integrated (with substantial services provided by Melbourne Water).

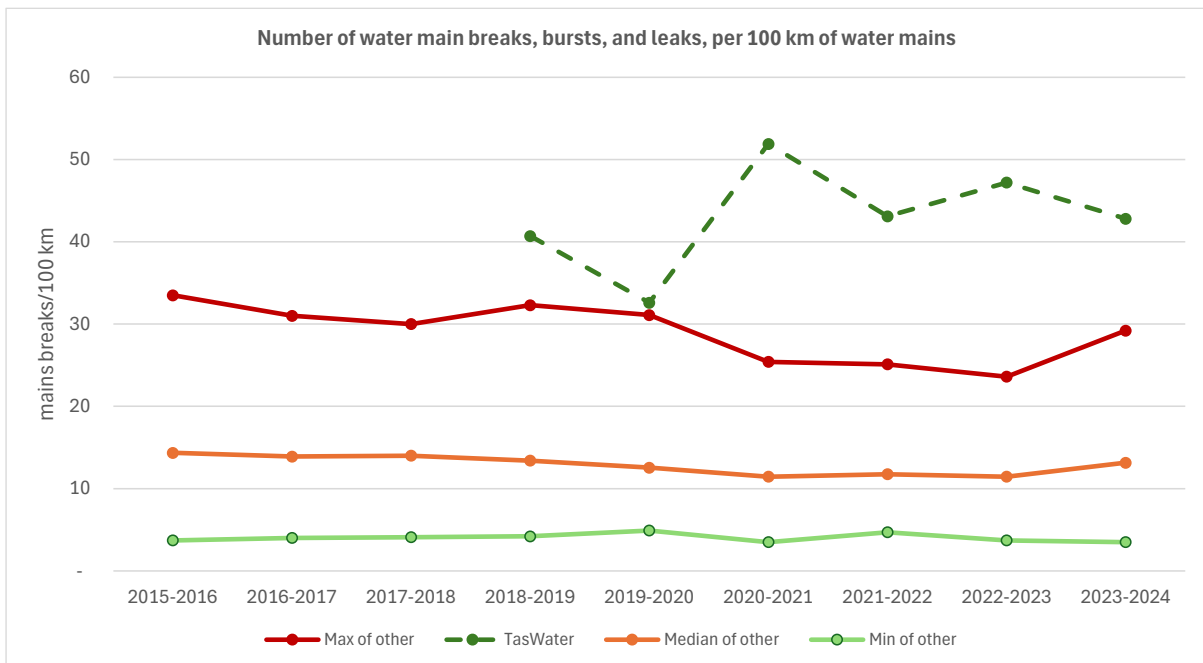
Figure 4: TasWater’s operating cost per property vs other selected major utilities



Source: Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24). See Footnote 22 for other utilities used for a comparison.

As highlighted in Figure 5 a continual challenge facing TasWater in providing water services is the significant large number of water mains breaks.

Figure 5: TasWater’s water mains breaks vs other major utilities

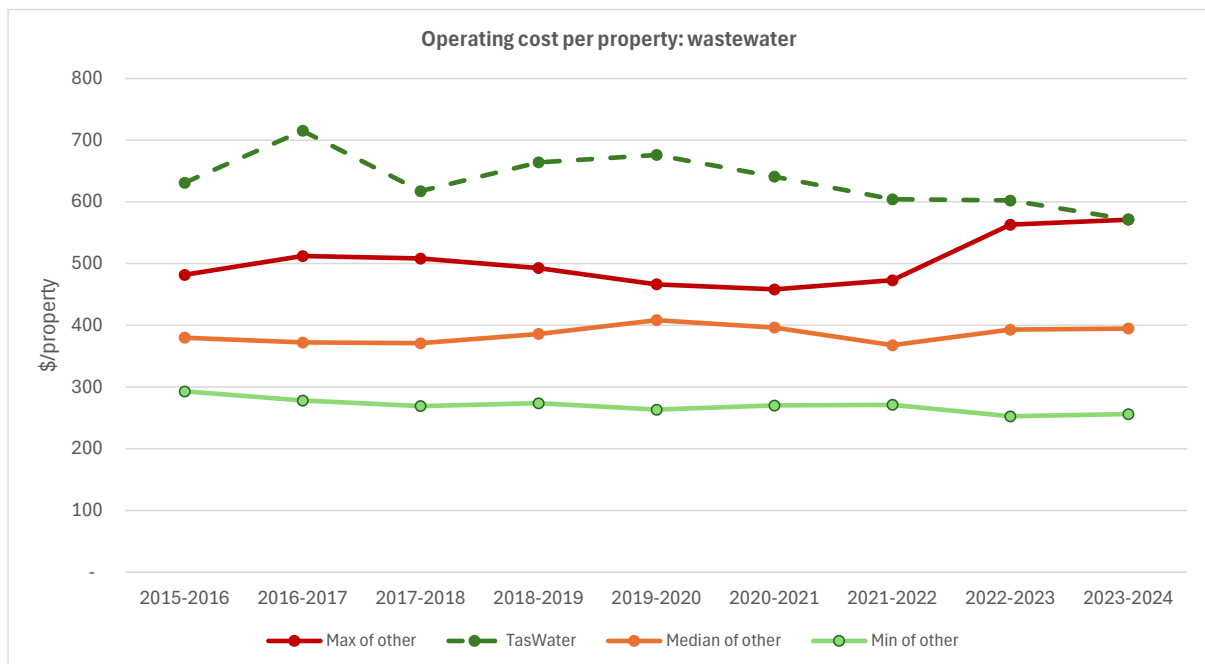


Source: Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24). See Footnote 22 for other utilities used for a comparison.

### 3.4.1.2 Wastewater opex

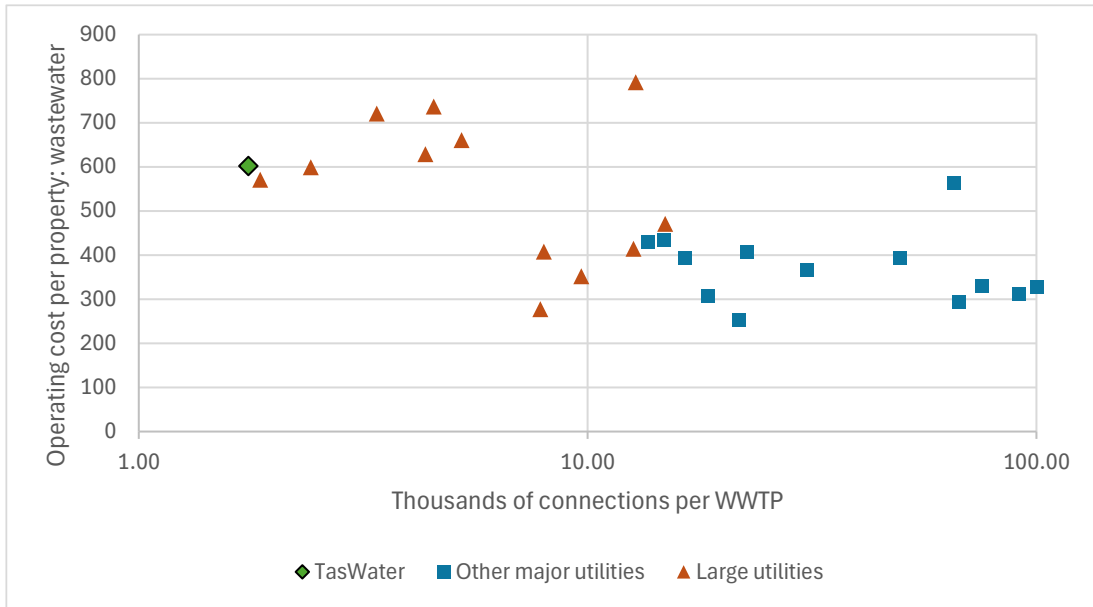
TasWater’s opex per property for wastewater supply relative to comparable utilities is shown in Figure 6. TasWater’s sewer opex per property in 2023-24 was equal highest among the comparable utilities and well above the median level despite improvements in recent years. A key factor is the large number of wastewater treatment plants (WWTPs) run by TasWater – as highlighted in Figure 7, TasWater has the lowest ratio of connections per WWTP among large utilities and there is a clear correlation between this measure and wastewater opex per property.

Figure 6: TasWater’s operating cost per property vs other major utilities



Source: Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24). See Footnote 22 for other utilities used for a comparison.

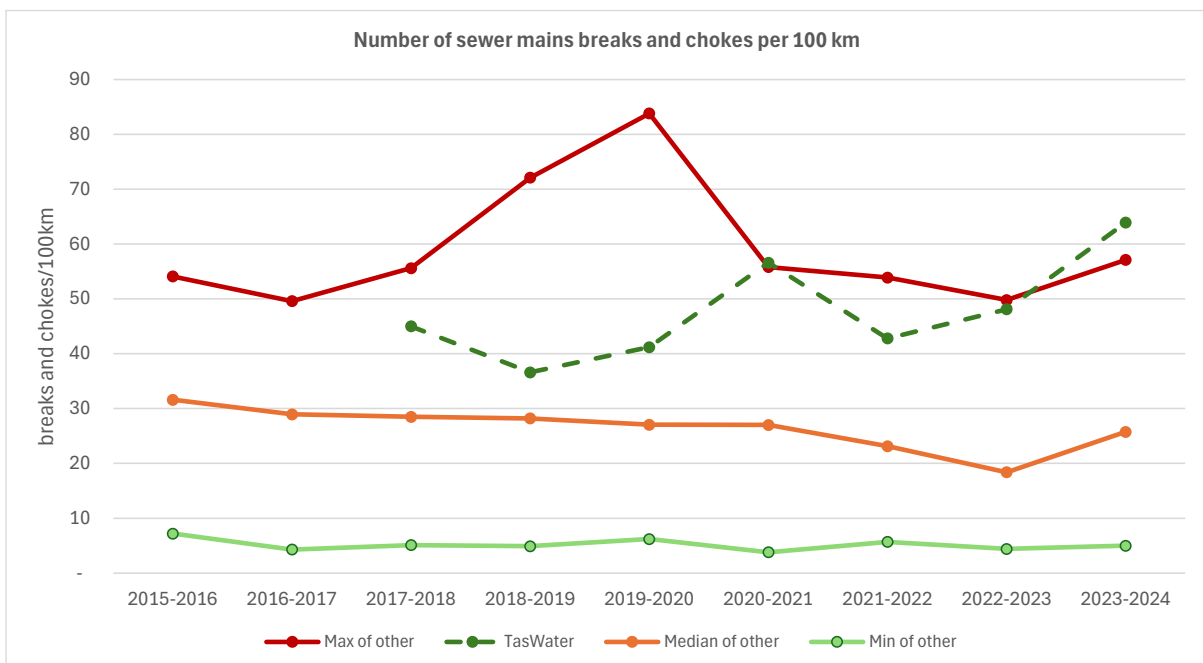
Figure 7: Operating cost per property vs connections per WWTP – TasWater and other large and major utilities



Source: Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24). Note: Data is for 2023-24. This figure includes all major utilities (those servicing at least 100 thousand connections) and all large utilities (those servicing 50 to 100 thousand connections).

TasWater’s sewer mains breaks and chokes per 100km are the highest of any of the benchmarked utilities and have generally increased over time. This compared to a slight reduction over time in the medium number of sewer mains breaks and chokes (albeit with a large jump in the median in 2023-24).

Figure 8: TasWater’s sewer mains breaks and chokes per 100km vs other utilities



Source: Australian Bureau of Meteorology. National Performance Report for Urban Utilities (2023-24). See Footnote 22 for other utilities used for a comparison.

### 3.5 Conclusion on current period expenditure

This chapter has examined TasWater's opex over PSP4, including a comparison to the forecast that was set in the last pricing review. In undertaking the comparison, we attempted to use the same scope of expenditure to ensure that opex is comparable to the original PSP4 forecast by excluding costs associated with leave, applying the previous approach to allocating costs to unregulated activities and excluding additional costs associated with customer connections.

The following are our key observations:

- When adjusted for the difference between actual and forecast inflation, TasWater's opex across FY23-25 is similar to the PSP4 forecasts. However, it is likely that total spending across PSP4 will exceed forecasts, as TasWater's projections for FY26 are higher than the PSP4 forecast.
- Although FY23-25 opex was similar to forecasts, this needs to be viewed in the context of:
  - Customer numbers being higher, but water volumes lower, than forecast.
  - Although TasWater made commendable levels of improvement against its minimum service standard requirements, it did not meet around half of these service standards in FY25. Presumably, had it met these standards, opex would have been higher.
  - High-level benchmarking showing that with the exception of wastewater operating costs per property, TasWater's performance in the last part of the PSP3 period and the first two years of PSP4 does not show improvement relative to its peers
  - Greater levels of salary capitalisation may have reduced opex relative to the PSP4 forecasts.
- In relation to salaries, which comprise around 45 per cent of TasWater's opex, increases in employee compensation have been well above national averages from FY23-25. However, these higher costs per employee have been offset by greater labour productivity, with average FTE numbers in FY25 1.3 per cent lower than those in FY22 despite a 3 per cent increase in customer numbers.
- Our observations from interactions and discussions with senior TasWater management are that there is a genuine focus on efficiency across the business.

At an overarching level, and considering TasWater's operating environment and historical context, we are broadly satisfied that TasWater's opex in PSP4 reflects that which:

- could be reasonably expected or required by an operator exercising good industry practice, and/or
- is consistent with delivering / meeting the required service levels, outputs and regulatory obligations over the relevant regulatory period.
- is required to deliver a desired outcome or result consistent with an operator exercising good industry practice. That is, opex is efficient if represents the most cost-effective way of providing services.

Having said that, there are specific areas where we consider that opex in the base year FY25 does not necessarily provide the best basis for PSP5 forecasts – these base year adjustments are examined further in Chapter 4.

## 4. Future expenditure

### 4.1 Overview

TasWater has adopted a form of the base-step-trend (BST) approach to forecasting opex for PSP5. This is a commonly applied revealed cost approach to estimating opex. This approach typically involves:

- Using the opex in a base year and making appropriate adjustments to establish a normalised efficient and recurring level of opex to deliver the required services. As is typical, the most recent year of actual expenditure (FY25) is chosen as the base year.
- Making additional step adjustments, incremental increases or decreases in opex that have not been incorporated into the base year.
- Making trend adjustments to account for inflation, growth, and efficiency.

TasWater has applied the step changes after having applied the trend factors to the base; that is, the step adjustments are not modified by inflation, growth, and productivity factors.

We consider this approach to be appropriate.

### 4.2 Factors influencing TasWater's PSP5 proposal

#### 4.2.1 Customer service code and customer contract

The broad scope of, and key requirements for, the services TasWater provides has not changed from PSP4.

TasWater Customer Service Code (CSC), with which it must comply, was most recently modified on 1 July 2025. The updated version contains several amendments, including a requirement for TasWater to have a family violence policy, and amendments to the hardship provisions.<sup>23</sup> TasWater has not indicated that these changes to the CSC will have a material impact on its costs.

Similarly, TasWater has not made any amendments to the Customer Contract that are relevant to our review of opex.<sup>24</sup>

However, there have been a shift in activity and priorities driven in combination by TasWater's strategy, prior works, regulatory commitment and expectations, and by customer engagement. For example, as discussed below, TasWater has argued for additional investment in public relations based on consumer feedback.

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<sup>23</sup> See *ibid* for other amendments related.

<sup>24</sup> TasWater has made some minor amendments to its Customer Contract largely related to improvement in readability, compliance with legislation and alignment with other proposed changes (Appendix F to the pricing submission).

## 4.2.2 TasWater strategy, regulator commitments and expectations

TasWater's strategy and regulatory commitments are shifting in focus: having largely achieved compliance in relation to drinking water standards, TasWater aims to improve its sewerage environmental compliance.

As detailed in its submission, only a small proportion of TasWater's STPs are compliant with discharge requirements and it has been working with its regulators, including the Director of Public Health and the EPA to develop a plan for improvement.

This change in focus largely involves capex projects, which are being considered by other consultants, although some projects do have opex implications.

## 4.2.3 Customer and community engagement

As noted in chapter 3, During PSP4, TasWater undertook a significant investment in customer engagement, describing it as its largest and most innovative engagement ever.

Notable features of the customer engagement included:

- A process to co-design the engagement approach
- A broad community survey of almost 2000 respondents
- A bill-simulator (online) survey to elicit how much customers valued changes in service
- A 45-member Community Advisory Panel to deliberate over five full days and provide a set of recommendations to inform the PSP5 proposal
- Additional more targeted engagement with selected groups, including key stakeholders, developers, industry and vulnerable groups.

However, we consider that much of the customer engagement was of little benefit in guiding actions and expenditure in PSP5. In our opinion, the customer engagement was of insufficient quality to guide any of the decisions – with the possible exception of the additional investment in TasWater assist – affecting the opex spend. Our concerns relating to the bill simulator and Community Advisory Panel are provided below.

### 4.2.3.1 The bill simulator

The bill simulator is a survey device used to elicit consumers' willingness-to-pay for changes in levels of service. However, in our opinion, it was not an appropriate approach as it failed to meet good practice criteria<sup>25</sup> for estimating consumer willingness-to-pay.

The most significant issue was that outcomes were not described in terms of outcomes that directly impact customers. For example, the survey discussed 'water lost', rather than outcomes that are

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<sup>25</sup> There is a rich literature on estimating consumer willingness-to-pay (developed to value non-market outcomes such as environmental). Based on this literature IPART, developed good practice criteria for conducting such studies. These are described in Gillespie Economics (2020), who applied the criteria to evaluate research conducted by Sydney Water and Hunter Water. Gillespie Economics. (2020). *Assessment of Hunter Water and Sydney Water Customer Willingness to Pay Surveys*. IPART. Accessed 9 September 2025 at [link](#).

relevant to customers such as risk of restrictions or service disruptions due to leaks.<sup>26</sup> For this reason, and other issues,<sup>27</sup> we believe the bill simulator results provide, at best, a weak indicator of support for TasWater proposals.

#### 4.2.3.2 The Community Advisory Panel

The Community Advisory Panel made 7 recommendations (see Box 1 below) in response to the following challenge question.

*TasWater is at a critical juncture - we have unique assets, our climate is changing, and customer expectations are growing. We need to prepare for an uncertain future and find the balance of price and service that is fair for all Tasmanians, shaping the future of water services in our state.*  
**How do we prepare for tomorrow while being fair to customers today?**

While we are aware that many similar challenge questions have been used in engagement by other utilities,<sup>28</sup> we are concerned that that topic is too unfocussed to lead to useful and meaningful recommendations. We note that some of the recommendation (particularly #1 and #6, and, in part, #4 and #7) largely just reemphasise activities TasWater should already be undertaking. This is reflected in TasWater's responses to the panel's recommendations.<sup>29</sup>

Furthermore, it appears the panel was not provided with sufficient analysis to help guide the decisions. This is of particular concern for recommendations #2, #4, and #5. For example, we would expect that a panel making a recommendation relating to the 'Education and incentives for water conservation' (Recommendation #2) be provided with the analysis of the costs and benefits (e.g. costs avoided) to additional investment in water conservation. However, as noted elsewhere in this report, TasWater has not yet estimated the value of water saved by system. Similarly, there is no evidence that TasWater has conducted any preliminary analysis of the use of digital smart meters and the costs of trials (Recommendation #4) and the costs and benefits of alternative pricing structures (Recommendation #5).

Deliberative panels such as the Community Advisory Panel are best suited for providing a critical review of a utility's proposals and deliberating on issues that the utility cannot fully assess themselves as they involve, for example, consideration of moral issues (e.g. fairness). The only recommendations that fit the later criterion are the recommendations relating to TasWater Assist (#3) and unserved communities (#7). However, in both cases, the use of the panel appears less than ideal. In the case of TasWater assist a key moral issue relates to the extent that TasWater should be used as means of providing financial support. Similarly, in the case of unserved communities there is an issue of the

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<sup>26</sup> Another example is the measure for 'Protecting out waterways' was in terms of the number of additional major upgrades and minor improvements.

<sup>27</sup> For example, another criterion (used by IPART, see Gillespie Economics (2020) is that 'Participants are given the impression that their answers are consequential and that they may be compelled to pay any amount they commit to in the survey'; however, TasWater's Submission (Attachment C.5, p. 13) states 'It was made very clear to all respondents that the results of the Bill Simulator would not be taken as authorisation to raise prices, but rather, would be considered as one of a number of inputs [...]'.  
<sup>28</sup> The engagement provider list several similar water examples here <https://www.mosaiclab.com.au/news-all-posts/case-study-water-works-across-2021-23>

<sup>29</sup> TasWater Proposal 30 June 2025, Section 3.5.

extent to which exceptions should ever be made to TasWater’s principle of recovering costs from the communities that benefit from the service introduction.

Box 1: Community Advisory Panel recommendations

<b>Recommendation</b>	<b>Description summary (paraphrased)</b>
1. Protect and improve the environment and water security	Provide reliable access to quality water. Consider population growth, conserve resources and reduce water loss from leaks. Ensure minimal harm from all infrastructure, upgrades and new projects
2. Education and incentives for water conservation	Develop comprehensive strategies to help customers maximise water efficiency, (incl. school programs). Collaborate with governments to implement water-saving rebates & subsidy programs, for adoption of water-efficient devices etc. Foster a culture of conservation
3. Increase awareness of the TasWater Assist Program	Increase awareness of the TasWater Assist Program and flexible payment options available. Provide support for those impacted by pricing changes.
4. Upgrade of metering	Install digital smart meters across the network, where net benefit can be demonstrated (i.e. via trial) and accelerate pilots and broaden rollouts.
5. Remodel the pricing structure	Increase the variable component of the pricing structure for water and sewerage and provide comprehensive information on these changes.
6. Proactive Infrastructure management and maintenance	TasWater focus on future-proofing and consolidating infrastructure by addressing critical needs first, with ongoing proactive/preventative maintenance, rationalising infrastructure based on cost benefit to customers prioritised to meet future demands.
7. Supply water and sewage services to unserved communities	TasWater to review the adequacy and location of filling stations, arrangements with cartage contractors, demand for expanding reticulated water and sewage services in unserved communities.

### 4.3 Base year

There are two sets of ‘adjustments’ that are important in establishing the base year costs. These relate to adjustments:

- in the scope – relative to PSP4 – of costs considered
- required to account for abnormally high or low costs in the FY25 base year.

These are considered below.

## 4.3.1 Adjustments in the scope of costs considered

### 4.3.1.1 Leave adjustments

TasWater report that the expense of paying employees while on leave was incorrectly excluded from the cost base in previous pricing submissions (see TasWater's explanation in Box 2 below). TasWater proposes to correct this in PSP5, resulting in an additional annual cost of \$11.4m. We agree this adjustment is required.

Box 2: TasWater's explanation for adjustment Annual and Long Service Leave Taken

TasWater reports that in the prior PSP periods.

The expense of paying employees while on leave was incorrectly excluded from the cost base in previous pricing submissions. When an employee takes annual leave and long service leave the cost to TasWater is allocated to the provision accounts in the balance sheet, effectively reducing the leave liability. For this reason, actual costs are not expensed to salaries and wages in the profit and loss statement.

In preparing the pricing submissions the expense provisions in the profit and loss statement for annual leave and long service leave were excluded as these costs represent the entitlement/obligation calculated in accordance with relevant accounting standards AASB 119.

The accounting standard requires TasWater to expense the provision based on the employees leave entitlement balance and to raise a liability in the balance sheet. As an employee takes leave as a result of taking leave during employment or having the leave paid on termination the expense is reduced from the balance sheet.

The leave included in the cost base does not reflect changes in the provision, but rather reflects actual cost incurred by TasWater when the employee takes annual leave and long service leave.

### 4.3.1.2 Change in allocation to non-regulated expenditure

As discussed in Chapter 2, TasWater has used an activity-based costing (ABC) model to allocate operating costs between regulated and unregulated services. Using this model TasWater has proposed adjustments which have led to an additional \$8.4 million opex being allocated to unregulated services from regulated services, compared to that adopted in the PSP4 forecasts.

We reviewed TasWater's ABC model, which has led us to us making some adjustments to TasWater's modelling. These are detailed in the attachment and summarised below. It is important to note that TasWater applied the ABC model to its budgeted FY25 expenditure, but did not update the model once actual FY25 expenditure was available. Consequently, our analysis and modifications described below relate to the ABC model applied to the FY25 budget. To allocate the FY25 actuals we have applied the percentage allocation from our analysis of the FY25 budget.

**A reduced cost allocation to the unregulated Recycled Water service.**

TasWater has proposed allocating \$0.665 million of base year opex to the Recycled Water service. This is significantly greater than the projected \$0.08 million TasWater revenue earned from Recycled Water.

In our view the proposed cost allocation to Recycled Water is excessive. We understand that the cost to TasWater of providing the recycled water is lower than the cost of alternative disposal and thus there are no incremental costs of providing recycled water.<sup>30</sup> An increase in the price of recycled water services could lead to recycled water customers disconnecting and consequently higher cost to TasWater. Where recycled water is the lowest cost solution, on a purely incremental cost basis, no costs would be allocated to the Recycled Water service. However, TasWater receives some revenue from the recycled water service. An approach used provides incentives for TasWater to negotiate higher revenues, is to share the additional revenue between TasWater and the regulated customer base on a 50:50 basis. Applying this approach results in a reduction of \$0.625 million being applied to Recycled Water.

### **The allocation to Trade Waste 3&4 and Tankered Waste**

Under TasWater's proposed ABC, the Salaries cost pool for operations and ops support is only allocated to regulated wastewater services (including Trade Waste 1&2), with no allocation to Trade Waste 3& 4 and Tankered Waste. This is an "avoided cost" allocation, which essentially (a) assumes the entirety of the salaries cost would be incurred even if there was no Trade Waste 3&4 and Tankered Waste service, and (b) that there is a sound reason for allocating none of these costs to Trade Waste 3&4 and Tankered Waste services.<sup>31</sup> In our view neither of these points are valid and we consider it is appropriate to allocate costs to these services using the same approach (based on sewer volume inflows) to allocating costs for Trade Waste 1&2 services. Applying this approach results in an additional \$4.58 million in base year costs being allocated to Trade Waste 3&4 and an additional \$0.07 million to Tankered Waste.

Furthermore, under TasWater's proposed ABC, the Regulatory cost pool is only allocated to the regulated services. However, this cost pool includes \$0.73 million (FY23 budget) for treatment plant licence costs, which in our view should be allocated across all wastewater services. We have allocated these licence costs based on the weighted sewer inflows, which is the approach used to allocate chemical costs. This results in additional \$0.32 million being allocated to the unregulated trade waste and tankered waste services.

### **The allocation to Stormwater**

The costs allocated by the ABC model to stormwater are significantly less than the fee TasWater receives. We understand that this fee (first established in 2016 and revised in 2021) is based on TasWater's reasonably efficient costs to provide the service (exclusive of overheads) and consequently represents an appropriate estimate of the TasWater's cost of the unregulated stormwater service. We

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<sup>30</sup> Information on the relative incremental costs of providing Recycled Water at TasWater's treatment plants is not available.

<sup>31</sup> We note that the AER, in regulating the electricity industry, while acknowledging the avoided-cost approach can be appropriate, only permits its use for immaterial expenditure, and only with the AER's approval.

propose increasing the allocation of costs to align with the fee charged by TasWater. Applying this approach results in an additional \$0.17 million being allocated to the unregulated stormwater service.

### Summary

Applying these changes affects most cost pools. A summary of adjustments by service and cost pool is provided in Table 9 and Table 10 below.

Table 9: Allocation of FY25 budget costs to unregulated services – by service

<b>Unregulated services</b>	<b>TasWater proposal</b>	<b>Sapere</b>	<b>Variation</b>
Recycled Water	\$0.67m	\$0.04m	-\$0.62m
Stormwater	\$0.78m	\$0.95m	\$0.17m
Trade Waste 3&4	\$11.49m	\$16.39m	\$4.90m
Tankered Waste	\$0.18m	\$0.25m	\$0.08m
<b>Total including other unregulated services</b>	<b>\$15.88m</b>	<b>\$20.39m</b>	<b>\$4.52m</b>

Note: Figures in this table relate to an adjusted FY25 budget (see footnote 32)

Table 10: Allocation of FY25 budget costs to unregulated services – by cost pool

<b>Cost Pool</b>	<b>TasWater</b>	<b>Sapere</b>	<b>Variation</b>
Salaries	\$1.6m	\$4.6m	\$3.0m
Materials & Services	\$4.2m	\$4.3m	\$0.1m
Motor Vehicles	\$0.0m	\$0.2m	\$0.2m
Regulatory	-	\$0.3m	\$0.3m
Power	\$3.5m	\$3.4m	-\$0.1m
Information Systems	\$1.0m	\$1.3m	\$0.3m
Administration Other	\$0.3m	\$0.4m	\$0.1m
Consultancy	\$0.7m	\$0.9m	\$0.2m
Insurance	\$0.3m	\$0.4m	\$0.1m
Other	\$4.4m	\$4.5m	\$0.1m
<b>Total</b>	<b>\$15.9m</b>	<b>\$20.4m</b>	<b>\$4.5m</b>

Note: Figures in this table relate to an adjusted FY25 budget (see footnote 32).

### 4.3.1.3 Customer connections costs

TasWater is seeking an increase to the regulated cost base to cover the costs it incurs in providing a new customer with a connection. These costs were not included in PSP4 as it was intended that customers would directly engage and pay contractors for connections. However, under a revised approach TasWater now bears the initial cost of the connection and then recovers the cost (with no

additional mark-up) from the customer. As the additional costs borne by TasWater are offset by the revenue from the customer connection charges, there is no impact on the price of other services.

In our opinion it is simpler and more appropriate to treat the customer connection costs as an unregulated service. In our view this is preferable as by doing so it removes any risk associated incorrectly forecasting the costs and revenue.

Consequently, in the following sections we have removed the customer connection costs from the regulated cost base.

#### 4.3.1.4 Bad and doubtful debts

TasWater includes bad and doubtful debts as an opex cost to be recovered. However, in our opinion it is more accurate and appropriate to consider bad and doubtful debts as an adjustment to the revenue. That is:

- Under the TasWater proposal:
  - The opex revenue forecast includes an allowance for bad and doubtful debts
  - Prices are set such that forecast revenue reflects the forecast opex with no additional adjustment for bad and doubtful debts
- We propose:
  - The opex revenue forecast excludes an allowance for bad and doubtful debts
  - Prices are set such that expected revenue less the allowance for bad and doubtful debt reflects the opex forecast.

The net impact to TasWater and prices is the same regardless of the approach, but the change modifies the opex forecast set for TasWater.

### 4.3.2 Adjustments to the base year

TasWater has chosen to align the base year expenditure to an adjusted<sup>32</sup> FY25 **budget** (hereafter just referred to as the FY25 budget), rather than the FY25 actuals. The net result (as summarised in the table below) was an increase, relative to the FY25 actuals, in base year regulated opex of \$514,000.

TasWater has justified the use of the FY25 budget as follows:

- TasWater identified adjustments by cost pool, which amounted to \$2.03 million across both regulated and unregulated services and \$1.87 million just for regulated services.
- It noted that the FY25 actuals plus these adjustments exceeded the FY25 budget by \$1.35 million.
- It argued that that the FY25 budget was a reasonable target and chose to use this instead of the FY25 actuals.

TasWater's approach of using budgeted rather than actual FY25 expenditure as the base is unconventional. The rationale behind the Base-Step-Trend approach is to use actual expenditure as

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<sup>32</sup> The *adjusted* FY25 budget of \$252.1 million is the FY25 budget of \$255 million for regulated and non-regulated expenditure less \$2.9 million of non-recurring expenditure identified by TasWater.

basis of informing future expenditure. TasWater’s approach subverts this process by using a budget and creates practical difficulties as it is not clear how the additional downward adjustment should be applied across cost-pools.

For these reasons, rather than use budgeted base year expenditure we have used actual expenditure in our analysis, including our assessment of the individual adjustments for each cost pool. This involved considering each of TasWater’s proposed adjustments.<sup>33</sup> We also considered whether any other adjustments to the base year cost were warranted. To this end, we reviewed the profit and loss data for abnormal (and unexplained) changes in expenditure between FY25 and previous years (FY23 & FY24). The detail of our individual adjustments is discussed in the cost-pool subsections within Section 4.6.

Table 11: TasWater’s proposed base year adjustments (regulated and unregulated expenditure)

Cost pool	TasWater adjustment		Summary of TasWater’s reason for adjustment
	Total	Regulated	
Materials and Services	\$895,960	\$814,949	Related to customer connections
Motor Vehicle	\$147,092	\$138,414	A fuel rebate received in FY25
Water sampling	\$310,000	\$276,895	Additional PFAS sampling not taken in FY25
Regulator costs	\$170,000	\$170,000	Allocation of price investigation budget <sup>34</sup>
Facility Management	-\$250,000	-\$230,631	Over-accrual of cleaning services
Information Systems	\$330,228	\$304,644	Key services were only partially incurred in FY25
Consultancy	\$939,400	\$866,621	Increased pipeline expenditure expected
Community Relations	-\$511,399	-\$471,779	Remove one-off rollout of costs
<b>Sub-total</b>	<b>\$2,031,281</b>	<b>\$1,869,112</b>	
Additional adjustment	N/A	-\$1,354,712	To match that the base year regulated opex to the FY25 budget
<b>Total adjustment</b>	<b>N/A</b>	<b>\$514,401</b>	

<sup>33</sup> Of note, some of the cost pool adjustments proposed by TasWater appear to be step changes as opposed to base year adjustment; nevertheless, for simplicity we have treated them all as base year adjustments.

<sup>34</sup> TasWater (in email) stated. “The FY25 base year included the price investigation budget of \$170k with the regulatory cost category. However, the actual expenditure for FY25 was funded through the SI cost category. The proposed adjustment moves this budget back to the regulatory category for the base year, aligning with the details provided in justification paper Table 3.3.”

### 4.3.3 Base year summary

A summary of the TasWater’s and our methods to determine the base year opex is provided in Table 11 below. TasWater begin with the adjusted FY25 Budget and make no further adjustments other than to use its ABC model to determine the allocation to unregulated services. In contrast we begin with the FY25 Actuals then remove the opex for connections and allowance for doubtful debts, make some additional adjustments and then apply our version of the ABC to determine the regulated base year expenditure. The net result is we use a base year opex that is \$13.46 million less than TasWater about half of which is attributable of the non-revenue adjustments associated with the connections and doubtful debts.

Table 12: TasWater’s proposed base year adjustments (regulated and unregulated expenditure)

	TasWater	Sapere	Variance
Starting point	Adjusted FY25 Budget	FY25 Actual	
<b>Total (regulated &amp; unregulated)</b>			
Opex (includes doubtful debt allowance)	\$252.15m	\$251.23m	-\$0.92m
Connections adjustment		-\$5.79m	-\$5.79m
Doubtful debts adjustment		-\$0.39m	-\$0.39m
<b>Opex subtotal</b>	<b>\$252.15m</b>	<b>\$245.04m</b>	<b>-\$7.11m</b>
Adjustments to normalise base year		-\$1.98m	-\$1.98m
<b>Subtotal</b>	<b>\$252.15m</b>	<b>\$243.07m</b>	<b>-\$9.08m</b>
<b>Allocation to unregulated services</b>	<b>-\$15.88m</b>	<b>-\$20.25m</b>	<b>-\$4.38m</b>
<i>Regulated base opex</i>			
<i>Including connections &amp; doubtful debts</i>	\$236.27m	\$228.96m	
<i>Excluding connections &amp; doubtful debts</i>	\$228.99m	\$222.81m	
<b>Base Year Opex</b>	<b>\$236.27m</b>	<b>\$222.81m</b>	<b>-\$13.46m</b>

Note: The connections cost varied significantly between FY25 budget and actuals. TasWater determined the adjusted FY25 budget by removing \$2.9m of non-recurring expenditure from the unadjusted FY25 budget of \$255m.

## 4.4 Trend

Trend factors include inflation, growth and productivity/efficiency.

### 4.4.1 Inflation

Because the regulatory framework operates in nominal terms, it is necessary for the opex forecast to include an assumption about inflation across PSP5.

The standard cost escalation applied to most cost-pools is based on the forecast growth in the consumer price index (CPI) – which, consistent with the Regulator’s Guidance paper (sect. 8.5), is the CPI as presented by the Reserve Bank of Australia (RBA) in its *Quarterly Statement of Monetary Policy*.

In its June 30 submission, TasWater used the most recent *Quarterly Statement of Monetary Policy* at the time which was the May 2025 issuance. For the period in PSP5 beyond the end of the RBA's forecast (June 2027) TasWater used the June 2027 forecast. It provided for an average CPI forecast of 2.72 per cent across PSP5, and TasWater used this figure in its forecasts.

At the time of preparing this draft report, the most recent *Quarterly Statement of Monetary Policy* is the November 2025 edition, which provides for a slightly different average CPI increase across PSP5. We have not adjusted TasWater's forecasts to reflect this updated forecast, noting that CPI forecasts will continue to move over time and that the Regulator's final decision will reflect either the RBA's February or May 2026 *Quarterly Statement of Monetary Policy*.

TasWater has applied a CPI-based escalation to all cost pools except for:

- Salaries, which are grown in accordance with enterprise agreement
- Power and Insurance, for which a market analysis has been applied
- Strategic Initiatives, where a special adjustment has been made in FY26.

Broadly we are satisfied this approach is prudent, noting that inflationary increases for Salaries, Power Insurance and Strategic Initiatives are discussed in the relevant cost-pool subsections.

#### 4.4.2 Growth

A water utility's pricing proposal is impacted by growth assumptions in two main ways. Of most relevance to this review, a higher growth assumption will drive higher opex. However, higher growth also means a larger demand base (customer connections and usage) over which to spread costs and lower prices. On balance, water utilities are generally financially better off if they underestimate growth in their pricing proposal.<sup>35</sup>

TasWater has applied a growth factor to controllable expenditure equal to a share (hereafter growth factor share, 50 per cent) of the forecast growth of connections (estimated as 0.95 per cent per annum) over PSP5. The approach of applying a growth factor to controllable expenditure is standard practice.<sup>36</sup> We are broadly comfortable with the approach; however, some matters warrant discussion.

##### **The impact of growth on costs**

The approach of growing opex by only a portion of forecast growth (typically measured in terms of connections) is not common. Rather, usual practice elsewhere is to grow opex by the full amount of forecast growth.<sup>37</sup> While this is overly generous due to economies of scale (whereby the average costs of service decline with more connections) these economies-of-scale can be addressed through the application of the efficiency factor.

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<sup>35</sup> From a financial perspective, a utility would be indifferent to growth if their prices match their marginal cost of providing services. However, in the water sector, prices for connection and water usage are typically set above the short-run marginal cost of providing such services.

<sup>36</sup> A recent exception is SA Water, who did not explicitly include a growth factor in its forecast opex.

<sup>37</sup> An exception is the recent decision for Sydney Water, whereby IPART in its draft report (p. 47) adopted its consultant's recommendation to only increase opex by a share of the forecast growth on the basis that 'growth impacts on costs are likely to be around half of that proposed.'

This means that, when undertaking comparisons, it is important to consider both the approach to growth and productivity.

The approach of applying a 50 per cent growth share has been carried over from PSP4. The original justification is unclear; however, it is consistent with scale-economies.<sup>38</sup> The scale-economies might be estimated by considering the extent costs by cost-pool are fixed and variable (i.e. change with growth). Applying prior analysis conducted by/for TasWater, suggests that around 28 to 40 per cent of opex is variable.<sup>39</sup> However, these estimates are based on variations in the short-term and consequently conservatively low once medium- and long-term factors are considered. There is also some empirical literature<sup>40</sup> on scale-economies. The literature confirms that there are scale-economies, but this varies by how growth occurs (e.g. growth in infill areas is less expensive than growth by expansion of the network). Hence it is difficult to apply a one-size-fits-all approach given the significant differences in operating environments and the difficulty in isolating the impact on operating costs.

Having considered the above factors, we consider that increasing most opex categories by 50 per cent of the growth in customer connections to be reasonable.

### **The forecast rate of growth**

TasWater's forecast rate of growth of 0.95 per cent per annum is based on forecasts made for its Regional Master Plans.

#### **4.4.2.1 Other growth-related matters**

TasWater has also forecast the total amount of water to be produced and delivered over PSP5. We understand the forecast is based on current demand (a PSP4 historic average to determine a base year for FY25) with trend adjustments for connection growth and for the projected reduction in non-revenue water (NRW) losses.

TasWater over-estimated water volumes in PSP4 and we are concerned that its PSP5 forecasts may also be high on the basis that:

- no elasticity of demand impacts from higher prices appears to be reflected in the forecasts
- TasWater did not revise its PSP5 projections once FY25 actual volumes, which were below forecast, were known
- other factors, including smaller gardens, a greater proportion of new customers living in apartments, smaller household sizes, and more efficient water appliances, do not appear to have been considered in the forecast.

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<sup>38</sup> It is also consistent with IPART's recent decision for Sydney Water. *ibid*

<sup>39</sup> TasWater's ABC analysis suggested 28% of costs were variable. A 2019 Jacobs report for TasWater suggested 40%.

<sup>40</sup> A useful analysis and review of literature is provided by ACIL Tasman (2007) *Size and scope economies in water and wastewater services*, 24 October 2007. Prepared for the Economic Regulation Authority [of Western Australia].

If water deliveries (and sewage treatment volumes) are less than forecast, then this will decrease opex in areas including electricity and chemical costs. There is thus some risk that opex is overstated.

At the same time, lower water deliveries will reduce revenue. And because the price of water is greater than TasWater's marginal cost of supply, TasWater, rather than its customers, bears the downside forecasting risk. On this basis we have not made any demand-related adjustments to opex.

### **4.4.3 Productivity**

It is reasonable to expect utilities to make productivity improvements over time, both to reflect economies of scale as their customer base grows, and commensurate with general economy and industry-wide efficiency gains. Almost all regulatory decisions therefore impose a productivity target on regulated entities. At issue is the quantum of productivity improvement to be factored into TasWater's forecasts.

#### **4.4.3.1 Productivity in PSP4**

The Regulator set an opex productivity target for TasWater in PSP4 of 1.5 per cent per annum. TasWater suggested that it met this target, noting in its PSP5 submission that:<sup>41</sup>

We have made cost efficiency an organisational priority over the period of PSP4. Our efforts have meant that we have challenged ourselves to include the most efficient operating cost forecast possible, for acceptable risk levels for PSP5.

The result is an operating expenditure base year (2024-25) that, on a like for like basis, is lower than the PSP4 approved allowance and therefore reflects our successful achievement of the 1.5 per cent efficiency factor set in the PSP4 determination.

As discussed in Chapter 3, after adjusting for inflation, TasWater's opex over the first 3 years of PSP4 was close to the PSP4 forecasts. This suggests there is some merit in TasWater's assertion that it achieved the 1.5 per cent target. However, as also outlined in Chapter 3, there are reasons why opex was lower than it might have been, all other things being equal:

- Water volumes were less than forecast
- TasWater did not meet around half of its service standards in FY25
- Greater levels of salary capitalisation may have reduced opex relative to the PSP4 forecasts.

Furthermore, we note that TasWater's projections for opex in FY26 are significantly higher than the PSP4 forecast.

#### **4.4.3.2 Productivity in PSP5**

TasWater has proposed an annual productivity factor of 1 per cent across its controllable opex in PSP5, noting that efficiencies will be driven by its Enterprise Portfolio Management Office (EPMO) and funded in part from its Strategic Initiatives cost pool. It supports this target on the basis that:

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<sup>41</sup> TasWater PSP5 Proposal p. 153.

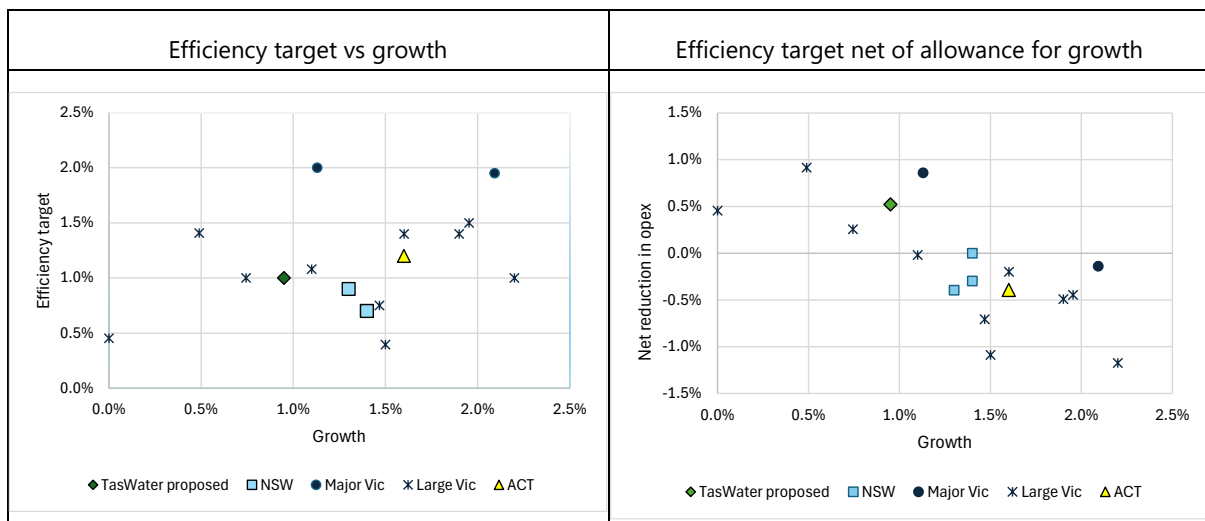
- 1 per cent is at the high end of regulatory efficiency factors
- There is no need for a 'catch-up' efficiency factor be incorporated into the target for PSP5 as TasWater is already at the efficiency frontier
- Between 1995 and 2015 productivity growth for major Australian urban water utilities was 0.3 per cent to 1 per cent with major productivity gains coinciding with institutional reform, regulatory improvements, metering reforms, leak reductions and better asset management.

TasWater also pointed to recent regulatory decisions noting that the vast majority incorporated productivity improvements in the range of 0.5-1 per cent.

As noted above, in comparing productivity targets it is important to consider how growth is also accounted for. For example, in Victoria, the standard approach is to assume opex increases in direct proportion to growth; that is, a 1 per cent increase in customer connections leads to a 1 per cent increase in opex. Due to the existence of economies of scale, we would expect that higher growth would lead to greater opportunities for efficiency improvement.

A summary of productivity targets applied in recent decisions elsewhere relative to the growth factor applied is provided in the figure below. Note that the growth factor reflects how costs are escalated with growth (i.e. in the case of TasWater, the growth factor is 50% x 0.95%). The figure on left shows the unadjusted efficiency target vs growth; the figure on the right shows the efficiency target less the growth allowance.

Figure 9: Efficiency target vs growth factor applied – TasWater and selected other recent regulatory decisions



TasWater is correct that its proposed 1 per cent efficiency factor, combined with a growth factor that is only half of connection growth, is at the high end. However, a key difference between TasWater and other utilities in regulatory decisions is that TasWater has proposed \$21.89 million of Strategic Initiatives funding across PSP5, with a specific focus on efficiency improvement and innovation. This is equal to around 2 per cent of total opex. This means that TasWater needs to achieve 2 per cent efficiency improvements (or improvements in service) just to cover the cost of its Strategic Initiatives, let alone achieve net gains.

Other utilities seldom have specific funding pools for efficiencies, and if they do it is rarely of such magnitude. Furthermore, TasWater has also proposed a step change to increase IT spending, in part to increase efficiency.

While TasWater has asserted that it is on the 'efficiency frontier'<sup>42</sup> it has not provided evidence to confirm this is the case, and indeed accurately measuring efficiency and defining an efficiency frontier is a non-trivial task. However, as shown in Chapter 3, there is nothing in the limited benchmarking data that would suggest that TasWater is on an efficient frontier.

We therefore consider that in order for TasWater's opex forecasts to be efficient and particularly noting the substantial funding for TasWater's Strategic Initiatives program, that a 1.5 per cent efficiency factor should be incorporated into the forecast. This higher efficiency factor leads to an estimated \$17 million reduction in the PSP5 expenditure. This amount is similar (slightly larger) than the Strategic Initiatives cost that we have estimated as being prudent and efficient (see discussion in Section 4.6.10) .

#### 4.4.4 Trend summary

A summary our proposed trend changes is included in the table below.

Table 13: Summary of trend changes proposed and impact

	TasWater proposal	Sapere adjustment	Impact of adjustment on PSP5 opex*
Inflation	CPI & cost-pool specific changes to Power, Insurance, Salaries and Strategic Initiatives	Adjustments to cost pool specific rates	See individual cost pools
Growth rate	50% x forecast growth of 0.95% per annum on controllable costs	No change	N/A
Productivity	1% of controllable costs	1.5%	-\$17.0m

### 4.5 Step changes

TasWater has proposed several step changes, which are summarised in Table 14 below. Two of these changes, the capital-driven opex from infrastructure (Self's point and other) and the water loss reduction program, cut across multiple cost-pools and are discussed in subsections immediately below. The other changes align closely<sup>43</sup> to specific cost pools and are discussed in the in section 4.6 by cost pool.

Of note, TasWater applies the step changes after having applied the trend factors to the base; that is, the step adjustments are not modified by inflation, growth, and productivity factors.

<sup>42</sup> TasWater PSP5 Proposal – 30 June 2025 (p. 154)

<sup>43</sup> Note there is not a perfect alignment. For example, the step changes in customer collection include some salaries and will impact on the debt written off, which TasWater include in the Administration and other pool.

Table 14: Summary of step changes proposed

Category	Description / cost pools affected	Total opex impact over PSP5
Capital driven opex	Impact of Selfs Point and other infrastructure on power, chemicals and materials and services	\$9.520m (Selfs Point) \$1.468m (Other)
	ICT major systems upgrades and enhancements	\$13.3m
Water Loss Reduction	Reductions in chemicals	-\$3.734m
	Reductions in power	-\$0.426m
Other	Chemicals (price increase)	\$2.284m
	Customer Collection	\$2.84m
	Information Systems	\$11.31m
	Insurance (including for Selfs Point)	\$2.5m
	Power	\$2.008m
	Regulatory Cost	\$4.87m
<b>Total</b>		<b>\$45.321m</b>

#### 4.5.1 Capital driven opex

TasWater has identified several infrastructure projects that are expected to drive additional opex in PSP5. These are listed in Table 15 by project and in Table 16 by cost pool.<sup>44</sup>

We have reviewed the proposed changes. We note that the opex listed in Table 15 is consistent with the business cases prepared for each of the infrastructure projects.

We understand that Atkins has recommended that the LST projects not proceed during PSP5, and that the Bicheno Recycled Water Scheme be delayed by a year. We have made adjustments (see Table 17) to the proposed opex to reflect these deferrals.<sup>45</sup>

TasWater has made no allowance for any of these costs to be allocated to unregulated services. We note that most of these projects related to sewerage treatment and that, for example, the Selfs Point STP will be used to provide the Trade Waste 3&4 and Tankered Waste service. It is therefore appropriate to allocate a portion of the increased opex costs to these unregulated services. In the absence of an alternative, we have allocated the costs in proportion to the allocation for the cost pool. The results are provided in Table 17 below.

<sup>44</sup> The opex relating to the ICT projects is discussed in the Information Systems cost pool subsection.

<sup>45</sup> To apply the adjustment by cost pool, we took the simplified approach of assuming the same percentage change by cost pool.

Table 15: TasWater's forecast additional opex due to infrastructure projects

<b>Infrastructure projects</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total</b>
Selfs Point STP Transformation	\$1.360m	\$2.720m	\$2.720m	\$2.720m	<b>\$9.520m</b>
SCADA and Electrical Renewals	\$0.015m	\$0.030m	\$0.044m	\$0.060m	<b>\$0.149m</b>
Bicheno Recycled Water Scheme	-	\$0.100m	\$0.045m	\$0.045m	<b>\$0.190m</b>
Cambridge -STP Capacity Improvements	-	-\$0.120m	-\$0.120m	-\$0.120m	<b>-\$0.360m</b>
LST #1 – Ti Tree Bend STP Transformation	-	\$0.133m	\$0.135m	\$1.162m	<b>\$1.430m</b>
Launceston -Mt Leslie WTP Sludge Handling Upgrade	-	-	\$0.153m	\$0.153m	<b>\$0.306m</b>
LST #2 – Prospect Vale STP Transformation	-	-\$0.205m	-\$0.221m	-\$0.221m	<b>-\$0.647m</b>
Scottsdale -STP Upgrade	-	-	-	\$0.150m	<b>\$0.150m</b>
Smithton STP recycled water scheme	-	-	-	\$0.250m	<b>\$0.250m</b>
<b>Total from Infrastructure projects</b>	<b>\$1.375m</b>	<b>\$2.658m</b>	<b>\$2.756m</b>	<b>\$4.199m</b>	<b>\$10.988m</b>

Table 16: Additional opex from infrastructure capex projects by cost pool – TasWater proposal

<b>Cost Pool</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total</b>
Power	\$0.645m	\$1.385m	\$1.397m	\$1.640m	\$5.067m
Chemicals	\$0.145m	\$0.399m	\$0.412m	\$0.924m	\$1.881m
Materials and services	\$0.585m	\$0.874m	\$0.947m	\$1.635m	\$4.040m
<b>Total</b>	<b>\$1.375m</b>	<b>\$2.658m</b>	<b>\$2.756m</b>	<b>\$4.199m</b>	<b>\$10.988m</b>

Table 17: Additional opex from infrastructure capex by cost pool – PSP5 total summary

<b>Cost Pool</b>	<b>TasWater proposal</b>	<b>Sapere adjustment for deferred projects</b>	<b>Sapere adjustment for allocation to unregulated services</b>	<b>Sapere revised amount</b>
Power	\$5.067m	-\$0.311m	-\$1.005m	\$3.751m
Chemicals	\$1.881m	-\$0.190m	-\$0.355m	\$1.335m
Materials and services	\$4.040m	-\$0.327m	-\$0.445m	\$3.268m
<b>Total</b>	<b>\$10.988m</b>	<b>-\$0.828m</b>	<b>-\$1.806m</b>	<b>\$8.354m</b>

## 4.5.2 Water loss reduction (/ non-revenue water) program

TasWater has proposed a step change in opex due to the non-revenue water (NRW) program, which seeks to reduce the volume of non-revenue water loss. The proposed program includes a substantial increase in capex (~\$100.6m in PSP5), an increase in labour opex and a reduction in spending on electricity and chemicals commensurate with lower water losses.

In our opinion, and those of AtkinsRéalis who are reviewing TasWater's capital program, the full program of investment has not been justified as the estimated benefits of the program do not exceed the costs.<sup>46</sup>

Furthermore, it appears that the benefits which have been estimated are overstated. The main benefits relate to reduced water losses, which we understand that TasWater has valued at the retail price of water (\$1.22 per kL) for apparent losses and \$1.27 per kL for other losses, the later we understand reflecting an estimate of the long-run marginal cost (LRMC).<sup>47</sup> However, we understand that in some systems (notably Hobart) there is no water capacity shortage in the near-term and thus the benefit of saving water is likely to be much closer to the short run marginal cost (SRMC), which is primarily related to the additional chemicals and power. Based on data provided by TasWater this is less than \$0.20 per kL.<sup>48</sup>

Another issue is that over 20 per cent of the benefits relate to recovering revenue for apparent losses (water consumed but not paid for). While it is clearly preferable from a fairness perspective that consumers pay for the water they use, such a change does not involve a material efficiency benefit – in effect it is a wealth transfer as it involves some customers paying more.

Nevertheless, AtkinsRéalis has concluded that some incremental investment in reducing water losses is reasonable. We understand AtkinsRéalis has proposed a more limited program that involves around one-third of the proposed capex, and which will deliver around 2 GL of water saving per annum. Accordingly, we have reduced TasWater's estimated reduction in power, chemicals and strategic initiative (labour) costs to one-third of that proposed.

A summary of the opex step changes associated with the non-revenue water program proposed by TasWater, and as adjusted by Sapere, is provided in Table 18 below. Of note, the labour cost estimates do not directly affect the total estimate for the Strategic Initiative cost pool due to the method we have used to estimate the opex for the cost pool,

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<sup>46</sup> In a Full Business Case provided by TasWater estimates a present value cost of \$143.3m over 6 years to deliver \$39.0m in benefits. [Source: 20250711 RFI 6 - Question 6.a - Enterprise Full Business Case - Water Efficiency Program – Final]

<sup>47</sup> TasWater has not provided information to support its calculation of LRMC.

<sup>48</sup> TasWater estimated the SRMC as \$0.37/kL in FY25. However, this estimate is better described as an average variable cost as its calculation includes costs that are correlated with, but not caused by, water use such as salaries, customer collection and some consultancy cost. We consider a better estimate of SRMC is around \$0.15 / kL, which reflects the average (per kL) power and chemicals costs.

Table 18: Impact of non-revenue water program in PSP5

	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total PSP5</b>
<b>TasWater proposal</b>					
Electricity (saving)	-\$0.47m	-\$0.62m	-\$0.74m	-\$0.85m	-\$2.68m
Chemicals (saving)	-\$0.38m	-\$0.49m	-\$0.59m	-\$0.68m	-\$2.13m
Labour (strategic initiatives)	\$1.00m	\$0.40m	\$0.40m	\$0.40m	\$2.20m
<b>Total</b>	<b>\$0.15m</b>	<b>-\$0.71m</b>	<b>-\$0.92m</b>	<b>-\$1.13m</b>	<b>-\$2.61m</b>
<b>Sapere estimate</b>					
Electricity (saving)	-\$0.11m	-\$0.15m	-\$0.17m	-\$0.20m	<b>-\$0.63m</b>
Chemicals (saving)	-\$0.09m	-\$0.12m	-\$0.14m	-\$0.16m	<b>-\$0.50m</b>
Labour (strategic initiatives)	\$0.32m	\$0.13m	\$0.13m	\$0.13m	<b>\$0.70m</b>
<b>Total</b>	<b>\$0.12m</b>	<b>-\$0.13m</b>	<b>-\$0.18m</b>	<b>-\$0.23m</b>	<b>-\$0.43m</b>
<b>Variance</b>	<b>-\$0.03m</b>	<b>\$0.58m</b>	<b>\$0.74m</b>	<b>\$0.89m</b>	<b>\$2.18m</b>

Note: TasWater has proposed that the additional salaries cost be absorbed in the existing resourcing allocated to strategic initiatives; that is, no step change is required for the additional salaries cost.

### 4.5.3 Summary of step changes

A summary of TasWater's proposal and our estimate of the required step changes is provided in the table below. These include step changes discussed in the following sections on individual cost pools.

Table 19: Summary of TasWater Proposal and Sapere estimate for step changes – PSP5 total

<b>Category of expenditure</b>	<b>TasWater proposal</b>	<b>Sapere estimate</b>	<b>Variance</b>
Opex from capex (non-ICT)	\$11.0m	\$8.4m	-\$2.6m
Major system upgrades *	\$13.3m	\$4.5m	-\$8.8m
Other ICT*	\$11.3m	\$7.5m	-\$3.8m
Non-revenue water**	-\$4.8m	-\$1.1m	\$3.7m
Other step changes*	\$14.5m	\$12.8m	-\$1.7m
<b>Total</b>	<b>\$45.3m</b>	<b>\$32.1m</b>	<b>-\$13.2m</b>

Note: \* The analysis for these categories is described in the individual cost pools in the next section. The values for non-revenue water exclude the labour cost changes which TasWater assumes will be absorbed into strategic initiatives.

## 4.6 Cost pools

### 4.6.1 Overview

The following sub-sections discuss TasWater’s proposed base step and trend for the individual cost pools. Our analysis has focussed on the most material cost pools and where there has been significant change. Of note, some issues and most services span across multiple cost pools.

### 4.6.2 Salaries

#### 4.6.2.1 Summary

The Salaries cost pool includes salaries and related remuneration and other employee expenses. As noted, it excludes expenditure on staff whose have recorded time to capital projects and excludes some salary expenditure allocated to Strategic Initiatives.

TasWater has proposed a base year opex of \$115.0 million based on the FY25 budget. For this cost pool it has adopted a bespoke trend based on forecast changes in wage rates but has applied its standard (1%) efficiency target. TasWater has not proposed any step adjustments.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater’s proposal by:

- changing the base. We have (as discussed in section 4.3):
  - used FY25 actuals as the base year, rather than the FY25 budget as used by TasWater
  - used our revisions to the ABC model to determine the allocation to regulated services
- changing the trend. We have:
  - applied the revised efficiency target (as discussed in Section 4.4.2)
  - reduced TasWater’s proposed cost-escalation by removing the pay point progression.

TasWater’s proposal and the net impact of these proposed changes is presented in the table below.

Table 20: Cost pool summary – Salaries

	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total PSP5</b>
<b>TasWater proposal</b>							
<i>Cost escalation</i>		6.5%	3.9%	3.9%	4.5%	4.1%	
Base + trend	\$115.00m	\$121.82m	\$125.91m	\$130.13m	\$135.28m	\$140.10m	\$531.43m
<b>Sapere adjustment</b>							
<i>Cost escalation</i>		5.5%	2.9%	2.9%	3.5%	3.1%	
Base + trend	-\$3.20m	-\$5.09m	-\$7.03m	-\$9.06m	-\$11.25m	-\$13.53m	-\$40.86m
<b>Revised amount</b>	<b>\$108.61m</b>	<b>\$111.64m</b>	<b>\$111.86m</b>	<b>\$112.02m</b>	<b>\$112.78m</b>	<b>\$113.05m</b>	<b>\$449.71m</b>

Note: TasWater did not propose any step change adjustments for the Salaries cost pool.

## 4.6.2.2 Discussion and analysis

### Base

TasWater proposes to use its FY25 Salaries budget of \$115.0 million as the base for forecasting purposes. This is slightly lower than the actual Salaries expenditure of \$115.25 million.

As discussed in section 4.3.1.1, this base year expenditure includes the cost of paying employees while on leave, which was incorrectly excluded from the cost base in previous pricing submissions.

As discussed in section 3.3.4, FTE employee numbers were well below PSP4 forecasts, but wage increases were higher than the PSP forecast and the ABS wage price index (WPI), particularly in FY25. This implies a better paid, but more productive workforce.

PSP4 also featured a number of one-off elements including high termination payments in FY24, and an increase in parental leave payments following a policy change that enables male employees to receive similar leave to female employees.

We are broadly satisfied that base year expenditure provides a reasonable basis for PSP5 forecasts, noting that:

- termination payments appear to have returned to a more 'normal' level in FY25
- parental leave payments are likely to be maintained at a higher level than prior to the policy change.

However, as with other cost pools we have made adjustments to:

- use FY25 actuals as the base year, rather than the FY25 budget
- use our revisions to the ABC model to determine the allocation to regulated services.

### Step

TasWater did not propose any step changes for the Salaries cost pool.

### Trend

In its September 2025 update, TasWater amended its trend forecast to reflect its new enterprise agreements (EAs) which were approved by employees on 31 July 2025 and endorsed by the Fair Work Commission in September 2025. The EA determines wage rates to 30 June 2029.

TasWater's proposed trend for the Salaries cost pool reflects the sum of:

- the wage rate agreed in its EA for years up to FY29. For FY30, TasWater has proposed a wage increase based on its extrapolation of the RBA's forecast WPI published in May 2025
- a 1 per cent pay point escalation. Under TasWater's EA, employees can progress annually to the next pay point. The first pay point progression occurs automatically on successful completion of the probationary period, with the subsequent 4 progressions upon assessment by their manager. TasWater has estimated the annual average impact of the pay point progression is 1 per cent, although the difference between the top and bottom pay point bands of any classification is around 20 per cent.

- for FY26 only, the 0.5 per cent increase in the superannuation guarantee rate on 1 July 2025.<sup>49</sup>

Table 21: Summary of TasWater’s proposed wage increases

	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>
EA wage increase (based on approved EA up to June 2029)	5.0%	2.9%	2.9%	3.5%	3.1%
Superannuation guarantee	0.5%				
Pay point progression	1%	1%	1%	1%	1%
<b>Total escalation</b>	<b>6.5%</b>	<b>3.9%</b>	<b>3.9%</b>	<b>4.5%</b>	<b>4.1%</b>

Note: The EA states for FY28 and FY29 the increase will be the greater of CPI and 2.9% (FY28) and 3.5% (FY29). The increase for FY30 of 3.1% was based on TasWater’s extrapolation of the wage price index forecast.

Other elements impacting TasWater’s proposed Salaries cost pool trend include its growth (50% of 0.95%) and productivity (1%) factors. The growth factor implies staff numbers broadly increasing at a rate of 0.475 per cent in PSP5, which appears reasonable.

Although not all employees are covered by the EA, TasWater has applied the increase across its entire employee base, rather than adopt a different rate for non-EA employees. We also consider this is reasonable.

In relation to the specific wages trend, we observe that both TasWater’s historic and forecast wage increases have been at or above the actual and forecast ABS WPI. No ABS forecasts for the WPI are available beyond June 2027, however TasWater’s proposed increases are at or above the high end of recent changes/projections for the WPI.

Table 22: TasWater actual and proposed wage increases versus ABS WPI

	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>
TasWater actual and proposed	4.0%	4.0%	6.6%	6.0%	3.9%	3.9%	4.5%	4.1%
ABS WPI (actual and forecast)	3.6%	4.1%	3.4%	3.0%	3.0%	N/A	N/A	N/A

Note: TasWater wage increase includes pay point progression. WPI for year to June 30 as shown in RBA Statement of Monetary Policy, November 2025, November 2024 and November 2023.

In the absence of the pay point progression, TasWater’s actual and proposed wage increases from FY23 to FY27 (a cumulative 21%) are more much consistent with the wage price index (18%).

<sup>49</sup> Although we note that TasWater’s EA provides for 15.5% superannuation.

The inclusion of an ongoing pay point progression assumes that the average seniority and skill level of staff increases over time, effectively indefinitely. We do not think this is a reasonable assumption. While the average pay point of employees may temporarily increase, eventually the average pay point should stabilise or even decline as more experienced people retire and new staff come on board. Further, the inclusion of a pay point progression increase would take TasWater's salary increases well above average increases across the economy, as represented by the wage price index.

Therefore, while we are satisfied that it is prudent and efficient for TasWater to use the escalation rates included in its EA as the basis for PSP5 forecasts, (including TasWater's assumption regarding the increase in FY30). We do not consider the inclusion of an annual pay point progression represents an efficient forecast and therefore adjusted the opex forecast to remove this escalation.

## **4.6.3 Materials and services**

### **4.6.3.1 Summary**

The Materials and Services cost pool includes the non-salary related costs associated with the maintenance and undertaking of some operation facilities across the water and wastewater networks, as well at the facilities to pump and treat raw water and wastewater. After salaries it is TasWater's second largest cost pool, accounting for around 15 per cent of opex.

The cost pool includes distinct sub-components of costs:

- The installation and maintenance of connections that link properties to TasWater's water distribution networks
- Handling, transport and disposal of grit and screenings removed from the wastewater flow at TasWater's treatment facilities
- Handling, transport and disposal, often via land-based re-use, of biosolids captured during the wastewater treatment process at TasWater's treatment facilities
- Purchase of minor tools and equipment below \$1,000 by TasWater's maintenance and repair crews
- Maintenance and repair of small machinery and auxiliary equipment used by TasWater across its water and wastewater networks and treatment facilities
- Management and supervision costs of the maintenance and repair crews, including customer support, incident management and scheduling of works.

TasWater has proposed a base year opex of \$38.78 million based on the FY25 budget. It has proposed step adjustments associated with increased opex due to capex and applied its standard trend adjustments to account for growth, cost-escalation and efficiency improvements.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater's proposal by:

- changing the base. We have
  - used FY25 actuals as the base year, rather than the FY25 budget
  - removed the connection services opex (as discussed in section 4.3.1.3)
  - adopted some, but not all, of the base-year adjustments discussed by TasWater (but not actually applied as TasWater used the FY25 budget for the base opex)

- used our revisions to the ABC model to determine the allocation to regulated services (as discussed in section 4.3)
- changing the trend. We have:
  - applied the revised efficiency target (as discussed in Section 4.4.2).

Our summary of TasWater’s proposal and Sapere’s adjustments is provided in the table below. Our rationale for the adjustments is provided after the table.

Table: Cost pool summary – Materials and Services

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							
Base + Trend	\$38.78m	\$39.77m	\$40.64m	\$41.53m	\$42.44m	\$43.37m	<b>\$167.98m</b>
Step		-	\$0.59m	\$0.87m	\$0.95m	\$1.63m	<b>\$4.04m</b>
<b>Sub Total</b>	<b>\$38.78m</b>	<b>\$39.77m</b>	<b>\$41.22m</b>	<b>\$42.40m</b>	<b>\$43.39m</b>	<b>\$45.00m</b>	<b>\$172.02m</b>
<b>Sapere adjustments</b>							
Remove connections	-\$5.93m	-\$6.05m	-\$6.16m	-\$6.27m	-\$6.38m	-\$6.49m	<b>-\$25.31m</b>
Other base + trend	-\$0.11m	-\$0.32m	-\$0.52m	-\$0.73m	-\$0.95m	-\$1.18m	<b>-\$3.38m</b>
Step	-	-	-\$0.07m	-\$0.11m	-\$0.07m	-\$0.52m	<b>-\$0.77m</b>
<b>Total</b>	<b>\$32.74m</b>	<b>\$33.40m</b>	<b>\$34.47m</b>	<b>\$35.29m</b>	<b>\$35.98m</b>	<b>\$36.81m</b>	<b>\$142.55m</b>

#### 4.6.3.2 Discussion and analysis

Materials and Services expenditure is necessary for a prudent water utility, and we have no reason to suggest that TasWater’s expenditures on these cost pools is inefficient. Nevertheless, we have made some adjustments related to TasWater’s proposal for this cost pool, primarily related to how costs are allocated between services and efficiency targets.

##### Base

TasWater has proposed \$38.78 million (FY25) for Materials and Services as the operational base year for PSP5 based on its FY25 budget expenditure and applying its ABC. As noted, we have used the actual spend in FY25 for the base, removed the connection services expenditure, applied our ABC modifications, and adopted some, but not all, of the base year adjustment discussed by TasWater.

The base year adjustments warrant further explanation. In considering the base year expenditure TasWater has proposed an adjustment of \$895,960, for expenditure related to two cost codes *Stock Control Adjustment* and *Maintenance small plant and equipment*. In both cases, the proposed

adjustment is the difference between the budget and actual expenditure in FY25. TasWater's rationale for these adjustments are:

- *Stock Control Adjustment* – Proposed adjustment \$104,979. TasWater stated that the FY25 actuals (-\$4,979) were low (relative to FY25 budget of \$100,000) due to rebates for defective meters returned to TasWater.
- *Maintenance small plant and equipment* – Proposed adjustment of \$790,981. TasWater stated the actuals were low due to contractor issues resulting in a temporary pause in activity.

In general, we do not support adjustments purely based on the difference between budgeted and actual spending, on the basis that:

- it is inconsistent with the base-step-trend framework where actual spending provides the benchmark for future forecasts
- budgets are always subjective and subject to a range of forecasting errors.

Having said that, in our view the proposed stock adjustment appears reasonable as it appears to be a once-off and the adjustment would set a base year expenditure for the cost code similar to levels in prior years. However, we do not consider the proposed adjustment for *Maintenance small plant and equipment* has been adequately justified. Such an adjustment would result in an increase in the FY25 expenditure of 43 per cent relative to FY24. In the absence of additional information, we have applied a base year expenditure that is a 13.5 per cent increase on FY24 to match expenditure increases in the other cost codes in the the Materials and Services cost pool.

## **Trend**

TasWater has applied its standard trend adjustments to account for growth, cost escalation and efficiency. We have modified the trend adjustment to reflect a 1.5 per cent efficiency improvement as discussed in Section 4.4.3.

## **Step**

TasWater has only proposed step changes for this cost pool related to new capex projects, of which the total is dominated by the additional expenditure at the Selfs Point STP. These are listed and discussed in Section 4.5.1. We agree the additional expenditure is prudent and efficient but that the step expenditure needs to be allocated between regulated and unregulated services.

## **4.6.4 Power**

### **4.6.4.1 Summary**

The Power cost pool includes electricity costs associated with the operation of facilities used to treat raw water and wastewater, as well as to pump water and wastewater through the respective reticulation networks. It also includes the cost of supporting infrastructure such as office and works depots and to a lesser extent in charging of electric vehicles at TasWater's Moonah and Launceston offices.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater's proposal by:

- changing the base. As discussed in Section 4.3, we have:

- used FY25 actuals as the base year, rather than the FY25 budget
- used our revisions to the ABC model to determine the allocation to regulated services
- changing the trend
  - to slightly reduce the trend proposed by TasWater
  - to apply the revised efficiency target discussed in Section 4.4.2
- changing the proposed step to account for the proposed reduction in the non-revenue water program.

A summary is provided in the table below. A discussion of the key changes follows the table.

Table 23: Cost pool summary – Power

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							
<i>Escalation</i>		2.22%	2.22%	2.22%	2.22%	2.22%	
Base + trend	\$12.68m	\$12.89m	\$13.11m	\$13.33m	\$13.55m	\$13.78m	\$53.76m
Step	-	\$0.26m	\$0.68m	\$1.27m	\$1.16m	\$1.29m	\$4.40m
Sub Total	<b>\$12.68m</b>	<b>\$13.14m</b>	<b>\$13.78m</b>	<b>\$14.59m</b>	<b>\$14.72m</b>	<b>\$15.07m</b>	<b>\$58.16m</b>
<b>Sapere adjustments</b>							
<i>Escalation</i>		2.13%	2.13%	2.13%	2.13%	2.13%	
Base + trend	\$0.09m	\$0.01m	-\$0.07m	-\$0.15m	-\$0.23m	-\$0.31m	<b>-\$0.75m</b>
Step	-	\$0.19m	\$0.22m	\$0.17m	\$0.32m	\$0.01m	<b>\$0.73m</b>
<b>Total</b>	<b>\$12.76m</b>	<b>\$13.34m</b>	<b>\$13.94m</b>	<b>\$14.62m</b>	<b>\$14.81m</b>	<b>\$14.77m</b>	<b>\$58.14m</b>

#### 4.6.4.2 Discussion and analysis

##### Base

TasWater has proposed \$12.68 million for the base year expenditure based on the FY25 budget. This represents a material decrease relative to the PSP4 forecasts, even after allowing for a reduction in costs from the increased allocation to unregulated services

TasWater attributes the underspend to factors including improved management of commodity price risk through a program of electricity supply contracts with retailers that has progressively replaced its exposure to spot prices. Other factors, including lower water and sewerage treatment volumes also contributed to the reduction, more than offsetting higher than forecast electricity usage associated with the upgrades to Bryn Estyn WTP.

TasWater acquires electricity from the national electricity market (NEM) and has historically been exposed to the underlying movement of the commodity price in that market. However, based on external advice, TasWater recently transitioned from reliance of volatile spot prices to more stable,

predictable pricing via a series of supply contracts with retailers. This transition was subject to a thorough options analysis with independent advice being received. Whilst this transition has proved highly beneficial over the period FY23 and FY24, it has been less beneficial in FY25 and cost savings relative to the spot market are no certainty to continue. Nevertheless, adopting contracted commodity pricing for power is considered a reasonable and efficient purchasing approach. Accordingly, we consider the base broadly efficient.

TasWater has not proposed any adjustments to the base year; however consistent with our changes elsewhere we have made amendments to the base to use FY25 actuals as the base year and increase the allocation of costs to unregulated services.

## **Step**

TasWater has identified three step changes for Power, being:

- contract pricing for 'Parcel 3' which has yet to be rolled over to a long-term contract with a retailer from the current spot pricing approach, an action that is forecast to cause a step up in costs (whereas during PSP4 the transition away from spot pricing was a net benefit). This increase is estimated by TasWater at \$0.502 million per annum or \$2.08 million across PSP5
- increased demand from new capex projects, particularly the Selfs Point Sewer Transformation project and LSIP#1 – Ti Tree Bend STP Transformation. These total \$5.07 million across PSP5
- a decrease in electricity costs due to a reduction in non-revenue water. TasWater originally estimated this reduction at \$4.43 million across PSP5, but in its September update this was reduced to \$2.67 million.

'Parcel 3' is a component of TasWater's energy portfolio purchases that it is subject to contracted prices. New pricing for this parcel took effect on 1 July 2025 with an increase from \$50.71 per megawatt hour (MWh) to \$67.05 per MWh. The new contract applies until 30 June 2029.

Noting that TasWater entered a competitive procurement process for this parcel, and that it sought expert advice to assist it with the process, we are satisfied that this increase is prudent and efficient and should be incorporated in the forecasts as a step change.

TasWater has forecasted \$5.067 million of additional costs from increased demand of new capex projects, of which 89 per cent is due to the increase from the Selfs Point STP Transformation.

We note that the forecast additional electricity costs resulting from the completion of the Selfs Point project is aligned with the advice in the project summary and supporting business case documentation and appears to be drawn from design consultant estimates prepared in 2022.

Noting that AtkinsRéalis is comfortable with the timing of these Selfs Point, we are generally satisfied that the step change is reasonable but note that no allocation of these additional electricity costs to unregulated services has been undertaken. We believe such an adjustment is required – this reduces the increase by 21 per cent.

The final Step change component is a decrease in electricity use because of the reduction in non-revenue water. As noted in section 4.5.2, AtkinsRéalis has concluded that the non-revenue program has not been justified and that only an incremental investment in reducing water losses is reasonable.

Accordingly, we have significantly reduced the electricity savings from the non-revenue water program from that proposed by TasWater as shown in the table below.

Table 24: Step change in electricity cost for non-revenue water program (\$'000)

	FY27	FY28	FY29	FY30	Total PSP5
TasWater proposal (September update)	-\$0.47m	-\$0.62m	-\$0.74m	-\$0.85m	-\$2.68m
Sapere	-\$0.11m	-\$0.15m	-\$0.17m	-\$0.20m	-\$0.63m

### Trend

In its June PSP5 submission TasWater proposed to increase electricity costs by 5.70 per cent per annum. However, in its updated proposal it has revised this increase down to 2.2 per cent in order to:

- reflect actual electricity expenditure in FY25
- correct an error in the forecasting model
- update a reference to CPI within the forecasting model.

All assumptions and calculations underpinning the 2.2 per cent annual increase were provided to us in a spreadsheet which calculates the total amount for base plus trend power cost in each year of PSP5 and subsequently derives a compound annual growth rate (CAGR) between the base year and FY30. The cost drivers that are captured in the calculation of the 2.2 per cent CAGR across PSP5 include:

- contracted commodity costs, for all parcels 1 through 3
- network charges for the contracted power in parcels 1 through 3, particularly the variable, environmental, capacity and demand charges. These network charges generally reflect the Australian Energy Regulator’s (AER’s) April 2024 decision on TasNetworks’ distribution prices, which provide for a 7.5 per cent real increase each year from FY25 to FY29.
- usage and demand charges for other meters, including non-water consumption driven charges.

We are broadly satisfied that the revised forecast is reasonable, with the exception that in FY30 TasWater has assumed that a 7.5 per cent increase in TasNetworks’ distribution charges will apply. We consider it more reasonable to assume that this increase will be in line with CPI forecast for that year. This reduces the overall average increase from 2.2 per cent to 2.1 per cent

We have also applied the revised efficiency target discussed in Section 4.4.2

## 4.6.5 Information systems

### 4.6.5.1 Summary

The Information Systems cost pool includes all the external costs required to support the ongoing operation, maintenance, and enhancement of TasWater’s information systems (hereafter, also referred to as Information and communications technology, ICT).

TasWater has used the FY25 budget as the base year and made several step change adjustments associated with proposed initiatives. TasWater has applied its standard trend adjustments related to cost-escalation, growth and productivity.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater’s proposal by:

- changing the base. As discussed in section 4.3. We have:
  - used FY25 actuals as the base year, rather than the FY25 budget as used by TasWater
  - used our revisions to the ABC model to determine the allocation to regulated services
- changing the step adjustments (see discussion below)
- changing the trend. We have applied the revised efficiency target discussed in Section 4.4.2.

Table 25: Cost pool summary – Information Systems

	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total PSP5</b>
<b>TasWater proposal</b>							
Base + trend	\$11.46m	\$11.76m	\$12.01m	\$12.28m	\$12.55m	\$12.82m	<b>\$49.66m</b>
Step		\$1.73m	\$8.48m	\$5.24m	\$5.42m	\$5.50m	<b>\$24.64m</b>
<i>Cyber security uplift</i>		<i>\$0.87m</i>	<i>\$1.77m</i>	<i>\$0.93m</i>	<i>\$0.96m</i>	<i>\$0.99m</i>	<b>\$4.65m</b>
<i>IT Business initiatives</i>		-	<i>\$1.48m</i>	<i>\$1.61m</i>	<i>\$1.76m</i>	<i>\$1.81m</i>	<b>\$6.66m</b>
<i>Major System upgrades</i>		<i>\$0.86m</i>	<i>\$5.23m</i>	<i>\$2.70m</i>	<i>\$2.70m</i>	<i>\$2.70m</i>	<b>\$13.33m</b>
Sub Total	<b>\$11.46m</b>	<b>\$13.49m</b>	<b>\$20.49m</b>	<b>\$17.52m</b>	<b>\$17.97m</b>	<b>\$18.32m</b>	<b>\$74.30m</b>
<b>Sapere adjustments</b>							
Base + trend	-\$1.00m	-\$1.08m	-\$1.16m	-\$1.24m	-\$1.33m	-\$1.42m	<b>-\$5.15m</b>
Step	-	-\$0.18m	-\$4.44m	-\$2.69m	-\$2.71m	-\$2.72m	<b>-\$12.56m</b>
<i>Cyber security</i>	-	<i>-\$0.09m</i>	<i>-\$0.19m</i>	<i>-\$0.93m</i>	<i>-\$0.96m</i>	<i>-\$0.99m</i>	<b>-\$3.07m</b>
<i>IT Business initiatives</i>	-	-	<i>-\$0.16m</i>	<i>-\$0.17m</i>	<i>-\$0.19m</i>	<i>-\$0.19m</i>	<b>-\$0.71m</b>
<i>Major System upgrades</i>	-	<i>-\$0.09m</i>	<i>-\$4.10m</i>	<i>-\$1.59m</i>	<i>-\$1.56m</i>	<i>-\$1.54m</i>	<b>-\$8.78m</b>
<b>Revised amount</b>	<b>\$10.46m</b>	<b>\$12.22m</b>	<b>\$14.89m</b>	<b>\$13.59m</b>	<b>\$13.93m</b>	<b>\$14.18m</b>	<b>\$56.59m</b>

#### 4.6.5.2 Discussion and analysis

##### Base year expenditure

In FY25, TasWater's opex on Information Systems (for regulated and unregulated services) was \$11.37 million which was \$1.07 million lower than the FY25 budget of \$12.45 million. This spend is in addition to another \$9 million budgeted on (non-capitalised) staff and related expenditure.<sup>50</sup>

Although using the FY25 budget for its base, TasWater identified base adjustments to the actual opex spend of \$330,228. TasWater argued:

*Adjustments were made to reflect full-year costs for key ICT services that were only partially incurred in FY25. These updates ensure the base year accurately captures ongoing operational requirements; they include:*

*(1) ICT Security Managed Service Agreement (Cybersecurity): The e service commenced partway through FY25, resulting in lower actual costs. The adjustment reflects the full-year cost of \$133k, based on \$26k/month plus a \$30k annual retainer.*

*(2) Azure Services (SOCl Compliance and Data Protection):*

*Azure costs were also only partially incurred in FY25. The adjustment updates the base year to reflect the full-year cost of \$33k/month, driven by compliance and data protection needs.*

#### Context for reviewing the base expenditure

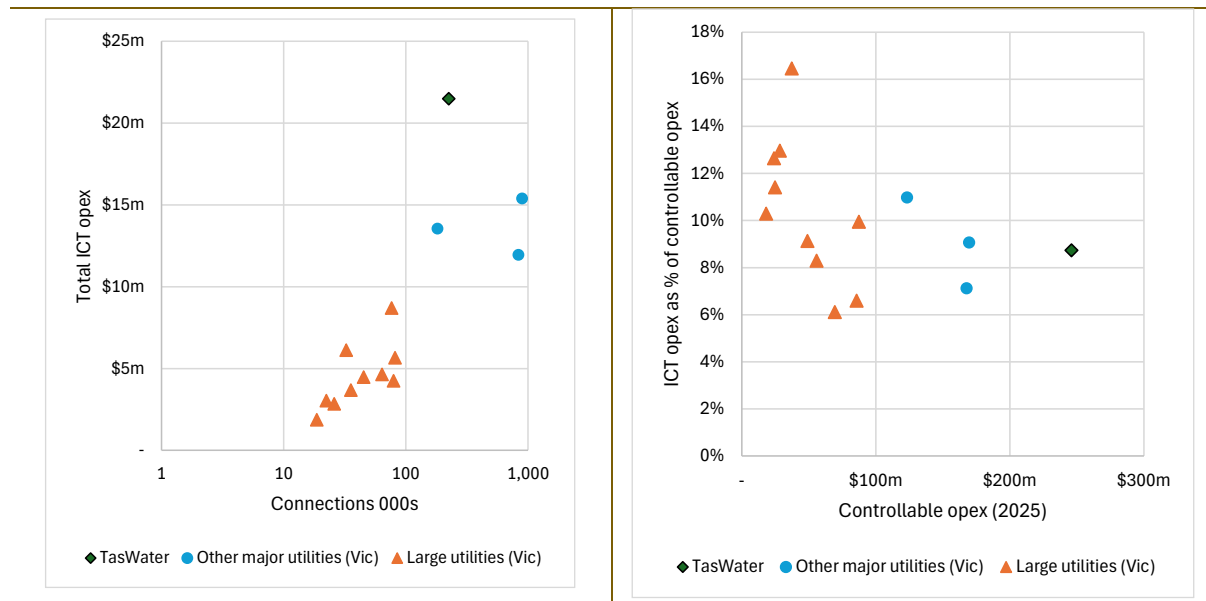
In reviewing TasWater's base expenditure, we further considered TasWater's expenditure and ICT maturity relative to other utilities.

TasWater has a significant ICT opex. As Figure 10 shows, TasWater's ICT costs are much higher than those of the Victorian water utilities and look like an outlier when compared on a per-connection basis. This does not seem to be explained by TasWater's vertical integration. While TasWater's ICT costs, as a share of its controllable operating expenditure, are similar to those of other major utilities, they do not appear to reflect the lower economies of scale that TasWater faces. While TasWater's smaller scale would normally lead to somewhat higher ICT costs per connection, the level of ICT spending shown in Figure 10 appears too high to be explained by size alone. In other words, TasWater's lack of economies of scale may account for part of the difference, but not the extent of the gap we observe.

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<sup>50</sup> Salaries and related expenditure in the following cost categories: Digital & Technology Digital Productivity, Knowledge and Information; Applications; Digital Delivery; ICT Security; Operations & Networks; Data & Analytics.

Figure 10: TasWater’s ICT compared to Victorian utilities



Source: Based on data included in regulatory submissions inflated to FY25. Number of connections is from the NPR in FY24.

A possible reason for TasWater’s seemingly high opex is that TasWater continues to carry the legacy of maintaining multiple systems inherited from the pre-amalgamation entities. As TasWater retires these systems through planned upgrades, total ICT costs should fall over time - even if the spend mix shifts from capex to opex in line with cloud adoption.

Another consideration is that a like-for-like comparison of ICT opex on its own is limited. As ICT spend continues to shift from capex to opex, and because utilities at different maturity levels naturally have different opex-to-capex ratios, opex should be considered alongside ICT capex and the overall funding mix.

Recent reviews show Sydney Water and Hunter Water have already undergone the structural shift from ICT capex to opex associated with cloud and Software-as-a-Service (SaaS) adoption. For example, Sydney Water’s ICT opex share of total ICT spend has risen from around 30 per cent in 2018 to approximately 70–75 per cent by 2025, and Hunter Water’s to roughly 60–65 per cent over a similar period. By “opex share,” we mean the proportion of total ICT expenditure that is expensed annually (licenses, subscriptions, managed services, cloud usage) rather than capitalised (on-premises hardware, perpetual software, major implementations).

In contrast, TasWater remains relatively “on-premises heavy,” meaning a larger portion of ICT services are delivered through in-house infrastructure and perpetual software rather than cloud-hosted services. As a result, opex currently represents only about 25–30 per cent of total ICT spend. If TasWater follows a similar cloud/SaaS trajectory to its peers, its ICT opex share could plausibly rise toward 60–70 per cent by 2030. However, TasWater does not yet have a clear roadmap for this transition. That absence makes it difficult for TER to assess prudence and efficiency. The need for uplift is evident in principle, but without a staged plan and measurable milestones, the scale and timing of opex growth cannot be verified.

Governance and delivery risks compound these concerns. Recent interview evidence indicates TasWater lacks:

- risk-based planning for ICT renewals (no risk register, minimal quantification of avoided failures)
- benefits frameworks (efficiency claims not baselined or tracked)
- delivery maturity (ICT projects have faced delays and overruns).

These governance gaps create a material efficiency risk: while the uplift addresses clear needs, without stronger planning it risks becoming cost-absorbing rather than cost-controlling.

Over PSP5, we expect TasWater to implement a risk-based renewal program, a robust benefits framework, and a clear capex-to-opex transition roadmap. These measures would materially increase confidence in prudence and efficiency. With this foundation in place, any proposed increases in overall ICT expenditure for PSP6 would be more strongly supported and therefore more likely to be accepted.

### **Step changes**

As documented in Table 25 above, TasWater has proposed a material uplift in ICT opex for PSP5. We have reviewed these step changes against the business cases supporting these investments.

The step changes include an uplift for cyber-security and other initiatives relating to infrastructure and end-user hardware renewal, business improvement initiatives, data governance, major system upgrades and enhancements, and information systems. TasWater argue these are necessary to maintain reliable systems, manage compliance risk and enable business improvements.

We consider much of the proposed uplift to be prudent given the TasWater's cyber maturity and lower ICT maturity compared to mainland peers, and the material risk of higher reactive operating costs if assets continue to fail. Interview evidence confirms TasWater has sweated ICT assets beyond recommended vendor lives, with examples of bulk laptop failures and urgent patching for unsupported systems. Recent reviews of Sydney Water and Hunter Water indicates that similar ICT uplift programs have been proposed and accepted as prudent to avoid system risks.

Nevertheless, we have some concerns with the program and step change adjustments. Three common concerns are:

- The ICT program is ambitious. We concur with AtkinsRéalis who have concluded that it will not be practical for TasWater to undertake the full program.
- TasWater has made no allowance for any of these costs to be allocated to unregulated services. Accordingly, to establish the prudent and efficient opex for regulated services, we have allocated, in proportion consistent with other Information System expenditure, 10 per cent of TasWater's proposed step changes on Information Systems to unregulated services.
- The extent to which the expenditure should be classed as opex or capex. On this matter we have adopted the approach as incorporated in TasWater's proposal.

Matters specific to the individual programs are discussed below.

#### *Step changes for Cybersecurity*

TasWater has proposed a significant step-up in opex for its Cyber Security Uplift Program which is supported by a full business case and addendum. The proposals seek to lift TasWater's cyber maturity to meet contemporary standards and mitigate high service and reputational risks.

We agree the expenditure is prudent. Cyber threats are increasing and the consequences for TasWater could be severe.

Our concern is efficiency. The proposed costs are high relative to TasWater’s scale, and the business case scope has continued to evolve, raising the risk of over-forecasting. TasWater’s delivery capability in this area is untested.

We support the inclusion of the cybersecurity uplift, but recommend the Regulator require TasWater to provide regular reporting to demonstrate progress and actual expenditure to mitigate efficiency risks.

To establish the prudent and efficient level of the step change for cybersecurity we have (as discussed above) allocated of some expenditure to unregulated services and made one additional change. The business case for the Cybersecurity expenditure<sup>51</sup> includes additional opex in FY26 and F27 but no additional opex for the FY28-FY30 period. We have adjusted the step change opex to be consistent with the business case. The impact of these adjustments is shown below.

Table 26: Step adjustments - Cyber security

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
TasWater proposal	n/a	\$0.87m	\$1.77m	\$0.93m	\$0.96m	\$0.99m	\$4.65m
Sapere	n/a	\$0.78m	\$1.58m	-	-	-	\$1.58m
<b>Difference</b>	<b>n/a</b>	n/a	<b>-\$0.19m</b>	<b>-\$0.93m</b>	<b>-\$0.96m</b>	<b>-\$0.99m</b>	<b>-\$3.07m</b>

*ICT Business Improvement Initiatives and Data Governance*

Proposals to digitise processes and reduce manual effort are reasonable in principle; however, TasWater has not quantified the expected benefits. The business cases assume efficiency gains over 10–20 years, despite interviews showing no benefits tracking occurs and that ICT delivery capability has been limited. In contrast, peers such as Sydney Water and Hunter Water presented structured options with quantified efficiency baselines. Against these, TasWater’s cases are under-developed, limiting our confidence in the claimed outcomes.

TasWater recognises the need to improve data governance for compliance and operational efficiency. Benefits such as “reduced duplication” and “single source of truth” are asserted but not evidenced with measurable savings. Interview evidence confirms TasWater is “early in its data journey”, has no ICT risk register, and resources are fully stretched. This indicates a high delivery risk across the multiple business improvement initiatives.

Nevertheless, we consider the programmes of work necessary to address TasWater’s legacy systems and current ways of operating. From an efficiency perspective, however, it is difficult to test the market for bespoke solutions that are tailored to TasWater’s specific challenges.

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<sup>51</sup> H.4 - ICT Cyber Security Uplift Program - Enterprise Full Business Case Presentation

Consequently, our only adjustment to establish the prudent and efficient level of the step change for Business Improvement Initiatives and Data Governance is to allocate some of the opex to unregulated services. The impact of the adjustment is shown below.

Table 27: Step adjustments - Business Improvement Initiatives and Data Governance

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
TasWater proposal	n/a	-	\$1.48m	\$1.61m	\$1.76m	\$1.81m	\$6.66m
Sapere	n/a	-	\$1.32m	\$1.44m	\$1.57m	\$1.62m	\$5.95m
<b>Difference</b>	<b>n/a</b>	<b>n/a</b>	<b>-\$0.16m</b>	<b>-\$0.17m</b>	<b>-\$0.19m</b>	<b>-\$0.19m</b>	<b>-\$0.71m</b>

### Major System Upgrades & Enhancements

TasWater’s major system upgrades include upgrades for systems related to financial, customer, asset and operations, and human resources management.

Upgrades to finance and asset management systems are justified on vendor support and compliance grounds. However, there are issues which undermine our confidence in the proposed outcomes. Our concerns include:

- Business cases assume benefit periods up to 20 years – well beyond typical ICT lifecycles of 7–15 years, with benefits commencing only after PSP5 in some cases – after all the costs have been incurred. Given the nature of these enhancements, some measurable benefits should accrue within the period the opex is spent. The absence of active benefits tracking may explain the assumption that benefits only commence after the period.
- Options analysis is limited, with continued reliance on incumbent vendors (particularly Microsoft). Interview evidence points to delays, overruns, and reactive upgrades. While upgrades are warranted, the efficiency of the proposed package is uncertain given the absence of a market-testing strategy, consideration of alternative vendors, or alignment with solutions adopted by peer utilities.
- The uplift also reflects upward pressures from vendor contracts and early SaaS adoption. While inflationary pressures are genuine, TasWater provided little evidence of contract negotiation or alternative procurement strategies. The interview confirmed TasWater takes a vendor-driven approach, with limited cost control. Although TasWater accepts SaaS will increase opex, it has no timeframes or costed strategy.

More significantly we are concerned with deliverability. We agree with AtkinsRéalis who believe the upgrades related to customer management and human resources management are overly ambitious and not well scoped. Having considered the above, we consider it prudent and efficient that the investment in these two systems be postponed until after PSP5.

To establish the prudent and efficient level of the step change for this step change we have allocated some of the opex to unregulated services. The impact of this adjustment is shown below.

Table 28: Step adjustments – Major system upgrades

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
TasWater proposal	n/a	\$0.86m	\$5.23m	\$2.70m	\$2.70m	\$2.70m	<b>\$13.33m</b>
Sapere	n/a	n/a	\$1.13m	\$1.11m	\$1.14m	\$1.16m	<b>\$4.55m</b>
<b>Difference</b>	<b>n/a</b>	<b>n/a</b>	<b>-\$4.10m</b>	<b>-\$1.59m</b>	<b>-\$1.56m</b>	<b>-\$1.54m</b>	<b>-\$8.78m</b>

*Conclusion and summary*

We accept that additional ICT expenditure is prudent given TasWater’s low ICT maturity and the risks of higher reactive costs if systems fail. However, the proposed step increases are not fully justified:

- Business cases lack risk quantification, credible options analysis, and realistic benefit lifespans or timing.
- SaaS transition costs are acknowledged but not forecast or staged.
- Vendor cost increases are accepted rather than actively managed or considering alternative vendors when doing major upgrades.
- Governance and delivery capability weaknesses remain.

A prudent approach would be to allow ICT uplifts to address pressing risks, but to reduce discretionary elements and stage future allowances. Ideally further funding could be made contingent on TasWater demonstrating stronger risk-based planning, vendor cost control, and clearer SaaS migration strategies. However, such an approach would be difficult to implement.

## 4.6.6 Chemicals

### 4.6.6.1 Summary

The Chemicals cost pool includes costs associated with the treatment of water and wastewater to ensure TasWater can maintain safe, clean drinking water and effectively manage wastewater in order to reduce risks of contamination or environmental harm.

TasWater has proposed a base of \$10.04 million for PSP5 based on the FY25 Budget. TasWater has proposed three step changes for this cost pool related to new capex projects; an expected significant increase in costs in FY26 of \$571,000; and reductions in non-revenue water.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater’s proposal by:

- changing the base. As discussed in section 4.3. We have:
  - used FY25 actuals as the base year, rather than the FY25 budget
  - used our revisions to the ABC model to determine the allocation to regulated services
- changed the step by adjusting the reduction in chemical costs due to the non-revenue water program and allocating some of the higher chemical costs associated with new capital projects to unregulated services
- changing the trend. We applied the revised efficiency target discussed in Section 4.4.2

A summary is provided in the table below.

Table 29: Cost pool summary – Chemicals

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							
Base + trend	\$10.04m	\$10.29m	\$10.52m	\$10.75m	\$10.98m	\$11.23m	<b>\$43.48m</b>
Step	-	\$0.37m	\$0.34m	\$0.48m	\$0.40m	\$0.82m	<b>\$2.03m</b>
Sub Total	\$10.04m	\$10.67m	\$10.86m	\$11.22m	\$11.38m	\$12.04m	<b>\$45.51m</b>
<b>Sapere adjustment</b>							
Base + trend	\$0.27m	\$0.23m	\$0.18m	\$0.13m	\$0.07m	\$0.02m	<b>\$0.39m</b>
Step	-	-\$0.08m	\$0.02m	-\$0.06m	\$0.03m	-\$0.19m	<b>-\$0.19m</b>
<b>Total</b>	<b>\$10.31m</b>	<b>\$10.81m</b>	<b>\$11.06m</b>	<b>\$11.29m</b>	<b>\$11.49m</b>	<b>\$11.87m</b>	<b>\$45.71m</b>

#### 4.6.6.2 Discussion and analysis

##### Base

TasWater has proposed \$10.04 million for Chemicals as the base year spend based on its FY25 budget. This represents a material decrease compared to PSP4 forecasts which is largely driven by the application of TasWater’s new ABC approach. In the absence of this change chemical costs in FY25 are significantly higher than the PSP4 forecast. This is due to historic increases in the unit cost of key chemicals as well as increase in chemical requirements for Bryn Estyn WTP beyond that anticipated.

In relation to the base, we note TasWater is, to a very significant extent, a “price taker” of chemicals and has limited leverage to drive better pricing outcomes, as for some chemicals the Tasmanian supply market is very limited. TasWater did display a high degree of application to drive chemical procurement efficiencies where potential exists.

Accordingly, we consider the base to be broadly efficient, however consistent with our approach elsewhere we propose to use actual FY25 spending as the base, which is \$10.31 million.

##### Step

TasWater has identified three step changes for Chemicals, being:

- increased costs associated with new capex projects
- a \$571,000 increase in chemical costs in FY26

- decrease in costs of \$2.13 million across PSP5 because of the reduction in non-revenue water (to which an 8 cents per kL chemical cost has been applied).<sup>52</sup>

A summary of these and our estimate is provided in the table below.

Table 30: Summary of step changes in chemical opex over PSP5

Step change category	Regulated opex over PSP5		
	TasWater proposal	Sapere estimate	Variation
Increased opex from capex	\$1.881m	\$1.335m	-\$0.546m
Increase in chemical costs	\$2.284m	\$1.015m	-\$1.269m
Non-revenue water program	-\$2.132m	-\$0.503m	\$1.629m
<b>Total</b>	<b>\$2.033m</b>	<b>\$1.846m</b>	<b>-\$0.186m</b>

As discussed in Section 4.5.1, we are broadly comfortable with the increased costs associated with new capex projects (a total of \$1.89 million across PSP5), but adjusted the step change to reflect some deferrals and that a portion (21%) of the costs are allocated to the non-regulated services consistent with our ABC.

TasWater has sought a step increase in chemical costs of \$571,000 as its FY26 budgeting process has identified a material increase in chemical costs due to supply constraints. According to TasWater increases in the prices of alum (7.7%) magnesium hydroxide (6.1%) and particularly fluorosilicic acid (FSA, 91%) are the key drivers. On request TasWater provided additional information that demonstrated that following a competitive quote process, it locked in prices for FSA for 2 years in early 2025 that were substantially higher than previous levels. Based on FY24 prices and volumes, the increase in FSA costs is in the order of \$0.5 million per annum. Based on the documentation we estimate that one quarter of the price increase is incorporated into the FY25 actuals. Furthermore, we understand that the current supply FSA constraints are temporary, driven in large part by a change in production facilities in Victoria. Consequently, we expect that there would be at least some reversion of FSA prices once TasWater's FSA contract expires. Having considered the above we assumed that FSA prices will reduce by a quarter from FY28. In addition, we have allocated a portion (21%) of the step change to non-regulated services consistent with our ABC. The net impact of the two changes is shown below.

<sup>52</sup> In TasWater's original PSP5 submission it indicated the variable cost of chemicals was 13 cents/kl. This was revised downwards in its September submission to 8 cents/kl. TasWater explained the reduction on the basis that the original estimate included chemical costs for both water and sewerage treatment; however, because the non-revenue water program does not impact sewerage these costs should be excluded.

Table 31: Step change in chemical opex due chemical price increases

	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total PSP5</b>
TasWater proposal	\$0.571m	\$0.571m	\$0.571m	\$0.571m	\$0.571m	<b>\$2.28m</b>
Sapere	\$0.338m	\$0.338m	\$0.225m	\$0.225m	\$0.225m	<b>\$1.01m</b>

The final Step change component is a decrease in chemical usage flowing from a reduction in non-revenue water. As noted in section 4.5.2, AtkinsRéalis has concluded that the non-revenue program has not been justified and that only an incremental investment in reducing water losses is reasonable. Accordingly, we have significantly reduced the chemical savings from the non-revenue water program from that proposed by TasWater as shown in the table below.

Table 32: Step change in chemical opex for non-revenue water program

	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total PSP5</b>
TasWater proposal	-\$0.20m	-\$0.38m	-\$0.49m	-\$0.59m	-\$0.68m	<b>-\$2.13m</b>
Sapere	-\$0.05m	-\$0.09m	-\$0.12m	-\$0.14m	-\$0.16m	<b>-\$0.50m</b>

## 4.6.7 Facility Management

### 4.6.7.1 Summary

The Facilities Management cost pool covers the non-salary costs of managing TasWater’s facilities. It includes council rates and land tax on TasWater owned properties, plus outsourced services such as cleaning services, grounds and general maintenance, other ad hoc facilities expenses and some related compliance activities.

TasWater has proposed a base year opex of \$9.55 million based on the FY25 budget and its proposed ABC modelling. It has proposed no step adjustments and applied its standard trend adjustments to account for growth, cost-escalation and efficiency improvements.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater’s proposal by:

- changing the base. As discussed in Section 4.3. We have:
  - used FY25 actuals as the base year, rather than the FY25 budget
  - used our revisions to the ABC model to determine the allocation to regulated services
- changing the trend. We applied the revised efficiency target discussed in Section 4.4.2.

The results are summarised in the table below.

Table 33: Cost pool summary – Facility Management

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							
Base + trend	\$9.55m	\$9.80m	\$10.01m	\$10.23m	\$10.46m	\$10.69m	\$41.38m
<b>Sapere</b>							
Base + trend	\$0.10m	\$0.05m	\$0.00m	-\$0.05m	-\$0.10m	-\$0.16m	<b>-\$0.31m</b>
<b>Total</b>	<b>\$9.65m</b>	<b>\$9.85m</b>	<b>\$10.01m</b>	<b>\$10.18m</b>	<b>\$10.35m</b>	<b>\$10.53m</b>	<b>\$41.07m</b>

#### 4.6.7.2 Discussion and analysis

In FY25 TasWater moved from Facilities Management being managed by a small team in house to an outsourced model with Ventia being engaged on a long-term contract as the prime facilities contractor managing all work on TasWater’s behalf. TasWater reports that this has seen an immediate improvement to the standard of its facilities, a focus on safety and wellbeing and improved cost control. However, as discussed below the move to an outsourced model led to an increase in costs in FY25.

##### Base

In FY25 TasWater’s total (regulated and unregulated) expenditure on Facility Management was \$13.24 million, \$2.63 million more than the FY25 budget and \$2.83 million more than the spend in FY24. TasWater acknowledges the FY25 actual expenditure is abnormally high in part due to catch-up of compliance activities associated with a change in the management approach. TasWater did identify that some (\$250,000) of the abnormal expenditure was due to over-accrual of cleaning services in FY2025, it has also advised that it has been unable to estimate the additional FY25 opex that relates to the compliance catch-up.<sup>53</sup> TasWater has proposed using the FY25 budget (\$9.55 million) as the base for Facilities Management.

To establish the prudent and efficient base year expenditure we have undertaken the following approach.

- We first, determine the total regulated and unregulated opex to be \$10.75 million, calculated as follows
  - For the contract-related opex<sup>54</sup> we have used FY25 budget expenditure of \$5.42 million rather than the \$7.91 million actual expenditure. This approach recognises that opex in FY25 included a compliance catch-up and that the budget is likely to be the best estimate of an efficient base year
  - For the non-contract opex we have used FY25 actuals (\$5.33m)

<sup>53</sup> Response to RFI 45, question 3c).

<sup>54</sup> Relating to 3685 Facility management, 3687 Cleaning services, 3689 Ground maintenance and vegetation control.

- We then apply our activity-based costing approach to determine the regulated component. The net result is that our base for Facility Management is slightly higher than that proposed by TasWater.

### Trend

TasWater proposed its standard trend changes to this cost pool. We have adopted the trend assumptions documented earlier.

## 4.6.8 External Support (consultancy)

### 4.6.8.1 Summary

The external support cost pool refers to the engagement of external specialist resources to support the salaried workforce. It includes a mixture of spending that is largely ongoing in nature, as well as one-off projects. The amount allocated to the cost pool excludes consultancy expenditure that is allocated to the Strategic Initiatives cost pool.

TasWater has proposed a base year opex of \$7.95 million based on the FY25 budget. It has proposed no step adjustments and applied its standard trend adjustments to account for growth, cost-escalation and efficiency improvements.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater’s proposal by:

- using FY25 actuals as the base year, rather than the FY25 budget
- using our revisions to the ABC model to determine the allocation to regulated services
- applying the revised efficiency target discussed in Section 4.4.2.

The results are summarised in the table below.

Table 34: Cost pool summary – External support

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							
Base + trend	\$7.95m	\$8.15m	\$8.33m	\$8.52m	\$8.70m	\$8.89m	\$34.44m
<b>Sapere adjustment</b>							
Base + trend	-\$1.00m	-\$1.06m	-\$1.12m	-\$1.18m	-\$1.24m	-\$1.31m	-\$4.85m
<b>Total</b>	<b>\$6.95m</b>	<b>\$7.10m</b>	<b>\$7.21m</b>	<b>\$7.34m</b>	<b>\$7.46m</b>	<b>\$7.58m</b>	<b>\$29.59m</b>

### 4.6.8.2 Discussion and analysis

As noted above, TasWater proposed a base year expenditure based on the FY25 budget. The total (regulated and unregulated) expenditure for FY25 budget was \$8.63 million significantly higher than

the actual FY25 expenditure of \$7.78 million. However, TasWater argued that an uplift to the FY25 actuals of \$939,400 was justified on the basis that:<sup>55</sup>

*The FY25 P&I budget was reduced to achieve savings, but an uplift is now required to reflect the FY26 budget and project pipeline, ensuring continued momentum as we transition to the new capital delivery operating model.*

While TasWater described this as a base year adjustment, it is more appropriately described as a step increase.

We note that while lower than the FY25 budget, TasWater's FY25 actual spend (\$7.78m) was not abnormally low – it is similar in level to the PSP4 forecast for FY25 (\$7.98m) to the FY24 actuals (\$7.87m).

Regardless, we do not consider TasWater has provided sufficient evidence to justify an increase over actual spending in the base year. The nature of the base-step-trend approach is that there will be fluctuations in spending (both up and down) in cost pools over time, but that across the business the base year will provide an appropriate starting point for forecasting future expenditure. Increases above the base year need to be justified, in part due to the asymmetric nature of incentives for the business to seek increases where base year spending is low, but not propose decreases where spending is high.

While we accept that there will perhaps be greater fluctuations in spending in this cost pool due to the one-off nature of some projects, if an ongoing increase is sought it is incumbent upon TasWater to justify the increase. We requested information on specific projects or activities where the increase would be spent, however, TasWater did not provide detail; rather it just described the range of activities that consultancy activity would cover. In conclusion we have not been provided with evidence that the proposed increase is prudent.

## **4.6.9 Water sampling**

### **4.6.9.1 Summary**

The Water Sampling cost pool includes costs relating to the sampling and laboratory testing for drinking water and wastewater compliance purposes. Costs incurred include routine testing conducted internally by TasWater, and the use of external laboratory services for more specialised and lower frequency testing.

TasWater has proposed a base year opex of \$3.91 million based on the FY25 budget and its proposed ABC modelling. It has proposed no step adjustments and applied its standard trend adjustments to account for growth, cost-escalation and efficiency improvements.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater's proposal by:

- changing the base. As discussed in section 4.3, we have:
  - used FY25 actuals as the base year, rather than the FY25 budget

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<sup>55</sup> Email from TasWater received 8 October 2025.

- used our revisions to the ABC model to determine the allocation to regulated services
- included an upward adjustment of \$310,000, proposed by TasWater and related to reducing sampling in FY25 (see discussion below)
- changing the trend by applying the revised efficiency target discussed in Section 4.4.2.

Table 35: Cost pool summary – Water Sampling

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							
Base + trend	\$3.91m	\$4.01m	\$4.10m	\$4.19m	\$4.28m	\$4.38m	\$16.95m
<b>Sapere adjustment</b>							
Base + trend	-\$0.04m	-\$0.06m	-\$0.08m	-\$0.11m	-\$0.13m	-\$0.15m	-\$0.47m
<b>Total</b>	<b>\$3.87m</b>	<b>\$3.95m</b>	<b>\$4.02m</b>	<b>\$4.08m</b>	<b>\$4.15m</b>	<b>\$4.22m</b>	<b>\$16.48m</b>

#### 4.6.9.2 Discussion and analysis

##### Base

TasWater has proposed \$3.91 million for water sampling as the base year opex for PSP5, based on its FY25 budget. This represents a material increase relative prior years in PSP4 levels, primarily driven by higher laboratory charges and the shift from temporary contractual uplift to a permanent embedded cost. We understand that these increases are now expected to continue rather than being a one-off adjustment. Previously, the contract did not allow for cost escalation over its term, so the current increase is effectively a catch-up. On this basis, we incorporated the higher costs into the base year rather than treat them as a separate step change. In relation to prudence, compliance testing is mandatory under the Australian Drinking Water Guidelines and the regulated Public Health framework. The need for the expenditure is therefore not in doubt.

Regarding efficiency, costs appear somewhat high, reflecting reliance on external laboratory services and that TasWater “own and operate 38 per cent of Australia’s water and sewage treatment plants for just 2 per cent of Australia’s population served by major water utilities”.<sup>56</sup> However, the higher cost is largely outside TasWater’s control, given Tasmania’s limited supplier market. Accordingly, we consider the base broadly efficient, albeit with efficiency risks that should be monitored.

Consistent with the standard base-step-trend approach, we have used the FY25 actuals but have also added a one-off adjustment of \$310,000 that TasWater has proposed. TasWater’s rationale for the adjustment is that it ‘only conducted minimal PFAS testing during the year’ and that a reasonable estimate for the necessary ongoing expenditure is an additional ‘\$70k for water and \$240k for wastewater and biosolids.’ The need for extensive PFAS testing only became apparent during PSP4 and is increasingly becoming a requirement across Australia. We have reviewed this estimate and,

<sup>56</sup> PSP5 proposal chapter 1.

while it might more accurately be characterised as a step change, we consider the adjustment to actual expenditure to be reasonable given the increasing interest in PFAS testing.

### **Step**

TasWater has not proposed any step changes for water sampling opex. Should TasWater seek to expand sampling for emerging contaminants (e.g. microplastics, pesticides) in the future, as other water utilities in Australia are doing, this would require a separate, well-developed business case.

### **Trend**

TasWater applied its standard trend adjustments to account for growth, cost-escalation and efficiency improvements. Our only change is to apply our revised efficiency target.

## **4.6.10 Strategic Initiatives**

### **4.6.10.1 Summary**

The Strategic Initiatives cost pool includes the management and funding of strategic projects that TasWater considers are required for it to continue to deliver its core functions efficiently and effectively. The cost pool includes:

- Projects that have arisen outside of business-as-usual operations, such as responding to substantive changes in the legislative and risk environment for cybersecurity.
- Operating the TasWater's newly established Enterprise Portfolio Management Office (EPMO), including managing strategic investments and critical projects.
- Managing and funding innovation investments.

It is an unusual cost pool in that it is not associated with specific GL Codes – instead expenditure in this cost pool is drawn from multiple other cost pools and includes some labour costs. Under TasWater's ABC all opex for this cost pool is allocated to regulated services. TasWater considers that while some projects may deliver incidental benefits to unregulated services, these outcomes are not material to the investment case and have not influenced prioritisation or cost allocation.

TasWater has adopted a base year opex of \$3.11 million based on the FY25 budget but argued that this was low and not reflective of the investment program going forward. Rather than apply a base or step adjustment, TasWater made a temporary significant trend adjustment by applying a cost-escalation factor in FY26 (of 67%) that inflated the forecast FY26 expenditure by \$2.07 million more than FY25. TasWater has not proposed any other step adjustments.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater's proposal by:

- changing the base. We have:
  - used the inflation-adjusted average of FY23 and FY24 actuals as the base year, rather than the FY25 budget as used by TasWater (see discussion below)
- changing the trend
  - applied the revised efficiency target discussed in Section 4.4.2
  - applied the standard cost-escalation (3.1%) to replace TasWater's proposed one-off cost escalation (67%) in FY26.

The results are summarised in the table below.

Table 36: Cost pool summary – Strategic Initiatives

	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total PSP5</b>
<b>TasWater proposal</b>							
Base + trend	\$3.11m	\$5.18m	\$5.30m	\$5.41m	\$5.53m	\$5.65m	\$21.89m
<b>Sapere adjustment</b>							
Base + trend	\$0.71m	-\$1.29m	-\$1.34m	-\$1.38m	-\$1.44m	-\$1.49m	<b>-\$5.64m</b>
<b>Total</b>	<b>\$3.82m</b>	<b>\$3.90m</b>	<b>\$3.96m</b>	<b>\$4.03m</b>	<b>\$4.10m</b>	<b>\$4.16m</b>	<b>\$16.25m</b>

#### 4.6.10.2 Discussion and analysis

##### Base

Two features of Strategic Initiatives spending in the base year are noteworthy. Firstly, it includes a range of spending on regulatory activities (listed in Table 37 below) that would normally be included in the Regulatory cost pool, but, due to unbudgeted expenses, have been funded from the Strategic Initiatives cost pool.

Secondly, TasWater has identified that there is a significant underspend in Strategic Initiatives spending in FY25 resulting from the longer period to develop, establish and implement the EPMO and EMOS processes, and cultural changes. Therefore, according to TasWater, base year spending does not reflect the reality of the expenditure required to operate the strategic initiatives portfolio in PSP5.

To address this underspend, TasWater has proposed a trend change to increase spending back up to approximately \$5 million per year. However, in our view any increase of this nature is clearly a base year change rather than a trend change.

We agree that it is reasonable for TasWater to operate an EPMO which can provide a focus and framework for projects that reduce costs and improve service standards. We also agree that Strategic Initiatives spending was artificially low in FY25. At issue is the quantum of base year spending that is prudent and efficient.

TasWater has provided examples of Strategic Initiatives projects that have provided benefit to the organisation. However, no cost-benefit analysis of the program has been provided, and we acknowledge the difficulty in doing so.

We inquired as to the list of strategic initiative projects for PSP5. TasWater responded that strategic investment is inherently variable year on year reflecting the timing and nature of enterprise-wide

priorities and provided a summary of projects for FY2026.<sup>57</sup> TasWater did not provide any information on the list of strategic initiative projects during PSP5.

Ultimately, spending on Strategic Initiatives (excluding regulatory) has not reached the \$5 million sought by TasWater in any year of PSP4, with an average spend of \$3 million (see Table 37). Given that FY25 spending is clearly unrepresentative, and noting historic spending, we consider it appropriate to use the average of the FY23 and FY24 actuals (excluding regulatory costs and inflated to \$FY25) as the base year for this cost pool. As documented in Table 37 below this results in a base year of \$3.819 million. We consider this is a prudent and efficient level of expenditure that will allow TasWater to continue to deliver its core functions efficiently and effectively, including meeting the 1.5 per cent productivity target.

Regardless of the level of expenditure, we expect that TasWater should expend more effort in forward planning of the initiatives and ensuring that any investment is appropriately justified, preferably with a cost-benefit analysis.

Table 37: Strategic Initiatives – opex by year

	FY23	FY24	FY25	Average FY23-24	Average FY23-25
<b>Strategic Initiatives - Total</b>	\$3.298m	\$4.720m	\$3.320m	\$4.009m	\$3.779m
Less Regulatory costs included in Strategic Initiatives					
PSP4 Investigation support	\$0.180m	\$0.042m			
PSP5 Support program		\$0.450m	\$1.201m		
PSP5 Support program - customer engagement			\$0.154m		
OTTER recovery costs			\$0.442m		
Strategic Initiatives excl. regulatory costs	\$3.118m	\$4.228m	\$1.523m	\$3.673m	\$2.956m
<b>Strategic Initiatives excl. regulatory costs (\$FY25)</b>	<b>\$3.309m</b>	<b>\$4.329m</b>	<b>\$1.523m</b>	<b>\$3.819m</b>	<b>\$3.054m</b>

### Trend

We have applied the revised efficiency target discussed in Section 4.4.2 to this cost pool. In addition, as noted above, we have removed TasWater’s proposed one-off cost escalation (67%) for FY26 because we consider any increase of this nature to be a base rather than a trend change.

### Step

TasWater has not proposed any step changes for Strategic Initiatives.

As noted above, TasWater has not provided a list of strategic initiative projects for PSP5 in the supporting paper and RFIs relating to this cost pool. However, we note that the Non-Revenue Water

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<sup>57</sup> Source: RFI45. TasWater listed ‘safety and leadership capability, to drive cultural improvement; operational essentials program to drive inefficiencies, inconsistent performance and workforce disengagement; Continued investment in non-revenue water programs.’

program, discussed in Section 4.5.2, is funded as a strategic initiative. Consistent with our assessment that much of the spending on this program was not prudent and efficient, we considered a step change reduction. However, given our approach to determining the base year expenditure we did not think this was necessary.

We also note that TasWater has proposed, in response to a Community Advisory Panel recommendation, a 10,000 digital meter pilot in PSP5, 'to inform the most cost-effective way to roll-out digital metering to the remainder of the meter fleet.' We assume the trial would be funded out of the Strategic Initiative cost pool. However, we do not expect that such a trial is a prudent initial step to determining a digital metering strategy. Rather given the likely cost, we expect an initial desktop analysis would be informative as to the likely cost and benefits. However, we have not made a step adjustment, as our approach to determining the prudent and efficient spend is based on historical estimate.

### 4.6.11 Motor Vehicles

The Motor Vehicles cost pool includes all TasWater's opex associated with its motor vehicles, including fuel (which is approximately 50 per cent of this category), insurance, fleet maintenance, registration, fleet management and fleet hire. TasWater operates a range of vehicles including cars, utility vehicles, heavy vehicles, trailers, watercraft and mobile generators.

TasWater has proposed using the FY25 budget of \$4.19 million for the base year expenditure and has made no specific trend and step adjustments.

In reviewing TasWater's forecasts we note that crude oil prices, which are a major determinant of fuel prices, in November 2025 are approximately 12 per cent lower than in November 2024, which is the middle of the base year. Some forecasters, including the International Energy Agency, are also forecasting oil 'gluts' and hence even lower oil prices over the next 12 months.<sup>58</sup> We therefore considered whether a downward reduction in either the trend, or the application of a (negative) step change, might be reasonable.

However, we are conscious of the difficulty of forecasting oil prices, particularly in the medium term, and note that despite crude oil prices in FY25 being lower than the preceding few years, this did not necessarily translate into lower average diesel prices in Tasmania. We therefore consider that a CPI-based forecast is reasonable.

In summary, to establish the prudent and efficient level of expenditure, we have adjusted TasWater's proposal by:

- changing the base. We have:
  - used FY25 actuals as the base year, rather than the FY25 budget (as discussed in section 4.3)

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<sup>58</sup> See: [Oil Market Report - August 2025 – Analysis - IEA](#)

- made a one-off upwards adjustment of \$147,092 based on TasWater receiving a one-off fuel rebate in FY25.<sup>59</sup> This adjustment had been proposed by TasWater when considering whether to use the actual expenditure.
- used our revisions to the ABC model to provide for an allocation to regulated services
  - changing the trend by applying the revised efficiency target discussed in Section 4.4.2.

Table 38: Cost pool summary – Motor vehicles

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							
Base + trend	\$4.19m	\$4.30m	\$4.39m	\$4.49m	\$4.59m	\$4.69m	\$18.15m
<b>Sapere adjustment</b>							
Base + trend	-\$0.55m	-\$0.58m	-\$0.61m	-\$0.64m	-\$0.68m	-\$0.71m	-\$2.65m
<b>Total</b>	<b>\$3.64m</b>	<b>\$3.72m</b>	<b>\$3.78m</b>	<b>\$3.84m</b>	<b>\$3.91m</b>	<b>\$3.97m</b>	<b>\$15.50m</b>

## 4.6.12 Royalties

The Royalties cost pool includes costs relating to the extraction of water from Tasmanian waterways. Fees are paid to the Tasmanian Government and based on a formula that generally provides for fees to be increased by the Hobart CPI each year.

As with other cost pools, TasWater has used the FY25 budget – not actuals – as the base year opex. Of note, Royalties opex, is classed by TasWater as non-controllable expenditure and consequently TasWater does not apply a productivity adjustment to the cost pool. Rather, Royalties opex is simply increased by the CPI. Furthermore, Royalties opex is fully allocated to regulated services.

We are satisfied with TasWater’s general approach to forecasting this cost pool. To establish the prudent and efficient level of expenditure, we have only adjusted TasWater’s proposal to the extent of using the FY25 actuals as the base year, rather than the FY25 budget (as discussed in section 4.3). The results are summarised in the table below.

Table 39: Cost pool summary – Royalties

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							

<sup>59</sup> TasWater stated. “During FY25 we received a fuel rebate from the ATO for the period May 2020 to May 2024, following a review of claimable diesel usage. As a result, our FY25 actuals were lower by this amount. This was made possible by the implementation of our in-vehicle management systems, which improved tracking and compliance. This rebate amount was a one off, therefore the adjustments was made to the revised PSP5 FY25 base year.”

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
Base + trend	\$3.00m	\$3.10m	\$3.18m	\$3.27m	\$3.36m	\$3.45m	\$13.25m
<b>Sapere adjustment</b>							
Base + trend	-\$0.10m	-\$0.10m	-\$0.11m	-\$0.11m	-\$0.11m	-\$0.12m	-\$0.45m
<b>Total</b>	<b>\$2.90m</b>	<b>\$2.99m</b>	<b>\$3.07m</b>	<b>\$3.16m</b>	<b>\$3.24m</b>	<b>\$3.33m</b>	<b>\$12.80m</b>

## 4.6.13 Customer Collection

### 4.6.13.1 Summary

The customer collection cost pool includes costs associated with printing and posting invoices, receipting and other billing fees and debt collection costs. Note: TasWater allocate the debt-written-off to the 'Administration and other' cost pool.

TasWater has proposed a base year opex of \$324 million based on the FY25 budget and its proposed ABC modelling. It applied its standard trend adjustments to account for growth, cost-escalation and efficiency improvements. TasWater has proposed two step changes for this cost pool related to a hardship program and a water smart program.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater's proposal by:

- changing the base. As discussed in section 4.3, we have:
  - used FY25 actuals as the base year, rather than the FY25 budget
  - used our revisions to the ABC model to determine the allocation to regulated services
- changing the trend by applying the revised efficiency target discussed in Section 4.4.2
- changing the step adjustments by removing the amount allocated to the water smart program.

The results are summarised in the table below.

Table 40: Cost pool summary – Customer Collection

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							
Base + trend	\$3.24m	\$3.32m	\$3.40m	\$3.47m	\$3.55m	\$3.63m	<b>\$14.04m</b>
Step		-	\$0.71m	\$0.71m	\$0.71m	\$0.71m	<b>\$2.84m</b>
<b>Sub Total</b>	<b>\$3.24m</b>	<b>\$3.32m</b>	<b>\$4.11m</b>	<b>\$4.18m</b>	<b>\$4.26m</b>	<b>\$4.34m</b>	<b>\$16.88m</b>
<b>Sapere adjustment</b>							

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
Base + trend	-\$0.22m	-\$0.24m	-\$0.26m	-\$0.29m	-\$0.31m	-\$0.33m	<b>-\$1.19m</b>
Step	-	-	-\$0.10m	-\$0.10m	-\$0.10m	-\$0.10m	<b>-\$0.40m</b>
<b>Total</b>	<b>\$3.02m</b>	<b>\$3.08m</b>	<b>\$3.74m</b>	<b>\$3.79m</b>	<b>\$3.85m</b>	<b>\$3.90m</b>	<b>\$15.29m</b>

#### 4.6.13.2 Discussion and analysis

##### The Customer collection / Hardship program

Currently, TasWater run a hardship program that includes a range of supports include provision of information, access to payment plans, payment plan incentives and direct support for victims of family and domestic violence.

TasWater has noted several limitations and inefficiencies with the current program and argued that the program falls behind best practice elsewhere. To address the concerns, TasWater is proposing a step change of additional \$610,000 per year to invest in hardship support. The proposed increase in investment includes additional annual costs of

- \$500,000 toward incentives to encourage consistent repayment
- \$50,000 to enable statewide in-person customer visits and specialised case management for customers disclosing family or domestic violence
- \$50,000 for enhanced program marketing
- \$10,000 for travel and accommodation and material costs.

TasWater argue that these activities can result in benefits that include:

- reducing the aged residential debt
- reducing other operational costs and risks associated with enforcement, payment compliance and operating risk
- sustained social licence.

In support of the programme, TasWater also argues that there are growing levels of financial hardship in the community and that the PSP5 community engagement process identified “support for vulnerable customers” as a community priority. It has also argued that the program would provide a strong return on investment. It argued for the \$0.61 million annual investment would reduce the debt pool, currently estimated at \$2.8 million, by 60 per cent (i.e. ~\$1.68m).

##### Our assessment

We have some concerns with the analysis undertaken by TasWater to support the program. The debt pool reduction is a one-off reduction. The potential annual financial benefit is the reduction in the annual debt written off (and a reduction in debt collection costs). TasWater has assumed the debt written in FY25 to be \$0.379 million and assuming a 60 per cent reduction, the annual benefit would also be around \$0.2 million. Furthermore, if the debt relief incentive payments provide TasWater a good financial return on investment then TasWater could self-finance the payments without the need for an additional operating expense.

Nevertheless, based on the documentation provided, we agree that TasWater's existing hardship program has several limitations and appears weak relative to good practices elsewhere. We are also cognisant of affordability issues are likely to worsen due to increasing utility (water and energy) bills and consequently, we expect the number of people experience hardship to worsen over PSP5.

We are also mindful that most of the proposed expenditure is for incentive payments, which ultimately represent a wealth transfer to TasWater customers suffering from hardship.

In conclusion, we consider that TasWater's proposed investment in its hardship program is prudent and efficient expenditure.

### **Water smart program**

TasWater is seeking an additional \$400 000 over four years to invest in a water smart program aimed at helping customers reduce water consumption. The program includes expenditure on research (including a pilot study) and distribution of water efficient devices.

In our opinion, Tas Water has not demonstrated the program will be of net benefit to customers.

Such programs can add value to where customers lack sufficient incentives to save water or where the water utility have some advantage (e.g. economies of scale in sourcing) in supporting water conservation. However, TasWater has not made a case for why the program would add value; rather, it appears the program would be inefficient – a net cost to TasWater customers.

A key issue is the customers' existing incentives – determined by the usage price – to save water and how this compares to the value of conserving water, which is determined by the cost of additional supply or the social cost of not being able to supply (restrictions). If the usage price is greater than the value of conserving water, then additional water conservation will be at cost that is ultimately borne by customers or the council shareholders.

We understand that TasWater has not yet undertaken the research on the value of conserving water by system. Furthermore, it appears likely that the current usage price is greater than the value of conserving water for a substantial population. We understand that Greater Hobart is unlikely to experience water shortages for another 15 years and thus the value of conserving water in Hobart may be very low approximating the short-run cost of water. In such case, encouraging additional water conservation will reduce TasWater's revenue by more than it reduces TasWater's cost. An increase in the usage price as proposed by TasWater accentuates the issue.

In summary, we do not consider the water smart program is prudent and recommend that TasWater undertake research on the value of conserving water before spending more on promoting water conservation.

## **4.6.14 Regulatory**

### **4.6.14.1 Summary**

The Regulatory cost pool includes costs relating to:

- the operating licence fee: a licence fee payable to OTTER and technical regulator
- treatment plant licences: the fee payable to operate water and wastewater treatment plants.

- costs related to regulatory inquiries and price investigations (i.e. the PSP), including costs
  - incurred by OTTER and recovered from TasWater for conducting inquiries and the price investigation
  - directly incurred by TasWater (e.g. consulting support, customer engagement) in preparing the PSP and regulatory submissions, as well as costs incurred in responding to decisions.

Only the costs in last sub-bullet point are within the control of TasWater. Of note, many of the costs, particularly those relating to preparing the PSP submission vary greatly over PSP period.

TasWater has used the FY25 budget as the base year and, consistent with its ABC, allocated all regulatory costs to regulated services. There is no growth or productivity trend applied, but TasWater has applied its standard cost-escalation.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater’s proposal by:

- changing the base. As discussed in section 4.3, we have:
  - used FY25 actuals as the base year, rather than the FY25 budget
  - used our revisions to the ABC model to determine the allocation to regulated services
- making adjustments to TasWater’s proposed step changes (discussed in subsections below).

The results are summarised in the table below.

Table 41: Cost pool summary – Regulatory

	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total PSP5</b>
<b>TasWater proposal</b>							
Base + trend	\$3.20m	\$3.30m	\$3.39m	\$3.48m	\$3.58m	\$3.68m	\$14.13m
Step	-	\$1.73m	\$0.63m	\$0.88m	\$1.63m	\$1.73m	\$4.87m
<b>Sub Total</b>	<b>\$3.20m</b>	<b>\$5.03m</b>	<b>\$4.02m</b>	<b>\$4.36m</b>	<b>\$5.21m</b>	<b>\$5.41m</b>	<b>\$19.00m</b>
<b>Sapere adjustment</b>							
Base + trend	-\$0.56m	-\$0.58m	-\$0.59m	-\$0.61m	-\$0.63m	-\$0.64m	<b>-\$2.47m</b>
Step	-	\$0.13m	\$0.17m	-\$0.02m	-\$0.05m	\$0.13m	<b>\$0.24m</b>
<b>Total</b>	<b>\$2.64m</b>	<b>\$4.59m</b>	<b>\$3.60m</b>	<b>\$3.74m</b>	<b>\$4.54m</b>	<b>\$4.90m</b>	<b>\$16.77m</b>

#### 4.6.14.2 Discussion and analysis

There are a few important features of the Regulatory cost pool and how costs have been recorded that make it challenging to assess.

While some regulatory costs will be relatively consistent across years (for example treatment plant licence fees) other costs are somewhat ‘lumpy’ as the four-year regulatory cycle means that expenditure is higher in the two years prior to a regulatory decision than the two years following the

decision. Another issue is that some of the TasWater’s regulatory expenditure has been captured in the Strategic Initiatives cost pool during PSP4.

The following table shows TasWater’s regulatory expenditure across PSP4.

Table 42: Regulatory – Historical opex

	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	<b>FY23-FY25</b>
<b>From Regulatory cost pool</b>				
3420 Regulatory Costs/Operating Licence	\$2.193m	\$2.144m	\$2.177m	<b>\$6.514m</b>
3970 Treatment Plant Licences	\$0.664m	\$0.658m	\$0.761m	<b>\$2.083m</b>
Regulatory Price Investigations		\$0.414m	-	<b>\$0.414m</b>
<b>Total regulatory cost pool</b>	<b>\$2.857m</b>	<b>\$3.216m</b>	<b>\$2.938m</b>	<b>\$9.012m</b>
<b>From Strategic Initiatives and other cost pools</b>				
OTTER recovery costs			\$0.442m	<b>\$0.442m</b>
PSP4 Investigation support	\$0.180m	\$0.042m		<b>\$0.222m</b>
PSP5 Support program - customer engagement		\$0.263m	\$0.323m	<b>\$0.586m</b>
PSP5 Support program		\$0.187m	\$1.032m	<b>\$1.219m</b>
<b>Subtotal from other cost pools</b>	<b>\$0.180m</b>	<b>\$0.492m</b>	<b>\$1.797m</b>	<b>\$2.469m</b>
<b>Total</b>	<b>\$3.037m</b>	<b>\$3.708m</b>	<b>\$4.735m</b>	<b>\$11.480m</b>

### Base and trend

TasWater has proposed using its FY25 budget of \$3.20 million as its base year opex for the Regulatory cost pool. This amount is \$0.26 million greater than its FY actual opex. In support of the higher amount TasWater argued that a base year upward adjustment of \$170,000 was warranted because the price investigation budget for this amount was funded through the Strategic Initiative cost pool.

We have used the FY25 actuals (\$2.938 million) as the base and applied our adjustments discussed in Section 4.3.1.2 to allocate some opex to unregulated services. We agree that adjustment is required for the additional costs not captured in the cost pool<sup>60</sup> but have applied these as a step adjustment to be consistent with the other step adjustments TasWater has proposed.

We apply the standard cost-escalation, but consistent with TasWater’s approach have not made trend adjustments for growth and productivity.

### Step

As reflected in Table 42 above, the FY25 actuals for the Regulatory cost pool does not include any costs for the costs related to regulatory inquiries and price investigations - these have been captured

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<sup>60</sup> We considered applying an offsetting downward adjustment to the Strategic Initiatives category cost pool; however, as discussed in the Strategic Initiatives section, we opted for an alternative method to estimate the base year expenditure.

in the Strategic Initiatives cost pool and we have removed them in our assessment of the Strategic Initiatives costs. Consequently, some adjustments are necessary to cover this expenditure.

TasWater has proposed four step changes. These are summarised in the table below along with our adjustments. Our rationale is described below the table.

Table 43: TasWater's proposed Regulatory step changes

	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total PSP5</b>
<b>TasWater proposal</b>						
OTTER recovery costs	\$0.38m	\$0.38m	\$0.38m	\$0.38m	\$0.38m	<b>\$1.52m</b>
PSP investigation costs	\$1.00m	\$0.20m	-	-	\$1.00m	<b>\$1.20m</b>
Pricing and service plan support	\$0.30m	\$0.05m	\$0.25m	\$0.96m	\$0.30m	<b>\$1.56m</b>
PSP6 customer engagement	\$0.05m	-	\$0.25m	\$0.29m	\$0.05m	<b>\$0.59m</b>
<b>Total proposed step changes</b>	<b>\$1.73m</b>	<b>\$0.63m</b>	<b>\$0.88m</b>	<b>\$1.63m</b>	<b>\$1.73m</b>	<b>\$4.87m</b>
<b>Sapere adjustments</b>						
OTTER recovery costs	n/a	\$0.17m	\$0.17m	\$0.17m	\$0.17m	<b>\$0.68m</b>
PSP investigation costs	n/a	-	-	-	-	-
Pricing and service plan support	n/a	-	-	-	-	-
PSP6 customer engagement	n/a	-	-\$0.19m	-\$0.22m	-\$0.04m	<b>-\$0.44m</b>
<b>Subtotal</b>		<b>\$0.17m</b>	<b>-\$0.02m</b>	<b>-\$0.05m</b>	<b>\$0.13m</b>	<b>\$0.24m</b>
<b>Total</b>		<b>\$0.80m</b>	<b>\$0.86m</b>	<b>\$1.58m</b>	<b>\$1.86m</b>	<b>\$5.11m</b>

#### OTTER recovery costs

This cost category relates to costs on-charged by OTTER to TasWater associated with ongoing expenditure by OTTER on inquiries and other regulatory matters. It excludes costs directly related to the PSP4 and PSP5 investigations.

For this cost category, TasWater had argued for \$0.17 million to be included in the base and additional \$0.38 million per year step on the basis that the base year budget of \$0.17 million has not been sufficient 'with the amount of time OTTER has required to spend on the PSP4 inquiries.'

Following discussions with OTTER, we consider this is a reasonable estimate and included \$0.55 million (i.e. \$0.17m + \$0.38m) as an annual step adjustment.

#### PSP investigation costs

These are costs on-charged by OTTER to TasWater directly associated with PSP investigations. It includes the costs of OTTER's staff as well as consultants engaged to undertake the PSP reviews.

TasWater has justified the step change increase in Pricing and service plan support as follows.

*There are spikes in TasWater's regulatory costs resulting from the Price and Service Plan investigations. The investigations are scheduled to occur in FY2025-26 and FY2029-30 and are estimated to cost approximately \$1.2 million each based on past investigations.*

Following discussions with OTTER, consider this is a reasonable estimate.

#### Pricing and service plan support

This cost category relates to the costs of external subject matter experts engaged by TasWater to provide guidance and assistance in the preparation of PSP5.

TasWater has justified the step change increase in Pricing and service plan support as follows.

*During the PSP5 period, TasWater will be required to develop the PSP6 submission. As seen in during the PSP4 period, to develop the PSP5 submission, an increase in external support has been required. This external support is expected to continue during the PSP5 period.*

We agree this expenditure is prudent and agree this is a reasonable estimate of the efficient expenditure. In making this assessment, we note that the proposed amounts over FY27-FY29 are similar to that expended over FY23-FY25 (see Table 42 above).

#### PSP6 Customer engagement

These are the external costs (paid to consultants etc) incurred by TasWater in engaging with customers as part of the PSP process.

As shown in the table above TasWater has proposed \$0.59 million expenditure in PSP5 for PSP6 customer engagement. TasWater has justified this on the basis that the 'investment is deemed appropriate in the context of the total [customer engagement] costs associated with the PSP5 Proposal development.' which it noted were \$621,800.<sup>61</sup>

While we agree that some expenditure on customer engagement is prudent, in our opinion the proposed level of change in expenditure on engagement has not been justified. We have two key concerns.

First, as discussed in Section 4.2.3, we are concerned that much of the current engagement has not been meaningful and focussed, with the result that the engagement was of little value in guiding TasWater decisions.

Second, TasWater has not identified the need for, or nature of, the engagement in anything but very broad terms. We would expect that an efficient utility would develop a customer engagement plan that describes: the information it needs to obtain from customers to inform decisions; the needs in term of stakeholder engagement; and the reasons and issues for why a consumer panel may be of net benefit.

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<sup>61</sup> Att. F.15 - PSP5 OPEX Justification – Regulatory

In describing information needs, we expect an efficient utility would describe how the information will be used to inform decision making, what information has already been obtained and what gaps remain. Furthermore, the information to be gathered should be described in terms that are relevant for the customer. For example, rather than ask customers whether it should invest more in fixing leaks, the utility should seek information that is relevant to customers such as the impact of service disruptions, that would be relevant in determining whether to invest more in leak management. In developing an engagement plan the utility should also consider the availability of existing information and the costs and benefits of any further engagement. Information on many matters (e.g. on price elasticity) may be derived from existing literature.

We expect a prudent and efficient utility customer engagement for PSP6 would likely include a survey(s), direct (i.e. one-on-one or small group) engagement with some stakeholders, and use of a consumer challenge panel to critique and provide input on key decisions as appropriate. We expect the external cost of such activities could be light – significantly less than that proposed by TasWater. We therefore suggest a minimum reasonable level of expenditure is around \$150k (i.e. 25% of that proposed by TasWater).

#### 4.6.15 Insurance

Insurance includes the costs of insurance premiums, investigating claims and compensation payouts.

TasWater's forecast for this cost pool incorporates two step changes and the use of a trend that is generally higher than the standard trend it has applied to other cost pools, particularly in later years of PSP5. TasWater considers that the current relative stabilisation in insurance costs is likely to return to a longer-term average increase. It has applied a what it describes as a 'blended escalation rate approach that reflects both recent market trends and long-term inflationary pressures.'

TasWater has proposed two step changes related to:

- the need to insure new capital expenditure (primarily Selfs Point)
- revised asset valuations for insurance purposes, based on a review that determined the valuations were understated by an estimated \$1.4 billion.

In relation to the step changes, we agree that they are prudent. However, in our view a share of these step changes should be allocated to unregulated services as the insured assets are also used to provide unregulated services.

In relation to the trend, our view is that the greater-than CPI cost escalation is not reasonable. While insurance premium rates escalated above CPI for several years before 2023, rates have fallen continuously since, including in the first quarter of FY26.<sup>62</sup> We do not consider that using a long-term average which is above-CPI is a reasonable basis to forecast insurance costs.

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<sup>62</sup> As reported by Marsh, average insurance rates in the Pacific declined for seven consecutive quarters to quarter 3, 2025. Source: <https://www.marsh.com/en-gb/services/international-placement-services/insights/pacific-insurance-rates.html>

We also note that recent pricing proposals including by Hunter Water have just assumed CPI increases.

To establish the prudent and efficient level of expenditure, we have therefore adjusted TasWater's proposal by:

- using FY25 actuals as the base year (rather than the FY25 budget)
- using our revisions to the ABC model to provide for an allocation to regulated services
- adopting TasWater's standard escalation approach rather than using an above-CPI forecast.

A summary is provided in the table below.

Table 44: Cost pool summary – Insurance

	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total PSP5</b>
<b>TasWater proposal</b>							
<i>Cost escalation</i>		3.00%	3.00%	4.00%	4.50%	5.00%	
Base + trend	\$3.18m	\$3.26m	\$3.34m	\$3.46m	\$3.59m	\$3.75m	\$14.15m
Step - Self's point		-	-	\$0.10m	\$0.20m	\$0.20m	\$0.50m
Step – revised asset valuation		\$0.50m	\$0.50m	\$0.50m	\$0.50m	\$0.50m	\$2.00m
<b>Total</b>	<b>\$3.18m</b>	<b>\$3.76m</b>	<b>\$3.84m</b>	<b>\$4.06m</b>	<b>\$4.29m</b>	<b>\$4.45m</b>	<b>\$16.65m</b>
<b>Sapere adjustments</b>							
<i>Revised cost escalation</i>		3.10%	2.72%	2.72%	2.72%	2.72%	
Base + trend	-\$0.23m	-\$0.24m	-\$0.27m	-\$0.34m	-\$0.42m	-\$0.53m	<b>-\$1.56m</b>
Step	-	-\$0.05m	-\$0.05m	-\$0.15m	-\$0.25m	-\$0.25m	<b>-\$0.71m</b>
<b>Revised amount</b>	<b>\$2.96m</b>	<b>\$3.46m</b>	<b>\$3.51m</b>	<b>\$3.57m</b>	<b>\$3.62m</b>	<b>\$3.67m</b>	<b>\$14.37m</b>

#### 4.6.16 Administration and Other

The Administration and other cost pool includes a range of external expenditure including subscriptions and membership fees, telephony, legal fees and banking costs.

For this cost pool TasWater has used FY25 budget with no base year adjustments, made no step changes and applied its standard escalation approach.

We are satisfied that base year spending on this category is an appropriate basis for forward forecasting.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater's proposal by:

- changing the base. As discussed in section 4.3, we have:
  - used FY25 actuals as the base year (rather than the FY25 budget)
  - used our revisions to the ABC model to determine the allocation to regulated services
  - removed the 'Bad and doubtful debt allowance of (\$0.394m in FY25) to this cost pool
- changing the trend. We applied the revised efficiency target discussed in Section 4.4.2.

A summary is provided in the table below.

Table 45: Cost pool summary – Administration and Other

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							
Base + trend	\$4.01m	\$4.11m	\$4.20m	\$4.29m	\$4.38m	\$4.48m	<b>\$17.36m</b>
<b>Sapere adjustment</b>							
Due to bad and doubtful debts	-\$0.39m	-\$0.40m	-\$0.41m	-\$0.41m	-\$0.42m	-\$0.43m	<b>-\$1.67m</b>
Other base + trend adjustment	-\$0.13m	-\$0.15m	-\$0.18m	-\$0.20m	-\$0.23m	-\$0.26m	<b>-\$0.87m</b>
<b>Total</b>	<b>\$3.48m</b>	<b>\$3.55m</b>	<b>\$3.61m</b>	<b>\$3.67m</b>	<b>\$3.74m</b>	<b>\$3.80m</b>	<b>\$14.82m</b>

## 4.6.17 Community Relations

### 4.6.17.1 Summary

The community relations cost pool includes external expenditure on:

- donations and sponsorships. Notably this includes partnerships with the Tasmanian Jack Jumpers and Hobart Hurricanes
- public relations – communications activities focussed on communications with customers, community and other key stakeholders relating to TasWater operations including water literacy, operational matters including service interruptions, customer assistance, digital services, water restrictions and non-residential customers
- events – external engagement events including governance (Annual General Meetings, half yearly reporting), developer, commercial and industrial stakeholder events and other events as needed.

For this cost pool TasWater has used the FY25 budget for regulated services (\$1.66m) with no base year adjustments, made no step changes and applied its standard escalation approach. The expenditure in this Cost Pool is in addition to the internal expenditure on staff (which is captured in the Salaries cost pool).<sup>63</sup>

<sup>63</sup> In FY24, the non-capitalised salaries related expenditure in costs categories for GM Customer and Community Brand and Insights, Communication and Engagement Customer Experience, was around \$3.9m.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater’s proposal by:

- changing the base.
  - used an alternative estimate of the base year expenditure based on expenditure prior to TasWater’s renewed strategic focus on customer engagement (see discussion below)
  - used our revisions to the ABC model to determine the allocation to regulated services (as discussed in section 4.3)
- changing the trend. We applied the revised efficiency target discussed in Section 4.4.2.

The results are provided in the table below.

Table 46: Cost pool summary – Community Relations

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>TasWater proposal</b>							
Base + trend	\$1.66m	\$1.70m	\$1.74m	\$1.78m	\$1.82m	\$1.86m	\$7.19m
<b>Sapere adjustment</b>							
Base + trend	-\$1.04m	-\$1.07m	-\$1.09m	-\$1.12m	-\$1.15m	-\$1.18m	<b>-\$4.54m</b>
<b>Total</b>	<b>\$0.62m</b>	<b>\$0.64m</b>	<b>\$0.65m</b>	<b>\$0.66m</b>	<b>\$0.67m</b>	<b>\$0.68m</b>	<b>\$2.65m</b>

#### 4.6.17.2 Discussion and analysis

##### Base

For PSP5 TasWater has proposed using the FY25 budget (\$1.80m in total expenditure) and applying its ABC allocation model to determine a base year expenditure of \$1.66 million. This budget amount is less than TasWater’s total actual spend of \$2.05 million. However as noted in Section 4.3.2, TasWater recommended a -\$511,399 adjustment to the FY25 actuals because they included a one-off rollout and transfer of water refill station donations to Councils. Consequently, TasWater’s FY25 adjusted total expenditure is around \$0.25 million less than the FY25 budget.

As discussed in Section 3.3.4, the community relations cost pool was the source of one of the largest increases in spending relative to the PSP4 forecast, which TasWater explains was driven by a renewed strategic focus on customer engagement.

The table below provides additional detail on the change in expenditure including the adjustment mentioned applied to the ‘Donations and Sponsorships’ category. The increase in expenditure from FY23 to FY24 & FY25 is largely due to an increase in public relations expenditure from FY24 – the average annual expenditure on public relations increased by \$0.82 million from \$0.48 million (over FY21 to FY23) to \$1.31 million (over FY24 to FY25). The donations and sponsorships average annual expenditure increased by around \$0.05 million over the same periods.

Table 47: Community Relations opex (regulated and unregulated)

	FY21	FY22	FY23	FY24	FY25	FY25 adjusted	FY25 Budget
Donations and sponsorships	\$24,190	\$59,185	\$102,030	\$91,096	\$639,654	\$128,255	\$128,700
Public relations	\$441,518	\$617,108	\$392,129	\$1,290,703	\$1,329,351	\$1,329,351	\$1,463,958
Events				\$168,101	\$80,836	\$80,836	\$209,000
<b>Total</b>	<b>\$465,708</b>	<b>\$676,293</b>	<b>\$494,159</b>	<b>\$1,549,899</b>	<b>\$2,049,842</b>	<b>\$1,538,442</b>	<b>\$1,801,658</b>

Note: FY25 adjusted includes an adjustment of -\$511,399 to 'Donations and sponsorships'. The 'Events' expenditure was not separately recorded prior to FY24.

*Is the base year expenditure warranted?*

TasWater has argued the increased expenditure from that set in PSP4 is consistent with customer expectations. It provided evidence from its engagement activities that TasWater interprets as support for it to 'continue to deepen and expand its engagement with the community'. However, we have significant concerns with the community engagement.

- The decision as to whether to expand its engagement expenditure is a complex topic that does not lend itself to a consumer panel decision.
- It is not sufficient that TasWater finds support from the community for an activity – it is also important that the activity delivers value to customers. For example, expenditure on encouraging water efficiency can have a net cost to the community where the marginal cost of supply is very low.<sup>64</sup> As noted elsewhere in this report, TasWater has not yet estimated the marginal cost of supplying water by system.
- The research conducted on bill impacts, does not appear to meet good practices for assessing customers willingness-to-pay for activities.<sup>65</sup>

There are important reasons for engaging with the community. Water utilities like TasWater need the trust and support of the community to deliver many of their services. For example, stakeholder support is helpful when disruptions are necessary to build new infrastructure.<sup>66</sup> However, TasWater has not provided evidence such reasons have informed its engagement program. It would be useful for TasWater to describe how its program of engagement was expected to deliver intended outcomes.<sup>67</sup>

<sup>64</sup> As part of the context TasWater has noted that Tasmanians have a relatively high level of water consumption, and that Tasmanians score lower on water literacy. However, TasWater has not made the case for why this is an issue. For example, we would expect concerns, over high consumption would begin with an understanding of the additional cost of providing water and how this varies, but TasWater has not done this analysis. Conversely, discouraging customers from using water where the usage price exceeds the cost of water can have the perverse impact of raising the costs that need to be recovered from others.

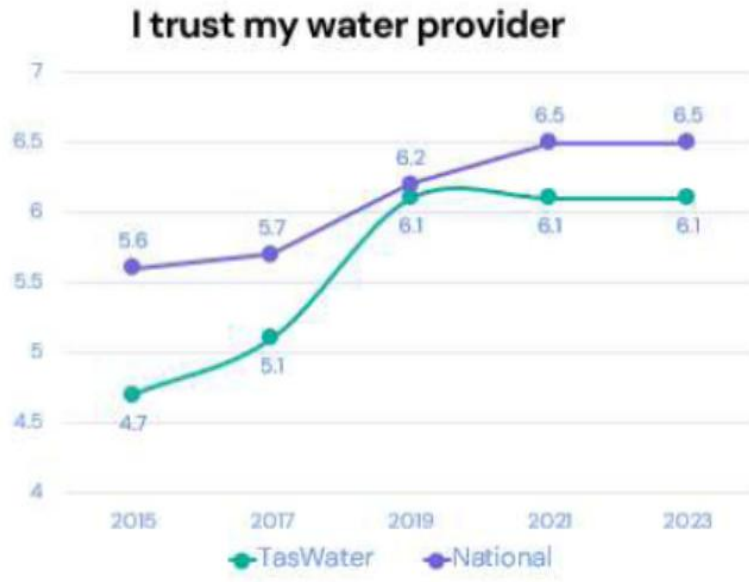
<sup>65</sup> A key issue is that to be meaningful customers should be engaged on outcomes that directly affect them. For a discussion of this and other challenges see Gillespie Economics (2020).

<sup>66</sup> Consult Australia *Valuing Better Engagement: An economic framework to quantify the value of stakeholder engagement for infrastructure delivery*. Accessed 17 Aug 2024 at <https://iap2content.s3-ap-southeast-2.amazonaws.com/marketing/Resources/Reports/Valuing-Better-Engagement-Economic-Framework.pdf>

<sup>67</sup> The outcomes should be meaningful in having financial consequences or direct impacts to consumers (e.g. reduced frequency of restrictions) and where possible be able to be monetised.

Furthermore, evidence provided by TasWater indicated that trust (see Figure 10) in TasWater grew significantly from 2015 to 2019, prior to when TasWater increased its investment in community relations and has not changed significantly since.

Figure 11: Level of trust in TasWater



Source: TasWater presentation

We sought additional information from TasWater on the increase in expenditure. In response TasWater reported that:

*Findings revealed [from 'extensive research into customer preferences'] that the TasWater brand did not meet visual accessibility standards—particularly in digital environments—due to issues with colour contrast, layout, and readability. Addressing these accessibility challenges became a key driver of increased expenditure.*

*TasWater invested \$1.24 million in a brand refresh and community awareness initiatives, including water conservation campaigns. These efforts were aimed at improving the accessibility and effectiveness of our communications and strengthening our connection with the community.*

TasWater provided additional detail on the expenses in FY24 and FY25. These included significant expenditures in PSP5 awareness (\$0.594m), water conservation (\$0.565m) water literacy (\$0.154m), sponsorship (\$0.145m).

In our view, the level of expenditure in FY25 is not indicative of what is required for PSP6 and consequently. In particular:

- There is no longer a need to spend on the brand refresh, which TasWater noted cost \$1.2 million.
- The water conservation activities do not appear warranted given the water price is greater than the marginal cost of supplying water (as discussed in Section 4.5.2). Similarly, it is not clear what is the net benefit of water literacy efforts.

Having considered the above factors, we consider a more accurate estimate of the prudent and efficient expenditure is the level of expenditure prior to TasWater’s change in strategy. Our method to estimate this for each category in the cost pool is provided in the table below. The result is a base year expenditure significantly below TasWater’s proposed expenditure but still significantly above the PSP4 allowance (\$0.191m) in FY25.

Table 48: Community Relations expenditure (regulated and unregulated)

Category	Method	FY25 Base Total	FY25 Base Regulated
Donations and sponsorships	Inflation adjusted average of expenditure from FY21 to FY23	\$68,114	\$60,874
Public relations	Inflation adjusted average of expenditure from FY21 to FY23	\$547,922	\$489,686
Events	Actual expenditure in FY25. Note this expenditure was not separately recorded prior to FY24	\$80,836	\$72,245
<b>Total</b>		<b>\$696,872</b>	<b>\$622,805</b>

#### 4.6.18 Governance

The Governance cost pool includes costs associated with audit fees (external and internal), some consultancy and Board expenses. The expenditure has been reasonably stable growing at CAGR of 3.4 per cent over the past 4 years.

As with other cost pools, TasWater has used the FY25 budget for the base year. For this cost pool TasWater has proposed no base year adjustments, no step changes and applied its standard escalation approach.

We are satisfied that base year spending on this category is an appropriate basis for forward forecasting.

To establish the prudent and efficient level of expenditure, we have adjusted TasWater’s proposal by:

- changing the base. As discussed in section 4.3. We have:
  - used FY25 actuals as the base year, rather than the FY25 budget
  - used our revisions to the ABC model to determine the allocation to regulated services
- changing the trend by applying the revised efficiency target discussed in Section 4.4.2

The results are in the table below.

Table 49: Cost pool summary – Governance

	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Total PSP5</b>
<b>TasWater proposal</b>							
Base + trend	\$1.30m	\$1.34m	\$1.36m	\$1.39m	\$1.42m	\$1.46m	<b>\$5.64m</b>
<b>Sapere adjustment</b>							
Base + trend	-\$0.13m	-\$0.14m	-\$0.14m	-\$0.15m	-\$0.16m	-\$0.17m	<b>-\$0.64m</b>
<b>Total</b>	<b>\$1.18m</b>	<b>\$1.20m</b>	<b>\$1.22m</b>	<b>\$1.24m</b>	<b>\$1.26m</b>	<b>\$1.28m</b>	<b>\$5.00m</b>

## 4.7 Summary

As summary of how we have adjusted TasWater’s proposal to develop an estimate of the prudent and efficient expenditure is provided in Table 50 below. As shown in the table we have assessed a reduction in TasWater’s proposal of \$115.6 million (10.4%). This includes adjustments associated with the base (\$53.8m), Trend (\$48.5m) and step (\$13.2m). It is important to note this TasWater opex also covers the costs of providing for the unregulated customers classified as ‘Other Section 61 Contracts’ (Waysiders and Pressure Sewer Scheme Customers) as noted in Section 2.3.3.

As detailed in Table 51, \$27.0 million (23%) of the adjustment relate to modifications (the treatment of connections and doubtful debt) that are revenue neutral in terms of the impact to TasWater.

Table 50: Summary of adjustments to TasWater’s proposal

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5	% of TasWater Proposal
<b>TasWater proposal</b>								
Base	\$236.3m	\$236.3m	\$236.3m	\$236.3m	\$236.3m	\$236.3m	<b>\$945.1m</b>	85.1%
Trend	-	\$11.8m	\$18.7m	\$25.7m	\$33.8m	\$41.6m	<b>\$119.8m</b>	10.8%
Step	-	\$4.6m	\$11.9m	\$10.0m	\$11.0m	\$12.4m	<b>\$45.3m</b>	4.1%
<b>Total</b>	<b>\$236.3m</b>	<b>\$252.7m</b>	<b>\$266.9m</b>	<b>\$272.0m</b>	<b>\$281.0m</b>	<b>\$290.3m</b>	<b>\$1,110.2m</b>	100%
<b>Sapere adjustment</b>								
Base	-\$13.5m	-\$13.5m	-\$13.5m	-\$13.5m	-\$13.5m	-\$13.5m	<b>-\$53.8m</b>	-4.8%
Trend	-	-\$4.7m	-\$7.5m	-\$10.5m	-\$13.6m	-\$16.9m	<b>-\$48.5m</b>	-4.4%
Step	-	\$0.0m	-\$4.2m	-\$2.9m	-\$2.6m	-\$3.5m	<b>-\$13.2m</b>	-1.2%
<b>Subtotal</b>	<b>-\$13.5m</b>	<b>-\$18.2m</b>	<b>-\$25.2m</b>	<b>-\$26.8m</b>	<b>-\$29.7m</b>	<b>-\$33.8m</b>	<b>-\$115.6m</b>	-10.4%
<b>Total</b>	<b>\$222.8m</b>	<b>\$234.5m</b>	<b>\$241.6m</b>	<b>\$245.2m</b>	<b>\$251.3m</b>	<b>\$256.4m</b>	<b>\$994.6m</b>	<b>89.6%</b>

Table 51: Summary of changes net of revenue neutral adjustments

	FY25	FY26	FY27	FY28	FY29	FY30	Total PSP5
<b>Total adjustments</b>	<b>-\$13.5m</b>	<b>-\$18.2m</b>	<b>-\$25.2m</b>	<b>-\$26.8m</b>	<b>-\$29.7m</b>	<b>-\$33.8m</b>	<b>-\$115.6m</b>
<b>Revenue-neutral adjustments</b>	<b>-\$6.3m</b>	<b>-\$6.5m</b>	<b>-\$6.6m</b>	<b>-\$6.7m</b>	<b>-\$6.8m</b>	<b>-\$6.9m</b>	<b>-\$27.0m</b>
<i>Connections</i>	<i>-\$5.9m</i>	<i>-\$6.1m</i>	<i>-\$6.2m</i>	<i>-\$6.3m</i>	<i>-\$6.4m</i>	<i>-\$6.5m</i>	<b>-\$25.3m</b>
<i>Doubtful debt</i>	<i>-\$0.4m</i>	<i>-\$0.4m</i>	<i>-\$0.4m</i>	<i>-\$0.4m</i>	<i>-\$0.4m</i>	<i>-\$0.4m</i>	<b>-\$1.7m</b>
<b>Other adjustments</b>	<b>-\$7.1m</b>	<b>-\$11.7m</b>	<b>-\$18.6m</b>	<b>-\$20.1m</b>	<b>-\$22.9m</b>	<b>-\$26.9m</b>	<b>-\$88.6m</b>

A break down the adjustments by cost pool is provided in Table 52.

Table 52: Summary of adjustments by cost pool

	TasWater proposal				Sapere adjustment				Revised amount
	Base	Trend	Step	Total	Base	Trend	Step	Total	
Salaries	460.0	71.4	0.0	<b>531.4</b>	-12.8	-28.1	0.0	<b>-40.9</b>	<b>490.6</b>
Materials & Services*	155.1	12.9	4.0	<b>172.0</b>	-24.2	-4.5	-0.8	<b>-29.5</b>	<b>142.6</b>
Chemicals	40.1	3.3	2.0	<b>45.5</b>	1.1	-0.7	-0.2	<b>0.2</b>	<b>45.7</b>
Power	50.7	3.1	4.4	<b>58.2</b>	0.3	-1.1	0.7	<b>0.0</b>	<b>58.1</b>
Royalties	12.0	1.2	0.0	<b>13.2</b>	-0.4	0.0	0.0	<b>-0.4</b>	<b>12.8</b>
Facility Management	38.2	3.2	0.0	<b>41.4</b>	0.4	-0.7	0.0	<b>-0.3</b>	<b>41.1</b>
Information Systems	45.9	3.8	24.6	<b>74.3</b>	-4.0	-1.1	-12.6	<b>-17.7</b>	<b>56.6</b>
Administration & Other*	16.0	1.3	0.0	<b>17.4</b>	-2.1	-0.4	0.0	<b>-2.5</b>	<b>14.8</b>
Motor Vehicles	16.8	1.4	0.0	<b>18.1</b>	-2.2	-0.5	0.0	<b>-2.6</b>	<b>15.5</b>
Water Sampling	15.6	1.3	0.0	<b>16.9</b>	-0.2	-0.3	0.0	<b>-0.5</b>	<b>16.5</b>
Consultancy	31.8	2.6	0.0	<b>34.4</b>	-4.0	-0.9	0.0	<b>-4.9</b>	<b>29.6</b>
Regulator Costs	12.8	1.3	4.9	<b>19.0</b>	-2.2	-0.2	0.2	<b>-2.2</b>	<b>16.8</b>
Customer Collection	13.0	1.1	2.8	<b>16.9</b>	-0.9	-0.3	-0.4	<b>-1.6</b>	<b>15.3</b>
Insurance	12.7	1.4	2.5	<b>16.6</b>	-0.9	-0.7	-0.3	<b>-1.8</b>	<b>14.8</b>
Governance	5.2	0.4	0.0	<b>5.6</b>	-0.5	-0.1	0.0	<b>-0.6</b>	<b>5.0</b>
Community Relations	6.6	0.6	0.0	<b>7.2</b>	-4.1	-0.4	0.0	<b>-4.5</b>	<b>2.6</b>
Strategic Initiatives	12.4	9.5	0.0	<b>21.9</b>	2.8	-8.5	0.0	<b>-5.6</b>	<b>16.2</b>
<b>Total</b>	<b>945.1</b>	<b>119.8</b>	<b>45.3</b>	<b>1110.2</b>	<b>-53.8</b>	<b>-48.5</b>	<b>-13.2</b>	<b>-115.6</b>	<b>994.6</b>

Note: \* Materials & Services and Administration & Other include the adjustments related to connections and bad debts which do not affect TasWater revenue.

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