

SUMMARY OF THE ECONOMIC REGULATOR'S DECISIONS

The Economic Regulator's Final Price Determination binds TasWater to the decisions contained in this Final Report and in the Economic Regulator's Determination. In particular, TasWater is required to apply the approved prices and service standards associated with its provision of regulated water and sewerage services during the third regulatory period.

Chapter 2 - Customer and stakeholder consultation

The Economic Regulator makes the following decision in relation to customer and stakeholder consultation.

Decision	Section
The Economic Regulator <u>concludes</u> that TasWater has fulfilled the customer and stakeholder consultation requirements outlined in the Economic Regulator's Water and Sewerage Price and Service Plan Guideline.	2.6

Chapter 3 - Regulatory compliance improvement

The Economic Regulator makes the following decisions in relation to regulatory compliance improvement.

Decision	Section
The Economic Regulator <u>intends to require</u> TasWater, during the third regulatory period, to more clearly set out its long term plans to achieve compliance and operational efficiencies to avoid investing in redundant or stranded assets.	3.6
The Economic Regulator <u>will amend</u> the <i>Tasmanian Water and Sewerage Industry Performance and Information Reporting Guideline</i> (November 2016) to <u>require</u> TasWater to report annually against the key customer outcomes identified in its final Price and Service Plan for the third regulatory period.	
The Economic Regulator <u>will also direct</u> TasWater, under Clause 5.1 of the licence issued under the Water and Sewerage Industry Act, to report on the status of scheduled and completed capital projects on a quarterly basis commencing from 1 July 2018 (first report to relate to the period 1 July 2018 to 30 September 2018 inclusive).	
TasWater is <u>required</u> to provide a copy of the updated wastewater management plan for the period 1 July 2018 to 30 June 2021, as agreed with the EPA, to the Economic Regulator by no later than 14 July 2018.	3.6
TasWater is also <u>required</u> to provide a copy of the updated Memorandum of Understanding on Public Wastewater Management, as agreed with the EPA, to the Economic Regulator by no later than 21 January 2020.	

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

Chapter 4 - Customer service standards, customer contract and policies

The Economic Regulator makes the following decisions in relation to customer service standards, customer contract and policies.

Decision	Section
The Economic Regulator:	4.4
<ul style="list-style-type: none"> ▪ <u>approves</u> the proposed minimum service standards as outlined in Table 4.1 for application by TasWater for each year of the third regulatory period; and ▪ <u>approves</u> the service standard targets for each minimum service standard as outlined in Table 4.1, subject to the amendment of out-year targets for the “Percentage of unplanned water supply interruptions restored within 5 hours” metric from 90 per cent to 94 per cent, and the amendment of the 2018-19 target for “Percentage of response times within 60 minutes to attend sewer spills, breaks and chokes” metric from 80 per cent to 85 per cent; and ▪ <u>will implement</u> the newly approved minimum service standards by way of the Customer Service Code change process (for a 1 July 2018 commencement). 	Customer service standards
The Economic Regulator <u>approves</u> the ‘Customer Contract’, as provided at Appendix 2 to this Final Report, for submission as part of TasWater’s final Price and Service Plan.	4.7 Customer contract
The Economic Regulator <u>approves</u> the ‘Trade Waste Policy’, as provided at Appendix 3 to this Final Report, for submission as part of TasWater’s final Price and Service Plan. The Economic Regulator also <u>requires</u> TasWater to explain and justify the addition of a ‘Tankered Trade Waste’ section, and the removal of the ‘Customer Self-Assessment’, ‘Developer Charges’ and ‘Cancellation and Suspension’ sections from its trade waste policy in its final Price and Service Plan.	4.8 Trade waste policy
The Economic Regulator <u>approves</u> TasWater’s retention of the current arrangements for developer charges associated with works internal and works external. The Economic Regulator <u>approves</u> TasWater’s retention of the current arrangements for developer charges.	4.9.1 Developer charges policy
The Economic Regulator <u>approves</u> the ‘Land Development Policies’ document, as provided at Appendix 4 to this Final Report, for submission as part of TasWater’s final Price and Service Plan.	4.9.2 Service extension and expansion policy

Decision	Section
<p>The Economic Regulator also <u>requires</u> TasWater to ensure that its final Price and Service Plan is updated to reflect the correct Development Fees as documented under section 5 of the attached 'Land Development Policies' document.</p>	
<p>The Economic Regulator <u>approves</u> the 'Connection Policy', as included in TasWater's 'Water and Sewerage Network and Charges Policies' document provided at Appendix 5 to this Final Report, for submission as part of TasWater's final Price and Service Plan.</p> <p>The Economic Regulator also <u>requires</u> TasWater to explain and justify, in its final Price and Service Plan, the differences between its current connection policy (approved for the second regulatory period) and the connection policy TasWater is proposing for the third regulatory period.</p>	<p>4.10.1 Connection policy</p>
<p>The Economic Regulator <u>approves</u> the 'Sub-metering policy', as included in TasWater's 'Water and Sewerage Network and Charges Policies' document provided at Appendix 5 to this Final Report, for submission as part of TasWater's final Price and Service Plan.</p>	<p>4.10.2 Sub-metering policy</p>
<p>The Economic Regulator <u>approves</u> TasWater's continued application of service charges on vacant land within TasWater's serviced land boundaries.</p> <p>The Economic Regulator <u>approves</u> that the service charge for water continues to be equal to the fixed water charge for 20mm connections.</p> <p>The Economic Regulator <u>approves</u> that the service charge for sewerage continues to be 60 per cent of one ET fixed sewerage charge.</p> <p>The Economic Regulator <u>approves</u> the 'Service Charges Policy', as included in TasWater's 'Water and Sewerage Network and Charges Policies' document provided at Appendix 5 to this Final Report, for submission as part of TasWater's final Price and Service Plan.</p>	<p>4.10.3 Service charges policy</p>
<p>The Economic Regulator <u>approves</u> the 'Service Introduction Charges Policy', as included in TasWater's 'Water and Sewerage Network and Charges Policies' document provided at Appendix 5 to this Final Report, for submission as part of TasWater's final Price and Service Plan.</p> <p>The Economic Regulator <u>requires</u> TasWater to explain and justify, in its final Price and Service Plan, all of the differences between its current service introduction charges policy (approved for the second regulatory period) and the service introduction charges policy TasWater is proposing for the third regulatory period.</p>	<p>4.10.4 Service introduction charges policy</p>
<p>The Economic Regulator <u>approves</u> TasWater applying the minimum water flow and minimum water pressure figures outlined in TasWater's Supplement to the Water Services Association of Australia's Water Supply Code of Australia in determining whether a property or part of a property is within serviced land.</p> <p>The Economic Regulator <u>requires</u> TasWater to publish TasWater's Supplement to the Water Services Association of Australia's Water Supply Code of Australia together with any other additional relevant information that would assist customers and stakeholders in determining whether their property or part of their property is within serviced land.</p>	<p>4.11.7 Serviced land</p>

Decision	Section
<p>The Economic Regulator <u>approves</u> TasWater's approach to the definition of serviced land with limited service areas being removed from serviced land.</p> <p>The Economic Regulator <u>requires</u> TasWater to: publish separate descriptions of serviced land for water services and sewerage services; continue to make descriptions of serviced land for both water and sewerage services publicly available (eg on the entity's website, at a fixed address, by phone); and ensure that the description of serviced land is updated and published on a regular and ongoing basis (ie on at least a monthly basis or when serviced land boundaries change).</p> <p>The Economic Regulator also <u>requires</u> TasWater to update its serviced land maps to reflect the new serviced land definition.</p>	
<p>The Economic Regulator <u>approves</u> TasWater's proposed new service replacement process as set out in its submission in response to the Economic Regulator's Draft Report.</p> <p>Subject to the Economic Regulator's approval, TasWater will be able to offer the option of paying cash to customers to undertake the installation of assets for service replacement.</p>	<p>4.12.4</p> <p>Service replacement process</p>

Chapter 5 - Demand forecasts

The Economic Regulator makes the following decision in relation to demand forecasts.

Decision	Section
<p>The Economic Regulator <u>accepts</u> that TasWater has fulfilled the demand forecasting requirements outlined in the Economic Regulator's Water and Sewerage Price and Service Plan Guideline.</p>	5.6

Chapter 6 - Capex

The Economic Regulator makes the following decisions in relation to capex.

Decision	Section
<p>The Economic Regulator <u>accepts</u> that TasWater's capex during the second regulatory period was prudent and efficient.</p>	<p>6.2.1.6</p> <p>Arup's findings - second regulatory period</p>
<p>The Economic Regulator <u>requires</u> TasWater to adjust its proposed facility, fleet and plant renewals capex for the third regulatory period, as set out in Table 6.6.</p>	<p>6.3.1.2</p> <p>Facility, fleet and plant renewals</p>
<p>The Economic Regulator <u>reinstates</u> gifted assets of \$10 million per annum to TasWater's expected capex for the third regulatory period.</p>	<p>6.4.2</p> <p>Gifted assets</p>

Decision	Section
The Economic Regulator <u>requires</u> TasWater to adjust its expected capex for the third regulatory period, by the amounts set out in Table 6.9.	6.5
The Economic Regulator <u>will reissue</u> its Accounting Ring Fencing Guideline to require TasWater's regulatory financial statements to only account for regulatory depreciation on capex once the asset has been commissioned.	

Chapter 7 - Opex

The Economic Regulator makes the following decisions in relation to opex.

Decision	Section
The Economic Regulator <u>has not adjusted</u> TasWater's proposed opex for the third regulatory period based on its opex during the second regulatory period.	7.3
The Economic Regulator <u>accepts</u> TasWater's rebasing of its opex for the third regulatory period.	Review of second regulatory period opex
The Economic Regulator <u>accepts</u> TasWater's proposed base year opex for the third regulatory period.	7.4 Base year for third regulatory period opex forecasting
The Economic Regulator <u>accepts</u> TasWater's forecast salary costs for the third regulatory period, as shown in Table 7.5.	7.6.1 Salaries
The Economic Regulator <u>intends to require</u> TasWater to develop, during the third regulatory period, a five-year Labour Force Plan.	
The Economic Regulator <u>will not require</u> TasWater to publish its Labour Force Plan.	
The Economic Regulator <u>requires</u> that TasWater adjust its forecast materials and services costs for the third regulatory period as shown in Table 7.7.	7.6.2 Materials and services
The Economic Regulator <u>requires</u> that TasWater adjust its forecast chemicals costs for the third regulatory period, as shown in Table 7.9.	7.6.3 Chemicals
The Economic Regulator <u>accepts</u> TasWater's forecast electricity costs for the third regulatory period, as shown in Table 7.10.	7.6.4 Electricity
The Economic Regulator <u>accepts</u> TasWater's forecast facility management costs for the third regulatory period, as shown in Table 7.12.	7.6.5 Facility management

Decision	Section
The Economic Regulator <u>accepts</u> TasWater's forecast information management costs for the third regulatory period, as shown in Table 7.13.	7.6.6 Information systems
The Economic Regulator <u>requires</u> that TasWater adjust its forecast motor vehicles costs for the third regulatory period, as shown in Table 7.15.	7.6.7 Motor vehicle costs
The Economic Regulator <u>accepts</u> TasWater's forecast opex arising from new capex for the third regulatory period, as shown in Table 7.16.	7.6.8 Impact of capex on opex
The Economic Regulator <u>accepts</u> TasWater's proposed cost allocations for the third regulatory period.	7.7 Cost allocation
The Economic Regulator <u>requires</u> TasWater to achieve productivity savings above those it has proposed for the third regulatory period by reducing TasWater's forecast opex, for all categories other than motor vehicle costs, by 1.50 per cent per annum.	7.8 Productivity improvements/ efficiencies
The Economic Regulator <u>requires</u> TasWater to adjust its forecast opex for the third regulatory period, by the amounts set out in Table 7.21.	7.10

Chapter 8 - Regulatory depreciation

The Economic Regulator makes the following decisions in relation to regulatory depreciation.

Decision	Section
The Economic Regulator <u>requires</u> TasWater to calculate regulatory depreciation for Existing Assets using a value weighted average approach.	8.8
The Economic Regulator also <u>requires</u> TasWater to calculate regulatory depreciation for Existing Assets based on the undepreciated Existing RAB opening balance for 2015-16.	
The Economic Regulator <u>requires</u> TasWater to calculate regulatory depreciation for New Assets using a line-by-line approach.	
For projects started after 1 July 2018, the Economic Regulator also <u>requires</u> TasWater to calculate regulatory depreciation only once the asset is commissioned.	
The Economic Regulator further <u>requires</u> TasWater to apply the regulatory depreciation allowances for Existing Assets and New Assets, as set out in Tables 8.8 and 8.9 respectively.	

Chapter 9 - WACC

The Economic Regulator makes the following decisions in relation to the WACC.

Decision	Section
The Economic Regulator <u>accepts</u> TasWater's proposal to apply a vanilla WACC for the third regulatory period.	9.2 Type of WACC
The Economic Regulator <u>accepts</u> TasWater's proposed gearing ratio of 60 per cent in calculating the WACCs for the third regulatory period.	9.4.1 Gearing
The Economic Regulator <u>accepts</u> TasWater including debt issuance costs of 0.1 per cent in calculating the WACCs for the third regulatory period.	9.4.3.2 Debt issuance costs
The Economic Regulator <u>has decided</u> to calculate the Risk Free Rate and Debt Risk Premium using the method specified in Section 9.4.4 of this Final Report.	9.4.3.3 Method to calculate risk free rate and debt risk premium
The Economic Regulator <u>accepts</u> TasWater's proposal to apply a Market Risk Premium of 6.5 per cent in calculating the WACCs for the third regulatory period.	9.4.5 Market risk premium
The Economic Regulator <u>has decided</u> to apply an equity beta of 0.65 in calculating the WACCs for the third regulatory period.	9.4.6 Equity beta
The Economic Regulator <u>has decided</u> to apply a gamma of 0.4 in calculating TasWater's MARRs for the third regulatory period.	9.4.7 Gamma

Chapter 11 - Revenue requirement

The Economic Regulator makes the following decisions in relation to the revenue requirement.

Decision	Section
The Economic Regulator <u>will require</u> TasWater to develop, during the third regulatory period, a Tax Asset Base to support the use of a post-tax WACC.	11.2.2 Tax allowance
The Economic Regulator <u>has not included</u> a Working Capital Allowance in TasWater's MARR.	11.2.3 Working capital allowance

Chapter 12 - Pricing structure

The Economic Regulator makes the following decisions in relation to TasWater's pricing structure.

Decision	Section
The Economic Regulator <u>has concluded</u> that, once the STED tariffs are added and fixed water charges are applied to water carrier tariffs, public and private filling tariffs and portable metered standpipes, TasWater's proposed regulated services and proposed tariff structures satisfy the definition of a regulated service and are structured in line with the pricing principles respectively.	12.6 Structure of regulated prices
The Economic Regulator <u>approves</u> TasWater's proposal to retain a single pricing zone for Tasmania for the third regulatory period.	12.7 Pricing zones
The Economic Regulator <u>requires</u> TasWater to include details about STED customers in its final Price and Service Plan. The Economic Regulator <u>also approves</u> the customer classes TasWater has proposed for the third regulatory period.	12.8 Customer classes
The Economic Regulator <u>approves</u> TasWater's proposal to base fixed water target tariffs on the proposed connection sizes and multipliers. The Economic Regulator <u>approves</u> TasWater's proposal to charge limited supply customers 90 per cent of the fixed water target tariffs for each year of the third regulatory period. The Economic Regulator <u>approves</u> TasWater's proposal to charge fire service customers 25 per cent of the fixed water target tariffs for each year of the third regulatory period. The Economic Regulator <u>approves</u> TasWater's proposal to charge STED customers 70 per cent of the fixed sewerage target tariff for each year of the third regulatory period.	12.9 Fixed charges
The Economic Regulator <u>approves</u> TasWater continuing to recover some fixed costs through variable charges for the third regulatory period. The Economic Regulator <u>approves</u> TasWater's proposal to charge limited water quality customers 80 per cent of the variable water target tariffs for each year of the third regulatory period.	12.10 Variable charges

Decision	Section
<p>Having reviewed TasWater’s proposals in relation to ET method for the third regulatory period, the Economic Regulator:</p> <ul style="list-style-type: none"> ▪ <u>approves</u> TasWater’s proposal to apply its ET method in determining fixed sewerage charges; ▪ <u>requires</u> TasWater to publish its justification of ET rates for property types that differ from those contained in the <i>NSW Water Directorate’s 2017 Section 64 Determinations of Equivalent Tenements Guidelines</i>; ▪ <u>requires</u> TasWater to publish any relevant documents that are not publicly available, where they form the basis of its ET method; ▪ <u>approves</u> TasWater’s approach to transitioning customers facing a material bill increase as a result of an ET reassessment; ▪ <u>supports</u> TasWater’s proposed review of alternative sewerage charging methods operating in Australia; and ▪ <u>expects</u> TasWater to liaise with stakeholders and the Economic Regulator as part of the review and to publish its findings when available. 	<p>12.11</p> <p>Equivalent tenements</p>
<p>The Economic Regulator <u>requires</u> TasWater to publish its revised trade waste guideline at the same time that it publishes its final Price and Service Plan for the third regulatory period.</p> <p>The Economic Regulator <u>approves</u> the proposed structure of TasWater’s trade waste prices.</p>	<p>12.12</p> <p>Trade waste</p>
<p>The Economic Regulator <u>approves</u> TasWater’s proposed simplification of its development application fees structure.</p> <p>The Economic Regulator <u>approves</u> TasWater combining the Certificate for Certifiable Work/Certificate for Compliance fees and engineering design approval and asset creation services.</p> <p>The Economic Regulator also <u>approves</u> the structure of TasWater’s proposed miscellaneous fees and charges.</p>	<p>12.14</p> <p>Miscellaneous services</p>
<p>The Economic Regulator <u>approves</u> TasWater’s proposal in relation to transitioning or moving customers directly to target tariff.</p>	<p>12.15</p> <p>Moving customers directly to target tariffs</p>

Chapter 13 - Prices and customer impacts

The Economic Regulator makes the following decisions in relation to prices and customer impacts.

Decision	Section
The Economic Regulator <u>requires</u> TasWater to apply the trade waste fees and charges set out in Table 13.9.	13.2.2.1
The Economic Regulator also <u>approves</u> TasWater's proposed approach to transition trade waste customers to target for the third regulatory period.	Trade waste fees and charges
The Economic Regulator <u>approves</u> TasWater's proposed approach to transitioning Category 3 and 4 trade waste customers to cost reflective charges.	
The Economic Regulator <u>accepts</u> TasWater's proposal to introduce an additional fee, a trade waste site constraint fee, and <u>approves</u> the proposed level of that fee as set out in Table 13.11.	13.2.2.2
	Trade waste site constraint fee
The Economic Regulator <u>accepts</u> TasWater's proposal to introduce an additional fee, a macerator fee, and <u>approves</u> the proposed level of that fee as set out in Table 13.13.	13.2.2.3
	Trade waste macerator charge
The Economic Regulator <u>approves</u> TasWater's proposed miscellaneous fees and charges as set out in Table 13.16.	13.2.3.1
	Miscellaneous fees and charges
The Economic Regulator <u>approves</u> TasWater's proposed schedule of development assessment services.	13.3.3
The Economic Regulator also <u>approves</u> TasWater's proposed development assessment fees as set out in Table 13.18.	Development assessment service fees
The Economic Regulator <u>accepts</u> TasWater's revised proposed price transition for customers paying less than target tariffs.	13.4
The Economic Regulator also <u>requires</u> TasWater to write to all customers affected by the transition to target tariffs, no later than the issuance of their first bill in 2018-19, and inform them of the prices they will be charged in each year of the third regulatory period and the options available to them to assist in managing payments.	Proposed price transition

In addition to the changes discussed in this Final Report in relation to the Economic Regulator's Draft Report proposals, a number of minor drafting changes have been made to the report to include omitted definitions, correct typographical and grammatical errors and to improve the report's clarity.