

SUMMARY OF THE REGULATOR'S DECISIONS

The Regulator has made the following decisions:

Chapter 1 - Prices

1. Approve the maximum prices, fees and charges that are to apply for regulated services and miscellaneous services for the fourth regulatory period as set out in Schedule 1 of the Regulator's Price Determination and as reproduced in Tables 1.1 to 1.19 inclusive and Table 1.21.
2. Approve a shared infrastructure contribution charge (developer charge) of \$3 514 per ET, as set out in Table 1.22.

Chapter 2 - Revenue Requirement

1. Accept TasWater's proposed opening RAB as set out in Table 2.1.
2. Apply the proposed RAB roll forward as set out in Table 2.3.
3. Apply the inflation adjustment as set out in Table 2.3.
4. Accept TasWater's values of asset disposals as set out in Table 2.3.
5. Accept TasWater's proposed third party contributions as set out in Table 2.3.
6. Apply the regulatory depreciation allowances as set out in Chapter 6 and Table 2.3.
7. Apply the capex allowances as set out in Chapter 4 and Table 2.3.
8. Apply the NAR for each year as set out in Table 2.9.
9. Conduct an investigation and consider making a revised Price Determination and requiring TasWater to prepare a revised Price and Service Plan only if:
 - (a) requested by TasWater; and
 - (b) the Regulator is satisfied that there is a material risk that, without a further investigation, the objectives of the *Water and Sewerage Industry Act 2008* would not be met, namely that TasWater cannot provide safe, environmentally responsible, sustainable and reliable water and sewerage services.

Chapter 3 - Demand Forecasts

1. Accept TasWater's approaches to forecasting the number of water connections and sewerage connections and the demand for water use and miscellaneous services for the fourth regulatory period.
2. Set demand forecasts for the above categories as set out Tables 3.3, 3.5 and 3.7.

Chapter 4 - Capital Expenditure

1. Approve a capex allowance \$45.4 million lower than TasWater proposed, at a total of \$861.9 million for the fourth regulatory period, which is 95 per cent of TasWater's proposed capex, as set out in Table 4.1.
2. Accept that the expected costs associated with TasWater's CDO for the fourth regulatory period are prudent and efficient.
3. Accept that TasWater's proposed expenditure on the Pioneer water supply project is prudent and efficient.
4. Require TasWater to continue to provide the Regulator with six monthly progress reports on its capital program.
5. Require TasWater to implement the improvements in relation to asset management, capital planning and prioritisation and capex governance frameworks identified by CCGUS during the fourth regulatory period.
6. Require TasWater to provide the Regulator with six-monthly reports within one month of the end of the six-month period on its progress towards implementing the above improvements commencing from the six month period ending on 31 December 2022.
7. With respect to gain-share and pain-share adjustments with the CDO, require TasWater to include only those costs that it actually incurs when capitalising CDO-related expenditure and including that expenditure in its RAB.

Chapter 5 - Operating Expenditure

1. Approve an opex allowance of \$862.67 million for the fourth regulatory period, which is \$22.29 million higher than TasWater proposed as set out in Table 5.1.
2. Accept TasWater's cost allocations as presented in its proposed PSP for the fourth regulatory period.
3. Accept CCGUS' proposed escalation rates for the fourth regulatory period and the associated changes to TasWater's opex.
4. Include 95 per cent of TasWater's proposed capex-driven opex.
5. Require TasWater to implement an activity-based costing approach during the fourth regulatory period.
6. Apply the inflation assumptions as set out in Table 5.3 for the fourth regulatory period.
7. Apply TasWater's proposed water connection annual growth rate (0.85 per cent) as the growth factor to 50 per cent of TasWater's regulated opex over the fourth regulatory period.
8. Impose an annual compounding productivity target on TasWater of 1.5 per cent over the fourth regulatory period.

Chapter 6 - Regulatory Depreciation

1. Set the regulatory depreciation allowance at a total of \$455.8 million for the fourth regulatory period as set out in in Table 6.6.
2. Accept TasWater's proposed regulatory depreciation with respect to its new assets for the PSP3 extension year, 2021-22 and use a depreciation rate of 1.94² per cent for existing assets.
3. Accept the asset lives TasWater's proposes using for its new assets to calculate regulatory depreciation for the fourth regulatory period.
4. Accept TasWater's proposed weighted average depreciation rate for existing assets of 2.28 per cent for the fourth regulatory period.
5. Accept TasWater's reasons for revising regulatory depreciation with respect to its new assets and its existing assets for the years from 2018-19 to 2020-21.
6. Require TasWater to develop an asset register on an appropriate software platform that is suitable for regulatory pricing purposes.
7. Require TasWater to continue to not claim regulatory depreciation on capex until the asset is commissioned for projects that started after 1 July 2018.
8. Conduct an inquiry under section 12(j) of the *Water and Sewerage Industry Act 2008* into alternative approaches to calculating regulatory depreciation for new assets.

Chapter 7 - Rate of Return on Capital

1. Continue to use a nominal vanilla WACC with a post-tax return on equity and a pre-tax return on debt.
2. Set the WACC_{EXISTING} at 3.79 per cent and the WACC_{NEW} at 5.28 per cent based on the following:
 - (a) a gearing ratio of 60 per cent;
 - (b) the prevailing risk free rate set using a 40 trading day average of the yield on 10-year Australian Government bonds as at 6 May 2022;
 - (c) an equity beta of 0.65;
 - (d) a market risk premium of 6.0 per cent;
 - (e) the cost of debt calculated as set out in 7.9.3.3 using a BBB+ credit rating and using a mix of one third A rated and two thirds BBB rated yield on corporate bonds, as published by the RBA;
 - (f) **debt issuance costs of 0.08 per cent.**
3. Not accept TasWater's proposal to review the cost of debt on an annual basis.
4. Not accept TasWater's proposal to calculate the cost of debt on a mean-reverting basis.

² Calculated as the average of the depreciation rates for existing assets for 2018-19 (1.95%), 2019-20 (1.94%) and 2020- 21 (1.93%)

Chapter 8 - Structure of prices, fees and charges

1. Approve TasWater's proposal to retain a single pricing zone for Tasmania for the fourth regulatory period.
2. Approve the customer classes TasWater proposed for the fourth regulatory period.
3. Approve TasWater's proposal to base its fixed water charges on the size of each property's metered connection.
4. Approve TasWater's proposal to charge limited supply customers 90 per cent of the fixed water charge.
5. Approve TasWater's proposal to charge fire service customers 25 per cent of the fixed water charge.
6. Approve TasWater's proposal to recover some of its fixed costs through variable charges.
7. Approve TasWater's proposed approach to variable water charges for customers receiving a full service.
8. Approve TasWater's proposal to charge limited service customers 80 per cent of the variable water charge.
9. Approve TasWater's proposal to apply the ET methodology in determining fixed sewerage charges.
10. Require TasWater's PSP to set out the differences in new ET rates compared to current ET rates.
11. Approve TasWater's proposal that customers with STEDs pay 70 per cent of the fixed sewerage charge.
12. Approve TasWater's proposal to continue to apply the discharge factor approach in determining sewerage charges for caravan parks and offices.
13. Accept TasWater's proposal to extend the application of the trade waste site constraint fee.
14. Accept TasWater's proposal to continue to impose the macerator charge.
15. Require TasWater to carry out research during the fourth regulatory period to determine a cost-reflective macerator charge.
16. Accept the proposed structure of TasWater's trade waste fees and charges for the fourth regulatory period.
17. Conduct an inquiry under section 12(j) of the *Water and Sewerage Industry Act 2008* into sewerage charging approaches and trade waste charging approaches, commencing after 1 July 2022, with the outcomes from the review informing the Regulator's PSP Guideline for the fifth regulatory period and TasWater's proposed PSP for that period.
18. Accept TasWater's proposed miscellaneous services with the exception of services relating to standard 20mm water and standard 100mm sewerage connections.
19. Accept TasWater's proposal that charges for some of its miscellaneous services are to be determined on a "price on application" basis provided prices are determined on a cost-reflective basis.

20. Require TasWater's PSP to explain how the new service delivery model with respect to water and sewerage connections is to apply.
21. Accept TasWater's proposal to impose developer charges.
22. Accept TasWater's proposed approach to setting developer charges with the same standard charge applying state-wide regardless of the type of development.
23. Accept TasWater's proposal that the new developer charges arrangements commence on 1 July 2023.
24. Accept a fixed amount for the shared developer charge for each of the 2023-24, 2024-25 and 2025-26 financial years.
25. Accept TasWater's proposed approach to calculating the negotiated charge.
26. Accept TasWater's proposal to rename its proposed Negotiated Charge as a Bulk Infrastructure Capacity Charge.
27. Accept TasWater's proposal to impose service introduction charges.
28. Accept TasWater's proposed approach to calculating service introduction charges.
29. Accept TasWater's proposal to impose service charges.
30. Review the level of TasWater's service charges over the fourth regulatory period.

Chapter 9 - Other pricing issues

1. Accept TasWater's proposed arrangements with respect to customers paying prices that are below current standard prices.
2. Require TasWater to contact each affected customer, prior to 30 June 2022, and inform the customer of the bill increases that are scheduled for each year of the fourth regulatory period together with the options available to manage payments.
3. Require TasWater to move the remaining fire service and trade waste customers who are currently paying less than the standard prices directly to the relevant standard price as at 1 July 2022.
4. Approve TasWater's proposed list of circumstances where customers will be moved directly to the prevailing standard prices.

Chapter 10 - Customer contract, policies and service standards

Customer contract and policies

1. Approve the customer contract provided at Appendix E to this Report.
2. Approve TasWater applying, for the fourth regulatory period, the minimum water flow and minimum water pressure figures 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.
3. Approve TasWater's proposed approach to the definition of serviced land for water services and for sewerage services.

4. Require TasWater to publish TasWater's Supplement to Water Services Association of Australia's Water Supply Code of Australia and TasWater's Supplement to Water Services Association of Australia's Gravity Sewerage 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.
5. Require TasWater to publish separate descriptions of serviced land for water services and sewerage services.
6. Require TasWater to make descriptions of serviced land for both water and sewerage services publicly available.
7. Require TasWater to ensure that the description of serviced land is updated and published on a regular basis (ie on at least a monthly basis when serviced land boundaries change).
8. Approve TasWater's Connection Policy, as included in Water and Sewerage Network and Charges Policies document provided at Appendix F.1 to this Report.
9. Approve TasWater's Sub-metering Policy, as included in Water and Sewerage Network and Charges Policies document provided at Appendix F.1 to this Report.
10. Approve TasWater's Service Charges Policy, as included in Water and Sewerage Network and Charges Policies document provided at Appendix F.1 to this Report.
11. Approve the Service Introduction Charges Policy, as amended and as included in TasWater's Water and Sewerage Network and Charges Policies document provided at Appendix F.1 to this Report.
12. Approve TasWater's service replacement process, subject to TasWater's PSP including more detail on the costs and charges that affected customers would incur, as included in TasWater's Water and Sewerage Network and Charges Policies document provided at Appendix F.1 to this Report.
13. Approve TasWater introducing a Standard Infrastructure Charge and a Bulk Infrastructure Capacity Charge.
14. Approve the proposed new arrangements commencing from 1 July 2023.
15. Approve the Developer Charges Policy, as included in TasWater's Land Development Policies document provided at Appendix F.2 to this Report.
16. Approve the Service Extension and Expansion Policy, as included in TasWater's Land Development Policies document provided at Appendix F.2 to this Report.
17. Approve the Trade Waste Policy as included at Appendix F.3 to this Report, with the proposed changes identified and discussed in Appendix D.
18. Require TasWater to publish its *Trade Waste Customer Category Guideline*.

Customer Service Standards

1. Approve the majority of TasWater's proposed service standards.
2. Reject the proposed service standard of the percentage of customers supplied by drinking water systems that meet best practice risk mitigation, as the Regulator does not consider this is a customer service standard.

3. Retain the service standard for the percentage of unaccounted for water and set performance levels at 20 per cent in 2022-23, declining by one percentage point each year to 17 per cent by 2025-26.
 4. Set higher performance standards than proposed by TasWater for the number of water main breaks at 33 breaks per 100 km of water main for 2022-23, declining by one each year to 30 by 2025-26 to more closely reflect the performance of mainland service providers, noting that reducing water losses was identified by customers as a top priority for the fourth regulatory period.
 5. Retain the minimum service standard of 90 per cent for the percentage of planned water supply interruptions where water supply is restored within 5 hours.
 6. Set higher performance standards than proposed by TasWater for the number of water-related complaints by setting lower numbers of complaints to 6.0 complaints per 1 000 properties.
 7. Implement the approved minimum service standards by way of the Customer Service Code fast-track amendment process, for a 1 July 2022 commencement.
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