



Inquiry into the calculation of regulatory depreciation allowances for TasWater's new assets

Terms of Reference

The Tasmanian Economic Regulator is conducting an inquiry under Section 12(j) of the *Water and Sewerage Industry Act 2008* into TasWater's current approach to calculating the regulatory depreciation allowance for some of TasWater's water and sewerage infrastructure assets.

Background

The regulatory depreciation allowance is a component of the Notional Allowable Revenue which is used by the Regulator to determine maximum prices for regulated water and sewerage services.

Due to a lack of information on the condition and acquisition dates for assets transferred before 1 July 2011 from councils to the previous regional corporations and subsequently TasWater ('existing assets') a value-weighted average asset life approach has been used in calculating the regulatory depreciation allowance for those assets. In contrast, the regulatory depreciation allowance for assets acquired and/or constructed by TasWater or by one of the previous regional corporations since 1 July 2009 ('new assets') is currently calculated as the aggregate of the annual depreciation on individual assets using what is referred to as a 'line-by-line' approach.

In its 2022 Water and Sewerage Investigation Final Report, the Regulator decided to conduct an inquiry into how the regulatory depreciation allowance is currently calculated for new assets. The Regulator also decided to review the basis of TasWater's asset lives assumptions to ensure those assumptions were appropriate and consistent with the lives of equivalent asset types in other jurisdictions.

The outcomes from this inquiry will inform the requirements that the Regulator will include in the Price and Service Plan Guideline that TasWater is to comply with in preparing its proposed Price and Service Plan for the fifth regulatory period.

Software platform for TasWater's asset register

On a related issue, as set out in the 2022 Final Report, the Regulator requires TasWater to develop, during the fourth regulatory period, an asset register on an appropriate software platform that is suitable for regulatory purposes.

The Regulator expects that the software platform TasWater selects will be capable of addressing the outcomes from this inquiry.

The Regulator also expects that the software platform will be accessible to the Regulator and enable the Regulator to interrogate and verify its contents as required during future price determination investigations.

Scope of inquiry

The Regulator, in conducting the inquiry, will consider the following matters:

1. the basis of TasWater's asset lives assumptions;
2. the asset lives applied by regulators in other jurisdictions for equivalent asset types; and

3. any other matters the Regulator considers relevant.

The Regulator will also have regard to other regulators' approaches to the calculation of regulatory depreciation and will, in this context, consider the appropriateness of TasWater continuing to use the line-by-line approach in calculating regulatory depreciation allowances for its new assets.

The Regulator will also carry out public consultation and liaise directly with TasWater during the inquiry.

Outputs

A draft report setting out the Regulator's draft findings on the calculation of the regulatory depreciation allowance for new assets.

A final report setting out the Regulator's findings on the calculation of the regulatory depreciation allowance for new assets.

The Regulator expects TasWater to implement any revised regulatory depreciation arrangements for new assets from the start of the fifth regulatory period on 1 July 2026.

Timelines

The timelines for the inquiry are as follows:

Milestone	Target dates
Regulator releases terms of reference	21 September 2022
Regulator conducts research and liaises with TasWater and other state and territory regulators	September 2022 to April 2023
Regulator releases draft report for consultation	1 June 2023
Consultation period ends	15 July 2023
Regulator releases final report	31 August 2023