

6 SERVICE PROVISION

This Chapter outlines TasWater’s proposed approach to the provision of regulated water and sewerage services to customers and includes discussion of:

- serviced land;
- customer contracts;
- policies; and
- service replacement.

6.1 Serviced land

6.1.1 Background

Serviced land is land that TasWater will permit to be connected to its infrastructure.

The identification of serviced land is important as it determines TasWater’s obligation to connect and supply customers. Serviced land also underpins policies and arrangements with respect to service extension and expansion, service charges, service introduction, service replacement and, potentially, developer charges.

6.1.2 Legislative requirements

Section 56U(1)(b) of the Industry Act requires a regulated entity’s proposed price and service plan to include a description of the land (identifiable by individual title or locality) it will permit to be connected to the regulated entity’s water or sewerage infrastructure ie a description of serviced land.

In addition to complying with section 56U(1)(b) of the Industry Act, TasWater must also comply with clause 2.2 of the Code which requires a regulated entity to connect a property to its existing infrastructure if:

- the property is within 30 metres of that infrastructure; and
- the person requests the regulated entity to connect the property to the infrastructure; and
- the person has paid, or has agreed to pay, all applicable fees for connection; and
- the person has complied with all reasonable terms and conditions of connection imposed by the regulated entity; and

- the connection is required to be made by the provisions of the code, a customer charter made in accordance with the code, or a policy contained in an approved price and service plan of the regulated entity; and
- the physical characteristics or location of the property are not such as to require the application of unusual or unusually costly infrastructure, design, or installation techniques in order for the connection to be made; and
- no plan of subdivision, or other instrument of a type approved by the Economic Regulator, specifies that connection to the regulated entity's infrastructure, or provision of regulated services by the regulated entity, will not occur.

6.1.3 Identifying serviced land – factors and considerations

The Economic Regulator's PSP Guideline also outlined the following parameters which may be used by TasWater to determine and justify what land is serviced land:

- geographical and hydrological factors;
- network capacity;
- system capacity (ie treatment plants);
- relevant planning considerations; and
- other justifications based on technical considerations.

The PSP Guideline also stated that, TasWater is also required 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).

6.1.4 TasWater's proposed approach to serviced land

In its proposed price and service plan, TasWater noted that it had undertaken a desktop-based approach to the identification of its serviced land area which was guided by a state-wide set of business rules that address issues such as minimum flow, static pressure and proximity to infrastructure mains.

TasWater proposed identifying serviced land on an individual title basis. Further, TasWater has assessed each title for a single tenement connection. In the event that multiple tenements are required TasWater proposed that additional assessments will need to be undertaken.

With respect to water services TasWater proposed using the following parameters to assess whether the property meets minimum water flow and pressure standards:

- Design Flow: 20L/min
- Static Pressure: 250kPa (25m)

Table 6.1 outlines the application of these standards and the outcomes in terms of whether land is identified as serviced land (whether with a full service or a limited service) or as unserviced land for the purposes of water service provision.

Table 6.1 TasWater’s definition of water services for the purposes of identifying serviced land

Titles with Full Service	Titles with Limited Service	Titles that are Unserved
<ul style="list-style-type: none"> ▪ Are within 30m of TasWater reticulation main, can receive treated water ^{Note 1} and meet the minimum flow and pressure standards. ▪ Are currently connected, receiving treated water ^{Note 1}, meet the minimum flow and pressure and are not within 30m of a TasWater reticulation main. 	<ul style="list-style-type: none"> ▪ Receive untreated water; or ▪ Are currently connected and: <ul style="list-style-type: none"> ○ Do not meet the minimum flow or pressure standards; or ○ Directly connected to a Trunk main. 	<ul style="list-style-type: none"> ▪ Are not within 30m of a TasWater reticulation main; or ▪ Require an easement over private land; or ▪ Are within 30m but do not meet minimum flow or pressure standards.

Note:

- I. Treated Water for the purposes of serviced land includes disinfected and treated water supplies and excludes raw water supplies.

With respect to wastewater services, in the first instance TasWater proposes assessing whether a gravity connection is possible and in undertaking this assessment considering whether there is a positive fall (ie > 0°) from the property to the reticulation main.

Table 6.2 outlines the outcomes of this assessment process in terms of whether land is identified as serviced land (whether with a full service or with a private pump station service) or as unserviced land for the purpose of sewerage service provision.

Table 6.2 TasWater’s definition of gravity wastewater services for the purpose of identifying serviced land

Titles with Full Service	Titles with Private Pump Station Service	Titles that are Unserviced
<ul style="list-style-type: none"> ▪ Are within 30m of TasWater reticulation main and are able to connect via a gravity connection; or ▪ Are within 30m of a TasWater low pressure main. 	<ul style="list-style-type: none"> ▪ Are within 30m of a TasWater reticulation main but cannot connect via a gravity connection. 	<ul style="list-style-type: none"> ▪ Are not within 30m of a TasWater reticulation main; or ▪ Require an easement over private land.

With respect to land identified as unserviced land, TasWater has proposed that owners contact TasWater to discuss the feasibility of connecting the property to existing infrastructure and notes that, depending on the outcomes of an engineering assessment, fees and charges may apply in these cases.

TasWater has also identified a number of non-standard systems which it also proposes will require an engineering assessment to determine the requirements for a connection.

Despite providing a list of factors and considerations relevant to the identification of serviced land, TasWater’s proposed price and service plan did not provide the required description of serviced land with the exception of a sample map of serviced land for the town of Deloraine.

TasWater subsequently submitted a full set of draft serviced land maps in respect of both water and sewerage services on 19 November 2014. TasWater noted that each map contained a disclaimer indicating that the map is draft only and should not be used for planning or decision making purposes. The draft maps are available on the Economic Regulator’s website.

TasWater also noted that the final set of serviced land maps would be available by the end of February 2015 after the completion of hydraulic engineering assessments. In its proposed price and service plan, TasWater also undertook to publish, on its website, the final maps no later than 1 July 2015.

6.1.5 Assessment of TasWater’s approach to determining serviced land

TasWater’s proposed methodology for identifying unserviced land is mostly compliant with the requirements of the code. Identifying titles that are not within 30 metres of a TasWater reticulation main as ‘unserviced’ complies with clause 2.2 of the Code. The Economic Regulator also considers that land needing an easement over private land is justification for identifying a title as unserviced, given the requirement under clause 2.2 that ‘the physical characteristics or location of the property are not such as to require the application of unusual or unusually costly infrastructure, design, or installation techniques in order for the connection to be made’.

The Economic Regulator believes that TasWater’s proposed requirements relating to minimum flow and pressure could potentially satisfy the requirements of

clause 2.2 as an unusual cost. However no justification has been given relating to the methodology used to derive these minimum flow and pressure figures. In the absence of a supporting justification, the Economic Regulator does not consider that TasWater’s proposed minimum water flow and minimum water pressure figures are a valid basis upon which to exclude properties from its serviced land.

The Economic Regulator notes that the draft service land area information provided by TasWater on 19 November 2014 does not consistently identify serviced land by title, as proposed by TasWater in its proposed price and service plan. On a number of area maps, lines showing different levels of service cross land title boundaries. TasWater will need to correct this in the final service land area information to be released in February 2015.

The Economic Regulator also notes that the categories of land in the draft service land area information maps do not match those used in Tables 1 and 2 in Attachment B1 of the proposed price and service plan (ie the proposed plan uses the terms ‘titles with full service’, ‘titles with limited service’ and ‘titles that are unserved’; whereas the maps use ‘serviced’, ‘partial service’ and ‘not serviced’).

While the Economic Regulator’s approval is not required to expand serviced land, TasWater is required to publish details of such changes. In particular, TasWater must ensure that the description of serviced land is:

- compliant with relevant regulatory obligations;
- regularly updated in a timely manner; and
- published and made available to the public.

However, if TasWater wishes to reduce its serviced land area (through service replacement), this process will require the Economic Regulator’s approval (see section 6.3 for further details).

The Economic Regulator notes that TasWater still has significant work to complete in relation to the description of serviced land, with the final versions of the maps not due to be published until after the release of the Economic Regulator’s Final Report and Price Determination. However, given the importance of TasWater’s serviced land policy as a foundation for the water and sewerage pricing and service system, the Economic Regulator will consider auditing the methodology and the correct application of TasWater’s identification of serviced land at some point in the future.

The Economic Regulator does not intend to approve TasWater’s proposed minimum water flow and minimum water pressure figures as a valid basis upon which to exclude properties from its serviced land area.

The Economic Regulator intends to require TasWater to provide in its Price and Service Plan, the finalised versions of its state-wide serviced land maps, as well as an undertaking to make the final version of those maps available to the public from 1 July 2015.

The Economic Regulator intends to require TasWater to ensure that the finalised versions of its state-wide service land maps consistently identify serviced land by title or locality and that the categories of land used in the maps are consistent with those used in the proposed price and service plan.

With respect to any future changes to the description of TasWater’s serviced land, the Economic Regulator intends to require TasWater to provide an undertaking in its Price and Service Plan to ensure that the description of serviced land is regularly updated, published and made available to the public.

The Economic Regulator intends to require TasWater to provide an undertaking in its Price and Service Plan to make updated descriptions of serviced land available by the earlier of the end of each month of the second regulatory period commencing from 31 July 2015 or within 10 working days of the description of serviced land changing.

6.1.6 Connecting properties outside serviced land

As outlined above, TasWater does not have an obligation to connect a property to its infrastructure if that property is outside serviced land. However, at the same time, there is nothing preventing TasWater from entering into an arrangement with a property owner to connect a property outside serviced land. Depending on the nature of the connection, the terms and conditions of the agreement to connect the property will be based on TasWater’s extension and expansion policy (referred to in section 6.2.7), developer charges policy (see section 6.2.5) and/or service introduction policy (see section 6.2.8).

TasWater reported in its proposed price and service plan that unconnected properties that do not fall within the standard definitions will be identified as unserviced land. Property owners in these areas will need to contact TasWater if they wish to be connected to TasWater’s infrastructure to organise an engineering assessment to see if a connection is feasible.

6.2 Customer contracts and policies

TasWater is required, under various legislative and regulatory instruments, to include in its proposed price and service plan a series of draft policies and a draft customer contract. The Economic Regulator has assessed these documents as part of its price determination investigation process. The focus of the Economic Regulator’s considerations has been one of compliance and accuracy. That is, the non-compliance matters/errors in the draft policies (including those drafting errors which have effect of rendering the document non-compliant).

In this Draft Report, the Economic Regulator has indicated its intention to ‘require’ TasWater to address all non-compliance related matters by re-drafting documents as set out in this Draft Report.

6.2.1 Customer contracts

Division 4 of the Industry Act requires a regulated entity to develop a customer contract for regulated services. It is also a requirement that the customer contract be prepared in accordance with the Water and Sewerage Industry Customer Service Code.

A customer contract is defined in the Industry Act as being the “*contract between a regulated entity and a customer for the provision of regulated services to the customer, which includes standard terms and conditions of service*”.

The Economic Regulator is required under the Industry Act to consider any customer contract in making a price determination that is to apply to a regulated entity in respect of a regulated service.

In accordance with section 65 of the Industry Act, and the Economic Regulator’s PSP Guideline, TasWater included, in its proposed price and service plan, the customer contract that it proposes using during the second regulatory period.

The Economic Regulator subsequently reviewed the draft customer contract for compliance with the provisions of the Code.

As part of that assessment, the Economic Regulator identified a number of non-compliance issues throughout the contract document.

The review process also identified that a number of terms had been defined in the customer contract but not actually used within the document. Such defined terms are, therefore, redundant and should be removed.

The Economic Regulator will offer TasWater comments with respect to the issues it has identified and suggests that TasWater remove those terms which have been defined but not subsequently used within the draft customer contract. Furthermore, the Economic Regulator suggests that TasWater carry out thorough quality assurance of its draft customer contract to ensure consistency in the use of terms and correct referencing to all other source documents.

The Economic Regulator’s comments will not, however, extend to matters pertaining to the legality or enforceability of the customer contract as this is a TasWater responsibility to manage. Rather, the feedback will be more general in nature, focusing on the customer contract’s compliance, overall drafting and structure.

The Economic Regulator intends to require TasWater to revise its draft customer contract to ensure full compliance with relevant provisions of the Customer Service Code.

6.2.2 Connection policy

The point where a customer’s pipes connect to a regulated entity’s water and sewerage infrastructure is known as the connection point.

It is a requirement under section 56U(1)(a) of the Industry Act, and the Economic Regulator's PSP Guideline, that a regulated water and sewerage entity include a connection policy with its proposed price and service plan.

The draft connection policy, as submitted by TasWater, states that it outlines the circumstances in which TasWater will permit an owner of land to connect, relocate or adjust a connection to TasWater's water and/or sewerage infrastructure and describes the land (serviced land), whether by individual title or locality, that TasWater will permit to be connected to its water and/or sewerage infrastructure.

TasWater's connection policy as drafted does not cover:

- where a property is outside TasWater's serviced land and expansion is required to connect the property to TasWater's water and sewerage infrastructure; or
- where a property within TasWater's serviced land is being subdivided; or
- where there is a change in land use within TasWater's serviced land.

The above situations have the potential to increase demand on the capacity of TasWater's water and sewerage infrastructure and are, therefore, addressed by TasWater under its service extension and expansion policy and its service introduction charges policy, or by a contract entered into in accordance with section 61 of the Industry Act.

Under TasWater's draft connection policy, a property will be permitted to connect to water and/or sewerage infrastructure if it meets the connection requirements as outlined in the Customer Service Code and complies with the following criteria:

- the property is within TasWater's serviced land;
- a title is issued for that property or consent by the land owner;
- if necessary, a certificate for certifiable work is obtained;
- a TasWater Application for Water and Sewerage Connections form has been completed and submitted; and
- the applicable fees relating to connection, as listed in TasWater's approved schedule of tariffs have been paid.

The draft connection policy submitted by TasWater was reviewed by the Economic Regulator for compliance against the relevant regulatory and legislative provisions (as noted above).

As an outcome of this compliance review, a number of instances of non-compliance with obligations outlined the Industry Act and the PSP Guideline were identified.

Specifically, the draft connection policy does not specify the connection charges to apply to properties within serviced land, as required under clause 4.8.1 of the PSP Guideline. Nor does the draft policy address matters pertaining to the

relocation of a connection or adjustment of a connection and is, therefore, in contravention of section 56U(1)(a) of the Industry Act.

The draft connection policy only deals with initial connection requests and does not detail the criteria for, nor charges associated with, adjustment of a water or sewerage connection or the relocation of a water or sewerage connection. Accordingly, TasWater’s draft connection policy must be amended.

With respect to specifying the connection charges to apply to properties within serviced land, and as an example, TasWater may choose to include a list of all connection charges it proposes to apply. Alternatively, TasWater may choose to simply provide additional text which directs the reader to where the connection charges information may be obtained (for example, on the TasWater’s website).

The Economic Regulator also noted that, regarding TasWater’s obligations under section 56U(1)(b) of the Industry Act, TasWater did not include, in its proposed price and service plan, a description of the land it will permit to be connected to its water infrastructure or sewerage infrastructure (that is, a description of ‘serviced land’). TasWater subsequently provided the required description to the Economic Regulator on 20 November 2014. Matters pertaining to serviced land are further discussed under section 6.1 of this Draft Report.

The Economic Regulator intends to require TasWater to amend its draft connection policy to ensure its legislative compliance. That is, TasWater will be required to re-draft its draft connection policy so that it:

- (1) also outlines the circumstances in which TasWater will permit an owner of land to relocate or adjust a connection to TasWater’s water infrastructure or sewerage infrastructure; and***
- (2) specifies the connection charges to apply to properties within serviced land.***

Notwithstanding the absence of charging information within its draft connection policy, and the omission of any discussion of relocation or adjustment of connection arrangements, TasWater put forward, within its proposed price and service plan, the following connection fees for the second regulatory period:

- property service connection - **water** (standard 20mm connection) – for new water service connections or a relocation of a water connection;
- property service connection - **water** (standard 25mm connection) – for new water service connections or a relocation of a water connection;
- property service connection – **water** (non-standard connection) – for new water service connection, which is not a standard connection;
- property service connection – **sewer** (standard 100mm connection) – for new sewerage service connection to residential or relocation of a sewerage connection; and

- property service connection - **sewer** (non-standard connection) - new sewerage connection or relocation of a sewerage connection.

TasWater's proposed fee amounts for connection or relocation of a water service or sewerage service are shown in the following tables.

Table 6.3 Fees for connection or relocation - water

Type of charge		2015-16 (\$)	2016-17 (\$)	2017-18 (\$)
Standard connection	20mm	2 032.69	2 083.50	2 135.59
Standard connection	25mm	2 218.57	2 274.03	2 330.88
Non-standard connection		POA	POA	POA

Table 6.4 Fees for connection or relocation - sewerage

Type of charge		2015-16 (\$)	2016-17 (\$)	2017-18 (\$)
Standard connection	100mm	1 481.69	1 518.73	1 556.70
Non-standard connection		POA	POA	POA

The Economic Regulator noted that TasWater has proposed the introduction of a fee for connection or relocation of a 25mm water connection. This was not a connection size for which charges were proposed, nor subsequently approved, in the first water and sewerage Price Determination.

Furthermore, the previous regulated entities had, as part of the first Price Determination, obtained approval to only apply a fee for connection yet TasWater has proposed to apply charges for connection as well as charges for the relocation of water and sewerage connections for the second regulatory period. As noted in Table 6.3 and Table 6.4, the charges to apply for relocation are to be the same as the fee amounts proposed for connection alone.

Most notably, TasWater's proposed fee for connection or relocation of a 100mm sewerage connection has decreased by approximately one third compared to the fee amount approved for the connection of that type of property service connection for the first regulatory period. The proposed connection and relocation charges to apply to standard 20mm connections for water are noted as being marginally less than the connection fee amounts approved for that connection type for the first regulatory period. Such decreases indicate TasWater's move to introduce more cost reflective charging.

TasWater has also proposed that the fees for connection or relocation of a water service or a sewerage service be indexed at 2.5 per cent per annum (CPI of 2.5 per cent has been adopted by TasWater for the second regulatory period.)

TasWater’s proposed approach to determining the connection and relocation of connection charges for non-standard and larger water and sewerage connections on a cost recovery basis is consistent with the current arrangements, approved as part of the first water and sewerage Price Determination. Furthermore, and as is presently the case, should customers identify concerns that such charges are not cost reflective, then such matters will be dealt with through the complaints handling procedures of TasWater; complaints to the Ombudsman; and/or possible compliance action by the Economic Regulator.

The Economic Regulator intends to require TasWater to:

- (1) adopt, in its final Price and Service Plan, the proposed connection and relocation of connection fees for 2015-16, as outlined in Table 6.3 and Table 6.4 of this Draft Report, and that those fees be increased by 2.5 per cent per annum over the second regulatory period to account for inflation. It is noted that the proposed connection fees and relocation of connection fees apply only to 20mm water, 25mm water and 100mm sewerage connections; and***
- (2) determine connection and relocation of connection charges for non-standard and larger water and sewerage connections on a cost recovery basis.***

6.2.3 Service charges policy

The Economic Regulator has found that TasWater’s proposed service charges approach is consistent with the Industry Act and the Pricing Regulations. However, TasWater’s proposed price and service plan contained limited supporting arguments justifying its proposed approach to service charges. To address this deficiency and assist TasWater in its response to the draft report, the Office of the Tasmanian Economic Regulator has, undertaken further analysis, which is outlined in the following sections.

6.2.3.1 Background

A water and/or sewerage service charge is a charge levied where there is an ability to access a service even if there is not yet a physical connection to a regulated water and sewerage entity’s infrastructure. The Industry Act allows, though does not require, an entity to impose service charges for water and sewerage services on owners of property within serviced land, based on the entity’s description of serviced land. Those liable to pay service charges fall within the definition of customers under the Industry Act and are therefore covered by the entity’s customer contract.

Service charges have traditionally applied in most parts of Tasmania, having been imposed by the majority of local government authorities prior to the regional water corporations being established and, subsequently, TasWater. Service charges remain controversial, however, with some property owners forced to pay for a service without using or wishing to use the service.

In its proposed price and service plan for the second regulatory period, TasWater has proposed a service charge comprising the full fixed water target tariff and 60 per cent of the fixed sewerage target tariff. TasWater’s reason for imposing a sewerage service charge at a reduced rate is due to the fact that no sewage is being discharged by unconnected customers and therefore the variable cost component of the fixed sewerage charge is avoided. TasWater has informed the Economic Regulator that it does not intend to impose service charges on customers in limited water quality/supply areas.

Table 6.5 Service charge target tariff – water and sewerage

	2015-16 (\$)	2016-17 (\$)	2017-18 (\$)
Water service charge	293.24	310.84	329.48
Sewerage service charge	337.60	357.88	379.32

TasWater has proposed the above target tariffs on the basis that:

- it is appropriate for all customers who can connect to a service to contribute to the cost of the network; in part because it is an important factor in minimising prices in sparsely populated geographical areas; and
- revenue collected from levying the charge is not insignificant and it allows services to be provided on a more cost effective basis.

In the 2015-16 financial year, water service charges are forecast to apply to 7 656 customers while sewerage service charges are forecast to apply to 8 428 customers.

It is the Economic Regulator’s responsibility to assess the regulated entity’s service charges policy, up against the entity’s description of serviced land, the requirements of section 68A, and the Pricing Principles.

Given that the Pricing Principles can, in the context of service charges, be interpreted broadly, this section seeks to promote discussion on service charges. The following section reviews how service charges are applied in other Australian jurisdictions and the arguments provided for and/or against service charges in those jurisdictions. This information assists in assessing the appropriateness of the service charge arrangements proposed by TasWater.

6.2.3.2 Arguments for water and sewerage service charges

Table 6.6 Service Charges by Jurisdiction

	TAS	VIC	SA	QLD	NSW	WA	ACT	NT
SERVICE CHARGE IMPOSED?	✓	All except some metro/regional service providers	✓	✓	Gosford City, Wyong Councils only	✓	✓	✓
WATER SERVICE CHARGE RATE: ^{Note 1}	100%	50%-100%	Residential: 100% Commercial: minimum rate or % of land value	100%	100%	100%	100%	100%
SEWERAGE SERVICE CHARGE RATE: ^{Note 2}	60%	50%-100%	100% or % of land value, whichever is higher.	50%-100%	GCC: 100% WC: 75%	75% or % of Gross Rental Value	100%	100%

Notes:

1. % of 20mm Fixed Water Rate
2. % of Fixed Sewerage Rate

As set out in Table 6.6, water and sewerage service charges apply in each Australian state and territory. There are a number of arguments commonly used by service providers and/or regulators to justify the imposition of service charges.

One such argument is that service charges reflect the costs of the regulated entity complying with regulatory requirements. In Queensland, water and sewerage service providers are required under section 164 of the *Water Supply Act 2008* (Water Supply Act) to ensure that all properties within serviced land have the ability to connect to the service provider's infrastructure. From a service provider's perspective, the most efficient way to meet this requirement is to build the capacity in the network to accommodate all potential customers in a service area, even though a portion of that service area may initially contain vacant/unconnected lots. This is because it is costly to replace trunk mains at a later date on a case-by-case basis. Section 165 of the Water Supply Act allows the service provider to recover from a customer the reasonable cost of complying with section 164. With this in mind, the Queensland Competition Authority (QCA) position is that service charges represent the recovery of the reasonable costs of complying with a regulatory requirement.¹

A second and related argument is that, if service charges were not to apply, there would be a problem of cross-subsidisation whereby connected customers would pay for the additional capacity reserved for unconnected property owners. At least a portion of these unconnected property owners could be engaging in "land banking"²

¹ SEQ Long Term Regulatory Framework - Pricing Principles, Queensland Competition Authority, March 2014, p. 48

² Land banking is the process of holding land or buying pre-developed parcels of land for future sale or development, typically for the purpose of making capital gains on the value of the land.

and, therefore, having the costs of their investments subsidised by connected customers. In this context, service charges not only prevent cross-subsidisation, but in deterring land banking also encourage property development in areas serviced by existing water and sewerage networks.

These arguments are particularly relevant to areas experiencing high levels of residential growth, such as the ACT. In such instances, those liable to pay a service charge are typically owners of vacant lots created as part of new developments. The service charge encourages property development and ensures that each property owner is contributing to the collective water and sewerage infrastructure costs associated with the development. In most scenarios, a property will be constructed within a year of vacant land being purchased. It is typical therefore that the costs of paying the service charge over that timeframe will be factored into the total costs of buying and constructing a property. When considered in this context, the overall cost of the service charge is relatively minor and tacitly accepted by the property owner. Information provided to the Economic Regulator by the ACT's Independent Competition and Regulatory Commission suggests that, for these reasons, water and sewerage service charges are relatively uncontroversial in the ACT.

A final argument in favour of service charges is that they are offset by the assumed increase in a property's value that occurs from the property's potential to access water and sewerage infrastructure. This argument is made explicit in the majority of Australian jurisdictions by service providers/regulators. There are, however, several caveats to this argument.

While it may be true that access to infrastructure will increase a property's capital value, this will only benefit the owner of a property at the time the service is first made available to that property. This is because any increase in a property's market value as a result of access to infrastructure will be paid for by the next owner(s) at the time of purchase. The increase to property value at the time of purchase will, therefore, offset any increase to the property value at the time of sale for that person(s).

An alternative argument is that, were service charges to be removed from currently serviced areas, this would be unequitable on two accounts. Firstly, the value of unconnected/vacant properties in current serviced land may rise relative to those in non-serviced land. For example, vacant land with access to water and sewerage infrastructure, without any offsetting service charge costs, would presumably be a more valuable investment than the same vacant land without any access to such infrastructure. Property owners outside of serviced land may therefore find it unfair that those within serviced land have value added to their property without any offsetting costs in the form of service charges. Secondly, were service charges to be removed, the service provider would have to recover this loss of revenue from existing customers. Potentially then, removing service charges would have the effect of connected customers subsidising the increase in some unconnected customer's property value.

6.2.3.3 *Arguments against water and sewerage service charges*

The review of service charges across Australia has identified three categories of arguments against water and sewerage service charges. These are: those relating to specific geographic and historic circumstances which make service charges non-feasible; those relating to the broader negative economic impacts of service charges; and finally, those that draw on equity principles.

Geographic/historical factors are particularly relevant in Victoria and NSW, both of which are geographically diverse and contain a number of service providers. As a result, the imposition of service charges is not uniformly practiced across the States. In Melbourne and Sydney, services charges appear not to apply as a standalone tariff. Rather, the vast majority of properties in the cities have long established water meters and are connected to infrastructure by default. As all metered properties incur the standard fixed charge, there is little rationale for imposing a service charge for vacant or unconnected/unmetered properties.

In regional Victoria, services charges are either imposed at 50 per cent of the standard fixed rates, or in a number of cases, not at all. In New South Wales, Hunter Water Corporation does not impose service charges, whereas Gosford City Council and Wyong Shire Council do.

Information from ESC Victoria indicates that there are a number of reasons why certain water and sewerage service providers in Victoria may choose not to impose service charges. In areas with a high proportion of unconnected properties that do not require water and/or sewerage services all year round (eg holiday homes), it would be neither economical nor equitable to impose service charges. Owners of these properties will often prefer to use a non-reticulated water and sewerage system when required, rather than pay an annual charge. There would also be problems with customer traceability and associated billing issues were service charges to be imposed in these areas.

Another reason why some regional Victorian service providers do not impose service charges appears to be due to their historical absence, along with low growth levels in population and property development. For service providers in such areas, the costs – political, economic and administrative – of introducing a service charge may outweigh the benefits. For example, Grampians-Wimmera-Mallee Water imposes a service charge only in designated growth towns, where a ‘development rate’ of \$174.14, roughly 50 per cent of the standard fixed water tariff, applies.

In terms of broader economic impacts of imposing service charges, the Essential Services Commission of South Australia (ESCOSA) has discussed the issue in detail, in its *Draft Inquiry into Reform Options for Drinking Water and Sewerage Pricing* (Draft Inquiry).

ESCOSA raises concerns in the Draft Inquiry that the practice of imposing service charges may encourage over-investment on behalf of service providers – in this case South Australian Water Corporation (SA Water). It states that:

This practice can result in over-investment by SA Water, as it allows SA Water to levy a charge simply as a consequence of laying a pipeline next to a property, regardless of whether or not any service is required.³

If service charges were to be removed, it argues that the “inappropriate distributions of costs and uneconomic investments, which can lead to perverse economic outcomes, are unlikely to occur”.⁴

Should service charges be removed, ESCOSA estimates that the initial loss in revenue (\$10.8m per annum) would lead to annual water and sewerage bill increases of approximately \$8 per customer respectively.⁵ However, the Draft Inquiry goes as far as suggesting that, in the long run, the impacts on customers’ bills may be offset by more efficient investments on behalf of SA Water which in turn will translate into cost savings.

The ESCOSA report also suggests that imposing service charges changes the economics of free choice, creating incentives for those liable to pay service charges to connect to SA Water’s infrastructure rather than remain with non-reticulated systems. Not only does this potentially penalise these people, but it discourages potential water saving measures that may occur through the usage of non-reticulated water systems. This is particularly pertinent in areas with limited overall water supplies.

6.2.3.4 *Service charges pricing discussion*

The above discussion provides a basis on which to assess TasWater proposed service charges tariff structure (tariff structure). This section narrows the scope of this assessment by placing the above discussion into the relevant legislative and regulatory context. As TasWater is by legislation not prevented from imposing service charges, the discussion predominately concerns the arguments that may affect the tariff structure that is ultimately to be set by the Economic Regulator.

Firstly, TasWater’s proposed service charge target tariff structure is consistent with subsection (1)(a) of section 68 of the Industry Act: *a regulated entity is to be provided with a reasonable opportunity to recover the efficient costs of complying with a regulatory requirement*. Such a regulatory requirement can be found under the *Customer Service Regulations*, regulation 6(1), which stipulates that regulated entities are to ensure that any property within 30m of the entity’s infrastructure is able to be connected, providing a number of conditions are met. To comply with this regulation, a service provider needs to ensure there is enough capacity in the network such that all property owners in a service area can connect upon request. Under the proposed price and service plan, all property owners within serviced land pay for these fixed costs, either via a service charge or fixed water and/or sewerage

³ Inquiry into Reform Options for SA Water’s Drinking Water and Sewerage Prices, Draft Inquiry Report, ESCOSA, 2014, p. 113.

⁴ Inquiry into Reform Options for SA Water’s Drinking Water and Sewerage Prices, Draft Inquiry Report, ESCOSA, 2014, p. 116.

⁵ Inquiry into Reform Options for SA Water’s Drinking Water and Sewerage Prices, Draft Inquiry Report, ESCOSA, 2014, p. 116.

charge. This is essentially the same argument that is used by the QCA to support service charges in Queensland.

Arguments concerning land banking and cross-subsidisation are also relevant to TasWater's proposed service charges tariff structure. The proposed tariff structure arguably promotes property development and therefore has a positive economic influence by providing disincentives for land banking in areas serviced by existing water and sewerage networks. Any reduction in the current tariff structure would also advantage those engaging in land banking in service areas relative to those in non-service areas. Similarly, property owners who remain unconnected after a service is introduced to their area will potentially have their property value increased at a 'reduced cost'. Consequently, when and where TasWater decide to introduce their services would potentially be more controversial than would be the case with higher costs for unconnected customers. In terms of cross-subsidisation, any reduction in service charges would be paid for by an increase in the bills of connected customers. In summary, some members of the community may find the arrangements that naturally take place as a result of reducing the tariff structure to be unequitable.

In theory then, there are several arguments that support approving TasWater's proposed tariff. However, it is important to consider what any reduction of the proposed tariff structure would mean in terms of customer bill impact. Using TasWater's forward estimates of revenue to be raised from service charges in the 2015-16 financial year, it is possible to infer how a reduction in the tariff structure would impact upon the bills of connected customers.

TasWater forecasts that \$2.2 million will be raised from water service charges and \$2.8 million will be raised from sewerage service charges in 2015-16. Based on the estimated 255 646 customers paying the fixed charge for water services in 2015-16, a water service charge reduction of 50 per cent would equate to a \$4 bill increase for these customers. Based on the estimated 238 967 customers paying the fixed sewerage charge in 2015-16, a 50 per cent reduction of the sewerage service charge would lead to an increase of nearly \$6 per bill for these customers. Together, reducing the water and sewerage service charge target tariffs by 50 per cent would mean an approximate \$10 increase in the average customer bill.

While the potential significance of this bill impact is likely to vary according to the customer, this is likely to be mitigated somewhat by the price constraints that will apply for the 2015-18 regulatory period. A reduction in the service charge tariff structure will be but one factor in price movements for water and sewerage services.

It is also important to consider whether the arguments for the proposed tariff structure are practically sound in the Tasmanian context. Unlike some other Australian jurisdictions, it is questionable whether Tasmania is experiencing the types of residential growth likely to attract large scale land banking. On the contrary, service charges apply in many cases to long-established communities which contain holiday homes and property owners who might otherwise opt for non-reticulated water and/or sewerage systems (thereby forgoing the costs of connecting to and utilising TasWater's infrastructure). In such cases, the freedom of choice over

service provision is constrained by service charges. This is due to the economic inefficiency implied in using non-reticulated systems while also paying the standard fixed rate for access to reticulated infrastructure. It should also be noted that any growth in property value as a result of access to water and/or sewerage infrastructure is redundant for those who do not wish to sell their properties in the future. In fact, in cases where service charges apply to those who neither require nor benefit from access to water and/or sewerage services, it is arguable that connected customers are the ones being subsidised via service charges.

This leads to the broader economic arguments against imposing service charges, which are also relevant to the Economic Regulator's assessment of TasWater's proposed tariff structure.

Section 68(1)(c) of the Industry Act states that *“the price is to provide effective incentives to promote economic efficiency, reduce costs or otherwise improve productivity with respect to a regulated service.”* With the points raised in ESCOSA's Draft Inquiry in mind, it is questionable whether the proposed service charge rates promote economic efficiency on behalf of the entity. Rather than promote economic efficiency, service charges may instead encourage the provision of services to areas where demand for these services is relatively low.

For new network investment, it should be noted that these concerns may already be mitigated by TasWater's draft service introduction charges policy. In its draft service introduction charges policy, TasWater states that it will require 80 per cent community support for the introduction of water and/or sewerage services before undertaking a detailed plan for the introduction of a service. It is therefore arguable that TasWater has already adopted policies designed to avoid overinvestment.

6.2.3.5 Service charges policy compliance discussion

The Economic Regulator assessed TasWater's draft service charges policy for consistency and compliance with the obligations and principles as outlined in section 68A of the Industry Act, and the Economic Regulator's PSP Guideline. One instance of non-compliance has been identified.

TasWater has stated in its proposed price and service plan that customers to whom a service charge applies will pay the same amount they would expect to pay upon connection. In other words, those customers without a connection in limited supply areas will pay a reduced service charge. However, the PSP Guideline (subclause 4.8.2) provides explicit direction for the entity to specifically address the application of services charges to different customer classes in its service charges policy. TasWater's draft policy is absent of any discussion in this regard.

Since the initial review, TasWater has advised that it will not impose a service charge on property owners in limited service or limited supply areas. This should be noted in the draft policy, with the proposed price and service plan amended with a mirroring statement.

The review of TasWater’s proposed price and service plan has also identified some inconsistencies in the use of the term ‘services charges’, which may confuse readers. TasWater uses the term ‘fixed service charges’ to denote the fixed charges for water and sewerage charges for connected customers. The term ‘service charge’ should be used exclusively to denote the charge levied on unconnected customers within serviced land.

6.2.3.6 Summary

In accordance with the Industry Act, a regulated entity may impose service charges for water services and sewerage services in accordance with the description of serviced land provided as part of its proposed price and service plan. As noted in the above discussion, there are arguments to support TasWater’s proposed service charges tariff structure being consistent with the Industry Act and Pricing Regulations. However, the Economic Regulator notes that the arguments presented in the above discussion that support a reduced tariff structure are equally consistent with the Industry Act and Pricing Regulations. TasWater’s draft service charges policy is largely compliant with the exception of lacking a discussion on the application of service charges to different customer classes.

Based on its assessment of TasWater’s proposed price and service plan, the Economic Regulator proposes to accept TasWater’s proposed service charges tariff structure.

Based on its assessment of TasWater’s discussion on services charges in section 7.2 of the entity’s proposed price and service plan, the Economic Regulator intends to require that TasWater address the inconsistent use of the term “service charge(s)”. Where the fixed charge for water and sewerage is intended to be used, it should be referred to as a “fixed charge” in accordance with clause 4.5.1 of the PSP Guideline.

In respect to different customer classes, the Economic Regulator intends to require TasWater to:

- (1) note the intention to not charge customers in limited water supply/quality areas a service charge in its service charge policy; and***
- (2) make a mirroring statement in its final price and service plan, services charges chapter.***

6.2.4 Sub-metering policy

The Economic Regulator’s PSP Guideline provides that variable charges to be levied by TasWater in the second regulatory period must reflect the costs to TasWater of delivering a volume of water to, or removing a volume of sewage from, the property to which the charges relate.

As outlined in section 3A of the Industry Act, strata title lot owners are considered customers of TasWater, even if their lot does not have a direct connection to

TasWater's infrastructure but rather access water and sewerage services via interposing pipes situated on the strata title property. Therefore, as a customer of TasWater, the strata title lot owner is liable for fixed and variable charges. However, as there is only generally one meter located at the connection point to a property, sub-metering may be required to measure the volume of water used by each dwelling or area on that property to enable the calculation of variable charges for each dwelling or area on a property.

The legislation does not address the issue of whether strata title properties are to be sub-metered. In this way it is up to the regulated water and sewerage entity to propose under what circumstances a strata title property can be sub-metered and, if so, who bears the costs.

Consequently, TasWater was required under the PSP Guideline to include in its proposed price and service plan:

- a discussion of its current approach to sub-metering;
- an explanation and justification of any differences between its current policy and the policy it proposes for the second regulatory period; and
- a sub-metering policy.

Furthermore, the sub-metering policy was required to address:

- the circumstances in which TasWater will offer sub-metering of strata titled properties;
- the process for strata title owners to follow in deciding whether or not to proceed with sub-metering; and
- alternative billing arrangements for boundary meters versus sub-meters.

In its proposed price and service plan, TasWater did not provide, as required, any discussion of the entity's current approach to sub-metering. There was also no explanation and justification of differences (if any) between the current policy and the policy TasWater is proposing for the second regulatory period. The Economic Regulator brought this matter to the attention of TasWater which subsequently submitted additional information in late October 2014. The information received did not detail TasWater's current sub-metering arrangements but did provide an overview of TasWater's proposed process/approach to sub-metering from 1 July 2015. It appeared to the Economic Regulator, upon consideration, that TasWater's sub-metering policy proposal was reasonably similar to the arrangements in place for the first regulatory period.

In addition, TasWater did specify, in the information it more recently provided, that in instances where a developer chooses only to provide a boundary meter the developer would be required to make provisions for potential future sub-meters to be installed. This undertaking to impose additional upfront costs to new developments was not, however, presented with any supporting argument or reasoning by TasWater. The Economic Regulator intends, therefore, to not approve this condition

unless TasWater can provide sufficient justification for this proposal in its final Price and Service Plan and for TasWater to identify the legislative authority under which TasWater believes it is able to introduce such arrangements.

The Economic Regulator also intends to require TasWater to include discussion of the entity's current approach to sub-metering, as well as an explanation and justification of any differences between TasWater's current policy and the policy it proposes for the second regulatory period, in its final Price and Service Plan.

A draft 'metering policy' was, however, provided to the Economic Regulator as an attachment to TasWater's proposed price and service plan. TasWater's proposed policy is titled 'metering policy' as the entity had decided to draft the document with a broader focus than just sub-metering.

However, the PSP Guideline only requires TasWater to include in its proposed price and service plan a sub-metering policy. As this regulatory obligation extends to matters pertaining to sub-metering alone, the Economic Regulator does not intend to review and/or approve any policy of TasWater which deals with metering more generally. In this way, the Economic Regulator intends to require TasWater to re-draft its metering policy to be a standalone sub-metering policy. TasWater will be required to ensure the sub-metering policy addresses those matters as outlined in the PSP Guideline, and as documented above.

Notwithstanding the additional content of the draft metering policy submitted by TasWater, the Economic Regulator assessed the draft policy, from the perspective of sub-metering, for compliance and appropriateness with respect to its application.

The Economic Regulator noted that the draft policy was confusing in parts and concluded that it would be difficult for a customer to read and understand the application of the draft policy to their individual circumstance. Furthermore, the draft policy requires considerable qualification of intent or process with respect to certain matters.

In addition, the draft policy did not address the process for strata title owners to follow in deciding whether or not to proceed with sub-metering, as is required under the provisions of the PSP Guideline. The Economic Regulator considers the term 'process' to denote the undertaking of a series of actions or steps to achieve a particular end. However, TasWater's draft metering policy did not outline any procedure for strata title owners to follow in their contemplation of proceeding with sub-metering on their property.

In light of the above, the Economic Regulator proposes to provide, directly to TasWater, comments on the entity's draft metering policy with a view that TasWater re-draft the policy to improve its readability, functionality and accuracy. Specifically, TasWater will be required to amend the policy to be a sub-metering policy, address compliance related issues and undertake to better outline the steps and processes a TasWater customer is to follow with respect to sub-metering.

The Economic Regulator intends to require TasWater to revise its draft metering policy to:

- (1) be a standalone sub-metering policy;***
- (2) address the comments and questions raised by the Economic Regulator (as forwarded to TasWater simultaneous to the release of this Draft Report for community consultation) to ensure the policy's compliance and accuracy; and***
- (3) include additional information on the process for strata title owners to follow in deciding whether or not to proceed with sub-metering.***

The Economic Regulator intends to not approve TasWater's proposal that a developer, where choosing to only provide a boundary meter, must make provisions for potential future sub-meters to be installed, unless TasWater can provide sufficient justification in its final price and service plan and identify the legislative authority under which TasWater believes it is able to introduce such arrangements.

The Economic Regulator intends to require TasWater to include, in its final Price and Service Plan, discussion of its current approach to sub-metering and an explanation and justification of any differences between TasWater's current policy and the policy it proposes for the second regulatory period.

6.2.5 Developer charges policy

In examining this issue the Economic Regulator notes that it is not responsible for industry or economic development and considers it more appropriate that the State Government or councils, as TasWater's owners, develop policies relating to economic development separate to policies and approaches relating to pricing matters.

Developer charges include headworks charges, assets gifted by developers, and cash payments made by developers to a regulated entity for the construction of new reticulation works.

A developer charges policy is required to be included in the price and service plan to be approved by the Economic Regulator. This policy covers arrangements for developers gifting assets or paying cash for the construction of new reticulation works and for setting headworks charges. The developer charges policy must be consistent with the requirements of the Industry Act and Regulation 20 of the Pricing Regulations and requires the regulated entity to estimate the amount of the developer charge and explain how it has been calculated.

Headworks charges are imposed to recover the costs of installing excess capacity within a water and sewerage network. It is not considered appropriate for existing customers to meet many of these costs as developers receive the benefit of being able to charge higher prices for fully serviced developed land and purchasers of that

land receive the benefit, in terms of enhanced property values, from having land serviced by water and sewerage infrastructure.

TasWater's draft developer charges policy, as included in its proposed price and service plan, was not reviewed for compliance with the relevant legislative and regulatory provisions. This assessment will be undertaken when the overall approach to developer charges to be applied by TasWater has been resolved and subsequently agreed to by the Economic Regulator.

Notwithstanding, the Economic Regulator has an expectation that TasWater's final developer charges policy, when drafted, will provide sufficient guidance and transparency. In that regard, the Economic Regulator will require TasWater to provide, on or before 1 July 2015, a mechanism for developers to obtain estimates of the developer charges associated with potential developments and how the amount of the charge was determined. In order to encourage debate, and to assist TasWater in the finalisation of its policies, some discussion and observations regarding policies applying in other jurisdictions is included in the following sections.

6.2.5.1 TasWater's proposed approach to developer charges

TasWater has proposed that developer charges include the following three components:

- Headworks – a capital contribution towards consumption of capacity in water or sewerage network, or its expansion, which results from a development. These charges are usually levied on a per property/lot basis in a subdivisional development;
- Works internal – any infrastructure which is internal within a subdivision, up to the property boundary, is installed at a developer's cost and gifted (ie contributed) to the regulated entity; and
- Works external – where a development requires stand-alone assets (eg a pump station) to be installed to support the development, at the developer's cost.

TasWater has proposed continuing the current arrangements whereby charges associated with works internal and works external will be recovered on a cost reflective basis through direct payment or gifting of assets.

The Economic Regulator proposes to approve TasWater's retention of the current arrangements for developer charges associated with works internal and works external, subject to feedback from consultation on this Draft Report but that further consideration is required in relation to headworks charges.

In relation to headworks charges, TasWater proposes to depart, for the most part, from the current net present value (NPV) methodology. TasWater's draft policy involves removing headworks charges for all development that is in areas where there is sufficient existing capacity or is consistent with TasWater's immediate infrastructure growth plans. In addition, TasWater has proposed introducing 'out of

sequence charges' for developments that require TasWater to bring forward works ahead of schedule and introducing 'isolated development charges' if the proposed development is outside of TasWater's growth plans.

A summary of TasWater's proposed approach to headworks charges is provided below:

- No charge where a proposed development lies within the existing network capacity or is consistent with TasWater's immediate infrastructure growth plans that would deliver the required capacity.
- An 'Out-of-Sequence' Development' charge equivalent to the funding cost for undertaking planned works earlier than would otherwise be the case where a proposed development is within TasWater's 10 year Capex plan but is brought forward to cater for the new development.
- An 'Isolated Development Charge' would apply where a proposed development is outside TasWater's 10 year Capex plan, with the developer paying all infrastructure costs for their development.

6.2.5.2 State Government Headworks Waiver

The State Government introduced its Headworks Waiver on 1 April 2014, which provides support to new developments by waiving headworks charges for qualifying developments.

The scheme is designed to stimulate economic development by bringing forward pending and new developments. Accordingly, it applies:

- only to the headworks component of developer charges; and
- to developments where headworks become due and payable within the eligibility period 1 April 2014 and 31 March 2016 inclusive.

6.2.5.3 Approach to headworks charges approved under the 2012 price determination investigation

As part of its 2012 price determination investigation the Economic Regulator approved the previous regulated entities' developer charges policies which specified that the entities would adopt a NPV methodology for determining headworks charges. During the 2012 price determination investigation the Economic Regulator considered that a NPV methodology for determining headworks charges was appropriate as it considered that this approach satisfied the Pricing Principles (referred to in section 5.1 of this Draft Report).

The key principle of the NPV methodology is that the cost of providing water and sewerage services for a specific development area is fully recovered from the development through a combination of upfront charges and future periodic charges without placing an additional financial burden on existing customers. This includes full cost recovery from new customers regardless of whether the development is a green field site or redevelopment of a brown field site.

In applying this approach, two similar areas may therefore have different developer charges based on whether the water and sewerage system in the respective area

has spare capacity to accommodate the increased demand that will result from the development. This locational price signalling was considered critical to the justification for regional-based postage stamp pricing in the 2012 price determination investigation.

The NPV methodology requires a regulated entity to identify geographical areas, called headworks zones. The value of the assets required to service the specific area is identified as is the amount the regulated entity will receive in periodic charges in excess of operating requirements. Using the NPV methodology, the costs and revenues are reconciled to a single value by discounting them to today's dollars. The headworks charge is calculated as the difference between the value of the assets required to service the headworks zone and the amount to be funded by periodic charges over a specified time period (as calculated by the present value of the periodic charges).

The table below demonstrates how headworks charges vary considerably across Tasmania.

Table 6.7 TasWater headworks charge per ET 2014-15 (selected locations only)

	Water (\$)		Sewerage (\$)
Beauty Point	551	Wayatinah	80
Granton (west)	617	Smithton	673
King Island	1 684	Scottsdale	896
Smithton	3 394	Devonport	3 156
Tunbridge	11 754	Woodbridge	8 196
Conara	33 909	Exeter	8 255

According to TasWater's Corporate Plan, total revenue from headworks charges has exceeded \$3 million per annum in recent years. The revenue received from these charges is not included in TasWater's RAB as this contribution to assets was funded externally.

The inclusion of 'sunk' assets, particularly where their depreciated value is still high, in the headworks charges can result in a disincentive for developers to locate their developments where they can take advantage of existing capacity. The NPV approach can result in situations where locations that have received new infrastructure and that planning authorities consider appropriate for development are disadvantaged compared to areas where new infrastructure investment has not occurred and development is considered less appropriate.

The argument that least cost provision of services generally entails utilising existing capacity where possible before investing in network augmentation provides an incentive to depart from the current NPV methodology and to consider approaches that encourage developments to occur where it is least costly.

It should be noted that TasWater proposes that service introduction charges (see Section 6.2.8 of this Draft Report) should continue to be calculated based on a NPV methodology to ensure that existing customers do not subsidise the addition of

new ones where a service is introduced. Service introduction charges are not levied on new developments to which developer charges apply.

6.2.5.4 Other possible approaches to headworks charges

In relation to TasWater's proposed approach to calculating and imposing headworks charges, it is important that TasWater develops a robust and transparent process for determining whether there is excess capacity within the network and whether a proposed development is 'in sequence'.

The Economic Regulator has therefore identified three further approaches that could be applied to the calculation and imposition of headworks charges, based on its review of approaches adopted in other jurisdictions and its own analysis. These options reflect alternative views on which costs are properly attributable and recoverable from new developments under various scenarios.

These options include:

- Standardised headworks charges – this approach would apply a flat rate charge and is consistent with an overriding rationale of maintaining a simplified system that treats all customers in a similar manner.
- Uniform nominal headworks charging except for 'stand-alone' developments – similar to the standardised charging approach above, this approach would apply a flat rate charge (at a lower 'nominal' rate) to all locations except for locations that are either not currently within TasWater's serviced land (see Section 6.1) or are not direct extensions to TasWater's serviced land. Developers of these stand-alone projects would face headworks charges calculated according to the NPV based on the infrastructure TasWater is required to provide and the future revenue it will receive from those assets. The nominal rate would be lower than the standardised flat rate charge.
- Within serviced land approach – this approach would apply a low/nominal flat rate charge to all developments within serviced land and a higher flat rate charge to all developments that constitute extensions to TasWater's serviced land. Developers of stand-alone projects would, once again, face headworks charges calculated according to the NPV based on the infrastructure TasWater is required to provide and the future revenue it will receive from those assets.

6.2.5.5 Assessment of possible approaches to headworks charges

The Economic Regulator's criteria for assessing possible approaches to headworks charges includes ensuring that the approach is consistent with the statutory Pricing Principles. In this regard, the Economic Regulator considers it desirable that the approach to headworks charges is cost reflective; transparent; provides certainty for developers; and is simple to administer.

A summary of the different headworks charging approaches and their respective advantages and disadvantages is included in Tables 6.8 and 6.9.

Table 6.8 Summary of headworks charging approaches

Charging approach for Headworks	Network Capacity and Development Scenarios			
	No new capacity required in near future	New capacity required in near future – in-sequence	New capacity required in near future – out-of-sequence	New capacity required in near future – ‘stand-alone’ development
IPART NPV approach – current situation	NPV calculation based on existing assets	NPV calculation based on existing and required assets	NPV calculation based on existing and required assets	NPV calculation based on assets required
‘Out-of-sequence costs only’ approach – TasWater proposed	No charge	No charge	NPV calculation based on cost of bringing works forward	Developer pays full cost
Standardised Headworks charging	Standardised flat charge*	Standardised flat charge*	Standardised flat charge*	Standardised flat charge*
Uniform nominal charging except for ‘stand-alone’ developments	Nominal flat charge^	Nominal flat charge^	Nominal flat charge^	NPV calculation based on assets required
‘Within serviced land’ approach	Nominal flat charge^ (within serviced land)	Nominal flat charge^ (within serviced land)	Nominal flat charge^ (within serviced land)	NPV calculation based on assets required
	Standardised flat charge* (extension to serviced land)	Standardised flat charge* (extension to serviced land)	Standardised flat charge* (extension to serviced land)	

* It is proposed that this charge could be set at around \$2500 per ET per service. This would reflect the approximate median charge currently set by TasWater for headworks per service (ie water and sewerage). The headworks charge applied by many other water and sewerage authorities that use a standardised charge in other jurisdictions is also approximately \$2 500 per service.

^ It is proposed that this charge could be set as low as \$0 - \$250 per service, particularly if it is evident that very few locations within serviced land will need network augmentation in the near future.

Table 6.9 Summary assessment of potential headworks charges options

Option	Advantages	Disadvantages
IPART NPV approach - Current approach	Fully recovers costs (ie lower customer bills for recurrent charges)	Potential to send inappropriate locational price signals Complex to administer and difficult to understand
Out-of-sequence costs only – TasWater proposed	May send locational price signal based on existing capacity In areas with existing capacity, existing customers benefit from zero charging because fixed costs are spread over a larger customer base Less complex to administer Reasonably easy to understand	Likely tension between cost recovery and application of efficient pricing principles under the Industry Act (as likely to lead to very few headworks payments) Inequitable for developers to pay all costs for isolated developments (given the expected future revenue stream to TasWater) Over time will transfer significant revenue burden to existing customers as there will be minimal headworks charges netted off the RAB relative to current arrangements Determining existing capacity and when new capacity may be required may be problematic, non-transparent and lead to implementation in ways not intended Useful, accurate and robust sequencing plans may be difficult to develop and maintain and lead to complexity, lack of transparency and uncertainty
Standardised Headworks charging	Simple to administer and understand Provides certainty to developers	Does not provide any locational price signals which may encourage development in areas that are expensive for TasWater to service Inconsistent with cost reflective pricing principles under the Industry Act
Uniform nominal charging except for stand-alone developments	Simple to administer and understand Provides certainty to developers	Locational price signals limited to stand-alone developments only Inconsistent with cost reflective charging principles under the Industry Act
'Within serviced land' approach	Less complex to administer Reasonably easy to understand May send more appropriate locational price signals Economic Regulator already approves serviced land boundaries which are likely to be better defined and therefore less open to uncertainty and lack of transparency than asset 'sequencing' plans Better capacity for third party review of whether locations are in/not in serviced land compared to whether locations are in/not in asset 'sequencing' plans	Locational signals are not linked to capacity and may not reflect whether additional headworks are required Serviced land boundaries exist at a point in time and don't account for future planned extensions to serviced land

The Economic Regulator considers that, in principle, most aspects of TasWater’s proposed approach to headworks charges are consistent with the Pricing Principles.

TasWater’s approach recognises that new developments can impose costs in the form of extensions or upgrades to its network and that existing customers benefit when new customers connect. This benefit arises because fixed costs are spread over a larger customer base and supports the argument that developments proposed in areas within the existing network capacity not be imposed a headworks charge.

However, in order to implement its proposal, a key prerequisite is for TasWater to develop a Strategic Asset Management Plan outlining capital plans to meet planned growth. The Economic Regulator is concerned that these plans could result in the revenue derived from headworks charges being almost negligible ie these plans could be prepared in such a way that results in no (or very few) new developments being classified as ‘out-of-sequence’ or unplanned, and therefore subject to headworks charges. The effect on customer bills of not imposing headworks charges would be an increase of approximately \$5.60 per bill per annum after five years and increasing by a further \$1.10 per bill year on year.⁶

TasWater states that one rationale for the proposed shift in approach is the need for a headworks charges policy that “incentivises development in line with strategic land use planning”⁷.

The Economic Regulator acknowledges that, prior to the announcement of the State Government’s current headworks waiver, there was a perception in the building industry that the level of headworks charges was detrimental to economic growth and investment across the residential and commercial sectors.

The Economic Regulator considers, however, that measures that support economic activity are more appropriately funded by the relevant level of government and not by TasWater’s customers.

The Economic Regulator considers it inequitable to require developers to pay all the headworks costs associated with ‘isolated’ developments given the expected future revenue stream to TasWater. However, the Economic Regulator acknowledges that a major risk to TasWater associated with isolated developments is that of ‘stranded assets’ ie where an investment is made which fails to generate the expected cash flows. After the costs of managing these stranded assets are taken into account these may actually have a negative NPV.

The Economic Regulator considers that if an isolated development is considered to be ‘high risk’, this risk could be managed by applying a loading to the developments’ headworks charge reflecting the probability of the assets being stranded ie the more speculative the development is, the greater the risk of stranding and consequently the higher the headworks charge.

⁶ Frontier Economics unpublished report (February 2014), commissioned by TasWater

⁷ TasWater PSP 2015-18, p.83

Table 6.9 shows that the various ways in which costs are attributable and recoverable from new developments under the various scenarios lead to each approach having its own advantages and disadvantages. Further, there is no perfect solution that will satisfy all stakeholders' objectives and legislative requirements on how to apply developer charges. In addition, the appropriate level of developer contributions in areas of modest growth with a large existing population is likely to be different from that in a high growth area with a limited existing population base.

In summary, the Economic Regulator considers that:

- some proportion of growth related costs should be recovered upfront from developers rather than over time from customers through recurrent charges;
- there are benefits in a headworks charging approach that is simple and provides certainty and a relatively level playing field for developers; and
- a sensible headworks charging approach should encourage developers to use existing capacity where it exists before requiring TasWater to invest in network augmentation.

On this basis, the Economic Regulator proposes to require TasWater to adopt the 'within serviced land' approach as it provides the best balance between certainty, transparency, cost reflective pricing and the recovery of the cost of providing water and sewerage services from those who benefit from the services.

However, the Economic Regulator acknowledges that there are other options that could be utilised and there may be features of each that could be combined. On that basis the Economic Regulator is particularly keen to receive comment from stakeholders on the most appropriate developer charges arrangements to be adopted, taking into account the legislative Pricing Principles set out in the Industry Act.

The Economic Regulator intends to require TasWater to adopt the 'within serviced land' approach to imposing headworks charges.

The Economic Regulator seeks comment on:

- ***the proposed approaches to the pricing of headworks charges; and***
- ***the appropriate level (in actual dollars) of the charge for each of the nominal flat charge and the standardised flat charge under the proposed 'within serviced land' approach.***

6.2.6 Trade waste charges policy

Trade waste means the liquid waste generated by any industry, business, trade or manufacturing process. As the definition of "sewage" under section 3 of the Industry Act includes trade waste, the disposal, removal and treatment of trade waste is a regulated service.

In accordance with the Economic Regulator’s PSP Guideline, TasWater was required to develop a trade waste charges policy outlining how it intends categorising and treating trade waste customers.

The PSP Guideline also specifies that TasWater’s price and service plan is to describe and justify any changes to its current trade waste policy and submit the policy it is proposing to apply during the second regulatory period. If TasWater proposes departing from the currently approved arrangements TasWater is required to outline how the proposed arrangements better meet the Pricing Principles.

The PSP Guideline further stipulates that TasWater’s trade waste charges policy must include an undertaking that prices negotiated with Category 3 and Category 4 trade waste customers will reflect a reasonable price transition period recognising the time it would take for a trade waste customer to implement appropriate pre treatment if it intended to do so. This requirement was also articulated in the Final Report of the Economic Regulator’s 2012 Price Determination Investigation.

As discussed, TasWater was required to submit a draft trade waste charges policy for the Economic Regulator’s approval. However, as part of its proposed price and service plan, TasWater submitted both a draft liquid trade waste policy and a draft liquid trade waste charges policy. The Economic Regulator, therefore, intends to require TasWater to amalgamate the two draft policies into a single draft trade waste charges policy for approval. Notwithstanding this intention, the Economic Regulator did undertake to review both submitted draft policies for compliance with all obligations under the relevant regulatory and legislative instruments. This review identified numerous instances of non-compliance with the PSP Guideline.

The Economic Regulator intends to require TasWater to amalgamate its draft liquid trade waste policy and its draft liquid trade waste charges policy into a single draft trade waste charges policy for the Economic Regulator to approve.

The draft trade waste charges policy put forward in TasWater’s proposed price and service plan was largely the same as the existing policy and charging arrangements. The most significant change relates to the modification of trade waste customer categories using a risk assessment of trade waste impacts on the sewerage system as the basis for categorising and calculating trade waste charges. Since the merger of the regional entities, TasWater has reviewed trade waste prices and practices to improve consistency and compliance. As part of this process, TasWater has been working with customers to increase their understanding of the risks trade waste discharge poses for sewerage systems, the environment and public health and safety. As well as helping customers to identify ways of reducing the volume and strength of waste being disposed of through the sewerage system (through appropriate pre-treatment), TasWater believes that by educating customers and implementing a ‘polluter pays’ principle, customers are encouraged to take more responsibility in meeting their trade waste obligations.

Under the previous regulated entities’ respective Price and Service Plans the Economic Regulator approved four categories of trade waste customers: Category

1, 2, 3 and 4. Category 1 and 2 trade waste customers were those customers assessed as having low grade or low to medium volumes of waste and the prices paid by those customers were regulated. Category 3 and 4 trade waste customers were higher risk in terms of their impact on the sewerage network and were not price regulated although the service received by those customers constituted a regulated service.

Category 1 and 2 trade waste customers were treated as tariff customers covered by a standard regulated contract under section 60 of the Industry Act (and, therefore, covered by the Code) with approval to discharge trade waste by virtue of a trade waste consent which was an addendum to the contract. On the other hand, Category 3 and 4 trade waste customers were required to enter into trade waste agreements in accordance with section 61 of the Industry Act in recognition of the fact that these customers had the ability to negotiate with the regulated entity. It was also recognised at that time that in the longer term the provision of trade waste services to large customers is often not a monopoly service as the customer may elect to pre-treat its trade waste to sewage quality waste. However, it was also accepted that arrangements to pre-treat trade waste would take time to implement and the Economic Regulator considered that, in the interim, there was a risk that the previous regulated entities may be able to exploit their monopoly status with large trade waste customers. As a result the previous entities were required to provide undertakings to mitigate this risk for Category 3 and 4 trade waste customers.

In its proposed price and service plan, TasWater proposed refining the trade waste customer categories using a technical and commercial risk assessment of trade waste impacts on the sewerage system as the basis for categorising and calculating trade waste charges. More specifically, it was proposed that the existing Category 2 be split into three sub-categories to more accurately categorise trade waste customers according to their demand on the sewerage system and, therefore, the cost of delivering trade waste services to those customers.

The new risk assessment in the proposed price and service plan is based on a method outlined in the *WSAA Australian Sewerage Quality Management Guideline 2012* (WSAA Guideline), which results in the previous Category 2 trade waste customers being divided into three sub-categories (2A, 2B and 2C). TasWater's proposed price and service plan outlined that a customer's overall risk score is to be based on the following factors:

- the type of business activity being undertaken;
- the substances involved;
- any pre-treatment occurring; and
- the volume of trade waste being discharged.

The following table sets out TasWater's forecast of the number of trade waste customers in each category for the second regulatory period together with the number of trade waste customers in each category as forecast as part of the 2012 price determination investigation:

Table 6.10 Number of trade waste customers – comparison of 2012 and 2015 forecasts

Category	Forecast of number of customers during 2015-18 (PSP2)	Forecast of number of expected customers in 2014-15 (PSP1)
1	869	3 184
2A	2 104	
2B	243	2 644
2C	251	
Total	3 467	5 828

As shown in Table 6.10, whilst the forecast number of Category 2 trade waste customer has remained constant, the forecast number of Category 1 trade waste customers is expected to drop significantly. The Economic Regulator sought an explanation from TasWater as to the reason for the reduction in the number of Category 1 trade waste customers and was advised that the original forecasts for the first price and service plan were based on various data sources including council information, Australian Business Register records and available land use codes. These estimates were higher than the actual number of Category 1 customers that have subsequently been identified by TasWater.

Whilst TasWater’s proposed price and service plan provided information on the methodology underlying the adoption of the new customer categories, it did not provide sufficient information on how the policy would actually work in practice, especially in relation to the allocation of customers into different categories. On the latter point, TasWater’s proposed price and service plan provided only a general reference to the categorisation being based on the principles set out in the WSAA Guideline.

The Economic Regulator also noted the inconsistent use of terms and document titles within TasWater’s draft trade waste policy, as was the case with a number of TasWater’s other draft policies. As an example, in the ‘Associated Documents/References’ section of TasWater’s draft liquid trade waste charges policy reference is made to the ‘Liquid Trade Waste Guideline’ yet this document is referred to in TasWater’s draft liquid trade waste policy as the ‘TasWater Trade Waste Guideline’. Correctly citing source or reference documents is paramount to ensuring the legality and accuracy of the policy documents and also to avoid confusing customers about their obligations.

The Economic Regulator intends to require TasWater to amend its draft liquid trade waste policy to correct the inconsistent use of terms and document titles.

The Economic Regulator informed TasWater of the shortcomings of its proposed price and service plan with respect to trade waste and required TasWater to provide further information and/or explanation.

In response to the Economic Regulator’s request for further clarification about the operation of its draft trade waste policy in general and the categorisation of

customers in particular, TasWater provided a presentation on its draft trade waste policy.

TasWater's presentation also included a demonstration of a prototype of an Excel spreadsheet model it was developing (a Trade Waste Category Calculator) to allow trade waste customers to self-assess their respective trade waste category and the associated annual charges.

The Economic Regulator noted that, in using the proposed Trade Waste Category Calculator, the customer was required to only enter the type of business activity they were engaged in from a drop down list together with their anticipated annual water consumption.

The Economic Regulator intends to require:

- (1) TasWater to provide, on its website, a final version of its Trade Waste Category Calculator so that it is available to trade waste customers and the public generally; and***
- (2) that the Trade Waste Category Calculator links to relevant policies and other supporting materials released by TasWater in relation to trade waste to assist customers in understanding their trade waste obligations and in undertaking the self assessment process.***

As explained above, TasWater's proposed categorisation of trade waste customers has been based on a risk based approach, outlined in the WSAA Guideline. However, the Economic Regulator understands that the WSAA Guideline is not publically available.

The Economic Regulator intends to require TasWater to clearly outline, and publish, the methodology on which it has based its trade waste customer categorisation in its trade waste charges policy.

The Economic Regulator's review of TasWater's proposed price and service plan identified issues in relation to the proposed treatment of Category 3 and 4 trade waste customers. The Economic Regulator expects that a regulated entity's trade waste charges policy would detail the entity's position on, and relevant procedures concerning, its interactions with all trade waste customers. However, TasWater's draft liquid trade waste charges policy related only to Category 1 and Category 2 trade waste customers. TasWater's proposed price and service plan did not discuss trade waste arrangements for Category 3 and Category 4 trade waste customers. Furthermore, the draft liquid trade waste charges policy did not include an undertaking that prices negotiated with Category 3 and Category 4 trade waste customers would reflect a reasonable transition period recognising the time it would take for a trade waste customer to implement appropriate pre-treatment if it intended to do so. As a result, the draft policy was not compliant nor did it provide a means by which TasWater's trade waste customers could gain an understanding of their respective obligations with respect to trade waste.

During the course of the investigation the Economic Regulator also reminded TasWater of the requirement to demonstrate how the proposed charges for Category 3 and 4 trade waste customers reflected a reasonable transition path for those customers. In response, TasWater provided a presentation to the Economic Regulator which outlined how Category 3 and 4 customers would be treated under the next regulatory period. TasWater explained that volume charges approved by the Economic Regulator as part of the first Price and Service Plan pricing model would continue to be used (ie charges are based on the cost to treat a kilolitre of wastewater) and that mass load charges for pollutants taken from *NSW Liquid Trade Waste Guidelines 2009* and CPI-based indexation would also be added to the charge. TasWater explained that the intention was to apply full cost charges to all Category 3 and 4 customers with pre-treatment milestones included in specific Industrial Transitional Agreements with those customers.

In response to a request from the Economic Regulator, TasWater also gave an example of a transition path for a Category 3 or Category 4 customer as one where the customer had been previously approached about trade waste compliance by a regional corporation but had not made any attempt to comply with its trade waste obligations. In this example, there wasn't any data available on produced waste quality nor had the customer undertaken any onsite pre-treatment. In a situation such as this, TasWater proposes charging 10 per cent of cost in the first year, require sampling points to be installed and impose short term sewer acceptance limits. In the second year TasWater proposes increasing the charge to 40 per cent of cost and add additional compliance requirements, such as the installation of an attenuation tank, discharge flow meter and automated pH correction. The third year would see the charge increased to 70 per cent of cost and an increased compliance monitoring program introduced. The fourth year would see the price transition to 100 per cent of cost and would require long term sewer acceptance limits to be met.

The Economic Regulator considers that TasWater's proposed transition path with respect to Category 3 and 4 trade waste customers, as explained in the above example, appears to be reasonable.

The Economic Regulator intends to require TasWater to include, in its final Price and Service Plan and in its trade waste charges policy, an undertaking that prices negotiated with Category 3 and Category 4 trade waste customers will reflect a reasonable transition period (and explaining what this transition period entails) recognising the time it would take for a trade waste customer to implement appropriate pre-treatment if it intended to do so.

With respect to Category 1 and Category 2 trade waste customers, TasWater's proposed price and service plan outlined that customers above the target tariff at the start of the period will transition down by one third of the gap to the 2018 target tariff in each year of the second regulatory period, and customers below target will transition up to the target tariff in the same manner.

In addition to the target tariffs, TasWater has proposed continuing charging Category 1 and Category 2 trade waste customers an application fee and non-compliance fees similar to the price structure approved in 2012. The application

fee is standardised and is intended to cover the average time required to assess a trade waste application. TasWater also proposes continuing to levy non-compliance charges, enabling the recovery of costs associated with a trade waste customer failing to comply with the conditions of an agreement or consent, or failing to obtain approval for discharge of trade waste to sewer. The multipliers used to calculate the non-compliance charges are applied to reflect either a minor or major non-compliant event. Minor non-compliance refers to single event which does not have a significant impact on the sewer. Major non-compliance events are those that are expected to cause significant impact on the sewerage network, the receiving environment or public health and safety. TasWater's proposed trade waste charges for the 2015-18 regulatory period are outlined in the following table:

Table 6.11 Proposed Trade Waste Charges for the 2015-18 regulatory period

Trade Waste Category	Application Fee	Target Tariff	Non-Compliance Charge (Minor)	Non-Compliance Charge (Major)
1	\$134.80	\$520.76	\$1 041.54	\$1 562.28
2A	\$134.80	\$853.60	\$1 707.16	\$2 560.76
2B	\$134.80	\$1 197.80	\$2 395.60	\$3 593.40
2C	\$134.80	\$1 796.40	\$3 592.84	\$5 389.28

TasWater considers that the proposed fees are reflective of the expected infrastructure and operational costs incurred by compliant businesses that have been required to install pre-treatment within the second regulatory period. TasWater proposes that it will index trade waste charges for Category 1, Category 2A, Category 2B and Category 2C trade waste customers by 2.5 per cent each year. The Economic Regulator notes that the indexation rate of 2.5 per cent per annum is consistent with the proposed rate for the indexation of miscellaneous charges and is broadly reflective of recent Consumer Price Index changes.

The Economic Regulator notes that, compared to the fees approved in 2012, the proposed application fee for Category 2 trade waste customers has halved and that the non-compliance charges (major) are substantially lower than was previously the case.

The Economic Regulator was unable to identify any directly comparable pricing structures for other service providers to benchmark against and has proposed, based on the preceding discussion, to approve TasWater's proposed trade waste charges.

The Economic Regulator proposes approving:

- (1) the proposed trade waste charges in respect of Category 1, Category 2A, Category 2B and Category 2C trade waste customers for the 2015-16 financial year, as outlined in Table 6.11; and***
- (2) the annual indexation of TasWater’s proposed trade waste charges for Category 1, Category 2A, Category 2B and Category 2C trade waste customers by 2.5 per cent for each of the 2016-17 and 2017-18 financial years.***

6.2.7 Service extension and expansion policy

Section 56J of the Industry Act requires TasWater, as a regulated entity, to include in its proposed price and service plan a policy that sets out the circumstances in which TasWater will extend and expand its water infrastructure and sewerage infrastructure. It is also a requirement that this policy include the terms and conditions that will apply to such an extension or expansion.

The Economic Regulator’s PSP Guideline replicates these legislative provisions, specifying that TasWater’s extension and expansion policy must:

- distinguish between expansion and an extension;
- set out the circumstances in which TasWater will extend and expand its water infrastructure and sewerage infrastructure, including the circumstances in which it will extend or expand its water infrastructure or sewerage infrastructure at the request of a person;
- include the terms and conditions that will apply to such an extension or expansion;
- explain how extensions and expansions will be paid for; and
- be consistent with the Pricing Principles outlined in section 4.1 of the PSP Guideline.

As noted in section 4.7 of the PSP Guideline, the land which TasWater will permit to be connected to its water infrastructure or sewerage infrastructure (serviced land) must be described in the TasWater’s connection policy developed under section 56U(1)(a) of the Industry Act. TasWater’s approach to connecting land that is outside serviced land to TasWater’s infrastructure must also be described in TasWater’s extension and expansion policy.

TasWater’s extension and expansion policy is to, therefore, take into account serviced land as discussed in section 4.7 of the PSP Guideline and its connection policy developed under section 56U(1)(a) of the Industry Act.

In addition, TasWater’s extension and expansion policy is to be consistent with its developer charges policy prepared in accordance with Regulation 8 of the Pricing Regulations and the PSP Guideline.

TasWater included a draft service extension policy as an attachment to its proposed price and service plan. As with the other policies provided, the Economic Regulator reviewed TasWater’s draft service extension policy for compliance against the relevant regulatory and legislative requirements.

First and foremost, and as the title of the draft policy would suggest, the Economic Regulator identified that the policy document was absent of discussion with respect to the expansion of TasWater’s water infrastructure and sewerage infrastructure. In this way, the draft policy was in contravention of the Industry Act and PSP Guideline.

The draft policy did not fulfil the requirements of the Price and Service Plan Guideline as it did not describe TasWater’s approach to connecting land that is outside serviced land to TasWater’s infrastructure. In addition, the draft policy required qualification of intent or process with respect to certain matters, including the liability for payment for service extension and service expansion. More generally, the draft policy provided limited information and lacked clarity for customers (or potential customers) on TasWater’s procedures and conditions to be imposed with respect to extension. The Economic Regulator’s review process also identified defined terms not being used within the policy document. These defined terms are redundant and the Economic Regulator suggests these terms be removed by TasWater.

The Economic Regulator intends to offer TasWater comments with respect to the aforementioned issues to assist the entity in developing a fully compliant and functional service extension and expansion policy for submission as part of TasWater’s final Price and Service Plan.

The Economic Regulator intends to require TasWater to revise its draft service extension policy to:

- (1) meet the obligations of the Industry Act and PSP Guideline by addressing matters pertaining to service expansion; and***
- (2) address the comments and questions raised by the Economic Regulator (as forwarded to TasWater simultaneous to the release of this Draft Report for community consultation) to ensure the policy’s compliance and accuracy.***

6.2.8 Service introduction charges policy

The Pricing Regulations state a price determination may require a Price and Service Plan for a regulated entity to include a policy in respect of service introduction charges. The policy must be consistent with the requirements of the Pricing Regulations and specify how the regulated entity will determine and apply service introduction charges consistent with the Pricing Principles.

TasWater has structured its service introduction charges policy in terms of ‘introduction of service’ and ‘service introduction charges’.

6.2.8.1 *Introduction of service*

Service introduction refers to the construction of water infrastructure and/or sewerage infrastructure to provide reticulated water and/or sewerage services in areas not previously receiving reticulated water services and/or sewerage services. The Economic Regulator noted that the definition provided in TasWater’s draft service introduction charges policy is different from the above, and contains confusing terminology. The Economic Regulator will provide comments to TasWater directly about these issues.

In its draft service introduction charges policy, TasWater states that a service introduction proposal will only proceed if it is deemed commercially viable. TasWater proposes for the second regulatory period that, in order to meet the commercial viability test, 80 per cent of property owners in a proposed service area must support the introduction of water and/or sewerage services to that area. TasWater states that it will require this 80 per cent of property owners to enter into a contract committing to a property service connection before a proposed service introduction will advance to a detailed design stage.

Any contract entered into by TasWater and a person outside of serviced land is neither a customer contract nor a contract entered into under section 61 of the Industry Act (defined as a contract with a customer that is not a customer contract). Therefore, such a contract is not regulated by the Economic Regulator. However, the Pricing Regulations stipulate a number of requirements that the entity must fulfil in respect to the owner of a property to which a service introduction charge relates. TasWater has stated its intentions to fulfil these requirements in its draft service introduction charges policy.

TasWater noted that, where the absence of water and/or sewerage services is causing significant and/or wide scale environmental harm and/or public health issues, as identified by one of several relevant authorities, it may consider the introduction of new water services and/or sewerage services to areas not within serviced land. TasWater notes that a funding model for such projects has not yet been determined.

The Economic Regulator considers that this principle is consistent with the Pricing Principles for two reasons. First, in accordance with section 68(1)(a), a regulated entity is to be provided with a reasonable opportunity to recover the efficient costs which the regulated entity incurs in providing a regulated service. Second, while this is the case, the circumstances under which a service is introduced for environmental and/or public health reasons may not be consistent with the standard service introduction process⁸. As such, the regulated entity must be afforded a degree of flexibility in determining a funding model for a service introduction based on public health and/or environmental issues.

⁸ For example, if a relevant government agency or body determines that the introduction of reticulated service is necessary for public health and/or environmental reasons, but the regulated entity is unable to gain the threshold 80 per cent community commitment to a service connection.

The Economic Regulator intends to require TasWater to re-draft its definition of ‘service introduction’ as stated in its service introduction charges policy, with the definition provided in the PSP Guideline being the preferred option.

6.2.8.2 *Service introduction charges*

A *service introduction charge* is defined in the Pricing Regulations as “a charge, in respect of a property, that relates to the installation, alteration or utilisation of assets by a regulated entity so as to enable the provision by the entity of a regulated service to the property but does not include –

- a) a connection charge; or
- b) a fixed charge; or
- c) a developer charge.”

The definition provided in TasWater’s draft service introduction charges policy differs from the above definition.

TasWater proposed that service introduction charges will be calculated based on the NPV of the cost of providing the assets specific to the service introduction, less the present value of the amount to be recovered through upfront and ongoing water and/or sewerage charges imposed on the service area customer base. The service area customer base used to calculate the NPV is 80 per cent of property owners in the service area, based on the minimum amount of property owners required to commit to a service before a service introduction will proceed.

Consistent with the Pricing Principles, the policy states that the owner of a property subject to a service introduction charge may pay the charge over a period of 12 months or, at the owner’s request, over a period of less than 12 months.

The Economic Regulator notes that the definition of *service introduction charge* in the Pricing Regulations implies that a property owner is liable to pay the service introduction charge from the date on which that property is able to connect to and use a regulated service. However, as this policy is to be a public document, the Economic Regulator intends to require that TasWater make this explicit.

Finally, the Economic Regulator has identified one instance of non-compliance with the service introduction charges section of TasWater’s proposed price and service plan. The PSP Guideline states that a proposed price and service plan must include an undertaking by the regulated entity that it will calculate and publish proposed service introduction charges per property, per service, prior to undertaking community consultation on any intended service extension that will be subject to service introduction charges. No such undertaking has been included in TasWater’s discussion of the service introduction process.

The Economic Regulator intends to require TasWater to:

- (1) amend the definition of ‘service introduction charge’ to mirror that defined in the Pricing Regulations;***
- (2) clarify the preconditions for imposing a service introduction charge on an owner of a property – eg upon connection, upon service availability, prior to service availability etc; and***
- (3) include an undertaking that it will calculate and publish proposed service introduction charges per property, per service, prior to undertaking community consultation on any intended service extension subject to service introduction charges.***

6.2.9 Other policies relating to TasWater’s interactions with customers and potential customers

In accordance with the Economic Regulator’s PSP Guideline, TasWater included, in its proposed price and service plan, all of its internally approved policies which relate to the entity’s interactions with customers and potential customers. Two such policies were provided, namely, TasWater’s policies with respect to complaints and financial hardship. The Economic Regulator reviewed these policies for compliance against the relevant regulatory and legislative instruments. An overview of the assessment outcomes is provided below.

6.2.9.1 *Complaints, enquiries and disputes management policy*

The Code specifies the minimum standards and conditions of service and supply that a regulated water and sewerage entity must comply with, including the adoption of certain policies and procedures.

It is a requirement under the Customer Service Regulations that the Code specify that a regulated water and sewerage entity have a policy about customer complaints and the resolution of disputes between customers and the entity.

The Customer Service Regulations provide explicit detail on what must be specified in that policy. Such regulatory obligations have been mirrored in clause 4.1 of the Code (Complaints, disputes and customer enquiries) to make clear to an entity what information, at a minimum, must be provided in the regulated entity’s complaints, enquiries and disputes policy.

The Economic Regulator identified several areas of non-compliance with TasWater’s draft complaints, enquiries and dispute management policies and brought these to TasWater’s immediate attention. TasWater subsequently chose to re-draft and re-submit the policy. The revised draft was received by the Economic Regulator on 3 October 2014.

The title of the draft policy was amended to be the “Customer complaints, enquiries and disputes management policy” and the revised policy had been extended to cover all requisite inclusions as outlined in clause 4.1 of the Code. A copy of the

revised draft policy was subsequently published on the Economic Regulator's website.

To this end, the Economic Regulator considers TasWater's draft customer complaints, enquiries and disputes management policy appeared to be consistent with the objectives of the Customer Service Regulations and the Code.

The Economic Regulator intends to require TasWater to amend its draft Customer complaints, enquiries and disputes management policy to ensure its accuracy and compliance with the relevant regulatory instrument.

6.2.9.2 *Financial hardship policy*

The Customer Service Regulations also provide that the Code specify that a regulated water and sewerage entity have and apply a financial hardship policy to customers who are suffering financial hardship.

The Customer Service Regulations again outline a series of obligatory inclusions with respect to the drafting of an entity's financial hardship policy. The Customer Service Regulations also stipulate the criteria to be met for a customer to be deemed to be suffering financial hardship. Such provisions have been mirrored in clause 6.4 of the Code (financial hardship policy).

Upon consideration and assessment of TasWater's draft financial hardship policy, the Economic Regulator identified some instances of non-compliance with provisions of the Customer Service Regulations and the Code with respect to what a policy of this nature must specify.

Upon review, it is evident that TasWater's policy did not adequately identify the criteria it applies in its assessment of whether or not a customer is suffering financial hardship. The policy noted that TasWater "*extends the Hardship Policy to those who are identified either by themselves, by the Corporation or an independent financial counsellor*". Furthermore, that "*the Corporation identifies customers facing financial hardship through its billing process and a customer's payment history*". This does not clarify how a customer is deemed, by TasWater, to be experiencing financial hardship. For example, is there a threshold of how many late payments are received from the customer or the number of requests for payment extension which triggers the application of the financial hardship status?

TasWater should ensure that its financial hardship policy is clear with respect to the indicators which it uses to determine financial hardship eligibility. In addition, the assessment criteria should, at a minimum, reflect the qualifying principles as outlined in clause 6.4.2 in the Code. Specifically, it should be apparent that, for the purposes of TasWater's financial hardship policy, TasWater will deem a customer as suffering from financial hardship if –

- the customer occupies, as his or her principal place of residence, a property in respect of which the person is a customer of TasWater; and

- the customer, an accredited, independent financial institution, or an institution that provides, on a not-for-profit basis, assistance to persons experiencing financial difficulty, has notified TasWater that the customer is suffering financial hardship and is consequently having difficulty, or expects in the near future to have difficulty, in paying an amount of money specified in an account that is or may be issued by TasWater in relation to the property; and
- the customer would, but for financial hardship, pay the amount of money or amount of moneys that are, or may become, due and payable by the customer to TasWater.

It is also a requirement under clause 6.4.3 of the Code that TasWater's financial hardship policy contain policies and internal assessment processes for implementation by persons employed or engaged by TasWater to enable those persons to:

- determine a customer's eligibility of financial hardship,
- make an early identification (in this regard); and
- determine the internal responsibilities for the management, development, communication and monitoring of the policy.

With the exception of TasWater noting that it will provide its customer service staff with ongoing training about the financial hardship policy, the policy document was absent of information with respect to additional policies and internal assessment processes for implementation.

Clause 6.4.3 of the Code also specifies that the financial hardship policy must:

- state the circumstances in which TasWater will waive or suspend fee and interest payments on outstanding amounts;
- offer information about TasWater's dispute resolution policy;
- detail the circumstances in which the policy will cease to apply to customers; and
- provide for a review mechanism of the policy and its associated procedures.

The Economic Regulator noted that these aforementioned requirements have also been omitted from TasWater's draft financial hardship policy.

The Economic Regulator's review also identified some inconsistency in referencing titles of documents throughout the draft policy, which may affect the policy's legality and application.

The Economic Regulator will provide comments to TasWater directly about such minor editorial issues. Subject to all of the aforementioned matters being addressed, the Regulator is otherwise satisfied that TasWater's draft financial hardship policy is consistent with the objectives of the Customer Service Regulations and the Code.

The Economic Regulator intends to require TasWater to amend its draft financial hardship policy so that it is fully compliant with the relevant regulatory and legislative instruments.

6.3 Service replacement

6.3.1 Background

Service replacement involves replacing reticulated services with other arrangements, most commonly replacing reticulated water supply with water tanks. The Economic Regulator considers that it is important that a robust framework exists for TasWater to follow when considering whether to replace an existing service.

Any reductions in serviced land due to service replacement proposals will need to be approved by the Economic Regulator prior to that service replacement taking place and, consequently, the serviced land boundary changing.

Service replacement will only be permitted where:

- there are environment or public health issues that need to be addressed; and
- the cost of addressing those concerns through upgrades to the reticulated system is considered uneconomical.

The Economic Regulator does not intend assessing a serviced land reduction proposal, arising from service replacement, from a wider socio-economic or public benefit perspective. Rather, the Economic Regulator's assessment will be based on whether TasWater has followed an appropriate process and whether the proposal has appropriate support.

6.3.2 Regulatory framework

The water and sewerage regulatory framework provides guidance in relation to the requirement for a regulated entity to make customer connections and sets out conditions that apply to the disconnection of customers from reticulated services.

Regulation 8 of the Customer Service Regulations provides that a regulated entity can initiate the disconnection of a reticulated service under certain circumstances, including where the customer has requested or agreed to the disconnection.

Where a service replacement proposal involves disconnecting regulated reticulated services, it is considered that Regulation 8 provides the opportunity to do so. However, the water and sewerage regulatory framework does not explicitly address the issue of service replacement.

On that basis the Economic Regulator stated in its PSP Guideline that it will only approve a service replacement proposal if it is satisfied that:

- the proposal involves the replacement of the current reticulated service with another form of service provision;

- TasWater has examined options other than service replacement, but they were technically not possible or were impractical due to the costs involved (noting that costs can be determined in a number of ways, for example, capital cost per connection);
- the service replacement proposal has been discussed with, and is supported by, all relevant industry regulators, including the EPA, Director of Public Health and the TFS and relevant planning authorities;
- TasWater has consulted with affected customers (particularly any customers identified by the regulated entity under the requirements of the Code as being special needs customers) and the proposal has broad community support; and
- the proposal is consistent with any relevant legislative or regulatory obligations or government policy.

The Economic Regulator further stated that it will not specify limits for what might constitute an ‘uneconomical cost’ or ‘broad community support’, in terms of the requirements above, as these may vary in different circumstances. Rather, the Economic Regulator considers that it is TasWater’s responsibility to justify its position as part of any service replacement proposal.

6.3.3 Outline of TasWater’s proposed service replacement process

TasWater’s proposed price and service plan incorporates its *Small Towns Water Supply Guideline* which outlines TasWater’s proposed approach to the assessment of options for the provision of water services to residents of small towns. TasWater’s strategy for the provision of water services to small towns takes into consideration:

- Australian Drinking Water Guidelines (ADWGs);
- Tasmanian Drinking Water Quality Guidelines (TDWQG) – which provides two mechanisms for addressing immediate public health risks, including Boil Water Alerts (temporary or permanent) and a Public Health Alert (ie a “Do Not Consume”) notice; and
- DHHS requirements. The Strategy indicates that DHHS is not willing to accept a permanent Boil Water Alert Notice of Public Health Alert as a viable solution to address non-compliant drinking water quality standards.

TasWater’s strategy also outlines a high level process and a broad set of criteria for determining whether to provide treated water in accordance with TDWQG or whether to consider service replacement (ie replace an existing reticulated system with an appropriate alternative supply source). These categories are outlined in Table 6.12.

Table 6.12 TasWater’s proposed criteria for determining whether to provide treated water or consider service replacement

Category	Water treatment or service replacement	Criteria
Category A (1)	Water treatment	Cost per connection < \$20,000
Category A (2)	Water treatment	<ul style="list-style-type: none"> ▪ Cost per connection > \$20,000, but ▪ The town meets at least one of the following key assessment criteria: <ol style="list-style-type: none"> 1. There are at least approximately 100 connections, with more than 60% of the premises occupied 2. There is a growing population base 3. The water supplies social services, industries or schools 4. The water supply is on a major tourist route.
Category B	Service replacement with alternative cost effective supplies such as water tanks, irrigation supplies or other arrangements.	Cost per connection > \$20 000, <ul style="list-style-type: none"> ▪ The town does not meet any of the other key assessment criteria (listed under A2) Alternative options are implemented only after alternative options are discussed with communities, owners and regulators.

TasWater considers that \$20 000 per connection is the threshold above which the cost of upgrading the services is considered worthy of additional investigation/assessment to justify the implementation of a drinking water supply at ADWG standard. In response to the Economic Regulator’s request for justification of this figure, TasWater advised that the \$20 000 per connection threshold was initially derived by Ben Lomond Water and has carried across to TasWater. The following calculation was used as a basis to support the \$20 000 per connection threshold:

- The Ben Lomond Water Price and Service Plan for 2012-15 included revenue per ET of \$466 based on average consumption of 200 kilolitres (2012-13 dollars).
- A GHD asset valuation of Ben Lomond Water’s water treatment plants established a weighted useful life for those assets of 42 years.
- The revenue that BLW could therefore expect to receive per ET over the life of a package water treatment plant asset (in 2012-13 dollars) would be equal to $42 \times \$466 = \$19\,572$ or approximately \$20 000.

TasWater has included a threshold of 100 connections above which service replacement will not be pursued as TasWater considers that towns with more than 100 connections are generally less likely to reduce in size to the point of TasWater being left with ‘stranded assets’ (ie infrastructure left with very few, or without any, customers to pay for its maintenance).

TasWater has not proposed any process under which the property owners of a community could choose, instead of service replacement, to contribute to the costs of upgrading their current reticulated service. Therefore, in the absence of a proposal from TasWater, TasWater will not be able to provide this as an option to communities during the second regulatory period as the methodology for determining any such charge needs to be approved by the Economic Regulator before agreements can be entered into with property owners.

The Economic Regulator notes that TasWater's proposed process did not provide any means for property owners to seek a review of TasWater's proposed course of action.

6.3.4 Assessment of TasWater's proposed service replacement process

When TasWater was created it inherited significant legacy issues from the previous owners of Tasmania's water and sewerage infrastructure, in the form of services which failed, and continue to fail, to comply with contemporary environmental and public health standards.

Water and sewerage infrastructure is costly and, in the case of some small communities, the replacement of reticulated services with alternatives such as rain water tanks may be a more economically efficient means of addressing environmental and public health risks than investing in new or upgraded reticulated service assets. However, the disconnection of a community from a reticulated essential service is not a common occurrence in Australia.

Given the consequences of replacing a reticulated service are significant, the Economic Regulator considers that TasWater's framework for considering whether to replace a service, as well as the processes for implementing alternatives to a reticulated service, needs to be robust to protect the best interests of the communities involved.

The Economic Regulator considers that TasWater's final Price and Service Plan will need to provide detailed guidance for those situations where a regulated reticulated service that does not meet contemporary environmental and/or public health standards might be changed. As part of a proposal to replace a regulated reticulated service, the new supply arrangements must be deemed to lead to an improvement in drinking water quality as compared to the water supplied by the current supply system.

However, in supporting any service replacement framework under which TasWater identifies areas where reticulated service replacement may be examined, the Economic Regulator is not seeking to explicitly identify communities that will, or should have, reticulated services replaced with an alternative service.

Rather, TasWater must engage the community to ensure the process for service replacement is transparent and present evidence of broad community support for any proposal. As part of this, it is expected that proposals presented for consultation with the community and for consideration by industry regulators will include an

appropriately detailed assessment of the impacts of the proposal, including costs faced by individual households and businesses.

While it is necessary for TasWater to comply with its regulatory obligations, it is also expected that proposals for reticulated service replacement will be consistent with relevant established policies and initiatives, including regional land use planning frameworks. It is also expected that any proposal will take account of fire-fighting requirements to the satisfaction of the Tasmania Fire Service.

In keeping with the independence of the various regulators involved in the decision-making process, it is the responsibility of each regulator to determine the basis on which it might assess the extent to which a particular proposal is considered satisfactory.

The Economic Regulator considers that the service replacement process included by TasWater in its final Price and Service Plan should outline in detail the end-to-end process to provide greater guidance and transparency to affected customers and stakeholders. In particular, the Economic Regulator considers that the process should clearly state that individual customers have an explicit right of review of TasWater's decisions in relation to offers made to them.

6.3.4.1 Economic Regulator's proposed service replacement process

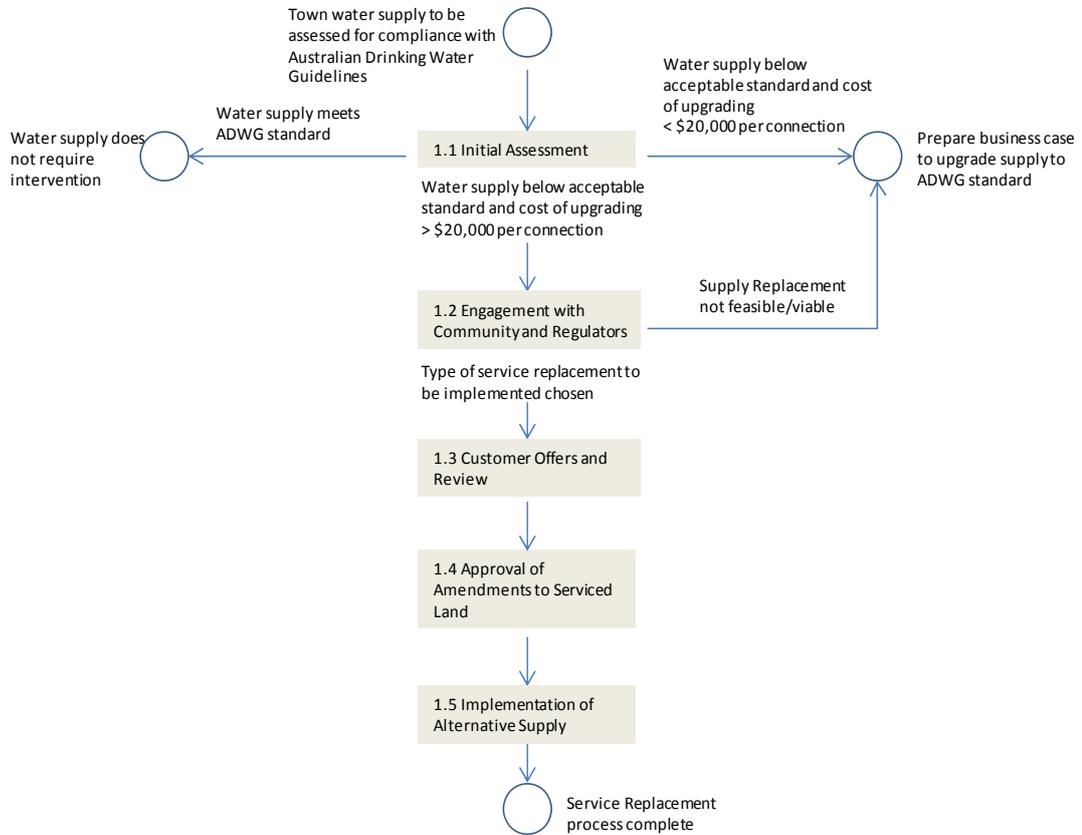
The Economic Regulator proposes to require TasWater to follow a process set out in a series of flowcharts illustrating the service replacement process. An end-to-end high level flowchart is presented below. The subsequent flowcharts show more detail about each of the high level phases.

6.3.4.1.1 Service replacement overview

The high-level service replacement process is shown in Figure 6.1 and:

- provides the context for the proposed service replacement process; and
- identifies at a high-level, the relationships between processes.

Figure 6.1 Service replacement overview

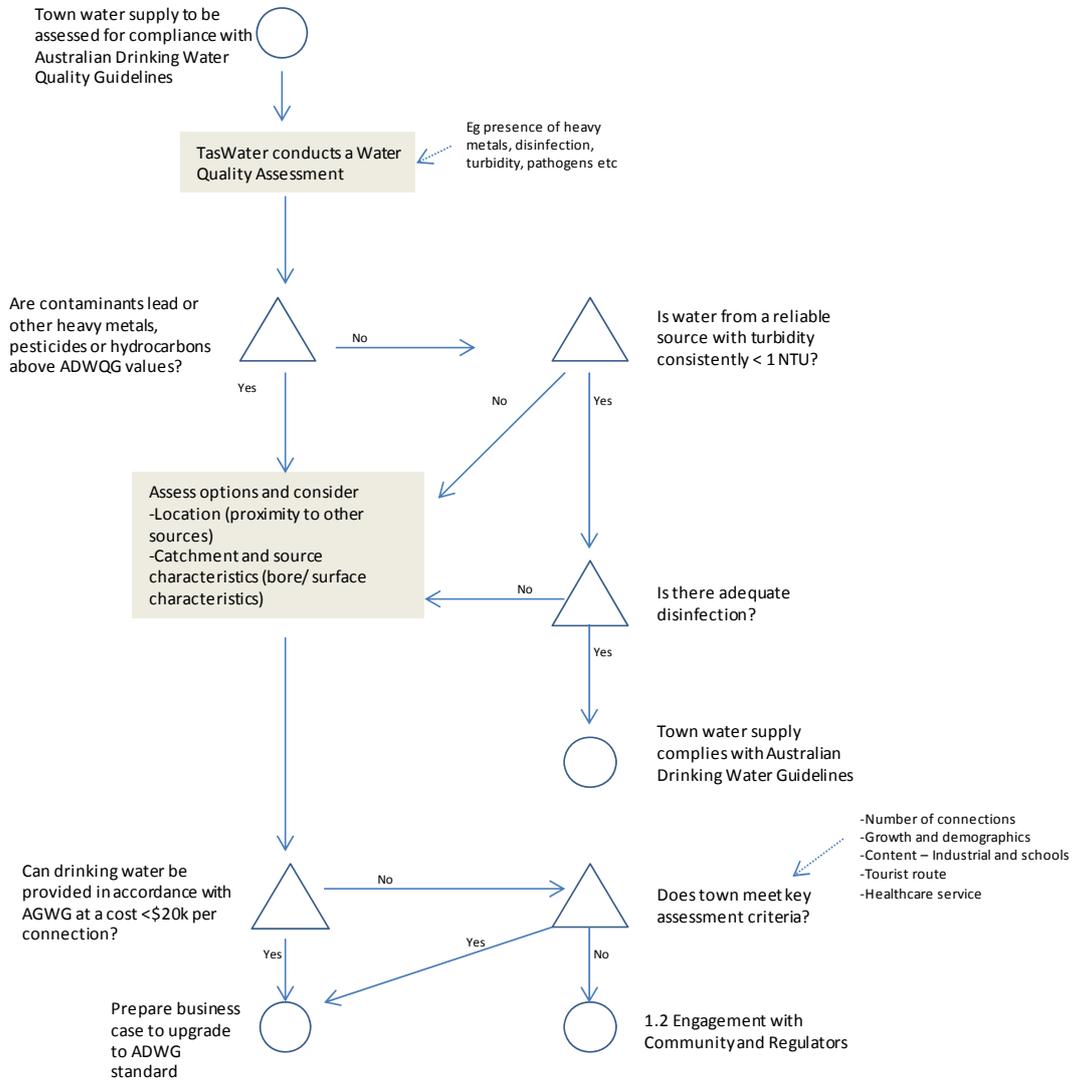


The end-to-end service process replacement process, illustrated at the high level above, is broadly similar to that proposed by TasWater.

6.3.4.1.2 Initial assessment

Figure 6.2 illustrates the Initial Assessment process to be undertaken by TasWater and is consistent with the process outlined in the Flowchart at Attachment G2 of TasWater’s proposed price and service plan.

Figure 6.2 Initial assessment

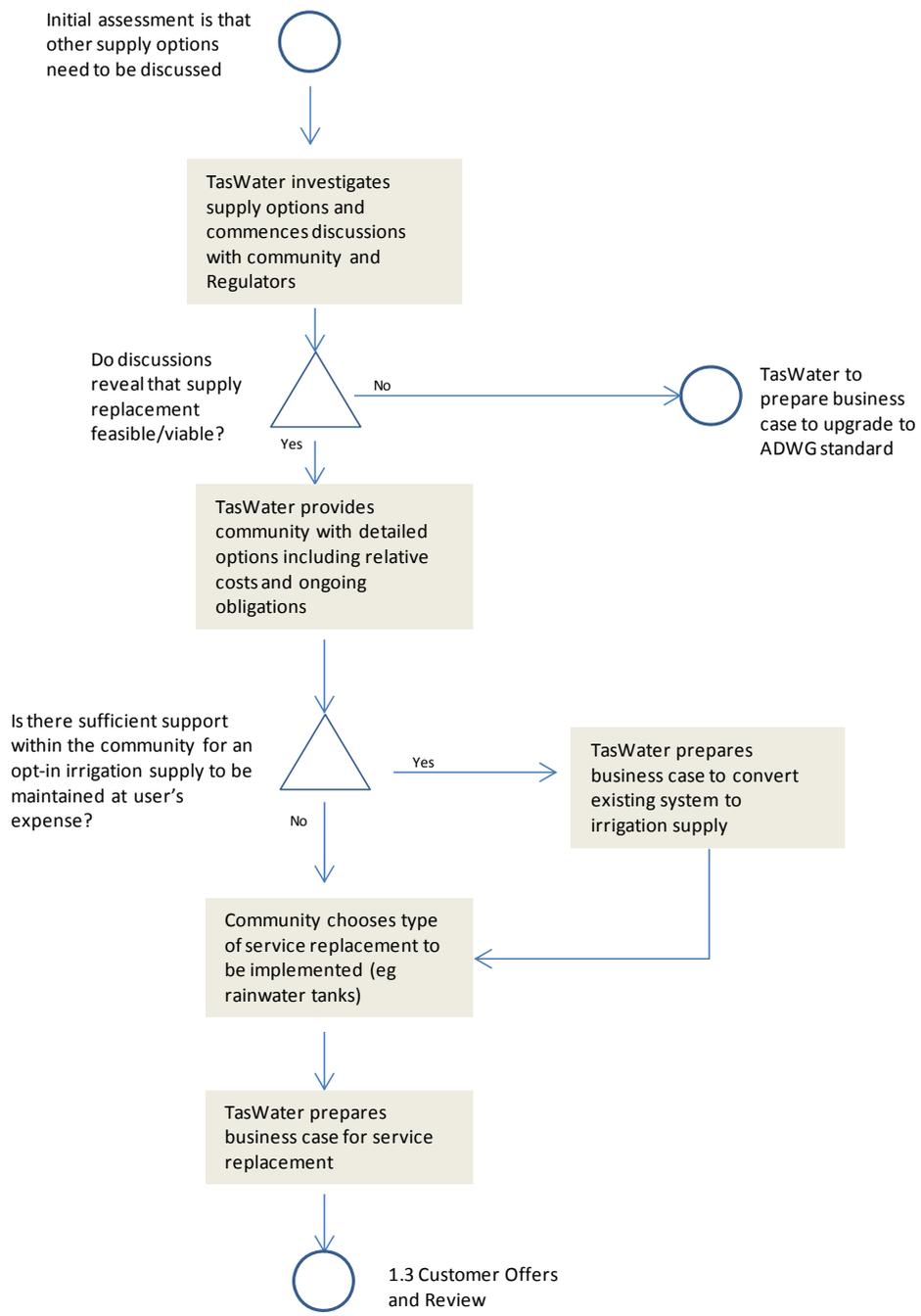


TasWater’s *Small Towns Water Supply Guideline* outlines how TasWater determines the need for improvement actions or replacement supply options for water supplies with Permanent Boil Water and Public Health Alerts. TasWater aims to provide treated water in accordance with its *Water Quality Policy* for all systems noting that costs may exceed the nominal \$20 000 threshold for water supply systems that meet ‘key assessment criteria’.

6.3.4.1.3 Engagement with community and regulators

Figure 6.3 illustrates the process TasWater is to adopt in engaging with the affected community and regulators.

Figure 6.3 Engagement with community and regulators



The approach to TasWater engaging with the affected community and regulators, illustrated in Figure 6.3, is broadly similar to that proposed by TasWater.

If the relevant industry regulators provide in-principle support for service replacement being investigated following initial discussions with TasWater, the

Economic Regulator expects that TasWater would engage early in the process with the community. Initial consultations with the community could include:

- presentation of all the service replacement options including detailed costings; and
- disclosure of the ‘hidden’ aspects of service replacement, such as:
 - details on the quality of the replacement supply;
 - the likely costs of re-filling (including water cartage) and maintaining water tanks;
 - the costs associated with potentially retaining the current supply as an irrigation service and responsibility for its maintenance;
- consultation on any specific issues affected by service replacement, such as:
 - any special needs customers as identified in the Code;
 - food/accommodation premises including publicly accessible taps;
 - public toilets and hand washing basins;
 - irrigation supplies for parks and recreational facilities;
 - truck fill points and the firefighting needs of the TFS;
 - community halls and other facilities;
- advice regarding the likely impact of service replacement on property values;
- advice regarding the responsibilities and expectations with respect to local government plumbing works and certificates upon completion of installation of rain water tanks; and
- information on maintaining an existing sewerage service.

It is expected that the community be kept up-to-date as to when decisions on the type of service replacement need to be made. This may include the attendance of regulators, particularly DHHS, at public meetings. The Economic Regulator expects that TasWater will develop clear documentation outlining any community obligations as a result of service replacement.

6.3.4.1.4 Customer offers and review

Figure 6.4 illustrates the proposed customer offers and review process to be undertaken by TasWater and property owners.

Figure 6.4 Customer offers and review

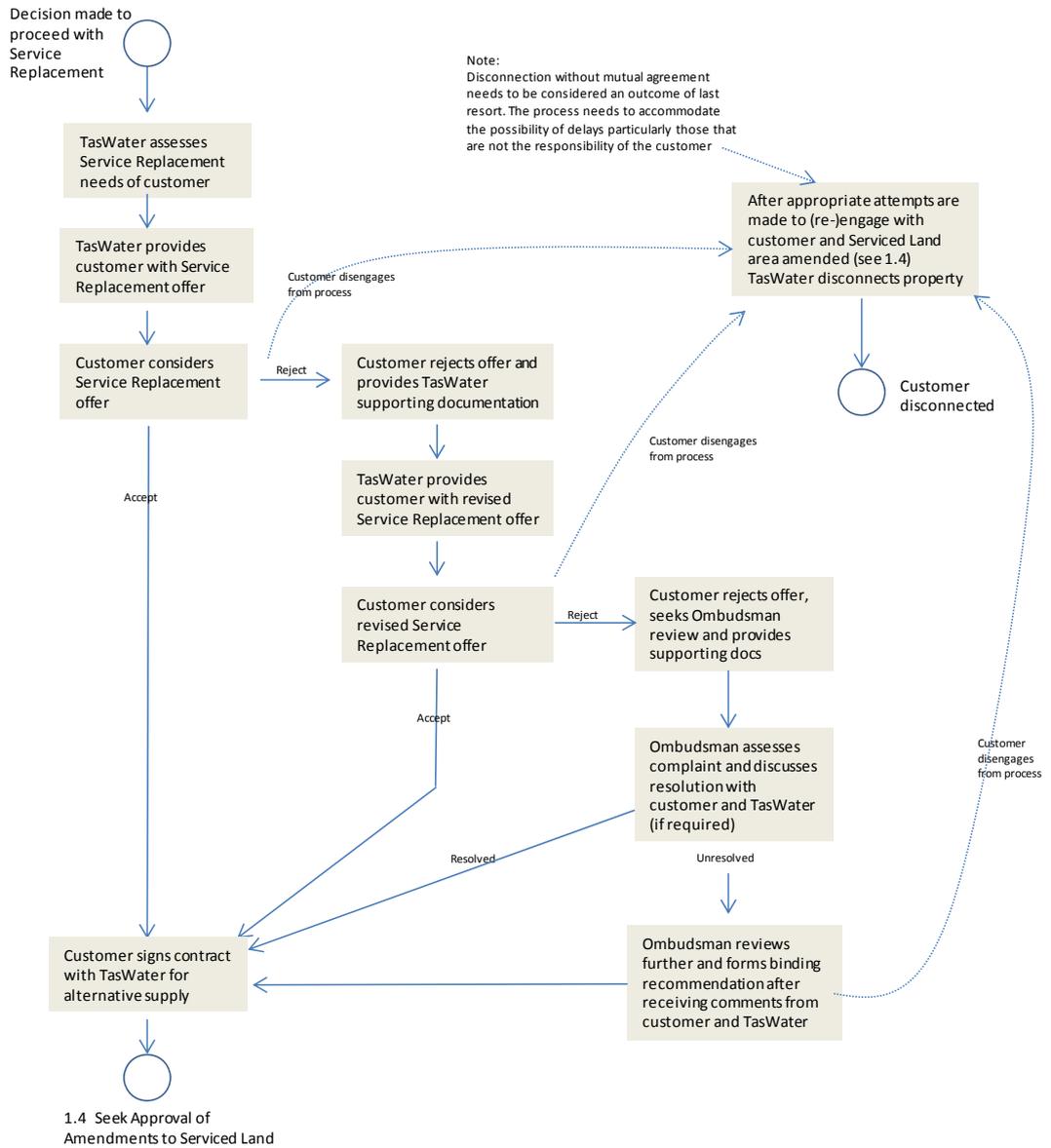


Figure 6.4 contrasts with the approach proposed by TasWater as the approach proposed by the Economic Regulator includes the customer having a right of review of TasWater’s offer of financial compensation. The Economic Regulator considers it important that if a customer feels that TasWater’s service replacement offer is inadequate and is unable to resolve the matter, it is made clear that they have the opportunity to address this through the standard complaints handling arrangements and if not satisfied can have this matter resolved by the Ombudsman.

In providing a property owner with a service replacement offer it is expected that TasWater would, firstly, need to undertake a robust risk and site assessment and

apply an accepted methodology in determining the appropriate design of the proposed service replacement option. For example, in the case of rain water tanks, the Economic Regulator expects that offers would be based on an accepted approach to the sizing of the tanks based on appropriate rainfall data.

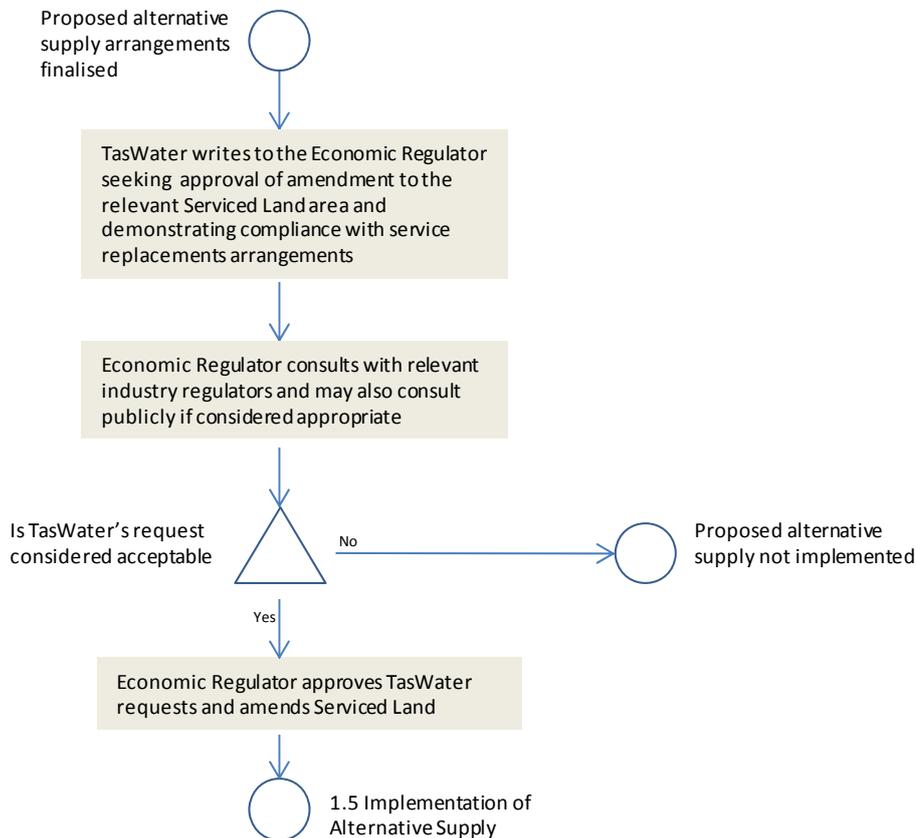
Figure 6.4 provides for an explicit right of review of TasWater’s decisions in relation to offers made by TasWater to individual customers but also utilises the existing complaints handling process whereby complainants should generally lodge and attempt to resolve complaints with TasWater in the first instance before seeking the Ombudsman’s review. Should a property owner refuse to engage in the process, the proposed process envisages the Economic Regulator approving a change to the serviced land area and subsequent disconnection of the property by TasWater, without prior installation of an alternative supply for the property owner.

Each contract for an alternative supply would need to include a condition precedent which states that the contract is not binding until, and unless, the Economic Regulator has approved a request from TasWater to amend the relevant serviced land boundaries. This will ensure that there is independent oversight of the process prior to customers having any binding contractual obligations.

6.3.4.1.5 Approval of amendments to serviced land

Figure 6.5 illustrates the amendments to serviced land process to be undertaken by TasWater and the Economic Regulator.

Figure 6.5 Approval of amendments to serviced land



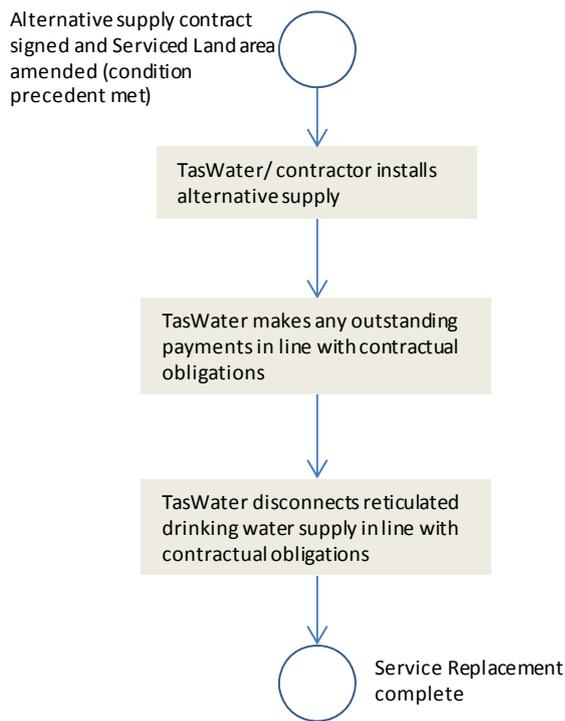
While the processes in Figure 6.5 are broadly consistent with TasWater’s approach, the Economic Regulator considers that the process for seeking amendments to serviced land should only commence when it is established that all property owners have either signed contracts or have chosen to disengage from the process. This contrasts with TasWater’s proposed price and service plan which states that once the majority of owners have signed contracts, TasWater would seek the Economic Regulator’s approval to amend serviced land. This will ensure that there is independent oversight of the process prior to customers having any binding contractual obligations.

Once the Economic Regulator has amended the serviced land boundaries, the contracts signed by property owners and TasWater would become enforceable.

6.3.4.1.6 Implementation of Alternative Supply

Figure 6.6 illustrates the implementation of alternative supply process to be undertaken by TasWater and the Economic Regulator.

Figure 6.6 Implementation of alternative supply



Once again the Economic Regulator considers that the process leading to the disconnection of properties in a community should only occur when the status of all affected properties is either:

- had an alternative supply implemented; or
- their owners have chosen to disengage from the process.

TasWater's proposed price and service plan states that once the majority of owners have signed contracts, TasWater would seek the Economic Regulator's approval to amend serviced land which would then trigger disconnection of the affected properties.

The Economic Regulator proposes to require TasWater to adopt the service replacement processes outlined in Figures 6.1 to 6.6 inclusive.