

SUMMARY OF THE ECONOMIC REGULATOR'S PROPOSALS

The Economic Regulator is seeking comments on the proposals set out in this Draft Report and in the attached Draft Price Determination, as well as on the specific issues included below and on any other relevant issues that have not been raised in this Draft Report.

To assist persons making submissions, the following provides a summary of the Economic Regulator's proposals and issues it has identified in relation to the proposed prices and service conditions associated with TasWater providing regulated water and sewerage services during the third regulatory period.

Once published the Final Price Determination will bind TasWater to apply the prices approved as part of that Determination and to the decisions contained in the Economic Regulator's Final Report.

Chapter 2 - Customer and stakeholder consultation

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

Proposal	Section
The Economic Regulator <u>intends to conclude</u> that TasWater has fulfilled the customer and stakeholder consultation requirements outlined in the Economic Regulator's Water and Sewerage Price and Service Plan Guideline.	2.4

Chapter 3 - Regulatory compliance improvement

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

Proposal	Section
The Economic Regulator <u>intends to require</u> TasWater to further justify its proposed capex for the fourth regulatory period in the context of a long-term plan to achieve full regulatory compliance and operational efficiencies.	3.6
The Economic Regulator <u>intends to amend</u> the <i>Tasmanian Water and Sewerage Industry Performance and Information Reporting Guideline</i> (November 2016) <u>to require</u> TasWater to: <ul style="list-style-type: none"> ▪ report annually against the key customer outcomes identified in its proposed Price and Service Plan for the third regulatory period; and ▪ provide more detailed information on the status of scheduled and completed projects. 	
The Economic Regulator <u>intends to require</u> TasWater to finalise, in consultation with relevant industry regulators, and provide it with its updated drinking water quality management plan, updated wastewater management plan and its new strategic plan for town dam schemes, by no later than 30 June 2018.	3.6

Chapter 4 - Customer service standards, customer contracts and policies

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

Proposal	Section
<p>The Economic Regulator <u>intends to</u>:</p> <ul style="list-style-type: none"> ▪ <u>approve</u> the proposed minimum service standards, as outlined in Table 4.1, for application by TasWater for each year of the third regulatory period; and ▪ <u>approve</u> the service standard targets for each minimum service standard, as outlined in Table 4.1, subject to the amendment of out-year targets for the “Percentage of unplanned water supply interruptions restored within 5 hours” metric from 90 per cent to 94 per cent; and ▪ <u>implement</u> the newly approved minimum service standards by way of the Customer Service Code change process (for a 1 July 2018 commencement). 	<p>4.4.3</p> <p>Service standards</p>
<p>The Economic Regulator <u>intends to approve</u> the draft ‘Customer Contract’, as provided at Appendix 2 to this Draft Report, for submission as part of TasWater’s final Price and Service Plan.</p>	<p>4.7</p> <p>Customer contract</p>
<p>The Economic Regulator <u>intends to approve</u> the draft ‘Trade Waste Policy’, as provided at Appendix 3 to this Draft Report, for submission as part of TasWater’s final Price and Service Plan.</p> <p>The Economic Regulator also <u>intends to require</u> TasWater to explain and justify the addition of a ‘Tankered Trade Waste’ section, and the removal of the ‘Customer Self-Assessment’, ‘Developer Charges’ and ‘Cancellation and Suspension’ from its proposed trade waste policy in its final Price and Service Plan.</p>	<p>4.8</p> <p>Trade waste policy</p>
<p>The Economic Regulator <u>proposes to approve</u> TasWater’s retention of the current arrangements for developer charges associated with works internal and works external.</p> <p>The Economic Regulator <u>proposes to approve</u> TasWater’s retention of the current arrangements for developer charges.</p>	<p>4.9.1</p> <p>Developer charges policy</p>
<p>The Economic Regulator <u>intends to approve</u> the draft ‘Land Development Policies’ document, as provided at Appendix 4 to this Draft Report, for submission as part of TasWater’s final Price and Service Plan.</p> <p>The Economic Regulator also <u>intends to require</u> TasWater to ensure that its final Price and Service Plan is updated to reflect the correct Development Fees as documented under section 5 of the attached ‘Land Development Policies’ document.</p>	<p>4.9.2</p> <p>Service extension and expansion policy</p>
<p>The Economic Regulator <u>intends to approve</u> the draft ‘Connection Policy’, as included in TasWater’s ‘Water and Sewerage Network and Charges Policies’ document provided at Appendix 5 to this Draft Report, for submission as part of TasWater’s final Price and Service Plan.</p>	<p>4.10.1</p> <p>Connection policy</p>

Proposal	Section
<p>The Economic Regulator also <u>intends to require</u> TasWater to explain and justify, in its final Price and Service Plan, the differences between its current connection policy (approved for the second regulatory period) and the connection policy TasWater is proposing for the third regulatory period.</p>	
<p>The Economic Regulator <u>proposes to approve</u> TasWater's retention of the current arrangements for sub-metering.</p>	<p>4.10.2 Sub-metering policy</p>
<p>The Economic Regulator <u>intends to approve</u> TasWater's continued application of service charges on vacant land within TasWater's serviced land boundaries.</p> <p>The Economic Regulator <u>intends to approve</u> that the service charge for water continues to be equal to the fixed water charge for 20mm connections.</p> <p>The Economic Regulator <u>intends to approve</u> that the service charge for sewerage continues to be 60 per cent of one ET fixed sewerage charge.</p> <p>The Economic Regulator <u>intends to approve</u> the draft 'Service Charges Policy', as included in TasWater's 'Water and Sewerage Network and Charges Policies' document provided at Appendix 5 to this Draft Report, for submission as part of TasWater's final Price and Service Plan.</p>	<p>4.10.3 Service charges policy</p>
<p>The Economic Regulator <u>intends to approve</u> the draft 'Service Introduction Charges Policy', as included in TasWater's 'Water and Sewerage Network and Charges Policies' document provided at Appendix 5 to this Draft Report, for submission as part of TasWater's final Price and Service Plan.</p> <p>The Economic Regulator <u>intends to require</u> TasWater to explain and justify, in its final Price and Service Plan, all of the differences between its current service introduction charges policy (approved for the second regulatory period) and the service introduction charges policy TasWater is proposing for the third regulatory period.</p>	<p>4.10.4 Service introduction charges policy</p>
<p>The Economic Regulator <u>intends to approve</u> TasWater applying the minimum water flow and minimum water pressure figures outlined in TasWater's Supplement to the Water Services Association of Australia's Water Supply Code of Australia in determining whether a property or part of a property is within serviced land.</p> <p>The Economic Regulator <u>intends to require</u> TasWater to publish TasWater's Supplement to the Water Services Association of Australia's Water Supply Code of Australia together with any other additional relevant information that would assist customers and stakeholders in determining whether their property or part of their property is within serviced land.</p> <p>The Economic Regulator <u>intends to approve</u> TasWater's approach to the definition of serviced land with limited service areas being removed from serviced land.</p> <p>The Economic Regulator <u>intends to require</u> TasWater to: publish separate descriptions of serviced land for water services and sewerage services; continue to make descriptions of serviced land for both water and sewerage services publicly available (eg on the entity's website, at a fixed address, by phone); and ensure that the description of serviced land is updated and published on a</p>	<p>4.11.7 Serviced land</p>

Proposal	Section
regular and ongoing basis (ie on at least a monthly basis or when serviced land boundaries change). The Economic Regulator also <u>intends to require</u> TasWater to update its serviced land maps to reflect the new serviced land definition.	
The Economic Regulator <u>intends to require</u> TasWater to continue using the current service replacement process with minor changes to the definition of broad community support; the offer period and the use of the word “indicates” rather than “chooses”.	4.12.4 Service replacement process
The Economic Regulator also <u>intends to not allow</u> TasWater to offer the option of paying cash to customers to undertake the installation of assets for service replacement.	

Chapter 5 - Demand forecasts

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

Proposal	Section
Based on its assessment of TasWater’s proposed demand forecasts, the Economic Regulator <u>intends to accept</u> TasWater’s proposals.	5.4

Chapter 6 - Capex

The Economic Regulator makes the following proposals in relation to capex. The Economic Regulator also seeks feedback on the concept of recognising assets on commissioning, as set out in Section 6.4.3 of this Draft Report.

Proposal	Section
The Economic Regulator <u>intends to accept</u> that TasWater’s capex during the second regulatory period was prudent and efficient.	6.2.1.6 Arup’s findings - second regulatory period
The Economic Regulator <u>intends to require</u> TasWater to reduce its proposed facility, fleet and plant renewals capex, as set out in Table 6.5.	6.3.1.2 Facility, fleet and plant renewals
The Economic Regulator <u>intends to reduce</u> TasWater’s expected capex for the third regulatory period by \$10 million per annum to account for gifted assets.	6.4.2 Gifted assets
The Economic Regulator <u>intends to reduce</u> TasWater’s expected capex for the third regulatory period, as set out in Table 6.9.	6.5
The Economic Regulator <u>seeks stakeholder feedback</u> on the concept of recognising assets on commissioning, as set out in Section 6.4.3.	

Chapter 7 - Opex

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

Proposal	Section
The Economic Regulator <u>does not intend to adjust</u> TasWater's proposed opex for the third regulatory period based on its opex during the second regulatory period.	7.3 Review of second regulatory period opex
The Economic Regulator <u>intends to accept</u> TasWater's rebasing of its opex for the third regulatory period.	
The Economic Regulator <u>intends to accept</u> TasWater's proposed base year opex for the third regulatory period.	7.4 Base year for third regulatory period opex forecasting
The Economic Regulator <u>intends to require</u> that TasWater adjust its forecast salary costs for the third regulatory period, as shown in Table 7.4.	7.6.1 Salaries
The Economic Regulator <u>intends to require</u> that TasWater develop and deliver a five-year Labour Force Plan, to be reviewed and updated on a rolling three-yearly cycle.	
The Economic Regulator <u>intends to require</u> that, in future Price and Service Plans, TasWater justify its salary opex in terms of its Labour Force Plan.	
The Economic Regulator <u>intends to require</u> that TasWater adjust its forecast materials and services costs for the third regulatory period as shown in Table 7.5.	7.6.2 Materials and services
The Economic Regulator <u>intends to require</u> that TasWater adjust its forecast chemicals costs for the third regulatory period, as shown in Table 7.6.	7.6.3 Chemicals
The Economic Regulator <u>intends to accept</u> TasWater's forecast electricity costs for the third regulatory period, as shown in Table 7.7.	7.6.4 Electricity
The Economic Regulator <u>intends to accept</u> TasWater's forecast facility management costs for the third regulatory period, as shown in Table 7.8.	7.6.5 Facility management
The Economic Regulator <u>intends to accept</u> TasWater's forecast information management costs for the third regulatory period, as shown in Table 7.9.	7.6.6 Information systems
The Economic Regulator <u>intends to require</u> that TasWater adjust its forecast motor vehicles costs for the third regulatory period, as shown in Table 7.10.	7.6.7 Motor vehicle costs

Proposal	Section
The Economic Regulator <u>intends to accept</u> TasWater's proposed cost allocations for the third regulatory period.	7.7 Cost allocation
The Economic Regulator <u>intends to require</u> TasWater to achieve productivity savings above those it has proposed for the third regulatory period by reducing TasWater's opex by its forecast of the impact of capex on opex.	7.8 Productivity improvements/ efficiencies
The Economic Regulator <u>intends to propose</u> the adjustments set out in Table 7.11 to TasWater's opex for the third regulatory period.	7.10

Chapter 8 - Regulatory depreciation

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

Proposal	Section
The Economic Regulator <u>intends to require</u> TasWater to calculate regulatory depreciation for existing assets using a value weighted average approach.	8.7
The Economic Regulator <u>intends to require</u> TasWater to calculate regulatory depreciation for new assets using a line by line approach.	
The Economic Regulator also <u>intends to require</u> TasWater to apply the regulatory depreciation allowances for existing assets and new assets, as set out in Tables 8.7 and 8.8 respectively.	

Chapter 9 - WACC

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

Proposal	Section
The Economic Regulator <u>intends to accept</u> TasWater's proposal to apply a post-tax nominal vanilla WACC for the third regulatory period.	9.2 Type of WACC
The Economic Regulator <u>intends to accept</u> TasWater's proposed gearing ratio of 60 per cent in calculating the WACCs for the third regulatory period.	9.4.1 Gearing
The Economic Regulator <u>intends to accept</u> TasWater including debt issuance costs of 0.1 per cent in calculating the WACCs for the third regulatory period.	9.4.3.2 Debt issuance costs
The Economic Regulator <u>intends to require</u> TasWater to calculate the Risk Free Rate and Debt Risk Premium using the method specified in Section 9.4.4 of this Draft Report for the third regulatory period.	9.4.4 Method to calculate risk free rate and debt risk premium

Proposal	Section
The Economic Regulator <u>intends to accept</u> TasWater's proposal to apply a Market Risk Premium of 6.5 per cent in calculating the WACCs for the third regulatory period.	9.4.5 Market risk premium
The Economic Regulator <u>intends to require</u> TasWater to apply an equity beta of 0.65 in calculating the WACCs for the third regulatory period.	9.4.6 Equity beta
The Economic Regulator <u>intends to require</u> TasWater to apply a gamma of 0.4 in calculating the WACCs for the third regulatory period.	9.4.7 Gamma

Chapter 11 - Revenue requirement

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

Proposal	Section
The Economic Regulator <u>intends to require</u> TasWater to develop a Tax Asset Base prior to the commencement of the fourth regulatory period.	11.2.2 Tax allowance
The Economic Regulator <u>intends not allowing</u> TasWater's proposed working capital allowance.	11.2.3 Working capital allowance

Chapter 12 - Pricing structure

The Economic Regulator makes the following proposals in relation to pricing structure. The Economic Regulator also seeks feedback on TasWater's approach to transitioning customers facing a material bill increase as a result of an equivalent tenement reassessment, as shown in Section 12.11.2 of this Draft Report.

Proposal	Section
The Economic Regulator <u>intends concluding</u> that, once the STED tariffs are added and fixed water charges are applied to water carrier tariffs, public and private filling tariffs and portable metered standpipes, TasWater's proposed regulated services and proposed tariff structures satisfy the definition of a regulated service and are structured in line with the pricing principles respectively.	12.6 Structure of regulated prices
The Economic Regulator <u>intends to approve</u> TasWater's proposal to retain a single pricing zone for Tasmania for the third regulatory period.	12.7.3 Pricing zones
The Economic Regulator <u>intends to require</u> TasWater to include details about STED customers in its final Price and Service Plan.	12.8 Customer classes
The Economic Regulator also <u>intends to approve</u> the customer classes TasWater has proposed for the third regulatory period.	

Proposal	Section
<p>The Economic Regulator <u>intends to approve</u> TasWater’s proposal to base fixed water target tariffs on the proposed connection sizes and multipliers.</p> <p>The Economic Regulator <u>intends to approve</u> TasWater’s proposal to charge limited supply customers 90 per cent of the fixed water target tariffs for each year of the third regulatory period.</p> <p>The Economic Regulator <u>intends to approve</u> TasWater’s proposal to charge fire service customers 25 per cent of the fixed water target tariffs for each year of the third regulatory period.</p> <p>The Economic Regulator <u>intends to approve</u> TasWater’s proposal to charge STED customers 70 per cent of the fixed sewerage target tariff for each year of the third regulatory period.</p>	<p>12.9</p> <p>Fixed charges</p>
<p>The Economic Regulator <u>intends to approve</u> TasWater’s continuation of the recovery of some fixed costs through variable charges for the third regulatory period.</p> <p>The Economic Regulator <u>intends to approve</u> TasWater’s proposal to charge limited service customers 80 per cent of the variable water target tariffs for each year of the third regulatory period.</p>	<p>12.10</p> <p>Variable charges</p>
<p>Having reviewed TasWater’s proposals in relation to ET methodology for the third regulatory period, the Economic Regulator <u>intends to</u>:</p> <ul style="list-style-type: none"> ▪ <u>approve</u> TasWater’s proposal to apply the ET methodology in determining fixed sewerage charges; ▪ <u>require</u> TasWater to publish its justification of ET rates for property types that differ from those contained in the NSW Water Directorate’s 2017 Section 64 Determinations of Equivalent Tenements Guidelines; ▪ <u>require</u> TasWater to publish any documents that are not publicly available, where they form the basis of its ET methodology; ▪ <u>approve</u> TasWater’s approach to transitioning customers facing a material bill increase as a result of an ET reassessment; and ▪ <u>support</u> TasWater’s proposed review of alternative sewerage charging methodologies operating in Australia and <u>require</u> TasWater to liaise with stakeholders and the Economic Regulator as part of the review, and to publish its findings when available. <p>The Economic Regulator also <u>intends to seek feedback</u> from stakeholders on TasWater’s approach to transitioning customers facing a material bill increase as a result of an ET reassessment.</p>	<p>12.11</p> <p>Equivalent tenements</p>
<p>The Economic Regulator <u>intends to require</u> TasWater to publish its revised trade waste guideline at the same time that it publishes its final Price and Service Plan for the third regulatory period.</p> <p>The Economic Regulator <u>intends to approve</u> the proposed structure of TasWater’s trade waste prices.</p>	<p>12.12</p> <p>Trade waste</p>

Proposal	Section
<p>The Economic Regulator <u>intends to approve</u> TasWater's proposed simplification of its development application fees structure.</p> <p>The Economic Regulator <u>intends to approve</u> TasWater combining the Certificate for Certifiable Work/Certificate for Compliance fees and engineering design approval and asset creation services.</p> <p>The Economic Regulator also <u>intends to approve</u> the structure of TasWater's proposed miscellaneous fees and charges.</p>	<p>12.14</p> <p>Miscellaneous services</p>
<p>The Economic Regulator <u>intends to approve</u> TasWater's proposal in relation to transitioning or moving customers directly to target tariff subject to feedback from stakeholders.</p>	<p>12.15</p> <p>Moving customers directly to target tariffs</p>

Chapter 13 - Prices and customer impacts

In relation to prices and customer impacts, the Economic Regulator makes the following proposals.

Proposal	Section
<p>The Economic Regulator <u>intends to require</u> TasWater to apply the trade waste fees and charges for 2018-19, as set out in Table 13.8.</p> <p>The Economic Regulator <u>intends to require</u> TasWater to increase its trade waste fees and charges for 2019-20 and 2020-21 by 4.16 per cent.</p> <p>The Economic Regulator also <u>intends to approve</u> TasWater's proposed approach to transition trade waste customers to target for the third regulatory period.</p> <p>The Economic Regulator <u>intends to approve</u> TasWater's proposed approach to transitioning Category 3 and 4 trade waste customers to cost reflective charges.</p>	<p>13.2.2.1</p> <p>Trade waste fees and charges</p>
<p>The Economic Regulator <u>intends to accept</u> TasWater's proposal to introduce a trade waste site constraint fee and <u>intends to approve</u> the proposed level of that fee for 2018-19.</p> <p>The Economic Regulator also <u>intends to approve</u> TasWater increasing this fee by 4.16 per cent per annum during the third regulatory period.</p>	<p>13.2.2.2</p> <p>Trade waste site constraint fee</p>
<p>The Economic Regulator <u>intends to accept</u> TasWater's proposal to introduce a macerator fee and <u>intends to approve</u> the proposed level of that fee for 2018-19.</p> <p>The Economic Regulator also <u>intends to approve</u> TasWater increasing this fee by 4.16 per cent per annum during the third regulatory period.</p>	<p>13.2.2.3</p> <p>Trade waste macerator charge</p>
<p>The Economic Regulator <u>intends to approve</u> TasWater's proposed miscellaneous fees and charges with the addition of an account establishment and closure fee and sewerage relocation and inspection cost fees.</p>	<p>13.2.3.1</p> <p>Miscellaneous fees and charges</p>

Proposal	Section
<p>The Economic Regulator <u>intends to approve</u> TasWater's proposed development assessment fees.</p> <p>The Economic Regulator also <u>intends to approve</u> TasWater's proposed development assessment fees for 2018-19, as set out in Table 13.17.</p> <p>The Economic Regulator <u>intends to require</u> TasWater to increase development assessment service fees by the labour cost escalation factor of 2 per cent per annum.</p>	<p>13.2.3.2 Development assessment service fees</p>
<p>The Economic Regulator <u>intends to accept</u> TasWater's revised proposed price transition for customers paying less than target tariffs.</p> <p>The Economic Regulator also <u>intends to require</u> TasWater to write to all customers affected by the transition to target tariffs, prior to 30 June 2018, and inform them of the prices they will be charged in each year of the third regulatory period and the options available to them to assist in managing payments.</p>	<p>13.3 Proposed price transition</p>