

## 13 PRICES AND CUSTOMER IMPACTS

This chapter provides an overview of TasWater's and the Economic Regulator's calculations of TasWater's maximum allowed regulated revenue and proposed price increases.

The chapter also analyses TasWater's proposed price transition and presents the Economic Regulator's assessment of customer impacts arising from the application of the proposed price increases.

### 13.1 Proposed price increases

As discussed in Chapter 11 regulated prices are set by reference to the MARR. TasWater calculated MARR for each year of the third regulatory period with the revenue shown in Table 11.1. If costs were permitted to be recovered at this level, TasWater calculated that annual prices would increase by 7.9 per cent.<sup>66</sup>

Based on its review of TasWater's proposed values for the building block components the Economic Regulator calculated TasWater's MARR, as shown in Table 11.4 (reproduced in Table 13.1).

TasWater is proposing an annual price increase of 4.6 per cent which is within customers' expectations (refer to Chapter 2), and which TasWater forecasts will result in the regulated revenue, as shown in Table 13.1. The forecast regulated revenue is below its proposed MARR.

However, the Economic Regulator's proposed MARR is below TasWater's forecast regulated revenue. TasWater's proposed annual price increase of 4.6 per cent will therefore result in TasWater receiving revenue above the maximum limit provided for under legislation. The Economic Regulator has therefore used TasWater's Pricing Model to determine a maximum annual price increase of 4.16 per cent to ensure that TasWater recovers only its efficient costs over the three years of the regulatory period.

TasWater's forecast regulated revenue is shown in Table 13.1 along with TasWater's and the Economic Regulator's calculations of TasWater's proposed MARR.

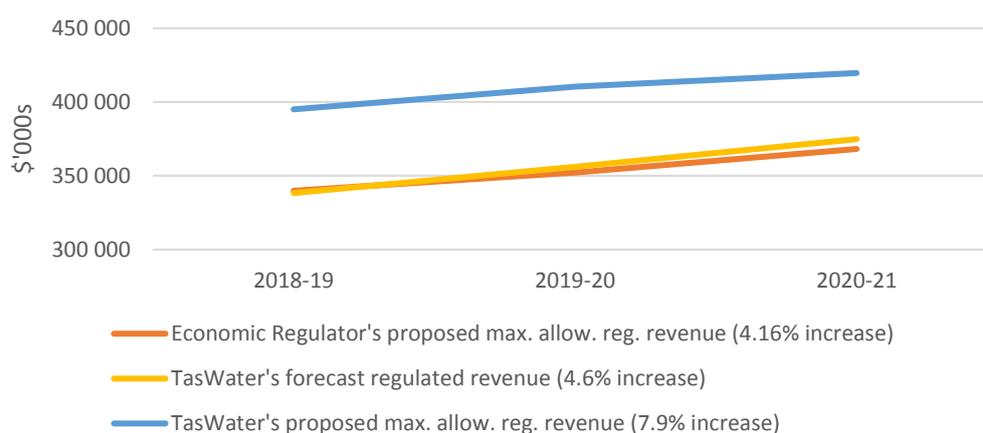
Table 13.1 Proposed regulated revenues for TasWater (\$'000s)

	2018-19	2019-20	2020-21
TasWater's proposed maximum allowed regulated revenue	395 085	410 378	419 722
TasWater's forecast regulated revenue (4.6% price increase)	338 317	356 123	374 857
Economic Regulator's proposed maximum allowed regulated revenue	339 878	352 143	368 228

Figure 13.1 compares TasWater's proposed regulated revenue; TasWater's calculation of its maximum allowed regulated revenue; and the Economic Regulator's calculation of TasWater's maximum allowed regulated revenue.

<sup>66</sup> TasWater, Draft Price and Service Plan 3, 1 July 2018 to 30 June 2021, page 117.

Figure 13.1 Regulated revenue comparison



## 13.2 Proposed prices

TasWater's proposed prices are set out in Appendix 15 of its proposed Price and Service Plan. The Economic Regulator's proposed prices are outlined in full in Schedule 1 of its Draft Determination (Appendix 1). The Economic Regulator's proposed target tariffs are set out in Section 13.2.1 below.

### 13.2.1 Target tariffs

The Economic Regulator's proposed fixed water, variable water and sewerage target tariffs are presented in Tables 13.2, 13.3 and 13.4 respectively below (the 2017-18 target tariffs are also included for comparison purposes). Prices for customers who, at the end of the second regulatory period, are not on their respective target tariffs are discussed in Section 13.3.

Table 13.2 Economic Regulator's proposed target fixed water tariffs per connection for full service customers (\$)

Water Connection Size	2017-18	2018-19	2019-20	2020-21
20mm	329.48	343.19	357.46	372.33

The fixed water target tariff for each connection size is calculated by multiplying the fixed water target tariff for a 20mm water connection by the relevant multiplier\*.

Table 13.3 Economic Regulator's proposed target variable water charges per kilolitre of water (\$)

	2017-18	2018-19	2019-20	2020-21
Full service (ie water of drinking water quality)	1.02	1.06	1.11	1.15

Table 13.4 Economic Regulator's proposed target fixed sewerage tariffs for full service customers per ET (\$)

Number of ETs	2017-18	2018-19	2019-20	2020-21
1 ET	632.24	658.54	685.94	714.47

The target fixed sewerage charge for each connection is calculated by multiplying the target fixed sewerage for one ET by the applicable number of ETs\*.

\* Multipliers and ETs are discussed in Chapter 12.

## 13.2.2 Trade waste

TasWater's proposed trade waste charges policy and proposed structure of trade waste pricing were discussed in Sections 4.8 and 12.12 respectively. The following sections discuss TasWater's proposed trade waste fees and charges.

### 13.2.2.1 Trade waste fees and charges

For the third regulatory period TasWater has proposed the trade waste fees and charges set out in Tables 13.4 to 13.7 inclusive.

Table 13.4 TasWater's proposed trade waste application fee

	2018-19	2019-20	2020-21
Category 1	193	202	211
Category 2A	386	404	422
Category 2B	386	404	422
Category 2C	386	404	422

Table 13.5 TasWater's proposed annual trade waste charges

	2018-19	2019-20	2020-21
Category 1	572	599	626
Category 2A	938	981	1 026
Category 2B	1 316	1 377	1 440
Category 2C	1 974	2 065	2 160

Table 13.6 TasWater's proposed trade waste minor non-compliance fees

	2018-19	2019-20	2020-21
Category 1	1 145	1 197	1 252
Category 2A	1 876	1 962	2 053
Category 2B	2 633	2 754	2 880
Category 2C	3 948	4 130	4 320

Table 13.7 TasWater's proposed trade waste major non-compliance fees

	2018-19	2019-20	2020-21
Category 1	1 717	1 796	1 878
Category 2A	2 814	2 944	3 079
Category 2B	3 949	4 131	4 321
Category 2C	5 923	6 195	6 480

The application fees in the draft Price and Service Plan for Categories 2A, 2B and 2C were \$386 while Category 1 was \$193. Given the significant proposed increases in application fees the Economic Regulator sought TasWater's justification for its proposed fees. In response, TasWater advised that the intention was for a single trade waste application fee of \$193 for 2018-19 for all category 1 and 2 trade waste customers. The Economic Regulator notes that TasWater did not explain the large proposed increase in this fee between 2017-18 and 2018-19 for all categories. The Economic Regulator therefore proposes that all trade waste fees and charges for 2018-19 increase by 4.16 per cent relative to 2017-18.

TasWater is proposing to increase its trade waste fees and charges by 4.6 per cent for each of the second and third years of the third regulatory period. The Economic Regulator intends approving the same 4.16 per cent increase in TasWater's trade waste fees and charges for 2019-20 and 2020-21. Table 13.8 outlines the Economic Regulator's proposed trade waste fees, target tariffs and charges for 2018-19 and, for comparison purposes, the fees, target tariffs and charges for 2017-18.

Table 13.8 Economic Regulator's proposed trade waste fees, target tariffs and charges by customer category (nominal dollars)<sup>67</sup>

Trade Waste Category	Application Fee	Annual Target Tariff	Non-Compliance Charge (Minor)	Non-Compliance Charge (Major)
1	147.52	569.88	1 139.79	1 709.65
2A	147.52	934.12	1 868.20	2 802.32
2B	147.52	1 310.79	2 621.58	3 932.37
2C	147.52	1 965.86	3 931.76	5 897.66

TasWater is proposing to transition trade waste customers to target on the same basis as approved for the second regulatory period, that is, by one third of the difference between the customer's bill for 2017-18 and the target for 2017-18. The Economic Regulator intends accepting TasWater's proposed transition approach for trade waste customers.

In section 4.3.3 of its proposed Price and Service Plan TasWater outlined its proposed approach to transitioning Category 3 and 4 trade waste customers to ensure that they are achieving long-term sewer acceptance limits and paying full charges by 1 July 2020. TasWater's approach includes determining fees and charges annually and negotiating a reasonable transition period for the customer to implement appropriate trade waste risk controls. As this approach is largely unchanged from the approach taken during the second regulatory period, the Economic Regulator intends to approve TasWater's approach.

<sup>67</sup> These charges are to apply in 2018-19. The charges are to be increased by 4.16 per cent in each of the 2019-20 and 2020-21 financial years.

*The Economic Regulator intends to require TasWater to apply the trade waste fees and charges for 2018-19, as set out in Table 13.8.*

*The Economic Regulator intends to require TasWater to increase its trade waste fees and charges for 2019-20 and 2020-21 by 4.16 per cent.*

*The Economic Regulator also intends to approve TasWater's proposed approach to transition trade waste customers to target for the third regulatory period.*

*The Economic Regulator intends to approve TasWater's proposed approach to transitioning Category 3 and 4 trade waste customers to cost reflective charges.*

### 13.2.2.2 Trade waste site constraint fee

In its proposed Price and Service Plan, TasWater stated that some trade waste customers are unable to comply with its trade waste requirements due to heritage or other site constraints at their properties. For these customers, TasWater proposes a new fee to offset the impact on its sewerage systems, as outlined in Table 13.9 below.

Table 13.9 Trade waste site constraint fee (\$)

	2018-19	2019-20	2020-21
All trade waste categories	1 097	1 148	1 201

The Economic Regulator sought further information from TasWater on the site constraint fee. TasWater stated that the proposed fee is in addition to the trade waste annual fee for customers to whom it applies.

The site constraint fee is set such that the net present value (NPV) of the fee is equal to the NPV of installing and maintaining a pre-treatment device that a typical (non-constrained) trade waste customer would otherwise have. The intent is to create equity between trade waste customers by ensuring there is no competitive advantage at a constrained site. Based on the information provided by TasWater, the Economic Regulator supports TasWater's proposed introduction of a site constraint fee. The Economic Regulator intends to approve TasWater increasing this fee by 4.16 per cent per annum during the third regulatory period.

The Economic Regulator's proposed Trade waste site constraint fee is set out in Table 13.10 below.

Table 13.10 Trade waste site constraint fee (\$)

	2018-19	2019-20	2020-21
All trade waste categories	1 097	1143	1190

*The Economic Regulator intends to accept TasWater's proposal to introduce a trade waste site constraint fee and intends to approve the proposed level of that fee for 2018-19.*

*The Economic Regulator also intends to approve TasWater increasing this fee by 4.16 per cent per annum during the third regulatory period.*

### 13.2.2.3 Trade waste macerator charge

TasWater is proposing a new charge for macerators. Macerators are used in aged care facilities to shred disposable paper bedpans prior to discharge to the sewer. However, the proposed charge of \$50 for 2018-19 is well short of the \$500-\$600 charged by mainland service providers for this service. Additionally, TasWater's proposed Price and Service Plan gives no indication of the likely transition path or ultimate price for this service.

TasWater stated that it is currently gathering data through its Asset Management Information System on the frequency, severity and costs of managing blockages from these systems. Since TasWater has not had quantitative data on the impacts on its system and costs, customer engagement has been opportunistic only. Given that it is not able to calculate a cost reflective price for waste from macerators, nor has TasWater consulted widely on a reflective charge, TasWater believes that the limited charge provides a signal to customers that there is an impact on its sewerage system and will provide the foundation to engage customers more fully during third regulatory period as part of its overall review of the sewerage charging methodology. Given the additional information provided by TasWater, the Economic Regulator supports TasWater's proposed introduction of a macerator fee. The Economic Regulator intends to approve TasWater increasing this fee by 4.16 per cent per annum during the third regulatory period

TasWater's proposed macerator charges for the third regulatory period are outlined in Table 13.11.

Table 13.11 TasWater's proposed trade waste macerator charge (\$)

	2018-19	2019-20	2020-21
Macerator charge	50.00	52.30	54.71

The Economic Regulator's proposed macerator charges for the third regulatory period are outlined in Table 13.12.

Table 13.12 Economic Regulator's proposed trade waste macerator charge (\$)

	2018-19	2019-20	2020-21
Macerator charge	50.00	52.08	54.25

*The Economic Regulator intends to accept TasWater's proposal to introduce a macerator fee and intends to approve the proposed level of that fee for 2018-19.*

*The Economic Regulator also intends to approve TasWater increasing this fee by 4.16 per cent per annum during the third regulatory period.*

## 13.2.3 Miscellaneous services

TasWater intends providing a wide range of miscellaneous services during the third regulatory period. The following sections outline the fees and charges TasWater proposes charging for these services.

### 13.2.3.1 Miscellaneous fees and charges

TasWater's fees and charges for each of its proposed miscellaneous services for each year of the third regulatory period are set out in Table 13.13.

Table 13.13 TasWater's proposed miscellaneous fees and charges (\$)

Miscellaneous fees and charges	2017-18	2018-19	2019-20	2020-21
<b>Water connections</b>				
Standard 20mm connection	2 135.59	2 226	2 309	2 418
Standard 25mm connection	2 330.88	2 443	2 536	2 656
Non-standard water connection	POA	POA	POA	POA
20mm meter supply & installation	266.72	409	422	439
>20mm meter supply & installation	POA	POA	POA	POA
<b>Wastewater connections</b>				
Standard 100mm sewerage connection	1 556.70	1 596	1 652	1 723
Non-standard sewer connection	POA	POA	POA	POA
<b>Disconnection</b>				
Standard disconnection (water and/or sewerage)	444.83	455	471	493
<b>Relocation</b>				
Standard water connection relocation – under 3 metres	444.83	1 490	1 546	1 618
Water connection relocation – greater than 3 metres	POA	POA	POA	POA
<b>Fire service</b>				
Fire service installation	POA	POA	POA	POA
<b>Water metering fees</b>				
Special meter reads	55.00	60	61	63
Meter testing - onsite	73.95	80	82	84
Meter testing - offsite	POA	POA	POA	POA
Meter downsizing (50mm to 20mm)	359.81	375	389	409
Meter downsizing (all others)	POA	POA	POA	POA
<b>Sundry Fees</b>				
Right of information request	38.75	39	40	40
Pressure and flow testing (\$/hour)	97.62	106	109	112
Section 56ZQ request	38.75	39	40	40
Account establishment and closure	N/a	49	50	51
<b>Other regulated services</b>				
Private filling stations (\$/kL)	1.0202	1	1	1
Public filling stations (\$/kL)	1.5727	1	2	2

Miscellaneous fees and charges	2017-18	2018-19	2019-20	2020-21
Security deposit (one off fee for public filling stations)	50	50	50	50
Portable metered standpipes (pro rata for time of use) (\$/kL)	1.0202	1	1	1
e-card credit top up (processing fee)	5.77	6	6	6

TasWater advised that its miscellaneous fees and charges have been built up based on the various costs it incurs in providing the service.

The Economic Regulator requested that TasWater provide the unit costs of the fees showing how the total cost was derived. TasWater provided the input unit costs, input cost quantities and cost escalation factors and the resultant total costs. For example, in determining the fee for a standard water connection, TasWater has included the cost and quantities of labour, excavation equipment, pipes, plumbing supplies, and supporting tasks such as road opening permits and traffic control.

TasWater proposes that miscellaneous fees increase depending on the relevant escalation factors used in the cost build up (labour - 2.0 per cent and materials and services - between 4.38 per cent and 5.88 per cent).

The Economic Regulator identified the following omissions from TasWater's proposed schedule of miscellaneous prices when assessing TasWater's policies:

- Sewerage connection relocation (standard); and
- Sewerage connection relocation (non-standard).

In response TasWater provided the following information to be added to the Miscellaneous Fees and Charges table.

Table 13.14 Omitted sewerage relocation charges (\$)

Miscellaneous fees and charges	2017-18	2018-19	2019-20	2020-21
<b>Relocation</b>				
Standard sewerage connection relocation – under 10 metres	1 556.70	1 566	1 625	1 702
Sewerage connection relocation – greater than 10 metres	POA	POA	POA	POA

The spreadsheet containing the unit costs did not include the Standard sewerage connection relocation – under 10 metres cost build up. However, the Economic Regulator notes that it is very similar to the Standard residential water connection relocation (under 3 metres) charge. On this basis, the Economic Regulator intends to accept TasWater's Standard sewerage connection relocation – under 10 metres fee.

TasWater has proposed a new account establishment and closure fee (\$49 in 2018-19). The Economic Regulator asked TasWater to justify its account establishment and closure fee in terms of whether it reflected the cost of providing the service. In response, TasWater stated that the account establishment and closure service relates to the open/closure of accounts where TasWater does not do an out of cycle (special meter read) for the last read. The fee includes the administrative time taken to finalise an account and set up a new account. TasWater has retained a separate fee for special meter reads for other meter reads that do not relate to the open/closure of accounts. The fee is based on one hour of administrative labour to undertake this service for customers. Noting this additional information, the Economic Regulator intends to accept TasWater's proposed account establishment and closure fee.

On 1 November 2017, TasWater wrote to the Economic Regulator and stated that it had omitted the Inspection Costs fee from its proposed Price and Service Plan as the fee had not been applied during the second regulatory period. TasWater stated that it had inadvertently overlooked this fee and that it intended to retain the ability to recover these costs, which are ad hoc and highly variable.

TasWater noted that the fee relates to when another utility or development may be working around TasWater's pipes and TasWater needs to be on site to ensure that its services are not affected.

TasWater also noted that it is unable to forecast the revenue from this charge given its ad hoc nature and the fact that TasWater does not have any historical data from the second regulatory period.

TasWater noted that this fee is charged on an hourly basis and stated that there are three circumstances where this fee would be applied:

- Development assessments - the process and fees have been streamlined, including bundling of on-site inspections for each category of development. However, TasWater expects that there may be occasions where a customer/developer causes unreasonable delays or requires repeat site visits. An updated Development Application Form will outline TasWater's visit allowances, for example, a maximum of four site visits for a "minor" development application and the hourly charges that may apply for additional visits.
- Work near TasWater's critical or high risk infrastructure - where TasWater personnel are required to supervise work of a developer, utility, or contractor near its infrastructure to ensure that its services are not disrupted.
- Service isolation - turn off/on services to an area to allow third parties to connect or disconnect to its infrastructure. Routine service isolations are done at no charge. It is proposed that charges apply only when time spent by TasWater is unreasonable or irregular.

Table 13.15 sets out TasWater's proposed fees for these services.

Table 13.15 TasWater's proposed inspection/supervision fees (\$/hr)

Description	2017-18	2018-19	2019-20	2020-21
The recovery of costs for:	53.56	58.93	60.11	61.31
▪ Additional on-site time for development assessment above that reasonably allowed (refer to TasWater Development Application form);				
▪ On-site supervision of 3rd parties working near our infrastructure to avoid disruption to our customers'; and				
▪ Non-routine service isolation.				

For the 20mm meter supply and installation fee, according to TasWater's unit cost data, the large increase between the 2017-18 fee and the fees for the third regulatory period is due to an increase in meter costs from a recent tender.

For the third regulatory period, TasWater is proposing a threefold increase in the Standard water connection relocation - under 3 metres (from \$444.83 to \$1 490). The Economic Regulator's review of the cost build up for this service suggests that the actual cost for 2017-18 is \$1 421 with \$1 490 in 2018-19 representing a 4.8 per cent increase. In light of the evidence provided by TasWater, the Economic Regulator intends accepting the increase in the fee for this service.

The Economic Regulator conducted a benchmarking exercise to compare TasWater's proposed charges with charges imposed by comparable providers on mainland Australia.<sup>68</sup>

In some cases the Economic Regulator was unable to locate a charge for a similar service provided by a comparable provider or other providers charged a similar fee but on a different basis. For example, for a water meter installation Wannon Water excludes the cost of actually installing the meter, which is up to the customer to arrange via their own plumber.

Where services were comparable, the Economic Regulator found that:

- TasWater's proposed Special Meter Read was significantly higher than the charges imposed for these services by the comparable providers, except for North East Water.
- TasWater's proposed Standard Disconnection (water and/or sewerage) was significantly higher than the charges imposed for these services by two comparable providers.
- TasWater's proposed standard water connection fee (20mm connection), Standard 100mm Sewerage Connection fee, Meter Testing (onsite), Pressure and Flow Testing fees were lower or similar to the fees charged for those services by comparable providers.
- TasWater's proposed standard water connection fee (20mm connection) was significantly lower (21 per cent) than Barwon Water's fee for that service (Barwon Water was the only comparable utility for this particular fee).

Based on the outcomes from the benchmarking exercise, the Economic Regulator notes that some of TasWater's proposed miscellaneous fees and charges are higher than fees and charges imposed by comparable providers, others are lower than those charged by comparable providers whilst the remainder are similar to those charged by other providers.

The Economic Regulator noted that some of TasWater's proposed fees are to be determined on a "price on application" basis. The Economic Regulator considered this appropriate provided that the fee is determined on a cost reflective basis, as in some cases it is accepted that costs involved may vary due to, for example, the location of the property, the amount of materials required and the time taken to complete the job. The Economic Regulator notes that customers will have the right to query such fees through TasWater's complaints handling process and, if not then satisfied, may raise the issue with the Ombudsman.

***The Economic Regulator intends to approve TasWater's proposed miscellaneous fees and charges with the addition of an account establishment and closure fee and sewerage relocation and inspection cost fees.***

<sup>68</sup> The Economic Regulator compared TasWater's proposed fees and charges with those charged by Barwon Water, Goulburn Valley Water, North East Water and Wannon Water.

### **13.2.3.2 Development Assessment Service Fees**

TasWater's proposed Price and Service Plan outlined a number of development assessment service fees it intends charging. These fees relate to the costs TasWater incurs in processing development, subdivision and building and plumbing applications. TasWater also provided the unit costs, cost input quantities and escalation factors and the resultant total costs of the development assessment service fees. TasWater stated that its proposed Price and Service Plan streamlines the process and fees for development customers.

TasWater has proposed replacing separate fees for rezoning, subdivision and non-subdivision (minor, medium, major and significant respectively) with one set of development application fees for minor, medium, major and significant developments. The proposed fees for 2018-19 represent the 2017-18 fees for Development applications - non subdivision increased by 4.6 per cent. To be cost reflective, the Economic Regulator considers that development application fees should increase by the labour cost escalation factor of 2 per cent (not 4.6 per cent) given that the input cost data from TasWater shows that the only input is labour.

As explained in section 4.9.1.3, the latest set of fees for Certificate for Certifiable Work/Certificate for Compliance and engineering design approval equal the relevant 2017-18 fees combined and increased by 4.6 per cent. To be cost reflective, the Economic Regulator considers that these fees should increase by the labour cost escalation factor of 2 per cent (not 4.6 per cent) given that the input cost data from TasWater shows that the only input is labour. TasWater's proposed fees are set out in Table 13.16 (together with, where relevant, the 2017-18 fees for comparison purposes). The Economic Regulator's proposed fees are outlined in Table 13.17.

Table 13.16 TasWater's proposed Development Assessment Service fees (\$)

	2017-18	2018-19	2019-20	2020-21
<b>Development Applications<sup>69</sup></b>				
Minor	232.89	216.49	226.45	236.87
Medium	433.91	359.35	376.88	393.17
Major	781.31	691.24	723.04	756.30
Significant	1 239.00	1 165.99	1 219.62	1 275.72
<b>Certificate for certifiable works/Certificate for compliance (building &amp; plumbing applications)</b>				
Minor	293.74	307.25	321.39	336.17
Medium	380.96	398.48	416.81	435.99
Major	429.11	448.85	469.5	491.09
Significant	541.53	566.44	592.50	629.75
CCW Exemption	38.81	40.60	42.46	44.42
<b>Engineering design approval</b>				
Minor	291.02	304.41	31.418	333.06
Medium	552.63	578.05	604.64	632.45
Major	1 387.88	1 451.72	1 518.50	1 588.35
Significant	1 980.43	2 071.53	2 166.82	2 266.49
<b>Consent to register a Legal Document</b>				
Minor	136.58	148.84	155.68	162.843
Medium	226.94	148.84	155.68	162.84
Major	226.94	148.84	155.68	162.84
Significant	226.94	148.84	155.68	162.84

<sup>69</sup> Separate fees for the second regulatory period for rezoning, sub-division and non-subdivision have been replaced for the third regulatory period with a single fee for each development application category.

Table 13.17 Economic Regulator's proposed Development Assessment Service fees (\$)

	2018-19	2019-20	2020-21
<b>Development Applications</b>			
Minor	211	215	220
Medium	350	357	365
Major	674	688	701
Significant	1 137	1 160	1 183
<b>Certificate for certifiable works/Certificate for compliance (building &amp; plumbing applications)</b>			
Minor	300	306	312
Medium	389	396	404
Major	438	446	455
Significant	552	563	575
CCW Exemption	40	40	41
<b>Engineering design approval</b>			
Minor	297	303	309
Medium	564	575	586
Major	1 416	1 444	1 473
Significant	2 020	2 060	2 102
<b>Consent to register a Legal Document</b>			
Minor	149	152	155
Medium	149	152	155
Major	149	152	155
Significant	149	152	155

*The Economic Regulator intends to approve TasWater's proposed development assessment fees.*

*The Economic Regulator also intends to approve TasWater's proposed development assessment fees for 2018-19, as set out in Table 13.17.*

*The Economic Regulator intends to require TasWater to increase development assessment service fees by the labour cost escalation factor of 2 per cent per annum.*

### 13.3 Proposed price transition

TasWater was required to forecast the customer impacts resulting from its proposed price changes to enable the Economic Regulator to assess whether the customer impacts are being effectively managed.

TasWater was also required to demonstrate in its proposed Price and Service Plan how target tariffs and price transition paths for the third regulatory period will enable TasWater to comply with all pricing principles in the Industry Act by the end of the “transition period”<sup>70</sup>, 1 July.

At the conclusion of its price determination investigation for the second regulatory period the Economic Regulator understood that, by the end of that period on 30 June 2018, all of TasWater’s residential customers would be on target tariffs:

In its proposed Price and Service Plan TasWater ...[stated] that its proposed price transition arrangements for the second regulatory period will result in all residential customers paying the same price for the same service by 1 July 2018, leaving a small group of commercial, industrial and institutional customers to transition to target tariffs by 2020.<sup>71</sup>

However, revised modelling carried out by TasWater has revealed that this is not the case and there remains a small number of residential customers that are also paying less than the water and sewerage target tariffs and who will continue to transition to target tariffs during the third regulatory period.

TasWater’s proposed Price and Service Plan acknowledged that TasWater is required to fully comply with the Pricing Principles by the end of the Transition Period and, in this regard, notes that:

- 96 per cent of customers will reach target tariffs by 30 June 2018;
- 7 516 customers (4 252 residential and 3 264 non-residential) will not be on target tariffs as at 30 June 2018;
- 61 per cent of the 7 516 customers (4 594 customers) will reach target tariffs by 30 June 2019; a further 11 per cent by 30 June 2020; and the remaining 28 per cent on 1 July 2020.

The Economic Regulator requested further information on the 7 516 customers who are yet to reach their respective target tariffs. TasWater provided a spreadsheet containing de-identified customer level data, including the customer’s fixed charges for 2017-18, the 2017-18 target tariffs and each a description of each customer’s property end use.

The data shows that around 98 per cent of affected customers (around 7 336 customers) face an increase in their combined fixed charges for water and sewerage of up to 20 per cent in the first year of the third regulatory period, while, a small number of customers will face significant price increases over the third regulatory period in order to reach their respective target tariffs. TasWater proposes that these customers will be assigned a dedicated account manager who will provide early communication and explanation of price increases over the duration of the third regulatory period.

TasWater advised that account managers will work with these customers to find an appropriate payment option, including flexible payment plans for those that may have difficulty paying their accounts. In addition, residential customers who are transitioning to target tariffs will also have access to TasWater’s Hardship Assistance Program as part of the Financial Hardship Policy.

---

<sup>70</sup> The transition period is defined in Regulation 32 of the Water and Sewerage Industry (Pricing and Related Matters) Regulations 2011

<sup>71</sup> Tasmanian Economic Regulator, 2015 Tasmanian Water and Sewerage Price Determination Investigation - Final Report, page 96.

Of the residential customers not on target tariffs:

- 3 567 (84 per cent) have a difference between their 2017-18 fixed charges and the 2017-18 fixed target tariff of less than \$100 (of those customers 2 542 (58 per cent) have a difference of less than \$50);
- 395 customers have a difference between their 2017-18 fixed charges and the 2017-18 fixed target tariffs of between \$100 and \$200; and
- the remaining 284 customers have a difference between their 2017-18 fixed charges and the 2017-18 fixed target tariff of greater than \$200.

Based on the data TasWater provided to the Economic Regulator, of the 284 residential customers mentioned above, there are some customers with large differences, with 182 customers having a difference between their fixed charges and target tariffs of greater than \$300 and 31 customers whose difference is over \$3 000.

The 3 264 non-residential customers transitioning to target tariffs cover 158 different non-residential property types, including carparks, banks, motels, aged care facilities, schools and supermarkets. For these customers, the differences between their 2017-18 fixed charges and the 2017-18 fixed target tariffs ranges from \$0.04 to \$43 358 with 35 customers having differences greater than \$10 000.

Based on the legislative requirement for all customers to be on target tariffs by 1 July 2020 TasWater initially proposed the following price transition arrangements for the third regulatory period:

- Where the difference between a customer's actual total bill (water and sewerage) and the target tariffs as at 30 June 2018 is greater than \$300, the difference will close by one third in each year.
- Where the difference between a customer's actual total bill (water and sewerage) and the target tariffs as at 30 June 2018 is less than \$300, the difference will close by up to \$100 per year.

However, after discussions with the Economic Regulator about the complexity of apportioning a single bill increase between an individual customer's water and sewerage prices, TasWater proposed the following revised price transition method:

- If a customer, as at 30 June 2018, is paying less than their respective fixed water and/or sewerage target tariff, and if the difference between what they are paying and the relevant target tariff in period one of the third regulatory period is:
  - less than or equal to \$50\*, then the customer will move straight to the relevant target tariff in period one of the third regulatory period.
  - greater than \$50\*, then the customer's prices for water and sewerage respectively will increase each year by one third of the difference between the relevant target tariff in the third year of the third regulatory period and the price they paid at end of the second regulatory period.

\* multiplied by the applicable connection size multiplier and/or number of equivalent tenements.

TasWater considers that the revised price transition method balances simplicity, fairness and ensuring customers have reached their respective water and sewerage target tariffs by the end of the transition period. The Economic Regulator concurs with TasWater and considers TasWater's revised price transition method provides customers with greater clarity as to the prices they will be charged during the third regulatory period and therefore intends to accept TasWater's revised proposed price transition.

However, the Economic Regulator is concerned about the size of the price increases for some customers and intends requiring TasWater to write to all affected customers so that they are aware of the expected price increases.

The formulae for transitioning customers to target tariffs are outlined in Schedule 2 of the Draft Price Determination (Appendix 1).

***The Economic Regulator intends to accept TasWater's revised proposed price transition for customers paying less than target tariffs.***

***The Economic Regulator also intends to require 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.***

## 13.4 Customer impacts

As required under Section 15 of the Industry Act, the Economic Regulator has assessed the impact on customers arising from the application of its proposed price increase.

Table 94 of TasWater's proposed Price and Service Plan outlines the impact on customers of its proposed price increases of 4.6 per cent per annum with total bills increasing by \$56 a year for a typical residential customer (water usage of 200kL per annum).<sup>72</sup>

Based on the prices for the second regulatory period and Economic Regulator's proposed prices for the third regulatory period Table 13.18 shows the cost to customers for a variety of water usage levels.

Compared to TasWater's proposal, under the Economic Regulator's proposed price increase, a typical residential customer on target tariffs for both water and sewerage and using 200 kL of water per annum would see their bill increase by an average of \$50 a year.

---

<sup>72</sup> TasWater, 2017, page 133.

Table 13.18 Impact on customer bills from the Economic Regulator's proposed price increases

Bill component/water usage	Second regulatory period			Economic Regulator's proposed prices - third regulatory period		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>50kl/annum</b>						
Water Fixed	329	329	329	343	357	372
Water Variable	49	50	51	53	55	58
Sewerage	563	596	632	659	686	714
<i>Total Bill</i>	<i>941</i>	<i>976</i>	<i>1 013</i>	<i>1 055</i>	<i>1 099</i>	<i>1 144</i>
<b>100kl/annum</b>						
Water Fixed	329	329	329	343	357	372
Water Variable	97	100	102	106	111	115
Sewerage	563	596	632	659	686	714
<i>Total Bill</i>	<i>989</i>	<i>1 025</i>	<i>1 064</i>	<i>1 108</i>	<i>1 154</i>	<i>1 202</i>
<b>150kl/annum</b>						
Water Fixed	329	329	329	343	357	372
Water Variable	146	149	153	159	166	173
Sewerage	563	596	632	659	686	714
<i>Total Bill</i>	<i>1 038</i>	<i>1 075</i>	<i>1 115</i>	<i>1 161</i>	<i>1 209</i>	<i>1 260</i>
<b>200kl/annum</b>						
Water Fixed	329	329	329	343	357	372
Water Variable	194	199	204	213	221	231
Sewerage	563	596	632	659	686	714
<i>Total Bill</i>	<i>1 086</i>	<i>1 125</i>	<i>1 166</i>	<i>1 214</i>	<i>1 265</i>	<i>1 317</i>
<b>400kl/annum</b>						
Water Fixed	329	329	329	343	357	372
Water Variable	388	398	408	425	443	461
Sewerage	563	596	632	659	686	714
<i>Total Bill</i>	<i>1 281</i>	<i>1 324</i>	<i>1 370</i>	<i>1 427</i>	<i>1 486</i>	<i>1 548</i>