

3 REGULATORY COMPLIANCE IMPROVEMENT

This chapter outlines the Economic Regulator's understanding of the actions that are being taken by Tasmania's water and sewerage industry regulators and TasWater, to ensure that TasWater continues to improve the extent to which it complies with its regulatory obligations during the third regulatory period.

It outlines the industry regulators' expectations of TasWater, their responses to the proposed Price and Service Plan and arrangements they have in place to manage compliance. It includes areas that the industry regulators have identified as necessary to improve progress towards achieving full regulatory compliance.

The chapter also includes the Economic Regulator's draft proposals to improve TasWater's regulatory compliance. Chapter 6 of this Draft Report is also relevant to these draft proposals, as it discusses TasWater's capex program which has recently shifted focus from growth to compliance.

3.1 Regulatory compliance

TasWater is currently facing a number of challenges in relation to regulatory compliance, particularly in respect of wastewater management. This was acknowledged during the first and second price determination investigations and is due to the legacy issues that were inherited by the previous regulated entities, and now TasWater. Full compliance may not be achieved for many years.

Effective long-term planning by TasWater is essential to ensuring that it will ultimately achieve full regulatory compliance and operational efficiency. Effective long-term planning provides strategic direction and a basis for assessing whether capex is prudent and efficient. While improvements in regulatory compliance are usually achieved through capex, they may also be achieved through improved efficiencies in opex.

TasWater's proposed capex and opex for the third regulatory period must, therefore, reflect its long-term plan and the outcomes agreed with the industry regulators responsible for enforcing its compliance. Management plans and programs are put in place to ensure that the industry regulators' expectations are met.

Tasmania's water and sewerage industry regulators are the:

- Director of Public Health - responsible for regulating water quality and fluoridation;
- Director, Environment Protection Authority (EPA) - responsible for regulating wastewater treatment plants; and
- Department of Primary Industries, Parks, Water and Environment (DPIPWE) - responsible for water licence allocations and dam safety.

A more detailed description of the roles and responsibilities of each of the industry regulators is included in Chapter 1 of this Draft Report.

3.2 Consultation undertaken by the Economic Regulator

In its PSP Guideline, the Economic Regulator undertook to consult with industry regulators to ensure that the compliance improvement outcomes agreed with TasWater are reflected in its proposed Price and Service Plan. The Economic Regulator may recommend changes to the proposed Price and Service Plan to ensure that the statutory responsibilities of industry regulators, as well as their compliance improvement expectations, are appropriately addressed.

The Economic Regulator also expected that TasWater would consult with industry regulators during the preparation of its proposed Price and Service Plan. The Guideline also required TasWater to provide information about regulatory compliance, including the expectations of each regulator for the third regulatory period, agreed compliance improvement outcomes and target dates, and copies of management plans.

Since December 2016, the Economic Regulator has held quarterly meetings with industry regulators. In September 2017, a workshop was held with Arup, the Economic Regulator's independent consultant, so that industry regulators could discuss the preliminary findings from Arup's review of TasWater's capex and opex. The workshop included a discussion on TasWater's LTSP and its regional strategies for water and wastewater networks. The LTSP aims to outline the investment necessary to meet the regulatory and compliance standards, as well as the arrangements required to achieve the standards. It is available on TasWater's website.

3.3 Responses from the industry regulators

This section provides the Economic Regulator's understanding of how each of the industry regulators has responded to TasWater's proposed Price and Service Plan. It describes whether, and to what extent, TasWater's proposals meet their expectations for continued improvement, the arrangements they have in place with TasWater to ensure compliance, as well as opportunities for expediting progress towards achieving full compliance and operational efficiency.

3.3.1 Director of Public Health

3.3.1.1 Response to TasWater's proposals

The Director of Public Health supported the proposals contained in TasWater's proposed Price and Service Plan. In particular, the Director noted the following.

- TasWater has achieved a progressive reduction in public water supplies subject to boil water alerts or public health alerts, and a corresponding reduction in the number and proportion of consumers of public water supplies who receive water that is non-compliant with microbiological health guidelines. Less than 1 per cent of the population receives a microbiologically non-compliant drinking water supply from TasWater.
- In anticipation of all non-compliant small water supplies being addressed by August 2018, TasWater intends shifting towards a long-term focus of activity and investment that addresses the risks identified through assessments of each catchment and drinking water supply system.
- The risk assessment approach required given the priorities for the third regulatory period will, to some extent, open possibilities for regional improvements, integration and efficiencies for TasWater's drinking water supplies, including many to small and relatively remote populations.

- TasWater has given an undertaking to progressively address various shortcomings of the sewerage infrastructure, which, in some instances, will serve to reduce public health risks associated with recreational water and exposure to aquaculture.

TasWater consulted with the Department of Health and Human Services (DHHS) on its proposed Price and Service Plan in early 2017 and DHHS' priorities for regulatory compliance improvement have been incorporated.

In March 2017, the Director of Public Health provided TasWater with a list of six priorities to guide its activities and investments, to address both current and long-term risks to human health associated with the shortcomings of drinking water supply systems. The intention was to provide guidance to TasWater for its capital works planning and, in turn, capex for inclusion in its proposed Price and Service Plan. The list was developed following extensive discussions with TasWater. The six priorities are:

1. Remove boil water alerts and public health alerts in drinking water systems.
2. Identify and implement critical control points in accordance with the *Australian Drinking Water Guidelines 2011* (updated November 2016) (ADWG) framework.
3. Increase knowledge of surface waters through catchment risk assessments, and improve source protection through capital investments designed to reduce or eliminate public health risks.
4. Identify opportunities to improve disinfection management and maintain suitable chlorine residuals in reticulation networks.
5. Improve fluoridation performance through compliance with the *Tasmanian Fluoridation Code of Practice*.
6. Identify and implement strategies to remove and reduce disinfection by-product formation to levels below those specified in the ADWG.

The Director of Public Health has advised the Economic Regulator that its expectations for regulatory compliance improvement have been met by TasWater's proposed Price and Service Plan.

3.3.1.2 Monitoring compliance

DHHS' arrangements with TasWater are provided for under the *Public Health Act 1997*, the *Fluoridation Act 1968* and associated regulations. The Economic Regulator understands that the Tasmanian code of practice relating to the fluoridation of public water supplies is currently being updated and is due for completion by 30 June 2018.

DHHS administers the *Tasmanian Drinking Water Quality Guidelines 2015* (TDWQG), which require TasWater to develop and implement, update annually, and have externally audited every two years, a Drinking Water Quality Management Plan (DWQMP). Its purpose is to highlight the risks and issues associated with the shortcomings of drinking water supply systems and to prioritise improvement projects and programs. The current DWQMP applies for 2015-18. The Economic Regulator has been advised that the first audit of the DWQMP is due to be completed in early December 2017. The Economic Regulator has also been advised that the current DWQMP is expected to continue, with revisions as necessary, during the third regulatory period and for future regulatory periods.

DHHS has advised that the TDWQG closely aligns with the best practice management principles outlined in the ADWG. The Economic Regulator understands that, where necessary, DHHS and TasWater continue to liaise on reviews and updates of both the ADWG and TDWQG.

The Economic Regulator also understands that TasWater's compliance is monitored and enforced under the DWQMP which also contains the requirement for risk-based monitoring, reporting and management activities to be carried out. DHHS actively engages with TasWater about notifications of potentially non-compliant water, monitors its operational response and results, and responds as necessary. Results are provided to the Director of Public Health annually by TasWater, as required under the TDWQG. Information must also include, amongst other things, a summary of capital investment in relation to the drinking water supply system and a summary of planned capital investment in relation to the drinking water supply system for the next reporting period.

The Economic Regulator is aware that TasWater was preparing a drinking water quality strategy relating to the third regulatory period. However, TasWater has confirmed that, given the commitments contained in its proposed Price and Service Plan and LTSP, and the pending audit and update of the DWQMP, this strategy will not be progressed further at this stage.

3.3.2 Director, Environment Protection Authority

3.3.2.1 Response to TasWater's proposals

The Director, EPA has advised the Economic Regulator that the EPA broadly supported the proposals contained in TasWater's proposed Price and Service Plan.

The EPA and TasWater have entered into a *Memorandum of Understanding on Public Wastewater Management* (November 2016) (MOU). The MOU is a high level document that aims to prioritise projects, largely relating to Level 2 WWTPs, to deliver the greatest environmental performance and compliance improvement over a three year period, by focussing on the highest volume plants and key environmental risks. It is available on the EPA's website. The MOU recognises that full compliance is not possible within the term of the MOU, or the third regulatory period.

The Economic Regulator has been advised that the EPA expects that TasWater will improve compliance with its regulatory obligations and manage key environmental risks over the third regulatory period, given that the MOU focusses upon a specific set of priority Level 2 WWTPs. For the term of the MoU, the EPA will regulate non-priority Level 2 WWTPs to ensure environmental performance does not drop below current levels to allow TasWater to focus on the following:

- "Big 13" - those WWTPs that account for 70 per cent of all treated wastewater from TasWater's network;
- "Top 20" - the key, localised environmental risks associated with Level 2 WWTPs;
- trade waste - enhanced state-wide control of trade waste, tankered waste and leachate inputs to TasWater's network; and
- other state-wide projects that seek to optimise wastewater infrastructure function through better control of inputs, or divert outputs to reuse rather than direct discharge to the environment.

The EPA indicated that the capex projects included in TasWater's proposed Price and Service Plan and LTSP reflect the priorities identified in the MOU. Under the MOU, TasWater has committed to completing projects at 33 wastewater treatment plants, many of which do not require significant capex. The EPA is comfortable that the contents of the proposed Price and Service Plan, together with the more detailed commitments provided in Appendix 1 of the LTSP, provide TasWater with sufficient flexibility to pursue and achieve the required gains in environmental performance.

The EPA noted that the current MOU will expire during the third regulatory period and confirmed that discussions have commenced with TasWater to extend the MOU to align it with the timing of the third regulatory period.

The EPA confirmed that TasWater's existing Wastewater Management Plan 2015-18 has largely been set aside for the early stages of the MOU, although it aligns with many of the priorities in the MOU. The EPA also confirmed that TasWater has proposed the preparation of an updated wastewater management plan for 2018-21. The Economic Regulator understands that this plan will align with the proposed Price and Service Plan and the MOU, and will provide additional detail on projects, estimated costs and timeframes for completion. TasWater confirmed its intention to provide an updated version to the EPA by December 2017.

The Economic Regulator understands that TasWater was also preparing a wastewater strategy to relate to the third regulatory period. However, TasWater has confirmed that this will not be progressed further given the commitments in its proposed Price and Service Plan, LTSP and pending updated wastewater management plan.

The EPA is also supportive of the development of a regional/scheme-based approach to the management of assets within TasWater's state-wide planning framework. The EPA has also noted the positive direction provided by TasWater's LTSP and indicated that incorporating regional/scheme-based strategies would assist decision making in relation to asset management for the long-term.

However, the EPA continues to have concerns about delays in the completion of some projects by TasWater, particularly during its internal project approval phase. The EPA is considering how it may be able to alter its assessment and regulatory processes, to incentivise TasWater to reduce or better meet its project timeframes thereby more efficiently delivering improved environmental outcomes.

The Economic Regulator understands that the EPA was consulted about TasWater's proposals, primarily through the development of its LTSP.

The Director, EPA has advised the Economic Regulator that his expectations for regulatory compliance improvement have been broadly met by TasWater's proposed Price and Service Plan.

3.3.2.2 Monitoring compliance

Under the EMPCA, WWTPs cannot operate without authorisation, provided in the form of permits or Environment Protection Notices, both of which are subject to conditions. The EPA regulates Level 2 WWTPs.

The EPA advised that it has a Compliance and Enforcement Plan for the period of the MOU and also applies all regulatory enforcement tools available to it under EMPCA, as necessary. This represents a strengthening of the EPA's enforcement approach and reflects that its focus is on the priorities identified in the MOU. To allow TasWater to complete these priority projects, the EPA is regulating non-priority wastewater treatment plants to a standard that specifies no drop in current performance. The EPA expects that, under the MOU, TasWater will improve the level of state-wide compliance with its regulatory obligations with six monthly progress reviews conducted against the compliance improvement and project milestones.

The EPA suggested that more frequent and transparent reporting of sewage compliance information would be beneficial given that other key reports, such as the EPA's annual reports and the Economic Regulator's water and sewerage state of the industry reports, are published annually. The EPA is currently negotiating with TasWater to improve the frequency and timeframes for TasWater's compliance reporting to the EPA. The EPA is hopeful that this will be resolved during the third regulatory period, or prior to it commencing.

3.3.3 Delegate for Dam Safety Regulation

3.3.3.1 Response to TasWater's proposals

The Delegate for Dam Safety Regulation supported the proposals included in TasWater's proposed Price and Service Plan. The Delegate for Dam Safety Regulation also noted that TasWater's proposed Price and Service Plan is consistent with TasWater's Dam Safety Management Plan Annual Progress Report 2016/17 which was recently approved by the Delegate for Dam Safety Regulation.

However, the Delegate for Dam Safety Regulation indicated that TasWater does not have a state-wide strategic plan for town schemes, including water supply dams. This has delayed decisions in relation to, for example, whether dams in interim risk reduction measures that have been accepted by the Delegate for Dam Safety Regulation, should be decommissioned, retained or upgraded. The Economic Regulator understands that DPIPWE intends working with TasWater during the third regulatory period to finalise a state-wide strategic plan for town schemes in the short-term, to ensure that these delays are not extended.

The Economic Regulator also understands that DPIPWE is working with TasWater to improve its reporting processes.

The Economic Regulator is aware that TasWater is preparing a dam safety improvement program for the third regulatory period. The Delegate for Dam Safety Regulation has indicated that its approval of this document is not necessary from a regulatory compliance perspective, as TasWater's dam safety obligations are being met through the existing annual reporting requirements.

The Delegate for Dam Safety Regulation has advised the Economic Regulator that its expectations for regulatory compliance improvement have been met by TasWater's proposed Price and Service Plan.

3.3.3.2 Monitoring compliance

The Delegate for Dam Safety Regulation monitors TasWater's performance against its dam safety obligations through annual progress reports, which are required by agreement with TasWater. Annual progress reports provide a business-wide, risk-based framework for the management and mitigation of dam safety risks, to ensure they do not pose an unacceptable level of risk to the public.

The *Water Management Act 1999* and the *Water Management (Safety of Dams) Regulations 2015* provide the key legislative requirements while TasWater applies the Australian National Committee on Large Dams' *Guidelines on Risk Assessment 2003* and *Guidelines on Dam Safety Management 2003* to manage its risk assessment process.

The Delegate for Dam Safety Regulation advised that it is satisfied with its arrangement with TasWater and noted that TasWater has reduced the risk (tolerability) across the dams it is responsible for through decommissioning and upgrades. It is satisfied that TasWater has programs in place to reduce the number of dams above the level of tolerability.

The Economic Regulator noted that separate dam safety management plans were prepared previously for the northern, north western and southern regions, and that during the second regulatory period, in consultation with DPIPWE, these have been consolidated into one plan.

The Economic Regulator understands that TasWater is in its second year of a five year task of registering all dams (as defined by the Water Management Act) it is responsible for, which includes water and wastewater storages, lagoons and weirs. This number has increased by more than half and is currently in excess of 300. This process includes a consequence category assessment of each dam to quantify individual risk and identify the appropriate business response.

3.4 Arup's Draft Report

Arup's Draft Report acknowledged TasWater's recent shift to a long-term capital planning approach, noting that this will provide a robust framework for future planning. Arup also highlighted the importance of combining this with regional planning, as a regional perspective will allow TasWater to make objective assessments about investing in its assets to avoid the risk of inefficient outcomes such as redundant or stranded assets.

Arup also highlighted the delays and overspending that have occurred during the second regulatory period with a number of major projects (for example, the Tolosa Dam decommissioning and the Kingborough Sewerage Strategy - Treatment and Network). Chapter 6 of this Draft Report discusses TasWater's capex for the second and third regulatory periods together with Arup's findings from its review of that expenditure.

3.5 Economic Regulator's draft conclusions

3.5.1 Long-term planning

Based on advice from the industry regulators and Arup, the Economic Regulator has concluded that TasWater has made considerable effort to improve its strategic planning framework for regulatory compliance improvement. TasWater's LTSP appears to be generally in line with the industry regulators' expectations for regulatory compliance improvement and the arrangements they have in place with TasWater to work towards achieving full compliance.

The industry regulators also acknowledged the progress that has already been made by TasWater towards improved compliance with its regulatory obligations. In relation to drinking water quality, the Director of Public Health considered TasWater's progress to be noteworthy. Quality issues in the remaining non-compliant regional town supplies are planned to be addressed by August 2018, at the commencement of the third regulatory period. The Economic Regulator understands that this will then allow TasWater to shift its activity and investment to addressing the risks identified through assessments of each catchment and drinking water supply system, potentially leading to further improvements, integration and efficiencies.

The EPA noted that the MOU was developed in recognition that step-change improvement in environmental performance and compliance at Level 2 wastewater treatment plants was required. While it is premature to comment on progress, there are some promising early signs of improvement. For example, state-wide flow weighted compliance has improved from around 42 per cent at the time the MOU was signed. Using the TasWater linked limits calculation method, the rolling year to date average (September 2016 to September 2017) is currently 51 per cent, with a peak for May 2017 of 57 per cent.

In addition, improvement site assessments have been completed for 17 wastewater treatment plants out of the "Big 13" and "Top 20". These site assessments are being followed up with improvement action plans (for 11 WWTPs) and operational control points (for three WWTPs). The assessments have delivered on-the-ground improvements, such as the desludging and renewal of diffusers in the aeration chambers at the Rosny wastewater treatment plant, which was completed in September 2017.

Further, the Delegate for Dam Safety Regulation noted that TasWater has reduced the risk (tolerability) across its dam portfolio through decommissioning and upgrades, and is satisfied that programs are in place to reduce the number of dams above the level of tolerability.

However, there were some concerns about TasWater's ability to deliver the agreed capex as scheduled, so that the agreed compliance improvement outcomes can be achieved. For example, it was recognised that the LTSP provides direction, but in some areas it lacks sufficient focus on regional/scheme-based

asset management to assist long-term decision making. As a result, as pointed out by Arup, TasWater might be incurring capex now and during the third regulatory period, on assets that, ultimately, may no longer be required. The challenges appear to be more complicated in relation to wastewater management, where a regional/scheme-based asset management approach was supported by Arup and the EPA.

The Economic Regulator recognises that TasWater's strategic planning framework has been notably improved by its LTSP. It also acknowledges that TasWater has taken, and continues to take, opportunities to rationalise assets. It is understood that opportunities are identified through its overarching Asset Management System which is supported by strategies and plans, and that projects are prioritised through its LTSP Optimisation Model.

The Economic Regulator considers however, that long-term asset rationalisation strategies to achieve full compliance and operational efficiencies are still lacking. To be able to effectively assess efficiency, the Economic Regulator intends to require TasWater to 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. This would build upon TasWater's existing strategic planning framework and would take account of Arup's findings and the approach supported by the EPA.

The Economic Regulator notes that in a recent performance audit to assess whether the reform of Tasmania's water and sewerage industry had delivered the intended outcomes, the TAO found that:

Although TasWater has begun identifying rationalisation opportunities for water and sewerage facilities, no overarching rationalisation strategy is in place.²

and

A structured approach to asset rationalisation is not in place as evidenced by the absence of a rationalisation strategy.³

On this matter the TAO recommended that TasWater finalises its rationalisation strategy to support rationalisation projects."⁴

The Economic Regulator acknowledges that achieving full compliance and efficient operations will take many years, but is firmly of the view that long-term asset rationalisation strategies are essential to achieving this. Once these strategies are prepared, the Economic Regulator suggests that TasWater should re-run its LTSP Optimisation Model to take account of the new priorities and long-term objectives set out in the relevant strategies.

3.5.2 Proposed Price and Service Plan

The industry regulators were supportive of the proposals contained in the proposed Price and Service Plan. The Economic Regulator was advised that it meets the Director of Public Health and the Delegate for Dam Safety Regulation's expectations for regulatory compliance improvement for the third regulatory period and broadly meets the Director, EPA's expectations. There appears to have been a reasonable level of consultation by TasWater with industry regulators regarding the proposed Price and Service Plan.

Noting the Economic Regulator's Guideline, TasWater provided the information required in relation to regulatory compliance improvement in its proposed Price and Service Plan. Copies of management

² Tasmanian Audit Office, *Water and sewerage in Tasmania: assessing the outcomes of industry reform*, November 2017, page 68.

³ Ibid, page 69.

⁴ Ibid, page 69.

plans and strategies were not provided, but were subsequently made available to the Economic Regulator.

Each industry regulator has ensured that these plans or agreements are in place to reflect their respective compliance improvement expectations and that they will be updated and replaced when necessary, either before or during the third regulatory period. The Economic Regulator understands that the key documents are the:

- Drinking Water Quality Management Plan 2015-18 (which will be audited during late November - early December 2017, reviewed as necessary and extended);
- Memorandum of Understanding on Public Wastewater Management (which expires at the end of November 2019 and is likely to be extended to align it with the end of the third regulatory period);
- revised wastewater management plan to align with the third regulatory period (due with the EPA in December 2017); and
- Dam Safety Management Plan Annual Progress Report 2016/17.

The Economic Regulator acknowledges the important direction that these documents provide for TasWater. It is also acknowledged that the finalisation of these documents may result in changes to the detail of TasWater's capex program for the third regulatory period.

It is also understood that the industry regulators considered that existing compliance and enforcement programs and tools are sufficient to support them incentivising TasWater's continued progress towards improved compliance outcomes. The more frequent public reporting of sewage related performance data was identified as a way to further improve transparency and accountability.

3.6 Economic Regulator's draft proposals

Having considered the views of the industry regulators and the advice received from Arup and TasWater, the Economic Regulator intends to require TasWater to carry out the following actions during the third regulatory period. These draft proposals would build upon the significant progress that TasWater has made with its strategic planning practices and would allow the Economic Regulator to assess whether TasWater's proposed capex for the fourth regulatory period is prudent and efficient.

The Economic Regulator intends to require 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.

The Economic Regulator intends to amend the Tasmanian Water and Sewerage Industry Performance and Information Reporting Guideline (November 2016) to require TasWater to:

- *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 intends to require 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.

4 CUSTOMER SERVICE STANDARDS, CUSTOMER CONTRACT AND POLICIES

4.1 Regulation of customer service standards

The Economic Regulator is responsible for regulating standards and conditions of supply of regulated water and sewerage services. This does not, however, extend to water quality standards, which are the responsibility of the Director of Public Health, or waste water standards which are the responsibility of the EPA.

Water and sewerage service standards are regulated through the specification of minimum service standard targets within the Customer Service Code and the determination of transitional service standards as part of the Price Determination processes.

The Economic Regulator's current approach to regulating water and sewerage services may be summarised as:

- establishing a Water and Sewerage Industry Customer Service Code;
- establishing minimum service standard targets within the Customer Service Code;
- requiring regulated water and sewerage entities to develop customer charters;
- requiring regulated water and sewerage entities to develop transitional customer service standard proposals as part of Price and Service Plans to move towards the minimum service standard targets within the Customer Service Code; and
- establishing a performance reporting framework that, amongst other things, monitors performance against approved transitional service standards and minimum service standard targets.

4.2 Minimum customer service standards - background

Minimum service standards are usually developed following consultation with customers on current levels of service and price implications of alternative levels of service provision. However, during the early stages of the water and sewerage industry reform process, this information was largely unknown. That is, the absence of customer service regulation prior to the commencement of reforms for the water and sewerage sector resulted in a general lack of data being collected in relation to customer service. Therefore, the Economic Regulator chose to apply an alternative approach within the Customer Service Code when it was introduced in July 2010.

The Customer Service Code was initially developed to include a number of minimum service standards that the then regional water and sewerage entities used as targets for transitioning levels of service provision over time. The Economic Regulator determined these standards using a benchmarking approach based on existing service standards within Victoria. The Customer Service Code then stipulated that a regulated entity is to achieve the minimum service standards within the second pricing period.

Transitional service standards were subsequently proposed by each of the three regional water and sewerage entities and approved as part of the first Price Determination (effective from 1 July 2012). Progress of the entities against the agreed performance transition paths was then monitored and reported upon by the Economic Regulator as part of the performance monitoring and reporting framework.

The Customer Service Code provided that the Economic Regulator would undertake a review of the minimum service standards by 30 June 2013 to take into account cost and service level data which came to light during the first regulatory period.

Accordingly, a review was undertaken with the objective of introducing differential service standards in the second regulatory period to reflect the different costs of delivering the regulated services to different geographical areas.

However, following the amalgamation, TasWater was unable to propose service standards, nor outline any associated transition path, on a differential basis citing issues with data availability and concerns over inadvertent operational inefficiencies which may arise through applying differential service standards. Rather, TasWater proposed state-wide minimum service standards as well as annual transition targets to move to the service standard targets during the second regulatory period.

Following continued liaison between TasWater and the Economic Regulator, it was resolved that 'actual' minimum standards would be set for some of the service standard indicators for the second regulatory period. That is, the performance of TasWater against the indicators in question would (from 1 July 2015) no longer be averaged out across TasWater's system state-wide. Rather, the service standard proposed for those indicators is now the absolute minimum standard which TasWater has to meet, in all instances, and in all of its interactions with customers state-wide, with respect to those indicators.

'Actual' minimum standards were set with respect to 'response time' and 'duration related' indicators and service standards relevant to 'water supply interruptions' and 'sewer breaks and chokes'.

During the 2015 Water and Sewerage Price Determination Investigation it was ultimately determined that, in accordance with the customer service standards transition path, response time and duration related indicators would only be achieved 'X' per cent of the time during the second regulatory period (specifically 80 or 90 per cent of the time).

As part of its 2015 investigation the Economic Regulator also provided an undertaking that it would continue to work with TasWater towards the development of more relevant and representative customer service standards for the third regulatory period.

To this end, a Working Group was established, with representation from the Office of the Tasmanian Economic Regulator (OTTER) and TasWater, to develop a framework for minimum customer service standards. The Working Group met monthly, commencing June 2016 and concluding in November 2016.

A proposed minimum service standards framework was agreed to by the Working Group. The framework only set out the proposed methods for measuring performance, rather than the actual value of each minimum service standard. It was resolved that the agreed framework would feed into the development of TasWater's proposed Price and Service Plan for the third regulatory period, which was to include actual proposed minimum service standard values.

4.3 PSP Guideline requirements for service standards arrangements

The Economic Regulator published its *Tasmanian Water and Sewerage Industry 2018 Price Determination Investigation Price and Service Plan Guideline* (the PSP Guideline) in June 2016 to assist TasWater in preparing its proposed Price and Service Plan.

The PSP Guideline provides high level direction with respect to TasWater's development of appropriate minimum service standard arrangements to apply from 1 July 2018. This included service standard obligations provided for in the Customer Service Code.

In accordance with the provisions of the PSP Guideline, TasWater was required to specify, in its proposed Price and Service Plan, the actual minimum service standards and targets that will apply in the third regulatory period, including any transitional performance levels to achieve identified performance targets. The proposed standards were to align with the agreed service standard framework developed by the TasWater/OTTER Working Group, unless TasWater was able to justify in its proposed Price and Service Plan why it had departed from this agreed framework.

TasWater was to also demonstrate that customers had been consulted on their service expectations and that their views had been taken into account. Furthermore, that customer service standards and conditions should reflect customers' priorities and expectations in relation to service delivery and should underpin TasWater's expenditure plans.

4.4 Customer Service Standards for the third regulatory period

4.4.1 Working Group outcomes for consideration

During deliberations of the Working Group, OTTER representatives were advised of TasWater's current inability to collect data and report on repeat service interruptions.

The two minimum service standards to which this related to were:

- number of customers receiving more than 5 unplanned water supply interruptions in a financial year (number); and
- customer receiving more than 3 sewerage service interruptions per year.

Under the Economic Regulator's *Water and Sewerage Industry Performance and Information Reporting Guideline*, TasWater has had an obligation to report on these aforementioned standards (as part of its annual performance report every year) since the entity commenced operations on 1 July 2013. In this way, not reporting annually on the aforementioned repeat service interruption measures had resulted in TasWater being non-compliant with the Performance and Information Reporting Guideline and TasWater's licence conditions (which states TasWater must comply with all applicable guidelines).

It was noted that significant investment would be required by TasWater to record and report repeat interruptions for both water and sewerage services going forward. The Working Group subsequently resolved that a pilot would be required to understand and confirm the full implementation costs and associated benefits of the investment. TasWater provided formal advice to the Economic Regulator that it would pilot measuring of repeat service interruptions in the third regulatory period.

OTTER representatives expressed to TasWater the Economic Regulator's interest in the outcomes of the pilot, noting that should it show merit in measuring repeat interruptions of this nature there would be an expectation that TasWater have such measures included in its Price and Service Plan for the fourth regulatory period. Alternatively, if the pilot demonstrates very few repeated service interruptions, then the value of recording and reporting the data would be reconsidered.

In light of the pilot plans, and Economic Regulator's assessment of TasWater's Performance and Information Reporting Guideline breach against the relevant evaluation criteria of outlined in the Economic Regulator's *Compliance Enforcement Policy*, the Economic Regulator agreed not to pursue any formal compliance enforcement action against TasWater at that time. TasWater was, however, advised that the decision of the Economic Regulator in that regard was conditional on TasWater fulfilling its pilot obligations as assured.

Upon consideration of the TasWater's proposed Price and Service Plan submission, the Economic Regulator is satisfied that TasWater has appropriately documented its pilot plans for the third regulatory period. TasWater has noted the significant investment required for the entity to record and report repeat interruptions for both water and sewerage services, and its proposal for a pilot to understand and confirm the full implementation costs and associated benefits of the investment to collect data and report on these metrics.

TasWater has provided assurance that should the pilot show merit in measuring repeat interruptions of this nature, it will engage with customers on introducing these standards and appropriate targets in the fourth regulatory period.

4.4.2 TasWater's engagement with customers in its development of service standards

Service standards and price and service trade-offs formed a key part of TasWater's customer engagement program. TasWater asked customers and stakeholders about:

- their views on the relative priority of achieving compliance standards, maintaining networks to ensure reliable services and having affordable bills;
- what a reasonable annual price increase would be in the third regulatory period;
- whether TasWater's response times to attend bursts and leaks, restore water supply interruptions, attend sewage spills, contain sewage spills or answer calls to TasWater's contact centre should be changed; and
- whether or not TasWater should introduce different service standards in urban and regional areas of Tasmania.

A summary of feedback provided by customers during focus groups, in depth interviews, telephone surveys and submissions to TasWater's Consultation Issues Paper on customer service standards is provided below:

- The majority of customers agreed that TasWater's highest priorities should be to improve compliance outcomes in the third regulatory period (provide safe drinking water, ensure dam safety and meet environmental standards).
- While 41 per cent of customers supported annual price increases of 5 per cent in the third regulatory period (compared to 16 per cent of customers in the second regulatory period), it is clear that customers continued to be conscious of price. Almost no customers wanted annual price increases greater than 5 per cent in the third regulatory period.
- In general, customers preferred targets to remain the same for service standards where TasWater have the greatest opportunity to make savings by relaxing them (including response times for bursts/leaks and for sewage spills).
- The average respondent in TasWater's telephone survey was prepared to wait about three minutes for their call to TasWater's contact centre to be answered.
- The majority of customers did not express a desire to introduce differential service standards.

4.4.3 Proposed service standards for the third regulatory period

Given the large investment required to improve water quality, dam safety and environmental outcomes (the priority of TasWater's customers), TasWater proposed not to put further upward pressure on expenditure and prices by improving service standards in the third regulatory period.

Instead, TasWater's proposal is to maintain current targets for most service standards and to focus on meeting, rather than exceeding, these targets to avoid unnecessary expenditure.

To maintain service reliability in a cost-effective way, TasWater noted it would make use of its improving data, information systems and processes to better allocate asset management investment and operational resources in the third regulatory period. TasWater maintained that this would help to offset expenditure that may otherwise have been required in TasWater's networks to meet service standards while TasWater focuses on achieving compliance outcomes as a first priority.

One area where TasWater customers indicated possible interest in a reduction in service standards was with respect to contact centre response time. TasWater's current target (for the second regulatory period) is to answer 85 per cent of calls within 30 seconds. Respondents to TasWater's telephone survey indicated that they were prepared to wait about three minutes on average for their call to TasWater's contact centre to be answered. Nonetheless, TasWater has indicated its intention to retain its current target of 85 per cent for the third regulatory period while it investigates possible changes, and impacts on customers, ahead of the fourth regulatory period.

For the fourth regulatory period TasWater intends to engage customers with a detailed proposal that reflects a review of its customer service processes, resource allocation to the activities that are important to customers and more specific cost and service data for the contact centre. TasWater maintained that the proposal will provide customers with a clear picture of cost efficiency, issue resolution and contact centre response time.

TasWater has also initiated a Productivity Improvement Program that, in part, is investigating ways to provide its services (and meet its service standard targets) more efficiently in the third regulatory period than the entity has in the past.

A summary of TasWater's proposed service standards and targets for the third regulatory period is shown in Table 4.1 overleaf.

A column has been included into Table 4.1 to provide a comparison of targets (where applicable) for each of the service standards for the 2017-18 year of the current regulatory period.

As can be seen, for the majority of service standards TasWater is proposing that targets remain unchanged for the third regulatory period. Only three service standards show out-year targets which are worse (showing poorer targets for performance) than the targets set for the same measures in 2017-18. These are in respect to "Percentage of non-revenue water (of total sourced potable water)", "Percentage of unplanned water supply interruptions restored within 5 hours" and "Total water and sewerage complaints (no. per 1,000 properties)".

Table 4.1: TasWater's proposed service standards for the third regulatory period

Service standard	2017-18 target	Third regulatory period		
		2018-19 target	2019-20 target	2020-21 target
Water main breaks (no. per 100km of water main)	No target	35	35	35
Percentage of response times within 60 minutes to attend Priority 1 bursts and leaks ¹	90%	90%	90%	90%
Percentage of response times within 180 minutes (3 hours) to attend Priority 2 bursts and leaks ¹	90%	90%	90%	90%
Percentage of response times within 4320 minutes (3 days) to attend Priority 3 bursts and leaks ¹	90%	90%	90%	90%
Incidence of unplanned interruptions – water (no. per 1,000 properties)	No target	170	170	170
Incidence of planned interruptions – water (no. per 1,000 properties)	No target	20	20	20
Average duration of an unplanned interruption – water (minutes)	180	180	180	180
Average duration of a planned interruption – water (minutes)	180	180	180	180
Percentage of unplanned water supply interruptions restored within 5 hours ¹	98%	90%	90%	90%
Percentage of planned water supply interruptions restored within 5 hours ¹	90%	90%	90%	90%
Percentage of non-revenue water (of total sourced potable water) (unaccounted for water)	10%	28%	28%	28%
Sewerage mains breaks and chokes (no. per 100km of sewer main)	93	65	65	65
Percentage of response times within 60 minutes to attend sewer spills, breaks and chokes ¹	90%	80%	85%	90%
Percentage of sewage spills contained within 5 hours ¹	99%	99%	99%	99%
Total water and sewerage complaints (no. per 1,000 properties)	9	11	10	9
Water and sewerage complaints to the Ombudsman (no. per 1,000 properties)	0.5	0.5	0.5	0.5
Percentage of calls answered by an operator within 30 seconds	85%	85%	85%	85%

1. Denotes a 'minimum service standard'. Service standards associated with service response and resolution times are proposed as minimum service standards and should be interpreted as (for example) "TasWater will arrive onsite to a Priority 1 water supply burst within 60 minutes" rather than an average standard which would be "On average TasWater will arrive onsite to Priority 1 water supply bursts within 60 minutes".