

# Tasmanian Water and Sewerage Industry

## 2022 Price Determination Investigation

### Price and Service Plan Guideline

April 2021



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Office of the Tasmanian Economic Regulator  
GPO Box 770, Hobart TAS 7001  
Phone: (03) 6166 4422

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## ACRONYMS & GLOSSARY

Term	Meaning within the context of this Guideline
Biosolids	Organic matter collected from the wastewater treatment process
Capex	Capital expenditure on new assets related to the provision of regulated services
CPI	Consumer Price Index
Current regulatory period	The period between 1 July 2018 and 30 June 2022 inclusive
Customer Service Standards Regulations	<i>Water and Sewerage Industry (Customer Service Standards) Regulations 2009</i> <sup>1</sup>
Developer charges	Include headworks charges; assets gifted by developers; and cash payments made by developers to a regulated entity for the construction of new reticulation works
DPIPWE	Department of Primary Industries, Parks, Water and Environment
EPA	Environment Protection Authority Tasmania
Industry Act	<i>Water and Sewerage Industry Act 2008</i>
MoU	Memorandum of Understanding
NAR	Notional allowable revenue
Next regulatory period	The period commencing on 1 July 2022
Opex	Operating and maintenance expenditure related to the provision of regulated services
Penultimate regulatory period	The period between 1 July 2012 and 30 June 2015
PSP	Price and service plan
Pricing Regulations	<i>Water and Sewerage Industry (Pricing and Related Matters) Regulations 2011</i>
RAB	Regulated asset base, namely the value of assets used for the provision of regulated services
Regulator	The Tasmanian Economic Regulator established under the <i>Economic Regulator Act 2009</i>
Re-use	treated effluent from wastewater treatment plants
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
WACC	Weighted average cost of capital, namely the approved return on assets in the RAB

<sup>1</sup> These regulations will be remade before the price determination investigation starts.

# I INTRODUCTION

The Regulator is responsible for determining prices and service standards for regulated water and sewerage services in Tasmania, all of which are provided by TasWater.

The Regulator does this by making a price determination. A price determination is a legally binding document that specifies the maximum prices and the service standards that will apply during the next regulatory period.

Prior to making a determination, the Regulator must conduct a price investigation to determine the efficient cost of providing regulated services, taking into account TasWater's regulatory obligations and the long-term nature of infrastructure assets.

To enable the Regulator to carry out a price investigation, the Regulator requires information about TasWater's business operations. Information about its operations is to be provided by TasWater in its proposed price and service plan (PSP) or, separately, as supplementary information to the Regulator.

The proposed PSP and the subsequently approved PSP will be publicly available and will provide customers, stakeholders and other interested parties with information on future prices and regulated services and how those prices and service standards were determined.

TasWater must clearly and succinctly identify and explain in its proposals what outcomes will be delivered to customers in return for the prices they pay, and how its proposed price and services reflect feedback from customer consultation.

## I.1 Purpose of the guideline

The purpose of this guideline is to set out the minimum information that TasWater must provide for the price determination investigation that starts on 1 July 2021. The information in the proposed PSP and in other documents and models provided to the Regulator must apply to the regulatory period starting on 1 July 2022.

This guideline also provides information on the price determination investigation process and specifies the actions TasWater must take in preparing and submitting a proposed PSP.

This guideline supersedes the guideline for the price determination investigation for the fourth regulatory period issued by the Regulator in June 2020.

## 2 LEGISLATIVE REQUIREMENTS

### 2.1 Water and Sewerage Industry Act 2008

Section 66(1) of the *Water and Sewerage Industry Act 2008* (the Industry Act) requires the Regulator to make a price determination that applies to a regulated entity in respect of a regulated service. TasWater is the only regulated entity in Tasmania.

In making a determination, the Regulator is required under section 66(2) to:

- (a) adopt an approach and methodology which the Regulator considers will best meet the objective of this Act; and
- (b) determine prices, terms and conditions, including developer charges, for water services and sewerage services in accordance with the pricing principles referred to in section 68 or any principles prescribed by regulations under that section; and
- (c) consider any proposed price and service plan submitted under section 65; and
- (d) consider any customer contract; and
- (e) ensure that the price determination takes into account and clearly articulates any trade-offs between costs and service standards; and
- (f) not take into account a change in a rate, prescribed in a regulation for the purposes of section 68(1A)(c)(iv), that comes into force at any time –
  - (i) after a regulated entity is required to submit to the Regulator a proposed price and service plan that may be approved by the Regulator after the price determination is made; and
  - (ii) before the price determination to which the proposed price and service plan relates is made; and
- (g) have regard to any matters contained in the regulations.

Section 65(3) states that a proposed PSP must include:

- (a) proposed regulated services to be provided to customers; and
- (b) any customer contract; and
- (c) standards and conditions of service which are in compliance with the customer service code; and
- (d) proposed prices for each regulated service; and
- (e) any other matter required under this Act.



Section 65(4) states that a proposed PSP may include:

- (a) proposed annual revenue requirements; and
- (b) projected capital and operational expenses; and
- (c) supply and demand forecasts; and
- (d) such other matters as required by the Regulator in guidelines issued under subsection (7).

Section 65(7) of the Industry Act states:

The Regulator must issue guidelines to a regulated entity for the preparation of a proposed price and service plan.

Section 65(8) states:

The guidelines referred to in subsection (7) may –

- (a) specify the requirements for a regulated entity to comply with when submitting a proposed price and service plan to the Regulator for approval; and
- (b) specify the process for the preparation and approval of a proposed price and service plan, including the extent of public consultation and timelines and the subsequent publication of prices for each regulated service.

With regard to approving a proposed PSP, section 65(5) states that:

The Regulator must approve a proposed price and service plan for a regulated entity if the Regulator is satisfied that the proposed price and service plan fulfils the requirements for a price and service plan as set out in guidelines issued under subsection (7) and any relevant price determination under section 66.

Consequently, TasWater may need to amend its proposed PSP to ensure it meets the requirements in the PSP guideline and may also need to include additional information or make changes to its proposed PSP as required by the final price determination.

Section 57 states that the Regulator must issue a customer service code for regulated services, while Section 58 requires that a required entity develop a customer contract that is in accordance with the customer service code.

In making a determination, section 66(2) requires the Regulator to have regard to the requirements in the:

- *Water and Sewerage Industry (Pricing and Related Matters) Regulations 2011* (the Pricing Regulations); and
- *Water and Sewerage Industry (Customer Service Standards) Regulations 2019* (the Customer Service Standards Regulations).

## 2.2 Pricing principles

The Regulator must determine prices for regulated services in accordance with the pricing principles contained in the Industry Act and the Pricing Regulations.

## 2.2.1 Pricing principles in the Industry Act

Section 68 of the Industry Act states that the price for a regulated service must:

- give a regulated entity reasonable opportunity to recover the efficient costs it incurs in providing those services and complying with its regulatory obligations;
- provide for efficient two-part, cost-reflective pricing for regulated water services;
- provide effective incentives to promote economic efficiency, reduce costs, or otherwise improve productivity;
- allow a regulated entity to receive a return on assets used in providing the regulated service; and
- to the extent that it is commercially and technically reasonable, reflect the costs that are directly attributable to a particular customer or class of customers.

## 2.2.2 Pricing principles in the Pricing Regulations

Part 3 of the Pricing Regulations sets out the following additional pricing principles:

- full cost recovery from certain contracts;
- no double dipping;
- the structure of service introduction charges;
- the imposition and calculation of developer charges;
- the treatment of contributed assets;
- the price determination must require a price and service plan to include all miscellaneous fees and charges; and
- the basis for setting fixed and variable charges.

## 2.3 Prices to apply during next regulatory period

Under section 66(3A) of the Industry Act, the Regulator will make a price determination which sets the maximum prices for regulated services that will apply during the next regulatory period.

On 1 May 2018 TasWater entered into a Memorandum of Understanding (MoU) with the State Government and the Chief Representative of the Owner's Representative Group. Under the MoU, TasWater agreed to a price capping arrangement for the period between 1 July 2020 and 30 June 2025 except if there are circumstances or events beyond TasWater's control that could affect TasWater's financial sustainability. This includes, for water and sewerage services, a price freeze for the 2019-20 financial year and a cap on annual price increases of 3.5 per cent until 1 July 2025. This commitment is reflected in clause 21.5 of the Shareholders' Letter of Expectation.<sup>2</sup> There are no statutory provisions enforcing this price capping arrangement and the Regulator is not constrained by these arrangements in determining maximum prices for the next regulatory period.

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<sup>2</sup> Tasmanian Water and Sewerage Corporation Pty Ltd, Shareholders' Letter of Expectation, 27 September 2018.

## 3 PRICE DETERMINATION INVESTIGATION PROCESS AND TIMELINE

### 3.1 Price determination investigation process

The Regulator will review and analyse the information contained in TasWater's proposed PSP and in other documents provided to the Regulator. Specifically the Regulator will:

- review TasWater's performance during the current regulatory period including comparing forecast Opex, Capex, demand and service standards to actual outcomes;
- review and confirm the regulated services and service standards TasWater proposes to deliver during the next regulatory period;
- assess efficient and prudent forecast Opex and Capex for the next regulatory period;
- assess if forecast demand and the number of connections are reasonable;
- assess whether the other industry regulators requirements are met, or satisfactory progress in made towards meeting their respective requirements;
- review and determine the parameters used to calculate building blocks and the notional allowable revenue (NAR);
- determine maximum prices for the next regulatory period by applying forecasts for demand and number of connections to the NAR;
- determine whether TasWater's proposed prices satisfy the pricing principles in the Industry Act and the Pricing Regulations and are no greater than the maximum prices determined by the Regulator;
- ensure TasWater's policies meet statutory requirements; and
- ensure regulated services meet requirements in the Customer Service Standards Regulations.

To ensure TasWater's NAR for the next regulatory period is based on efficient and prudent Opex and Capex, the Regulator intends engaging expert third party advisors to assist in reviewing TasWater's Opex and Capex.

The advisors will be required to review TasWater's actual (2018-19, 2019-20 and 2020-21), budgeted (2021-22) and forecast (1 July 2022 onwards) Opex and Capex.

The Regulator will liaise with TasWater on the timing of the review to ensure TasWater has adequate and appropriate resources available.

In assessing TasWater's proposed regulated prices the Regulator will consider the impact of the rate of change of prices for customers and review any proposals by TasWater to manage the impact of price changes on customers.

Where the Regulator considers that the information in TasWater's PSP is deficient or does not comply with the Industry Act, the Pricing Regulations, the Code or this proposed PSP Guideline, the Regulator will request that TasWater makes changes to its PSP and/or submits additional or revised information.

In addition, TasWater will be required to provide further information to the Regulator, following the submission of its proposed PSP ie during the course of the price determination investigation.

The Regulator will publish a draft report that contains the Regulator’s proposed decisions on TasWater’s proposed service levels, revenue requirements, demand forecasts and pricing proposals and policies. The Regulator will also publish a draft determination which sets out the maximum prices for the next regulatory period.

After consulting publicly on the draft report and draft determination, the Regulator will publish a final report. The final report will set out the Regulator’s decisions on TasWater’s proposed service levels, revenue requirements, demand forecasts and maximum prices for the next regulatory period taking into account any additional or revised information submitted by TasWater, and after considering issues raised in submissions on the Regulator’s draft report. The final report will also summarise and provide responses to the issues raised in submissions.

## **3.2 Information required for the price determination investigation**

In determining whether to include the information in the proposed PSP or in separate documents, TasWater is required to apply the following principles:

- the proposed PSP must include those matters specified in Section 65(3) of the Act;
- the proposed PSP must include details relating to TasWater’s proposed Opex and Capex for the next regulatory period;
- the proposed PSP must include sufficient information to justify TasWater’s proposed prices, service standards and policies, including all forecasts;
- the proposed PSP must include the feedback received during consultation and details of how the feedback from consultation is included in the proposed plan;
- detailed analysis of outcomes within the current regulatory period and past regulatory periods may be provided in documents separate from the PSP;
- economic modelling and explanatory information and analysis may be provided in documents separate from the proposed PSP; and
- technical data and analysis of that data that may not be understood by a non-specialist may be included in an Appendix to the proposed PSP, or in separate documents, unless this information is required to be in the proposed PSP to satisfy one or more of the principles listed above.

## **3.3 Price determination**

The price determination will include any information or changes that TasWater must make to its proposed PSP prior to its approval by the Regulator. The determination also specifies the maximum prices that TasWater can charge for regulated water and sewerage services during the next regulatory period. Under regulation 7 of the Pricing Regulations, the determination will require TasWater’s PSP to include anticipated changes in prices during the regulatory period.

## **3.4 Duration of the regulatory period**

Section 65(13) of the Industry Act requires the Regulator to declare the duration of the regulatory period (that is, the period covered by a price determination made by the Regulator).

In 2009, the then Treasurer fixed the minimum duration of the each subsequent regulatory period (i.e. after the first regulatory period) to be three years.

There are costs and benefits of increasing the duration of a regulatory period. Price determination investigations are costly and become very time consuming for senior staff at TasWater and for the Regulator and his Office. A longer regulatory period may also provide TasWater with more certainty in some areas.

A disadvantage of a longer regulatory period is that if TasWater's overall direction needs to be altered, which may be due to events outside TasWater's control or as a result of important new information, it would take longer to implement these changes. Furthermore, the changes required may be greater or more disruptive the later they can be implemented.

The Regulator recognises that, in the longer term, there are likely to be net benefits in extending the regulatory period, such as to five years, especially when TasWater has better information systems and it is closer to achieving full compliance with its environmental and public health obligations, including its risk management arrangements.

For the next regulatory period, there are benefits in aligning the duration with the period over which price capping arrangements have been agreed between the State Government, TasWater and the Chief Representative of the Owners' Representatives Group, as set out in Section 2.3 above.

After considering stakeholder feedback and submissions received in response to the draft PSP Guideline, on 26 June 2019, the Regulator declared, by gazettal notice, that the duration of the fourth regulatory period will be four years, namely from 1 July 2021 to 30 June 2025.<sup>3</sup>

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<sup>3</sup> See section 3.5 of this Guideline with respect to the revised timeframes for the fourth regulatory period.

### **3.5 Amended third regulatory period due to the economic impacts arising from COVID-19**

In response to the COVID-19 pandemic, TasWater requested that the Tasmanian Government extend the duration of the third regulatory period by one year, to 30 June 2022, and defer the requirement to submit a proposed price and service plan to the Regulator by one year, with a new submission date of 30 June 2021. On 12 June 2020, the Minister for Finance informed the Regulator that he would seek approval to introduce an amendment to the Industry Act that would:

- extend the end of third regulatory period from 30 June 2021 to 30 June 2022: and
- fix the period of the fourth regulatory period to be from 1 July 2022 to 30 June 2026.

In response to the proposed amendment to the Industry Act, on 22 June 2020 the Regulator gave TasWater a notice under Section 65(1) requiring TasWater to submit a proposed PSP for the fourth regulatory period by 30 June 2021.

This notice superseded a previous notice requiring TasWater to submit a proposed PSP for the fourth regulatory period by 30 June 2020.

### **3.6 Publication of prices**

As provided for under section 65(8)(b) of the Industry Act, the Regulator requires TasWater to publish on its website, within two business days of the Regulator approving TasWater's PSP, the prices for regulated services that will apply for 2022-23.

### **3.7 Adjustments to the price determination within the regulatory period**

Regulation 22 of the Pricing Regulations requires the Regulator to conduct a price determination investigation prior to varying a price determination.

The Regulator does not have to conduct a price determination investigation prior to varying prices in a price determination if, in the Regulator's opinion, there has been a material change in TasWater's costs as a result of:

- new or additional legislative requirements; or
- a tax event (as defined in the Pricing Regulations).

The Regulator requires TasWater to propose any adjustments to the prices in a price determination under regulation 22 if TasWater considers that an adjustment is required.

### **3.8 Consultation by the Regulator**

The Regulator will consult on the draft report and draft determination in accordance with its [Consultation Policy and Procedures \(November 2016\)](#). All documents, including TasWater's proposed PSP, will be published on the Regulator's website ([www.economicregulator.tas.gov.au](http://www.economicregulator.tas.gov.au)). The Regulator's consultation expectations for TasWater are set out in Chapter 4 of this Guideline.

The Regulator will also consult with the other industry regulators (the Department of Primary Industries, Parks, Water and Environment, the Dam Safety Regulator, the Director of Environment Protection Authority Tasmania and the Director of Public Health) during the price determination investigation.

### 3.9 Investigation timetable

The following table shows the proposed timetable for the next water and sewerage price determination investigation.

**Table 3.1 Proposed timetable for the next price determination investigation**

Action	Due date
Regulator publishes PSP Guideline and issues notice requiring TasWater to submit its proposed PSP by 30 June 2021	30 June 2019
To account for the extension of the third regulatory period to 30 June 2022, the Regulator publishes revised PSP Guideline and re-issues notice requiring TasWater to submit its proposed PSP by 30 June 2022	30 June 2020
Regulator publishes further revised PSP Guideline to account for changes to TasWater's tax obligations.	April 2021
Regulator engages third party advisors for review of TasWater's Opex and Capex	31 May 2021
TasWater submits its proposed PSP, financial model and supplementary information to the Regulator	30 June 2021
Regulator publishes TasWater's proposed PSP and supplementary information	July 2021
Regulator publishes notice of intention to make a price determination after conducting a price determination investigation	31 July 2021
Third party advisors complete review and submit report to Regulator (after discussing recommendations and findings with TasWater)	30 September 2021
Draft third party advisors, draft price investigation report and draft price determination released for public consultation	December 2021
Consultation on draft price investigation report and draft price determination closes	End of February 2022
Final price investigation report published and final price determination gazetted	April 2022
TasWater to submit revised PSP reflecting price determination and final report	31 May 2022
Regulator approves PSP	Mid-June 2022
TasWater publishes prices that will apply from 1 July 2022	Mid-June 2022
Next regulatory period commences	1 July 2022

## 4 CONSULTATION

### 4.1 TasWater's consultation on proposed price and service plan

The Regulator requires TasWater to consult with its customers, stakeholders and interested parties (customer consultation) during the development of its proposed PSP. The Regulator also requires TasWater to detail how the feedback from customer consultation has been incorporated into its proposed PSP. It is TasWater's responsibility to determine its approach to consultation. The Regulator expects that TasWater will take into consideration the cost effectiveness of its approach to consultation.

Matters for consultation are to include:

- current customer service standards, any proposed changes to those standards and any proposals to introduce new customer service standards;
- proposed Capex;
- proposed Opex;
- TasWater's level of profitability;
- existing tariffs, fees and charges, including developer charges;
- proposed new tariffs, fees and charges;
- demand forecasts;
- if applicable, the proposed method of managing the impact of the rate of change of prices on customers;
- price and service trade-offs;
- proposals to change product quality (for example, moving from untreated to treated water supply); and
- proposals to introduce or replace reticulated water and/or sewerage services.

The Regulator also requires TasWater to consult with other industry regulators during the preparation of its proposed PSP, particularly in relation to its:

- wastewater management plan;
- drinking water quality plan; and
- dam safety management plan.

To maximise the opportunity for customers to participate in the preparation of the proposed PSP, TasWater must provide clear and accurate information to customers in plain English during consultation. TasWater must also inform customers of the purpose of the consultation, the price impacts of any proposals and how TasWater will use the information provided.



## 4.2 Information required for the price determination investigation

TasWater must provide:

- a summary of the methods used for consultation prior to and during the preparation of the proposed PSP;
- evidence that TasWater has sought feedback from a range of customers from across the state;
- details of issues consulted on, including information provided to customers, and other stakeholders during consultation;
- details of how the information used during consultation was obtained and/or calculated;
- a summary of feedback received during consultation;
- details of how the feedback from consultation is factored into the proposed PSP; and
- details of instances where TasWater has decided not to address issues of customer interest and the reasons for not addressing those issues.

## 5 CUSTOMER SERVICE STANDARDS

Customer service standards define what customers can expect from TasWater with regard to the quality and reliability of service provided. Service standards cover both responsiveness (for example, service restoration times) and customer satisfaction measures (for example, communication quality).

Customer service standards and the levels at which they are set affect the cost of providing regulated services and therefore the prices customer's pay for regulated services. In determining minimum service standards and service standard levels, the Regulator will assess the trade-off between prices and service standard levels and consider customer feedback on proposed service standards.

TasWater is required to justify changes to its minimum service standards and any applicable targets, and if applicable, propose new minimum service standards and targets. The Regulator will revise the minimum standards during the price determination investigation taking into consideration outcomes of TasWater's customer consultation and TasWater's customer service performance outcomes during the current regulatory period.

### 5.1 Regulator's approach to assessing service standards

As part of the price determination investigation, the Regulator will assess whether the proposed service standards and service levels:

- are consistent with the agreed service standards framework;
- are based on available information on actual performance;
- are supported by proposed Capex and Opex programs;
- reflect customer preferences (especially any identified priorities for service standard improvement); and
- are measurable and the data to measure performance is available and reliable. If the data is not currently available the Regulator will take into consideration the time and resources required to obtain the required data.

The Regulator will consider and, when satisfied, approve TasWater's proposed minimum service standards and targets during the price determination investigation. The Regulator will require TasWater to include the revised minimum service standards and targets in its price and service plan.

## 5.2 Information required for the price determination investigation

TasWater must:

- specify proposed minimum service standards and the respective minimum service levels;
- include, in any proposed changes to minimum service standards or minimum service levels, the results of TasWater’s pilot study into service standards;
- explain both the rationale for each proposed service level and what data will need to be collected to enable monitoring of performance against each service standard;
- explain and justify any proposed changes from the service standards which apply during the current regulatory period;
- identify any changes in Opex , legislative requirements or other factors that may affect the setting of service standards for the next regulatory period; and
- outline the outcomes of consultation on proposed service levels and how these outcomes are factored into service standards.

TasWater is required to seek customer feedback on reducing service levels, maintaining current service levels and/or improving service levels. For each proposed change in service level TasWater must provide the associated change in costs and prices to deliver that level of service and provide data as to how the costs and resulting prices associated with each service level change were calculated.

TasWater is also required to account for the costs and benefits and its capacity to achieve the minimum service levels arising from any proposed changes to service standards.

The Regulator will, as part of the price determination investigation review TasWater’s performance against the service standards as reported under the performance reporting framework.

## 6 DEMAND FORECASTS

Demand forecasts are used in conjunction with the NAR to determine regulated prices. Demand forecasts are also used in forecasting Opex and Capex.

In order to assess the veracity and reasonableness of the demand forecasts the Regulator requires TasWater’s proposed PSP to include historical demand values and sufficient information to enable the Regulator to understand how the forecasts were derived.

### 6.1 Information required for the price determination investigation

For the current regulatory period TasWater must provide:

- actual numbers of water and sewerage connections by size, revenue and customer class for each year of the current regulatory period;
- actual numbers of miscellaneous service transactions and revenue from each miscellaneous service for each year of the current regulatory period;
- actual revenue from section 61 contracts, service introduction charges and developer charges for each year of the current regulatory period;
- actual volumes of water supplied by connection size, revenue and customer class for each year of the current regulatory period;
- a forecast of the number of water and sewerage connections by size, customer class and revenue for the current regulatory period;
- a forecast of the number of miscellaneous services transactions and revenue from each miscellaneous service for the current regulatory period;
- a forecast of the revenue from section 61 contracts, service introduction charges and developer charges for the current regulatory period;
- forecast volumes of water provided by connection size, revenue and customer class for each year of the current regulatory period;
- a comparison of forecast demand in TasWater’s current PSP with actual and updated forecasts; and
- an explanation for any variation between the forecasts in TasWater’s current PSP and actual and updated forecasts.

For the next regulatory period TasWater must provide:

- a forecast of the number of water and sewerage connections by size and customer class and revenue for each year of the next regulatory period;
- a forecast of the number of miscellaneous service transactions and revenue from each miscellaneous service for each year of the next regulatory period;

- a forecast of the revenue from section 61 contracts, service introduction charges and developer charges for each year of the next regulatory period;
- a forecast of the volumes of water, provided by connection size, customer class and revenue for each year of the next current regulatory period;
- an explanation of the method, key inputs, assumptions used in determining the proposed forecast values for the next regulatory period; and
- a discussion of the main factors that could impact on the proposed forecast values during the next regulatory period.

The same forecast values must be used for calculating proposed regulated prices and forecasting Opex and Capex for the next regulatory period.

## 7 OPERATING EXPENDITURE

During the price determination investigation, the Regulator will assess whether TasWater’s proposed forecast Opex is prudent and efficient. Opex will be considered prudent if the expenditure is necessary for providing regulated services, and will be considered efficient if the expenditure is demonstrated to be the lowest long-term cost of providing regulated services.

TasWater must identify and exclude Opex used in providing unregulated services. The basis for excluding this expenditure must be justified in the information provided to the Regulator.

In the Regulator’s Final Report from its 2018 water and sewerage price determination investigation, the Regulator required TasWater to develop a five year labour force plan during the current regulatory period. The Regulator does not require TasWater to include the labour force plan in its proposed PSP but will review the plan, and assess forecast Opex against the plan, during the price determination investigation.

As discussed in section 3.1, the Regulator will engage an independent third party advisor to review TasWater’s Opex for the current regulatory period to and determine if the proposed Opex for the next regulatory is prudent and efficient.

### 7.1 Information required for the price determination investigation

TasWater must provide:

- forecast Opex for each year of the next regulatory period in accordance with the Regulator’s requirements. Expenditure should be provided in nominal dollars;
- an explanation of how forecast Opex was determined including what methods were used;
- proposed efficiency program details for the next regulatory period and how these are factored into forecast Opex;
- actual and budgeted Opex for the current regulatory period. The data must be provided as specified by the Regulator and should be presented in nominal dollars;
- a comparison between forecast Opex in the current PSP and actual budgeted Opex for the current regulatory period and an explanation of any differences;
- efficiency programs details and outcomes during the current regulatory period;
- an explanation of the assumptions made, and what risks are associated with the forecast Opex, including how TasWater proposes to manage cost uncertainty during the next regulatory period; and
- details of TasWater’s consultation with customers on its proposed Opex and its components, specifically the outcomes relating to the trade-off between costs and service standards and any proposed significant changes in Opex.

In addition, TasWater must:

- quantify and explain any change in total Opex from the impact of Capex on its infrastructure;
- identify and explain the key drivers of differences between current Opex and forecast Opex for the next regulatory period;
- identify and exclude Opex used in providing unregulated services from the Opex used to determine regulated prices; and
- explain how the Opex used in providing unregulated services was calculated.

## 8 CAPITAL EXPENDITURE

Capital expenditure (Capex) is the amount invested in new assets in relation to the provision of regulated services and includes expenditure funded through third party capital contributions such as service introduction charges, developer charges and government grants. Capex is included in determination of the Regulated Asset Base (RAB).

The Regulator will review TasWater’s Capex during the current regulatory period to determine if the expenditure was prudent and efficient. The Regulator will subsequently include prudent and efficient Capex in the RAB roll forward as discussed in section 9.6 of this Guideline.

In assessing TasWater’s proposed forecast Capex for the next regulatory period the Regulator will determine if the proposed Capex is prudent and efficient and whether, based on past experience and TasWater’s arrangements for delivery of capital projects, the timeframe for delivering the proposed Capex program is reasonable. The Regulator will also consider how TasWater has prioritised Capex projects after taking into account the requirements of the other industry regulators and whether TasWater’s asset planning and asset management reflects best practice.

Capex will be assessed as to whether the expenditure is supported by a business case or other relevant information that demonstrates the proposed expenditure is both prudent and efficient, and consistent with TasWater’s longer-term plans.

### 8.1 Reporting capital expenditure

Capex should be split between regulated water and sewerage services and classified on the basis of one or more of the following cost drivers:

- Growth: increasing the capacity of assets or construction of new assets, to meet growth in demand or to provide additional security of supply;
- Renewal of existing infrastructure: replacing existing assets and generally maintaining service levels;
- Improvements: improving service levels and reliability to meet customer preferences; and
- Compliance: meeting regulatory obligations.

Where Capex has more than one cost driver, expenditure should be allocated on the basis of the main driver and be consistent with the business case or other relevant information that supports the expenditure.

### 8.2 Information required for the price determination investigation

TasWater must:

- provide annual forecasts of its proposed Capex, for the delivery of regulated services, during the next regulatory period (in nominal dollars);
- categorise Capex by the cost drivers in this guideline;



- describe and estimate the additional Opex associated with major capital projects. For the purposes of this Guideline, a major project is defined as a project:
  - where the total expenditure over the project’s life, is expected to exceed \$10 million;
  - that impacts on a significant number of customers; or
  - that has been identified as a high priority compliance issue in the relevant industry regulator’s management or improvement plan.
- explain any capital delivery efficiency programs for the next regulatory period;
- explain how Capex projects are assessed including details of how projects are prioritised, the methods used to determine costs, how risks are factored into the assessment and how it has assessed alternative solutions to the issue being addressed;
- details of the business case for major capital projects proposed for the next regulatory period, including: the project name, scope (including reason for project, cost, alternative solutions considered, level of delivery risk);
- explain any differences between forecast Capex and actual and budgeted Capex for the current regulatory period;
- explain how cost uncertainty will be managed;
- identify any external sources of funding for Capex; and
- provide details of TasWater’s consultation with customers and its dealings with industry regulators on its forecast Capex, particularly major Capex projects.

### **8.3 Longer-term plans**

The provision of water and sewerage services involves investment in long-term assets. As such, the Regulator requires that TasWater explain how the proposed Capex in its proposed PSP is consistent with its long term plans and strategy:

- a description of TasWater’s long-term strategy;
- an explanation of the assumptions in the strategy;
- an explanation of the risks identified and how those risks will be mitigated;
- justification for major Capex projects; and details of how the strategy will enable TasWater to meet its compliance obligations at least cost, while providing customers with regulated services at the required service standards

## 9 REGULATED REVENUE

In determining prices the Regulator must have regard to the pricing principles in the Industry Act and Pricing Regulations. The primary principle is that prices for regulated services must reflect the efficient costs of providing those services.

The first step in determining prices is calculating the notional allowable revenue (NAR) for each year of the next regulatory period. The NAR is then divided by annual demand forecasts for regulated services (i.e. the number of connections and volume of water) to determine the prices in each year of the next regulatory period. The NAR is a notional value used solely to determine maximum regulated prices only and does not cap the actual revenue TasWater can receive.

In determining the NAR, the Regulator is not constrained by any price caps specified in the MoU signed by TasWater, the State Government, and the Chief Representative of the Owner's Representative Group in May 2018.

The Regulator will use the building block method to determine TasWater's NAR. The Regulator proposes using post-tax revenue from the provision of regulated services. Therefore under the building block approach, the NAR is the sum of the following costs ('building blocks') that are incurred in providing regulated services:

- a return on capital which is also referred to as the cost of capital, comprising the cost of the debt and equity that together make up the total amount of capital invested in providing regulated services;
- a return of capital through regulatory depreciation;
- operating and maintenance expenditure; and
- a tax allowance.<sup>4</sup>

The NAR may be less than the upper revenue limit as prescribed in the National Water Initiative. The value of capital is deemed to be the value of the regulated asset base (RAB) ie the assets used to provide regulated services. The return on capital is derived by multiplying the capital invested (RAB) by an appropriate weighted average cost of capital (WACC).

### 9.1 Regulated asset base

TasWater must have separate RABs for water and sewerage assets to enable the Regulator to ensure that the revenue from the provision of each regulated service recovers only the costs associated with providing that service.

In addition, assets must be split between assets transferred to the previous regulated entities before 1 July 2011 (referred to as existing assets) and assets purchased or constructed by the previous regulated entities and subsequently TasWater on or after 1 July 2009<sup>5</sup> (referred to as new assets). Consequently, TasWater must maintain four RABs.

<sup>4</sup> See Section 9.10 of this Guideline for further explanation of the treatment of TasWater's tax allowance for the fourth regulatory period.

<sup>5</sup> The *Water and Sewerage Corporation Act 2012* provided for the transfer of the previous regulated entities' assets and liabilities to the new regulated entity.

The RABs for existing assets must be updated each year to allow for asset disposals, inflation, and regulatory depreciation.

The RABs for new assets must also be updated each year to allow for: third party contributions, asset disposals; inflation; regulatory depreciation and the prudent and efficient Capex required to provide regulated services.

## **9.2 Asset disposals**

Asset disposals refer to the sale of assets that are no longer required to provide regulated services. Asset disposals reduce the value of the RAB.

Given the lack of detailed information regarding existing assets, the Regulator proposes that for the existing asset RABs, the asset disposal value equals asset sale proceeds. For the new asset RABs, the Regulator proposes that the asset disposal value equals the value at which the disposed asset was recorded in the RAB and then adjusted for depreciation and indexation.

TasWater must include in its proposed PSP details of actual and forecast asset disposals used in the RAB roll forward, together with forecasts of annual asset disposals for the next regulatory period.

## **9.3 Third party capital contributions**

Third party capital contributions are assets contributed by third parties and include developer charges, gifted assets, service introduction charges and government grants. Third party capital contributions are not included in the RABs and are therefore not factored into regulated prices because TasWater is not permitted to receive a return on capital, or a return of capital, on assets that it did not fund.

TasWater must include in its proposed PSP details of actual and forecast third party capital contributions used in the RAB roll forward and forecast annual third party capital contributions for the next regulatory period.

## **9.4 Regulatory depreciation**

The Regulator requires TasWater to determine regulatory depreciation for the existing asset RABs using straight line depreciation and the value weighted average approach used for the second and third regulatory periods. Regulatory depreciation must be based on the opening balances for 2018-19 for the undepreciated existing asset RABs.

TasWater must show, in the financial model required in Chapter 10 of this Guideline, how the proposed depreciation for the existing asset RABs is calculated including an explanation of how the proposed asset lives used to calculate the depreciation rate are determined.

TasWater must include a table in its proposed PSP showing the proposed regulatory depreciation calculation for the current and subsequent regulatory periods for the existing asset RABs. The proposed regulatory depreciation calculated under this section must be used in the RAB roll forward for existing assets and in calculating the NAR.

The Regulator proposes that TasWater determines regulatory depreciation for the new asset RABs using a line-by-line approach. For projects started after 1 July 2018, as set out in section 8.8 of the Regulator's 2018 Water and Sewerage Price Determination Final Report, TasWater will only receive a depreciation allowance on project completion. However, for projects started before 1 July 2018 that were in progress as at that date, TasWater will continue to receive regulatory depreciation calculated on Capex as it is spent.

TasWater must show, in the financial model required in Chapter 10 of this Guideline, how the proposed depreciation for new assets is calculated, including the proposed asset lives. TasWater must also include a table in its proposed PSP showing the proposed regulatory depreciation calculation for the RABs for new assets for the current and subsequent regulatory period.

The proposed regulatory depreciation calculated under this section of the Guideline must be used in the RAB roll forward for new assets and in calculating the NAR.

## 9.5 Inflation

In the preparation of the proposed PSP, the Regulator requires TasWater to roll forward the RABs by indexing according to inflation as measured by the change in the CPI (weighted average of eight capital cities) published by the Australian Bureau of Statistics from March 2020 to March 2021.

Forecast inflation values must be the “CPI inflation” value for the furthest future period as presented in the output growth and inflation forecasts, of the Reserve Bank of the most recently published Australia’s *Quarterly Statement of Monetary Policy*.

## 9.6 RAB roll forward for existing assets

The opening RAB value in each financial year is equal to the closing balance from the previous financial year.

Therefore, to determine the applicable opening RAB for existing assets for the next regulatory period, the closing RAB from the second year of the penultimate regulatory period is rolled forward using actual values of asset disposals and inflation the first three years then updated forecast values for the final year of the current regulatory period.

The applicable regulatory depreciation must be calculated as per section 9.4 of this Guideline.

The opening RAB as at 1 July 2022 must be rolled forward for each year of the next regulatory period using:

- forecast asset disposal values, forecast inflation; and
- regulatory depreciation calculated as per section 9.4 of this Guideline.

TasWater must show RAB roll forward and forecast RAB calculations in its financial model and in a table in its proposed PSP.

## 9.7 RAB roll forward for new assets

To determine the applicable opening RAB for new assets for the next regulatory period the closing RAB from the second year of the penultimate regulatory period is rolled forward using actual values for asset disposals, inflation, third party contributions and prudent and efficient Capex for the first three years then updated forecast values for the final year of the current regulatory period.

The applicable depreciation must be calculated as per section 9.4 of this Guideline.

The opening RAB as at 1 July 2022 must be rolled forward for each year of the next regulatory period using:

- forecast Capex; asset disposal values; inflation; third party contributions; and

- regulatory depreciation calculated as per section 9.4 of this Guideline.

The forecast Capex in the RAB roll forward must equal the Capex values provided as required in chapter 8 of this Guideline.

TasWater must show RAB roll forward and forecast RAB calculations in its financial model and in a table in its proposed PSP.

## 9.8 Treatment of assets used to provide unregulated services

Under the *Water and Sewerage Industry Declaration Order 2011*<sup>6</sup>, the following activities have been declared to not be regulated activities, and therefore they are unregulated services:

- the collection or use of stormwater;
- providing a service for the recycling of water; and
- providing a service for the re-use of water.

Providing water for irrigation is also an unregulated service.

Assets solely required for providing unregulated services must be excluded from the RAB. The costs of, and return on, assets solely used to provide unregulated services will not be recouped from revenue from the provision of regulated services.

While providing a service for the re-use of water is not a regulated activity, this does not preclude some or all of the Capex and Opex associated with the re-use of water being included in the cost of providing regulated sewerage services, so long as the prudence and efficiency tests are satisfied with respect to the provision of those regulated services.

TasWater's proposed PSP must clearly identify each unregulated service it expects to provide. TasWater's PSP must also explain how the associated assets and Opex are allocated between regulated and unregulated services.

## 9.9 Weighted average cost of capital

The WACC is the sum of the weighted average of the cost of debt and the cost of equity. The Regulator proposes to continue to use a vanilla WACC to determine the return on capital for both new assets and existing assets. A vanilla WACC is calculated as the weighted average of the pre-tax cost of debt and the post-tax cost of equity. The formulae for the WACCs for new and existing assets are provided in Appendix A.

TasWater must include its proposed WACC and justification for the proposed values for the individual WACC parameters in its proposed PSP.

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<sup>6</sup> Clause 3 of the *Water and Sewerage Industry Declaration Order 2011*.

## 9.10 Tax allowance

The use of a post-tax nominal WACC necessitates calculating an explicit tax allowance that is included in the build-up of the NAR. The tax allowance is effectively an estimate of corporate income tax expense that a benchmark efficient private business would pay.

### 9.10.1 Changes to TasWater's tax obligations

Following amendments made to the *Water and Sewerage Corporation Act 2012* in 2018, from 1 January 2019 TasWater is no longer subject to the National Tax Equivalent Regime and is therefore no longer required to make tax equivalent payments to its council owners.

Consequently, for the fourth regulatory period and for the purposes of this Guideline, TasWater must use a tax rate equal to zero that will result in the tax allowance component of its cost build-up also equalling zero.

## 10 PRICE REGULATION

The Regulator will assess the proposed prices in TasWater’s proposed PSP against the pricing principles specified in the Industry Act and in the Pricing Regulations and as set out in section 2.2 of this Guideline.

### 10.1 Section 61 contracts

Under regulation 11 of the Pricing Regulations the Regulator is not required to determine the prices for the provision of a regulated service under a relevant contract.

A relevant contract is defined in regulation 11(2) as:

- (a) a contract, other than a customer contract, that is in force immediately before the day on which these regulations take effect; or
- (b) a contract entered into pursuant to section 61 of the Act.

Relevant contracts must allow for the recovery of the full costs of providing the regulated service.

TasWater’s proposed PSP must provide details of:

- the amount of revenue received or a forecast of the revenue from section 61 contracts for each year of the current regulatory period.
- the amount of proposed forecast annual revenue from section 61 contracts for the next regulatory period.

TasWater must include forecast revenue from section 61 contracts in its calculation of its proposed NAR.

### 10.2 Service Introduction charge

A service introduction charge is defined in regulation 3 of the Pricing Regulations.

TasWater must, having regard to the requirements in regulation 14 of the Pricing Regulations, explain in its proposed PSP its approach to calculating and imposing service introduction charges for the next regulatory period and provide details of customer consultation on any proposed changes.

TasWater must explain and justify any changes it proposes to how it calculates or imposes service introduction charges.

TasWater must provide in its proposed PSP:

- the amount of revenue received or a forecast of the revenue from service introduction charges for each year of the current regulatory period; and
- the amount of proposed forecast annual revenue from service introduction charges for the next regulatory period.

TasWater must not include revenue from service introduction charges when calculating its proposed NAR.

### 10.3 Developer charges

The term “developer charges’ is defined in regulation 19 of the Pricing Regulations.

TasWater must explain in its proposed PSP its approach to calculating and imposing developer charges for the next regulatory period and provide details of customer consultation on any proposed changes.

TasWater must explain and justify any changes it proposes to make to how it calculates or imposes developer charges.

TasWater must provide in its proposed PSP:

- the amount of revenue received or a forecast of the revenue from developer charges for each year of the current regulatory period; and
- the amount of proposed forecast annual revenue from developer charges for the next regulatory period.

TasWater must not include revenue from developer charges when calculating its proposed NAR.

### 10.4 Customer classes

Customers are grouped into customer classes that reflect the different costs associated with providing regulated services to different customers. The following customer classes were approved as part of the 2018 Water and Sewerage Price Determination Investigation:

- full service water customers;
- limited water quality customers;
- limited water supply customers;
- combined limited water quality and limited water supply customers;
- sewerage customers;
- trade waste customers; and
- septic tank effluent disposal schemes (STEDs).

TasWater must specify in its proposed PSP its proposed customer classes for the next regulatory period and provide details of customer consultation on its proposed approach.

TasWater must justify any changes to its current customer classes.

### 10.5 Fixed and variable charges

Fixed and variable charges are defined in regulation 3 of the Pricing Regulations.

Regulation 15 of the Pricing Regulations states that fixed charges must reflect the cost of providing the service to the property to which the charge relates and which are not recovered through developer or service introduction charges.

Regulation 16 of the Pricing Regulations states that TasWater must charge a variable charge for a water service and may charge a variable charge for a sewerage service.



A variable charge rate must at least cover the cost of delivering water, and if applicable, removing sewerage from a property. Regulations 16(6) and 16(7) specify the circumstances when a variable charge rate may be higher than the cost of delivering water to, or removing sewerage from, a property.

## 10.6 Miscellaneous fees and charges

Regulation 21 of the Pricing Regulations states that miscellaneous fees and charges includes all fees and charges that are not fixed charges, variable charges, developer charges, or service introduction charges.

## 10.7 Information required for the price determination investigation

TasWater must:

- explain its proposed method for determining sewerage charges;
- explain and justify any changes to its current approach to determining sewerage charges and provide details of customer consultation on any proposed changes;
- provide a comparison between the current and proposed methods of determining sewerage charges;
- provide a schedule of proposed water and sewerage services and prices, including fixed and variable components if applicable, for each year of the next regulatory period;
- identify and justify any changes from the current schedule of water and sewerage services and provide details of customer consultation on the proposed changes;
- provide a schedule of proposed miscellaneous fees and charges and the proposed prices to apply in each year of the next regulatory period;
- identify and justify any changes from the current schedule of miscellaneous fees and charges and provide details of customer consultation on the proposed changes. If proposing a new miscellaneous fee or charge TasWater must explain how the new fee or charge has been calculated;
- if proposing to apply a variable sewerage charge, provide the justification for a variable sewerage charge and the method used to calculate a variable sewerage charge;
- include a schedule of proposed sewerage charges for different industries/property use types;
- explain the method and calculations used to determine the variable charge rate/s;
- if the proposed variable charges rates are greater than the cost of delivering water or removing sewerage from a property TasWater must quantify and justify the additional costs to be recovered through the variable charge rate noting the requirements of regulations 16(6) and 16(7) of the Pricing Regulations;
- explain and justify any proposed price constraints or other means for managing the impact of the rate of change of prices for customers; and
- include the financial impact of the proposed price changes on an annual bill for a 20mm connection based on 200kL of water usage.

## II FINANCIAL MODEL

In accordance with section 65(4)(d) of the Industry Act, the Regulator requires TasWater to provide a financial model (Excel spreadsheet) that shows how its proposed prices for regulated services have been calculated. The model must include:

- RAB roll forward and forecast RAB for existing and new assets for each regulated service;
- Total assets, unregulated assets and regulated assets;
- regulatory depreciation for existing and new assets;
- calculation of the NAR and the individual building blocks;
- demand forecasts;
- Opex for each year of the current and next regulatory period;
- Capex for each year of the current and next regulatory period;
- revenue from section 61 contracts;
- a description of each of the tariffs, fees and charges; and
- revenue from each of the tariffs, fees and charges for each year of the current and next regulatory period.

The model must demonstrate that applying the proposed demand forecasts to the proposed regulated prices plus the revenue from section 61 contracts will result in regulated revenue no greater than the NAR.

The values in the financial model must be the same as those provided in the proposed PSP.

In determining how much of the financial model will be made publicly available, the Regulator will take into account any issues identified by TasWater.

## 12 REGULATORY COMPLIANCE

The Tasmanian industry regulators are:

- the Director of Public Health, who is responsible for regulating water quality and fluoridation;
- Dam Safety Regulator;
- the EPA, which is responsible for regulating wastewater treatment plants; and
- DPIPWE, which is responsible for water licence allocations and dam safety.

Each individual industry regulator is responsible for enforcing TasWater’s compliance with its regulatory obligations.

TasWater must consult with each industry regulator during the preparation of its proposed PSP to ensure that its proposed compliance improvement initiatives over the next regulatory period meet the expectations of the relevant industry regulator.

### 12.1 Approach to reviewing compliance

The Regulator will consult with other industry regulators to ensure that the agreed compliance improvement requirements are reflected in TasWater’s proposed Opex and Capex.

The Regulator may recommend changes to the PSP to ensure that the statutory responsibilities of industry regulators are appropriately addressed.

### 12.2 Information required for the price determination investigation

TasWater must provide:

- a summary of each industry regulator’s expected outcomes for the next regulatory period;
- an explanation of how the agreed outcomes are reflected in TasWater’s proposed Capex and Opex;
- copies of draft wastewater management, drinking water quality management and dam safety improvement plans agreed with the relevant industry regulator as at the time of submission of the proposed PSP (final versions of each plan to be subsequently approved by the relevant industry regulator).

## **I 3    ADDITIONAL REQUIREMENTS**

### **I3.1    Serviced land**

TasWater’s proposed PSP must include a description of serviced land that complies with the Industry Act and the Code and which is sufficiently detailed to be able to identify individual titles.

TasWater must also explain in its proposed PSP how it determines what land is included in its serviced land.

### **I3.2    Policies**

TasWater’s proposed PSP must include proposed policies with regard to:

- connections;
- service charges;
- trade waste charges;
- sub-metering;
- extension and expansion;
- service introduction charges; and
- developer charges.

TasWater’s proposed PSP must also provide details of customer consultation on its proposed policies.

TasWater must highlight and justify any differences between its current policies and the policies it is proposing for the next regulatory period.

The Regulator will review the policies and may require TasWater to make changes to the policies prior to approval. Once approved, TasWater must publish these policies and any supporting documentation on its website.

### **I3.3    Customer contract**

TasWater must include a proposed customer contract in its proposed PSP and provide details of customer consultation on its proposed customer contract.

If the proposed customer contract differs from its current customer contract, TasWater must highlight and justify any changes.

### **I3.4    Service replacement proposals**

Service replacement involves replacing reticulated services with other arrangements, such as water tanks.

The Regulator does not require specific service replacement proposals to be submitted for approval as part of TasWater’s proposed PSP. However, TasWater’s proposed PSP must identify areas where

preliminary analysis and community consultation has been carried out on potentially replacing an existing service.

#### **13.4.1 Information required for the price investigation determination**

TasWater must:

- explain its service replacement process and justify any proposed changes to the service replacement process approved for the current regulatory period; and
- include feedback from customer consultation on its current and proposed service replacement process.

#### **13.5 Re-use**

TasWater must provide information on the additional assets, Capex, Opex and revenue associated with re-use activities, including the production and sale of biosolids, as they relate to a sewerage service. In cases where these re-use activities are undertaken, TasWater must provide information on the overall impact on its costs and revenues, relative to alternative solutions as they apply to regulated sewerage services.

#### **13.6 Executive summary**

In accordance with section 65(4)(d) of the Industry Act, TasWater is required to include an executive summary in its proposed PSP to assist customers to understand the information in the proposed PSP and to encourage customers to participate in the price determination investigation process. The executive summary should include;

- the services TasWater proposes to provide and the proposed prices;
- a summary of the changes proposed for the next regulatory period;
- a summary of proposed Opex and Capex, including the main reason for any cost increases;
- a summary of customer consultation and how the feedback provided has been included in the proposed PSP; and
- the impact of the price changes on customers.

## APPENDIX A - WACC FORMULAE

The Regulator proposes using the following formula to calculate the Weighted Average Cost of Capital (WACC) for new assets:

$$WACC_{NEW} = R_d G + R_e (1-G)$$

Where:

$R_d$	=	Pre-tax cost of debt
	=	RFR + DRP + debt issuance costs
RFR	=	Risk free rate
DRP	=	Debt risk premium
G	=	Gearing percentage
$R_e$	=	Post-tax cost of equity
	=	RFR + $\beta_e$ MRP
$\beta_e$	=	Equity beta
MRP	=	Market risk premium

The Regulator proposes using the following WACC formula to calculate the WACC for existing assets:

$$WACC_{EXISTING} = R_d G + EXISTING R_e (1-G)$$

Where:

EXISTING $R_e$	=	$Z[1-t(1-\gamma)]$
Z	=	Statutory nominal pre-tax return on equity = 3%
t	=	Corporate tax rate = 0% <sup>7</sup>
$\gamma$	=	Gamma (value of imputation credits)

<sup>7</sup> Refer to Section 9.10.1 of this Guideline: Changes to TasWater's tax obligations