

Water and Sewerage Industry Act 2008

Interim Price Order

1. Interpretation

1.1. Where a term used in this Order is defined in the *Water and Sewerage Industry Act 2008*, it has the meaning given in the *Water and Sewerage Industry Act 2008*.

1.2. If there is an inconsistency between this Order and the *Water and Sewerage Industry Act 2008*, the *Water and Sewerage Industry Act 2008* will prevail to the extent of any inconsistency.

1.3. In this Order, unless the contrary intention appears –

“allowable rate of revenue increase” means the Municipal Area Side Constraint for each regulated entity for each financial year specified in Schedules 1, 2, and 3 of this Order;

“annual maximum revenue allowance” means the Regional Revenue Cap for each regulated entity for each financial year specified in Schedules 1, 2, and 3 of this Order;

“developer charges” means:

(a) for the full or partial cost of:

(i) works and systems already constructed by the regulated entity or a predecessor of a regulated entity; and

(ii) works or systems to be constructed by the regulated entity or a predecessor of the regulated entity:

that benefit or are available to the land concerned, based on net present value, historical cost or any other appropriate basis having regard to the regulated entity’s operating costs and revenues;

(b) for the full or partial cost of augmenting or upgrading or connecting to the regulated entity’s works and systems in consequence of the proposed development; and

(c) for the investment costs incurred by the regulated entity or a predecessor of the regulated entity and by developers in relation to the existing and proposed works and systems referred to in paragraphs (a) and (b) above;

“fluoridation assets” means those assets used for the provision of fluoridation services;

“*fluoridation services*” means fluoridation services that are currently provided;

“*region*” means the relevant region as defined by section 43(2) of the *Acts Interpretation Act 1931*;

“*wastewater re-use assets*” means those assets used for the provision of wastewater re-use services;

“*wastewater re-use services*” means wastewater re-use services that are currently provided.

2. Interim Price Order Application

2.1. The terms of the Interim Price Order are to apply for a period of three years, or until the commencement of the first regulatory period that is fixed under section 65(12) of the *Water and Sewerage Industry Act 2008*, commencing 1 July 2009 and is to be reviewed by the Treasurer on a yearly basis. In reviewing the Interim Price Order, the Treasurer is to seek advice from the Economic Regulator and is to consult publicly on any amendment to the terms of the Interim Price Order.

2.2. The Interim Price Order is to apply to the following regulated activities:

- (a) Water Services (including fluoridation services);
- (b) Sewerage Services (including wastewater re-use services); and

where these activities are provided by the following regulated entities within its region:

- (c) Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd;
- (d) Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Ltd; and
- (e) Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd.

2.3. Should a regulated entity provide a regulated service outside of its region, the revenues recoverable for those services are not to be regulated.

[Should a service be provided outside of a regulated entities region, it is assumed that they will be competing against the regulated prices for that region and as such, revenue regulation is not necessary.]

[An exemption order is currently being developed which will outline which services providers, who would otherwise be required to be licensed, will be exempted from the licensing requirement and therefore any economic regulatory oversight, such as that in the IPO.]

3. Revenue Allowance

- 3.1. The Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd is to recover revenues for regulated activities it delivers within its region consistent with Schedule 1 to this Order.
- 3.2. The Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Ltd is to recover revenues for regulated activities it delivers within its region consistent with Schedule 2 to this Order.
- 3.3. The Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd is to recover revenues for regulated activities it delivers within its region consistent with Schedule 3 to this Order.
- 3.4. The annual maximum revenue allowance for each regulated entity is capped at a regional level in its relevant Schedule.
- 3.5. Regulated entities are to also comply with the municipal revenue constraints in the relevant Schedule, such that the regulated entity will have separate allowable rates of revenue increase for each of the municipalities in its region.
- 3.6. The revenue allowance is further split between revenue to be recovered from water services (inclusive of fluoridation services) and revenue to be recovered from sewerage services (inclusive of wastewater re-use services).

[The structure of the revenue allowance reflects the differing levels of cost recovery between municipal areas and between regulated services within a municipal area. This structure will support a move to user-pays pricing over time.]

4. Revenue Recovery

- 4.1. In recovering the increased revenues allowed to it across its customer base, the regulated entity must not breach any existing contractual arrangements with customers it inherits.
- 4.2. A regulated entity is to charge its customers on the same basis and on the same tariffs as were charged prior to 1 July 2009, adjusted to reflect the allowable rate of revenue increase for a particular municipality contained in the regulated entity's relevant Schedule.
- 4.3. Where the requirement to honour existing contractual arrangements leads to an under-recovery of the annual maximum revenue allowance, the regulated entity cannot charge another customer, or customer class, in excess of the allowable rate of revenue increase for a particular municipality.

- 4.4. Any under-recovery of revenue will be considered within the annual review of the Order or through the adjustment and pass through mechanism in section 5 of this Order, and may be adjusted by the Treasurer as appropriate.
- 4.5. The regulated entity may start to recover its annual maximum revenue allowance commencing 1 July and concluding 30 June in the relevant year.
- 4.6. The regulated entity is to publish on its website by no later than 1 July 2009 its charging structures and tariffs for the first year of the Order and must notify all customers of the website address and that the charging structure and tariffs are located on that website.
- 4.7. In the event that the regulated entity does not maintain an internet website, the regulated entity must provide a copy of its charging structure and tariffs policy to all customers free of charge.

[The first year of the Interim Price Order is aimed at commencing the transitioning of revenues recovered towards full cost recovery. Subsequent years will, consistent with any pricing regulations to come into effect under the Water and Sewerage Industry Act 2008, focus on progressively unwinding cross subsidies and moving towards a user pays framework consistent with the principles contained in section 68 of the Water and Sewerage Industry Act 2008.]

5. Revenue Allowance Adjustment and Pass Through

- 5.1. The Treasurer may allow for a pass through of additional costs or cost savings to customers to occur outside of the yearly review of the Order if, in the Treasurer's view, any of the following events occur:
 - i. there is a change to regulation that imposes a material additional cost; or
 - ii. assets, liabilities or employees are transferred to the regulated entity post 1 July 2009 which have a material impact on the costs of the regulated entity; or
 - iii. an event occurs which was either unanticipated or which alters the rate, or amount, of tax to be paid by the regulated entity and which imposes material costs; or
 - iv. there is a material under or over recovery of revenue in any year.
- 5.2. The Treasurer may review and amend the revenue allowances contained in Schedules 1, 2 and 3 outside of the yearly review of the Order if, in the Treasurer's view there is a material factual error in the information or assumptions upon which the revenue allowance was developed.

- 5.3. Where the Treasurer determines that the revenue allowance may be amended or that an event specified in 5.1 of this Order may occur, the Treasurer must obtain the advice of the Regulator on the appropriate level of adjustment.
- 5.4. Revenue allowance adjustments made outside of the yearly review of the Order may only be made on a half-yearly basis on 1 January in the relevant year.
- 5.5. Where the Treasurer determines that the revenue allowance is to be adjusted, the Treasurer is to notify the relevant regulated entity(ies) one month prior to the adjustment taking effect.

6. Developer Charges Pricing Policy

- 6.1. Developer charges may be applied by the regulated entity.
- 6.2. Any recovery of developer charges must occur within the maximum revenue allowance for the regulated entity.
- 6.3. Any commitments made to customers or developers seeking connection to water infrastructure or sewerage infrastructure prior to 1 July 2009 that resulted in developer charges being levied, are to be honoured by the relevant regulated entity.
- 6.4. Where, prior to 1 July 2009, an existing developer charges policy was used by a local government in relation to water and sewerage provision, those policies may continue to be applied by the regulated entity.
- 6.5. Where a developer charges policy does not exist, a regulated entity is to levy developer charges that are economically justifiable in that they represent costs reasonably attributable to the customer or developer, and which reflect an appropriate allocation of risk between the regulated entity and the developer or customer.
- 6.6. The regulated entity is to publish on its website by no later than 1 July 2009 its developer charges policy for the first year of the period covered by this Order and must notify all customers of the website address and that the developer charges policy is located on that website.
- 6.7. In the event that the regulated entity does not maintain an internet website, the regulated entity must provide a copy of its developer charges policy to all customers free of charge
- 6.8. By [30 September 2009], the regulated entity is to provide a submission to the Treasurer regarding its view on the appropriate principles for the setting of developer charges.

[Pricing regulations to come into effect in 2010 may provide further guidance on the treatment of developer charges. These pricing regulations will be reflective of the future pricing objectives in the Water and Sewerage Industry Act 2008. The submission required under 6.8 is

to assist in the first review of the Interim Price Order and to help inform pricing regulation development.]

7. Trade waste Pricing Policy

- 7.1. Trade waste charges may be applied to customers seeking to discharge trade waste to the infrastructure of a regulated entity.
- 7.2. Any recovery of charges for trade waste must occur within the maximum revenue allowance for the regulated entity.
- 7.3. Any existing trade waste agreements or contracts that remain in force at 1 July 2009 are to be honoured by the relevant regulated entity.
- 7.4. Where, prior to 1 July 2009, a trade waste policy was used by a local government, those policies may continue to be applied by the regulated entity.
- 7.5. Where a policy does not exist, a regulated entity is to levy trade waste charges which are economically justifiable in that they represent costs reasonably attributable to the customer.
- 7.6. The regulated entity is to publish on its website by no later than 1 July 2009 its trade waste policy for the first year of the period covered by this Order and must notify all customers of the website address and that the trade waste charges policy is located on that website.
- 7.7. In the event that the regulated entity does not maintain an internet website, the regulated entity must provide a copy of its trade waste policy to all customers free of charge.
- 7.8. By [30 September 2009], the regulated entity is to provide a submission to the Treasurer regarding its view on the appropriate principles for the setting of trade waste charges.

[Pricing regulations to come into effect may provide further guidance on the treatment of trade waste charging. In this context, any trade waste contracts entered into are expected to be reflective of the future pricing objectives in the Water and Sewerage Industry Act 2008 and will bind the regulated entity in future price determinations. The submission required under 6.8 is to assist in the first review of the Interim Price Order and to help inform pricing regulation development.]

8. Fluoridation Revenue Recovery

- 8.1. An allowance to recover the efficient costs associated with providing fluoridation services is embedded in the allowances provided in the Schedule for each regulated entity.
- 8.2. By [1 January 2010], the regulated entities are to complete a valuation of fluoridation assets and provide this advice to the Treasurer along with associated costs to inform future reviews of the Interim Price Order.

9. Re-use Revenue Recovery

- 9.1. An allowance to recover the efficient costs associated with providing re-use services is embedded in the allowances provided in the Schedule for each regulated entity.
- 9.2. By [1 January 2010], the regulated entities are to complete a valuation of re-use assets and provide this advice to the Treasurer along with associated costs to inform future reviews of the Interim Price Order.

10. Customer Service Procedures and Interim Standards of Customer Service

- 10.1. Where, immediately prior to 1 July 2009, a customer of a council or bulk water authority was connected to water infrastructure or sewerage infrastructure that, from 1 July 2009, will be owned by a regulated entity, that regulated entity must continue to provide the water or sewerage service, unless varied through a Customer Contract.
- 10.2. Where, prior to the regulated entity commencing operation, a level of customer service relating to the provision of a water and/or sewerage service was prescribed in a contract or was articulated standard through a service charter or other policy or regulatory instrument, no lower standard can be provided.
- 10.3. By 1 July 2009, each regulated entity is to develop and publish the following interim standards of customer service:
 - (a) contact details for customers (phone numbers, website details, email addresses, facsimile numbers);
 - (b) inquiry and complaints handling processes consistent with the relevant Australian Standard;
 - (c) a policy that provides for payment plans to be offered to customers experiencing payment difficulties;
 - (d) a process for referring unresolved complaints to the Ombudsman consistent with sections 76 and 77 of the *Water and Sewerage Industry Act 2008*.
- 10.4. The regulated entities are to apply the elements developed under 10.3 until such time as the Customer Service Code for the sector comes into effect and requires alternative arrangements.

11. Information Provision

- 11.1. The regulated entity is to provide the following audited financial information on a financial year basis to assist the Treasurer in the reviews of the Interim Price Order:
 - (a) most recent operating and maintenance expenses, split between water and sewerage services and also split between labour and non-labour costs;
 - (b) annual and three year budgets and financial operating plans;

- (c) three year capital expenditure programs on a project basis, indicating relative priority, estimated annual cash flows and the split between water and sewerage;
 - (d) current and projected customer connections by service and municipal area, consistent with the capital expenditure program;
 - (e) working capital requirements, where possible, based on detailed credit terms, billing arrangements and inventory levels;
 - (f) actual and expected income tax equivalent payments and dividends;
 - (g) actual revenue outcomes for the preceding period and, where possible, split between revenues recovered from residential, commercial and industrial customers; and
 - (h) water usage volumes by customer class.
- 11.2. With the exception of information in relation to customer connections, the data required under section 11.1 should be apportioned by municipal area. However, actual and projected customer connection data must be provided on a municipal area basis.
- 11.3. In respect of the information provision for capital expenditure programs, if available, a split of the program between new and renewal investment should also be provided.
- 11.4. The regulated entity is to provide the information described in 11.1 to 11.3 to the Treasurer by 1 November of each year of the IPO period.

[The requirement under 11.2 is necessary given the varying degrees of revenue transition required between municipal areas, which is expected to necessitate a continuation of interim pricing on a municipal basis at least into the second year of the IPO. Where data is not available, modelling of municipal outcomes may be undertaken by allocating regional assets, revenues and costs on the basis of either municipal connections data or historical outcomes as is most appropriate in the circumstances.]

12. Future Pricing Regulation

- 12.1. Where pricing regulations under the *Water and Sewerage Industry Act 2008* come into effect during the course of this Order, direction to the regulated entity on compliance with the regulations will occur through the yearly review of this Order.

13. Compliance with IPO

- 13.1. As soon as a regulated entity realises they may not meet a timeframe required under this Order they must notify the Treasurer.
- 13.2. A regulated entity may write to the Treasurer seeking extension of any timeline included in this Order.

- 13.3. If, in the Treasurer's opinion an extension is warranted, the Treasurer may vary any timeline to be met under this Order.
- 13.4. Section 88(4) of the Water and Sewerage Industry Act 2008 requires compliance with this Order.

Dated:

Hon Michael Aird MLC
Treasurer

Schedule 1

Annual maximum revenue allowance for the Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd.

2009-10 Financial Year

	Service	
	Water	Sewerage
Regional Revenue Cap (\$ million)	27	28
Municipal Area Side Constraint (% nominal increase in revenues allowed)		
Break O'Day Council	10.00	10.00
Dorset Council	10.00	10.00
Flinders Island Council	10.00	0.00
George Town Council	5.65	0.00
Launceston City Council	10.00	10.00
Meander Valley Council	10.00	10.00
Northern Midlands Council	10.00	10.00
West Tamar Council	10.00	5.31

2010-11 Financial Year

	Service	
	Water	Sewerage
Regional Revenue Cap (\$ million)	30	31
Municipal Area Side Constraint (% nominal increase in revenues allowed)		
Break O'Day Council	10.00	10.00
Dorset Council	10.00	10.00
Flinders Island Council	10.00	0.00
George Town Council	8.47	0.00
Launceston City Council	10.00	10.00
Meander Valley Council	10.00	10.00

Northern Midlands Council	10.00	10.00
West Tamar Council	10.00	10.00

2011-12 Financial Year

	Service	
	Water	Sewerage
Regional Revenue Cap (\$ million)	34	35
Municipal Area Side Constraint (% nominal increase in revenues allowed)		
Break O'Day Council	10.00	10.00
Dorset Council	10.00	10.00
Flinders Island Council	10.00	0.00
George Town Council	7.10	0.00
Launceston City Council	10.00	10.00
Meander Valley Council	10.00	10.00
Northern Midlands Council	10.00	10.00
West Tamar Council	10.00	10.00

Schedule 2

Annual maximum revenue allowance for the Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Ltd.

2009-10 Financial Year

	Service	
	Water	Sewerage
Regional Revenue Cap (\$ million)	25	24
Municipal Area Side Constraint (% nominal increase in revenues allowed)		
Burnie City Council	0.00	10.00
Central Coast Council	10.00	10.00
Circular Head Council	10.00	0.00
Devonport City Council	10.00	10.00
Kentish Council	10.00	10.00
King Island Council	0.00	10.00
Latrobe Council	10.00	6.73
Waratah/Wynyard Council	10.00	10.00
West Coast Council	0.00	10.00

2010-11 Financial Year

	Service	
	Water	Sewerage
Regional Revenue Cap (\$ million)	27	26
Municipal Area Side Constraint (% nominal increase in revenues allowed)		
Burnie City Council	0.00	10.00
Central Coast Council	10.00	10.00
Circular Head Council	10.00	0.00
Devonport City Council	10.00	10.00

Kentish Council	10.00	10.00
King Island Council	0.00	10.00
Latrobe Council	10.00	8.64
Waratah/Wynyard Council	10.00	10.00
West Coast Council	0.00	10.00

2011-12 Financial Year

	Service	
	Water	Sewerage
Regional Revenue Cap (\$ million)	29	29
Municipal Area Side Constraint (% nominal increase in revenues allowed)		
Burnie City Council	4.25	10.00
Central Coast Council	10.00	10.00
Circular Head Council	10.00	0.00
Devonport City Council	10.00	9.85
Kentish Council	10.00	10.00
King Island Council	0.00	10.00
Latrobe Council	10.00	7.02
Waratah/Wynyard Council	10.00	10.00
West Coast Council	0.00	8.02

Schedule 3

Annual maximum revenue allowance for the Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd.

2009-10

	Regional Revenue Cap (\$ million)	Municipal Constraint increase allowed)	Area (% in)	Side nominal revenues	Service	
					Water	Sewerage
	67				53	
Brighton Council					10.00	10.00
Central Highlands Council					10.00	10.00
Clarence City Council					10.00	10.00
Derwent Valley Council					10.00	10.00
Glamorgan/Spring Bay Council					10.00	10.00
Glenorchy City Council					10.00	0.00
Hobart City Council					10.00	10.00
Huon Valley Council					10.00	10.00
Kingborough					10.00	0.00
Sorell Council					0.00	0.00
Southern Midlands Council					10.00	10.00
Tasman Council					10.00	10.00

2010-11

	Service	
	Water	Sewerage
Regional Revenue Cap (\$ million)	74	58
Municipal Area Side Constraint (% nominal increase in revenues allowed)		
Brighton Council	10.00	10.00
Central Highlands Council	10.00	10.00
Clarence City Council	10.00	10.00
Derwent Valley Council	10.00	10.00
Glamorgan/Spring Bay Council	10.00	10.00
Glenorchy City Council	10.00	3.82
Hobart City Council	10.00	10.00
Huon Valley Council	10.00	10.00
Kingborough	10.00	0.00
Sorell Council	0.00	10.00
Southern Midlands Council	10.00	10.00
Tasman Council	10.00	10.00

2011-12

	Regional Revenue Cap (\$ million)	Service	
		Water	Sewerage
	82		63
Municipal Constraint increase allowed)	Area (% in)	Side nominal revenues	
Brighton Council		10.00	10.00
Central Highlands Council		10.00	10.00
Clarence City Council		10.00	10.00
Derwent Valley Council		10.00	10.00
Glamorgan/Spring Bay Council		10.00	10.00
Glenorchy City Council		10.00	10.00
Hobart City Council		10.00	10.00
Huon Valley Council		10.00	10.00
Kingborough		10.00	0.00
Sorell Council		3.10	10.00
Southern Midlands Council		10.00	10.00
Tasman Council		10.00	10.00