



Attachment 13

Consistency with ICRC objectives

30 June 2017

2018–23 Water and Sewerage Price Proposal



Quality
drinking water



Reliable
supply



Affordable
pricing



Customer
service



Environmental
sustainability

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1 Introduction and background

1.1 ICRC legislative requirements

When making a price direction under the *Independent Competition and Regulatory Commission Act 1997* (the ICRC Act), the ICRC is required to have regard to a number of objectives and other legislative requirements. These include the objectives in section 7, the price direction objective in section 19L and the section 20(2) requirements (see Box 1-1).

Box 1-1: ICRC Act 1997 price direction provisions

Section 7 Objectives

- a) to promote effective competition in the interests of consumers
- b) to facilitate an appropriate balance between efficiency and environmental and social considerations
- c) to ensure non-discriminatory access to monopoly and near-monopoly infrastructure.

Section 19L Objective—pt 4

The objective of the commission, when making a price direction in a regulated industry, is to promote the efficient investment in, and efficient operation and use of regulated services for the long term interests of consumers in relation to the price, quality, safety, reliability and security of the service.

Section 20 Directions about prices

- (2) In making a decision under subsection (1), the commission must have regard to—
 - a) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies (including policies relating to the level or structure of prices for services) and standard of regulated services; and
 - b) standards of quality, reliability and safety of the regulated services; and
 - c) the need for greater efficiency in the provision of regulated services to reduce costs to consumers and taxpayers; and
 - d) an appropriate rate of return on any investment in the regulated industry; and
 - e) the cost of providing the regulated services; and
 - f) the principles of ecologically sustainable development mentioned in subsection (5);
 - g) the social impacts of the decision; and
 - h) considerations of demand management and least cost planning; and
 - i) the borrowing, capital and cash flow requirements of people providing regulated services and the need to renew or increase relevant assets in the regulated industry; and
 - j) the effect on general price inflation over the medium term; and
 - k) any arrangements that a person providing regulated services has entered into for the exercise of its functions by some other person.

Source: ACT Government (1997).

The ICRC is also required to have regard to the terms of reference for the review. Of particular relevance are the following matters the ICRC is required to consider:¹

- 1.d – the policies of the ACT Government as they relate to the supply and use of water and sewerage services, including the *ACT Water Strategy 2014–2044 Striking the Balance*
- 1.e – the National Water Initiative, Murray-Darling Basin Plan commitments and associated policies and agreements
- 2.b – appropriate mechanisms to ensure the recovery of the prudent and efficient costs of Icon Water during the regulatory period, while minimising the potential for significant price fluctuations.

1.2 ICRC information request and issues paper

In the ICRC's information request for the 2018 price review, provided to Icon Water in January 2017, item 1.5.11 requested that Icon Water provide an:

explanation of how proposed prices meet the Commission's objectives as specified in the ICRC Act 1997, including the long term interests of consumers, social and environmental objectives and where applicable, human rights.²

In its issues paper for the 2018 price review, the ICRC set out the approach it intends to take to address its regulatory objectives in determining prices to apply from 1 July 2018. To this end, the ICRC established an assessment framework comprising an overarching objective³ and a set of seven pricing principles, as shown in Table 1-1. The ICRC noted:

The principles reflect the Commission's interpretation of the legislative objectives, government policies and national agreements that prescribe and guide its decisions on water and sewerage prices.⁴

The ICRC also indicated that its approach is to 'pursue economic efficiency, while also giving due consideration to social, environmental and other specific objectives.'⁵

¹ ACT Government, 2016: 1.

² ICRC, 2017a: 7.

³ On 1 July 2016, the ICRC Act was amended to incorporate an overarching objective specific to the making of a price direction, as set out in section 19L. This amendment was the ACT Government's response to the Grant Review's recommendation 'to insert an overarching objects clause into the Act which makes it clear that the primary objective of the regulatory framework is to promote the goal of economic efficiency, while safeguarding the financial viability of the regulated entity' (Grant, 2015: ix).

⁴ ICRC, 2017c: 7.

⁵ ICRC, 2017c: 10.

Table 1-1: ICRC assessment framework

Category		Aspect	Detail
Objective		Overarching	To promote efficient investment in, and efficient operation and use of, regulated services for the long term interests of consumers in relation to the price, quality, safety, reliability and security of the service.
		Interpretation	The various aspects of economic efficiency are given emphasis, but with the ultimate objective being the long term interests of consumers. Economic efficiency when properly defined encompasses environmental objectives. Consumer interests must take account of equity and other social impacts as required by the ICRC Act. Economic efficiency considerations related to pricing are a starting point but need to be balanced with environmental and social considerations.
Pricing principle	1	Economic efficiency in use	Regulated prices should promote the economically efficient use of Icon Water's water and sewerage services infrastructure, and should also encourage economically efficient use of the water resource itself. This includes having regard to uneconomic bypass where water supply is sourced from a higher cost alternative.
	2	Economic efficiency for investment and operation	Regulated prices and supporting regulatory arrangements should facilitate the efficient recovery of the prudent and efficient costs of investment and operation. The finance recovery aspect of this principle is often described as ensuring revenue adequacy or financial viability. Costs also need to be efficient, which is primarily addressed by auditing and incentives.
	3	Environmental considerations	Regulated prices and complementary mechanisms should ensure that environmental objectives are effectively addressed.
	4	Community impact – gradual adjustment	Any change to prices or other regulatory arrangements that will have substantial customer impacts should be phased in over a transition period to allow reasonable time for customers to adjust to the change.
	5	Community impact – fair outcomes for low income households	Adverse impacts on households with low incomes need to be limited or moderated by phasing and other compensating mechanisms or limits on changes to regulated prices or other regulatory arrangements.
	6	Regulatory governance – simplicity	Regulated prices and their form should be simple for customers to understand and straightforward for the utility to implement.
	7	Regulatory governance – transparency	Regulated prices should be set using a transparent methodology and subject to public consultation and scrutiny.

Source: ICRC (2017c).

1.3 Purpose of this attachment

This attachment responds to item 1.5.11 of the ICRC's information request.

For consistency, Icon Water has applied the ICRC's assessment framework to explain how the prices proposed in Icon Water's regulatory proposal for the 2018–23 regulatory period contribute to the objectives set out in the ICRC Act. In so doing, Icon Water's response also takes into consideration the section 20(2) requirements of the ICRC Act and the terms of reference.

In order to utilise the ICRC's approach in this attachment, Icon Water has taken the view that the application of the pricing principles will help achieve the overarching objective. That is, as long as Icon Water's proposed prices are demonstrably consistent with the set of principles, they will contribute to achieving the overarching objective.⁶

The remainder of this attachment explains how Icon Water's proposed prices are consistent with the ICRC's framework for addressing its regulatory objectives.

⁶ This is the approach described in the ICRC's Tariff Review 2016 draft report (ICRC, 2016a: 7).

2 Economic efficiency

2.1 Principle 1: Economic efficiency in use

2.1.1 Introduction

The ICRC notes that the focus of this principle is on setting prices that promote the economically efficient use of Icon Water's network and encourage the efficient use of the water resource – that is cost-reflective prices. In its issues paper, the ICRC notes that:

This principle reflects the fundamental economic proposition that the community as a whole will benefit if the usage component of a tariff is based on the additional social costs that are incurred as a result of using an additional unit of water.⁷

Icon Water's July 2016 submission to the tariff review and the ICRC's tariff review final report highlighted the fact that cost-reflective pricing would result in the best whole-of-community outcome and is therefore an important reference point for community debate about tariff structures.

In its technical paper on marginal cost pricing in the ACT, the ICRC estimated the long-run marginal cost of supplying an additional kilolitre (kL) of water at \$1.74 per kL, well below Icon Water's current Tier 2 price of \$5.38 per kL.⁸ In its final report on the 2016 Tariff Review, the ICRC concluded that the current inclining block water tariff is inefficient and could be improved to meet economic efficiency objectives:

This is because the usage component does not reflect the cost to the community (the marginal social cost) of additional consumption, and because the high reliance on the usage component relative to the fixed component does not facilitate the efficient recovery of revenue for Icon Water's water services.⁹

The ICRC also notes that the high Tier 2 price creates a strong risk of uneconomic bypass where large users may have strong incentives to opt out of the supply of water services by Icon Water.

2.1.2 Icon Water's tariff proposals

Icon Water's proposals for water and sewerage tariffs are detailed in [Attachment 12: Tariff structure](#).

Water

Icon Water is proposing **a measured and gradual change to its water tariff structure** that will carefully adjust the balance between fixed and usage charges over the 2018–23 regulatory period. The proposal:

- retains the inclining block, two tier usage charges with the step at 0.548 kL per day
- increases the fixed charge by \$20 per year to \$200 by 2022–23
- reduces the Tier 2 usage price to \$4.95 per kL in 2018–19 and then keeps it constant in nominal terms over the regulatory period.

⁷ ICRC, 2017c: 10.

⁸ ICRC, 2016b: xv.

⁹ ICRC, 2017b: xx.

This water tariff proposal achieves some economic efficiency benefits, which flow from the reduction in the Tier 2 price, without compromising community impact principles 4 and 5. This is accomplished by the gradual and measured increase in the fixed charge by \$20 per annum.

Table 2-1: Forecast water prices

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23
Supply charge (\$/year)	104.21	120	140	160	180	200
Tier 1 (0-0.548 kL/day) (\$/kL)	2.68	2.73	2.76	2.79	2.81	2.84
Tier 2 (>0.548 kL/day) (\$/kL)	5.38	4.95	4.95	4.95	4.95	4.95

Sewerage

Icon Water proposes to retain the current sewerage tariff structure with its annual supply and fixtures charges. Icon Water’s view is that there would be limited economic efficiency benefits from any reform. This is because, unlike for water, the fixed supply charges in the sewerage tariff is reasonably consistent with the cost structure, in which just seven per cent of the total costs to be recovered in tariffs vary with customer discharge. Moreover, there is no reliable measure of discharge.

Table 2-2: Forecast sewerage prices

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23
Supply charge (\$/year)	537.34	541.84	546.39	550.97	555.59	560.24
Charge for flushing fixtures in excess of two (\$/year), commercial customers only	525.51	529.92	534.36	538.84	543.35	547.91

Icon Water’s preference is to focus pricing reform for sewerage services on the introduction of a trade waste charging regime. A charging regime for liquid trade waste, in contrast, is likely to improve economic efficiency by signalling the costs imposed by trade waste and providing an incentive for customers to undertake pre-treatment where it would reduce overall costs. This may help avoid sewer blockages, premature network degradation (reduced asset lives), sewer collapse and workplace safety risks. To this end, Icon Water is proposing, following more stakeholder consultation, to introduce trade waste charging arrangements during the 2018–23 regulatory period as a new miscellaneous service.

Dealing with uneconomic bypass

Icon Water recognises that its water tariff structure reforms do not eliminate the risk of large users seeking to inefficiently bypass the primary water network to the detriment of all customers. In response, Icon Water proposes that the price direction for the 2018–23 regulatory period provides Icon Water with the flexibility to negotiate pricing agreements with large customers that can demonstrate a credible opportunity for uneconomic bypass. This proposal is detailed in [Attachment 2: Form of regulation](#).

Infrastructure funding

Icon Water is proposing a new capital contributions scheme which will provide a fairer, and more efficient (by providing locational price signals about the incremental costs of providing water and sewerage services) way of funding water and sewerage infrastructure upgrades that are triggered by brownfield developments.

Consistency with ACT Government water policies

While the retention of the two-tier inclining block water tariff structure will continue to discourage discretionary water use above 200 kL per year, marginal efficiency benefits will flow from the minor reduction in the Tier 1 to Tier 2 price ratio. The retention of the inclining block is consistent with the ACT Water Strategy, Action 15 of which is to encourage water users to conserve and use water wisely.¹⁰

2.2 Principle 2: Economic efficiency for investment and operation

2.2.1 Introduction

The ICRC notes that this principle covers two aspects of economic efficiency. The first is the need to provide incentives for investment in long-lived, purpose-specific assets by maintaining a commitment to full recovery of allowed revenues to finance Icon Water's operating and investment costs. The second is ensuring that these costs are prudent and efficient.

The full cost recovery and prudent and efficient cost aspects of economic efficiency are reflected in a number of section 20(2) requirements in the ICRC Act and terms of reference (see Box 2.3). The full cost recovery aspect is also mirrored in paragraph 65 of the National Water Initiative, to which the ACT Government is a signatory.¹¹

2.2.2 Full cost recovery

Icon Water's proposal for an annual unders and overs arrangement as part of the annual price reset process will, in contrast to the current arrangements, ensure the full and timely recovery of Icon Water's allowed revenues. The proposal will also ensure that any revenue over-recovered will be immediately returned to customers and vice versa. Icon Water's form of regulation proposal is detailed in [Attachment 2: Form of regulation](#).

As the denominator in the pricing calculation, demand forecasts over the regulatory period also play a role in the recovery of allowed revenues. Given the current emphasis on usage charges to recover water revenue, realistic water sales forecasts are particularly important. Icon Water's proposed demand forecasting model, adapted from the ICRC's 2015 approach, has been developed using a robust principles-based process. The model:

- is simple, transparent and replicable
- has a sound statistical basis – the model has been subjected to a robust and objective model selection process using the Box-Jenkins approach
- is based on daily dam releases – which allows the use of daily climate data, a much richer data series than available to models relying on monthly water sales data
- is designed to produce multi-year forecasts
- performs well when tested for forecast accuracy in comparison to alternative models.

Icon Water's proposed demand forecasting approach is detailed in [Attachment 4: Demand forecasts](#).

2.2.3 Prudent and efficient costs

Prudence and efficiency is at the core of how Icon Water runs its business and plans its future expenditure. Icon Water's proposed operating (opex) and capital (capex) expenditure programs are developed through a robust expenditure planning approach, supported by sound governance arrangements. Icon Water's proposed return on capital, and rate of return in particular, is based on the 'efficient benchmark entity'.

¹⁰ ACT Government, 2014: 37.

¹¹ COAG, 2004: 13.

Opex and capex

Expenditure planning processes

In order to manage and operate water and sewerage infrastructure as efficiently and effectively as possible, a rigorous asset management system is applied, based on the following key principles:

- integrating capex and opex decisions
- identifying the least cost solution
- prioritising projects by balancing risk against cost
- monitoring project delivery
- sound governance structure.

Integrating capex and opex decisions means that the trade-off between capital investment and operating costs for any particular project is taken into account. This means, for example, that capital works are only undertaken when there is no cost effective operational alternative. At the project identification stage, the focus is on identifying the least cost solution that best deals with the particular problem at hand.

To ensure that investment projects that are really needed to meet service standards are implemented, a project prioritisation process is undertaken that assesses projects in a consistent and systematic manner. Potential projects are assigned a priority score based on their ability to address risks to the network and advance strategic objectives. The priority score is then used to determine which projects are included in the capex program.

A gateway approval process is used to ensure that individual projects and programs are monitored throughout the project lifecycle, so that each adds value to Icon Water's asset base and is delivered in the most efficient manner.

The expenditure and asset management planning processes are underpinned by sound governance arrangements. For more information on Icon Water's expenditure planning processes, see [Attachment 5: Asset management and governance](#).

Forecast opex

Icon Water has developed a forecast opex proposal using the base-step-trend approach to demonstrate efficiency.

Icon Water is proposing a substantial reduction in total opex over the 2018–23 period – a seven per cent real reduction over 5 years, compared to the regulatory allowance in the last year of the 2013–18 regulatory period.

The cost savings are largely due to business restructuring during the 2013–18 period, the full benefit of which will be realised after the completion of a major information and communication technology (ICT) capex project, the Business Transformation Program. These savings are partially offset by expected increases in input prices, particularly electricity, and minor step changes in environmental and economic regulatory costs.

For more information on Icon Water's opex proposal, see [Attachment 7: Operating expenditure](#).

Forecast capex

Icon Water's forecast capex for the 2018–23 period is \$438 million. This comprises \$177 million and \$261 million on water and sewerage assets, respectively. The main focus of the capex program is the renewal of critical infrastructure at the end of its useful life to ensure that customer service levels can be maintained, with about 67 per cent of total capex on renewal projects. Substantial investments in the upgrade and expansion of the network to support growth in the ACT will also be made, accounting for

19 per cent of the program. The remaining 14 per cent of the program spend will be on asset improvement to ensure regulatory obligations are met and to respond to opportunities to generate operating efficiencies.

For more information on the capex proposal see [Attachment 6: Capital expenditure](#).

Return on capital

The reference point used by most Australian regulators in estimating the rate of return is the benchmark efficient entity. This entity reflects a hypothetical efficient firm operating in a competitive environment. The benchmark efficient entity is used by regulators to encourage efficient outcomes consistent with those in a workably competitive market.

Regardless of Icon Water's actual costs, the benchmark efficient entity approach compensates Icon Water for the costs an efficient firm would incur in providing the regulated services. Consistent with the ICRC Act, this provides Icon Water with the incentive to make efficient investment decisions and to seek out operating efficiencies, which are in the long term interests of consumers. The benchmark efficient entity approach is also consistent with section 20(2)(d) and (i) of the ICRC Act.

The benchmark efficient entity approach ensures that Icon Water earns an appropriate rate of return reflecting the costs that it would face were it operating in a competitive environment. This is consistent with the principles of competitive neutrality agreed by COAG and set out in ACT Government Policy. Any advantages or disadvantages associated with public ownership are removed under this approach providing appropriate incentives for efficient investment.

The benchmark efficient entity also meets the borrowing, capital and cash flow requirements of Icon Water to renew or increase water and sewerage assets. Efficient financing costs allow Icon Water to secure the financing required over the long term to renew or increase relevant assets, while also ensuring it is not over-compensated.

For more information on the rate of return see [Attachment 9: Rate of return and forecast inflation](#).

2.3 Summary

Table 2-3 provides a summary of the way in which Icon Water's proposals for the 2018–23 regulatory period address the ICRC's pricing principles 1 and 2.

Table 2-3: Consistency with principles 1 and 2

Principle	Relevant s20(2) requirements	Relevant terms of reference requirements	Icon Water's proposal
<p>1. Economic efficiency in use</p>		<p>1d the policies of the ACT Government as they relate to the supply and use of water and sewerage services, including the ACT Water Strategy</p>	<p>Water tariff proposal will provide some efficiency benefits by reducing the Tier 2 price.</p> <p>Proposal for flexibility to respond to uneconomic bypass of the water network.</p> <p>Proposal to introduce trade waste charging regime during the regulatory period.</p> <p>Retention of two-tier inclining block water tariff consistent with ACT Water Strategy.</p>
<p>2. Economic efficiency for investment and operation</p>	<p>s20(2)(b) standards of quality, reliability and safety of the regulated services</p> <p>s20(2)(c) the need for greater efficiency in the provision of regulated services to reduce costs to consumers and taxpayers</p> <p>s20(2)(d) an appropriate rate of return on any investment in the regulated industry</p> <p>s20(2)(e) the cost of providing the regulated services</p> <p>s20(2)(h) considerations of demand management and least cost planning</p> <p>s20(2)(i) the borrowing, capital and cash flow requirements of people providing regulated services and the need to renew or increase relevant assets in the regulated industry</p>	<p>2b appropriate mechanisms to ensure the recovery of the prudent and efficient costs of Icon Water during the regulatory period, while minimising the potential for significant price fluctuations</p>	<p>Opex and capex forecasts based on rigorous expenditure planning processes with focus on least-cost solutions to meet service levels.</p> <p>Return on capital based on benchmark efficient entity.</p>

3 Environmental

3.1 Principle 3: Environmental considerations

3.1.1 Introduction

The focus of this principle is about how regulated prices and complementary mechanisms ensure that environmental objectives are effectively addressed. The ICRC notes that ‘typically environmental objectives are primarily addressed by specific legislated and government policy requirements.’¹²

3.1.2 Icon Water’s proposal

Icon Water’s price proposal has been informed and refined by extensive customer consultation over the last 18 months. Environmental sustainability is one of the top five customer priorities identified in these consultation processes. Moreover, as a territory-owned corporation, Icon Water is required, where its activities affect the environment, to effectively integrate environmental and economic considerations in decision-making processes.

Icon Water undertakes a range of environmental improvement activities and business practices, all of which are integral to and incorporated in the 2018–23 price proposal, both through the costs they impose and the environmental benefits they generate for the ACT community.

Integration into business practices

Environmental sustainability, applied in an adaptive manner, is central to the way Icon Water’s business is run. For example, Icon Water has a Sustainability Framework with the principles:

- enrich our neighbourhood
- respect resources
- care for tomorrow.

These principles are embedded into and influence decision-making through the Sustainability Scorecard assessment process for all asset management and capital works projects.

Regulatory environmental requirements

Icon Water maintains compliance with all environmental obligations.

Key amongst these is the ACT Government’s environmental flow requirements. Icon Water works closely with the ACT Environment Protection Authority (EPA) to ensure compliance with environmental licensing, authorisations and project approval conditions. For example, Icon Water has strict limits on the salt levels allowed to be discharged into the Lower Molonglo from the ACT’s primary sewage treatment plant.

Icon Water has Environmental Management Plans for all major sites, in accordance with EPA requirements, to avoid and minimise the potential for impacts on the environment.

Icon Water continues to manage the carbon offset plantations and biodiversity offset programs that were established during the construction of the enlarged Cotter Dam and Murrumbidgee to Googong pipeline.

The protection and management of threatened fish in the Cotter Dam is ongoing, through Icon Water’s Fish Management Plan.

¹² ICRC, 2017c: 11.

Water resource planning

Icon Water is a major contributor to water resource planning in the ACT and region. Icon Water is currently involved, along with the ACT Government and surrounding NSW local government in implementing the ACT and Region Catchment Strategy, to drive more holistic and sustainable water resource management outcomes.

Icon Water participates in undertaking actions of the ACT Water Strategy Implementation Plan.

Environmental monitoring

Icon Water also has a comprehensive environmental monitoring program for the Queanbeyan, Cotter and Murrumbidgee Rivers and Burra Creek. These programs are critical in ensuring that current and proposed operations are undertaken in a manner that protects the environmental values of the area.

Icon Water makes reports of environmental flow data and a range of other monitoring programs available to the public.

Land management

Icon Water responsibly manages the land in which it operates including in public spaces, nature reserves and leased land. Icon Water has a Site Management Agreement under the ACT Nature Conservation Act and works closely with the ACT Government land managers.

Annually, Icon Water implements hazard reduction activities at its sites through a Bushfire Operations Plan.

Renewable energy

In 2015, Icon Water developed its Energy Strategy with a focus on improving energy management by embedding energy principles within existing business strategies and plans and implementing projects that deliver energy efficiencies.

The renewable energy project has a focus on solar and hydro-electric power generation. Initiatives to date include the recommissioning of Googong mini hydro, and development of ground mounted solar installations. These and other similar projects planned over the next regulatory period will help Icon Water realise cost savings, energy efficiencies and reduce greenhouse gas emissions.

Outcomes through stakeholder engagement

Icon Water works with catchment groups and other community environmental organisations to ensure the land and waterways in its water supply catchments are protected. This includes funding of Waterwatch to supplement aquatic environmental monitoring programs.

Icon Water continues to engage with the ACT Government on the development of strategies, such as the ACT Waste Management Strategy and the ACT Climate Change Adaptation Strategy.

Water security planning

Icon Water acknowledges that Canberra is at risk from climate change and has taken steps to consider potential climate change impacts in water security planning in particular.

For example, Icon Water's water supply and demand model takes into account the potential impacts of climate uncertainty on water supplies using climate projections produced by the South Eastern Australian Climate Initiative.

These climate change projections have also been utilised in the water demand model that has been developed to forecast water sales volumes for the 2018–23 regulatory period.

3.2 Summary

Table 3-1 provides a summary of the way in which Icon Water’s proposals for the 2018–23 regulatory period address the ICRC’s pricing principle 3.

Table 3-1: Consistency with principle 3

Principle	Relevant s7 requirements	Relevant s20(2) requirements	Icon Water’s proposal
3. Environmental considerations	(b) to facilitate an appropriate balance between efficiency and environmental and social considerations	(f) the principles of ecologically sustainable development	The prudent and efficient costs of applying ecologically sustainable development principles and meeting specific environmental obligations are included in the pricing proposal.

4 Community impact

4.1 Principle 4: Community impact – gradual adjustment

4.1.1 Introduction

According to the ICRC, the focus of pricing principle 4 is on the gradual introduction of any change in tariff structures that will have substantial impacts on customers. In its issues paper, the ICRC notes that an ‘appropriate transition period for any material changes in prices can ease adjustment costs.’¹³

4.1.2 Icon Water’s proposal

The gradual and measured rebalancing of the fixed and usage water charges over the 2018–23 period proposed by Icon Water, as discussed in section 2.1.2, is designed to minimise customer impacts. In concert with the proposed moderate increases in sewerage service prices, a typical residential customer consuming 200 kL of water per year will see an increase in their combined water and sewerage services bill of 2.3 per cent, or \$27 per year in 2018–19, compared to 2017–18. Bills in subsequent years are forecast to increase in line with forecast inflation (see Table 4-1).

Table 4-1: Impact on combined water and sewerage bill of 200 kL water user

	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23
Combined bill (\$ per year)	1,200	1,227	1,257	1,286	1,316	1,346
Change in bill (\$)		27	30	29	30	30
Change in bill (%)		2.3%	2.4%	2.4%	2.3%	2.3%

4.2 Principle 5: Community impact – fair outcomes for low income households

4.2.1 Introduction

The ICRC notes that the focus of pricing principle 5 is on addressing adverse impacts of bill increases on low income households. In its issues paper, the ICRC notes that it is difficult to identify the impacts on low income households, and that many low income households include large families with high water usage.¹⁴

4.2.2 Icon Water’s proposal

In its July 2016 submission to the ICRC’s tariff review, Icon Water noted that an important consideration when assessing the impacts of tariff structure changes is the impact on bills of disadvantaged or low income customers.¹⁵

One group of disadvantaged customers includes those holding pensioner, Healthcare card, or life support concessions (Utilities Concession customers).¹⁶ Figure 4-1 shows the consumption levels for

¹³ ICRC, 2017c: 11.

¹⁴ ICRC, 2017c: 11.

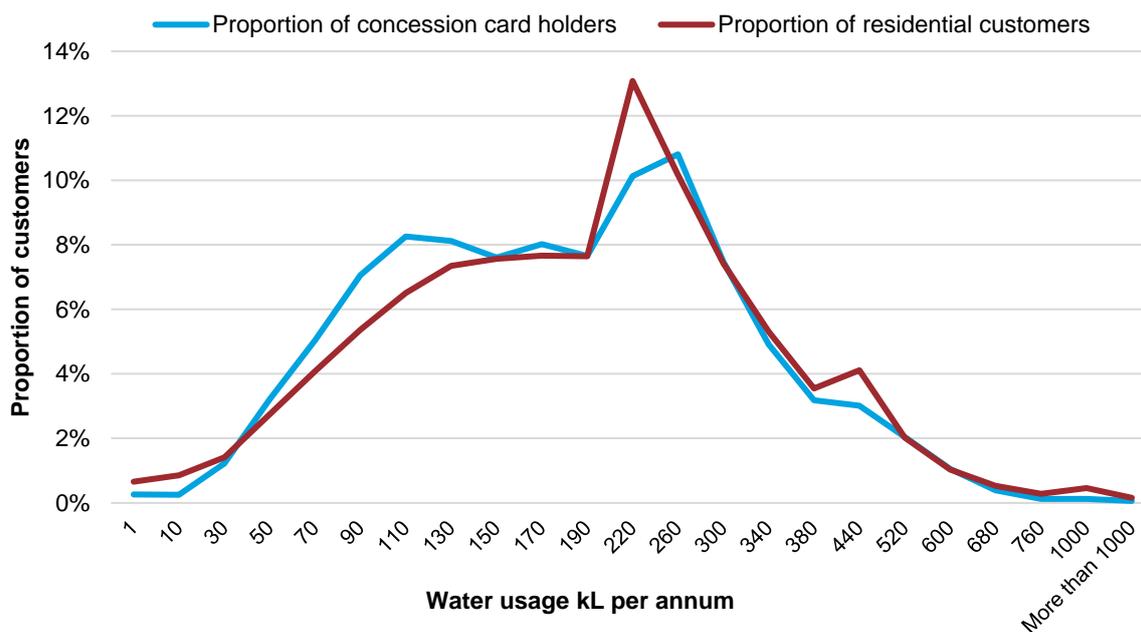
¹⁵ Icon Water, 2016: 10.

¹⁶ Icon Water currently applies a discount to the supply charge for these customers on behalf of the ACT Government. From 1 July 2017, to make concessions accessible to more households, the energy and utility concession and the water and sewerage rebate will be combined into the one Utilities Concession, which will be applied to the applicant’s electricity bill.

these customers in 2013-14, which is considered to be indicative of average weather conditions, in comparison to the total residential customer base. It shows that:

- around 40 per cent of Utilities Concession customers use more than 200 kL per year and pay the Tier 2 water usage price
- there are just as many Utilities Concession customers using more than 200 kL per year as there are using less than 150 kL per year, and
- the distribution of Utilities Concession customers by water use is very similar to that for the total residential customer base.

Figure 4-1: Water consumption by concession card holders, 2013-14



Source: Icon Water analysis.

Given the variation in water usage across Utilities Concession customers, usage levels must be used with caution as a metric for assessing the social impacts of tariff structure changes. A change in tariff structure that reduces bills for small users, but increases bills for customers using more than 200 kL per year may adversely affect more Utilities Concession customers than it benefits.

In light of this, Icon Water’s tariff reform focus has been on minimising impacts across any level of water usage. The modest proposed increase in sewerage prices has mitigated the combined bill impact on low water users of any income level, as sewerage charges comprise a large proportion of the combined bill.

4.3 Summary

Table 4-2 provides a summary of the way in which Icon Water’s proposals for the 2018–23 regulatory period address the ICRC’s pricing principles 4 and 5.

Table 4-2: Consistency with principles 4 and 5

Principle	Relevant s20(2) requirements	Icon Water's proposal
<p>4. Community impact – gradual adjustment</p>	<p>s20(2)(g) the social impacts of the decision</p>	<p>Icon Water is proposing a measured and gradual rebalancing of fixed and usage water charges to minimise community impacts across all levels of water usage.</p>
<p>5. Community impact – fair outcomes for low income households</p>		<p>The modest proposed increase in sewerage prices mitigates impacts on the combined bill of low water users of any income level.</p> <p>Concession card holders will have access the ACT Government's Utilities Concession, which combines the energy and utility concession and the water and sewerage rebate, and which is applied to the applicant's electricity bill.</p>

5 Regulatory governance

5.1 Principle 6: Regulatory governance – simplicity

5.1.1 Introduction

The ICRC notes that the focus of this principle is on ensuring that tariff structures and other regulatory arrangements are readily understood by customers.

5.1.2 Icon Water's proposal

Icon Water's tariff proposal retains the current water (two-part inclining block with the step at 200 kL per year) and sewerage (fixed and fixture charge) tariff structure with which customers are familiar.

Icon Water's proposed form of control and associated mechanisms are common regulatory arrangements. Icon Water has set out the key service performance outcomes that customers can expect over the 2018–23 period.

Icon Water has also developed a web-based customer-facing summary of the pricing proposal (ourpricing.iconwater.com.au). This is intended to explain Icon Water's proposal and the mechanics of the regulatory proposal in simple, non-technical language.

5.2 Principle 7: Regulatory governance – transparency

5.2.1 Introduction

The focus of this principle is on undertaking a transparent regulatory process when determining prices to instil community confidence in the regulatory arrangements.

5.2.2 Icon Water's proposal

With the exception of commercial-in-confidence information (that, for example, would compromise Icon Water's ability to obtain competitive tender prices), Icon Water's proposal provides detailed public information on asset management planning process, historical and forecast opex and capex programs, historical and forecast service performance, form of regulation, revenue building-blocks and tariff structures.

In an effort to improve the transparency of its regulatory proposal and better engage the ACT community, in addition to the customer-facing summary of the proposal noted above, the website contains links to:

- the overview document and 13 detailed attachments
- a public version of the post-tax revenue model used to calculate revenues and proposed prices
- a public version of Icon Water's water volumes demand model and associated data.

5.3 Summary

Table 5-1 provides a summary of the way in which Icon Water's proposals for the 2018–23 regulatory period address the ICRC's regulatory governance principles 6 and 7.

Table 5-1: Consistency with principles 6 and 7

Principle	Icon Water's proposal
6. Regulatory governance – simplicity	Icon Water proposes to maintain the existing water and sewerage tariff structures – with a gradual rebalancing of the components of the water tariff. The web-based customer-facing summary will assist customers to understand the basis of the price proposal.
7. Regulatory governance – transparency	Icon Water's proposal contains all the relevant information and models on which proposed prices are based and is publically available on Icon Water's website.

6 Conclusion

In conclusion, Icon Water’s pricing proposal for the 2018–23 period is consistent with all seven of the pricing principles the ICRC has established to guide its price determination decisions. As such, it will help achieve the ICRC’s overarching efficiency objective set out in section 19L of the ICRC Act.

Table 6-1 summarises how Icon Water’s pricing proposal for the 2018–23 regulatory period contributes to the achievement of the overarching efficiency objective. Icon Water’s proposal strikes an appropriate balance between the efficiency objective (including environmental considerations) and social considerations.

Table 6-1: Consistency with the ICRC’s overarching efficiency objective

Objective	Requirement	Icon Water’s proposal
Overarching s19L objective	The objective of the commission, when making a price direction in a regulated industry, is to promote the efficient investment in, and efficient operation and use of regulated services for the long term interests of consumers in relation to the price, quality, safety, reliability and security of the service.	<p>Icon Water’s proposal promotes efficient investment in regulated services for the long term interests of consumers by:</p> <ul style="list-style-type: none"> allowing full recovery of the prudent and efficient costs of meeting quality, safety, reliability and security standards reducing water mains renewal expenditure in order to strike a more efficient balance between price and reliability. <p>Icon Water’s proposal promotes efficient operation of regulated services for the long term interests of consumers by:</p> <ul style="list-style-type: none"> providing incentives for reducing operating costs over time, with no within-period adjustments for variation in controllable operating costs setting a challenging operating expenditure forecast that will pass benefits on to customers during the 2018–23 period <p>Icon Water’s proposal promotes efficient use of regulated services for the long-term interests of consumers by:</p> <ul style="list-style-type: none"> reducing the Tier 2 water usage price towards estimates of marginal cost to the extent possible without causing material real increases in residential customer bills allowing negotiated pricing agreements where needed to avoid uneconomic bypass allowing for the introduction of a liquid trade waste charging regime during the 2018–23 period, which will reduce overall environmental impacts and treatment costs to the community over time.

Abbreviations and acronyms

ACT	Australian Capital Territory
COAG	Council of Australian Governments
EPA	Environment Protection Authority
ICRC	Independent Competition and Regulatory Commission
ICT	Information and Communication Technology
kL	kilolitre (one thousand litres)

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