



# ICRC

independent competition and regulatory commission

Price Direction  
**Regulated Water and  
Sewerage Services**

1 July 2013 to 30 June 2019

Report 6 of 2013, June 2013



The Independent Competition and Regulatory Commission (the Commission) was established by the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act) to determine prices for regulated industries, advise government about industry matters, advise on access to infrastructure, and determine access disputes. The Commission also has responsibilities under the ICRC Act for determining competitive neutrality complaints and providing advice about other government-regulated activities. Under the *Utilities Act 2000*, the Commission has responsibility for licensing utility services and ensuring compliance with licence conditions.

Correspondence or other inquiries may be directed to the Commission at the addresses below:

Independent Competition and Regulatory Commission  
PO Box 161  
Civic Square ACT 2608

Level 8  
221 London Circuit  
Canberra ACT 2601

We may be contacted at the above addresses, by telephone on (02) 6205 0799, or by fax on (02) 6207 5887. The Commission's website is at [www.icrc.act.gov.au](http://www.icrc.act.gov.au) and its email address is [icrc@act.gov.au](mailto:icrc@act.gov.au).



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# Part A Preliminary

## 1 Price Direction

This Price Direction is made in accordance with part 4 of the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act) and the terms of reference issued by the referring authority for an investigation into, and the making of, a Price Direction for the regulated water and sewerage services provided by ACTEW Corporation (ACTEW).<sup>1</sup> Pursuant to clause 2 of the terms of reference, the Commission has provided a final report on the investigation to the ACT Treasurer in accordance with part 4A of the ICRC Act.<sup>2</sup> The final report forms the basis for the Commission's decisions as outlined in this Price Direction. In the event of any inconsistency between the final report and the Price Direction, the Price Direction prevails.

This Price Direction establishes through prices, formulae and methods the maximum price for water, sewerage and miscellaneous services provided by ACTEW in the ACT for the regulatory period stipulated below in clause 2.

The Price Direction consists of:

Parts A through D, the clauses and subclauses in those parts, the tables in those parts, and two attachments.

The parts are set out as follows:

- Part A – Preliminary
- Part B – Regulated services and prices
- Part C – Regulatory method
- Part D – Legislative provisions.

Part A sets out the preliminary information to the Price Direction.

Part B sets out the regulated services and associated mechanisms for the pricing of those regulated services. It then outlines the prices for ACTEW's water and sewerage services for 2013–14, and also outlines the formulae and methods by which a maximum price is to be ascertained for the years 2014–15 to 2018–19.

Part C sets out the regulatory method used to ascertain maximum prices for ACTEW's water and sewerage services for the years 2014–15 to 2018–19. The regulatory method includes provision for pass-throughs, CPI adjustments and two biennial recalibrations during the regulatory period.

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<sup>1</sup> Terms of reference: DI2011–287, DI2013–35 and DI2013–134.

<sup>2</sup> ICRC (2013) *Final Report: Regulated Water and Sewerage Services*, Report 5 of 2013.

Part D sets out the reset principles and trigger mechanisms for variation of the Price Direction.

## 2 The regulatory period

This Price Direction determines, within the meaning of the ICRC Act, maximum prices for the period 1 July 2013 to 30 June 2019.

## 3 Section 20(2) of the ICRC Act

Under section 20(4) of the ICRC Act, the Commission is required to indicate in the Price Direction the extent to which it has had regard to the matters referred to in section 20(2) of the ICRC Act. Attachment 1 of this Price Direction is set out in accordance with section 20(4) of the ICRC Act. The table in Attachment 1 indicates the extent to which the Commission has had regard to the matters referred to in section 20(2).

## 4 Notes

### *Maximum price*

The term *maximum price* refers to the highest price which ACTEW may charge. ACTEW may charge less than the specified maximum price.

### *Monetary values*

All monetary values in the Price Direction are in Australian dollars.

### *Business days*

Business days are all days other than Saturday, Sunday and ACT public holidays.

Dates outlined in the Price Direction that require a specified action (for example, ACTEW providing information to the Commission on 30 November) that fall on a non-business day will be deemed to fall on the first business day following the non-business day.

### *Reference to years*

Unless otherwise stated, a reference to a year in the form *2013–14* (as an example) means the financial year from 1 July to 30 June. A reference to a two-year period (or greater) such as *2015–17* means for the period 1 July 2015 to 30 June 2017, and so on.

## Part B Regulated services and prices

### 5 Regulated services

The following services are regulated by the Commission. Methods for ascertaining the maximum prices for these services are set out in this Part and in Part C.

Regulated services include:

- (a) the provision of water services by ACTEW (including the availability of supply) to residential, commercial and industrial premises;
- (b) the provision of sewerage services by ACTEW (including the availability of supply) to residential, commercial and industrial premises; and
- (c) miscellaneous services provided by ACTEW:
  - (i) special meter readings
  - (ii) testing of water meters
  - (iii) the provision of rate certificates
  - (iv) tapping into water mains
  - (v) installation of fire hydrants
  - (vi) disconnection
  - (vii) installation and removal of stop valve locking cover
  - (viii) meter relocation.

### 6 Pricing for regulated water and sewerage services

In accordance with section 20A of the ICRC Act, the Commission determines the pricing for regulated water and sewerage services in the form of a maximum price for the regulatory period 1 July 2013 to 30 June 2019.

The maximum prices for water and sewerage services for 2013–14 are set out in Table 6.1 and Table 6.2, respectively. For 2014–15, 2016–17 and 2018–19, the maximum price will be calculated as per the CPI adjustment set out in clause 6.1 in accordance with the method set out in clause 9 and its subclauses. For 2015–16 and 2017–18, the maximum price will be ascertained by the method set out in clause 10 and its subclauses.

## 6.1 Water services

Table 6.1 sets out a maximum price, formula and method that will apply for the pricing of regulated water services for the regulatory period 1 July 2013 to 30 June 2019. The maximum prices in Table 6.1 may also be subject to a pass-through event set out under clause 8 and its subclauses.

Table 6.1 Commission’s direction on water prices, 1 July 2013 to 30 June 2019 (\$, current prices)

	2013–14 maximum price	2014–15 formula	2015–16 method	2016–17 formula	2017–18 method	2018–19 formula
Fixed charge (\$/pa)	100.00	CPI adjusted	Biennial recalibration	CPI adjusted	Biennial recalibration	CPI adjusted
Tier 1 volumetric charge (\$/kL) (0–548 litres/day)	2.55	CPI adjusted	Biennial recalibration	CPI adjusted	Biennial recalibration	CPI adjusted
Tier 2 (\$/kL) (above 548 litres/day)	5.10	CPI adjusted	Biennial recalibration	CPI adjusted	Biennial recalibration	CPI adjusted

CPI adjusted for price  $p$  in year  $t$  means:

$$p_t = p_{t-1} \times \left( \frac{CPI_{June(t-2)} + CPI_{Sept(t-1)} + CPI_{Dec(t-1)} + CPI_{March(t-1)}}{CPI_{June(t-3)} + CPI_{Sept(t-2)} + CPI_{Dec(t-2)} + CPI_{March(t-2)}} \right)$$

where  $t$  can take on the value of 2014–15, 2016–17 or 2018–19 for the relevant year of the adjustment in Table 6.1. *CPI* means the All Groups consumer price index as published by the Australian Bureau of Statistics. Where the Australian Bureau of Statistics does not or ceases to publish the index, then *CPI* will mean the Commission’s estimate of the level of consumer prices. The *CPI* adjustment to the price is made as per the method set out in clause 9 and its subclauses.

And where:

*Biennial recalibration* refers to the method by which a maximum price is to be ascertained for the years 2015–16 and 2017–18. The biennial recalibration method is set out in clause 10 and its subclauses.

## 6.2 Sewerage services

Table 6.2 sets out a maximum price, formula and method that will apply for the pricing of regulated sewerage services for the regulatory period 1 July 2013 to 30 June 2019. The maximum prices in Table 6.2 may also be subject to a pass-through event set out under clause 8 and its subclauses.

Table 6.2 Commission's direction on sewerage services prices, 1 July 2013 to 30 June 2019 (\$, current prices)

	2013–14 maximum price	2014–15 formula	2015–16 method	2016–17 formula	2017–18 method	2018–19 formula
Supply charge (\$/a)	492.02	CPI adjusted	Biennial recalibration	CPI adjusted	Biennial recalibration	CPI adjusted
Fixture charge <sup>a</sup> non-residential customers (\$/a)	481.18	CPI adjusted	Biennial recalibration	CPI adjusted	Biennial recalibration	CPI adjusted

<sup>a</sup> For every additional flushing fixture greater than two.

Note: *CPI adjusted* and *biennial recalibration* are defined in clause 6.1.

## 7 Pricing for miscellaneous services

The price to be charged for each miscellaneous service in each year of the regulatory period, including 2013–14, is to be calculated according to the CPI adjustment formula given in clause 6.1, where  $t$  is the relevant year in the regulatory period, and rounded to the nearest dollar for the GST inclusive price. The adjustment for CPI will be made in accordance with the method set out in clause 9 and its subclauses relating to miscellaneous services.

### 7.1 New miscellaneous services

Should ACTEW wish to introduce a new miscellaneous service during the regulatory period, ACTEW must make an application to the Commission and provide the following information:

- (a) a description of the new miscellaneous service;
- (b) the reasons for the introduction of the new miscellaneous service;
- (c) the terms and conditions which will apply to the provision of the new miscellaneous service;
- (d) the direct efficient costs of providing the new miscellaneous service;
- (e) a forecast of the annual volume of sales of the new miscellaneous service; and
- (f) the proposed price for the new miscellaneous service for the first year it is in place.

### 7.2 Submission by ACTEW

The Commission will consider any submission relating to the miscellaneous service from ACTEW and have regard to:

- (a) whether the expenditure or revenue associated with the miscellaneous service has already been taken into account in specifying the price to apply under this determination;

- (b) whether the proposed price recovers the efficient cost of providing the service;  
and
- (c) any other relevant matter.

### **7.3 Commission may request further information**

The Commission may request that ACTEW provide any additional information specified by the Commission.

The Commission may request information from parties other than ACTEW.

### **7.4 Notification of decision**

The Commission will notify ACTEW of its decision whether or not to approve the proposed price submitted for the new miscellaneous service, together with details of the timing of the introduction of the price for the new miscellaneous service and any terms and conditions which will apply to its introduction or provision.

## Part C Regulatory method

### 8 Pass-through events

#### 8.1 Events

The Commission will include the following pass-through events in the price for regulated services outlined in clauses 6.1 and 6.2.

A pass-through event is one of the following:

- (a) a change in the water abstraction charge (clause 8.2);
- (b) a change in the utilities network facilities tax (clause 8.3); or
- (c) a change in the Commonwealth subvention payment (clause 8.4).

##### 8.1.1 Inclusion of pass-through events in the price

Inclusion of pass-through events under clause 8.1 will occur annually in either the CPI adjustment (clause 9) or biennial recalibration (clause 10).

The Commission may decide that a pass-through event is a single instance and takes effect for one year, or that it takes effect for more than one year.

The Commission:

- (a) may seek information from ACTEW in relation to the pass-through event; and
- (b) will notify ACTEW in writing of the pass-through amount and the reason for the Commission's decision.

##### 8.1.2 Pass-through may result in a positive or negative impact on the price

To avoid all doubt, a pass-through may have a positive or negative impact on the price.

#### 8.2 Pass-through: Change in the water abstraction charge

A change in the water abstraction charge occurs where for a particular year the charge which ACTEW pays differs from that paid in the previous year.

### **8.3 Pass-through: Change in the utilities network facilities tax**

A change in the utilities network facilities tax occurs where for a particular year the tax paid by ACTEW differs from that paid in the previous year.

### **8.4 Pass-through: Change in the Commonwealth subvention payment**

This clause refers to the subvention payment made by the Commonwealth to ACTEW. As the subvention payment is made through the ACT Government, the statement and conditions in this clause refer to the ACT Government as making the payment.

A change in the subvention payment occurs where for a particular year the subvention payment from the ACT Government differs from the budget forecast amount set out in the ACT budget paper.

No change in the subvention payment will be deemed to have occurred if:

- (a) ACTEW receives a payment from the ACT Government that explicitly or implicitly replaces the subvention payment (or the change in the subvention payment); or
- (b) the change in the subvention payment differs by \$1 million (in 2012–13 price terms) or less.

## **9 CPI adjustment**

This clause and its subclauses set out the method by which a maximum price for water and sewerage and miscellaneous services is to be adjusted for the regulatory period. The CPI formula for adjusting the maximum price is outlined in clause 6.1.

### **9.1 Adjustment for 2013–14, 2015–16 and 2017–18**

The Commission will adjust the charges for miscellaneous services for the years 2013–14, 2015–16 and 2017–18 of the regulatory period as follows:

- (a) For the regulatory year 2013–14, the Commission will provide ACTEW with the adjusted prices for miscellaneous services on or before 27 June 2013. The Commission may seek information from ACTEW.
- (b) For the regulatory years 2015–16 and 2017–18, the Commission will provide ACTEW with the adjusted prices for miscellaneous services on or before 11 June in the years 2015 and 2017, respectively. The Commission may seek information from ACTEW and provide the updated charges as part of the biennial recalibration process occurring in those years.

In providing the adjusted prices under clauses 9.1(a) and (b), the Commission will set out its calculation of CPI. ACTEW will amend its standard customer contract to take account of the prices as adjusted by the Commission in clauses 9.1(a) and (b).

## 9.2 Adjustment for 2014–15, 2016–17 and 2018–19

On or before 11 June in the years 2014, 2016 and 2018, the Commission will release, for the upcoming regulatory year, a statement outlining:

- (a) the adjusted price for water and sewerage services as per clauses 6.1 and 6.2;
- (b) the adjusted prices for miscellaneous services as per clause 7; and
- (c) the calculation of CPI as applied in clauses 9.2(a) and (b).

ACTEW will amend its standard customer contract to take account of the prices as set out in the Commission’s statement.

# 10 Biennial recalibration

## 10.1 The biennial recalibration process

As per the method set out in this clause and its subclauses, the Commission will make two biennial recalibrations as set out in Table 10.1 to ascertain the maximum price for the two regulatory years 2015–16 and 2017–18.

Table 10.1 Biennial recalibration

	Assessment process	Period price is set	CPI adjusted price
First biennial recalibration	1 November 2014 to 11 June 2015	1 July 2015 to 30 June 2016	1 July 2016 to 30 June 2017
Second biennial recalibration	1 November 2016 to 11 June 2017	1 July 2017 to 30 June 2018	1 July 2018 to 30 June 2019

### 10.1.1 Timeline

Table 10.2 sets out the timeline of the method for the two biennial recalibrations. The Commission may adjust the date or dates set out in the timeline in Table 10.2 if, in the opinion of the Commission, the adjustment of the date or dates is in the public interest.

Table 10.2 Method for the biennial recalibrations

Event	Clause	Biennial recalibration 2015–16	Biennial recalibration 2017–18
Commission provides ACTEW with information request template	10.2	1 November 2014	1 November 2016
ACTEW provides completed return to the Commission	10.3	30 November 2014	30 November 2016
Commission places all information received from ACTEW on the Commission's website	10.4	7 December 2014	7 December 2016
Commission issues draft report and draft price update issued	10.6	1 April 2015	1 April 2017
Commission receives submissions from interested parties	10.7	5 May 2015	5 May 2017
Commission issues final report and sets final prices	10.8	11 June 2015	11 June 2017
Prices take effect		1 July 2015	1 July 2017

Note: Statements in clauses 10.2 to 10.8 (and subclauses) referencing a particular date outlined in Table 10.2 must be read in conjunction with the specific clause and time period (specific date) referenced in the table.

## 10.2 Information request

The Commission will provide ACTEW with an information request on the date specified in Table 10.2.

The Commission will determine the form or forms on which the completed information is to be returned (information return) to the Commission by ACTEW.

### 10.2.1 Information to be provided by ACTEW

ACTEW will provide information relating to its capital expenditure, operating expenditure, customer numbers and volumes for the actual/historical, estimated and forecast periods set out in Table 10.3.

The information categories mentioned in the above paragraph are general categories. The Commission may be more specific about the information required within those categories when sending the information request to ACTEW.

Table 10.3 Time periods for which information will be requested under clause 10.2

Biennial recalibration	Actual/historical	Estimated	Forecast
2015–16	2012–13 to 2013–14	2014–15	2015–16 to 2020–21
2017–18	2014–15 to 2015–16	2016–17	2017–18 to 2022–23

### **10.2.2 ACTEW to provide a statement of changes**

In addition to the information provided under clause 10.2, ACTEW must provide a statement outlining:

- (a) an account of any numbers (for the categories in the information return) that have varied from what was previously provided to the Commission;
- (b) the reasons for any changes that may have occurred under clause 10.2.2(a);
- (c) the basis for any changes to estimated and forecast numbers (for the periods set out in Table 10.3); and
- (d) the basis for any forecast being provided for the first time.

### **10.2.3 ACTEW Board to provide a statement**

The information provided by ACTEW under clauses 10.2.1 and 10.2.2 must include a statement by the ACTEW Board acknowledging and endorsing the information and the accuracy of the information provided to the Commission in satisfying clauses 10.2.1 and 10.2.2.

### **10.2.4 Further information**

The Commission may request further information from ACTEW beyond that mentioned in clause 10.2. If further information is requested by the Commission under this clause, the request may be made before or after the completed information return has been provided by ACTEW as per clause 10.3.

## **10.3 Completed information return**

ACTEW must provide the completed information return to the Commission on or before the date set out in Table 10.2 in the relevant biennial recalibration process.

The completed information return will be in the form or forms outlined in the information request provided by the Commission under clause 10.2.

### **10.3.1 Completed information return does not comply**

If the completed information return does not comply with the information requested in clause 10.2, the Commission will notify ACTEW that the information is non-compliant.

The Commission at its discretion may seek additional information relevant to the biennial recalibration from ACTEW. Where the Commission seeks additional information from ACTEW, ACTEW must submit the additional information to the Commission by the date specified by the Commission. Failure by ACTEW to submit

such information will constitute non-compliance with this clause and this Price Direction.

#### **10.4 Information will be placed on the public record**

The Commission will place ACTEW's completed information return on the Commission's website, subject to the Commission's functions under part 7 of the ICRC Act.

The information will be placed on the website on the date specified in Table 10.2, or within five business days of when the information is received by the Commission if the receipt date is later than the date in Table 10.2.

#### **10.5 Pricing model**

Attachment 2 of the Price Direction contains details for accessing a copy of the pricing model that the Commission will apply when ascertaining the draft maximum price in clause 10.6 and final maximum price in clause 10.8.

#### **10.6 Draft report and price**

The Commission will release a draft report, providing the draft maximum prices ascertained, on the date set out in Table 10.2.

#### **10.7 Submissions from interested parties**

In ascertaining final maximum prices under clause 10.8, the Commission will consider written submissions that are received by the date set out in Table 10.2. The Commission will only consider submissions that are received by that date.

#### **10.8 Final report and price**

The Commission will release a final report, providing the final maximum prices ascertained, on the date set out in Table 10.2.

## Part D Legislative provisions

Nothing in this Part D limits the provisions of the ICRC Act.

### 11 Price Direction variation trigger events

Pursuant to sections 20A(3)(c) and 24F(2) of the ICRC Act, the following events are price variation trigger events, the occurrence of which allows the Commission to initiate a reference for the variation of the Price Direction:

- (a) an act of terrorism;
- (b) a major natural disaster;
- (c) major damage to ACTEW's infrastructure;
- (d) a significant change to ACTEW's financial or corporate structure;
- (e) an unforeseen or *force majeure* event that severely restricts ACTEW's ability to provide services; or
- (f) a decision by the Commission under clause 12(b) that the tariff structure must be amended during the regulatory period set out in clause 2.

### 12 Reset principles

Pursuant to section 20B of the ICRC Act, the future reset principles are as follows:

- (a) The Commission will seek a reference from the relevant minister regarding services covered by this Price Direction 18 months prior to the expiry of the regulatory period set out in clause 2 of this Price Direction.
- (b) During the regulatory period set out in clause 2, the Commission must conduct a review of the tariff structures for the regulated water and sewerage services of ACTEW. At the conclusion of the review, the Commission must set out in a report its decision on whether amendments should be made to the tariff structures in place. The Commission may recommend that amendments either be made during the regulatory period set out in clause 2 or be considered as part of the investigation for the next regulatory period beginning 1 July 2019. The Commission may also recommend that no changes be made to the tariff structure in place. As part of the review, the Commission must call for submissions from interested parties and post its final report and decision on the Commission's website.
- (c) The ACTEW Board must endorse the accuracy of ACTEW's main submission to the investigation into water and sewerage service prices for the next regulatory period.

- (d) If, as of 30 June 2019, a new Price Direction for the regulated services of ACTEW is not set to take effect from 1 July 2019, then the prices as of 30 June 2019 will remain in place from 1 July 2019 onwards until a new Price Direction is made by the Commission. To avoid all doubt, apart from providing for interim prices from 1 July 2019 in the event no prices are set, this clause does not limit the functions and decisions of the Commission under the ICRC Act as to the applicable regulatory model and prices which take effect from 1 July 2019.

# Attachment 1 Compliance with section 20(2)

## Compliance with section 20(2) of the ICRC Act

Section 20(2)	Requirement	Final report chapter	Focus
(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	6	Prudence and efficiency assessment of current period capital expenditure
		8	Forecast prudent and efficient operating expenditure
		9	Forecast prudent and efficient capital expenditure
		12	Water and sewerage tariffs
		13	Bill impacts
(b)	Standards of quality, reliability and safety of the regulated services	8	Forecast prudent and efficient operating expenditure allowance
		9	Forecast prudent and efficient capital expenditure allowance
(c)	The need for greater efficiency in the provision of regulated services to reduce costs to consumers and taxpayers	6	Prudence and efficiency assessment of current period capital expenditure
		8	Forecast prudent and efficient operating expenditure
		9	<ul style="list-style-type: none"> <li>Capital and operating expenditure planning practices</li> <li>Forecast prudent and efficient capital expenditure</li> </ul>
(d)	An appropriate rate of return on any investment in the regulated industry	4	<ul style="list-style-type: none"> <li>Cost of capital</li> <li>Determination of return on equity</li> </ul>
		13	Impact on the ACT Government
(e)	The cost of providing the regulated services	8	<ul style="list-style-type: none"> <li>Costs related to operating expenditure</li> </ul>
		6 & 9	<ul style="list-style-type: none"> <li>Costs related to capital expenditure</li> </ul>
(f)	The principles of ecologically sustainable development	2	<ul style="list-style-type: none"> <li>Consideration of the ambiguity surrounding the environmentally sustainable development objective under the TOC Act</li> </ul>
		6	<ul style="list-style-type: none"> <li>Consideration of greenhouse gas abatement strategies for water security projects</li> </ul>
(g)	The social impacts of the decision	5 & 10	<ul style="list-style-type: none"> <li>FCR scheme for ECD and M2G</li> <li>Extended ECD asset life</li> </ul>
		11	Uriarra sewerage plant social impacts
		12	Water and sewerage tariff structures

Section 20(2)	Requirement	Final report chapter	Focus
		13	Bill impacts on ACT community
(h)	Considerations of demand management and least-cost planning	7	Demand forecasting
		9	Capital and operating expenditure planning practices
(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	4	Cost of capital including cost of debt
		8	Forecast prudent and efficient operating expenditure
		9	Forecast prudent and efficient capital expenditure
		11	Revenue requirement
(j)	The effect on general price inflation over the medium term	12	Water and sewerage tariffs
(k)	Any arrangements that a person providing regulated services has entered into for the exercise of its functions by some other person	6 & 8	Cessation of the Utilities Management Agreement

## Attachment 2 Pricing model

A copy of the pricing model the Commission will apply, when ascertaining the draft and final prices in clause 10 and its subclauses, is available on the Commission's website at [www.icrc.act.gov.au](http://www.icrc.act.gov.au).

Alternatively, the Commission may be contacted at the details on page i for a copy of the pricing model.

## Abbreviations and acronyms

ACT	Australian Capital Territory
Commission	Independent Competition and Regulatory Commission
CPI	consumer price index
ECD	Enlarged Cotter Dam
FCR scheme	fair cost recovery scheme
ICRC	Independent Competition and Regulatory Commission
ICRC Act	<i>Independent Competition and Regulatory Commission Act 1997 (ACT)</i>
M2G	Murrumbidgee to Googong pipeline
TOC Act	<i>Territory-owned Corporations Act 1990 (ACT)</i>