



ICRC

independent competition and regulatory commission

Statement

COMMISSION'S APPROACH TO COMMISSION-INITIATED PASS-THROUGH EVENTS FOR ICON WATER'S REGULATED WATER AND SEWERAGE SERVICES

The *Substituted Price Direction for Regulated Water and Sewerage Services 1 July 2013 to 30 June 2018* (the price direction) requires the Commission to undertake an annual price adjustment process to determine the maximum price Icon Water can charge for its regulated water, sewerage and miscellaneous services in 2015–16, 2016–17 and 2017–18.

The price direction essentially requires that prices be adjusted for two things. The first is for inflation (clause 9.1), which is the change in the consumer price index (CPI). The second is to incorporate the effect of any approved pass-through events on Icon Water's costs in prices in the following year (clause 8.9).

The inflation adjustment is a straightforward exercise that involves adjusting the current price by the change in the CPI to get the new price for the following year (clause 6.1 and clause 7).¹ The Commission will undertake the necessary calculations and then notify Icon Water of the CPI adjusted maximum prices by 1 June for each of the three years as required by the price direction.

The process for adjusting prices for pass-through events is complex and less clearly articulated in the price direction (Part C). The price direction allows for a number of pass-through events, three of which are almost certain to be triggered every year. These are events associated with the ACT Government's water abstraction charge (WAC) and utilities network facilities tax (UNFT) and Commonwealth subvention payment events.

The price direction also allows pass-through event amounts to be considered prospectively and retrospectively. This has the potential to result in administratively complex and resource intensive adjustment processes. For example, in the case of WAC events, the following three separate price adjustments for the actual WAC amount that Icon Water is liable to pay the ACT Government in any one year would be allowed under the price direction:

¹ For 2015–16, in addition to the CPI adjustment, the price direction requires water and sewerage service prices to be adjusted by -3.4 per cent and 1.4 per cent, respectively.

- first, on a change in the WAC rate being notified by government, the price adjustment would prospectively cover the effects of the change in the year it takes effect;
- second, a price adjustment at the end of the first year on the basis of an estimate of the volumes the WAC actually applied to; and
- third, a price adjustment one year later on the basis of the actual volumes the WAC applied to.

To minimise administrative complexity and cost, the Commission will only exercise its discretion under clause 9.5 of the price direction to initiate a price adjustment for a particular pass-through event when all of the costs associated with the event are known, unless it is reasonably clear that not initiating a prospective pass through will have a continuing² and materially³ detrimental effect on Icon Water or its customers.

This principle is intended to limit occasions where the Commission makes a prospective price adjustment in one direction based on an estimate of costs and then the following year makes an adjustment in the opposite direction when actual costs are known.

The Commission has consulted Icon Water Ltd in the development of this statement.

² Continuing in this regard means that the effect of the pass-through will continue in future years in the same direction, either adding costs (requiring a positive pass-through and price adjustment) or reducing costs (requiring a negative pass-through and price adjustment).

³ The Commission will apply a materiality threshold of \$2 million per year.