

Submission

The commission has the following objectives in relation to regulated industries, access regimes, competitive neutrality complaints and government-regulated activity:

(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.

from the Independent Competition and Regulatory Commission Act 1997

In this submission, we argue that the increase in Capital Contribution, or Water Levy, proposed by ICON Water in the document dated 31st March is not competitive, is inefficient, has no redeeming environmental and social considerations, and is discriminatory. We recommend that the proposed changes to the Capital Contributions code not be allowed and we suggest an alternative that is competitive, is economically efficient, socially just and non-discriminatory.

Further, we will argue that all existing Capital Contributions be phased out and replaced with the suggested alternative.

The Water Levy

In its submission ICON Water justifies its position by precedence. It says

Water and Sewerage Capital Contributions schemes (WSSC) are common across utility services in Australia and are also known as a 'developer contribution', or 'developer charge'. Most other water utilities, as well as electricity and gas utilities, have some form of scheme to help fund infrastructure upgrades, and introducing a scheme in the ACT would bring it into alignment with other jurisdictions.

ICON Water justifies the charge because others are doing it not because it is the most economically efficient way to raise funds for infrastructure expansion.

In the ACT the current developer contribution charges are for work done by the developer. The developer does the work and gifts the infrastructure to ICON Water. It has competitive merit as the developer has a market incentive to keep costs down. As the developer has no control over the proposed extensions to the code covered by this Water Levy, the competition argument does not apply.

The proposed Water Levy is economically inefficient. The Levy applies to developers who have to raise money. In turn, the developers charge their customers who have to obtain loans. Both developers and their customers pay higher interest on loans than ICON Water, and instead of one capital raise, there are two. The difference in cost is substantial.

The Water Levy has a negative environmental and social impact. Economically it is like a Stamp Duty on new development. On the one hand, the government is attempting to phase out Stamp Duty to decrease the cost of transfers of a property while the Water Levy increases the cost of development and property and so increases the cost of transfers to new developments.

The Water Levy is discriminatory as it is a charge on new customers and is not a charge on existing customers. If there is to be a Water Levy, to be non-discriminatory, it should be an across the board Levy and apply to all ICON Water customers.

An Economically Efficient Alternative

The lowest cost alternative is for ICON Water to obtain the lowest cost loan to pay for the infrastructure. The lowest cost loan is for ICON Water to ask some or all customers to pre-pay for water. Pre-payments are the lowest cost because ICON Water saves the cost of interest. ICON Water encourages pre-payments by offering a substantial discount. Discounts on pre-payments is a conventional commercial competitive practice. ICON Water controls the number of pre-payments and specifies when the pre-payments will apply.

ICON Water also controls who receives the right to purchase pre-payments. ICON Water can offer the rights to those who consume less water on a per head basis. A high discount reduces the total cost of water of low consumers of water who with connection fees pay a high price for each kilolitre of water. This is socially desirable as it encourages water conservation. It could also replace the inefficient cost of new properties having to have local water storage.

If ICON Water was in a competitive market there would be no capital contribution of any kind. Suppliers want ongoing sales and want to remove access costs. Supermarkets do not charge people to enter their stores. Petrol stations do not charge an entrance fee. Organisations do charge membership fees but members expect discounts on goods and services. Phone companies include a phone if customers sign up for ongoing services.

ICON Water charges for connections and is gifted the connection. If we applied this principle to roads the developers of a suburb pay for the roads and the buyers of properties in the suburb pay an access charge to enter the suburb as well as rates and taxes to maintain the roads. Double charging for the same service is costly, inefficient and unethical. The proposed alternative of pre-payments as an investment overcomes double charging.

It is recommended that the ICRC ask ICON Water to phase out Capital Contributions and replace with customer pre-payments. It is recommended that the ICRC ask ICON Water start the process with a small trial of replacing the proposed Water Levy with pre-payments with discounts. Doing this will make the ACT economy more competitive by reducing the cost of new homes in the same way that removing Stamp Duty makes the ACT more competitive.

The approach suggested is economically efficient, can be socially equitable, can be implemented for no cost to ICON Water or the government and will improve the relationship between the citizens of the ACT and ICON Water. Instead of another Water Levy ICON Water will offer residents an investment opportunity all at no cost to ICON Water or the government.

Signed

Mark Spain Chairperson

Kevin Cox Secretary

ACT Water Rewards Co-op