



Proposed statement of reasons

1. Legislative requirement

This proposed statement of reasons (statement) is set out under section 18(5)(b) of the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act or the Act). The statement sets out the reasons for the proposed price direction¹ for the supply of regulated water and sewerage services by Icon Water Limited (Icon Water) for the period 1 July 2018 to 30 June 2023.

2. Authority for the investigation and price direction

On 13 December 2016 the Independent Competition and Regulatory Commission (the Commission) was issued an industry reference by the ACT Treasurer under section 15(1) of the ICRC Act to undertake an investigation for the provisions of a price direction for the supply of regulated water and sewerage services by Icon Water for the period 1 July 2018 to 30 June 2023. Under section 16(1) of the ICRC Act, the ACT Treasurer also issued the Terms of Reference for the investigation.

In accordance with the Terms of Reference, the Commission is conducting an investigation under Part 3 of the ICRC Act. At the conclusion of the investigation, the Commission will issue a final price direction. The proposed price direction has been set out in accordance with Part 4 of the ICRC Act as if set out as the final price direction. The following sections set out the Commission's reasoning behind the key elements of the proposed price direction.

3. Regulatory period

The Terms of Reference require the price direction to apply over a five year period from 1 July 2018 to 30 June 2023.

4. Application of the price direction

The terms of reference require the price direction to apply only to Icon Water.

5. Pricing for regulated water and sewerage services

Under section 20A of the ICRC Act, the Commission must include in a price direction a direction about the pricing of regulated services in the form of either or both of the following:

- (a) a price, a maximum price or both a minimum and maximum price for each regulated service

¹ ICRC Report 12 of 2017.

- (b) a maximum total amount (revenue cap) that may be earned by a person providing regulated services from the provision of those services.

The Commission set out in Part B of the proposed price direction the pricing for regulated water and regulated sewerage services in the form of maximum prices for each service line, for each year of the regulatory period. The Commission determined the maximum prices for regulated water and sewerage services for the 2018–23 regulatory period by employing the building block methodology, which is designed to ensure that allowed revenues are sufficient to meet the regulated utility business’s prudent and efficient costs.² The prices for water and sewerage services for each year of the regulatory period are to be determined in accordance with clauses 6 and 7.

Table 1 sets out the maximum water and sewerage prices payable under the proposed price direction, assuming that the inflation rate is 2.5 per cent annum and cost pass-through mechanism is not triggered.

Table 1 The Commission’s draft decision on water and sewerage services prices for 2018–23

	2018–19	2019–20	2020–21	2021–22	2022–23
Water					
Supply charge (\$/pa)	120.00	140.00	160.00	180.00	200.00
Tier 1 price (\$/kL)	2.55	2.57	2.60	2.62	2.65
Tier 2 price (\$/kL)	4.95	5.00	5.04	5.09	5.14
Sewerage services					
Sewerage charge (\$/pa)	536.51	535.68	534.85	534.02	533.20
Sewerage fixtures (\$/pa)	524.70	523.88	523.07	522.26	521.46

Source: Commission’s calculations

In accordance with clause 8 of the proposed price direction, miscellaneous fees and charges will be updated by Consumer Price Index in each year of the regulatory period.

The Commission’s regulatory approach and the pricing model, including the proposed form of control, measures to deal with demand risks, measures to deal with expenditure risks and measures to deal with unforeseen events are discussed in more detail in the draft report.

Discretion to apply a formula is outlined in section 20A(3)(a) and discretion for a method is outlined in section 20A(3)(b). Therefore, while the subsections are discretionary - as per section 146(1) of the *Legislation Act 2001* - the Commission has exercised its functions under Part 4 in reliance of their application to the proposed price direction.

6. Pass-through events

Part C of the proposed price direction provides for pass-through arrangements to deal with unexpected and uncontrollable costs, which have not been incorporated into the pricing model at the time of making the proposed price direction, subject to a materiality threshold. The proposed

²The building block approach identifies expected prudent and efficient costs for each year of the regulatory period, and estimates expected demand to calculate prices, and is a widely-used means of collating a utility’s costs to estimate their revenue requirement to be recovered through prices.

price direction includes pass-through arrangements for changes in subvention payments, changes in the amount Icon Water is required to pay the ACT Government for the Water Abstraction Charge and Utilities Network Facilities Tax, changes in other taxes, changes in service standards, changes in regulation, and a Tantangara Transfer Payment event. These arrangements ensure that prices remain reflective of underlying costs throughout the term of the regulatory period. The proposed pass-through arrangements are outlined in Chapter 2 of the draft report.

7. Annual price reset process

The Commission set out an annual price reset mechanism to manage the risk that actual costs incurred by Icon Water within the regulatory period deviate from the forecasts used to determine the revenue requirement.

The annual price rest mechanism is outlined in Chapter 2 of the draft report, and the price reset process is set out in Part C of the proposed price direction.

8. Capital contribution arrangements

A new miscellaneous service is introduced to allow for capital contribution arrangements for water and sewerage infrastructure upgrades that are triggered through developments projects. The capital contribution arrangements are specified in, or are to be determined in accordance with, clause 11.

9. Price direction variation trigger events

The proposed price direction provides for the usual set of trigger events that the current price direction contains, such as acts of terrorism and major natural disasters. These triggers are set out in Part D of the proposed price direction.

10. Reset principles

The proposed price direction provides for eight reset principles. These reset principles are set out in Part D of the proposed price direction.