



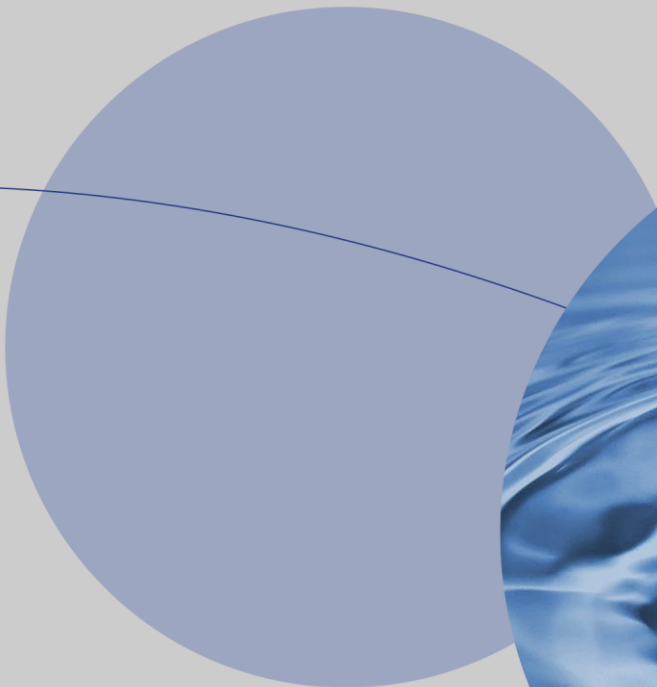
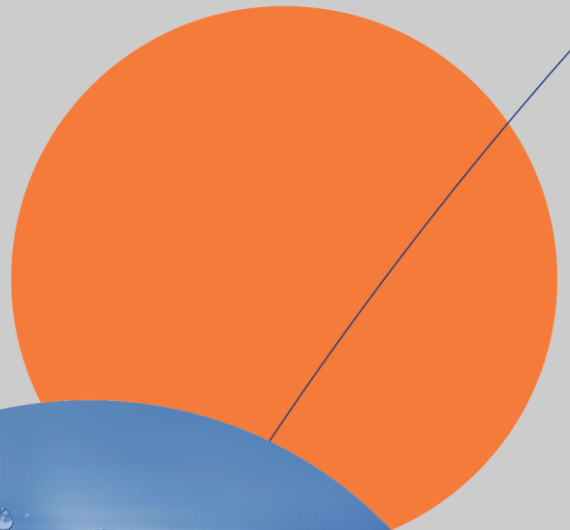
ICRC
independent competition and regulatory commission

PRICE DIRECTION

Regulated water and sewerage services

1 July 2023 to 30 June 2028

Report 2 of 2023



The Independent Competition and Regulatory Commission is a Territory Authority established under the *Independent Competition and Regulatory Commission Act 1997* (the ICRC Act). We are constituted under the ICRC Act by one or more standing commissioners and any associated commissioners appointed for particular purposes. Commissioners are statutory appointments. Joe Dimasi is the current Senior Commissioner who constitutes the commission and takes direct responsibility for delivery of the outcomes of the commission.

We have responsibility for a broad range of regulatory and utility administrative matters. We are responsible under the ICRC Act for regulating and advising government about pricing and other matters for monopoly, near-monopoly and ministerially declared regulated industries, and providing advice on competitive neutrality complaints and government-regulated activities. We also have responsibility for arbitrating infrastructure access disputes under the ICRC Act.

We are responsible for managing the utility licence framework in the ACT, established under the *Utilities Act 2000* (Utilities Act). We are responsible for the licensing determination process, monitoring licensees' compliance with their legislative and licence obligations and determination of utility industry codes.

Our objectives are set out in section 7 and 19L of the ICRC Act and section 3 of the Utilities Act. In discharging our objectives and functions, we provide independent robust analysis and advice.

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Part A Preliminary

1. The price direction

This price direction is provided in accordance with section 18(5)(a) of the *Independent Competition and Regulatory Commission Act 1997* (the **Act**). The final report into Regulated Water and Sewerage Services (Report 3 of 2023) forms the basis for the **commission's** decisions as outlined in the price direction. In the event of any inconsistency between the final report into Regulated Water and Sewerage Services and the price direction, the price direction prevails.

The price direction establishes a **maximum price** for water, sewerage and miscellaneous services provided by **Icon Water** in the **ACT**, and a mechanism for the annual review (and potential adjustment) of the capital contribution charge for the **regulatory period** stipulated below.

The price direction consists of parts A through D, the clauses, subclauses and tables in those parts and attachment 1.

The parts are set out as follows:

- Part A – Preliminary - sets out the preliminary information to the price direction.
- Part B – Regulated services, prices and charges - sets out the regulated services, associated price controls and the **maximum prices** to be charged for **Icon Water's** water and sewerage services and miscellaneous services. Part B also sets out the annual capital contribution charge approval arrangements.
- Part C – Regulatory method - sets out the regulatory method for administration and approval of annual price resets.
- Part D – Legislative provisions - sets out additional provisions that the **Act** requires or permits the **commission** to provide for in the price direction, including the price direction variation trigger events and reset principles leading into future investigations.

2. The regulatory period

This price direction regulates **Icon Water** for the period 1 July 2023 to 30 June 2028

3. Section 20(2) of the Act

Pursuant to sections 20(4) of the **Act**, the **commission** must indicate the extent to which it has had regard to the matters referred to in section 20(2) of the **Act**. Attachment 1 is provided in compliance with section 20(4) of the **Act**.

4. Definitions and abbreviations

Within this price directions the following words and terms have the following meanings

ACT	a reference to the ACT means the Australian Capital Territory
the Act	a reference to the Act in the price direction means the <i>Independent Competition and Regulatory Commission Act 1997</i>
annualised cost	where the price direction refers to an annualised cost , the annualised cost in any one year is equal to the amount of additional operating expenditure incurred in that year plus 15 per cent of the additional capital expenditure incurred in that year.
business days	<p>business days are all days other than</p> <ul style="list-style-type: none"> • a Saturday or Sunday • an ACT public holiday. <p>If an action is required to be undertaken on or by a specific date in the price direction and that day falls on a non-business day, the timeline will be deemed to fall on the first business day following the non-business day.</p>
the commission	a reference to the commission means the Independent Competition and Regulatory Commission
CPI	a reference to CPI means the All Groups consumer price index (weighted average of eight capital cities) as published by the Australian Bureau of Statistics
Icon Water	a reference to Icon Water means Icon Water Ltd (ABN 86 069 381 960)
ICRC	a reference to the ICRC means the Independent Competition and Regulatory Commission
maximum price	the term maximum price refers to the highest price that Icon Water may charge customers. Icon Water may charge customers less than the specified maximum price .
monetary values	<p>all monetary values in the price direction are in Australian dollars.</p> <p>where a monetary value is followed by the term ‘(\$2023–24)’, the value is to be escalated in accordance with the following formula:</p> $EV = V \times (1 + CPI_t)$ <p>Where:</p> <p>EV is the monetary value as escalated</p> <p>V is the monetary value specified in the price direction</p> <p>CPI is determined in accordance with the following formula</p>

$$CPI_t = \frac{CPI_{June(t-2)} + CPI_{Sep(t-1)} + CPI_{Dec(t-1)} + CPI_{Mar(t-1)}}{CPI_{June(t-3)} + CPI_{Sep(t-2)} + CPI_{Dec(t-2)} + CPI_{Mar(t-2)}} - 1$$

Where t = financial year and t can take on the value of 2023–24, 2024–25, 2025–26, 2026–27 or 2027–28 depending on the year in which the value of EV is required for the purposes of the price direction.

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.

reference to years	unless otherwise stated, a reference to a year in the form 2023–24 (as an example) means the financial year from 1 July 2023 to 30 June 2024.
regulatory period	the period in respect of which the price direction regulates prices and charges, as specified in clause 2.
regulatory year	a reference to a regulatory year means a financial year during the regulatory period .
relevant tax	relevant taxes are any tax, rate, duty, charge or levy or other like or analogous impost that is imposed on or payable directly or indirectly by Icon Water to any authority of the Commonwealth of Australia or the government of the ACT , including a goods and services tax but excluding: <ul style="list-style-type: none">▪ the WAC▪ the UNFT▪ income tax (or ACT-equivalent income tax) or capital gains tax▪ stamp duty, financial institutions duty, bank account debits tax or similar taxes or duties▪ penalties and interest for late payment relating to any tax, and▪ any tax which replaces the taxes referred to above, where 'tax' includes any rate, duty, charge or levy or other like or analogous impost.
smoothing factors	smoothing factor is adjusted annually to account for an update of the weighted average cost of capital (WACC) to reflect an update to the trailing average cost of debt.
Tier 1 price	the usage price charged by Icon Water to its residential and non-residential customers for up to 0.548kL per day averaged over the billing period*. Note: <i>This equates to approximately 200kL per year</i>
Tier 2 price	the usage price charged by Icon Water to its residential and non-residential customers for water usage in excess of 0.548kL on average per day of the billing period.
UNFT	utilities network facilities tax
WAC	water abstraction charge
WACC	weighted average cost of capital

Part B Regulated services, prices and charges

5. Regulated services

The following services are regulated by the **commission**:

- (a) The provision of water services by **Icon Water** (including the availability of supply) to residential, commercial, and industrial premises.
- (b) The provision of sewerage services by **Icon Water** (including the availability of supply) to domestic, commercial, and industrial premises.
- (c) Miscellaneous services provided by **Icon Water**:
 - (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, and
 - (viii) meter relocation.
- (d) Capital contribution arrangements administered by **Icon Water** under the *Utilities (Water and Sewerage Capital Contribution Code) Approval 2017*.

5.1 Pricing for regulated water and sewerage services

In accordance with section 20A of the **Act**, the **commission** determines the pricing for regulated water services and regulated sewerage services in the form of **maximum prices** for each year of the **regulatory period**. The **maximum prices** for each year are specified in, or are to be determined in accordance with, clauses 6 and 7.

6. Water services

Table 1 sets out a **maximum price** for regulated water services for 2023–24 and a formula for determining the **maximum price** for regulated water services for 2024–25, 2025–26, 2026–27 and 2027–28. The **maximum prices** derived from Table 1 for each of the years of the price direction may also be subject to a pass-through event as set out in clause 9.

Table 1 - Our final decision on the maximum water prices for 2023-24 to 2027-28 (\$, current prices)

Water prices	2023-24	2024-25	2025-26	2026-27	2027-28
Water supply charge (\$/year/connection)	\$211.25	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$
Tier 1 charge (0–200kL/year) (\$/kL)	\$2.41	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$
Tier 2 charge (more than 200kL/year) (\$/kL)	\$4.84	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$

Where:

P_t is the price to be charged for the relevant service in the **regulatory year t**

P_{t-1} is the price charged for the relevant service in the preceding **regulatory year**

$$CPI_t = \frac{CPI_{June(t-2)} + CPI_{Sep(t-1)} + CPI_{Dec(t-1)} + CPI_{Mar(t-1)}}{CPI_{June(t-3)} + CPI_{Sep(t-2)} + CPI_{Dec(t-2)} + CPI_{Mar(t-2)}} - 1$$

t can take on the value of 2024–25, 2025–26, 2026–27 and 2027–28 for the relevant year of the adjustment in Table 1

X **smoothing factor**, set at 2.63 per cent adjusted annually as part of the annual price adjustment to account for a change in the cost of debt.

Prices arising from the application of this formula will be rounded to the nearest cent.

7. Sewerage services

Table 2 sets out a **maximum price** for regulated sewerage services for 2023–24 and a formula for determining the **maximum price** for regulated sewerage services for 2024–25, 2025–26, 2026–27 and 2027–28. The **maximum prices** derived from Table 2 for each of the years of the price direction may also be subject to a pass-through event as set out in clause 9.

Table 2 - Our final decision on the maximum sewerage tariffs for 2023-24 to 2027-28 (\$, current prices)

Sewerage prices	2023-24	2024-25	2025-26	2026-27	2027-28
Sewerage supply charge (\$/year)	\$535.79	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$
Flushing fixture ¹ charge (\$/year)	\$524.00	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$	$P_t = P_{t-1} \times (1+CPI_t) \times (1+X)$

Where:

P_t is the price to be charged for the relevant service in the **regulatory year t**

¹ For every additional flushing fixture greater than 2 for non- residential customers.

- P_{t-1} is the price charged for the relevant service in the preceding **regulatory year**
- CPI_t is as it is defined in clause 6; and
- t can take on the value of 2024–25, 2025–26, 2026–27 and 2027–28 for the relevant year of the adjustment in Table 2.
- X **smoothing factor**, set at 3.67 per cent adjusted annually as part of the annual price adjustment to account for a change in the cost of debt.

Prices arising from the application of this formula will be rounded to the nearest cent.

8. Miscellaneous services and charges

The price to be charged for each miscellaneous service in each year of the **regulatory period** is to be calculated according to the following formula, and rounded to the nearest dollar for the GST inclusive price:

$$p_t = p_{t-1} \times (1 + CPI)$$

where:

p_t is the price to be charged for the relevant service in the next **regulatory year**

p_{t-1} is the price charged for the relevant service in the current year

CPI is as it is defined in clause 6

Prices should be rounded to the nearest dollar GST inclusive.

8.1 New miscellaneous services and charges

Should **Icon Water** wish to introduce a new miscellaneous service or charge during the **regulatory period**, **Icon Water** must make an application to the **commission** and provide the following information:

- a description of the new miscellaneous service
- the reasons for the introduction of the new miscellaneous service or charge
- the terms and conditions which will apply to the provision of the new miscellaneous service
- the direct efficient costs of providing the new miscellaneous service
- a forecast of the annual volume of sales of the new miscellaneous service
- the draft price for the new miscellaneous service for the first year it is in place

The **commission** will consider any submission from **Icon Water** and have regard to:

- whether the expenditure and/or revenue associated with the miscellaneous service has already been considered in specifying the prices to apply under this determination
- whether the draft price provides for a sustainable revenue stream that does not reflect inefficient expenditure and reflects the costs of providing the miscellaneous service and,
- any other relevant matter.

The **commission** may request that **Icon Water**:

- provides any additional information specified by the **commission**, and/or
- resubmits any price proposed by **Icon Water** for a new miscellaneous service.

The **commission** will notify **Icon Water** of its decision whether to approve the proposed price submitted for the new miscellaneous service, together with the 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.

The **commission** will provide **Icon Water** with this notification within ten **business days** of **Icon Water's** submission, or later if any additional information is provided by **Icon Water**. If no additional information is sought from **Icon Water** or, if the **commission** does not advise **Icon Water** of its decision² within ten **business days**, **Icon Water's** proposal will be deemed to be approved and **Icon Water** may commence charging for the new miscellaneous service as per its proposal.

8.2 Removing a miscellaneous service

Should **Icon Water** wish to remove a miscellaneous service, **Icon Water** must provide to the **commission**:

- a description of the miscellaneous service to be removed
- reasons for the removal of the miscellaneous service, and
- the proposed date of the removal of the miscellaneous service.

The **commission** will notify **Icon Water** of its decision to approve the removal of the miscellaneous service. The **commission** will provide **Icon Water** with this notification within ten **business days** of **Icon Water's** submission, or later if any additional information is provided by **Icon Water**. If no additional information is sought from **Icon Water** or, if the **commission** does not advise **Icon Water** of its decision³ within ten **business days**, **Icon Water's** proposal will be deemed to be approved and **Icon Water** may remove the miscellaneous service as per its proposal.

² A decision includes a decision to extend the time to make a final decision

³ A decision includes a decision to extend the time to make a final decision

Part C Regulatory method

9. Pass-through events

Icon Water may apply to the commission to have the following pass-through events included in the price.

A pass-through event is one of the following:

- (a) Water Abstraction Charge (**WAC**) event (clause 9.1)
- (b) Utilities Network Facilities Tax (**UNFT**) event (clause 9.2)
- (c) subvention payment event (clause 9.3)
- (d) declared fees (clause 9.4)
- (e) change in other taxes event (clause 9.5)
- (f) service standard event (clause 9.6)
- (g) regulatory obligations event (clause 9.7)

9.1 WAC event

A **WAC** event occurs where, for a particular year, the total amount payable by **Icon Water** to the **ACT** Government for the **WAC** differs from the amount incorporated in the price direction. The amounts incorporated in the price direction are set out in Table 3 below.

Table 3 - WAC (\$million, nominal)

	WAC
2023-24	35.87
2024-25	37.19
2025-26	38.68
2026-27	40.27
2027-28	41.92

9.2 UNFT event

A **UNFT** event occurs where, for a particular year, the total amount payable by **Icon Water** to the **ACT** Government for the **UNFT** differs from the amount incorporated in the price direction. The amounts incorporated in the price direction are set out in Table 4 below.

Table 4 - UNFT for water and sewerage (\$million, nominal)

	Water UNFT	Sewerage UNFT
2023-24	6.79	5.46
2024-25	7.08	5.69
2025-26	7.39	5.94
2026-27	7.70	6.20
2027-28	8.04	6.47

9.3 Subvention payment event

A subvention payment event occurs where, for a particular year, the subvention payment from the Commonwealth Government to **Icon Water** differs from the amount incorporated in the price direction. The amounts incorporated in the price direction are set out in Table 5 below.

Table 5 - Subvention payments for water and sewerage (\$million, nominal)

	Water subvention payments	Sewerage subvention payments
2023-24	1.26	12.60
2024-25	1.30	12.95
2025-26	1.33	13.31
2026-27	1.37	13.67
2027-28	1.40	14.05

No change in the subvention payment will be deemed to have occurred if **Icon Water** receives a payment from the **ACT** Government that explicitly or implicitly replaces the subvention payment (or the change in the subvention payment).

9.4 Declared fees

A declared fee is a fee that has been declared by the Minister in accordance with section 4C of the **Act**.

A declared fee is to be passed through in full to the consumers of the service.

9.5 Changes in other tax event

A change in other tax event is:

- a change in the way, or rate, at which a **relevant tax** is calculated (including a change in the application or official interpretation of a **relevant tax**) that occurs on or after 30 June 2023, or
- the removal of a **relevant tax** or imposition of a new **relevant tax** that occurs on or after 30 June 2023.

If a change in other tax event occurs, the change in costs (positive or negative) may be passed through to customers if the total **annualised cost** associated with the event exceeds \$2.3 million in the year for which the pass-through is sought.

9.6 Service standards event

A service standards event means a legislative or administrative act or decision that:

- (a) has the effect of:
 - (i) substantially varying, during the **regulatory period**, the way **Icon Water** is required to provide a regulated water or sewerage service
 - (ii) imposing, removing or varying, during the **regulatory period**, minimum service standards applicable to regulated water and sewerage services, or
 - (iii) altering, during the **regulatory period**, the nature or scope of the regulated water or sewerage services provided by **Icon Water**, and
- (b) materially increases or materially decreases the costs to **Icon Water** of providing regulated water or sewerage services.

If a service standard event occurs on or after 30 June 2023, the change in costs (positive or negative) may be passed through to customers if the total **annualised cost** associated with the event exceeds \$2.3 million in the year for which the pass-through is sought.

9.7 Regulatory obligations event

A change in a regulatory obligations event is a change in a regulatory obligation or requirement that:

- (a) falls within no other category of pass-through event
- (b) occurs during the **regulatory period**, and
- (c) substantially affects the way **Icon Water** provides regulated water or sewerage services.

If a regulatory obligations event occurs on or after 30 June 2023, the change in costs (positive or negative) may be passed through to customers if the total **annualised cost** associated with the event exceeds \$2.3 million in the year for which the pass-through is sought.

9.8 Eligible pass-through amount

The amount in respect of a pass-through event which **Icon Water** is allowed or required to pass-through to customers in a **regulatory year** must:

- (a) be equal to the increase (or decrease) in costs in the provision of regulated services that, as a result of that pass-through event, **Icon Water** has incurred or is likely to incur until the end of the **regulatory year** for which the pass-through is sought
- (b) exclude any amount in respect of the pass-through event which has been passed through to customers in a previous **regulatory year** within the **regulatory period**, and
- (c) exclude any amount in respect of the pass-through event which **Icon Water** incurred more than 24 months before the commencement of the year for which the pass-through is sought.

To avoid doubt, it is the intention of this clause 9.8 to allow **Icon Water** to seek a pass-through amount for recovery in a particular **regulatory year** either ex-ante or ex-post, depending on the circumstances.

10. Annual price approval process

10.1 Icon Water submission on prices

On or before 1 May each year (for the **regulatory years** 2024–25, 2025–26, 2026–27 and 2027–28) **Icon Water** must provide the following to the **commission**:

- proposed prices for the services which are subject of the price controls in Part B of this price direction
- information to demonstrate to the **commission** that the proposed tariffs comply with the requirements of Part B of this price direction, and other supporting data, including **Icon Water's** calculation of the **CPI**, and
- any other information specified by the **commission** that it reasonably requires to assess whether the proposed tariffs comply with this price direction.

10.2 Recovery of pass-through amounts

If a pass-through event occurs in a **regulatory year**, **Icon Water** may seek to incorporate the effect of the pass-through event on its costs in its adjusted prices that are submitted to the **commission** on 1 May under clause 10.1. A submission must include:

- (a) details of the pass-through event
- (b) the date the pass-through event occurred
- (c) the estimated financial impact of the pass-through event on **Icon Water** and the basis on which the impact has been calculated, and
- (d) the pass-through amount proposed by **Icon Water** in relation to the pass-through event and which it proposes be included in its adjusted prices for the relevant **regulatory year**.

The **commission** must decide whether the pass-through event specified in the submission occurred and falls within the scope of clause 9, and whether it approves the pass-through amount proposed by **Icon Water**.

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

10.2.1 Commission consideration

The **commission** will advise **Icon Water** no later than 21 May:

- (a) whether the pass-through amount proposed under clause 10.2 complies with the price direction and, if it does not comply, the reasons why it does not comply, or
- (b) that the **commission** requires additional information from **Icon Water** to assess whether the proposed pass-through amount complies with the price direction and the date such additional information is to be provided to the **commission**.

If the **commission** does not provide advice⁴ to **Icon Water** by 21 May in accordance with this clause the proposed pass-through amount will be deemed to comply with the price direction.

10.2.2 Icon Water resubmission

If the **commission** advises **Icon Water** that the pass-through amount does not comply with the price direction, or that it requires additional information from **Icon Water**, **Icon Water** must resubmit the pass-through amount or provide the additional information to the **commission** within 5 **business days** or by the date specified by the **commission**.

The **commission** will advise **Icon Water** whether the pass-through amount complies with the price direction or will indicate the additional information the **commission** requires from **Icon Water** to form an opinion as to whether it complies or not.

If the **commission** has advised **Icon Water** that the revised pass-through amount does not comply or requires further additional information, the provisions of this clause will continue to apply until the **commission** approves the pass-through amount as complying with the price direction.

10.2.3 Commission may deny a pass-through event

The **commission** may deny a pass-through event. The **commission** must provide a statement of reasons if a pass-through event outlined in clause 9 has been denied under this clause.

10.2.4 Commission may initiate pass-through

If a pass-through event, as outlined in clause 9, occurs and **Icon Water** does not propose the inclusion of the event in the price under clause 9, the **commission** may decide on a pass-through amount which will be included in the appropriate price. The amount may be a negative or positive figure.

Under this clause, the **commission** will make the decision in relation to whether a pass-through event has occurred.

In doing so, the **commission**:

- (a) may seek information from **Icon Water** in relation to the pass-through event and the pass-through amount, and
- (b) must notify **Icon Water** in writing of the pass-through amount and the reason for the **commission's** decision.

10.2.5 Partial adjustment

If, by 31 May of a given **regulatory year**, the **commission** has not approved a proposed pass-through amount in respect of a pass-through event, then the prices notified by the **commission** under clause 10.3, together with any pass-through amount in respect of any other pass-through event that has been approved

⁴ Advice includes a decision to extend the time to provide advice

by the **commission** by that date, will take effect as from 1 July of the **regulatory year** following the given **regulatory year** (referred to in this clause as the 'following **regulatory year**').

Any pass-through amount approved by the **commission** after 31 May of a given **regulatory year** will not take effect until the commencement of the **regulatory year** after the following **regulatory year**.

10.3 Final determination on proposed prices

Having assessed **Icon Water**'s proposed prices submitted under clause 10.1, and subject to clause 10.2 if **Icon Water** submits a pass-through/s under clause 10.2, the **commission** will advise **Icon Water** on or before 31 May each year whether the proposed prices and pass-throughs comply with this price direction and, if they do not comply, the reasons that they do not comply.

If the **commission** does not provide advice⁵ to **Icon Water** by 31 May each year in accordance with this clause 10.3, the proposed prices will be deemed to comply with this price direction.

11. Capital contribution arrangements

11.1 Updating the precinct charge schedule

11.1.1 Icon Water application

In each year of the **regulatory period**, including 2023–24, **Icon Water** must submit to the **commission** an application to update the precinct charge that is used to calculate the Class 2 infrastructure charge for developments within a precinct under the *Utilities (Water and Sewerage Capital Contribution Code) Approval 2017*.

The application must be submitted to the **commission** on or before 1 May and must include:

- (a) the proposed precinct charge for the **regulatory year**, and
- (b) the financial model used to calculate the proposed precinct charge, identifying:
 - any revisions to the 20-year projections of **ACT** population growth and capital expenditure required to augment the water and sewerage network to service this growth
 - any unders and overs account adjustments for variance between actual and forecast revenue/capital expenditure, and
 - the basis of the **CPI** adjustment.

11.1.2 Commission consideration

Following receipt of an application made under clause 11.1.1, the **commission** will advise **Icon Water** no later than 31 May whether:

⁵ Advice includes a decision to extend the time to provide advice

- (a) the precinct charge proposed complies with the price direction and, if it does not comply, the reasons why it does not comply, and
- (b) the **commission** requires additional information from **Icon Water** to assess whether the precinct charge proposed complies with the price direction.

If the **commission** does not provide advice⁶ to **Icon Water** by 31 May in accordance with this clause 11.1.2, the proposed precinct charge will be deemed to comply with the price direction.

11.1.3 Icon Water resubmission

If the **commission** advises **Icon Water** that the proposed precinct charge does not comply with the price direction or that it requires additional information from **Icon Water**, **Icon Water** must resubmit the application to update the precinct charge or provide the additional information to the **commission** by 10 June or other date directed by the **commission**.

Within 10 **business days** of receiving the revised application or additional information from **Icon Water**, the **commission** will advise **Icon Water** whether the proposed precinct charge complies with the price direction or, will indicate the additional information the **commission** requires from **Icon Water** to form an opinion as to whether it complies or not. If the **commission** does not provide advice⁷ to **Icon Water** within 10 **business days** in accordance with this clause, the proposed precinct charge will be deemed to comply with the price direction.

11.2 Updating the precinct map

11.2.1 Icon Water application

In each year of the **regulatory period**, including 2023–24, **Icon Water** may submit to the **commission** an application to update the precinct map that is used to calculate the Class 2 infrastructure charge for developments within a precinct under the *Utilities (Water and Sewerage Capital Contribution Code) Approval 2017*. To avoid doubt, **Icon Water** may not update the precinct map unless it submits the map under this clause.

The application must be submitted to the **commission** on or before 1 May. The proposed precinct map must:

- (a) be of sufficient visual quality and resolution to enable identification of individual parcels of land
- (b) contain a clearly identifiable version number and date/s of effect, and
- (c) contain a table of amendments detailing changes made from the current to the updated version of the precinct map.

⁶ Advice includes a decision to extend the time to provide advice

⁷ Advice includes a decision to extend the time to provide advice

11.2.2 Commission consideration

The **commission** will advise **Icon Water** no later than 31 May whether:

- (a) the precinct map proposed under clause 11.2.1 complies with the price direction and, if it does not comply, the reasons why it does not comply, or
- (b) whether the **commission** requires additional information from **Icon Water** to assess whether the precinct map proposed under clause 11.2.1 complies with the price direction.

If the **commission** does not provide advice⁸ to **Icon Water** by 31 May in accordance with this clause 11.2.2, the proposed Precinct Map will be deemed to comply with the price direction.

11.2.3 Icon Water resubmission

If the **commission** advises **Icon Water** that the proposed precinct map does not comply with the price direction, or that it requires additional information from **Icon Water**, **Icon Water** must resubmit the application to update the precinct map or provide the additional information to the **commission** by 10 June or other date as directed by the **commission**.

Within 10 **business days** of receiving the revised application or additional information from **Icon Water**, the **commission** will advise **Icon Water** whether the proposed precinct map complies with the price direction or will indicate the additional information the **commission** requires from **Icon Water** to form an opinion as to whether it complies or not. If the **commission** does not provide advice⁹ to **Icon Water** within 10 **business days** in accordance with this clause 11.2.3, the proposed precinct map will be deemed to comply with the price direction.

⁸ Advice includes a decision to extend the time to provide advice

⁹ Advice includes a decision to extend the time to provide advice

Part D Legislative provisions

Nothing in Part D limits the provisions of the **Act**.

12. Price Direction variation trigger events

Pursuant to section 20A(3)(c) and 24F(2) of the **Act**, the following events are price variation trigger events, the triggering of which allows the **commission** to initiate a reference for the variation of the price direction:

- (a) Act of terrorism
- (b) Major natural disaster
- (c) Major damage to **Icon Water**'s infrastructure
- (d) A significant change to **Icon Water**'s financial or corporate structure
- (e) An unforeseen or force majeure event that severely restricts **Icon Water**'s ability to provide services.

Price variation trigger events are subject to a threshold of \$15.4 million.

13. Reset principles

Pursuant to section 20B of the **Act**, the future reset principles are:

- (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** as set in clause 2 of this Price Direction.
- (b) If, as of 30 June 2028, a new price direction for the regulated services of **Icon Water** is not set to take effect from 1 July 2028, then the prices as of 30 June 2028 will remain in place from 1 July 2028 onwards until a new price direction is made by the **commission**. To avoid doubt, apart from providing for interim prices from 1 July 2028 in the event a new price direction has not been made, this clause does not limit the functions and decisions of the **commission** under the **Act** as to the applicable regulatory model and prices which take effect from 1 July 2028.
- (c) The **Icon Water** Board must endorse the accuracy of **Icon Water**'s main submission to the investigation into water and sewerage service prices for the next **regulatory period**.
- (d) The **commission** will make provision for a demand volatility adjustment in the next price investigation if the net present value of water sales revenue earned over the period 1 July 2023 to 30 June 2028 differs by more than 6 per cent of the revenue set out in Table 6 below.

The demand volatility adjustment will be determined as the difference between:

- (i) the net present value of the revenue earned through tier 1 and tier 2 water charges over the period 1 July 2023 to 30 June 2028, and
- (ii) the net present value of the volumetric water sales revenue (i.e. the revenue to be recovered from tier 1 and tier 2 charges) allowed in the final report adjusted where necessary for any pass-through amounts approved by the **commission** in the period, for

actual CPI change, and for any annual update to the WACC approved by the **commission** as part of the annual price approval, plus or minus 6 per cent depending on whether there has been an over collection or an under collection of revenue.

The net present value in 13(d)(i) and (ii) is to be measured as of 1 July 2028. Forecast revenue will be used for those quarters of the financial year 2027–28 for which actual revenue data is unavailable.

The rate of return in 2023-24 for calculating the net present value and to roll forward the demand volatility adjustment to the next **regulatory period** is 5.89% (nominal vanilla **WACC**). The **WACC** to be used for the following years will be adjusted annually to reflect an update to the trailing average cost of debt.

Table 6 - Volumetric water sales revenue (Tier 1 plus Tier 2 revenue, \$m, using a 2.92% per annum forecast CPI growth 2023-28)

	Revenue from water sales (\$ million, nominal)
2023-24	143.53
2024-25	152.18
2025-26	162.16
2026-27	172.86
2027-28	184.09

- (e) The **commission** will carry out an ex-post review of the prudence and efficiency of the amount **Icon Water** spent on capital expenditure in the **regulatory period** as part of the next price determination.
- (f) The **commission** will roll forward the regulatory asset base to determine the opening value at the start of the next **regulatory period** using the same approach as that outlined in section 5.3.1 of the final report.
- (g) The **commission** will allow any cost pass-through, or costs associated with an unforeseen event that occurs in the final year of this **regulatory period** (2027–28) to be recovered in the next **regulatory period** (commencing on 1 July 2028) if it considers it appropriate to do so.
- (h) During the **regulatory period**, the **commission** will conduct a review of the sewerage tariffs charged by **Icon Water** and their methodology.

Attachment 1 Compliance

Section 7 ICRC Act

Terms of reference considerations

- 1 The Commission must consider:
 - a. the objectives of the Commission outlined within section 7 of the Act
 - b. the objectives related to price directions outlined in section 19L of the Act
 - c. the legislative requirements outlined in section 20(2) of the Act
 - 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 – Striking the Balance 2014 – 2044.
 - e. the National Water Initiative, Murry - Darling Basin Plan commitments and associated policies and agreements; and
 - f. any other matters considered to be directly relevant to the pricing investigation.
- 2 The Commission should consider:
 - a. continuing to use the current regulatory model, and, where identified, implement improvements identified in reviews undertaken in accordance with the reset principles in clause 113 of the Price Direction for Regulated Water and Sewerage Services 1 July 2018 to 30 June 2023; and
 - b. minimising the potential for significant price fluctuations during the regulatory period, while ensuring the recovery of the prudent and efficient costs of Icon Water Limited.
- 3 As part of this investigation, the Commission should outline its intended approach to achieving its various regulatory objectives within its decision-making process.
- 4 The Commission should identify, in the draft and final reports of the investigation, the incremental impact on prices associated with:
 - a. any changes to the total allowed revenue for Icon Water Limited.
 - b. any changes to the water demand forecasts used in the regulatory model; and
 - c. any changes to the structure of Icon Water Limited's regulated water and sewerage services tariffs.

Sections 7 and 19L: Commission objectives

Section 7:

- (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:

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(2): Commission's considerations

- (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.

Pricing principles

To achieve our objectives, we have developed 'pricing principles', which we have outlined below.

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.

Regulated prices should provide a price signal to customers about the efficient costs of providing the services and recognise water supply circumstances in the ACT.

In addition, this principle means that regulated prices should be set having regard to a risk of uneconomic bypass. In uneconomic bypass a large user can gain access to an alternative source of water supply and bypass the main water network at a net cost to all other users. This is due to higher social or environmental cost associated with this alternative source of supply than the efficient costs of the regulated utility.

Pricing principle 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.

This principle covers two aspects of economic efficiency.

First, overall revenue needs to be sufficient to finance the efficient costs of operation and investment. If this is not the case, a regulated utility may not be able to attract sufficient funds to invest in maintaining, upgrading, renewing and replacing its assets. This could have a major adverse impact on services. The finance recovery aspect of the principle is often described as ensuring revenue adequacy or financial viability.

Second, the cost of investment and operations expenditure needs to be prudent and efficient, as defined here:

- Prudent expenditure. Whether the project, program or activity would reasonably be expected of a utility operating in the circumstances that apply. Evidence considered for prudence includes substantiation of the benefits of and the need for the project, program or activity.
- Efficient expenditure. Whether the project, program or activity is delivered or proposed to be delivered with the best value for money. Evidence considered for efficiency includes exploration of alternative delivery options, assessment of lowest cost over the life cycle, and the 'deliverability' of the proposed project, program or activity.

We use expenditure reviews and incentive mechanisms as the main means of meeting this objective. However, the tariff structure and the form of regulation (in particular, the extent to which revenues are guaranteed) can also affect these aspects of economic efficiency.

Pricing principle 3: Environmental considerations

Regulated prices and complementary mechanisms should ensure that environmental objectives are effectively accounted for.

Environmental objectives are typically imposed by specific legislated and government policy requirements. This includes giving priority to designated environmental flows and various permanent and temporary water conservation measures or restrictions. Therefore, regulated prices can reflect some costs associated with consideration of environmental impacts.

Pricing principle 4: Community impact – gradual adjustment

Any change to prices or other regulatory arrangements that will have substantial consumer impacts should be phased in over a transition period to allow reasonable time for consumers to adjust to the change.

Consumers typically prefer price stability in the overall bills they face as it helps them manage their budgets. An adequate transition period for any material changes in prices can ease adjustment costs.

Pricing principle 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.

In implementing a set of pricing principles for water and sewerage services, we need to consider the impacts on households with low incomes. Identifying the impacts on all households with low income and forming a judgement about equity and fairness is a challenging task. We will carefully consider the likely impact of price changes on households with low incomes and apply relevant mechanisms to address or moderate any adverse impacts.

Pricing principle 6: Regulatory governance – simplicity

Regulated prices and their form should be simple for consumers to understand and straightforward for the utility to implement.

Consumers generally prefer regulated prices and regulatory arrangements that are easy to understand. Easy to understand tariff structures have the added benefit of being easier and cheaper for the utility to implement.

Pricing principle 7: Regulatory governance – transparency

Regulated prices should be set using a transparent methodology and be subject to public consultation and scrutiny.

This principle relates to good regulatory governance. Promoting community confidence in the regulatory arrangements requires a good understanding in the community of how regulated prices for water and sewerage services are decided. This also requires an adequate opportunity for community involvement in the regulatory process. The ICRC Act requires us to hold a public hearing and make draft decisions available for public scrutiny. In addition, we released an issues paper and held a community consultation forum 21 November 2023.

Our open consultation process helps us understand the views and priorities of consumers and broader community. We recognise that stakeholders need confidence that their input will be considered in our decision-making and that the regulatory process can deliver outcomes that reflect their needs and interests. Our reports explain how stakeholder input (such as submissions) was considered and how it informed the outcome of the decision.

Compliance with the terms of reference and the ICRC Act

This attachment first sets out how the commission’s investigation complies with the Terms of Reference. Second, it considers how the price direction complies with the provisions of the *Independent Competition and Regulatory Commission Act 1997*.

Table 7 Compliance with the Terms of Reference

Clause	Requirement	Chapter(s)	Comments
4(1)(a)	The commission must consider the objectives of the commission outlined within section 7 of the Act.		See Table 8 below
4(1)(b)	The commission must consider the objective related to price directions outlined in section 19L of the Act.		See Table 9 below
4(1)(c)	The commission must consider the legislative requirements outlined in section 20(2) of the Act.		See Table 10 below
4(1)(d)	The commission must consider the policies of the ACT Government as they relate to the supply and use of water and sewerage services, including the ACT Water Strategy – Striking the Balance 2014-2044.	2	
4(1)(e)	The commission must consider the National Water Initiative, Murray-Darling Basin Plan commitments and associated policies and agreements.	1, 2, 3	

4(1)(f)	The commission must consider any other matters considered to be directly relevant to the pricing investigation.	2, 3, 4, 5, 6, 7, 8 Note: the demand volatility adjustment was assessed but was found not to have been triggered.	<p>In chapter 13 of the 2018-2023 price direction the commission outlined the following actions that would be considered as directly relevant to this pricing investigation.</p> <ul style="list-style-type: none"> • During the regulatory period, the Commission will conduct a review of potential incentive mechanisms for the regulation of Icon Water. • The Commission will make provision for a demand volatility adjustment in the next price investigation if the net present value of water sales revenue earned over the period 1 July 2018 to 30 June 2023 differs by more than 6 per cent of the revenue set out in Table 13.1 • The Commission will carry out an ex-post review of the prudence and efficiency of the amount Icon Water spent on capital expenditure in the regulatory period as part of the next price investigation • During the regulatory period, the Commission will review calculation methodologies for weighted average cost of capital that may be used in the next price investigation. • During the regulatory period, the Commission will review forecasting methodologies for forecast demand that may be used in the next price investigation.
4(2)(a)	The commission should consider continuing to use the current regulatory model, and, where identified, implement improvements identified in reviews undertaken in accordance with the reset principles in clause 13 of the Price Direction for Regulated Water and Sewerage Services 1 July 2018 to 30 June 2023.	3, 5, 6, 7, 8, 9	

4(2)(b)	The commission should consider minimising the potential for significant price fluctuations during the regulatory period, while ensuring the recovery of the prudent and efficient costs of Icon Water Limited.	3, 4, 5, 6, 7, 8, 9, 10	The commission's form of regulation and 'building block' methodology have been designed to recover the efficient costs of providing water and sewerage services in the ACT.
4(3)	As part of the investigation, the commission should outline its intended approach to achieving its various regulatory objectives within its decision-making prices	1, 2	In making its final decision, the commission regarded key pricing principles that took account of both legislative and government policy objectives as well as generally accepted economic and regulatory principles.
4(4)(a)	The commission should identify in the draft and final reports of the investigation, the incremental impact on prices associated with any changes to the total allowed revenue for Icon Water Limited	8, 9, 11, 12	The commission's net revenue requirement, in conjunction with its final decision on demand forecasts, is used to calculate the prices to be charged for water and sewerage services. The revisions are outlined and the associated impacts identified.
4(4)(b)	The commission should identify in the draft and final reports of the investigation, the incremental impact on prices associated with any changes to the water demand forecasts used in the regulatory model	2, 11, 12	As part of the investigation, the commission made revisions to the current model in the direction of improving the demand forecasting methodology. The revisions are outlined and the associated impacts have been identified.
4(4)(c)	The commission should identify in the draft and final reports of the investigation, the incremental impact on prices associated with any changes to the structure of Icon Water Limited's regulated water and sewerage services tariffs.	3, 10, 11, 12	Icon Water's regulated water and sewerage services tariffs will be reviewed during the period of the price direction. This review has been included as a future reset principle.
4(5)	In accordance with subsection 16(2)(d) of the Act, the commission must make available a draft report for public inspection within the period of 1 September 2022 to 12 December 2022.	n/a	The final decision will be made available to the public in accordance with the terms of reference
4(6)	In accordance with subsection 16(2)(a) of the Act, the commission must submit its final report to the referring authority within the period of 1 March 2023 to 1 May 2023.	n/a	The final report was sent to the referring authority 1 May 2023

Table 8 Compliance with section 7 of the ICRC Act

Section 7	Requirement	Chapter(s)	Comments
(a)	to promote effective competition in the interests of consumers	n/a	n/a
(b)	to facilitate an appropriate balance between efficiency and environmental and social considerations	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12	Refer to the pricing principles outlined at the start of attachment 1
(c)	To ensure non-discriminatory access to monopoly and near monopoly infrastructure	n/a	n/a

Table 9 Compliance with section 19L of the ICRC Act

Section 19L	Requirement	Chapter(s)	Comments
	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.	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12	The commission’s form of regulation and the pricing methodology have been designed to recover the efficient costs of providing regulated water and sewerage services in the ACT. This includes the costs of meeting quality, reliability and safety standards.

Table 10 Compliance with section 20(2) of the ICRC Act

Section 20(2)	Requirement	Chapter(s)	Comments
(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	1, 2, 3, 4, 5, 6, 7, 8, 9	The commission’s pricing methodology recovers the efficient costs of providing regulated water and sewerage services in the ACT. Consumers are protected from abuses of monopoly power by the commission ensuring that the regulated prices are based on efficient costs to meet the required standards
(b)	Standards of quality, reliability and safety of the regulated services	2, 3, 4	The commission’s form of regulation and the pricing methodology have been designed to recover the efficient costs of providing regulated water and sewerage services in the ACT. This includes the costs of meeting quality, reliability and safety standards

(c)	The need for greater efficiency in the provision of regulated services to reduce costs to consumers and taxpayers	2, 3, 4, 5, 6, 7, 8, 9	The commission's price setting model is based on the prudent and efficient costs of providing regulated water and sewerage services in the ACT, reviewed by an independent expert
(d)	An appropriate rate of return on any investment in the regulated industry	7	The commission determined an appropriate rate of the return by considering a number of factors, including the requirements of the ICRC Act, consistency with the approaches used by the majority of Australian regulators and consistency with the competitive neutrality and allocative efficiency principles.
(e)	The cost of providing the regulated services	2, 3, 4, 5, 6, 7, 8, 9	The Commission's form of regulation and the pricing methodology have been designed to recover the efficient costs of providing regulated water and sewerage services in the ACT
(f)	The principles of ecologically sustainable development	1, 2, 3	The pricing principles developed as part of the commission's tariff structure review provided the basis for how the commission considered an appropriate balance between efficiency and environmental and social considerations. These principles take account of a number of government policies and national agreements associated with ecologically sustainable development, including the National Water Initiative (NWI), the Murray- Darling Basin Plan and ACT Government policies including the ACT Water Strategy - Striking the Balance 2014-2044.
(g)	The social impacts of the decision	1, 2, 3, 4, 10, 12	Social considerations have been considered by ensuring that the regulated prices are based on efficient costs. The commission has considered the impacts of price changes on customers' annual combined bills. In adjusting for changes in prices between and during regulatory periods the commission has applied a price smoothing factor for water and sewerage prices.
(h)	Considerations of demand management and least-cost planning	2, 3, 4, 5, 9	The commission's price setting model is based on prudent and efficient costs of providing regulated water and sewerage services in the ACT, reviewed by an independent expert.

(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, 5, 6, 7, 9, 10, 11	The commission's water and sewerage services pricing provides for the efficient costs of providing these services in the ACT. This includes an appropriate rate of return. In making its final decision, the commission also considered the estimated impacts on Icon Water's financial viability. The commission is confident that its final decision is consistent with Icon Water remaining financially viable and provides sufficient room to meet the borrowing capital, cash flow and investment requirements.
(j)	The effect on general price inflation over the medium term	11, 12	The Commission identified the estimated impacts of its final decision on general price inflation.
(k)	Any arrangements that a person providing regulated services has entered into for the exercise of its functions by some other person	4	The commission reviewed Icon Water's arrangements with other parties for the provision of regulated water and sewerage services. The commission has found these arrangements sufficiently documented to allow due consideration for the purposes of the price investigation.



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