

The Independent Competition and Regulatory Commission
29th January 2008

Dear Commissioner,

The ICRC Report into Water Pricing (Report 11 December 2007) dismisses our proposals on page 120 for Water Rewards with the following sentences.

"The scheme proposed by Mr Kevin Cox has some appeal from an equity perspective and may assist to reduce usage. However the Commission believes that practical considerations—including determining the number of persons at each premises as well as the potential cost of the scheme—may be prohibitive."

The response indicates that the ICRC has misunderstood the proposal or we did not explain it properly.

Our proposal is **guaranteed** to reduce usage as it is based on the idea of increasing prices as a method to reduce demand. This is the standard economic approach to rationing scarce resources and we know it will reduce demand. The difficulty with increasing the price of water is doing it in an equitable manner and as the ICRC has acknowledged the Water Rewards proposal is an equitable way to raise prices.

The statement that the cost may be prohibitive is **wrong** because the scheme need not cost the government anything. Any costs to Actew or the Government can be covered by using some of the Rewards to cover these costs. The other administrative costs can be covered by charging consumers to receive Rewards and by charges to merchants who sell water saving devices. It is estimated that the cost to the community of administering the expenditure of money for infrastructure investment with Water Rewards will be less than the current cost of administering infrastructure expenditures.

The statement that it may be hard to determine the number of persons at participating premises is **wrong**. The scheme is voluntary in terms of subscribing to Rewards and this reduces the cost of determining the number of persons at each participating premise.

The current ICRC recommendation will set in place a scheme for the next 5 years that does NOT include variable scarcity pricing of water as a core element in demand management. That is as water storage levels drop so prices could increase. The main demand management tool available to Actew is water restrictions and this is a blunt, inequitable mechanism. It is unpopular and its permanent introduction makes it less effective. Restrictions should be a last resort for reducing demand - not a first resort. Water Rewards gives Actew a way to limit demand through pricing and it can be included as part of the package of measures available to Actew rather than thought of as a replacement for other tools.

I am available to present the proposal in person and to answer any questions.

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