

Independent Competition and Regulatory Commission
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The structure of the tariffs for water and sewerage in the ACT

Thank you for the opportunity to provide input to the review of the tariff structure for the provision of water and sewerage services by ICON.

The Issues Paper produced by the ICRC, provides an excellent review of the main issues to be considered in determining the structure of the tariffs. My comments are contained in two parts. Part one contains two recommendations for the ICRC to consider and part two contains comments on the issues raised in the document.

1. The recommendations

I agree that the overarching objective:

“To promote the efficient investment in, and efficient operation and use of, Icon Water’s regulated water and sewerage services to maximise the social welfare of the community over the long term.” provides a sound basis for developing a tariff structure, but do not consider that the current situation goes far enough to ‘maximise the social welfare of the community in the long term.’

This is because the fixed charge component is far too high and does not appropriately reward customers for conserving water.

At present there is a sizeable impost of more than \$156 a quarter before one drop of water flows through a tap. This is inequitable and should be significantly reduced.

I contend that the costs outlined in the Issues paper to:

- maintain dams and pipes and treating water;
- reticulating water and maintaining the reticulation system
- reading meters and billing consumers, and
- collecting pumping and treating sewerage

should be incorporated in the consumption charges and that any new developments requiring capital expenditure, such as those in new suburbs, should be paid for by those responsible for the development.

When you fill up your car with petrol you don’t pay a connection fee. It’s just a flat price per litre and the company factors in the exploration, refining and supply costs. I see no reason why the maintenance costs and debt repayments can’t be handled like an oil company has to.

More importantly, for the poorer people in the community the \$156 per quarter connection fee is a very significant impost, particularly as they may well be low consumers of water.

I recommend that the first 40 kl be supplied at a significantly reduced price and all water used above that threshold be supplied at one standard price. This would be a similar structure to what is in place now, but the ratio of fixed costs to usage costs would change.

As we all know water is a very valuable commodity and there is no reason why the cost of reticulated/treated water should depend on how much is used, or when it is used, or why it is used.

I therefore recommend that

R1. The fixed price supply charges be reduced significantly.

R2. The first 40 kilolitres of water per quarter be provided at a significantly reduced price and that a standard one price per litre for all water used the level one threshold.

2. Comments on the Issues raised by the ICRC

Q1: Do you think that the proposed overarching objective will provide an effective foundation for assessing current and alternative tariff structures? If not, why?

Yes

Q2: Do you think that the set of proposed principles will provide an effective basis for assessing current and alternative tariff structures? If not, why? Are there any additional principles that you think the Commission should consider? If yes, what are they and why?

Yes The principles are all good

Q3: What is your view on the equity and water conservation benefits of inclining block tariffs?

In theory, inclining block tariffs may provide some benefits, but should not be adopted because they are not consistent with *Pricing principle 6: Tariff structures should be simple for customers to understand and straightforward for the utility to implement*. Furthermore, a litre of water should cost the same whether you use 1000 litres or just one.

Q4: Do you monitor your water use on a more regular basis than your three-monthly bill interval? If yes, are you able to estimate when you are about to trigger the top-tier price and does this affect your subsequent water usage?

I don't know anyone who regularly monitors water consumption. Firstly it is not that easy to do. I recommend that the second tier be applied after to 40 kl/qrt is exceeded.

Q5: Would you be prepared to pay more for water during periods of scarcity rather than be subject to temporary water restrictions?

This would depend on what the restrictions would be and how much the extra cost was.

Q6: Do you think the benefits from more even bills outweigh any complexities associated with daily pricing?

Not really but it would be good to have a system in place where it is easier to monitor daily consumption.

Q7: Would you like to have choice between different water tariffs? If yes, are you confident that you will be able to select the best tariff for your particular circumstances?

I think that the simple two tier tariff structure is the fairest (see the recommendations).

Q8: Do you think there are any cost differences between providing water services to business and residential customers or to customers in different locations? If yes, what are these differences due to?

I do not know, but would recommend that everyone on the main reticulated supply should pay the same tariff or set of tariffs.

Q9: Do you think Icon Water should consider levying developer charges for new developments in an effort to send the right price signals about the actual costs involved?

Yes I strongly support developers paying actual costs, whether these are 'greenfield' developments or re-developments that require improvements to the infrastructure.

Q10: Do you think the benefits from introducing volumetric sewerage services pricing will outweigh the costs?

Probably, but it depends on the numbers. I would support a scheme where the really large users pay more, but would have to examine any proposal before making a proper assessment.

Q11: Do you think Icon Water should consider introducing sewerage services pricing based on something other than the number of fixtures?

Ideally yes, but consideration should be given to how the flow would be measured. If this was easy then it should be done.

Q11: Do you think Icon Water should consider introducing sewerage services pricing based on something other than the number of fixtures?

It would have to be a really good proposal for any changes to be introduced. I would have to see a detailed proposal before providing an opinion.

Please contact me if you require any further information or comments.



David Denham
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