



# ICRC

independent competition and regulatory commission

## **Water and sewerage services price investigation**

**Public hearing  
21 November 2022**

# Overview

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- Overview of draft decision
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  - Demand forecast

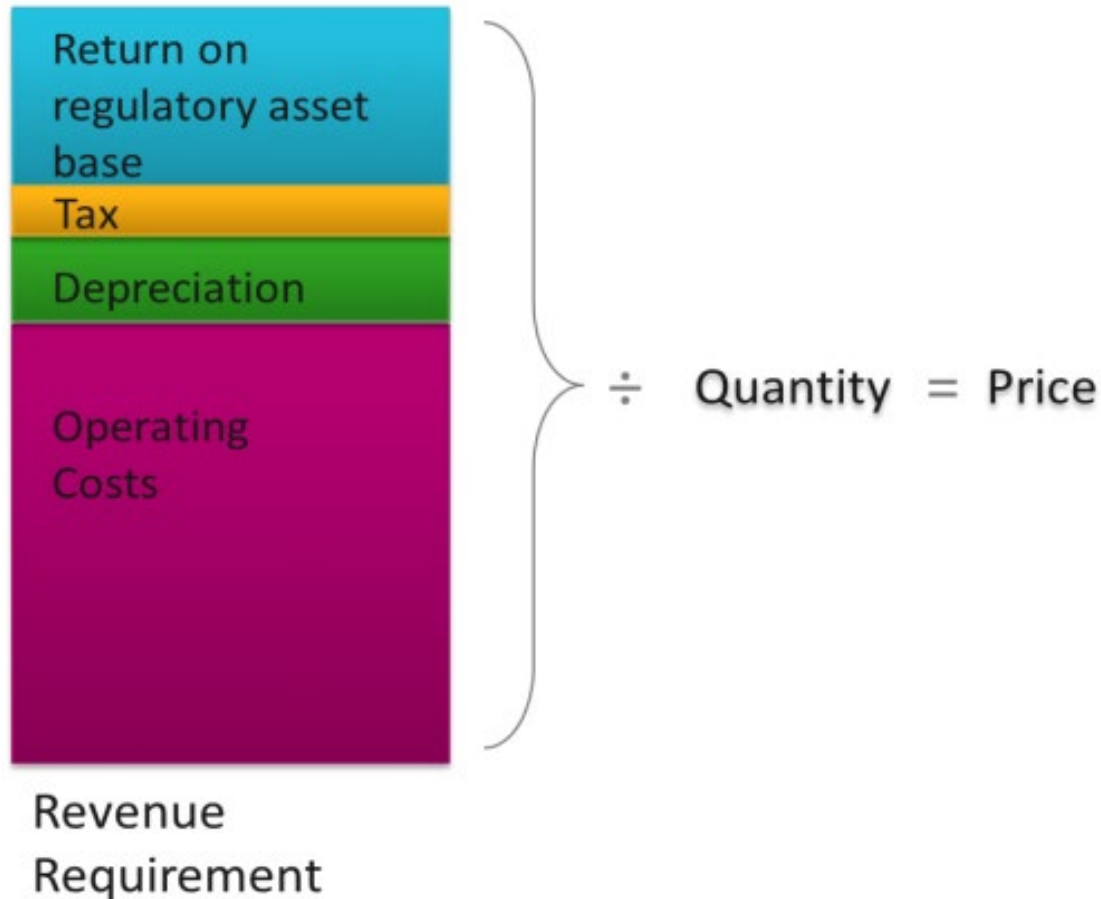
# Investigation timeline

Step	Date
Terms of reference signed	9 December 2021
Release of issues paper	1 March 2022
Submissions on issues paper close	8 April 2022
Icon Water's pricing proposal submission	30 June 2022
Draft report and proposed price direction	21 October 2022
Public hearing	21 November 2022
<b>Submissions on draft report close</b>	<b>14 December 2022</b>
Release of final report and price direction	March - May 2023

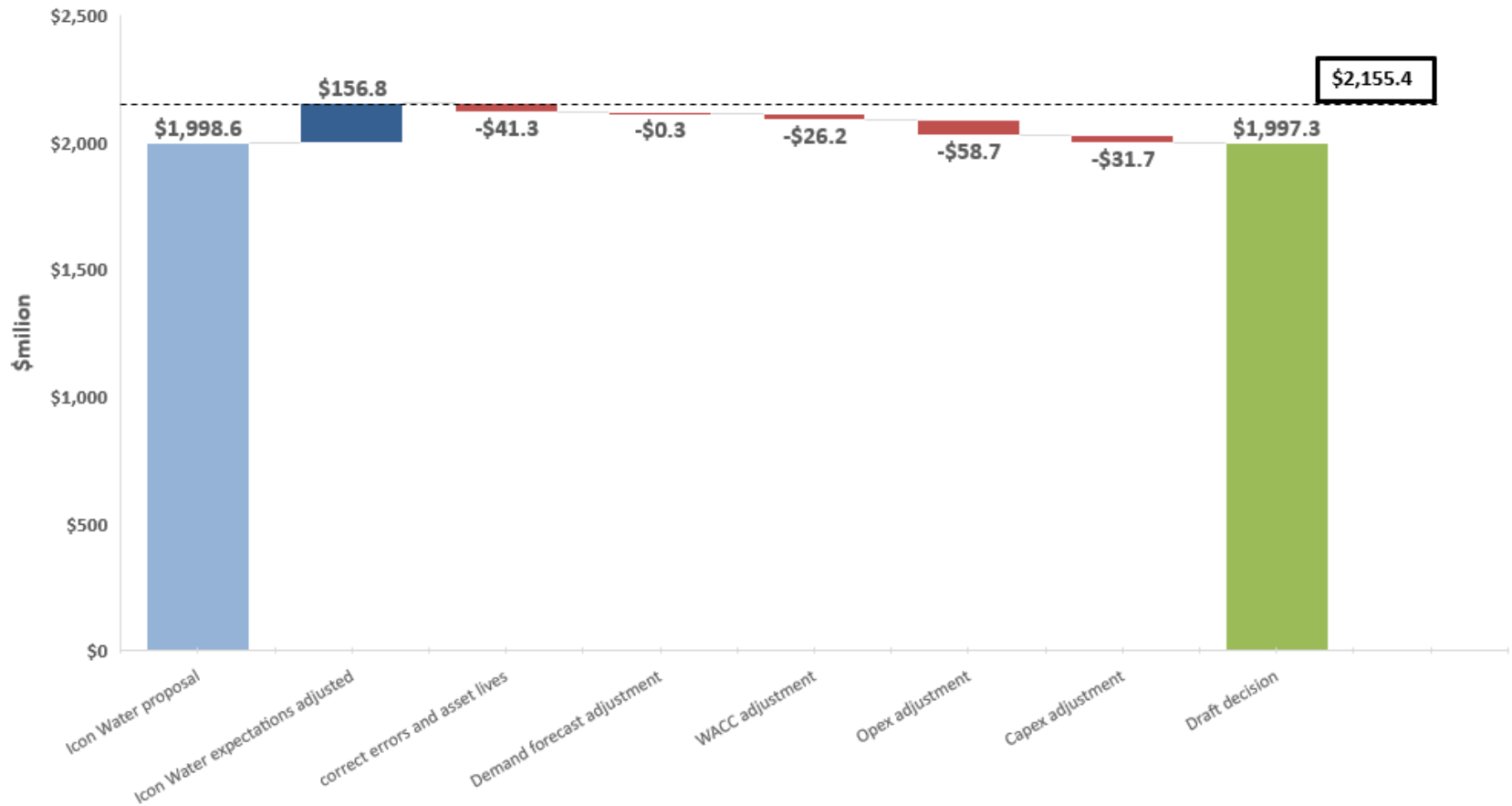
## Our draft decision

- Draft revenue allowance 7.3% less than Icon Water's proposal
- An increase in the prices for water and sewerage over 2023-28
  - Typical household will see 4.2% increase per year
  - Non-residential prices will increase by 3.3-5.4% per year
- Further investigation into sewerage tariffs

# Building blocks of Icon Water's revenue requirement



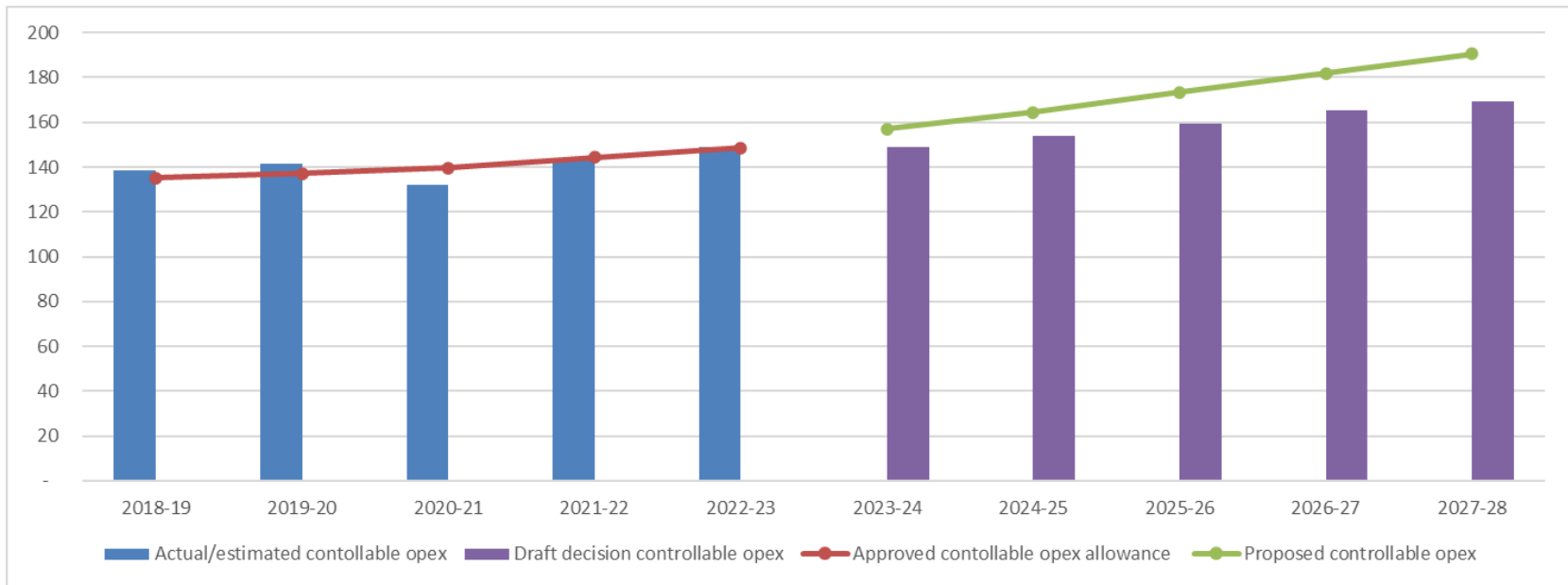
# Our adjustments to Icon Water's proposed revenue requirement (\$million, nominal)



# Operating expenditure

- Draft decision allowance is slightly more than the operating expenditure for the 2018-23
- Main points of difference between our draft decision and Icon Water's proposal:
  - Greater productivity growth (1.4% instead of 0.5%)
  - Lower input price growth for electricity
  - Reduction to step change in insurance premium costs

# Historical and forecast controllable opex (\$million, nominal)

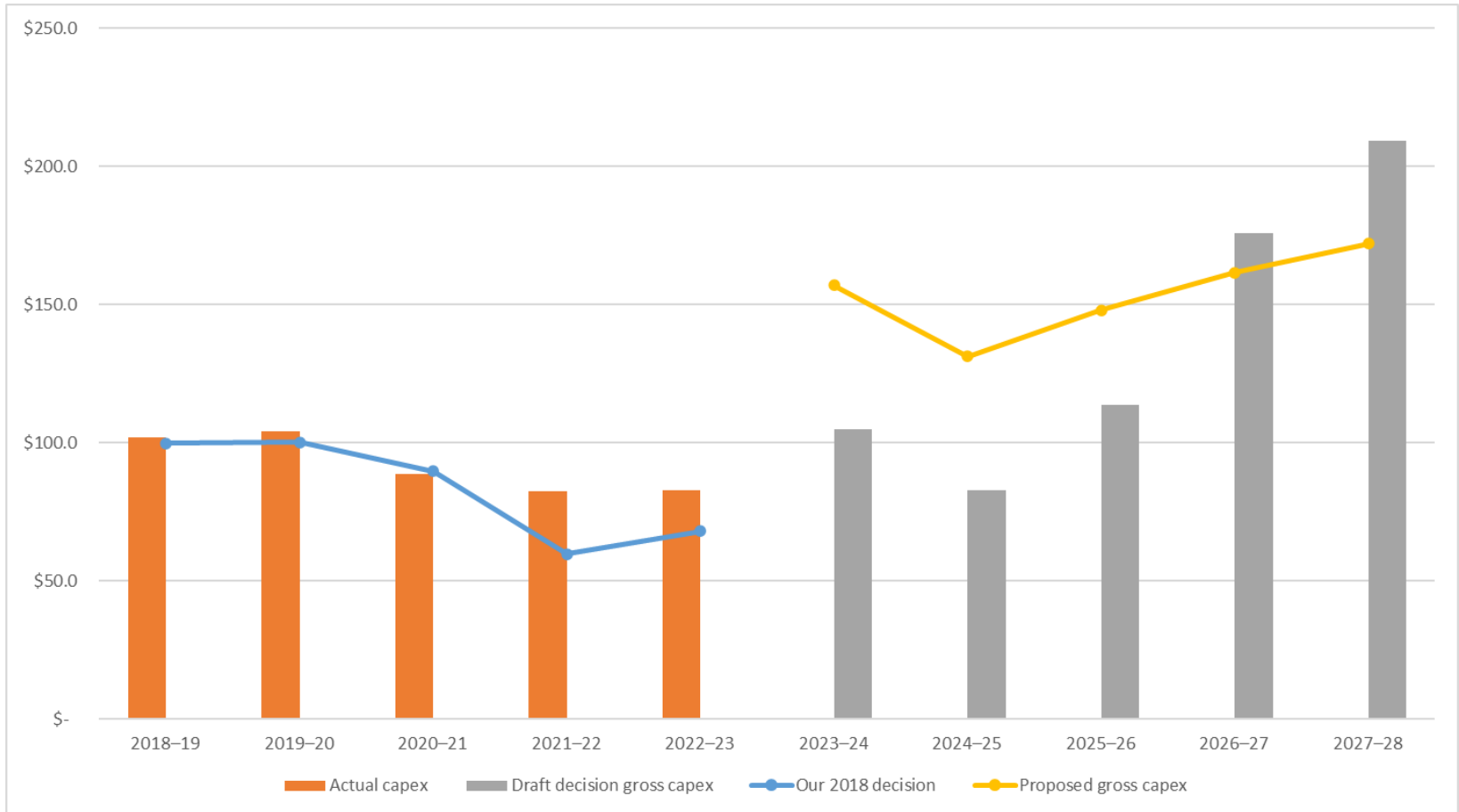




## Capital expenditure

- Icon Water proposed an increase in capital spending of 38% on current period
- Icon Water's capital proposal reflects replacing aging assets, and meeting Canberra's population growth
- Our draft decision includes small reductions for efficiency and re-profile of timing

# Historical and forecast capital expenditure (\$million, nominal)



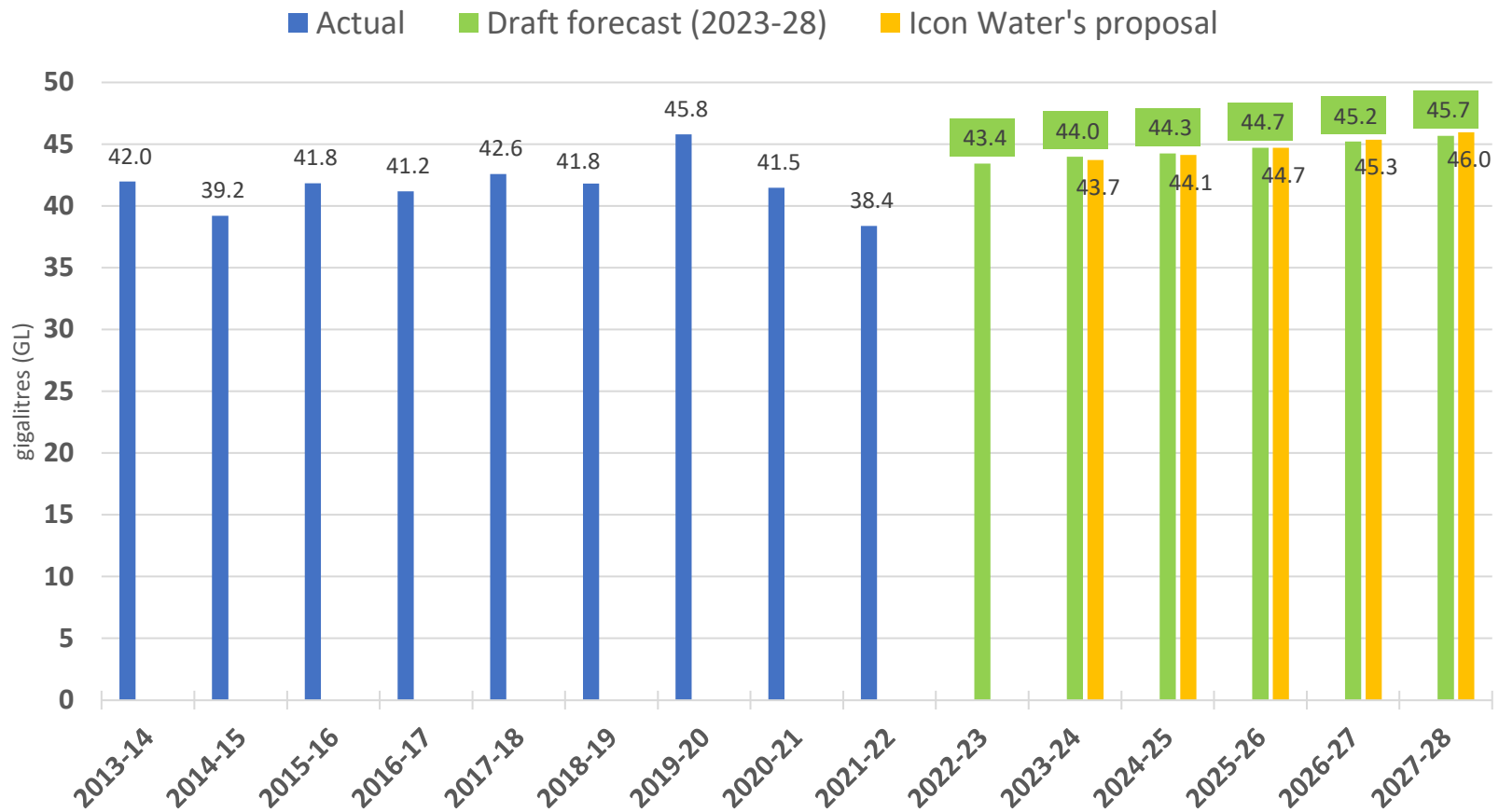
## Rate of return and expected inflation

- Our decision has been affected by increased interest rates, bond rates and higher expected inflation
- We applied a market risk premium of 6.5%
- Draft decision rate of return of 5.85% compared to Icon Water's proposal of 5.93%

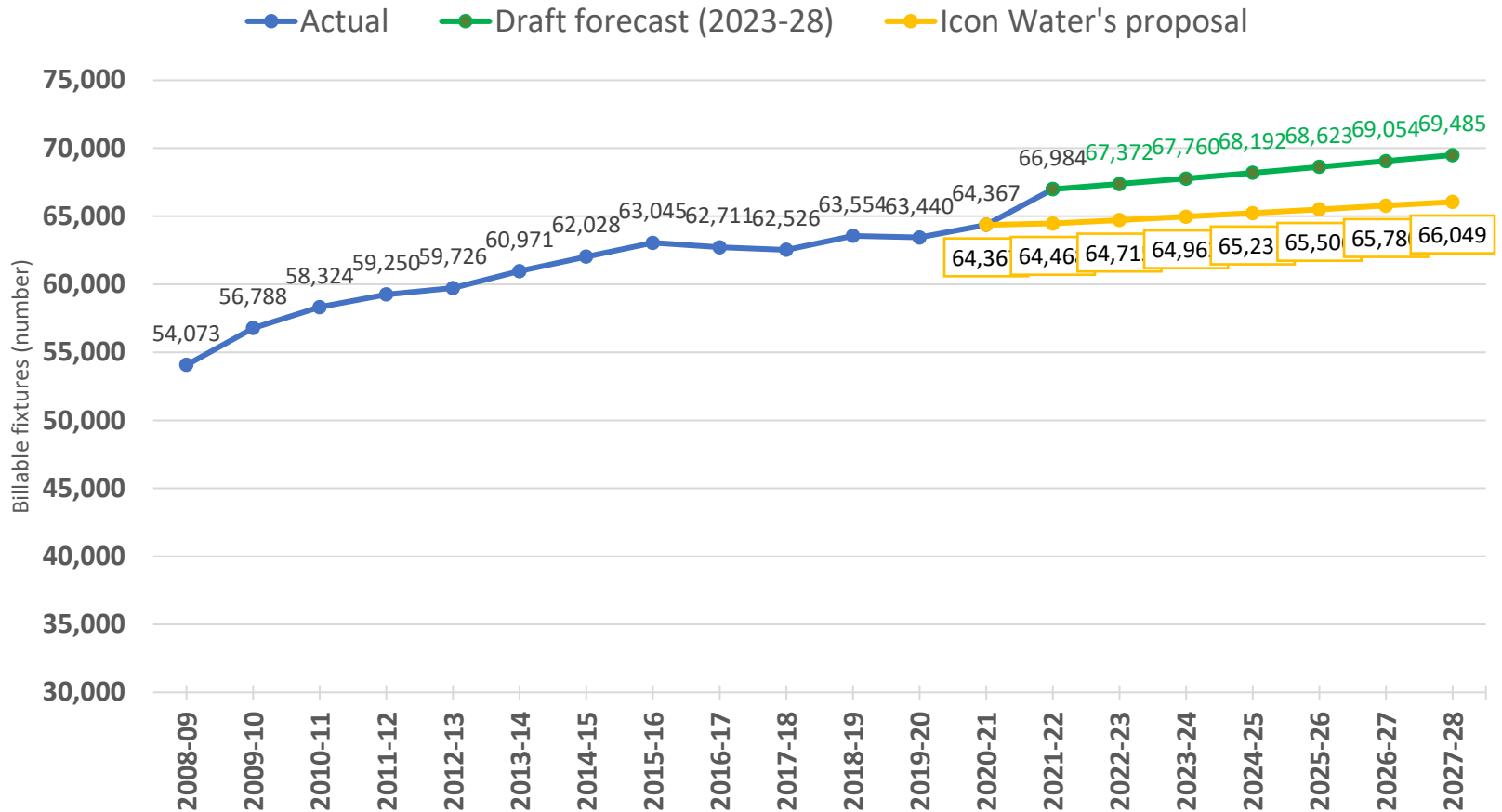
# Demand forecast

- Steady growth in demand due to population growth
- Climate variability considered in models
- COVID impacts on non-residential sewerage connections (billable fixtures)

# Total ACT water usage actual volume and forecast, 2013-14 to 2027-28



# Billable fixtures actual numbers and forecast, 2008-09 to 2027-28



# Draft decision on prices (\$, nominal)

Water prices	2022-23 <sup>a</sup>	2023-24	2024-25	2025-26	2026-27	2027-28
Water supply charge (\$/year/connection)	\$200.00	\$206.30	\$212.79	\$219.49	\$226.40	\$233.53
Tier 1 charge (0–200kL/year) (\$/kL)	\$2.28	\$2.35	\$2.43	\$2.50	\$2.58	\$2.66
Tier 2 charge (more than 200kL/year) (\$/kL)	\$4.58	\$4.72	\$4.87	\$5.03	\$5.18	\$5.35

Sewerage prices	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Sewerage supply charge (\$/year/connection)	\$502.18	\$530.13	\$559.64	\$590.79	\$623.67	\$658.39
Sewerage fixtures charge (\$/year/fixture)	\$491.13	\$518.47	\$547.33	\$577.79	\$609.95	\$643.90

## Questions?

- Submissions can be sent to [icrc@act.gov.au](mailto:icrc@act.gov.au) or lodged on our website
- Submissions close on 14 December 2022

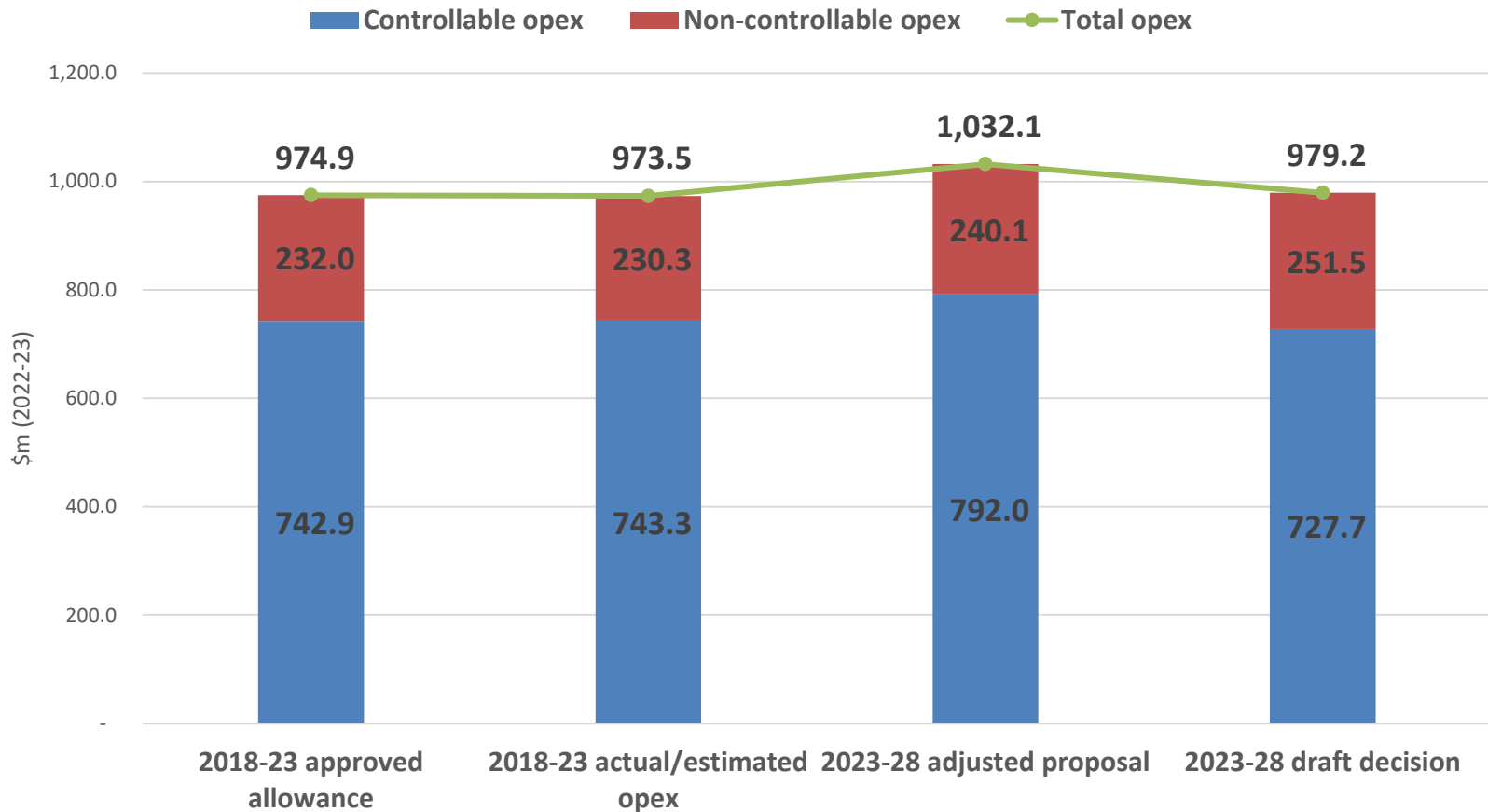


# Additional slides

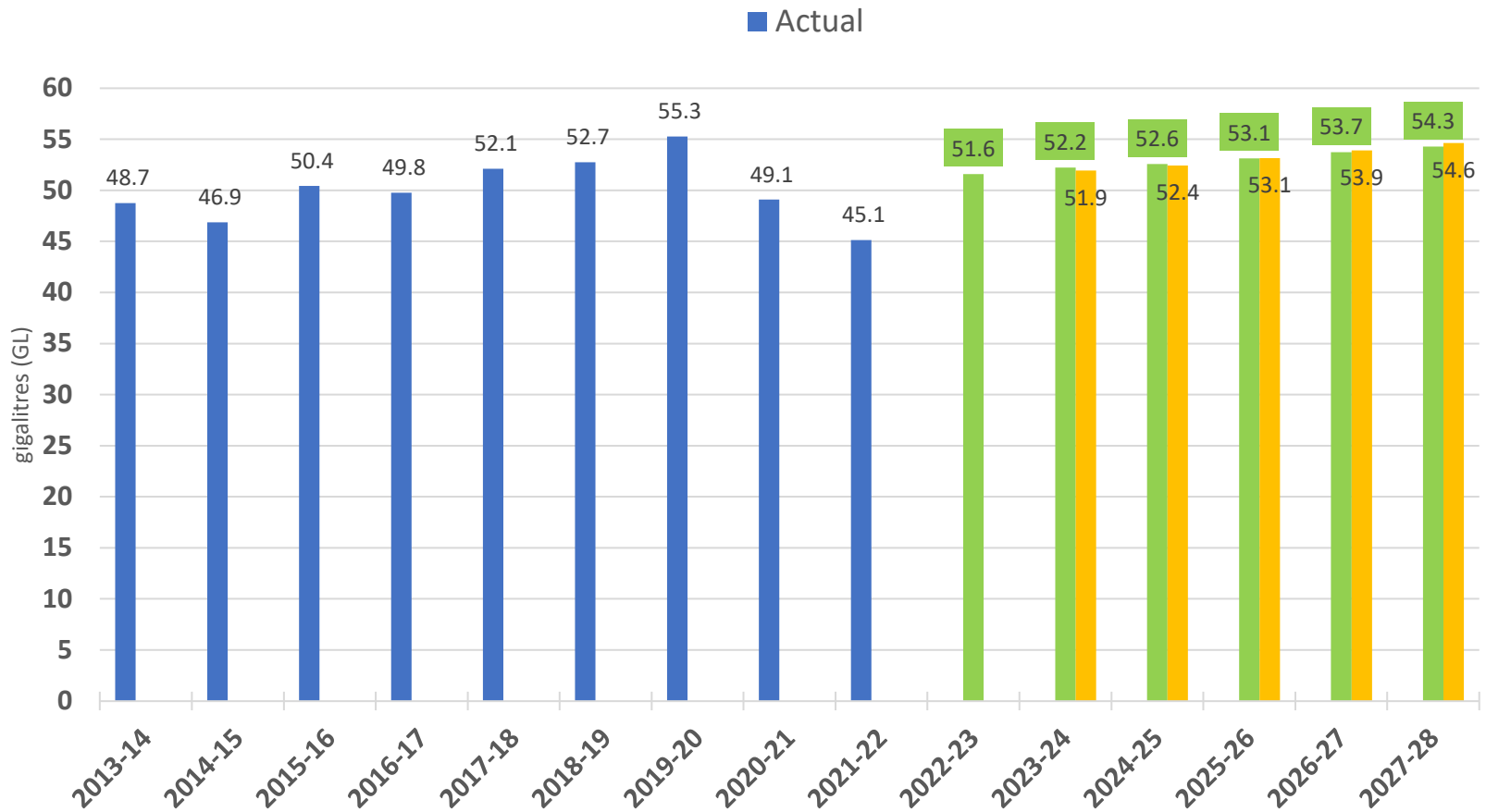
# Key differences between our draft decision and Icon Water's adjusted proposal

	Icon Water's adjusted proposal	Our draft decision	Difference	Difference %
Revenue (\$m, nominal)	2,155.4	1,997.3	-158.1	-7.3
Operating expenditure (\$m, nominal)	1,129.91	1,074.27	-58.64	-5.2
Capital expenditure (\$m, nominal)	769.3	716.7	-52.6	-6.8
Rate of return (%)	5.93	5.85	-0.08	-1.3

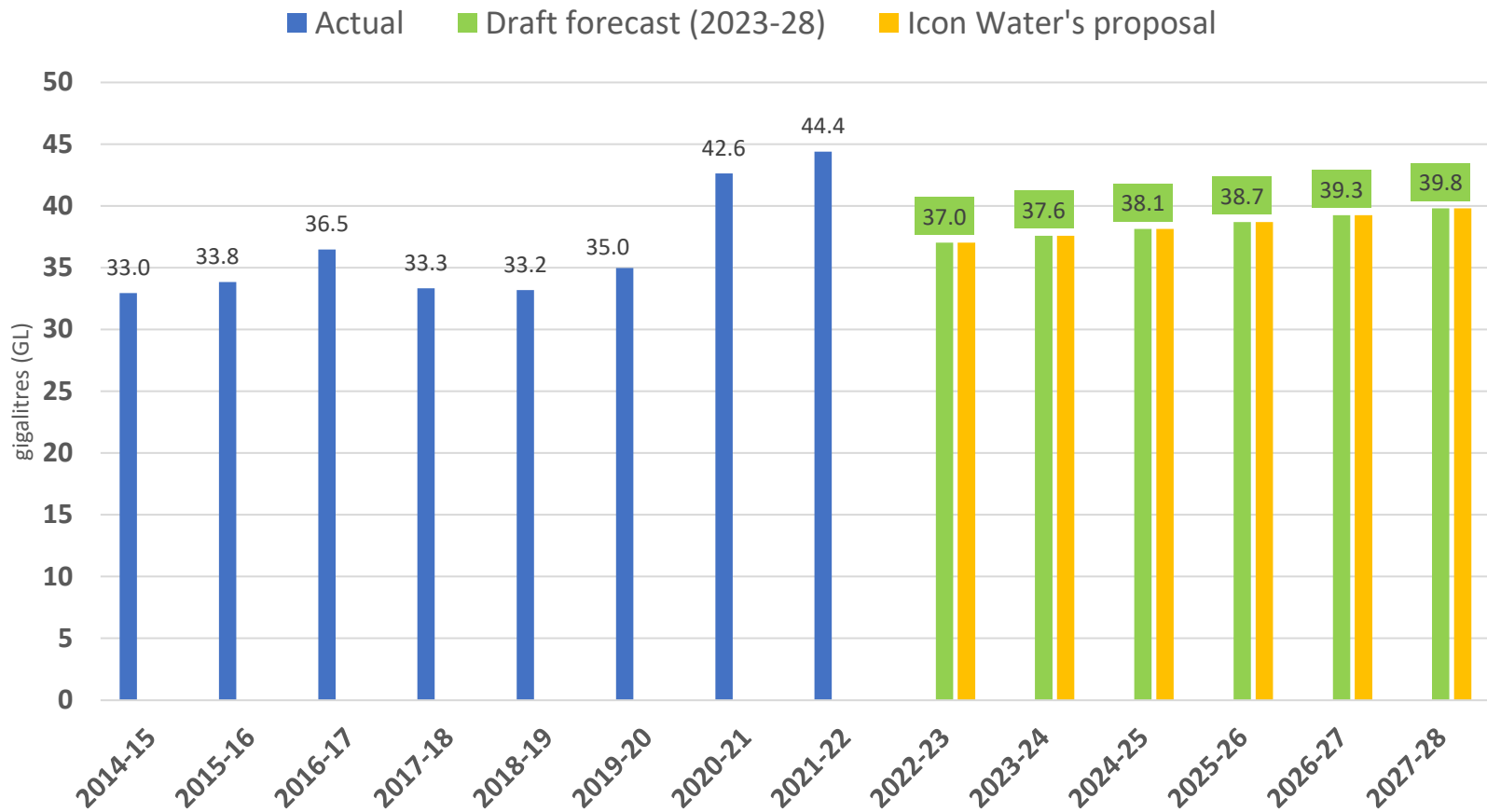
# Draft decision opex compared to Icon Water's proposal and 2018-23 actual and allowed opex (\$millions, \$2022-23)



# Dam abstractions: actual volume and forecast, 2013-14 to 2027-28



# Sewage actual volumes and forecasts, 2014-15 to 2027-28



# Rate of return draft decision

	2018 Decision	Icon Water's proposal		Draft decision
		As proposed	Adjusted	
Risk free rate	2.8%	2.2%	3.38%	3.38%
Debt raising cost	0.125%	0.108%	0.108%	0.108%
Equity beta	0.7	0.7	0.7	0.7
Market risk premium	6.5%	6.1%	6.8%	6.5%
Gearing ratio	60%	60%	60%	60%
Return on equity	7.34%	6.48%	8.14%	7.93%
Return on debt	4.75%	4.18%	4.46%	4.46%
Nominal post-tax 'vanilla' WACC	5.78%	5.10%	5.93%	5.85%
Gamma	0.4	0.25	0.25	0.5