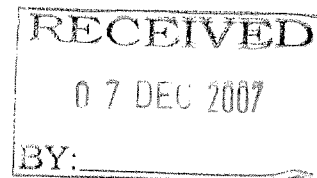




Jon Stanhope MLA
CHIEF MINISTER



TREASURER MINISTER FOR BUSINESS AND ECONOMIC DEVELOPMENT
MINISTER FOR INDIGENOUS AFFAIRS MINISTER FOR THE ENVIRONMENT, WATER AND
CLIMATE CHANGE
MINISTER FOR THE ARTS
MEMBER FOR GINNINDERRA

Mr Paul Baxter
Senior Commissioner
Independent Competition and Regulatory Commission
GPO Box 296
CANBERRA CITY ACT 2601

Dear Mr Baxter

I write in reference to the Independent Competition and Regulatory Commission (ICRC) current Terms of Reference, dated 10 March 2007, which require the ICRC to make a price determination for regulated water and wastewater services provided by ACTEW. I enclose a Government Submission relating to the inquiry, which I hope will be of use as you consider the issues relevant to these important services.

I look forward to receiving the reports arising from the inquiry process.

Yours sincerely

Jon Stanhope MLA
Chief Minister
30 NOV 2007

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ACT GOVERNMENT SUBMISSION TO THE INDEPENDENT COMPETITION AND REGULATORY COMMISSION INQUIRY INTO WATER AND WASTEWATER PRICING, 2008-09 TO 2012-13

On 10 March 2007 the Government issued Terms of Reference instructing the regulator, the Independent Competition and Regulation Commission (ICRC), to commence an inquiry into the price direction for water and wastewater services provided by the ACTEW Corporation. The price direction is to cover the period from 1 July 2008 to 30 June 2013.

This Submission to the ICRC inquiry highlights the Government's views on specific issues relating to future water and wastewater services.

Water Abstraction Charge and Utility Network Facilities Tax

From 1 July 2008, the ACT Government intends to change two aspects of current policy related to water, which will have an impact on ACTEW's provision of water services. Firstly, the Government intends to change the method of calculation for the Water Abstraction Charge (WAC). Secondly, the Government intends to remove the status of the WAC and the Utilities Network Facilities Tax (UNFT) as section 4C fees under the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act).

The Government intends to change the method by which the WAC is calculated. As currently worded, the WAC charged to water utilities is calculated on the basis of "water charged to users"¹. To improve the environmental incentives placed upon ACTEW to conserve water the Government intends to change this from 1 July 2008 to "water abstracted". The Government will adjust the WAC, from 55 cents per kilolitre of water delivered to consumers to 51 cents for each kilolitre of water abstracted by ACTEW.

Consistent with ICRC's usual assessment of ACTEW's levels of economic efficiency, the Government expects that the final inquiry would include an assessment of current unavoidable water system losses, and allow the WAC to be recovered from consumers consistent with that assessment.

The Government notes that ACTEW, in its Submission to the ICRC has proposed that the WAC be used as an adjunct to its pricing regime to manage total consumption of water within the Territory and region. It also recommends that, rather than introduce various stages of public water restrictions, the WAC may be used to control the public demand for water.

The Government does not currently intend to vary the WAC charge either seasonally or in line with dam storage levels or other criteria. It retains the view that price signals sent to consumers can be valuable. However, in the absence of appropriate systems which provide consumers with timely information on costs and consumption, price signals are likely to be ineffective. Furthermore, punitive prices may cause inequitable

¹ *Water Resources (Fees) Determination 2006* (No 1)

redistributive effects. Restrictions, while also not ideal, are publicly announced, and can be patrolled and enforced either officially or through public recognition of offenders.

It remains the prerogative of Government to vary the WAC at any point in the future. The ICRC should provide a pricing determination sufficiently flexible to allow any such variations to be passed through to consumers without the requirement for a further inquiry.

Section 4C Provisions of the ICRC Act

Currently the WAC is declared under section 4C of the ICRC Act as a statutory fee that may be passed on in full to consumers. The Government considers that the WAC is properly characterised as a standard business cost to ACTEW in providing its services to consumers, which should be included as part of the price path set by the ICRC. In particular, the Government considers that the WAC should be fully incorporated into the volumetric charge. The Government will be repealing the relevant instrument that declares the WAC as a statutory fee from 1 July 2008.

The Utilities Network Facilities Tax (UNFT) is similarly a declared statutory fee under section 4C of the ICRC Act. This declaration is due to expire on 30 June 2008. Incorporating this charge into the volumetric charge should assist in providing consistent demand management signals to consumers in the Territory and region.

ACTEW Capital Expenditure Projections

ACTEW has presented a major capital works program over the period covered by the ICRC price determination. This reflects the Corporation's requirements to maintain current assets while continuing to meet the requirements of growth within Canberra and the region. Assuming that these individual projects are endorsed by the ICRC as "prudent and efficient", their costs are likely to be allowed to pass through to consumers in the form of higher prices for water and wastewater services.

This current capital works program, however, does not include any infrastructure developments that may be supported by the Government in considering the current *Next Steps to Ensure Water Security for the ACT Region Program*. This program will identify essential additional infrastructure to be developed by ACTEW. It is highly likely that ACTEW will need to incur expenses on this infrastructure within the period of the current price path. The ICRC inquiry should take account of any future decisions in relation to this program, and undertake an investigation of the total resulting capital works sought by ACTEW. The overall costs of this, together with the likely effects on consumers of resulting price increases, should be a focus of the ICRC inquiry.

Wastewater charging

The Government notes the concerns expressed by both the ICRC and national water agencies regarding non-residential wastewater charging by ACTEW. Subject to the constraints of the time set for the inquiry, the Government supports ACTEW and the ICRC working cooperatively to address issues raised previously in relation to

non-residential customers. Broad elements of the existing tariff structure, therefore, should be examined as part of the development of the 2008-2013 price determination, with the overall structure of wastewater charging reviewed in the future.

Possible future developments

The ACT Government, as part of the COAG's National Reform Agenda, has agreed, subject to the findings of a national cost-benefit analysis, to the rollout of electricity smart meters in the ACT. The Government believes smart meters provide great opportunities for consumers in the ACT to observe and adjust their resource consumption in real time. Such reforms will assist in ensuring we minimise investment in costly new infrastructure and consumption that harms the environment. Smart metering, if available for water consumption, could allow the Government to then reconsider its current preference for restrictions over pricing in managing demand for water.

In this context the Government is keen to work with local distributors to examine the possibilities of a rollout of smart meters to cover other utility services such as gas and water. Therefore, in arriving at your price path you should allow for the possibility of this rollout in terms of the future flexibility it may provide to water prices and the associated costs that may be incurred in a rollout.

The ACT Government notes that the ICRC has allowed the pass through of a number of costs to ACTEW associated with the development of water policy, including identified future water supply options, within the Corporation. The Government, of course, is vitally interested in ensuring that the supply of such an essential service is adequately maintained and is provided in an efficient manner. Notwithstanding the Government's close involvement in the development of options for ensuring the future water supply, it is appropriate and logical that the cost of ensuring the supply of goods and services for distribution and retail to customers is a legitimate cost to ACTEW. Accordingly, the ICRC should continue to allow the full passage of costs associated with the development and analyses of options for future water supply.

The Government also believes that changes in other ACT Government taxes and charges should be included as pass through events for the price path period.