



10 July 2020

Mr Joe Dimasi  
Senior Commissioner  
Independent Competition and Regulatory Commission  
PO Box 161  
**CIVIC SQUARE ACT 2608**

Dear Mr Dimasi

### **Draft Report – Incentive Mechanisms for Water and Sewerage Services**

Icon Water is pleased to submit its response to the Independent Competition and Regulatory Commission (the Commission) draft report on incentive mechanisms for water and sewerage services (Draft Report).

As explained in our submission to the Issues Paper,<sup>1</sup> Icon Water considers that the general principles underlying the current approach to incentive-based regulation have been successful in driving affordability and service quality in the long-term interests of our customers. Given there is limited evidence on the benefits of introducing new incentive schemes in the ACT, and the potential for significant regulatory costs and complexity, Icon Water does not support the introduction of new schemes at this time.

Icon Water welcomes the Commission's draft decision to retain the current approaches to incentive mechanisms for Icon Water and, in particular:

- to retain the existing incentive mechanisms for operating and capital expenditure, and not to introduce new expenditure incentive mechanisms;<sup>2</sup> and
- to retain the existing incentive mechanisms for service standards and the form of price control, and not to introduce new incentive mechanisms.<sup>3</sup>

We agree with the Commission's finding that *'[...] some of these alternative mechanisms have significant implementation challenges and, in some cases, the benefits are likely to be more than offset by the implementation costs'*.<sup>4</sup> This is similar to the findings of the Commission's 2005 review of incentive mechanisms, and is aligned to findings by other regulators for water and sewerage businesses in Australia.<sup>5</sup>

Icon Water notes that ACTCOSS and ACAT's submissions to the Issues Paper also acknowledged the relative success of the current regulatory framework, and no submissions recommended the introduction of new schemes.

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<sup>1</sup> Icon Water, *Icon Water submissions to ICRC Issues Paper*, 28 February 2020.

<sup>2</sup> ICRC, *Draft Report Water and Sewerage Services Price Regulation: Incentive Mechanisms*, May 2020, p33.

<sup>3</sup> Ibid p55.

<sup>4</sup> Ibid p4.

<sup>5</sup> ICRC, *Final Decision – Review of Efficiency and Service Standard Incentive Mechanisms*, Report 16 of 2005, December 2005.



In its submission, ACTCOSS recommended that the Commission assess the strengths and weaknesses of current and potential future incentive mechanisms.<sup>6</sup> In its Draft Report, the Commission found evidence that incentive mechanisms currently used have been effective in strengthening Icon Water's incentives to operate, invest and deliver services effectively.<sup>7</sup> We agree with the substance of the evidence identified by the Commission. We also agree that a full quantitative assessment of the costs and benefits of different incentive schemes is challenging due to data limitations and comparability issues associated with data from other jurisdictions. However, we wish to draw attention to the following factors (many of which were also identified in the Draft Report) which help to illustrate Icon Water's recent performance and service outcomes:

- Icon Water continuously seeks to identify and implement efficiencies in its expenditure program. For example, Icon Water's 2018–23 regulatory decision included efficiencies in operating expenditure of around \$35 million, compared to the 2013–18 period.
- Icon Water maintains a very high standard of service across its network, with customer satisfaction exceeding 90% in its latest 2018–19 customer survey.<sup>8</sup>
- Icon Water consistently performs well in the Commission's Utility Licence Annual Report, with a low rate of approximately 2.8 complaints per 1,000 properties recorded in 2018-19.<sup>9</sup>
- Icon Water's combined water and sewerage bill is around 15 per cent lower than the average for major urban water utilities in Australia, based on the Bureau of Meteorology's most recent National Performance Report.<sup>10</sup>
- In June 2020, Icon Water made the decision to freeze combined water and sewerage prices for 12 months. We have set our prices below the maximum price increase approved by the Commission to help support our customers through the COVID-19 pandemic. In addition, Icon Water has various policies to support our customers who are experiencing hardship.

Having regard to these factors, and the potential costs and risks of implementing new schemes, Icon Water does not believe that new incentive schemes would provide a net benefit to our customers.

We note the Commission's intention in the Draft Report to continue monitoring the suitability of potential changes to the incentive framework in future, in particular the threshold value for the six per cent 'deadband' and the issue of uneconomic bypass. In particular, the Commission states that '*differentiated tariff structures for residential and large non-residential water consumers may be part of the response to the risk of uneconomic bypass*'.<sup>11</sup> Icon Water remains open to exploring further refinements to its tariff structure, building on the tariff reform resulting from the Commission's 2017 Tariff Review.<sup>12</sup> However, any changes to tariffs for large non-residential customers must be weighed against the potential bill impacts for residential and small business customers. Icon Water looks forward to further engagement with the Commission on these matters as part of the 2023–28 price investigation.

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<sup>6</sup> ACTCOSS, *Issues Paper – Incentive Mechanisms for Water and Sewerage Price Regulation*, 22 April 2020, p3.

<sup>7</sup> Above n 2, p4.

<sup>8</sup> Icon Water, *2018-19 Annual Report to the ACT Government*, September 2019.

<sup>9</sup> ICRC, *Utility Licence Annual Report 2018-19*, Report 4 of 2020, April 2020.

<sup>10</sup> Bureau of Meteorology, *National Performance Report 2018–19: Urban Water Utilities*, February 2020.

<sup>11</sup> Above n 2, p48.

<sup>12</sup> ICRC, *Final Report Tariff Structure Review 2016-17*, Report 3 of 2017, March 2017.



Thank you again for the opportunity to provide input into the Commission's review of incentive mechanisms. Should you wish to discuss any aspects of this letter please contact [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Acting CEO