



08 September 2022

Mr Joe Dimasi
Senior Commissioner
Independent Competition and Regulatory Commission
GPO Box 158
Canberra ACT 2601

Dear Mr Dimasi

Regulated Water and Sewerage Services 2023–28: Revisions to Capital Investment Plan

On 30 June 2022, Icon Water submitted its price proposal for regulated water and sewerage services for the five-year period commencing 1 July 2023 to the Independent Competition and Regulatory Commission (the Commission). We have since identified a small number of updates that need to be made to the historical and forecast capital investment plans. These updates relate¹ to:

- Removing a duplicate transaction, which had overstated the historical capital investment plan by ~\$0.9m.
- Correcting a calculation error in the vehicles forecast, which had overstated the forecast capital investment plan by ~\$1.4m.
- Adding the asset balance for leases which had been erroneously left off the capital investment plan in 2019–20, which had understated the historical capital investment plan by ~\$12.5m. This update relates to the change in accounting treatment under *AASB 16 Leases* effective 1 July 2019, which saw a shift in the classification of leases expenditure from operating expenditure to capital expenditure.

Adopting these three updates would add approximately \$3.00 to the combined water and wastewater bill per year over the 2023–28 regulatory period for a typical residential customer using 200kL water per annum.

Further detail of these three updates is included in the confidential attachment to this letter, **Attachment A**.

There is also a recent development in information and communication technology (ICT) service delivery models that will impact our forecast capital investment plan. Over the last few months, a number of our ICT vendors advised they are moving to 'cloud based' models, under a subscription service or Software as a Service (SaaS), and will no longer support our existing systems under perpetual licences. For the

¹ Updates reflected in 2022/23 dollars

2023–28 regulatory period, we are not expecting this change will increase our total expenditure requirement (in fact, it may reduce our expenditure requirement) but we will see a shift in our forecast costs from capital to operating expenditure. As accounting standards dictate how costs are treated under the building block methodology used to calculate Icon Water’s total revenue requirement, this shift may cause a short-term impact on customer prices for the 2023–28 regulatory period as we transition from capital to operating expenditure.

We are currently reviewing each ICT project scheduled for the next regulatory period to confirm the likely service delivery model (and therefore accounting treatment), but early analysis suggests the reduction in our capital investment plan will be in the realm of ~\$35m. Our response to the Commission’s proposed price direction and draft report (to be submitted December 2022) will confirm the magnitude of the shift, the required update to our forecast capital investment plan and the resultant operating expenditure step change. We will keep the Commission informed of the outcomes of our review of forecast ICT projects.

Should you wish to discuss any aspect of this letter please contact Cath Pennington (Principal Advisor) on 02 6180 6979 or cath.pennington@iconwater.com.au.

Yours sincerely

Ray Hezkial
Managing Director

Attachments:

A. Memorandum – Updates to be made to the 2018–23 and 2023–28 capital investment plans (confidential)