

4 December 2022

Joe Dimasi
Senior Commissioner
Independent Competition and Regulatory Commission
icrc@act.gov.au

Regulated Water and Sewerage Services 2023-28

I submit the following personal Submission in response to the Commission's Report 6 of 2022 on Regulated Water and Sewerage Services in the ACT for the five year period from 1 July 2023 to 30 June 2028.

In this Submission, I make a few general comments in support of the Commission's approach to the water and sewerage price reset and discuss several of the matters which I raised at the Public Hearing on 21 November 2022.

Methodology adopted by the Commission

I support the overall legal framework and methodology adopted by the Commission in relation to setting water and sewerage prices in the ACT for the period 2023-28. This includes:

- The hybrid price and revenue cap form of price control.
- The end of period 6% deadband to respond to volatility in sales revenue.
- The methodology for the annual price reset process; and
- The proposed pass-through arrangements, including the "Managing Buildings Better" reforms being part of the current service standards event.

Tier 1 and Tier 2 Water Pricing

I support the proposed water pricing structure and the balance proposed between the supply charge, the Tier 1 price up to 200 kL/year, and the higher Tier 2 price above 200 kL/year.

As I have stated in past resets, I think this structure offers the most equitable outcome for ACT consumers, and incentivises investment by large commercial users in water efficiency and reuse. It is pleasing that Icon Water now accepts this pricing structure for the 2023-28 regulatory period.

One improvement in the pricing structure would be to provide that the Tier 2 price is based on 200 kL/year rather than on 50kL per quarter as is effectively the case at present. Currently, because of the Summer seasonal pattern of usage, some domestic customers pay Tier 2 prices for some of their usage during one or two quarters, even though their annual usage is under 200kL.

Community Consultation by Icon Water

As I commented at the Public Hearing, Icon Water has significantly improved its community consultation processes since the early 2000s. At that earlier time, Icon was very focussed on technical and engineering issues, and did not always consider wider community concerns such as enhancement of the environment and equity measures to address the effects of climate change. Today, Icon is taking a more holistic approach to its fundamental task of providing water security for the Canberra community and the region.

In its community consultations, Icon Water needs to ensure that all of its customers are consulted and that the views and interests of the whole community are fully considered. In this respect, Icon must consult more widely than with its own direct water customers, comprising home owners, lessors, and businesses - small and large. An important interest group for future consultations by Icon is private tenants, who generally are required to meet the full costs of water consumption at their property while the lessor is the customer of Icon Water.

The interests of private tenants in relation to water are closely tied to the water efficiency of appliances in their property such as hot water systems and toilets (which are usually supplied by the lessor as part of the rental property), water consumption pricing, and security and quality of supply. Minimum legislative standards for water efficiency in private rental properties is very important, and would complement current legislative reforms in respect of insulation of rental properties. Icon should give close attention to, and consult with private tenants, on this necessary reform.

At present, tenants in public housing do not pay water and sewerage costs, as these are met by the lessor, Housing ACT.

Operating Expenditure

Energy costs

I note that energy costs are included in the proposed operating cost stack at the prices applicable several months ago, and that any increases in energy costs will flow directly through to Opex at the point when the Price Direction is finalised, and possibly thereafter as a price variation trigger event. I understand from discussion at the Public Hearing that gas is not a significant cost to Icon Water, however electricity prices have a very material effect on Icon's Opex as electricity is used to pump water from some storages to distribution points.

There is a high likelihood that electricity prices will rise rapidly and substantially in the East Coast market between now and May 2023, despite as yet unannounced actions by the Commonwealth Government. When the Commission is assessing this impact, I recommend that it use ACT-specific data for electricity prices, and not data derived from the East Coast States generally. The contractual arrangements which the ACT Government has entered into with wind and solar power suppliers (to achieve 100% renewable electricity in the ACT) may lead to much better electricity price outcomes in the medium term for the ACT, than for the rest of the NEM.

Impact of CPI increases

I note that the Commission has allowed for a CPI of 3% in its Draft Report. It is almost inevitable that the CPI amount actually applied to the Final Direction will be between 5% and 6%, which is likely to have a material impact on the final price at 1 July 2023.

I accept the Senior Commissioner's advice that the price setting methodology cannot be altered at this late stage, however I am very concerned about the price impacts of inflation on water/sewerage prices in 2023-24. I recommend that the Commission should explicitly identify this impact in its Final Report, and publicise the quantum of the increase in household water/sewerage bills which is directly attributable to the recent spike in inflation. Some forecasting of the future effect of any reduction in the CPI rate may also be helpful to the public.

Capital Expenditure

I do not have the expertise to properly analyse Icon Water's proposed capital program, and therefore can offer only a few general comments for the Commission's consideration:

- I note and accept advice given at the Public Meeting that the water meter replacement program will involve replacement of old analog water meters with new analog meters. Research should continue into new metering technology as it offers the prospect of substantial consumer benefits (for example, reduction of access disputes by remote reading) and reduced operating costs in the

long-term. At least one NSW Local Government Council is already implementing meter technology of this nature in its water supply business.

- I accept that the Cotter pump station is "unreliable, difficult to maintain and expensive to operate" (p 52). However, the works program for any upgraded or replacement facility should take account of the heritage value of the existing pump station building, noting that this may have an impact on project costs.
- Allowance is made for replacement of 39 of Icon's 48 heavy vehicles during the regulatory period. At present, there is no satisfactory zero energy vehicle (ZEV) in the heavy vehicle space, but Icon Water should keep abreast of developments in this field. It is notable that Icon's part-owned subsidiary, Evoenergy, is undertaking research and development in the field of ZEVs and hydrogen as a fuel replacement.

Sewerage Services

I note that there are still substantial difficulties in constructing a volumetric pricing arrangement for sewerage services in the ACT. I recommend that work continue on the feasibility of this arrangement. It would be preferable to have some objective basis for differentiation in sewerage pricing between customer segments, rather than respond to individual pressures from particular industry groups claiming a price reduction for their stakeholder businesses, based on self-reported patterns of usage.

Peter Sutherland
Visiting Fellow
ANU College of Law

4 December 2022