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Senior Commissioner
Independent Competition and Regulatory Commission
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ACAT Response to Issues Paper
Water and sewerage services price regulation: incentive mechanisms
Report No 14 of 2019, December 2019

ACT CIVIL AND ADMINISTRATIVE TRIBUNAL

The ACT Civil and Administrative Tribunal (the ACAT) was established by the *ACT Civil and Administrative Tribunal Act 2008* and commenced operation on 2 February 2009. The functions of the ACAT and its important role in relation to energy and water hardship and complaints in the ACT are described in the ACAT Submission to the Commission's *Draft Report No 2 of 2020*, made on 19 March 2020.

RESPONSE TO ISSUES PAPER

In the Issues Paper, the Commission is seeking public views on the Commission's approach to determining that water and sewerage prices provide appropriate incentives for Icon Water to operate efficiently. A Draft Report is due in late April 2020 and the Final Report is due in late August 2020. Any changes to the incentive mechanisms will be implemented in the regulatory period after 30 June 2023.

The Issues Paper sets out basic considerations required by the regulatory framework, and discusses current incentive schemes in relation to:

2.1 Operating expenditure;

2.2 Capital expenditure;

2.3 Service standards;

2.4 Price control mechanism;

and other possible incentive mechanisms such as:

3.1 Efficiency sharing schemes;

3.2 Total expenditure approach ('totex'); and

3.3 Victorian 'PREMO' approach.

Icon Water Submission

Icon Water is an ACT Government-owned water and sewerage utility which has sole responsibility for the provision of water and sewerage services in the ACT, including dam infrastructure, water and sewerage distribution infrastructure, and retailer functions. Icon Water submitted a response to the Issues Paper entitled 'Icon Water submission to ICRC Issues Paper', dated 28 February 2020.

ENERGY & WATER

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In its Submission, Icon Water stated that the general principles underlying the current form of regulation have been successful in the ACT and have helped drive affordability and service quality for ACT water and sewerage customers (page 3). It suggests that introducing new schemes would result in added regulatory and administrative costs, and greater complexity in revenue determinations, which is not in the best interests of its customers (page 4).

ACAT Submission

The ACAT agrees with the Icon Water Submission, for the reasons expressed by Icon Water, except as detailed below.

1. At page 7, Icon Water argues that the current structure of the Tier 2 price may create a risk of economic bypass. This is an argument which has already been raised by Icon Water, unsuccessfully, in successive ICRC Water Pricing Determinations. The ACAT:
 - a. takes a contrary view, which is based on the need for a 'lifeline supply' of water for vulnerable domestic customers, and on a strong imperative for improving water efficiency in the ACT;
 - b. submits that this part of Icon's Submission is out of scope in a Review of Incentive Mechanisms and hence should be disregarded by the Commission.
2. At page 12, Icon Water suggests that customers may be encouraged to make frivolous complaints if a service incentive scheme includes as a factor the number of complaints against the utility. Based on its experience, the ACAT does not consider that is a reasonable reflection of customer behaviour. However, the ACAT does not support introduction of a new a service incentive scheme because the new approach to GSLs in the Consumer Protection Code commencing on 1 July 2020 might prove to be very effective in this regard. The ACAT also notes that Icon Water's constructive participation in the ACAT energy and water complaints process, and their new customer hardship scheme, demonstrate that Icon Water is performing well in this area.

The ACAT notes that a Victorian style 'PREMO' scheme would not be workable in the ACT given the lack of comparable water and sewerage utilities in the ACT.

If you have any questions in relation to this submission, please contact me.

Yours sincerely

Graeme Neate AM

President

17 April 2020

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