

## Overview

The ICRC has an unenviable task of attempting to determine prices for water and sewerage using ideas of market efficiency where there is no market.

Instead of trying to achieve economic efficiency through market principles we suggest a different approach. We recommend that tariffs be left as they are and ICON Water introduces other methods to control demand and to ensure economic efficiency.

We suggest all water in the ACT fall under the jurisdiction of ICON Water. The ACT population believes all water is ICON water responsibility and ICON Water is in the best position to ensure all water in the ACT is used in the most efficient way.

We recommend the introduction of Water Rewards, a low-cost way to involve the community in obtaining the greatest economic return from all the water assets in the ACT, including streams, ground water, sewerage outflow and storm water.

## Tariff Structure

The ICRC report on the Price Elasticity of water in the ACT shows that price alone has little impact on demand. Price Elasticity is -0.14%. The reduction in usage since 2003 and its plateauing is due the extensive publicity and awareness of the water situation leading to a change in behavior. With the passing of the emergency, community behavior has not reverted to previous levels of consumption. The community understands the system and has accepted the prices. Changing to higher fixed charges and lower consumption costs will mean residents are likely to consume more and to revert to previous consumption levels.

We suggest ICRC allow automatic CPI inflation indexing of all charges at the beginning of each financial year.

Market economics would say it is economically efficient to sell more water when there is enough supply. Long-term water sustainability principles disagree with this approach. Rather it says we should produce no more than is sustainable for the lowest possible cost. Just because it is available does not mean we have to use it. Water Rewards is a way to help provide economic sustainability for water.

## Water Rewards

Water Rewards are a way to reduce the funding costs of water infrastructure. Instead of funding water infrastructure with loans Water Rewards allows the community to self-fund water infrastructure and save ICON water users the cost of interest and the cost of inflation. In 2016 this will be \$75M in interest and \$30M in inflation. Doing this increases the surplus available to the community from the sale of water from \$131 million to \$236M.

This extra money can address equity and economic efficiency issues highlighted in the ICRC report. It will save the ACT government having to fund water catchment infrastructure and maintenance with debt. It can remove existing ICON Water debt from the balance sheet. The government can use it as collateral to support the construction of other community infrastructure.

## Water Rewards Operations

Water Rewards take the form of pre-paid vouchers used to pay Water Invoices. They attract a 10% yearly discount or 0.27397% per day. They increase in value with CPI inflation. They are transferable, and there is a secondary market to trade them.

Because they are an attractive place to store savings and because ICON Water wants to limit the number ICON Water issues Rights to Buy Water Rewards. The Rights to Buy are also transferrable.

To make them socially equitable and to encourage sustainable consumption of water the Rights are issued to each individual Water User by the average of their previous year's daily consumption.

## The Social and Sustainability Benefits of Water Rewards

The government, through ICON Water, sets the rules for the operation of Water Rewards and Rights to Buy. The government has flexibility and can target specific issues. For example, the government can issue Rights to Buy to large users of water who wish to use recycled water. The Water Rewards purchased with the Rights pays for the infrastructure to recycle water.

Instead of giving rebates to different groups the government can give Water Rewards. Instead of imposing restrictions on water use the government can provide more Rights to low consumers of water.

Members of the community can donate their Rights to organizations such as schools or charities.

The community will have a close direct connection with ICON Water and have a stake in the operation through Rewards. It opens up many avenues for community engagement including using Water Rewards as a high-value savings account and way to pay for other government and non-government services.

The income from water will support more Water Rewards than needed for Water infrastructure. The government can decide to issue more Water Rewards than needed and use the extra funds for other infrastructure including Water Catchment maintenance and support. The total investment funds supportable by Water Rewards at 10% are about three billion dollars.

### **The cost of operating Water Rewards**

A 1% transaction fee on each transfer of value covers the cost of running Water Rewards. This fee is paid with Water Rewards so there is no direct charge on the ACT budget to build or operate Water Rewards.

The only change to existing systems is to allow the payment of invoices with Water Rewards.

### **When can Water Rewards be operational?**

Water Rewards can start on a small scale within three months of a decision to proceed.

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