

ICRC Consumer Consultative Committee

Meeting 1/2019

Wednesday 12 June 2019

Work-in Progress

1. Container Deposit Scheme

In April 2018 the Commission received a reference from the ACT Government to monitor and report on the impact on beverage prices and competition in the ACT beverage industry of the introduction of the ACT CDS on 30 June 2018. The Commission released its progress/draft report in February. The Commission's monitoring on the basis of the information available then found that price increases attributable to the CDS did not appear to be inconsistent with a 'workably competitive' market. It considered that ongoing price monitoring is not likely to be needed. The Commission made draft recommendations to improve the operation of the scheme and address issues that could potentially create entry barriers and restrict competition in the future. The Commission will give its final report to the Minister for City Services by the end of July.

Information on the Commission's work on the Container Deposit Scheme, including terms of reference and progress report can be found here: <https://www.icrc.act.gov.au/industry-references/container-deposit-scheme>

2. Water & Sewerage Capital Contribution Code

On 8 December 2017, the Commission determined that a Capital Contribution Code should be in place to fund water and sewerage augmentation projects necessitated by urban infill. Icon Water drafted an initial version of the Code and submitted it to the Commission for consideration under the Utilities Act. The Commission conducted two rounds of public consultation before determining the Code. The Code replaced a previous arrangement known as the 'last person standing', where the development that exceeded network capacity was required to pay the full cost of the augmentation, regardless of the size of the development. In effect, only one developer paid, whilst other developments, both before and after the augmentation, whose demand contributed to the need for the augmentation, didn't pay at all. This system did not result in a fair sharing of the costs of augmentations across developers and created uncertainty for developers.

The Capital Contribution Code put in place an arrangement whereby all developments that increase demand on the system now pay an incremental cost towards future augmentation needs (known as the Precinct Charge). The charging arrangement is determined using an 'equivalent population' metric which takes into account different demand profiles depending on the building use. More information on the charge and equivalent population metric can be found in the Commission's Draft and Final Report's: <https://www.icrc.act.gov.au/water-and-sewerage/water-and-sewerage-capital-contribution-code>

The Code commenced on 1 January 2018.

Transition period expiring

The Code included an 18-month transition period for any property purchased before 1 January 2018, provided that the development approval was lodged before 1 July 2019. From 1 July 2019, all

developments that increase demand on the network will be subject to the charging arrangements under the Code.

In new suburbs, the suburb masterplan determines the 'equivalent population' for each block of land. The charge applies only to new developments that exceed the equivalent population set by the suburb masterplan.

Precinct map

Charges under the Code are subject to the Precinct Map which is approved by the Commission each year. Precinct updates are made to incorporate expansions to the network. Icon Water has submitted updates for the 2019-20 financial year. Seven new suburb stage developments have been added to this year's map (covering areas in Denman Prospect, Coombs, Wright and Taylor).

The Commission expects to publish the updated map in mid-June. Once approved, no further changes can be made until July 2020.

Precinct Charge

The Commission reviews the Precinct Charge in May each year. The Commission will publish the Precinct Charge for 2019–20 in mid-June 2019.

The review of the charge involves confirming that it has been calculated using the methodology proposed by Icon Water and agreed in the Commission's final report. The key inputs to the Precinct Charge calculation are 20-year forecasts of capital expenditure and water demand (reported in Equivalent Population demand).

3. Water and sewerage services price reset

On 1 May 2018 the Commission released its final decision on the amount of revenue Icon Water can earn, and the prices it can charge, for regulated water and sewerage services over the period 1 July 2018 to 30 June 2023, subject to annual adjustments for specified pass-through events. The Commission will publish its decision on the 2019-20 price adjustment in mid-June 2019.

4. Water and sewerage services pricing methodology reviews

Before the next water and sewerage services price investigation (likely commencing in late 2021) the Commission will review aspects of its pricing methodology to ensure it remains current and appropriate and provides incentives for Icon Water to operate efficiently. The three topics to be considered in the review are:

- rate of return – what is the appropriate rate of return on Icon Water's investments?
- incentive mechanisms – how can the Commission ensure that Icon Water faces appropriate incentives to make efficient decisions on its operating and capital expenditures?
- demand forecasting – what is the appropriate level of demand to base water and sewerage services prices on?

5. Electricity price investigation

On 28 May 2019 the Commission received a terms of reference to undertake a price investigation for the regulatory period from 1 July 2020. The terms of reference require the Commission to set the maximum increase that ActewAGL Retail can apply to its regulated standing offer tariffs for small customers (who consume less than 100MWh of electricity in any 12 consecutive months) for the period 1 July 2020 to 30 June 2024.

The terms of reference require the Commission to update the regulated price for changes in the costs faced by ActewAGL in providing electricity (for example, for changes in energy purchase costs and network costs) at the end of each financial year.

The terms of reference also require the Commission to examine whether changes are needed in the ACT to improve the comparability of electricity prices and discounts offered by retailers. The ACT is not subject to the Australian Energy Regulator's Default Market Offer prices because standing offer prices are already regulated in the ACT. One of the objectives of the Default Market Offer is to improve the comparability of electricity prices and discounts.

6. Annual Utility Licence Fees and the Energy Industry Levy

The Commission is responsible for administering two annual cost recovery frameworks, whereby the cost of regulating utilities in the ACT is paid directly by the utilities subject to regulation. Under this arrangement, the Commission determines the cost of regulation and the ACT Government recovers it from each utility sector. The cost of regulation is recovered through two different mechanisms dependant upon the utility sector: the annual utility licence fee or the energy industry levy.

The levy and licence fees recover the costs of the Commission, the ACAT and Utilities Technical Regulation in regulating utilities in the ACT. A portion of costs for the ACT's participation in national energy policy frameworks is also recovered.

The Senior Commissioner determines the annual utility licence fees payable by Icon Water, EAPL (gas transmission) and TransGrid (electricity transmission). The Energy Industry Levy is payable by energy retailers and distributors and is determined by the Levy Administrator, who is currently the Commission's CEO.

Energy Industry Levy

Before 1 October, the Levy Administrator must determine the amount of regulatory costs to be recovered from each energy industry sector. The four energy industry sectors subject to the levy are electricity distribution, electricity supply, gas distribution and gas supply. The amount each utility pays is based on a market share of the amount of electricity or gas supplied or sold. Work will begin on this annual process in July 2019, and the final levy determinations are made in September 2019 (and notified publicly as notifiable instruments on the ACT Legislation website). All energy utilities pay their levy to the ACT Revenue Office in October each year.

Annual Utility Licence Fee

The Senior Commissioner determines the regulatory costs to be recovered from Icon Water, EAPL and TransGrid through their utility licence fee paid each year. Licence fees are usually determined on the same timeframe as the levy.