

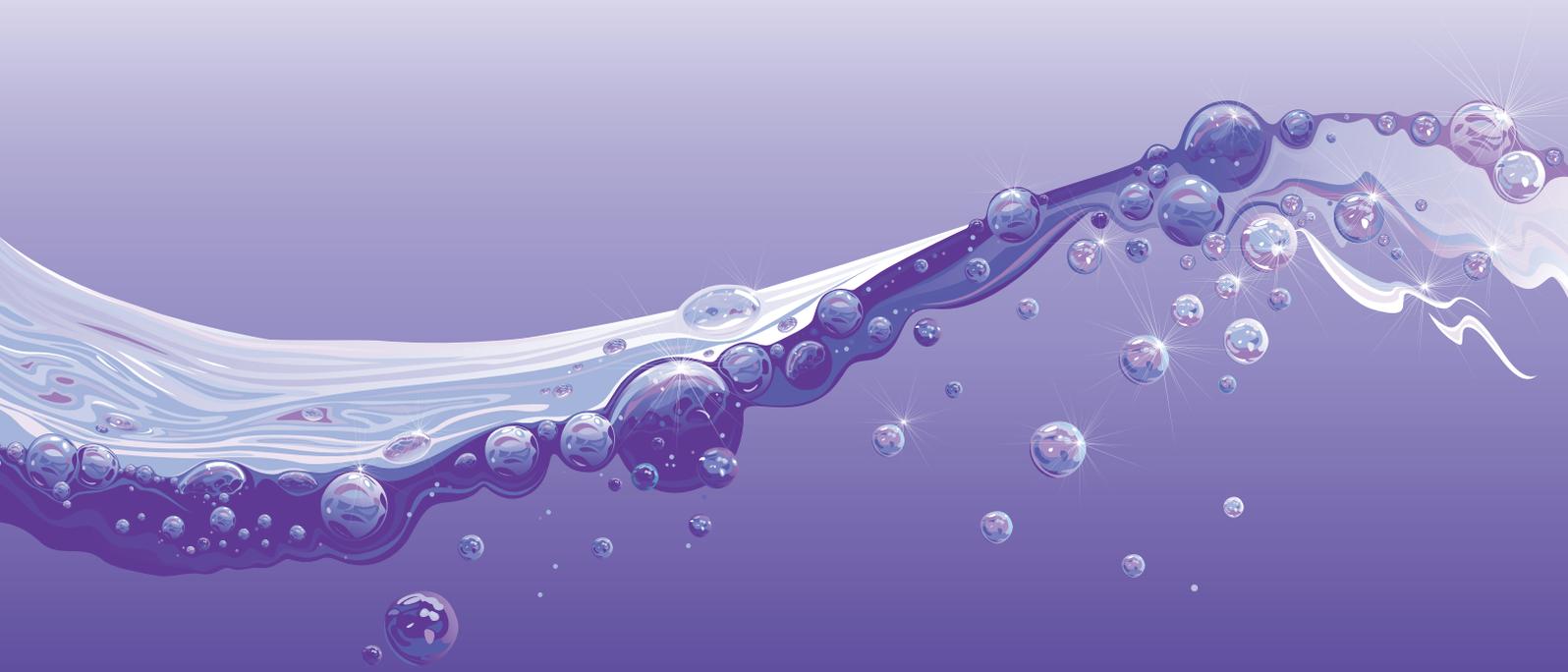


Industry Panel

Substituted Price Direction

Regulated Water and
Sewerage Services
1 July 2013 to 30 June 2018

April 2015



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The Industry Panel is established under the *Independent Competition and Regulatory Commission Act 1997*, following an application by ACTEW Corporation Ltd (now registered as Icon Water Ltd) for the review of the Independent Competition and Regulatory Commission's Price Direction for Regulated Water and Sewerage Services, 1 July 2013 to 30 June 2019.

The Industry Panel comprises one President and two members.

The Panel Members are President Ms Mary Anne Hartley QC, and Members Ms Sally Farrier and Ms Claire Thomas PSM.

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Further details of the Industry Panel process can be found at: <http://apps.treasury.act.gov.au/industrypanel>.

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1 Introduction

This substituted price direction (the Price Direction) is made by the Industry Panel (Panel) in accordance with Part 4C of the *Independent Competition and Regulatory Commission Act 1997* (the Act). The Panel's Final Report *Industry Panel - Review of the Independent Competition and Regulatory Commission's 2013 Price Direction for Regulated Water and Sewerage Services in the ACT - Final Report - April 2015* (Final Report) forms the basis for the Panel's decisions as outlined in the Price Direction. If there is any inconsistency between the Final Report and the Price Direction, the Price Direction prevails.

In accordance with section 24T of the Act, this Price Direction will take effect fourteen days after the Final Report is tabled in the Legislative Assembly.

When the Price Direction takes effect, it will replace the price direction that was made by the Independent Competition and Regulatory Commission (Commission) on 26 June 2013 and published by the Commission as Report 6 of 2013. The Price Direction establishes a maximum price for regulated water, sewerage and miscellaneous services provided by Icon Water Limited (ABN 86 069 381 960) (Icon Water)¹ in the ACT for the regulatory period specified in clause 2.

The Price Direction is set out as follows:

- Part A - Preliminary
- Part B - Regulated services and prices
- Part C - Regulatory method
- Part D - Legislative provisions

Part A sets out the preliminary information to the Price Direction.

Part B sets out the regulated services, associated price controls and the maximum prices to be charged for Icon Water's water and sewerage services and miscellaneous services.

Part C sets out the maximum prices, and how those maximum prices will change over the regulatory period, along with the process for approving those changes.

Part D sets out additional provisions that the Act requires or permits the Panel to provide for in the Price Direction, including the Price Direction variation trigger events and future reset principles.

¹ Formerly known as ACTEW Corporation, trading as ACTEW Water.

Part A Preliminary

2 The regulatory period

The Price Direction determines, within the meaning of the Act, maximum prices for the period 1 July 2013 to 30 June 2018.

3 Section 20(2) of the Act

Pursuant to sections 20(4) and 24R(2) of the Act, the Panel is obliged to indicate the extent to which it has had regard to the matters referred to in section 20(2) of the Act. Attachment 1 is provided in compliance with sections 20(4) and 24R(2) of the Act.

4 Notes

Annualised cost

Where the Price Direction refers to an annualised cost, the annualised cost in any one year is equal to the amount of additional operating expenditure incurred in that year plus 15% of the additional capital expenditure incurred in that year.

Business days

Business days are all days other than Saturday, Sunday and ACT public holidays.

Actions which are required to be undertaken on or by a specific date in the Price Direction (for example, Icon Water providing information to the Commission on 30 November of a particular year) that fall on a non-business day will be deemed to fall on the first business day following the non-business day.

Commission

References to the Commission are to the Independent Competition and Regulatory Commission of the ACT.

Maximum price

The term maximum price refers to the highest price that Icon Water may charge. Icon Water may charge less than the specified maximum price.

Monetary values

All monetary values in the Price Direction are in Australian dollars.

Where a monetary value is followed by the term '(\$2012-13)', the value is to be escalated in accordance with the following formula:

$$EV = V \times (1 + CPI_e)$$

Where:

EV is the monetary value as escalated;

V is the monetary value specified in the Price Direction;

CPI_e is determined in accordance with the following formula:

$$CPI_e = \frac{CPI_{June(e-2)} + CPI_{Sep(e-1)} + CPI_{Dec(e-1)} + CPI_{Mar(e-1)}}{CPI_{June(2011)} + CPI_{Sep(2011)} + CPI_{Dec(2011)} + CPI_{Mar(2012)}} - 1$$

CPI is as it is defined in clause 6.1; and

e can take on the value of 2013-14, 2014-15, 2015-16, 2016-17 or 2017-18 depending on the year in which the value of EV is required for the purposes of the Price Direction.

Reference to years

Unless otherwise stated, a reference to a year in the form 2013-14 (as an example) means the financial year from 1 July 2013 to 30 June 2014.

Regulatory period

The period in respect of which the Price Direction regulates prices, as specified in clause 2.

A reference to a regulatory year means a financial year during the regulatory period.

Part B Regulated Services and Prices

5 Regulated services

The following services are regulated by the Commission. Methods for ascertaining the maximum prices for these services are set out in this Part B and in Part C.

Regulated services include:

- (a) the provision of water services by Icon Water (including the availability of supply) to residential, commercial and industrial premises;
- (b) the provision of sewerage services by Icon Water (including the availability of supply) to residential, commercial and industrial premises; and
- (c) miscellaneous services provided by Icon Water:
 - (i) special meter readings;
 - (ii) testing of water meters;
 - (iii) the provision of rate certificates;
 - (iv) tapping into water mains;
 - (v) installation of fire hydrants;
 - (vi) disconnection;
 - (vii) installation and removal of stop valve locking cover; and
 - (viii) meter relocation.

6 Pricing for regulated water and sewerage services

In accordance with sections 20A and 24N of the Act, the Panel determines the pricing for regulated water services and regulated sewerage services in the form of maximum prices for each year of the regulatory period. The maximum prices for each year are specified in, or are to be determined in accordance with, clauses 6.1 and 6.2.

6.1 Water services

Table 6.1 sets out a maximum price for regulated water services for 2013-14 and 2014-15 and a formula for determining the maximum price for regulated water services for 2015-16, 2016-17 and 2017-18. The maximum prices derived from Table 6.1 for 2015-16, 2016-17 and 2017-18 may also be subject to a pass-through event as set out in clause 8.

Table 6.1: Panel’s final direction on water prices

	2013-14	2014-15	2015-16	2016-17	2017-18
Fixed (\$ pa)	100	102.56	$P_t = P_{t-1} \times (1 + CPI_t) \times (1-3.4\%)$	$P_t = P_{t-1} \times (1 + CPI_t)$	$P_t = P_{t-1} \times (1 + CPI_t)$
Tier 1 (0-200 kL pa) (\$/kL)	2.55	2.64	$P_t = P_{t-1} \times (1 + CPI_t) \times (1-3.4\%)$	$P_t = P_{t-1} \times (1 + CPI_t)$	$P_t = P_{t-1} \times (1 + CPI_t)$
Tier 2 (200+ kL pa) (\$/kL)	5.10	5.29	$P_t = P_{t-1} \times (1 + CPI_t) \times (1-3.4\%)$	$P_t = P_{t-1} \times (1 + CPI_t)$	$P_t = P_{t-1} \times (1 + CPI_t)$

Where:

P_t is the price to be charged for the relevant service in the regulatory year t ;

P_{t-1} is the price charged for the relevant service in the preceding regulatory year;

$$CPI_t = \frac{CPI_{June(t-2)} + CPI_{Sep(t-1)} + CPI_{Dec(t-1)} + CPI_{Mar(t-1)}}{CPI_{June(t-3)} + CPI_{Sep(t-2)} + CPI_{Dec(t-2)} + CPI_{Mar(t-2)}} - 1$$

CPI means the All Groups consumer price index (weighted average of eight capital cities) as published by the Australian Bureau of Statistics. Where the Australian Bureau of Statistics does not (or ceases to) publish the index, then *CPI* will mean the Commission’s estimate of the level of consumer prices; and

t can take on the value of 2015-16, 2016-17 or 2017-18 for the relevant year of the adjustment in Table 6.1.

Prices arising from the application of this formula will be rounded to the nearest cent.

6.2 Sewerage services

Table 6.2 sets out a maximum price for regulated sewerage services for 2013-14 and 2014-15 and a formula for determining the maximum price for regulated sewerage services for 2015-16, 2016-17 and 2017-18. The maximum prices derived from Table 6.2 for 2015-16, 2016-17 and 2017-18 may also be subject to a pass-through event as set out in clause 8.

Table 6.2: Panel’s final direction on sewerage prices

	2013-14	2014-15	2015-16	2016-17	2017-18
Supply charge (\$ pa)	492.02	505.41	$P_t = P_{t-1} \times (1 + CPI_t) \times (1+1.4\%)$	$P_t = P_{t-1} \times (1 + CPI_t)$	$P_t = P_{t-1} \times (1 + CPI_t)$
Fixtures charge ^a (\$ pa) (payable by non-residential customers only)	481.18	494.28	$P_t = P_{t-1} \times (1 + CPI_t) \times (1+1.4\%)$	$P_t = P_{t-1} \times (1 + CPI_t)$	$P_t = P_{t-1} \times (1 + CPI_t)$

^a For every additional flushing fixture greater than two.

Where:

P_t is the price to be charged for the relevant service in the regulatory year t ;

P_{t-1} is the price charged for the relevant service in the preceding regulatory year;

CPI_t is as it is defined in clause 6.1; and

t can take on the value of 2015-16, 2016-17 or 2017-18 for the relevant year of the adjustment in Table 6.2.

Prices arising from the application of this formula will be rounded to the nearest cent.

7 Pricing for miscellaneous services

The price to be charged for each miscellaneous service in each year of the regulatory period, including 2013-14, is to be calculated according to the following formula, and rounded to the nearest dollar for the GST inclusive price:

$$P_t = P_{t-1} \times (1 + CPI_t)$$

where:

- P_t is the price to be charged for the relevant miscellaneous service in the regulatory year t ;
- P_{t-1} is the price charged for the relevant miscellaneous service in the preceding regulatory year;
- t is the relevant year in the regulatory period; and
- CPI_t is as it is defined in clause 6.1.

7.1 New miscellaneous services

Should Icon Water wish to introduce a new miscellaneous service during the regulatory period, Icon Water must make an application to the Commission and provide the following information:

- (a) a description of the new miscellaneous service;
- (b) the reasons for the introduction of the new miscellaneous service;
- (c) the terms and conditions which will apply to the provision of the new miscellaneous service;
- (d) the direct efficient costs of providing the new miscellaneous service;
- (e) a forecast of the annual volume of sales of the new miscellaneous service; and
- (f) the proposed price for the new miscellaneous service for the first year it is to be in place.

7.2 Submission by Icon Water

The Commission will consider any submission relating to the new miscellaneous service from Icon Water and have regard to:

- (a) whether the expenditure or revenue associated with the miscellaneous service has already been taken into account in specifying the price to apply under this Price Direction;
- (b) whether the proposed price recovers the efficient cost of providing the service; and
- (c) any other relevant matter.

7.3 Commission may request further information

The Commission may request that Icon Water provide any additional information specified by the Commission relating to the new miscellaneous service.

The Commission may also request information from parties other than Icon Water.

7.4 Notification of decision

The Commission will notify Icon Water of its decision whether or not to approve the proposed price submitted for the new miscellaneous service, together with details of the timing of the introduction of the price for the new miscellaneous service and any terms and conditions which will apply to its introduction or provision.

Part C Regulatory Method

8 Pass-through events

8.1 Events

- A pass-through event is one of the following:
- A Water Abstraction Charge (WAC) event (see clause 8.2).
- A Utilities Network Facilities Tax (UNFT) event (see clause 8.3).
- A subvention payment event (see clause 8.4).
- A change in other taxes event (see clause 8.5).
- A service standard event (see clause 8.6).
- A regulatory obligations event (see clause 8.7).
- A Tantara Transfer Payment event (see clause 8.8).

8.2 WAC event

A WAC event occurs where for a particular year the total amount payable by Icon Water to the ACT Government for the WAC differs from the amount incorporated in the Price Direction. The amounts incorporated in the Price Direction are set out in Table 8.1 below.

Table 8.1: WAC (\$2012-13)

Year	WAC (\$million)
2014-15	\$25.94
2015-16	\$25.61
2016-17	\$25.29
2017-18	\$24.99

8.3 UNFT event

A UNFT event occurs where for a particular year the total amount payable by Icon Water to the ACT Government for the UNFT differs from the amount incorporated in the Price Direction. The amounts incorporated in the Price Direction are set out in Table 8.2 below.

Table 8.2: UNFT for water and sewerage (\$2012-13)

Year	UNFT (\$million)
2014-15	\$7.84
2015-16	\$8.01
2016-17	\$8.19
2017-18	\$8.26

8.4 Subvention payment event

A subvention payment event occurs where for a particular year the subvention payment from the Commonwealth Government to Icon Water differs from the amount incorporated in the Price Direction. The amounts incorporated in the Price Direction are set out in Table 8.3 below.

Table 8.3: Subvention payment for water and sewerage (\$2012-13)

Year	Subvention payment (\$million)
2014-15	\$10.587
2015-16	\$10.587
2016-17	\$10.587
2017-18	\$10.587

No change in the subvention payment will be deemed to have occurred if Icon Water receives a payment from the ACT Government that explicitly or implicitly replaces the subvention payment (or the change in the subvention payment).

8.5 Change in other taxes event

A change in other taxes event is:

- (a) a change in the way or rate at which a relevant tax is calculated (including a change in the application or official interpretation of a relevant tax) that occurs on or after 30 June 2013; or
- (b) the removal of a relevant tax or imposition of a new relevant tax that occurs on or after 30 June 2013.

Relevant taxes are any tax, rate, duty, charge or levy or other like or analogous impost that is imposed on or payable directly or indirectly by Icon Water to any authority of the Commonwealth of Australia or the government of the ACT, including a goods and services tax but excluding:

- the WAC;
- the UNFT;
- income tax (or ACT-equivalent income tax) or capital gains tax;
- stamp duty, financial institutions duty, bank account debits tax or similar taxes or duties;
- penalties and interest for late payment relating to any tax; and
- any tax which replaces the taxes referred to above, where 'tax' includes any rate, duty, charge or levy or other like or analogous impost.

If a change in other taxes event occurs, the change in costs (positive or negative) may be passed through to customers if the total annualised cost associated with the event exceeds \$2 million (\$2012-13) in the year for which the pass-through is sought.

8.6 Service standards event

A service standards event means a legislative or administrative act or decision that:

- (a) has the effect of:
 - (i) substantially varying, during the course of the regulatory period, the manner in which Icon Water is required to provide a regulated water or sewerage service;
 - (ii) imposing, removing or varying, during the course of the regulatory period, minimum service standards applicable to regulated water and sewerage services; or
 - (iii) altering, during the course of the regulatory period, the nature or scope of the regulated water or sewerage services provided by Icon Water; and
- (b) materially increases or materially decreases the costs to Icon Water of providing regulated water or sewerage services.

If a service standard event occurs on or after 30 June 2013, the change in costs (positive or negative) may be passed through to customers if the total annualised cost associated with the event exceeds \$2 million (\$2012-13) in the year for which the pass-through is sought.

8.7 Regulatory obligations event

A change in a regulatory obligations event is a change in a regulatory obligation or requirement that:

- (a) falls within no other category of pass-through event; and
- (b) occurs during the course of the regulatory period; and
- (c) substantially affects the manner in which Icon Water provides regulated water or sewerage services.

If a regulatory obligations event occurs on or after 30 June 2013, the change in costs (positive or negative) may be passed through to customers if the total annualised cost associated with the event exceeds \$2 million (\$2012-13) in the year for which the pass-through is sought.

8.8 Tantangara Transfer Payment event

A Tantangara Transfer Payment event occurs if Icon Water is required to exercise its option to transfer water from the regulated Murrumbidgee River to the ACT via the Snowy Mountains Scheme.

If the Tantangara Transfer Payment event occurs on or after 30 June 2013, the change in costs (positive or negative) may be passed through to customers if the total annualised cost associated with the event exceeds \$2 million (\$2012-13) in the year for which the pass-through is sought.

8.9 Eligible pass-through amount

The amount in respect of a pass-through event which Icon Water is allowed or required to pass-through to customers in a regulatory year must:

- (a) be equal to the increase (or decrease) in costs in the provision of regulated services that, as a result of that pass-through event, Icon Water has incurred or is likely to incur until the end of the regulatory year for which the pass-through is sought;
- (b) exclude any amount in respect of the pass-through event which has been passed through to customers in a previous regulatory year within the regulatory period; and
- (c) exclude any amount in respect of the pass-through event which Icon Water incurred more than 24 months before the commencement of the year for which the pass-through is sought.

To avoid doubt, it is the intention of this clause 8 to allow Icon Water to seek a pass-through amount for recovery in a particular regulatory year either ex ante or ex post, depending on the circumstances.

9 Price adjustment process

9.1 CPI adjustment

The Commission will calculate the maximum prices for regulated water, sewerage and miscellaneous services for each regulatory year on the basis set out in clauses 6 and 7 and provide Icon Water with notice of the adjusted prices on or before 1 June each year.

The Commission will provide Icon Water with details of its calculations of the adjusted prices, including the values of CPI used in the calculations.

9.2 Recovery of pass-through amounts

If a pass-through event occurs in a regulatory year Icon Water may seek to incorporate the effect of the pass-through event on Icon Water's costs in its adjusted prices for the following regulatory year by making a submission to the Commission on or before 1 May. A submission must include:

- (a) details of the pass-through event;
- (b) the date the pass-through event occurred;
- (c) the estimated financial impact of the pass-through event on Icon Water and the basis on which the impact has been calculated; and
- (d) the pass-through amount proposed by Icon Water in relation to the pass-through event and which it proposes be included in its adjusted prices for the relevant regulatory year.

The Commission must decide whether the pass-through event specified in the submission occurred and falls within the scope of clause 8 and whether it approves the pass-through amount proposed by Icon Water.

9.3 Commission consideration

The Commission will advise Icon Water no later than 30 May:

- (a) whether the pass-through amount proposed under clause 9.2 complies with the Price Direction and, if it does not comply, the reasons why it does not comply; or
- (b) that the Commission requires additional information from Icon Water to assess whether the proposed pass-through amount complies with the Price Direction and the date such additional information is to be provided to the Commission.

If the Commission does not provide advice to Icon Water by 30 May in accordance with this clause 9.3, the proposed pass-through amount will be deemed to comply with the Price Direction.

9.4 Icon Water resubmission

If the Commission advises Icon Water that the pass-through amount does not comply with the Price Direction or that it requires additional information from Icon Water, Icon Water must resubmit the pass-through amount or provide the additional information to the Commission by the date specified by the Commission.

Within 20 business days of receiving the revised pass-through amount or additional information from Icon Water, the Commission will advise Icon Water whether the pass-through amount complies with the Price Direction or will indicate the additional information the Commission requires from Icon Water in order to form an opinion as to whether it complies or not. If the Commission does not provide advice to Icon Water within 20 business days in accordance with this clause, the proposed pass-through amount will be deemed to comply with the Price Direction.

If the Commission has advised Icon Water that the revised pass-through amount does not comply or requires further additional information, the provisions of this clause 9.4 will continue to apply until the Commission approves the pass-through amount as complying with the Price Direction.

9.5 Commission may initiate pass-through amount

If a pass-through event occurs in a regulatory year and Icon Water's costs are likely to be affected by the event but Icon Water does not make a submission to the Commission in accordance with clause 9.2, the Commission may decide on a pass-through amount (which may be a negative amount) and the basis on which the pass-through amount is to apply. In doing so, the Commission:

- (a) may seek information from Icon Water in relation to the pass-through event and pass-through amount, in which case Icon Water must provide that information within the period specified by the Commission; and
- (b) must notify Icon Water in writing of the pass-through amount, the basis on which the pass-through amount is to apply, and the reason for the Commission's decision.

9.6 Partial adjustment

If, by 11 June of a given regulatory year, the Commission has not approved a proposed pass-through amount in respect of a pass-through event, then the prices notified by the Commission under clause 9.1, together with any pass-through amount in respect of any other pass-through event that has been approved by the Commission by that date, will take effect as from 1 July of the regulatory year following the given regulatory year (referred to in this clause as the 'following regulatory year').

Any pass-through amount approved by the Commission after 11 June of a given regulatory year will not take effect until the commencement of the regulatory year subsequent to the following regulatory year.

9.7 Unavailability of information

If any information required by Icon Water in order to make a pass-through submission in accordance with clause 9.2 is not available by 1 May, Icon Water may make the pass-through submission as soon as practicable after the relevant information becomes available and each of the dates in clauses 9.3 and 9.4 will be extended correspondingly. Those extensions will not affect the operation of clause 9.6.

9.8 Transitional arrangement for 2015-16

If, in respect of the 2015-16 year, the Price Direction has not become effective by 1 May 2015, Icon Water may make a pass-through submission after the Price Direction becomes effective, in which case:

- (a) each of Icon Water and the Commission must take the steps specified in this clause 9 in relation to the pass-through submission as expeditiously as possible; and
- (b) each of the dates in clauses 9.3 and 9.4 will be extended correspondingly. Those extensions will not affect the operation of clause 9.6, unless the Commission specifies a later date for the purposes of clause 9.6 (and the Commission will specify a later date if it considers it reasonable and practicable to do so).

Part D Legislative Provisions

Nothing in this Part D limits the provisions of the Act.

10 Price Direction variation trigger events

Pursuant to sections 20A(3)(c) and 24F(2) of the Act, the following events are price variation trigger events, the occurrence of which allows the Commission to initiate a reference for the variation of the Price Direction:

- (a) an act of terrorism;
- (b) a major natural disaster;
- (c) major damage to Icon Water's infrastructure;
- (d) a significant change to Icon Water's financial or corporate structure;
- (e) an unforeseen or *force majeure* event that severely restricts Icon Water's ability to provide services; or
- (f) a decision by the Commission under clause 11(b) that the tariff structure must be amended during the regulatory period.

The events specified in paragraphs 10(a) - (e) will be price variation triggers only if they severely restrict Icon Water's ability to provide water and/or sewerage services and impose a total annualised cost on Icon Water for the remainder of the regulatory period of more than \$12 million (\$2012-13).

11 Future reset principles

Pursuant to section 20B of the Act, the future reset principles are as follows:

- (a) The Commission will seek a reference from the relevant minister regarding services covered by the Price Direction 18 months prior to the expiry of the regulatory period.
- (b) During the regulatory period, the Commission must conduct a review of the tariff structures for the regulated water and sewerage services of Icon Water. At the conclusion of the review, the Commission must set out in a report its decision on whether amendments should be made to the tariff structures in place. The Commission may recommend that amendments either be made during the regulatory period set out in clause 2 or be considered as part of the investigation for the next regulatory period beginning 1 July 2018. The Commission may also recommend that no changes be made to the tariff structure in place. As part of the review, the Commission must call for submissions from interested parties and post its final report and decision on the Commission's website.
- (c) The board of Icon Water must endorse the accuracy of Icon Water's main submission to the investigation into water and sewerage service prices for the next regulatory period.
- (d) If, as of 30 June 2018, a new price direction for the regulated services of Icon Water is not set to take effect from 1 July 2018, then the prices as of 30 June 2018 will remain in place from 1 July 2018 onwards until a new price direction is made by the Commission. To avoid doubt, apart from providing for interim prices from 1 July 2018 in the event a new price direction has not been made, this clause does not limit the functions and decisions of the Commission under the Act as to the applicable regulatory model and prices which take effect from 1 July 2018.
- (e) The Commission will make provision for a demand volatility adjustment in the next price determination if the net present value of water sales revenue earned over the period 1 July 2013 to 30 June 2018 differs by more than 6% of the revenue set out in Table 11.1 below.

The demand volatility adjustment will be determined as the difference between:

- (i) the net present value of the revenue earned through tier 1 and tier 2 water charges over the period 1 July 2013 to 30 June 2018; and
- (ii) the net present value of the volumetric water sales revenue (ie, the revenue to be recovered from tier 1 and tier 2 charges) allowed in the Final Report (see Table 11.1 below), adjusted where necessary for any pass-through amounts approved by the Commission in the period, plus or minus 6% depending on whether there has been an over collection or an under collection of revenue.

The net present value in 11(e)(i) and (ii) is to be measured as at 1 July 2013.

Forecast revenue will be used for those quarters of the financial year 2017-18 for which actual revenue data is unavailable.

The rate of return to be used in the calculation of the net present value and to roll forward the demand volatility adjustment to the next regulatory period is 7.2% (nominal vanilla Weighted Average Cost of Capital (WACC)).

Table 11.1: Volumetric water sales revenue (tier 1 plus tier 2 revenue) (\$million, \$2012-13)

Year	Water Sales Revenue
2013-14	\$145.72
2014-15	\$149.76
2015-16	\$150.39
2016-17	\$151.22
2017-18	\$152.25

Note: For the avoidance of doubt, these amounts should be adjusted where necessary for any pass-through amounts approved by the Commission in the period.

- (f) The Commission will carry out an *ex post* review of the prudence and efficiency of the amount Icon Water spent on capital expenditure in the regulatory period as part of the next price determination.
- (g) The Commission will roll forward the regulatory asset base to determine the opening value at the start of the next regulatory period using the same approach as that outlined in section 4.2 of the Final Report.
- (h) The Commission will allow any cost pass-through or costs associated with an unforeseen event that occurs in the final year of this regulatory period (2017-18) to be recovered in the next regulatory period (commencing on 1 July 2018) if it considers it appropriate to do so.

Attachment 1 Compliance with section 20(2)

The Panel's compliance with Section 20(2) of the Act and the terms of reference should be read across both the Draft² and Final reports. The tables below set out where, and how, in its final and draft reports, the Panel has taken into account the matters set out in Section 20(2) of the Act and in the terms of reference.

Table A1.1: Compliance with Section 20(2) and the terms of reference

Section 20(2)	Final Report chapter(s)	Draft Report chapter(s)	How the Panel has taken the matter into account
(a) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies (including policies relating to the level or structure of prices for services) and standard of regulated services		7	Consideration of the appropriate method to be used to determine prices, use of the building block methodology and similar principles to other regulators, which in broad terms are designed to mimic the price and service outcomes expected in a workably competitive market.
	4 and 6	9 and 10	Consideration of the efficient costs of service provision, including assessment of: <ul style="list-style-type: none"> the prudence and efficiency of capital expenditure in the previous regulatory period the reasonableness and sufficiency of capital expenditure governance in this regulatory period, and the prudence and efficiency of forecast capital and operating expenditure in this regulatory period. Informed by independent expert advice.
	5	11	Consideration of the appropriate approach for setting the rate of return on capital.
	8	13	Consideration of the appropriate level of net revenue to be recovered through water and sewerage charges.
	10	15	Consideration of customer bill impact analysis.
(b) standards of quality, reliability and safety of the regulated services	4 and 6	9 and 11	Assessment of the prudence and efficiency of forecast capital and operating expenditure in this regulatory period, given current service obligations. Informed by independent expert advice.
(c) the need for greater efficiency in the provision of regulated services to reduce costs to consumers and taxpayers	3	6 and 7	Consideration of the appropriate method to be used to determine prices, including the potential for incentive schemes to be used in conjunction with the building block methodology in the future.
			Consideration of the appropriate form of price control, length of regulatory period and other risk allocation measures from the perspective of providing Icon Water with an incentive to seek out efficiencies.

² On 3 December 2014, the Panel released its *Industry Panel Review of the Independent Competition and Regulatory Commission's 2013 Price Direction for Regulated Water and Sewerage Services in the ACT: Draft Report - December 2014*. This Draft Report is available at the Panel's website [<http://apps.treasury.act.gov.au/industrypanel/industry-panels-draft-report>].

Section 20(2)	Final Report chapter(s)	Draft Report chapter(s)	How the Panel has taken the matter into account
	4 and 6	9 and 11	<p>Consideration of the efficient costs of service provision, including assessment of:</p> <ul style="list-style-type: none"> the prudence and efficiency of capital expenditure in the previous regulatory period the reasonableness and sufficiency of capital expenditure governance in this regulatory period, and the prudence and efficiency of forecast capital and operating expenditure in this regulatory period. <p>Informed by independent expert advice.</p>
(d) an appropriate rate of return on any investment in the regulated industry	5	10	<p>Consideration of the appropriate approach for setting the return on capital, taking into account the requirements of the Act, the approach most commonly used by Australian regulators in applying the building block method (ie the benchmark entity approach), competitive neutrality principles and the conditions prevailing in financial markets at the time of the original price determination.</p>
(e) the cost of providing the regulated services	4,5 and 6	9, 10 and 11	<p>Consideration of regulatory best practice with respect to determining the building block methodology inputs.</p> <p>Consideration of regulatory treatment of CSOs identified by the ICRC.</p>
(f) the principles of ecologically sustainable development mentioned in subsection (5) of section 20(2)	4 and 6	9 and 11	<p>Consideration of environmental costs in capital and operating expenditure building blocks. Informed by independent expert advice.</p>
(g) the social impacts of the decision	4	8	<p>Consideration of the intergenerational equity issues posed by the water security projects.</p>
	10	15	<p>Consideration of customer bill impact analysis.</p>
(h) considerations of demand management and least cost planning	7	9	<p>Consideration of forecast water demand over the regulatory period and capital planning processes. Informed by independent expert advice.</p>
(i) the borrowing, capital and cash flow requirements of people providing regulated services and the need to renew or increase relevant assets in the regulated industry	3, 4 and 10	6, 8 and 15	<p>Consideration of the impact on Icon Water's short-term financial viability – ie, assessment of whether Icon Water will be able to maintain an investment grade BBB rating, during the regulatory period in the context of determining the level of the deadband, the treatment of the water security projects and the impact of water and sewerage charges.</p>
(j) the effect on general price inflation over the medium term	10	15	<p>Consideration of the estimated impact of water and sewerage prices on general inflation.</p>
(k) any arrangements that a person providing regulated services has entered into for the exercise of its functions by some other person	6	11	<p>Consideration of the cessation of the Utilities Management Agreement and the subsequent impact on efficient operating costs. Informed by independent expert advice.</p>

Table A1.2: Compliance with Section 20(2) and the terms of reference

Terms of reference	Final Report chapter(s)	Draft Report chapter(s)	How the Panel has taken the matter into account
(a) policies of the ACT Government as they relate to water security and the use of water	7	4	Consideration of the ACT Water Strategy (Released August 2014) - for example, in relation to demand forecasts.
	4	8	Consideration of the costs of achieving the mandated level of water security in this regulatory period when assessing how the costs of the water security projects should be recovered.
(b) national water initiatives, policies and agreements		4	Consideration of the 2010 National Water Initiative pricing principles, which aim to ensure that pricing is used primarily to achieve economically efficient water use and water service provision, and to ensure the financial viability of water service providers.
(c) the impact of a price on carbon on the provision of water and sewerage services in the ACT	6	11	Consideration of how carbon costs are currently accounted for in Icon Water's expenditure forecasts and whether any downward adjustment is required following the abolition of the carbon price.
(d) the ability of the pricing path to match revenue recovery requirements to the consumer benefits accrued from the water security program	4	8	Consideration of the manner in which the costs of the water security projects should be recovered (including consideration of indexation or non-indexation of the RAB).
(e) all potential regulatory models, including consideration of the provision of sufficient flexibility in price setting across the regulatory period to minimise the impact of significant price fluctuations	3	6 and 7	Consideration of form of regulation issues, including measures to deal with risk and uncertainty over the regulatory period, and the appropriate method to be used to determine prices.
	3 and 9	14	Consideration of the need to minimise price fluctuations within and between regulatory periods when setting water and sewerage charges.
(f) the legislative requirements outlined in section 20 of the Act	See Table A1.1 above		
(g) any other matters considered relevant	None identified		

Abbreviations and acronyms

ACT	Australian Capital Territory
Act	<i>Independent Competition and Regulatory Commission Act 1997 (ACT)</i>
Commission	Independent Competition and Regulatory Commission
CPI	All Groups consumer price index (weighted average of eight capital cities) as published by the Australian Bureau of Statistics
Final Report	<i>Industry Panel - Review of the Independent Competition and Regulatory Commission's 2013 Price Direction for Regulated Water and Sewerage Services in the ACT - Final Report - April 2015</i>
GL	gigalitre
Icon Water	Icon Water Limited ABN 86 069 381 960 (formerly known as ACTEW Corporation, trading as ACTEW Water)
ICRC	Independent Competition and Regulatory Commission
kL	kilolitre
Panel	Industry Panel
Price Direction	This substituted Price Direction
regulatory period	The period in respect of which the Price Direction regulates prices, as specified in clause 2
UNFT	Utilities Network Facilities Tax
WAC	Water Abstraction Charge
WACC	weighted average cost of capital

