



ICRC

independent competition and regulatory commission

Technical appendix

**Draft report: Regulated water
and sewerage services prices
2018–23**

Technical appendix: Depreciation forecasts for 2018–23

The Independent Competition and Regulatory Commission (the Commission) is undertaking an investigation into prices for regulated water and sewerage services in the ACT for the five year period commencing 1 July 2018. The Commission released an issues paper on this investigation on 31 March 2017. The draft report and proposed price direction were released on 12 December 2017.

This technical appendix is produced in response to Icon Water’s request for further information regarding the Commission’s decision on depreciation forecasts for 2018–23. This technical appendix allows Icon Water to independently verify the Commission’s calculation of capital depreciation. It provides background to the draft report released on 12 December 2017, and is fully consistent with the Commission’s decisions communicated therein.

The Commission’s draft decision on Icon Water’s prudent and efficient capital expenditure for 2018–23 is \$382.6m in total (nominal), with \$185.9m for water and \$196.7m for sewerage services. The resulting depreciation forecasts are \$185.2m for water and \$163.0m for sewerage services.

Tables 1 and 2 separately show the Commission’s draft decision on depreciation forecasts for water and sewerage services by major cost drivers and associated asset lives. The cost drivers include renewal, growth, efficiency and regulation. The renewal category captures investments in maintaining, renewing and replacing water and sewerage assets. Growth category includes investments in new infrastructure, as well as expenditure on completion of remaining works required on the main water security projects undertaken in the previous regulatory period. Projects designed to deliver cost savings are included in the efficiency category. Regulation includes project costs aimed at ensuring Icon Water’s compliance with regulatory obligations including those identified by monitoring new legislation and standards, assessing the performance of assets in relation to existing legislation and standards, reviewing risk assessments and network planning.

Table 1 Draft decision on forecast depreciation for water by major cost drivers and associated asset lives, 2018–23, (\$'000, nominal)

Depreciation – Water	2018–19	2019–20	2020–21	2021–22	2022–23
Opening Water Assets (excluding Water Security)	21,045.50	21,571.63	22,110.92	22,663.70	23,230.29
Efficiency 5	9.68	22.71	24.96	25.59	26.23
Efficiency 10	6.49	52.33	133.48	183.01	187.59
Efficiency 25	57.76	119.36	123.06	134.02	182.66
Growth 10	0.00	0.00	41.56	88.77	90.99
Growth 30	0.00	4.10	8.45	8.66	8.88
Growth 80	18.20	57.88	86.46	94.71	97.08
Regulation 10	8.90	55.46	122.55	157.15	161.08
Regulation 20	12.72	27.68	29.84	30.59	31.35
Regulation 25	67.43	170.76	240.89	285.15	294.60
Regulation 30	8.83	20.86	24.31	24.92	25.54
Regulation 50	1.41	17.24	95.12	198.22	245.73
Renewal 5	533.25	1,373.08	1,760.28	1,971.71	2,198.78
Renewal 10	143.93	472.83	853.79	1,280.77	1,808.39
Renewal 15	313.45	934.36	1,364.37	1,650.66	1,968.68
Renewal 18	99.65	304.16	513.27	726.71	944.10
Renewal 20	7.30	22.26	42.79	82.86	135.96
Renewal 25	54.74	180.65	375.72	627.44	815.34
Renewal 40	19.21	84.67	174.01	231.35	248.59
Renewal 50	24.19	155.52	369.40	578.44	765.54
Water Security Asset	8,646.78	8,862.95	9,084.53	9,311.64	8,179.74
Total	31,079.42	34,510.51	37,579.78	40,356.07	41,647.13

Source: Commission's calculations.

Table 2 Draft decision on forecast depreciation for sewerage by major cost drivers and associated asset lives, 2018–23, (\$'000, nominal)

Depreciation – Sewerage	2018–19	2019–20	2020–21	2021–22	2022–23
Existing wastewater assets	24,547.00	25,160.67	25,789.69	26,434.43	27,095.29
Efficiency 10	1.04	48.04	144.76	204.16	209.26
Efficiency 25	129.33	277.70	301.14	323.37	385.47
Efficiency 60	7.07	14.91	15.78	16.18	16.58
Growth 10	0.00	0.00	50.79	108.49	111.21
Growth 20	30.30	65.43	69.97	71.72	73.51
Growth 25	0.00	0.00	0.00	1.94	34.13
Growth 30	0.00	5.01	11.72	19.74	79.88
Growth 60	0.00	0.73	8.53	57.55	144.41
Growth 80	0.00	2.92	21.06	39.12	42.42
Regulation 10	0.00	42.59	120.47	161.20	165.23
Regulation 25	157.86	354.38	470.05	628.89	765.84
Regulation 50	15.29	46.12	79.70	109.04	123.97
Renewal 5	713.29	1,816.24	2,289.96	2,535.67	2,789.75
Renewal 10	154.00	561.46	1,108.68	1,543.25	1,742.20
Renewal 15	0.00	2.99	18.77	33.33	34.58
Renewal 20	541.40	1,319.91	1,602.75	1,704.10	1,806.62
Renewal 25	62.04	250.14	527.71	797.08	990.29
Renewal 30	1.75	6.31	9.40	9.69	9.93
Renewal 40	49.90	107.63	116.25	119.43	122.44
Renewal 50	73.39	222.73	375.76	532.52	693.10
Renewal 60	1.78	8.18	22.36	42.24	63.38
Renewal 80	7.14	15.68	17.26	17.69	18.13
Total	26,492.58	30,329.78	33,172.58	35,510.83	37,517.64

Source: Commission's calculations.