



**Canberra
Business
Chamber**

**SUBMISSION TO THE INDEPENDENT
COMPETITION AND REGULATORY COMMISSION**

**Draft Report for the Water and
Sewerage Services Tariff Review 2016**

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Preamble

The Independent Competition and Regulatory Commission (the ICRC) has recently produced a draft Tariff Review (available [here](#)) as the basis for determining the prices that Icon Water (ICON) will be able to charge for its water and sewerage services.

This document outlines the current water tariff structure and proposes a set of changes based on altered circumstances in the ACT since the last review. In particular it notes:

1. The ACT is now more water secure as a consequence of substantive investment in infrastructure, in particular the enlarged Cotter Dam
2. Despite the end of the Millenium Drought in 2010, there has been no clear bounce back in per capita water consumption.

The current structure has a low basic supply charge, and then two levels of quantity charge. The lower charges apply to the basic quantity of water an average household consumes, then additional water above this volume costs a higher rate. It is concluded in the Review that the current tariff structure is not appropriate for today's conditions.

About Canberra Business Chamber

Canberra Business Chamber (CBC) represents private sector businesses in Canberra. We support business growth by connecting, advising and educating our members and by advocating for policy and investment decisions which will facilitate economic development in the Canberra Region. Canberra Business Chamber is the leading voice of business in a growing regional economy with increasing global reach.

Background to Canberra Business Chamber's Position

The current water tariff structure excessively penalises large commercial users when the intent is to provide an incentive for efficiencies by domestic water uses. This has resulted in large users moving to off-network water supply options (e.g. recycling) to reduce their costs, leading to reduced demand for water and reduced income for ICON. ICON's income is a simple product of the water demand by the tariff cost per unit of water. A continuation in the trend of reduced volumes of purchased water by large users affects the viability of ICON and its ability to maintain and develop infrastructure (see ICON Water submission [here](#)).

High basic utility costs represent an opportunity cost in business investment that could otherwise be redirected to target business growth and increased employment. For small and medium businesses with high water needs that cannot move to off-network options, this imposes an unreasonable cost which reduces national and international competitiveness.

Canberra Business Chamber recognises that there are multiple drivers operating and that there is a need for ICRC to balance commercial interests and social imperatives. This submission acknowledges the following:

1. The need to ensure that water tariffs do not unreasonably penalise commercial companies who are important employers and sources of revenue to the ACT government.
2. The need to ensure that costs of basic utilities are maintained at a level that allows local businesses to compete nationally and internationally in order to further diversify the ACT economy.
3. The need for ICON Water to be able to generate sufficient income to maintain and enhance water and sewage infrastructure.
4. The importance of protection of low-income earners from unreasonable costs for basic utilities.
5. That the ACT Government is a party to the Murray Darling Basin Plan (see overview here), which establishes a set of targets around the quantity and quality of water discharged from the ACT into the Murray Darling Basin. Meeting those targets can be assisted through greater efficiency of water use.

The proposed water tariff structure would increase costs to smaller water users and reduce costs to larger water users. It would reduce the incentive for smaller users to be more efficient, as there would be no thresholds for increased tariffs and the fixed costs for supply would be high relative to costs per unit supplied. This transfers the main costs of the utility from commercial to residential users.

Recommendations

We suggest that no single tariff structure can incentivise efficiencies for residential users and protect large commercial users from excessive costs. These two imperatives require opposite pricing structures.

We propose that non-residential and residential tariffs be treated separately and that draft tariff structures be developed that:

1. For residential users keep fixed supply costs low, but provide price-based incentives to ensure water use efficiencies are maintained.
2. For large volume non-residential users provide discounts that ensure they remain significant users of ICON water infrastructure. These discounts reflect the importance of these customers to supporting the ongoing maintenance and development of infrastructure.
3. We note that in the ACT a very large proportion of businesses are small to medium in size, and therefore that there is a need to balance low usage charges with reasonable supply charges.

4. More complex scarcity-based pricing measures could be implemented for both residential and non-residential users to generate flexibility to gather greater revenue when water scarcity increases costs in supply, and where efficiencies for all users are desirable to protect water security. For example when water storages drop below a pre-determined threshold, a multiplier could be applied to water tariffs.

We propose that businesses operating from residential premises be exempted from these arrangements (i.e. not considered commercial) in order to simplify application. A simple representation of such a tariff structure is shown below.

It is our recommendation that a revised tariff structure recognising the different needs and drivers for commercial and residential users be developed by ICRC and presented for consultation.

	Supply charge (\$ pa)	Usage charge (\$/kL)	Outcome
Commercial users (similar to ICRC Option A)	Medium	Low	Maintain high volume users
Residential users (similar to ICRC Option B)	Low	Low to a threshold* then medium	Incentivise water efficiencies

* This threshold could be 30 kL per quarter, which is considered enough to cover basic indoor uses for most households. Above 30 kL in a quarter a 'tier 2' price could apply. (Derived from ICON Water's submission)

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