



Australian Capital Territory Government

Mr Paul Baxter
Senior Commissioner
Independent Competition and Regulatory Commission
PO Box 975
Civic Square ACT 2608

Dear Paul

ESCC Response to Report 6 of 2006
Information paper – Water and Wastewater Annual Price Reset

The Council has considered the Information Paper, noting that ACTEW Corporation proposes several pass throughs in the 2006-07 annual price reset:

1. pass through the revenue foregone from Stage 3 Restrictions;
2. pass through the cost of the Future Water Options project as capital costs;
3. pass through the costs of the Cotter to Googong water transfer scheme as capital costs (initially) and then the operating costs of the scheme;
4. pass through of the Cotter Catchment remediation works as a mix of capital and operating costs.

In general, the ESCC believes that it should defer to the Commission's expertise in price setting in relation to this matter, however we do wish to make some general comments.

1. Stage 3 Restrictions

The ESCC accepts the need for compensation to ACTEW for revenue foregone from the Stage 3 restrictions. We would ask the Commission to ensure that the revenue foregone is properly calculated and that consideration is given also to any cost savings which ACTEW may have made because of reduced supply volumes and to any subsidies already provided to ACTEW by the ACT Government in relation to the water restrictions.

The ESCC notes that allowing a pass through of this nature protects ACTEW from losses due to reduction in water availability and therefore may reduce ACTEW's financial incentive to ensure security of water availability. The ESCC considers that a pass through in relation to Stage 3 Restrictions is appropriate, however it would not support a pass through in relation to the current Stage 1 conservation measures.

2. Water Options Project

Though the Future Water Options project was undertaken at the request of the ACT Government, such an investigation would seem to be a prudent thing for ACTEW itself to have initiated to secure its future. One might consider variations in water availability to be a part of the inherent "risk" involved in the water business in Australia. The degree that this project might warrant a pass through depends on an assessment of what should be normal prudent business action on the part of ACTEW.

3. Cotter to Googong water transfer scheme

The ESCC commends ACTEW Corporation for its initiative in undertaking this Project, which can be expected to make a great contribution to security of water supply to the Canberra community.

The Council notes that a pass through of capital costs for this work should be reduced by the costs of any other capital works deferred or made unnecessary by this scheme.

4. Cotter Catchment Remediation Work

The Council notes that the logic of the Water Extraction Charge suggests that this cost should be reimbursed to ACTEW by the ACT Government and not passed through in the water tariff (except through an increase in the WAC).

If the Commission allows pass through of costs in the 2006-07 Annual Price Reset, the ESCC strongly recommends that it be passed through totally or predominantly in the 2nd tier price. There should be no increase in the water supply charge and little or no increase in the 1st price tier (0 – 175 kilolitres).

Yours sincerely

Peter Sutherland
Chairperson
16 March 2006