



ICRC
independent competition and regulatory commission

MEDIA RELEASE

Issues Paper on regulated water and sewerage services prices for the period 2018-2023; and

Report on the tariff structures for water and sewerage services prices.

The Independent Competition and Regulatory Commission (the Commission) today released two papers in relation to regulated water and sewerage services prices in the ACT.

Issues Paper on regulated water and sewerage services prices for 2018-2023

The Issues Paper sets out the key matters the Commission will be addressing in its investigation into regulated water and sewerage services prices that will apply in the ACT, for the period 1 July 2018 to 30 June 2023.

The Commission proposes to use the current regulatory model, where it is working well, but will investigate whether improvements can be made for the next regulatory period. This will include consideration of mechanisms to ensure the recovery of prudent and efficient costs, while minimising the potential for significant price fluctuations; the potential for incentive schemes for service levels and for operating and capital expenditure; and any amendments to the tariff structure.

As part of its investigation, the Commission will outline its intended approach to addressing the various regulatory objectives that must be considered during its decision making processes.

The Commission welcomes submissions to the Issues Paper. The timeline and information in relation to the release of reports and receipt

of submissions for this investigation into regulated water and sewerage services are available on the Commission's website from 10am Friday, 31 March 2017.

Report on tariff structures

The second paper is a report on tariff structures for regulated water and sewerage services prices. This report sets out the Commission's preferred direction of change and principles that will be considered in making any change to the tariff structures for water and sewerage services prices. The tariff structure refers to the pricing of regulated water and sewerage services where the price paid is calculated by reference to a fixed supply or volumetrically based usage charges or a combination of both.

The analysis undertaken indicates that the existing water tariff structure can be improved for the benefit of the ACT community as a whole. This can be done by making a careful adjustment, over time, to the balance between fixed and usage charges for water. Such an adjustment would balance the economic, environmental and social objectives that the Commission must consider. We have developed a set of guiding pricing principles (see Attachment A) that takes account of the need to use water efficiently and to ensure efficient recovery of revenue to cover the efficient costs of Icon Water while meeting environmental and social objectives.

The Commission has found that typically over 80 per cent of Icon Water's cost are fixed (i.e. they are incurred regardless of the amount of water used). At the same time only about 10 per cent of Icon Water's revenues are raised through its fixed charge whilst the remaining 90 per cent are collected through usage charges, with the second tier usage charge being the highest compared to eight other water utilities around the country.

There is now more water security in the ACT and changes in the tariff structure could provide some greater flexibility to respond to the circumstances at the time, such as at times of drought.

However, while the Commission is of the view that the direction of change of the tariff structure for water use is appropriate, more consideration is needed on how to address social impacts, particularly for some low income households. The Commission is of the view that gradual change and significant transition period are appropriate for any revised tariff structure. This will be considered during the current price direction for regulated water and sewerage services, once all the relevant information on costs and demand is available to the Commission.

Any change to the structure of tariffs, should it be considered appropriate, will only occur following the Commission's investigation in relation to a price direction for

regulated water and sewerage services, provided by Icon Water, for the next regulatory period from 1 July 2018 to 30 June 2023.

The Commission has been reviewing the tariff structures for water and sewerage services in the ACT since late 2015; with the release of an Issues Paper (November 2015), Technical Reports on the responsiveness of the demand for water to price (February 2016) and marginal cost pricing (June 2016), and a Draft Report (September 2016). Submissions have been received in relation to these various papers and this report takes account of key concerns that have been raised in developing a preferred course of action.

The Commission is not proposing to make any changes to the sewerage tariff structure, which entails a single fixed charge, as there would be unlikely to be a net benefit from introducing usage based charges. However, the Commission welcomes Icon Water's commitment to introducing a trade waste pricing regime in the forthcoming regulatory period

Both papers will be available from 10am Friday, 31 March 2017 on the Commission's website at www.icrc.act.gov.au or can be obtained by either contacting the Commission on (02) 6205 0799 or via email at icrc@act.gov.au.

Submissions in relation to the Issues Paper can be sent to the Commission by post at GPO Box 161, Civic Square ACT 2608: via email at icrc@act.gov.au or lodged at the Commission's offices at Level 8, 221 London Circuit, Canberra City.

STATEMENT ENDS

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Attachment A

Regulatory objectives and pricing principles for water and sewerage tariffs

Category	Aspect	Detail
Objective	Overarching	To promote efficient investment in, and efficient operation and use of, regulated services for the long-term interests of consumers in relation to the price, quality, safety, reliability and security of the service.
	Interpretation	The various aspects of economic efficiency are given emphasis, but with the ultimate objective being the long-term interests of consumers. Economic efficiency when properly defined encompasses environmental objectives. Consumer interests must take account of equity and other social impacts as required by the ICRC Act. Economic efficiency considerations related to pricing are a starting point but need to be balanced with environmental and social considerations.
Pricing principle	1 Economic efficiency in use	Tariff structures and prices should promote the economically efficient use of Icon Water's water and sewerage services infrastructure, and should also encourage economically efficient use of the water resource itself. An inappropriate tariff structure may also create incentives for uneconomic bypass where water supply is sourced from a higher cost alternative.
	2 Economic efficiency for investment and operation	Tariff structures should facilitate the efficient recovery of the prudent and efficient costs of investment and operation. The finance recovery aspect of this principle is often described as revenue adequacy or ensuring financial viability. Costs also need to be efficient, which is primarily addressed by auditing and incentive mechanisms.
	3 Environmental considerations	Tariff structures, prices and complementary mechanisms should ensure that environmental objectives are effectively addressed.
	4 Community impact – gradual adjustment	Any change to the structure of tariffs and prices that will have substantial customer impacts should be phased in over a transition period to allow reasonable time for customers to adjust to the change.
	5 Community impact – fair outcomes for low-income households	Adverse impacts on households with low incomes need to be limited or moderated by phasing and other compensating mechanisms or limits on changes to the tariff structure.
	6 Regulatory governance – simplicity	Tariff structures should be simple for customers to understand and straightforward for the utility to implement.
	7 Regulatory governance – transparency	Tariff structures should be set using a transparent methodology and subject to public consultation and scrutiny.