



ICRC

independent competition and regulatory commission

Proposed Price Direction
**Regulated water and
sewerage services**

1 July 2018 to 30 June 2023

Report 12 of 2017

12 December 2017

The Independent Competition and Regulatory Commission is a Territory Authority established under the *Independent Competition and Regulatory Commission Act 1997* (the Act). The Commission is constituted under the Act by one or more standing commissioners and any associated commissioners appointed for particular purposes. Commissioners are statutory appointments. Joe Dimasi is the current Senior Commissioner who constitutes the Commission and takes direct responsibility for delivery of the outcomes of the Commission.

The Commission has responsibilities for a broad range of regulatory and utility administrative matters. The Commission has responsibility under the Act for regulating and advising government about pricing and other matters for monopoly, near-monopoly and ministerially declared regulated industries, and providing advice on competitive neutrality complaints and government-regulated activities. The Commission also has responsibility for arbitrating infrastructure access disputes under the Act. In discharging its objectives and functions, the Commission provides independent robust analysis and advice.

The Commission's objectives are set out in section 7 and 19L of the Act and section 3 of the *Utilities Act 2000*.

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Part A Preliminary

1 Proposed Price Direction¹

This Price Direction is provided in accordance with section 18(5)(a) of the *Independent Competition and Regulatory Commission Act 1997* (the Act). The Draft Report into Regulated Water and Sewerage Services (Report 11 of 2017) forms the basis for the Commission's decisions as outlined in the Price Direction. In the event of any inconsistency between the Draft Report into Regulated Water and Sewerage Services and the Price Direction, the Price Direction prevails.

The Price Direction establishes a maximum price for water, sewerage and miscellaneous services provided by Icon Water in the ACT, and a mechanism for the annual review (and potential adjustment) of the capital contribution charge for the regulatory period stipulated below.

The Price Direction consists of parts A through D, the clauses, subclauses and tables in those parts and attachment 1.

The Parts are set out as follows:

- Part A – Preliminary
- Part B – Regulated services, prices and charges
- 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 B also sets out the annual capital contribution charge approval arrangements.

Part C sets out the regulatory method for administration and approval of annual price resets.

¹ This document (Report 12 of 2017) is a **proposed price direction** set out under section 18(5)(a) of the *Independent Competition and Regulatory Commission Act 1997* (the Act). The use of finalised terms within this document such as 'Price Direction' and 'final Price Direction' are used for drafting simplicity and proposal purposes, and do not make this proposed price direction a final price direction as determined under Part 4 of the Act.

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

2 The regulatory period

The Price Direction regulates Icon Water for the period 1 July 2018 to 30 June 2023.

3 Section 20(2) of the Act

Pursuant to sections 20(4) of the Act, the Commission must 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 section 20(4) 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 per cent 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.

Maximum price

The term maximum price refers to the highest price that Icon Water may charge customers. Icon Water may charge customers 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 ‘(\$2018–19)’, 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:

$$P_t = P_{t-1} \times \left(\frac{CPI_{June(t-2)} + CPI_{Sept(t-1)} + CPI_{Dec(t-1)} + CPI_{March(t-1)}}{CPI_{June(t-3)} + CPI_{Sept(t-2)} + CPI_{Dec(t-2)} + CPI_{March(t-2)}} \right)$$

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

e can take on the value of 2018–19, 2019–20, 2020–21, 2021–22 or 2022–23 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 2018–19 (as an example) means the financial year from 1 July 2018 to 30 June 2019.

Regulatory period

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

Regulatory year

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

Part B Regulated services, prices and charges

5 Regulated services

The following services are regulated by the Commission:

- (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 domestic, commercial, and industrial premises.
- (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
- (d) Capital contribution arrangements administered by Icon Water under the *Utilities (Water and Sewerage Capital Contribution Code) Determination 2017*.

5.1 Pricing for regulated water and sewerage services

In accordance with sections 20A of the Act, the Commission 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 and 7.

6 Water services

Table 6.1 sets out a maximum price for regulated water services for 2018–19 and a formula for determining the maximum price for regulated water services for 2019–20, 2020–21, 2021–22 and 2022–23.

The maximum prices derived from Table 6.1 for 2019–20, 2020–21, 2021–22 and 2022–23 may also be subject to a pass-through event as set out in clause 9.

Table 6.1 Commission's draft decision on water tariffs, 2018–19 to 2022–23 (\$, current prices)

	2018–19	2019–20	2020–21	2021–22	2022–23
Supply Charge (\$/pa)	120.00	140.00	160.00	180.00	200.00
Tier 1 Price (\$/kL)	2.55	$P_t = P_{t-1} \times (1 + CPI_t) \times x(1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times x(1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times x(1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times x(1 + X)$
Tier 2 Price (\$/kL)	4.95	$P_t = P_{t-1} \times (1 + CPI_t) \times x(1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times x(1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times x(1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times x(1 + X)$

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;

$$CPI = \frac{CPI_{June(t-2)} + CPI_{Sept(t-1)} + CPI_{Dec(t-1)} + CPI_{March(t-1)}}{CPI_{June(t-3)} + CPI_{Sept(t-2)} + CPI_{Dec(t-2)} + CPI_{March(t-2)}} - 1$$

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 2019–20, 2020–21, 2021–22 and 2022–23 for the relevant year of the adjustment in Table 6.1.

X smoothing factor, set at -1.52 per cent.

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

7 Sewerage services

Table 7.1 sets out a maximum price for regulated sewerage services for 2018–19 and a formula for determining the maximum price for regulated sewerage services for 2019–20, 2020–21, 2021–22 and 2022–23. The maximum prices derived from Table 7.1 for 2019–20, 2020–21, 2021–22 and 2022–23 may also be subject to a pass-through event as set out in clause 9.

Table 7.1 Commission's draft decision on sewerage tariffs, 2018–19 to 2022–23 (\$, current prices)

	2018–19	2019–20	2020–21	2021–22	2022–23
Sewerage Charge (\$/pa)	536.51	$P_t = P_{t-1} \times (1 + CPI_t) \times (1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times (1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times (1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times (1 + X)$
Sewerage Fixtures* (\$/pa)	524.70	$P_t = P_{t-1} \times (1 + CPI_t) \times (1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times (1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times (1 + X)$	$P_t = P_{t-1} \times (1 + CPI_t) \times (1 + X)$

Note: *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; and

t can take on the value of 2019–20, 2020–21, 2021–22 and 2022–23 for the relevant year of the adjustment in Table 7.1.

X smoothing factor, set at -2.59 per cent.

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

8 Miscellaneous services and charges

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

$$p_t = p_{t-1} \times (1 + CPI)$$

where:

p_t is the price to be charged for the relevant service in the next regulatory year

p_{t-1} is the price charged for the relevant service in the current year

CPI is as defined in 6.

Prices should be rounded to the nearest dollar GST inclusive.

8.1 New miscellaneous services and charges

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

- a description of the new miscellaneous service;
- the reasons for the introduction of the new miscellaneous service or charge;
- the terms and conditions which will apply to the provision of the new miscellaneous service;
- the direct efficient costs of providing the new miscellaneous service;
- a forecast of the annual volume of sales of the new miscellaneous service; and,
- the draft price for the new miscellaneous service for the first year it is in place.

The Commission will consider any submission from Icon Water and have regard to:

- whether the expenditure and/or revenue associated with the miscellaneous service has already been taken into account in specifying the prices to apply under this determination;
- whether the draft price provides for a sustainable revenue stream that does not reflect inefficient expenditure and reflects the costs of providing the miscellaneous service; and,
- any other relevant matter.

The Commission may request that Icon Water:

- provide any additional information specified by the Commission; and/or,
- resubmit any price proposed by Icon Water for a new miscellaneous service.

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 the 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.

The Commission will provide Icon Water with this notification within ten business days of Icon Water's submission, or later if any additional information is provided by Icon Water. In the event that no additional information is sought from Icon Water, if the Commission does not formally advise Icon Water of its decision within ten business days, Icon Water's proposal will be deemed to be approved and Icon Water may commence charging for the new miscellaneous service as per its proposal.

8.2 Removing a miscellaneous service

Should Icon Water wish to remove a miscellaneous service, Icon Water must provide to the Commission:

- a description of the miscellaneous service to be removed;
- reasons for the removal of the miscellaneous service; and,
- the proposed date of the removal of the miscellaneous service.

The Commission will notify Icon Water of its decision whether or not to approve the removal of the miscellaneous service. The Commission will provide Icon Water with this notification within ten business days of Icon Water's submission, or later if any additional information is provided by Icon Water. In the event that no additional information is sought from Icon Water, if the Commission does not formally advise Icon Water of its decision within ten business days, Icon Water's proposal will be deemed to be implicitly approved and Icon Water may remove the miscellaneous service as per its proposal.

Part C Regulatory method

9 Pass-through events

9.1 Events

Icon Water may apply to the Commission to have the following pass-through events included in the price.

A pass-through event is one of the following:

- (a) Water Abstraction Charge (WAC) event (clause 9.2).
- (b) Utilities Network Facilities Tax (UNFT) event (clause 9.3).
- (c) Subvention payment event (clause 9.4).
- (d) Change in other taxes event (clause 9.5).
- (e) Service standard event (clause 9.6).
- (f) Regulatory obligations event (clause 9.7).
- (g) Tantangara Transfer Payment event (clause 9.8).

9.2 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 9.1 below.

Table 9.1 WAC (\$2017–18)

	WAC (\$ million)
2018–19	28.36
2019–20	28.69
2020–21	29.02
2021–22	29.44
2022–23	29.85

9.3 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 9.2 below.

Table 9.2 UNFT for water and sewerage (\$2017–18)

	Water UNFT (\$ million)	Sewerage UNFT (\$ million)
2018–19	5.53	4.54
2019–20	5.73	4.70
2020–21	5.93	4.87
2021–22	6.14	5.04
2022–23	6.36	5.22

9.4 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 9.3 below.

Table 9.3 Subvention payments for water and sewerage (\$2017–18)

	Water subvention payments (\$ million)	Sewerage subvention payments (\$ million)
2018–19	1.09	10.89
2019–20	1.09	10.89
2020–21	1.09	10.89
2021–22	1.09	10.89
2022–23	1.09	10.89

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).

9.5 Changes 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 2018; or
- (b) the removal of a relevant tax or imposition of a new relevant tax that occurs on or after 30 June 2018.

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 (\$2017–18) in the year for which the pass-through is sought.

9.6 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 2018, 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 (\$2017–18) in the year for which the pass-through is sought.

9.7 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;
- (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 2018, 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 (\$2017–18) in the year for which the pass-through is sought.

9.8 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 2018, 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 (\$2017–18) in the year for which the pass-through is sought.

9.9 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 9 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.

10 Annual price approval process

10.1 Icon Water submission on prices

On or before 1 May each year (for the regulatory years 2019–20, 2020–21, 2021–22 and 2022–23) Icon Water must provide the following to the Commission:

- proposed prices for the services which are subject of the price controls in Part B of this Price Direction;
- information to demonstrate to the Commission that the proposed tariffs comply with the requirements of Part B of this Price Direction, and other supporting data, including Icon Water’s calculation of the CPI; and
- any other information specified by the Commission that it reasonably requires to assess whether the proposed tariffs comply with this Price Direction.

10.2 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 that are submitted to the Commission on 1 May under clause 10.1. 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 9, and whether it approves the pass-through amount proposed by Icon Water.

10.2.1 Commission consideration

The Commission will advise Icon Water no later than 21 May:

- (a) whether the pass-through amount proposed under clause 10.2 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 21 May in accordance with this clause 10.2.1, the proposed pass-through amount will be deemed to comply with the Price Direction.

10.2.2 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.

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 has advised Icon Water that the revised pass-through amount does not comply or requires further additional information, the provisions of this clause 10.2.2 will continue to apply until the Commission approves the pass-through amount as complying with the Price Direction.

10.2.3 Commission may deny a pass-through event

The Commission may deny a pass-through event. The Commission will provide a statement of reasons if a pass-through event outlined in clause 9.1 has been denied under this clause.

10.2.4 Commission may initiate pass-through

If a pass-through event, as outlined in clause 9.1, occurs and Icon Water does not propose the inclusion of the event in the price under clause 9.1, the Commission may decide on a pass-through amount which will be included in the appropriate price. The amount may be a negative or positive figure.

Under this clause, the Commission will make the decision in relation to whether a pass-through event has occurred.

In doing so, the Commission:

- (a) may seek information from Icon Water in relation to the pass-through event and the pass-through amount; and,
- (b) must notify Icon Water in writing of the pass-through amount and the reason for the Commission's decision.

10.2.5 Partial adjustment

If, by 31 May 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 10.3, 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 31 May of a given regulatory year will not take effect until the commencement of the regulatory year subsequent to the following regulatory year

10.2.6 Pass-through may result in a positive or negative impact on the price

To avoid all doubt, a pass-through may have a positive or negative impact on the price.

10.3 Final determination on proposed prices

Having assessed Icon Water’s proposed prices submitted under clause 10.1, and subject to clause 10.2 if Icon Water submits a pass-through/s under clause 10.2, the Commission will advise Icon Water on or before 31 May each year whether the proposed prices and pass-throughs comply with this price direction and, if they do not comply, the reasons that they do not comply.

If the Commission does not provide advice to Icon Water by 31 May each year in accordance with this clause 10.3 the proposed prices will be deemed to comply with this Price Direction.

11 Capital contribution arrangements

11.1 Updating the precinct charge schedule

11.1.1 Icon Water application

In each year of the regulatory period, including 2018–19, Icon Water must submit to the Commission an application to update the Precinct Charge that is used to calculate the Class 2 infrastructure charge for developments within a precinct under the *Utilities (Water and Sewerage Capital Contribution Code) Determination 2017*.

The application must be submitted to the Commission on or before 1 May and must include:

- (a) the proposed Precinct Charge for the regulatory year, and
- (b) the financial model used to calculate the proposed Precinct Charge, identifying:

- any revisions to the 20-year projections of ACT population growth and capital expenditure required to augment the water and sewerage network to service this growth;
- any unders and overs account adjustments for variance between actual and forecast revenue/ capital expenditure; and
- the basis of the Consumer Price Index adjustment.

11.1.2 Commission consideration

The Commission will advise Icon Water no later than 31 May whether:

- (a) the Precinct Charge proposed under clause 11.1.1 complies with the Price Direction and, if it does not comply, the reasons why it does not comply; and
- (b) the Commission requires additional information from Icon Water to assess whether the Precinct Charge proposed under clause 11.1.1 complies with the Price Direction.

If the Commission does not provide advice to Icon Water by 31 May in accordance with this clause 11.1.2, the proposed Precinct Charge will be deemed to comply with the Price Direction.

11.1.3 Icon Water resubmission

If the Commission advises Icon Water that the proposed Precinct Charge does not comply with the Price Direction or that it requires additional information from Icon Water, Icon Water must resubmit the application to update the Precinct Charge or provide the additional information to the Commission by 10 June.

Within 10 business days of receiving the revised application or additional information from Icon Water, the Commission will advise Icon Water whether the proposed Precinct Charge 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 10 business days in accordance with this clause 11.1.3, the proposed Precinct Charge will be deemed to comply with the Price Direction.

11.2 Updating the precinct map

11.2.1 Icon Water application

In each year of the regulatory period, including 2018–19, Icon Water may submit to the Commission an application to update the Precinct Map that is used to calculate the Class 2 infrastructure charge for developments within a precinct under the *Utilities (Water and Sewerage Capital Contribution Code) Determination 2017*. To avoid doubt, Icon Water may not update the Precinct Map unless it submits the map under this clause 11.2.1.

The application must be submitted to the Commission on or before 1 May. The proposed Precinct Map must:

- (a) be of sufficient visual quality and resolution to enable identification of individual parcels of land;
- (b) contain a clearly identifiable version number and date/s of effect; and
- (c) contain a table of amendments detailing changes made from the current to the updated version of the Precinct Map.

11.2.2 Commission consideration

The Commission will advise Icon Water no later than 31 May whether:

- (a) the Precinct Map proposed under clause 11.2.1 complies with the Price Direction and, if it does not comply, the reasons why it does not comply; or
- (b) whether the Commission requires additional information from Icon Water to assess whether the Precinct Map proposed under clause 11.2.1 complies with the Price Direction.

If the Commission does not provide advice to Icon Water by 31 May in accordance with this clause 11.2.2, the proposed Precinct Map will be deemed to comply with the Price Direction.

11.2.3 Icon Water resubmission

If the Commission advises Icon Water that the proposed Precinct Map does not comply with the Price Direction, or that it requires additional information from Icon Water, Icon Water must resubmit the application to update the Precinct Map or provide the additional information to the Commission by 10 June.

Within 10 business days of receiving the revised application or additional information from Icon Water, the Commission will advise Icon Water whether the proposed Precinct Map 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 10 business days in accordance with this clause 11.2.3, the proposed Precinct Map will be deemed to comply with the Price Direction

Part D Legislative provisions

Nothing in Part D limits the provisions of the Act.

12 Price Direction variation trigger events

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

- (a) Act of terrorism;
- (b) 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.

13 Reset principles

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

- (a) The Commission will seek a reference from the relevant Minister regarding services covered by this Price Direction 18 months prior to the expiry of the regulatory period as set in clause 2 of this Price Direction.
- (b) If, as of 30 June 2023, a new price direction for the regulated services of Icon Water is not set to take effect from 1 July 2023, then the prices as of 30 June 2023 will remain in place from 1 July 2023 onwards until a new price direction is made by the Commission. To avoid doubt, apart from providing for interim prices from 1 July 2023 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.
- (c) The Icon Water Board 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) During the regulatory period, the Commission will conduct a review of potential incentive mechanisms for the regulation of Icon Water. The incentive mechanisms may include additions to the regulatory framework to address service standards, capital expenditure or operating expenditure.

- (e) The Commission will make provision for a demand volatility adjustment in the next price investigation if the net present value of water sales revenue earned over the period 1 July 2018 to 30 June 2023 differs by more than 6 per cent of the revenue set out in Table 13.1 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 2018 to 30 June 2023; and
- (ii) the net present value of the volumetric water sales revenue (i.e., the revenue to be recovered from tier 1 and tier 2 charges) allowed in the Final Report (see Table 13.1 below), adjusted where necessary for any pass-through amounts approved by the Commission in the period, plus or minus 6 per cent depending on whether there has been an over collection or an under collection of revenue.

The net present value in 13(e)(i) and (ii) is to be measured as at 1 July 2023. Forecast revenue will be used for those quarters of the financial year 2022–23 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 5.93 per cent (nominal vanilla Weighted Average Cost of Capital (WACC)).

Table 13.1 Volumetric water sales revenue (Tier 1 plus Tier 2 revenue, \$m 2017–18)

	Revenue from water sales (\$m)
2018–19	162.24
2019–20	162.87
2020–21	164.49
2021–22	166.64
2022–23	168.69

- (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 5.1 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 (2022–23) to be recovered in the next regulatory period (commencing on 1 July 2023) if it considers it appropriate to do so.

Attachment 1 Compliance

A1.1 Compliance with the Terms of Reference

Table A1.1 Compliance with the Terms of Reference

Clause	Requirement	Chapter	Comments
Section 15 of the Act	The price direction will be for the period of 1 July 2018 to 30 June 2023.	2	The proposed price direction applies for the five year period from 1 July 2018 to 30 June 2023.
1.a	The Commission must consider the objectives of the Commission outlined within section 7 of the Act.		See Table A2.2
1.b	The Commission must consider the objective related to price directions outlined in section 19L of the Act.		See Table A2.3
1.c	The Commission must consider the legislative requirements outlined in section 20(2) of the Act.		See Table A2.4
1.d	The Commission must consider the policies of the ACT Government as they relate to the supply and use of water and sewerage services, including the <i>ACT Water Strategy - Striking the Balance 2014-2044</i> .	1,2	As part of the Commission's tariff structure review leading to this investigation, the Commission established key price setting principles in order to clarify how it intended to take account of relevant ACT Government policies. In making its draft decision based on aforementioned pricing principles, various water conservation actions, policies and initiatives, including the <i>ACT Water Strategy - Striking the Balance 2014-2044</i> were recognised.
1.e	The Commission must consider the National Water Initiative, Murray-Darling Basin Plan commitments and associated policies and agreements.	1,2	In making the Commission's draft decision, based on aforementioned key pricing principles, various government policies and national agreements were considered.
1.f	The Commission must consider any other matters considered to be directly relevant to the pricing investigation.	1,2	In making its draft decision, the Commission regarded a number of matters it is required to consider under the Act and the key price setting principles that it established as part of the tariff structure review 2016-17.
2.a	The Commission should consider continuing to use the current regulatory model, and, where identified, implement improvements to particular aspects of the methodology.	2,5,6,7,8	For the purposes of the draft decision, the Commission continued to use the Industry Panel's regulatory model with improvements to the parameters and demand forecasting methodology.
2.b	The Commission should consider appropriate mechanisms to ensure the recovery of the prudent and efficient costs	2,3,4,5,6,7,8	The Commission's proposed form of regulation and 'building block' methodology have been designed to

Clause	Requirement	Chapter	Comments
	of Icon Water Limited during the regulatory period, while minimising the potential for significant price fluctuations.		recover the efficient costs of providing water and sewerage services in the ACT.
2.c	The Commission should consider whether there is potential for the implementation of incentive schemes for service levels, operating expenditure or capital expenditure for Icon Water Limited in the future.	2,11	The Commission proposes to further examine the potential for implementing incentive schemes for Icon Water's operating expenditure, capital expenditure and service levels during the 2018–23 regulatory period. This review will be given effect through a reset principle.
3.	As part of its investigation, the Commission should outline its intended approach to achieving its various regulatory objectives within its decision making process.	1,2,	In making its draft decision, the Commission regarded key pricing principles that took account of both legislative and government policy objectives as well as generally accepted economic and regulatory principles. These principles provided the basis for the assessment framework that the Commission used to develop its draft recommendations for prices for water and sewerage services.
4.a	The Commission should identify, in the draft and final reports of the investigation, the incremental impact on prices associated with any changes to the total allowed revenue for Icon Water Limited.	7,9	The Commission's proposed net revenue requirement, in conjunction with its draft decision on demand forecasts, is used to calculate the prices to be charged for water and sewerage services. The revisions have been outlined and associated impacts have been identified.
4.b	The Commission should identify, in the draft and final reports of the investigation, the incremental impact on prices associated with any changes to the water demand forecasts used in the regulatory model.	8,9	As part of the investigation, the Commission made some revisions to the current model in the direction of improving the demand forecasting methodology. The revisions have been outlined and associated impacts have been identified.
4.c	The Commission should identify, in the draft and final reports of the investigation, the incremental impact on prices associated with the implementation of any reforms to the tariff structure arising from the Commission's review of Icon Water Limited's regulated water and sewerage services tariffs.	2,9	The Commission's 2016–17 tariff structure review provided the basis for the Commission's implementation of proposed prices. The Commission proposes to retain the existing water services tariff structure whilst introducing a measured and gradual approach to changing the fixed supply charge. No changes have been proposed for the existing sewerage services tariff structure.
5.	In accordance with subsection 16(2)(d) of the Act, the Commission must make available a draft report for public inspection within the period of 1 September 2017 to 12 December 2017.	N/A	The draft decision will be made available to the public by 12 December 2017 in accordance with the Terms of Reference.

Clause	Requirement	Chapter	Comments
6.	In accordance with subsection 16(2)(a) of the Act, the Commission must submit its final report to the referring authority within the period of 1 March 2018 to 1 May 2018.	N/A	This clause relates to the final decision.

A1.2 Compliance with the Act

A1.2.1 Objectives

Table A1.2 Compliance with section 7 of the Act

Section 7	Requirement	Chapter	Comments
(a)	to promote effective competition in the interests of consumers	N/A	N/A
(b)	to facilitate an appropriate balance between efficiency and environmental and social considerations	1,2,3,4,5,6,7,8,9,10	The pricing principles developed as part of the Commission's tariff structure review 2016–17 provided the basis for how the Commission considered an appropriate balance between efficiency and environmental and social considerations in forming its draft decision. The Commission's proposed form of regulation and the pricing methodology have been designed to recover the efficient costs of providing regulated water and sewerage services in the ACT. Social considerations have been taken into account by ensuring that the regulated prices are based on efficient costs. The Commission also considered the impacts of proposed price changes on customers' annual water bills.
(c)	to ensure non-discriminatory access to monopoly and near monopoly infrastructure	N/A	N/A

A1.2.2 Compliance with section 19(L) of the Act

Table A1.3 Compliance with section 19(L) of the Act

Section 19L	Requirement	Chapter	Comments
	The Objective of the Commission, when making a price direction in a regulated industry, is to promote the 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.	1,2,3,4,5,6,7,8,9,10	The Commission's proposed form of regulation and the pricing methodology have been designed to recover the efficient costs of providing regulated water and sewerage services in the ACT. This includes the costs of meeting quality, reliability and safety standards. The long-term interests of the consumers have been taken into account by ensuring that the regulated prices are based on efficient costs to meet the required standards. The Commission also considered the impacts of proposed price changes on customers' annual water bills.

A1.2.3 Compliance with section 20(2) of the Act

Table A1.4 Compliance with section 20(2) of the Act

Section 20(2)	Requirement	Chapter	Comments
(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	1,2,3,4,5,6,7,8	The Commission's proposed pricing methodology recovers the efficient costs of providing regulated water and sewerage services in the ACT. Consumers are protected from abuses of monopoly power by the Commission ensuring that the regulated prices are based on efficient costs to meet the required standards.
(b)	Standards of quality, reliability and safety of the regulated services	2,3,11	The Commission's proposed form of regulation and the pricing methodology have been designed to recover the efficient costs of providing regulated water and sewerage services in the ACT. This includes the costs of meeting quality, reliability and safety standards. Various Territory and national water conservation actions, policies and initiatives, including the <i>ACT Water Strategy - Striking the Balance 2014-2044</i> have been considered. The Commission proposes to further examine the potential for implementing incentive schemes for Icon Water's service levels during the 2018–23 regulatory period.
(c)	The need for greater efficiency in the provision of regulated services to reduce costs to consumers and taxpayers	2,3,4,5,6,7,8	The Commission's proposed price setting model is based on the prudent and efficient costs of providing regulated water and sewerage services in the ACT, reviewed by an independent expert.
(d)	An appropriate rate of return on any investment in the regulated industry	6	The Commission has determined an appropriate rate of the return by considering a number of factors including the requirements of the Act, consistency with the approaches used by majority of Australian regulators and consistency with the competitive neutrality and allocative efficiency principles. The Commission is confident that it provides, in the current circumstances, an appropriate rate of return on investment in the regulated industry.
(e)	The cost of providing the regulated services	2,3,4,5,6,7,8	The Commission's proposed form of regulation and the pricing methodology have been designed to recover the efficient costs of providing regulated water and sewerage services in the ACT. The Commission considers that the allowed revenue represents a reasonable balance between cost recovery and efficient operation.
(f)	The principles of ecologically sustainable development	1,2	The pricing principles developed as part of the Commission's tariff structure review 2016–17 provided the basis for how the Commission considered an appropriate balance between efficiency and environmental and social considerations in forming its draft decision. These principles took account of a number of government policies and national agreements associated with ecologically sustainable development, including the National Water Initiative (NWI), the Murray-Darling Basin Plan and ACT Government policies including the <i>ACT Water Strategy - Striking the Balance 2014-2044</i> .

Section 20(2)	Requirement	Chapter	Comments
(g)	The social impacts of the decision	1,2,3,4,10	The pricing principles developed as part of the Commission's tariff structure review 2016–17 provided the basis for how the Commission considered an appropriate balance between efficiency and environmental and social considerations in forming its draft decision. Social considerations have been taken into account by ensuring that the regulated prices are based on efficient costs. With regards to the water tariff structure, the existing tariff structure has been retained whilst introducing a measured and gradual approach to changing the fixed supply charge. The Commission also considered the impacts of proposed price changes on customers' annual water bills.
(h)	Considerations of demand management and least-cost planning	2,3,4,8,11	<p>The Commission's proposed price setting model is based on prudent and efficient costs of providing regulated water and sewerage services in the ACT, reviewed by an independent expert.</p> <p>The Commission proposes to further examine the potential for implementing incentive schemes for Icon Water's operating expenditure, capital expenditure and service levels during the 2018–23 regulatory period.</p> <p>The Commission has made some revisions to the current model in the direction of improving the demand forecasting methodology.</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	3,4,5,6,8,9,10	The Commission's proposed water and sewerage services pricing provides for the efficient costs of providing these services in the ACT. This includes an appropriate rate of return. In making its draft decision, the Commission also considered the estimated impacts on Icon Water's financial viability. The Commission is confident that its draft decision is consistent with Icon Water remaining financially viable, and provides sufficient room to meet the borrowing capital, cash flow and investment requirements.
(j)	The effect on general price inflation over the medium term	10	The Commission identified the estimated impacts of its draft decision on general price inflation. The Commission's assessment is that the proposed prices are expected to have no material effect on general inflation.
(k)	Any arrangements that a person providing regulated services has entered into for the exercise of its functions by some other person	3	The Commission reviewed Icon Water's arrangements with other parties for the provision regulated water and sewerage services. The Commission has found these arrangement sufficiently documented to allow due consideration for the purposes of the price investigation.

Abbreviations and acronyms

ACT	Australian Capital Territory
Act	<i>Independent Competition and Regulatory Commission Act 1997</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
GL	gigalitre
Icon Water	Icon Water Limited (ABN 86 069 381 960)
ICRC	Independent Competition and Regulatory Commission
kL	kilolitre
Utilities Act	<i>Utilities Act 2000 (ACT)</i>
UNFT	Utilities Network Facilities Tax
WAC	Water Abstraction Charge
WACC	Weighted average cost of capital