Submission to the Review of ICRC Price Increases in Actew Water and Sewerage

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This submission outlines a different approach to setting prices. It also gives a different mechanism for funding water and sewerage infrastructure to reduce the cost of finance and to keep the value of the water infrastructure in the hands of the water using community.

Pricing

It is recommended that the operator of Water and Sewerage Services be permitted to set the prices for Water and Sewerage Services as they see fit as a mechanism to help control demand for water and to provide the capital needed to ensure long term water supply security. The Price Regulator's role should not concern itself with the price of water but rather should concern itself with whether the operation of these services deliver water efficiently. The Price Regulator's role should be to ensure the profits from the sale of water is distributed equitably across the whole Community.

The question of whether the operator is delivering good value can best be answered by benchmarking the costs of supply against other similar jurisdictions. The Pricing Regulator does this and should continue to do it.

The more contentious issues are:

- distributing the costs of water supply equitably across the generations,
- distributing the value of the community water resource equitably across the whole community,
- ensuring the profits from the community water resource stays within the community

The ICRC has demonstrated that the current method of financing and repaying loans to build water supply means that current users of water are paying more of the capital while future generations pay less. This is caused by the accounting procedures used to allocate capital costs across the generations and is unfair on the current generation.

Control of Water demand uses a simple price mechanism to control demand. The more water is consumed the greater the cost. This is unfair as it means that those who can afford to pay are able to get more of the community resource and because it does not Reward those who choose to find ways to reduce their water consumption. This happens because the accounting procedures use pricing as the the only mechanism for demand management.

The current method of funding means that most of the interest costs on capital loans go out of the Canberra Community instead of remaining within the Canberra Community. This happens because the

current methods of financing exclude members of the Canberra Community from funding infrastructure development from their own savings.
The following proposal addresses these three issues while allowing the Operator to set prices to control demand and to ensure that the community has security of supply.

Funding

The current method of funding Capital expenditure is through loans, mainly from external sources, and repaying those loans along with interest to the external parties. An alternative approach is to Crowd Fund from the Community of water users. This is achieve by selling PrePurchase Vouchers, to existing water users. PrePurchased vouchers attract a discount when used where the Discount depends on the length of time the Vouchers have been held. The Voucher value is increased in value with inflation to preserve their value. The Vouchers are transferrable so that people who cannot use all the PrePurchased amount can sell their Vouchers to consumers of water.
The Cotter Dam is meant to have a life of 100 years.
Using this approach the Cost of finance to the operator through loans over 100 years at 5% per year is the same as Prepurchase Vouchers with a Discount of 8% per year.
An inflation adjusted 8% Discount investment could be offered to Water Consumers and would be a very attractive investment. The water users of Canberra would over subscribe the issue. Each individual, including children, whose main residence is serviced with water from Actew could be given a right to subscribe. This right would have a value and individuals could sell to others if they did not wish to use it. This means the value of the Community Resource is distributed more fairly across the community.
To increase fairness people who use less than a nominated per head allocation of water can receive extra allocations of the right to PrePurchase Discounted Vouchers as the way to fund ongoing maintenance and development.
The method of PrePurchased Discounted Vouchers distributes the Capital Costs fairly across the generations in contrast to the current approach where today's water users pay 6 times the capital compared to a person in 100 years.
Actew itself will have an increase in profits because interest costs will come off the P&L. It is estimated that this will increase profits by $40M+ if the current loan portfolio is purchased through funds raised with PrePurchased Discounts.

Better Use of Capital

The question will be asked where does the extra money come from if all the parties are better off?
The answer is from removing compound interest on loans which over a long period of time adds extra costs.

Traditional loans are created by increasing the money supply and the risk of new money has to be covered. Discounted Prepurchases creates credit without increasing the money supply and hence the cost of the risk associated with creating extra money is saved.

This approach will require no change to legislation. It will require no change to accounting practises and it will comply fully with existing Australian and Territory Tax and other Laws. The reason for this is that PrePurchased Discounted Vouchers are another method of paying for goods and services and all the laws and regulations around ordinary payments apply to the PrePurchased Discount Vouchers.

The system can be introduced quickly and gives a way for the ACT government to make better use of the Capital tied up in existing water and sewerage infrastructure. This can be done by using the extra profits from the sale of water to provide the income stream needed for other Capital Expenditure through issuing extra PrePurchased Discount Vouchers for other Capital works such as a hospital or roads or light rail. $40M in profit would finance 500M in Capital Expenditure, which after being built, would provide a further income stream after operating costs are taken out. This new income stream could, in turn, finance further Capital Expenditure.