

## **Industry Panel Review of the Independent Competition and Regulatory Commission's 2013 Price Direction: Overview of Draft Report**

### **Why was a review required?**

An Industry Panel was appointed by the ACT Treasurer to review the price direction for water and sewerage services set by the Independent Competition and Regulatory Commission (ICRC) in 2013.

The review was triggered by ACTEW under the appeal process provided for in the *Independent Competition and Regulatory Commission Act 1997*.

Having completed the first phase of its review, the Panel has released a draft report setting out its proposed pricing decision.

### **Background to the review**

The ICRC is responsible for regulating the prices ACTEW charges for water and sewerage services in the ACT. Its price direction released in 2013 determined that ACTEW's maximum prices for water services should increase by 4.9% in 2013–14, while maximum price for sewerage services should fall by 18.1%. To deal with uncertainties about costs and demand over the five-year regulatory period, the ICRC made provision for prices in later years to be established through two 'biennial recalibrations', to be conducted in 2015–16 and 2017–18.

ACTEW (which will be rebranded as Icon Water from 2015) applied for a review of the price direction in September 2013 under the *Independent Competition and Regulatory Commission Act 1997* on a range of grounds.

conduct the review. Under the Act, the Panel must:

- either substitute a new price direction for the original price direction, or confirm the original price direction, and
- make its decision on the merits of the case, having regard to the legislation that governs the price direction.

### **What did the Industry Panel decide?**

The Panel's draft decision is to substitute a new price direction that covers a five-year regulatory period without a biennial review process.

The Panel's proposed water charges provide greater certainty and longer-term price stability for ACTEW and its customers over the five years to mid-2018.

Under the draft price direction, residential customers would see little change to their combined water and sewerage bills over the next three years. For instance:

- The fixed water supply charge and tier 1 and tier 2 charges would decrease by 5.2% in 2015–16. In the following two years (2016–17 to 2017–18), charges would remain constant in dollar terms.
- Sewerage charges would increase by 4.9% in 2015–16, but in the following two years would only rise in line with inflation (estimated at 2.5% pa).

Although the draft decision changes the mix of water and sewerage components to reflect the respective cost of providing these services, the net effect on the combined household bill would be minimal.

All indicative bills assume the inflation rate (CPI) is 2.5% per annum and that the cost pass-through mechanism is not triggered by unforeseen events or government decisions (such as changes to the Water Abstraction Charge or Utilities Network Facilities Tax).

## **What are the impacts of the Panel's draft decision?**

### ***For households and non-residential customers***

Under the draft determination most residential customers would see minimal changes to their combined water and sewerage bills over the next three years.

The modest price changes proposed by the Panel are unlikely to have any material impact on the bills of vulnerable customers.

The Panel's analysis shows that the combined water and sewerage residential bill in the ACT is comparable with that for other major Australian utilities.

Bills for non-residential customers are also expected to be reasonably stable over the five-year period (ranging from a 7% decrease to a 2% increase).

### ***For ACTEW and future regulatory decisions***

The Panel considers that its draft decision ensures that ACTEW is able to earn sufficient revenue over the period to fund capital works and operating costs.

The draft decision reflects a stronger outlook for water sales than assumed in the original decision.

The draft decision includes a number of safeguards to protect ACTEW's financial viability, and the Panel is satisfied that there are adequate measures in place to manage risks and uncertainties relating to operating costs and forecast demand.

The form of regulation proposed in the draft decision provides greater incentives for ACTEW to pursue efficiencies.

By setting prices for a five-year period the Panel has removed the need for biennial recalibrations (by the ICRC), thereby reducing regulatory costs and delivering longer-term certainty for all stakeholders.

## **How did the Panel reach its decision?**

The Panel developed a robust and transparent methodology based on tried and tested regulatory practices.

The Panel examined the ICRC's original price direction and investigated those matters raised by ACTEW in its Statement of Facts and Contentions (SOFC). It also considered submissions from other stakeholders and matters raised during its hearing of review issues.

The Panel undertook additional analysis and modelling, and sought expert advice on the costs of providing water and sewerage services and the forecast demand for these services over the regulatory period.

In keeping with the Act and the terms of reference for the ICRC's original price direction, the Panel took account of a broad range of matters in reaching its decisions. These included objectives related to consumer protection, economic efficiency and ACTEW's financial viability.

### **Next steps – comments invited on the draft report**

Interested parties and the ACT community are now invited to make further submissions and attend the next public hearing.

**Written submissions must be received by 23 January 2015.** Guidance on how to make a written submission and the Panel's submission policy can be found on the Panel's website under *How to make a submission*.

The public hearing is likely to be held in early February 2015. This will provide an opportunity for ACTEW and other stakeholders to make verbal submissions. The timing and venue will be publicly advertised and advised on the Panel's website.

Having considered all written and verbal submissions, the Panel will then deliver its final report and price direction to the ACT Treasurer, who is responsible for providing the report to the ACT Legislative Assembly.

The timing for the delivery of the final report will depend on the nature of the submissions received, and the extent to which any further analysis is required.

Written submissions should be addressed to:

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