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TRANSCRIPT OF PROCEEDINGS

INDUSTRY PANEL REVIEW

MS M. HARTLEY, CHAIR

REVIEW OF THE INDEPENDENT COMPETITION AND REGULATORY COMMISSION'S PRICE DIRECTION FOR WATER AND SEWERAGE

CANBERRA

10.59 AM, FRIDAY, 6 FEBRUARY 2015

Note: Unfortunately, the recording of the public hearing was indistinct in places, particularly when the Industry Panel posed questions to Icon Water, which means it has not been possible to get a complete transcript of the proceedings. However, the Panel's questions have been sent to Icon Water in writing for a written response. These responses will be uploaded to the Panel's website in due course.

MS HARTLEY: Well, good morning, everybody. My name is Mary Anne Hartley. I'm president of the Industry Panel and together with my fellow panel members, Sally Farrier and Claire Thomas, I welcome you to our public hearing.

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Today is an open hearing. The proceedings will be transcribed, and the transcript will be uploaded to the panel's website in due course. I ask that everyone present ensures that they have completed the attendee list at the door, and note the list of attendees will also be published on the website, and it could - may be included in the panel's final report.

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All contributions need to be made through a microphone, having regard to the transcription of the proceedings, and if you are making your contribution, would you please identify yourself before speaking?

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So that the proceedings are managed effectively, I ask that all comments be made through me as chair, and also ask, so that the proceedings are handled efficiently, that your mobile phone is either switched off or on silent.

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So I just want to recap our proceedings to date. Many of the people here are familiar with where we've been, but it's convenient to remind ourselves of the matters that have gone before this hearing today. So on 3 December last year, some many weeks ago now, the panel released its draft report, with a draft decision which is part of its review of the Independent Competition and Regulatory Commission's 2013 price direction for regulated water and sewerage services in the Australian Capital Territory.

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Our draft decision represented the culmination of about eight months of intensive information-gathering, consultation and analysis. So that work included first of all examining the ICRC's original price direction and Icon Water's, which was known at the time as ACTEW, letter of application for review of that price direction.

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In June of 2014 we released a paper that invited feedback from stakeholders on the proposed approach to be adopted by the panel in conducting its review, and subsequent to the release of that paper in July of 2014 we held a directions hearing at which we directed Icon to submit a statement of facts and contentions in support of its application for review, and we invited submissions from anyone else, members of the public or others, on the issues to be covered in the panel's review.

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Then in September of last year, we held a hearing of the review issues to discuss the matters in the statement of facts and contentions and in other

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submissions and to hear oral submissions from participants, and then of course throughout that period and subsequently we were involved in an extensive analysis of the issues raised in the statement of facts and contentions and in other submissions we had received.

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That analysis has been undertaken by the panel with very considerable assistance from our team of technical specialists and consultants, many of which are here today, and it is a wonderful opportunity for me to thank all of them, not only those who are here but those who aren't here, for the very insightful and devoted and intensive assistance that they've provided to the panel throughout.

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We invited written submissions from the public concerning the draft decision, and left open a period of more than a month, many weeks, for those submissions to be provided. Ultimately we received three written submissions, one from Icon Water, the new name for ACTEW Water; one from Dr Terence Dwyer, who has indicated that he is not able to be with us today due to being overseas; and also one from Mr Scott Crawford.

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These submissions raise a number of issues that the panel is and will continue to be exploring in more depth both at this hearing and afterwards, culminating in us reaching a final price direction.

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Some of the key issues arising from the submissions include first the panel's approach to managing revenue risk, which includes the methodology adopted by the panel to forecast water sales, and the proposed mechanisms to deal with the risk of actual water sales diverting from these forecasts. That's a submission raised by Icon.

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Icon has also raised issues about the proposed rate of return on capital that was allowed in the draft decision. Dr Dwyer expressed concerns about the proposed approach used to calculating the opening value of Icon Water's asset base, which is a key step in the building block model used to determine prices. And Mr Crawford has raised some technical issues around the proposed wording of the price direction. So that's the document that gives legal effect to the prices that are charged for water and sewerage services, including in relation to the application of the cost price index mechanism. And again, that's a matter that we're looking at, and we will consider in reaching our final decision.

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So in addition to considering what we've received by way of written submissions, this hearing is an important step because it represents a further opportunity for the ACT community to raise any other issues, present any new evidence that members of the community believe that the panel should take into account before making our final decision.

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5 Other than Icon, those who've made written submissions don't need to restate the contents of their submissions here, but if there's elaboration or new matters to be raised, we would welcome them. And we should say that our focus as a panel here is not to so much provide our own views on matters, but rather we're here to listen to what participants have to say, and we also are keen to seek some further elaboration on some aspects of Icon's submission.

10 We want to ensure that we are aware of all the relevant matters that we will need to consider before we produce our final report. So the way in which today's meeting will work is as follows. Shortly I'll be asking Icon Water to give a presentation that provides an overview of their submission, and I expect that their presentation will take something of the order of 20 minutes.

15 The panel has a number of questions it would like to pose to Icon to get some clarity about some of the issues raised in its submission, and we will be asking some questions of Icon after their presentation.

20 We also invite other hearing participants, including our own technical team and consultants, to ask questions of Icon, and of course I would hope that all questions will be directed through me as chair. We note that Icon may want to take some questions on notice and provide a written response at a later date, and of course any such questions and responses will also be uploaded to our website.

25 I expect that the questions that the panel has to ask of Icon might take something of the order of 30 minutes or so. That should not be seen to be to the detriment of any members of the public who wish to raise questions, because there will be ample time for those questions to be dealt with as well, and at the very end I will wrap up the hearing by outlining our next steps.

30 So without further ado, I think we should now move to hearing from Icon Water by way of their presentation, and I welcome Mr Knox from Icon Water to make that presentation. Thank you.

35 MR KNOX: A bit of mood lighting. Thank you, Mary Anne, for the introduction, and good morning to the members of the panel, and indeed to the members of the public, and the technical advisors to the industry panel.

40 As Mary Anne indicated, we welcome the opportunity to present this morning and respond to the specific questions that the community may

raise.

5 For context, we didn't take this process lightly when we decided to lodge the original appeal. As indicated on the public record, it's the first time in 17 years, and across 30 determinations for both the water and the electricity in the ACT.

10 We appreciate the fact that the panel has achieved what we set out at this point in time, to revert to well-tested regulatory methodologies, and that has been clearly demonstrated in the draft determination.

15 One of the key issues that we faced as well was the uncertainty of the biennial review process, and that indeed has been proposed to be removed, and we welcome that finding as well.

20 This morning, as indicated, we will present to you a brief overview of Icon Water's operations, just to set the scene. That should take probably about 10 minutes. That will be presented by Amanda Lewry, our general manager of asset management, and then Mr Sachse, Sam Sachse, our general manager of finance, will present specifically some more detail around some of the issues that we are responding to this morning.

25 I might add that the issues that we are responding to are very short in number. As Mary Anne indicated, it is the water sales and the cost for capital. In the main, we are very happy with the draft determination, and I think the process is going very well.

30 But also as just a concluding remark before introducing Amanda, I would like to thank the panel for the professional conduct by which they have undertaken this review, and indeed our engagement with not only the panel but the subject matter experts has been a very welcomed experience.

So with that, I'll introduce Amanda, Ms Amanda Lewry.

35 MS LEWRY: So just a little bit about - before I talk about the investment that Icon Water has put forward for the next four years for our infrastructure. I just wanted to talk a little bit about the infrastructure that we currently have that assists in providing water and wastewater services to the ACT community.

40 So as you can see on the slide, it is quite a diverse portfolio of assets that we have under our infrastructure, and a couple of things I'd like to highlight from the slide is the significant amount - and we've only put the sewer parts in, so it's significant lengths of sewer pipe. Likewise water pipes. And that will come up a little bit later in the presentation. I'd also

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like to highlight some of the diversity in our asset range, in that it's not use water and waste water infrastructure that we use to supply water and sewerage services. We also have a number of common assets, if you look at building, vehicles and IT platforms which we utilise.

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And I also wanted to draw your attention to the significant investment that Icon Water have made over the recent five years to secure our water. That has resulted in a 25 per cent increase in our asset base in the last five years.

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So now moving on to the investment portfolio, what does Icon Water propose for the next four years? Well, when we talk about investment we're mainly talking about capital asset increases, and they can be separated into four major categories, those categories being renewal replacement at 44%. Growth: growth is to support the growing Canberra community to ensure that we have the infrastructure to supply the growing city. Efficiency is 14%, so that is trying to ensure that the services that we provide are efficient and increase in efficiency over time. And 10% is responding directly to legislation.

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So I want to talk a little bit further about the two major items there, being renewal replacement and growth, being the major drivers of our investment portfolio moving forward.

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So first of all when we talk about renewal, I just wanted to talk a little bit of a background of how we actually come up with renewals. I'm not expecting you to understand the detail on this slide. So there are, I guess, two major things that come together when you look at renewals. The first, you go and look at the condition of your current asset base. So how able is that asset to continue to provide the level of service to the customer?

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The second thing is you look at the criticality. So how important is that asset in providing the key services of water and sewerage to the customer? And a combination of those together are used to look at the renewal program.

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So there are probably three major drivers that are coming out of that analysis that dictate our renewal program. So the first is our investment into our water and sewerage pipe renewals, and if I go back to the earlier slide, we have enough sewer pipes - I think the analogy we commonly use is we have sewer pipes that would run between Canberra and Singapore, and very similar likewise for our water pipe network. So as you can imagine, that's a significant investment in water infrastructure and sewer infrastructure.

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And we also have to renew a number of our IT platforms to ensure that we continue to maintain efficiency. Also just highlighted through these slides is the significant investment based on asset condition for our mechanical and instrumentation.

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So as you would expect, these have a smaller lifespan than some of your civil assets, so some of our pipes and concrete assets, and primarily coming out of the criticality is also that that investment is largely going to be placed in the mechanical instrumentations at our major sewer treatment plant, being Lower Molonglo, that hasn't had - or is, I guess, reaching an age in which the assets require replacement.

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Another thing I wanted to touch on is this is a slide talking about water main renewals, but the sewer main renewals is a very similar story. So if you look at the investment - so this is the number of pipe, so the lengths of pipe that were installed in any given year.

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And what this graph is really showing you is that we made significant investment in the ACT in our infrastructure and water and sewer in and around the 70s. Those pipes in the ground tend to last between 60 to 100 years, depending on climatic conditions.

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So as you can see, we're reaching an investment - or a reinvestment portfolio, or an increase in further years, and in our renewal program we are targeting just under 3% of renewal of that infrastructure, being both water and waste water pipes in the ground. And that, by and large, is the largest percentage, or the largest items within the renewal portfolio.

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And just a little bit about - so what does that look like. Do we really need to do it? This is showing you inside a sewer pipe. On the right you can see a sewer pipe that's clean and working efficiently. On the left you can see a sewer pipe that is clogged. Works a little bit like your arteries. If they're clogged you can't quite get the blood around the system.

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Okay, the other thing - I think 34% of our investment portfolio was in growth. And growth is specifically related to ensuring we respond to the challenges of growth in our community. So this map that you have in front of you, you can see from that that the growth in Canberra is largely around the northern suburbs, and we are predicting based on the LDA's forecasts a 10% growth in customer base in the ACT over the next four years.

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So we need to continue to ensure that our infrastructure is able to respond to that growth strategy. One of the key items we will need to invest in to ensure that we can do that is Lower Molonglo. Lower Molonglo is the

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major sewer treatment plant in the ACT, and the vast majority of the sewer through to effluent that is produced in the ACT is treated at this plant. So one of the major drivers for work at the Lower Molonglo Treatment Plant is to cater for the growth in the system as a direct result of all growth basically in the ACT will have an impact on that asset.

The next thing I wanted to just touch on very quickly, we talked a little - I talked a little bit about our capital investment, but this is our operational investment portfolio. And what you can see through this graph is that our operating costs haven't changed from Icon Water's perspective. And that's despite having a 25% increase in our asset base.

So Icon is investing heavily in ensuring we drive efficiencies through our business, though - even though despite an increase in our asset base, ensuring that we don't increase the cost to the Canberra community.

I would now like to hand over, if I may, to Sam Sachse, the Chief Financial Officer, which will go through a number of areas of the panel's draft decision we're seeking reconsideration on.

MR SACHSE: Thank you, Amanda. I've got a new title already. I'm called the general manager of finance, so off to a good start. As Amanda sort of outlined, we do need to continue to maintain our service standards and we do need to reinvest in our assets to continue to provide that level of service. So - and with the panel's decision, we support all the principles that they have adopted in their draft decision.

There are some items that we do want the panel to reconsider, and the most important item really is the water volumes that they have adopted going forward. The secondary items are - sorry, I'll just skip this slide. The secondary items is the deadband and the cost of capital and how that return on the regulatory asset base is calculated. So I will just briefly about the equity beta and the gamma calculations that is put into that cost of capital calculation.

So on the demand risk side, we believe that the panel's water sales consumption approach is unlikely to recover all of our efficient costs, and you know, our revenue is highly dependent on that actual water sales figure, and therefore it is important to set that water sales figure at a level that is achievable going forward. Adopting a higher water sales target would probably impact Icon Water's profitability by around \$15 million per year, which would sort of put at risk, I guess, further investment in technology and improvements to drive efficiencies going forward.

Just looking back, where our water volumes have been, I guess we've had,

you know, drought periods, and we've had a period of restrictions as well, and we've come out of those restrictions and consumption hasn't sort of gone back to where consumption were before those restrictions.

5 So even where this dotted blue line shows net evaporation - so the higher that dotted blue line is, the drier those conditions are, and even when we had fairly dry conditions in 12-13 our water sales haven't really recovered back to those conditions in those previous years.

10 The most recent year, 14-15, has been fairly mild weather, and our water consumption is probably going to be around 39 gigalitres, so well under the panel's forecast for water consumption.

15 If we did move to Icon Water's water consumption forecast, basically it would result in an increase in the typical residential bill by \$1 per week, just to put that into context.

20 The panel has suggested that we introduce a concept called the deadband, and what that refers to is a range where customers and Icon Water share the risk of demand forecasts being incorrect. So if water sales are below the forecast by more than 7%, some of the under-recovery from Icon Water's perspective would be recovered from customers in the next regulatory period, and the inverse applies. So if water sales are over the target, then - by more than 7%, Icon Water would give that money back to customers.

25 So what does the 7% deadband mean? It probably means, based on our analysis, is that there's close to \$50 million worth of either over-recovery or under-recovery. So we think that is quite a big range, especially from a customer's perspective, to over-recover up to \$50 million from the customer in the current period, and our preference would be to reduce that risk so that the customer is not at risk of over-paying by a large degree during that regulatory period.

30 It also helps Icon Water in terms of we'll have more certainty around what our revenue profile would be, and we can invest with sort of more certainty in those long term sort of productivity improvements that we want to drive going forward.

35 So just on the cost to capital, I know this is a fairly technical area, and I don't really want to get into detail, but what we are proposing is a slightly higher cost to capital than what the panel has proposed. So we have proposed a 7.78% cost to capital, and this equates to around a \$2 per week increase in the average residential bill.

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5 And just putting into context what that - those price increases mean. So if we look back from 12-13, what our price was then, we are talking about a price increase that is line with CPI. So we are not asking for a large increase from that 12-13 year, we are just asking to sort of keep in line with inflation. And you know, that is despite funding, you know, a 25% increase in our asset base, to secure Canberra's water supply for the long term.

10 In terms of affordability, what we looked at here is just benchmarking the average water bill against household income, and we can see over the long term that those water bills have been less than 1% of average household income over the long term. So again we're sort of - we are suggesting that what we are proposing is affordable.

15 So what does this mean on the current price? So we are suggesting - and I - we need to keep in context that the ICRC original decision was to decrease sewer prices by 18%, so we need to keep that into context. We are suggesting a real increase to recover our efficient costs in real terms of around 11%, which equates to \$3 per week.

20 I will now hand back to John, and he will just show how our pricing fits within the rest of the water industry in Australia.

25 MR KNOX: Thanks, Sam. I'll just step out here. The context of this one essentially is that this is where the panel's draft determination has come in here, and as a result of the responses that Sam has provided, we would be positioned against the broader industry here, and as you can see, our preference is to be the right side of this graph as opposed to the left side. So we still believe that with the responses that we are still in a very respectable position against the water industry.

30 Right. ...(indistinct)...

35 MS HARTLEY: Well, thank you very much to the presenters from Icon for the presentations that you have made for us. Now, as I indicated earlier, the panel has a number of questions which I propose to ask, but I am happy to provide an initial opportunity for anyone who wishes to make any initial contribution or ask a question perhaps directly relating to the matters in the Icon submission. There will be plenty of opportunity at the end, but if anyone has a contribution they wish to make urgently then I am happy to take that comment or presentation.

40 Yes? Perhaps you could go to the microphone, and remember, we would like you to identify yourself as a first step.

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MR COLLINS: Thank you. Drew Collins. I'm managing director of BDA Group. I've got a question in relation to a matter discussed in the ACTEW submission but not discussed in the presentation, so - - -

5 MS HARTLEY: Please, yes.

MR COLLINS: Yes? Okay. Look, a matter that the panel's had to consider in their deliberations is an equity principle, that current water users should be accountable for capital expenses providing that water use, whereas capital expenses that will provide water to future users should be - those sums should be recouped from future users.

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And you engaged a technical consultant, Cardno, to provide some advice to the panel, and they had a look at the capital profiles and they suggested that some of the capital expenses will not provide a benefit to current users. And in large part that was due to questioning the contribution of the enlarged Cotter Dam to providing water security for current users.

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ACTEW, when they were developing their enlarged Cotter Dam, they engaged economic consultants to provide advice to them on the relative merits of that investment. That advice indicated that the enlarged Cotter Dam does not need to meet the water security target, and indeed represent a net economic loss to the people of Canberra once the Murrumbidgee to Googong transfer pipeline and the Tantangara transfers were brought into effect, the reason being that those two other projects would basically cover off on level 3.5 restrictions and the benefit from reducing level 1 and 2 restrictions was ...(indistinct)... a small number, and certainly not worth a half a billion dollars on an enlarged Cotter Dam.

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That issue was then revisited by the ICRC, who basically upheld that decision and hit them with a wet weather ...(indistinct)... and said if that's the case you should have thought more about that. And essentially they went ahead.

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Now, that's all good and fine, but it is an important matter for the panel to consider, and ACTEW in their submission indicated that if you were to revisit the issue of the apportionment of capital costs, that they would object to basically the panel supporting the advice given to you by Cardno.

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The reason that they give for that in their submission is not basically arguing the fundamental economics, et cetera, as I outlined, but basically saying that - and I'll read it out to you. It's on some page of their submission.

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“Cardno provides no evidence that this option” -

That is, the other two water supply options.

5 - “would provide a similar level of water security to the projects
that were undertaken. Icon Water further notes that in order to
implement Tantangara water transfers to the ACT, it is needed to
purchase water from Murrumbidgee irrigators, an
10 intergovernmental agreement that water from the Murrumbidgee
could be transferred, and a commercial agreement with Snowy
Hydro.”

Very correct. All those things could be needed. They go on to say:

15 ““At the time” -

And this is the important sentence.

20 ““At the time of the decision on the water security projects, there
was a significant risk that these points could not be implemented.
For this reason, amongst others, it would not have been prudent to
rely solely on this option.”

25 So we’re saying at the time the decision was made to go ahead with the
enlarged Cotter Dam there was not adequate certainty that these various
aspects could be put in place, and therefore there was a residual risk, and
...(indistinct)... enlarged Cotter Dam.

30 What I object to is the re-writing of history to support what was a bad
decision. The enlarged Cotter Dam was a bad decision, and they - and
ACTEW wanted, I guess, to portray it differently. The ACTEW Board
approved an enlarged Cotter Dam in September 2009. Public record.
September 2009.

35 In October 2009, the managing director of ACTEW, Mr Sullivan - no, beg
your pardon, I’ll come to that. On the ACTEW website in October 2009 it
made the following statements. It went through those requirements, the
intergovernmental agreements, negotiations with Snowy Hydro, et cetera
et cetera. It said:

40 ““It is envisaged that it will take until the end of 2009 to complete
clinical, legal and commercial work on this option.”

45 So apparently the managing direction didn’t share those risks at the time
the decision was made. Further, when the ICRC conducted that inquiry,

and that was put directly to Mr Sullivan, you can see on page 21 of the transcript of that hearing he indicated Tantangara will need to have in place an intergovernmental agreement between the ACT and New South Wales.

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“This is a government to government agreement which is not yet concluded. We have no problem in terms of the pace or the ...(indistinct)...”

10 He went on to say that there are commercial negotiations with Snowy Hydro required.

“Again, we are confident.”

15 This is 24 May 2010. So at the time the decision was made for the enlarged Cotter Dam, the public position of the utility was that there were no problems envisaged with getting those requirements ...(indistinct)... water transport options a going concern, and if that is the case, we wonder why the decision is made, but we can leave that for another day.

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The point I would like to put to the panel is I do not accept the statement in ACTEW’s submission to the panel that the reason why those other approaches weren’t progressed was because they were too great a risk that they could be delivered on time. That is not the position of the utility at the time the decision was made.

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Therefore I think there is substance to the argument from Cardno which has looked at the evidence saying that if it was not needed, then that expenditure of half a million dollars should not be put on current ratepayers. It is not something they need. It is basically a white elephant for the next 60 or 70 years, and if and when it is ever needed those people can pay for it. Thank you.

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MS HARTLEY: Thank you for that detailed commentary, Mr Collins. Yes.

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MS VIDLER: Suzanne Vidler, O’Malley Park taxpayer. In my opinion this is a travesty of a public hearing. We have been told we can’t restate what we may have already submitted in submissions and in appearances at previous public hearings. What we have been offered today is a presentation from ACTEW. They have been afforded the opportunity that I am not afforded today: a corporate visual presentation to a captive audience. Thank you.

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45 MS HARTLEY: Just before you sit down, Ms Vidler, is there something

that you wish to say that you feel you have been deprived of saying?

MS VIDLER: Well, I have stated that, madam. I have stated that.

5 MS HARTLEY: Well, what I am giving you - - -

MS VIDLER: It is not a public hearing.

10 MS HARTLEY: What I am giving you is an opportunity to say what it is you're concerned about saying. So - - -

15 MS VIDLER: I'll leave my words as they stand, other than to say that representations by yourself and by ACTEW that somehow Icon Water is just water is fallacious. The appointment of the managing director and the criteria and the - - -

MS HARTLEY: I think you need to be putting this on the - - -

20 MS VIDLER: Well, I think my voice does carry, actually. I'm familiar with environments like this. Icon Water's managing director - - -

MS HARTLEY: Just a moment. Just a moment. We want this to be on transcript, so please go into the microphone.

25 MS VIDLER: All I wish to say is that we have been misled and wonder about the future of the publicly owned water utility in the ACT. What I am talking about is the sleight of hand, as I regard it, of calling Icon Water solely ACT water. The managing director's duty statement, performance criteria, advertisement for the position are identical to the previous
30 managing director's documentation. I wonder whether private sale of the asset is in the mind of some people. Thank you.

35 MS HARTLEY: Yes? Just, if you wouldn't mind, your name, and then - - -

40 MS FORESTIER: My name is Jo Forestier, and I'm just a taxpayer. And I'm really angry about a lot of things at the moment. I'm angry about the rail. I'm angry about how ACT is run. But today it is about water. Now, we came here so that we could have - so that we could say, well, yes, we are going to reduce water prices. But that's not happened. It's going to increase three dollars a week. And do you know what? There's families out there who are really struggling at the moment, including mine.

45 Anyway, I wrote to Icon Water quite a while ago, and I'll read you what I feel. Icon Water name change. More wasted money, more from ACTEW

Water. It would be better to have a savings for the consumer. With population growth in Canberra we are - or are they all leaving? This should help ACTEW, Icon Water, make money by putting down the price of water so that we could use water while there is such abundance.

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ACTEW is forever complaining about maintenance. Their fault. It was their duty to maintain structure, not let it get to a stage where it is now a great expense to them. They need to spend their profits frugally, not on CEO's salaries and perks. And of course, our Andrew Barr and his lot collect a lot of money from ACTEW.

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We, the consumer and the environment, would benefit by these lower charges. A more sensible approach is needed, and the saddest thing to me is that how many people from the community are here? Four? Five? The rest - I mean, you're all from our community, I know that, but you're all on panels and so forth.

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Anyway, I thought that we were here to reduce cost to the consumer, not increase it by three dollars a week. Thank you.

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MS HARTLEY: Thanks, Ms Forestier. I should just say to you as you're sitting down that what we've seen today is a submission from Icon that prices would increase by \$3 a week. That's not something that the panel has yet determined, so I don't think you should be concluding that the fact that a submission has been made to that effect means that that is going to be the outcome of the process.

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Obviously we will take into account that submission. We will also take into account yours and other submissions and our own analysis of what are efficient costs and what revenue is needed to match those efficient costs. So I don't want you to think that this process doesn't involve a careful consideration of all of the issues.

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MS FORESTIER: Thank you.

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MS HARTLEY: Yes.

MS GERUSSI: Marissa Gerussi, taxpayer. To start with, I'd like to support the three statements made by members of the public, possibly the only three that are here other than ACTEW Water. I'm not quite sure why ACTEW Water comes to see their own presentation. I thought that we were here to comment on the draft report.

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And therefore I feel a bit blindsided by the way that this process has been organised. I'd like to, as well as support the concerns raised by the three

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previous speakers, I'd like to also raise a concern that we have in the past raised through submission, and that is that the commitment of the ACT government to conduct its affairs in an open and transparent manner that engages the community, now four people here is not the community.

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I believe that also your charter, which you have signed, said that you would be open and transparent. But we can see no proper consultation having been conducted in the last six months other than one ad in the paper and some papers being lodged in some well-disguised parts of the Treasury website.

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The ACT government has a guide to community consultation. It was printed in 2011. It sets out what is expected of proper engagement, and it also sets out what is expected if it is decided not to consult. But in all cases the community should have proper clearly clear to understand information about what is going to happen to their taxpayers' funds.

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I also believe that despite statements made just now, that submissions made by the public, including those of Terry Dwyer and ourselves in the past, have been given but passing reference, and it has only been one reference each in the report.

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I do not believe that they were properly evaluated. We were also, despite the information sent in about the rising cost of water being 400 times in the last year, has been discounted. On what basis? We have the data. We can show that that actually occurred.

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So like my last speaker, I do believe that the water in the ACT is overpriced, and the community deserves to see a reduction. Thank you.

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MS HARTLEY: Thank you. Bearing in mind that there will be an opportunity at the end of our panel questions to Icon to make further submissions, I think it might be appropriate now to move to our questions, and then we will ensure that there is time left at the end to come back to contributions from the public.

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So these questions have been formulated by the panel in an effort to clarify issues arising from the Icon submissions, and we invite whoever is appropriate as a representative of Icon to respond to the questions as we work through them.

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I should say that the panel has quite a substantial number of questions to ask of Icon. They won't all be necessarily dealt with today, but the remaining questions will be put in writing, and Icon will be asked to respond to them, and both the questions and the answers will be uploaded

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to the website in due course.

5 So in the Icon submission in response to the panel's draft decision, Icon raised a number of concerns about the issue of deadband, which has been the subject of some discussion earlier, and Icon submitted that it wished the deadband to be reduced from 7% to 3%, and I'll just say by way of explanation about that that the reduction of the deadband from 7% to 3% would have the impact of reducing the risk to which each - both the customer side and the water business side are exposed in terms of the forecast of water demand.

10 So the first question we have about it is whether Icon expect that a 7% deadband will adversely affect its financial viability, and then the second question is if the deadband - sorry, I'll just go back a square. How will service levels be impacted on at the lower band of the 7% deadband, and to what extent will Icon Water seek out other operating efficiencies before reducing service quality?

20 So I might just start with those questions, and then we have a number of other questions relating to the deadband which I'll move to. Who wishes to respond to the deadband issue?

25 MR KNOX: Thank you, Mary Anne. If you wouldn't mind, I might just suggest my representatives ...(indistinct)...and pass it along... (indistinct)...

MS HARTLEY: Yes, as you wish. So perhaps you could announce who you are as you answer questions? Not just name, but perhaps you could also explain your role in the organisation.

30 MR McNAIR: Ben McNair Principal Economist ...(indistinct)... ActewAGL ...(indistinct)...

MS HARTLEY: I think you might need to speak - - -

35 UNIDENTIFIED FEMALE SPEAKER: You need to use the microphone.

MS HARTLEY: Yes, yes.

40 MR McNAIR: Financial viability and service levels we don't think will be impacted greatly within a three to four year period ...(indistinct)... revenue and recovery ...(indistinct)... but what it does impact as Sam referred to earlier is the ability to invest in the productivity improvements to drive costs down...(indistinct)... and potentially it would take a ... (indistinct)... that process and ...(indistinct)... areas, potentially jobs, to

make cost reductions.

5 MS HARTLEY: I might now move on to another question. And that is how is Icon's water - Icon Water's alternative proposal of a 3% deadband established, and how does that fit, or how is it expected to be of benefit to customers?

10 MR McNAIR: So we see the 7% to 3% as being - sorry, as being a ...(indistinct)... balance here between the price stability over this regulatory period and the next, and the recovery efficient costs and ...(indistinct)... We feel a 3% strikes a better balance between those sort of considerations than the 7%.

15 MS HARTLEY: And then the fourth question in this area of discussion is, apart from one water business in Victoria, all of the other regulated metropolitan water businesses in Australia are subject to a price cap or a hybrid price and revenue cap form of control.

20 Is there anything different about Icon Water's business or its customers that should lead the panel to adopt an alternative approach to other regulators?

25 MR McNAIR: Well, we've effectively conceded our proposal to implement a pure revenue cap like in our original statement of facts and contentions. I think what we're saying now is ...(indistinct) in the Panel's draft decision but that the deadband aspect that part of...(indistinct)... doesn't seem to be doing anyone any favours to putting at the mercy of the weather 60 million dollars in either direction ...(indistinct)....

30 Really, I think Icon Water just wants to recover what the Panel has determined to be efficient costs of providing the services and so tightening that range to prevent such a large discrepancy in revenue recovery will be of benefit to customers and to Icon water.

35 MS HARTLEY: I wonder, is there any further follow up questions from the panel or from any of the technical team to those questions, and there's a contribution from the public, so perhaps we might move first of all to the contribution from the public first, if I might? Again, perhaps you could announce - - -

40 MS HELYAR: Yes, hi, I'm Susan Helyar from the ACT Council of Social Services. I just had a follow-up question on the 60 million at the mercy of the weather. Can you explain that a little bit more?

45 MR McNAIR: Yes, so the reason that the outcomes are so dependent on

5 weather is that the water consumption of the community really varies
...(indistinct)...hot and dry and whether it is cool and when - and costs, on
the other hand, don't move much with water consumption, and most of
them are fixed. and so, like you see, when you're setting prices for a
period of three to four years, you have to make an assumption about the
amount of water sales that are going to take place to get to the revenue
that is required to cover efficient costs.

10 So if water sales due to cool and wet weather...(indistinct)...average, or on
the other side are hotter and drier than average, then what you see is sort
of revenue divergence in ...(indistinct)... efficient cost and the panel's 7%
deadband approximately corresponds to an amount of \$50 to \$60 million
over the regulatory period that is essentially at risk in terms of that issue.

15 MS HELYAR: I understand the weather impact on the usage. I guess I
was trying to understand the balancing of the customer risk and the
provider risk, and - so I think the issue is more - I think customers bear
risk as well associated with weather, so that is where we need to have the
panel make a determination that protects the interests of customers
20 through that process.

MR McNAIR: Yes, well, I mean, we – as I said before, Icon Water really
just to wants to recover that revenue amount. We don't to get to a
position where because of hot and dry weather, we are recovering more
revenue from customers than is needed either and so that's right, it goes
25 both ways and we are happy to just to just bring that (indistinct) deadband
around to the amount (indistinct).

30 MS HARTLEY: Are there any other contributions that anyone wants to
make in terms of that issue of the deadband? If not, then I might move on
to the issue of the risk of revenue shortfall. So Icon has claimed that
under our draft decision there is an 84% chance that it will incur a revenue
shortfall of \$34 million. This does relate to the deadband, because it is
also claimed by Icon that the deadband does not result in an equal or
35 symmetric allocation of risks between itself and customers.

40 So our question about that is to invite Icon to explain whether the revenue
shortfall and asymmetry it cited arises because it has taken a different
view to the panel on water sales forecasts, or whether there is something
else inherent in the draft decision that gives rise to the shortfall and
asymmetry?

45 MR McNAIR: Primarily our comments about asymmetry are derived
from the fact that we have a different view on demand forecast but we
would add that there is an asymmetry in the sense that we can - we are in a

position where we can encourage conservation of water use. We are not in a position where we can encourage consumption of water, because of the ACT government water strategy and the demand management targets inherent in that.

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And so there is an asymmetry in the sense that we cannot manage the down side risk of water sales falling below the forecast, but to an extent we can manage the risk on the other side to customers.

10 MS HARTLEY: Thank you for that. Still on the subject of demand forecasts, and perhaps you will just explain that. Focus initially on demand forecast is based at least in part on the fact that projections for demand are one of the most influential variables on price, so it is important for us to focus on this subject.

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So in the Icon submission there's a challenge to be - an approach the panel proposes in relation to demand forecast. Our approach allowed for some growth in water sales as population grows. By contrast, the Icon model doesn't have any explicit allowance for population growth, although it does have some implicit allowance.

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So we ask first of all this question. With a return to severe restrictions being unlikely in the foreseeable future, does Icon believe that the per capita consumption will continue to fall even from the very low levels that were attained when restrictions are in place or were in place?

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MR McNAIR: Our answer to that is yes, we do think per capita consumption will continue to fall from the levels we've seen in the past couple of years. The first reason for that is that it's government policy, the ACT Government's water strategy, that per capita consumption reductions will be achieved.

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And there's a number of ways that they're giving effect to that. One example of that is some of the ponds schemes they're implementing where recyclable water is being used which will essentially displace some of the potable water that we normally sell. Amanda you want to give more of a description...(indistinct)...

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MS LEWRY: Amanda Lewry ...(indistinct)... So the pond scheme that Ben referred to is recycling effluent from - or recycling storm water and using it for irrigation. So there is a current scheme that some...(indistinct)... called the Canberra Integrated Urban Water Scheme, and that is targeted at replacing half a gigalitre of potable water to stormwater reuse. So that would directly relate to underlying reduction, and if you also look at the ACT's water strategy they are also targeting

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further schemes, and some initial conversations that I have been having with the ACT Government is that would lead in the future to somewhere in the vicinity of five gegalitres, but there's significant testing of those schemes to occur, but certainly the 0.5 of a gegalitre in the short term.

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UNIDENTIFIED SPEAKER: ...(indistinct)...

MS HARTLEY: Well, I'll just continue with our questions for a moment. There will be an opportunity to - - -

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UNIDENTIFIED SPEAKER: ...(indistinct)...

MS HARTLEY: Yes, well, you'll have an opportunity at the end of our question session to do that. So the follow-up question we wished to ask as a panel was this, that there must be a point at which consumption can't go on falling, so what does Icon Water contend for as being the point at which per capita water consumption will stabilise?

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MR McNAIR: Well, our answer to that is we don't think it will in the next three to four years. And there's significant uncertainty, obviously, the point at which it will turn around. In our sewerage - sewerage options review that was completed recently assumptions were made that that would happen in 2033.

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And I think it is worth saying that these issues around the growth in the forecast, the panel's forecast due to population growth is less of an issue for us than the base level of the forecast that that growth is being applied to, so that the 44 gegalitre base for the current year that being grown it in future is what our major concern is with.

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And we are on the details of the concerns we have are detailed in our submission and I am not prepared to get into the detail of that here, but I guess we don't want to get bogged down in discussions about the growth. Our big issue is the starting point.

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MS HARTLEY: Just a follow-up question. You'd be aware that in Sydney, Melbourne and Brisbane there has been some bounce back towards demand, and our question is would Icon provide some explanation for why in its view a similar recovery in water consumption is unlikely in the ACT?

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MS LARKINGS: Katherine Larkings, Icon Water, water restrictions. ...(indistinct)... an extensive analysis on Sydney, Brisbane and Melbourne in their report, and actually found that Sydney and Brisbane did not have a significant bounce back. In fact, Sydney's recent strategies refer to zero

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bounce back from restrictions. Melbourne has observed some, but it's a very low magnitude, and no water authority around the country has observed a bounce back to pre-restriction levels.

5 Brisbane has a little, but only from a very low base and they had very severe water restrictions, they have had their greatest bounce back, but very insignificant. So we do not actually think that the ACT is actually different to anywhere else in the country ...(indistinct)...

10 MS HARTLEY: Okay. And then - perhaps close to the last question on this subject, consumption and demand, the question that we have is how does Icon reconcile its view that absolute demand is not expected to increase with the decision to invest in major water security projects, particularly the extended Cotter Dam?

15 MR KNOX: Chair, John Knox, managing director. With regards to the - with regards to the enlarged Cotter Dam, obviously the matter of great interest. The decision to invest in the enlarged Cotter Dam is not directly linked to consumption levels. It was more of a driver of the climatic change that we have been seeing and we will continue to see.

20 We are talking about in-flows and the like. So we are quite - we recognise that consumption does have some influence, but at the time we invested in that material project it was very much on - it was saying, well, climate resilience and noting that when we do get the droughts they tend to be more extended and more severe than we have seen through prior decades.

25 MS HARTLEY: I might just then follow up with one last question in that area. In fact, it's a few questions rolled into one. It's to do with investigation and a strategic position being taken by Icon on future demand.

30 So one question is whether there's been any investigation by Icon of the expected effects of changing in housing and behaviour and internal water efficiency infrastructure, i.e. household water efficiency infrastructure? So I think we'd be interested to hear what view is taken on that.

35 And likewise any medium-term view about non-residential consumption and the patterns and expected changes in industrial and commercial use.

40 MS LARKINGS: We'll have to take the detail for that on notice, but we have done some studies as to the difference between what's caused the reduction in water use, generally studies done by us, water industry in general and by the ACT government.

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5 Unfortunately it's very difficult to pin down exactly what it is, because so many ...(indistinct)... We do see that there is a difference between new houses and homes that were built in the 60s and 70s. It's of the order 15 to 40% depending on exactly when that dwelling was built and exactly ...(indistinct) and demographics of the people living in in those houses.

10 As to the difference in non-residential consumption, the ACT does not have a major industrial component. In fact, most of our non-residential consumption is because of irrigation and facilities for schools and hospitals, and they play a much bigger role than in other cities which have an industrial component such as in the Hunter Valley or in ...(indistinct)... or Melbourne.

15 We are therefore not expecting a major shift in that percentage ...(indistinct)... compared with other cities who might be anticipating a reduction in manufacturing ...(indistinct)...

20 MS HARTLEY: Thank you. Now, I know there's a person here who wishes to make a contribution, and then I'll invite any further contributions before considering if there's some other panel questions that we should ask.

25 MS GERUSSI: Thank you for this belated opportunity. I was concerned to hear the explanation that there just would be not a bounce back but a depression in demand forecast. We would like to know and have explained how they reached this conclusion.

30 Secondly, in our experience of 35 households and their water consumption over the last 10 years, which is substantial, that includes post-drought, we find that the consumption is stable. It may vary slightly up and down according to weather conditions, but overall if we did draw a chart you would see the line bumping also horizontally.

35 And secondly, I did not understand how you factor in Canberra's growth into water demand. So I do understand that people are encouraged to save water, but we do not see any change in demand. Thank you.

40 Oh, the other thing that I really do want to just add as a side comment, during drought Mike Costello was interviewed on ABC Radio to defend the fact that ACTEW wanted to rise - have a rise in the price of water, and his comment was, "If you make it expensive enough, they will stop using it." Perhaps that might be the factor.

45 MS HARTLEY: Is there any response to those matters from Icon?

MR McNAIR: Yes, I guess the first thing to say is that we had econometric experts, Professor Trevor Breusch and Professor Michael Ward from Australian National University to look at this issue for us, a couple years back and our forecasts are derived from the model that they developed.

The second thing to say is probably that we have seen some bounce back in demand, in the sense that the last couple of years have been higher than what we saw towards the end of the drought and the years following, and the third thing to say, I think, is that we are not talking of big changes here to consumption over a period of three or four years, being the remainder of the price path that the panel is setting.

So effectively, if you did look at it on the chart, it would look pretty close to horizontal ...(indistinct)...

MS HARTLEY: Thank you. Just one moment. Is that your - yes. Okay. I'll come back to you in a moment on that. I'll see - we have the benefit of Ms Helyar in the audience from ACTCOSS, and in a moment I wonder if she might like to contribute any commentary on the likely impact on vulnerable customers of an increase of \$3 a week in water bills.

Before we do that, if you're happy to make some contribution on that? I have one follow-up question from the panel on the issue of demand modelling, and then a contribution from a member of the public here. So our question of Icon on the issue of demand modelling is, bearing in mind that water regulation requires Icon to forecast demand in the medium term, is it expected that the current approach, which is based on historical patterns, with no future perspectives other than that the future will be identical to the past, is that considered to be adequate as a way of contributing to regulatory arrangements?

MR McNAIR: Well, yes, we think so, and we have the support of the econometric experts that I just referred to. I mean, it's - while statistical models are based on what's been observed in the past, I think we are not assuming that going forward things are going to be exactly the same as they have been in the past. We are assuming, for instance, there's not going to be any temporary water restrictions imposed and that will have a big impact and then the other big issue really is weather, and in terms of weather, obviously we are drawing on what's happened in the past and ...(indistinct)... in that sense and - and so we feel that that's appropriate.

In terms of customer growth, implicitly we're assuming that that's continuing to be offset by other factors and efficiency savings as it has been in the past.

MS HARTLEY: I'll take you in a moment, I think, Ms Vidler. Are you wanting to contribute?

5 MS VIDLER: My question is relating to demand and forecasted population growth. I wonder to what extent real attention has been paid to the hundreds of units that have gone up and are going to go up in Gungahlin which have little or no garden. Little or no garden. And my final comment is, I find this a difficult environment to have attended, given that the questions of the panel to ACTEW would appear to me to be more appropriate in a departmental forum or environment, not a public hearing. I find it curious that this exchange is taking place under the guise of a public hearing. Thank you.

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15 MS HARTLEY: Now, I know you're wanting to make a contribution, Mr Collins, but I wonder first if Ms Helyar has a contribution to make?

MS HELYAR: Yes. Thank you. And sorry I couldn't get here till a bit later. I guess I'll start my commentary by saying that I know the panel is very keen on hearing community and customer views, but it is very difficult for the community and customers to engage in what can be quite technical discussions without any resourcing.

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25 So people engaging in these conversations on a voluntary basis, which is largely what the community does, versus organisations with lots of resources behind them being able to engage with experts to support their consideration of the issues, is I think the critical challenge that we face.

30 So I would really encourage the panel to consider as part of their advice in coming out of this process is to talk about the need for some resourcing for community voices in these processes, and certainly I think that would be valued by the community. And we could have a think about how to make that work so that there can be a diverse way of bringing lots of voices and actually resourcing that in a way that reduces the disparity between the capacity of customers to represent their interests and the complexity of government or the industry.

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40 I have valued this hearing process. I think it has been valuable to hear what Icon's assessment is and their position on the material that's been developed by the panel. I think it's valuable to hear what the panel's wanting to explore further. So I have appreciated that. But I guess I think the frustration of community people is that they come with very different resources and from a very different - there's a power differential that happens in these conversations that we need to do something to fix.

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5 In terms of the impact of a pricing decision on the households that ACTCOSS are interested in, it is households that are living with low income or households that live with some other form disadvantage. The hardship stats are that between about 50 and 100 households a year would need to enter into a high level of negotiation around their bills, and that doesn't sound like very many, but I think what we would need to understand is that those bills can often be substantial. They end up being very high levels of debt in households that have absolutely no capacity to manage that debt, and no capacity to access affordable credit.

10 So the, you know, utilities debt has become a major issue for low income households. It is partly to do with a lack of access to support and mechanisms to reduce the risk of incurring debt and to reduce the escalation of that debt through the resolution process.

15 But it also relates to an issue that's not necessarily Icon's or ACTEW's fault, which is the extreme lack of affordable housing in the ACT. That means that households are completely overstretched on their housing costs. Anyone in the bottom 40% income quintiles cannot afford housing in Canberra without displacing other essential expenditure. There is a whole lot of data that supports that.

20 One of the more recent pieces of data that came out of the ROGS data set was that households in Canberra have the highest rate of rent assistance paid to them. So of any of the capital cities, the average in Canberra is higher in terms of rent assistance that comes from the Commonwealth Government.

25 That's because - it's not because there's a lot of people seeking. We have got relatively low numbers of need. But the issue is houses are just so deeply unaffordable.

30 So I think there is a couple of recommendations that we would put to this process, is that we need to think about differential pricing, not only between residential and non-residential users, but between users - you know, i.e. a capacity to pay pricing mechanism as well as flat prices.

35 The other issue is an issue around supply and usage, re-balancing that so that you have relatively low cost supply into the house and relatively low-cost kind of lifeline usage and high escalation of costs in higher usage about what's reasonable per head in that household. But that is what is getting - that may help those vulnerable households.

40 The other thing that I will say is I am interested in what ACTEW is doing about responding to the changing - sorry, what Icon is doing about

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responding to the changing operating environment. So we have spoken about climate change, we have spoken about demand over time, we have spoken about, you know, the example given of housing's changing so they need less water if you're not going to have a garden.

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It is really important that this generation of users doesn't bear all the cost of that industry transformation that needs to happen in the industries that are facing quite substantial changes in their operating environment.

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So I guess it goes to the question around, if we did have to build a big dam for a long-term objective, that really needs to not be - that cost needs not to be borne by people who just happen to be there in the transition time, in terms of their usage. So how to really balance that long-term versus short-term risk management is really critical.

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MS HARTLEY: If I might just - - -

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MS HELYAR: Oh, and I have a question about whether ACTEW - sorry, Icon is doing anything around that industry transformation. So getting into being in the industry that's not about selling water. Because it looks like long-term that's not very viable. So what is - you know, what can Icon tell us about what they're doing about transforming their product offer to the market or their - you know, their way of building a market, given that that's the context we're in and that's not going to change substantially?

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You don't need to tell me now, but it's just for general interest.

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MS HARTLEY: Well, perhaps I should just offer the opportunity for an immediate response should you wish to make it, or else ask that that be done in writing.

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MR SACHSE: Sam Sachse, general manager, finance, so I will just respond to some of the matters that were raised and so ...(indistinct)... we do offer concessions and ...(indistinct)... concessions et cetera to those vulnerable households, so we do have a process around the application for that.

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And I do understand sort of rental households, you know, but ...(indistinct)... the landlord for payment, and so, you know, that is an issue for the landlord and the tenant and so that is all I wanted to say.

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MS HARTLEY: Well, then I presume you'll take on notice the issue about industry transformation and future views, views of how to deal with transformational change?

MR KNOX: We will, Chair. I just do wish to give some assurance we are very much focused on the future, so similar to energy-wise ...*(indistinct)*... there is a lot of discussions about - in government agencies in regards to some of the initiatives we spoke about today – you know, where we sit on recycling of non-potable water, introduction of technology, and it's a long way to come, but in the water industry as well, and though I think the industry's very clear about that ...*(indistinct)*... et cetera.

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And indeed I think - you're quite right, I think. It's the challenge for the future ...*(indistinct)*...

MS LEWRY: Amanda Lewry, general manager ...*(indistinct)*... Just in response to demand projections, do we take into account various new users and households and flats that don't have gardens, and that's a point that Katherine made earlier, is that we absolutely do see that a number of new dwellings - water consumption has reduced significantly, which is one of the factors that we consider in our demand forecasting and take that into account. The microphone's not working very well.

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MS HARTLEY: Mr Collins, I'm conscious of needing to come back to you, but there's one question I would just like to raise with Ms Helyar, though, and that's the materiality of a water bill increase of \$156 a year for the people that you represent. Because I don't think we covered that.

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MS HELYAR: It sounds very low, and I guess my view would be, while most people in the community, they can afford that, the issue is for the small number of people – latest estimate about 28,000 people in Canberra. Not a small number of people, but small in terms of the whole population. That kind of bill will displace other essential expenditure, so it will displace food, it will displace transport, in terms of, you know, paying your rego on time, having petrol to get kids to their soccer matches.

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It will displace health expenditure and it displaces education expenditure. And what it does do is it puts extra demand - utility bills are one of the things that you can take to an emergency relief service and ask for their assistance. So that will - it will increase demand in those services that have all just received a federal government funding cut and will - you know, long term, it's completely unsustainable, the demand for those services.

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So I do recognise that there are hardship programs and concession programs, but for those 28,000 people, not all of those people ...*(indistinct)*... jobs and aren't eligible for the concession programs, and of

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course many of those are renters where the landlord just passes on the costs and it's invisible to the renter.

5 MS HARTLEY: Thanks very much for that. Now, you having been very patient, Mr Collins, can we move to your question?

10 MR COLLINS: Yes, thank you. A question for the panel. Given the gold-plated water supply system we have in Canberra, for the foreseeable future there's really not going to be a resource constraint on...(indistinct)... Icon water.

15 Its prices is going to be more driven by demand factors, and you've indicated, and any artificial demand constraint in that market will lead to higher average prices. Most obvious demand constraint is the permanent water restrictions that are in place in Canberra. In your final report, will you be advising the ACT Government on the impact on prices of those permanent water restrictions?

20 MS HARTLEY: I might make an additional response to that, and perhaps other members of the panel will have their own views. One of the legal requirements on us is to apply the ACT Government's policies with respect to water use, so we would have no option but to work within the current policy framework, and perhaps the other observation that I should just make now is that we detest the ability to smooth prices across from this regulatory period to other regulatory periods, in other words to seek to maximise intergenerational equity in terms of the cost of the major infrastructure projects, and we ran into a point at which that was impossible to do because of the need to continue to maintain the financial viability of Icon.

30 So we had regard to that issue, and to the desirability of intergenerational equity, and on the pricing that we have contended for in our draft decision, there was no real room to do anything about that. As we said in the draft decision, the position might change if other factors in the decision change. 35 So, for example, if there were to be an increase of \$156 a year in the average bill, that would in turn improve the financial viability of ACTEW, and it might open up the possibility of some smoothing into another water period.

40 So it's something that we would pay attention to. Obviously it's something that we can't predict the answer to until the modelling is done, and it may be a question that we don't ask because we don't agree in the analysis with the contention that prices should go up. So I think what I want to do at the moment is say to you it's an issue that is a live issue, and 45 one that we will look at.

MR COLLINS: Thank you for your response. I appreciate you can't question the policy settings ...(indistinct)... I guess. But your point about the intergenerational equity and the ability to smooth the price profile to maintain the viability of the utility. To the extent that existing users are going to have to pay high prices because of poor decisions by the utility, will that be made apparent in your report and not lost in your footnotes that in terms of maintaining viability, blah blah blah basically some investment was not needed and with hindsight it was a poor decision, that it be labelled as such, and that the effect of that on prices paid by the current water users be made apparent.

MS HARTLEY: Well, I don't think our commentary on that is buried in a footnote. I think it's there in the same font type as any other decision that we've made. And so we will continue to deal with it in that way. And I don't mean by that that we will reach some conclusion about - of the kind that you've described in terms of the decision.

We have made some commentary about that from a regulatory perspective.

MR COLLINS: Sorry, I've been ...(indistinct)...

MS HARTLEY: Yes, I understand that, and I think I might just also contribute this, that this regulatory process has similarities with others that have grappled with the issue of very high cost water security projects that have been undertaken, and I have direct familiarity with the pricing of Melbourne water, which was undertaken - Melbourne water's pricing was reviewed by the Essential Services Commission in Victoria in 2013, and the very same issue arose there, that the cost of the desalinisation plant was enormous.

It is a plant that has a long life, more than - at least 50 years. Question, how does one take account of the very great cost, bearing in mind that future customers will benefit as much, if not more, than current customers. The decision there was similar to ours, namely financial viability of Melbourne Water became a constraint. But clearly that is an issue that will change over time, because one can expect that the financial viability of the water business will change over time, and so what is the case for the next three years might be something that would also be reviewable in the next price period.

So it is - our decision doesn't lock away that issue for all time. It just is an issue of what's viable within the next effectively three years. We take on board the issues that you've raised. And I think - yes.

5 MS GERUSSI: I got just two questions, one for ACTEW and one for the committee. The panel, I should say. The first one, I question on what basis does ACTEW come to the conclusion that an 11% rise in water pricing is only going to mean that the bill will be \$3 more?

10 My experience, and the experience of the 35 households that we have looked at over the past 10 years, an 11% rise usually equates to something higher than that, bearing in mind that in - 10 years ago our individual bills were around about \$350 a year, and now they are looking like over \$1,600 a year per household.

15 The second question just relates to a statement that you made, the chair made, just now, that the panel had to be concerned about maintaining the financial viability of Icon. At no point have we been able to establish who is Icon and what is the financial statements that relate to that business, being just the supply of water and sewerage.

20 We seem to forever be caught up in having a look at what used to be called ACTEW Corporation which also supplies gas and electricity, and unfortunately, you know, that gas and electricity is supplied by a private enterprise and their international partners.

25 So essentially are we supporting the financial viability of a private enterprise international company? Thank you.

MS HARTLEY: It may be appropriate for - Sam, do you want to respond to that?

30 MR SACHSE: Thank you. Just to outline who Icon Water is. So Icon is a 100% - 100% government owned or territory owned corporation, and our main purpose is to operate - and maintain the water and waste water network in the ACT. We do have an investor, 50% investor in ActewAGL, both distribution and ActewAGL retail, who do own the electricity and gas networks in the ACT. So that 50% ownership, we combine that with the international ownership of Singapore Power, State Grid China and AGL Energy, which is a local national retailer and generator in Australia. So that is the ownership structure, just to clarify that for you.

40 MS VIDLER: ...(indistinct)...

45 MS HARTLEY: Yes. Bearing in mind the time, we're getting to the end of the - - -

MS VIDLER: The last corporate structure I looked at in an annual report had ACT Water 100% owned by the public. So is that now Icon Water?

MR SACHSE: Correct.

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MS VIDLER: And so why are we reading in this report that ACTEW Corporation became Icon Water in September last year? I mean, is this - is this a fact? We've been told for years that the Cotter Dam and the infrastructure that has existed for how many years has been paid for by the Commonwealth and the ratepayers, and we are always being told that it's a publicly owned utility. I am talking about water and sewerage. So is that Icon Water, or is Icon Water moving the whole corporation?

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MR KNOX: Icon Water Limited is as a result of a change in name from ACTEW Corporation, which was trading as ACTEW Water over the last couple of years. We changed the name as a result of intense confusion between the energy company and water services. It is exactly the same entity, although two years ago the operation ...(indistinct)... reintegrate into ACTEW Corporation ...(indistinct)... It is 100% owned by the ACT Government, and I hope that clarifies a few things, and I should also add that all the financial statements, the annual report and the like, are publicly available documents that sit on both the internet and are also subject to ACT Government audit through the ACT Auditor-General and their contract auditors and the Public Accounts Committees as well.

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MS HARTLEY: I think we might make this the last question.

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MS GERUSSI: That was quite illuminating, because you slipped from talking about the water and sewerage supplier to ACTEW Corporation. My question therefore is to the panel, has the panel been able to avail itself of the financial viability of the supply of water and sewerage alone which is supposedly 100% taxpayer owned? Or have they only been given the financial statements and viability of ACTEW Corporation, now called Icon Water?

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MS HARTLEY: The panel has had regard to the accounts for Icon Water and not to any matter relating to energy companies, or the energy business.

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Now, what I think remains for me to do is to thank everyone who has attended for the contributions that have been made today, and to those who have made submissions on earlier occasions and those who are not here who have made submissions to the current consultation.

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We say that cognisant of the comments made by Ms Helyar about the

difficulties in making contributions to a process like this, and we will take on board the issue of whether there is some way of suggesting some improvements that might be made so that the public view can be articulated with the benefit of some additional assistance.

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Today's hearing, as I said earlier, will be transcribed, and the transcript will be posted on the website as soon as possible. We will take into account all of the comments made today and the issues raised by all of the questions, and we will, in reaching our final decision and preparing our final report, consider today's material along with the written submissions that we've received.

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It's not possible to precisely estimate how long it will take for us to complete the additional analysis that we need to do, and to complete our final report, but our aim is to have all processes completed by the end of next month.

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If there are going to be any significant departures from that timeframe, we will write to the persons on our list of interested persons and we will provide an update on our website.

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So it remains, I think, for me to formally close the public hearing after thanking everyone who was contributed, including people from Icon who have taken time to be here, and all of the members of the public who have contributed. Thank you very much.

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ADJOURNED

[12.45 pm]

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