

Icon Water

Industry Panel public hearing

6 February 2015

John Knox
Managing Director

Response to the draft decision

- We support the draft findings in favour of each of our contentions with the 2013 ICRC decision

Biennial reviews removed

Cost of capital based on benchmark firm

Calculation of depreciation revised

- We support the well-accepted regulatory techniques adopted by the Panel
- We seek reconsideration of some decision elements, particularly:
 - demand risk, and
 - cost of capital

Icon Water's presentation today

- Our plans for the next four years (Amanda Lewry - General Manager, Asset Management)
- Draft decisions for which we are seeking reconsideration (Sam Sachse - General Manager, Finance)

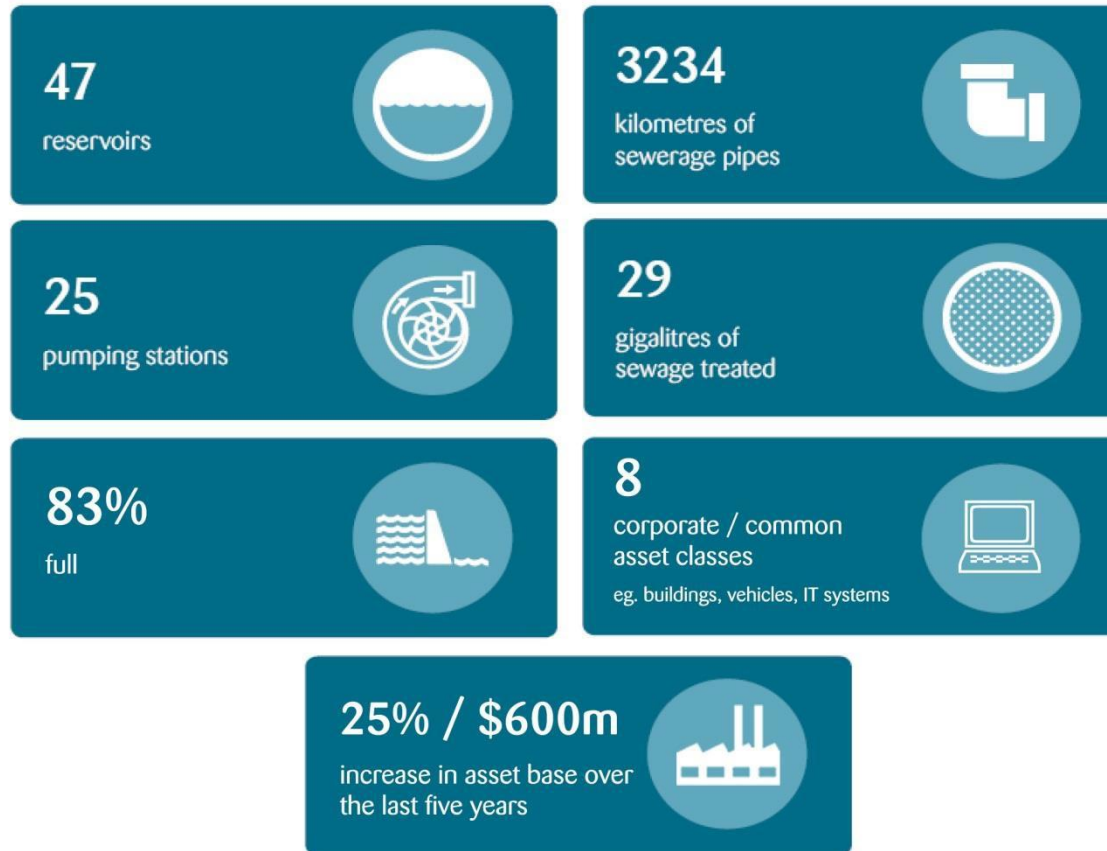
Icon Water

Our plan for the next four years

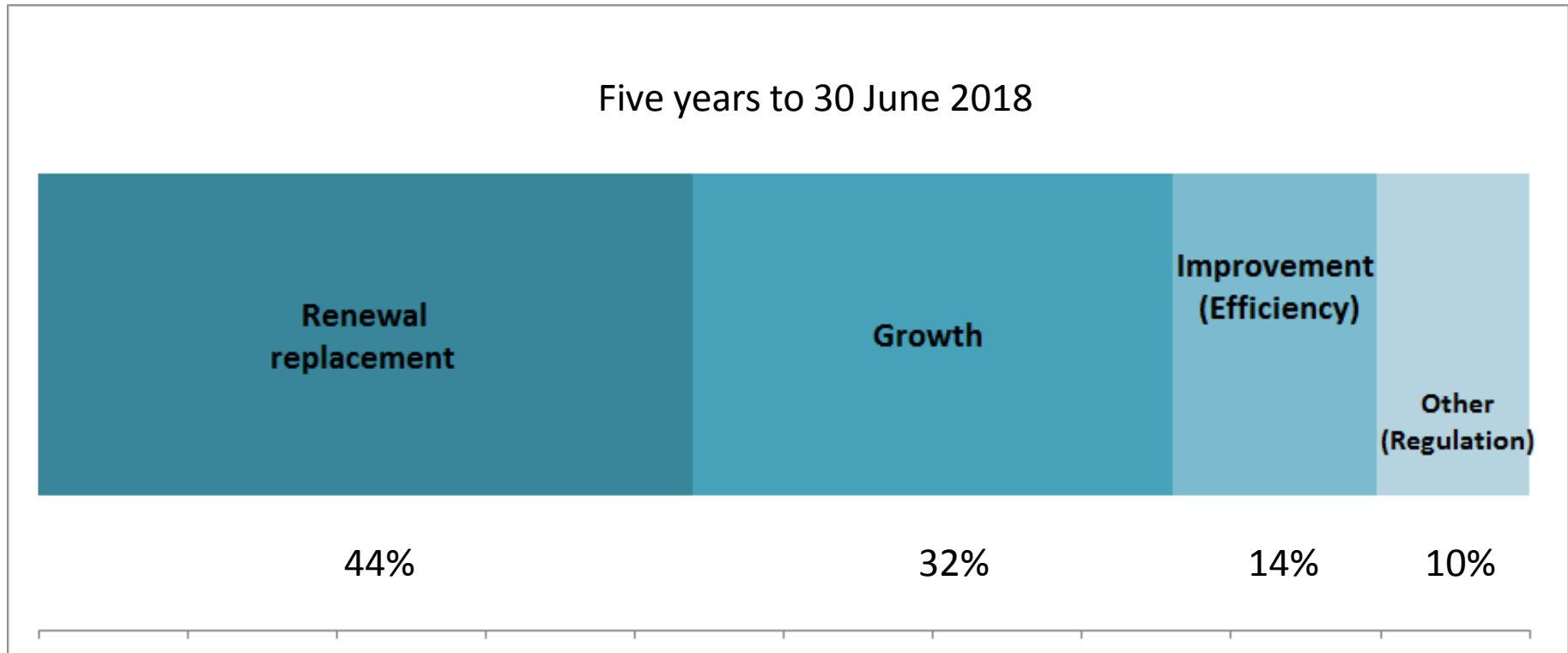
Amanda Lewry

General Manager, Asset Management

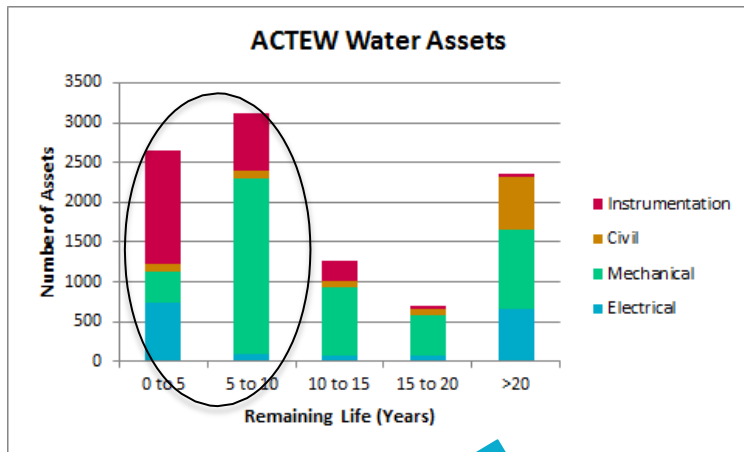
The infrastructure supporting your service



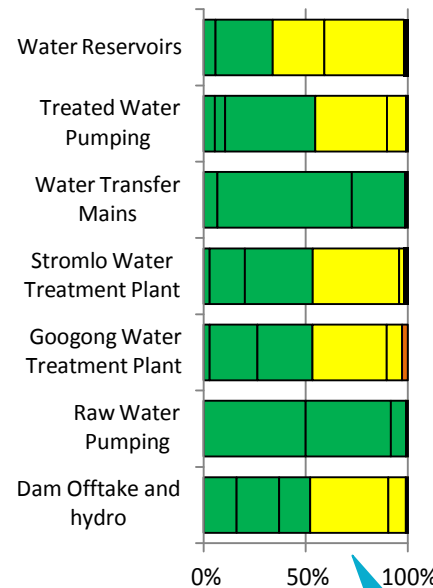
Capital projects to support continued services in a growing Canberra



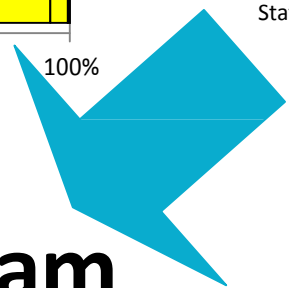
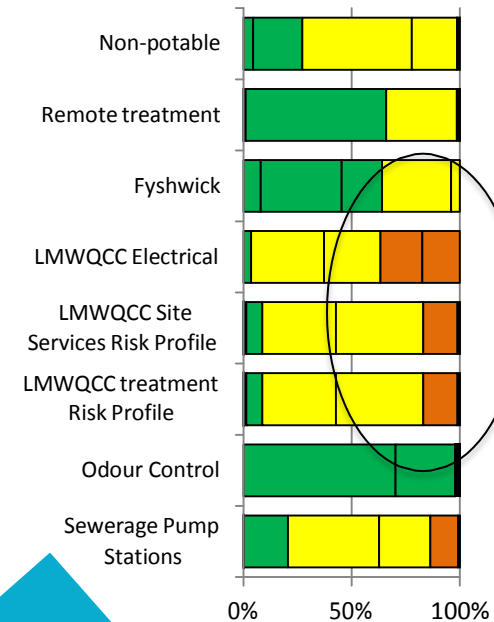
Supporting the continued provision of existing services



Water Network Risk Profile by Asset Class

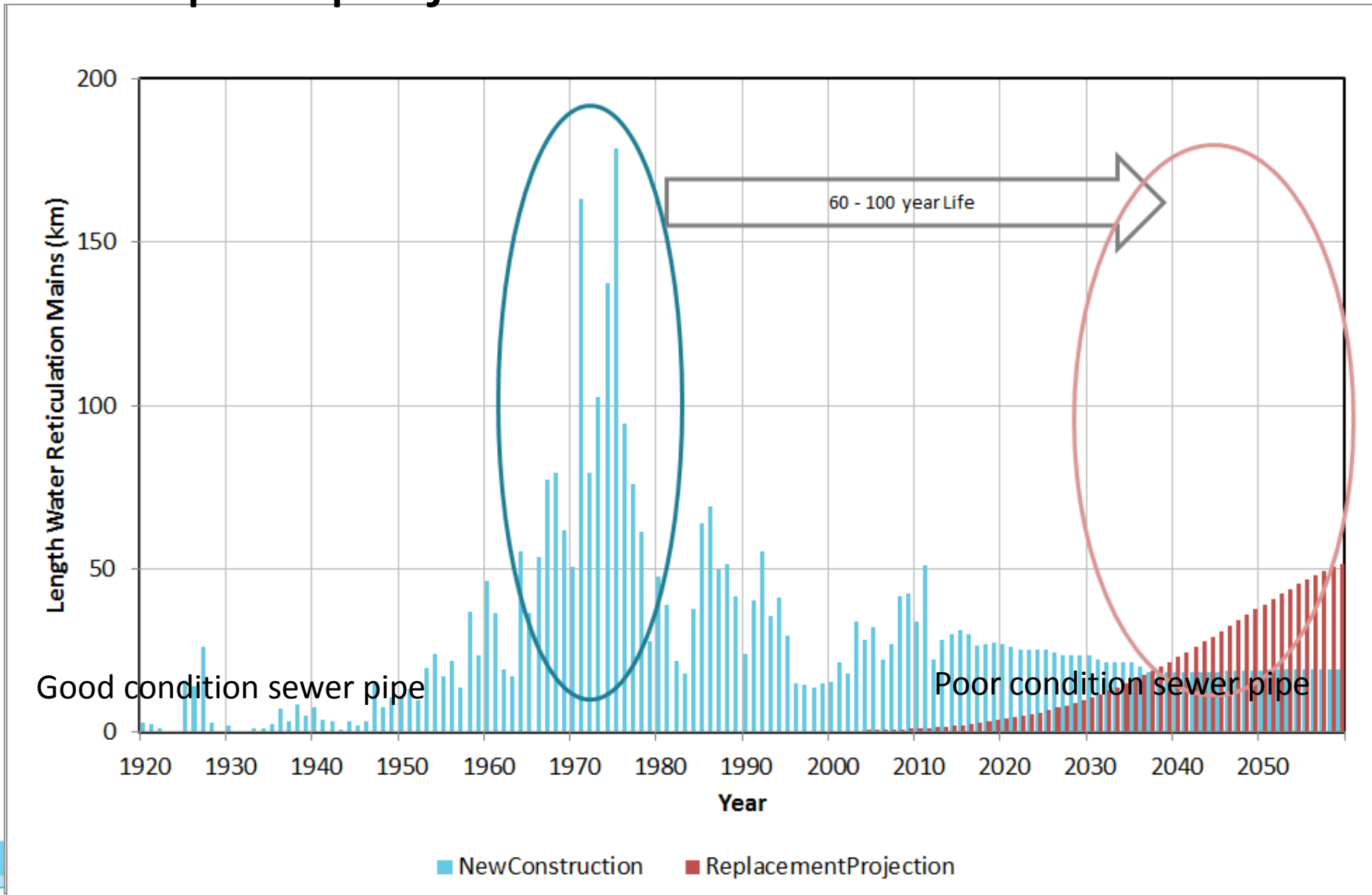


Sewerage Network Risk Profile by Asset Class

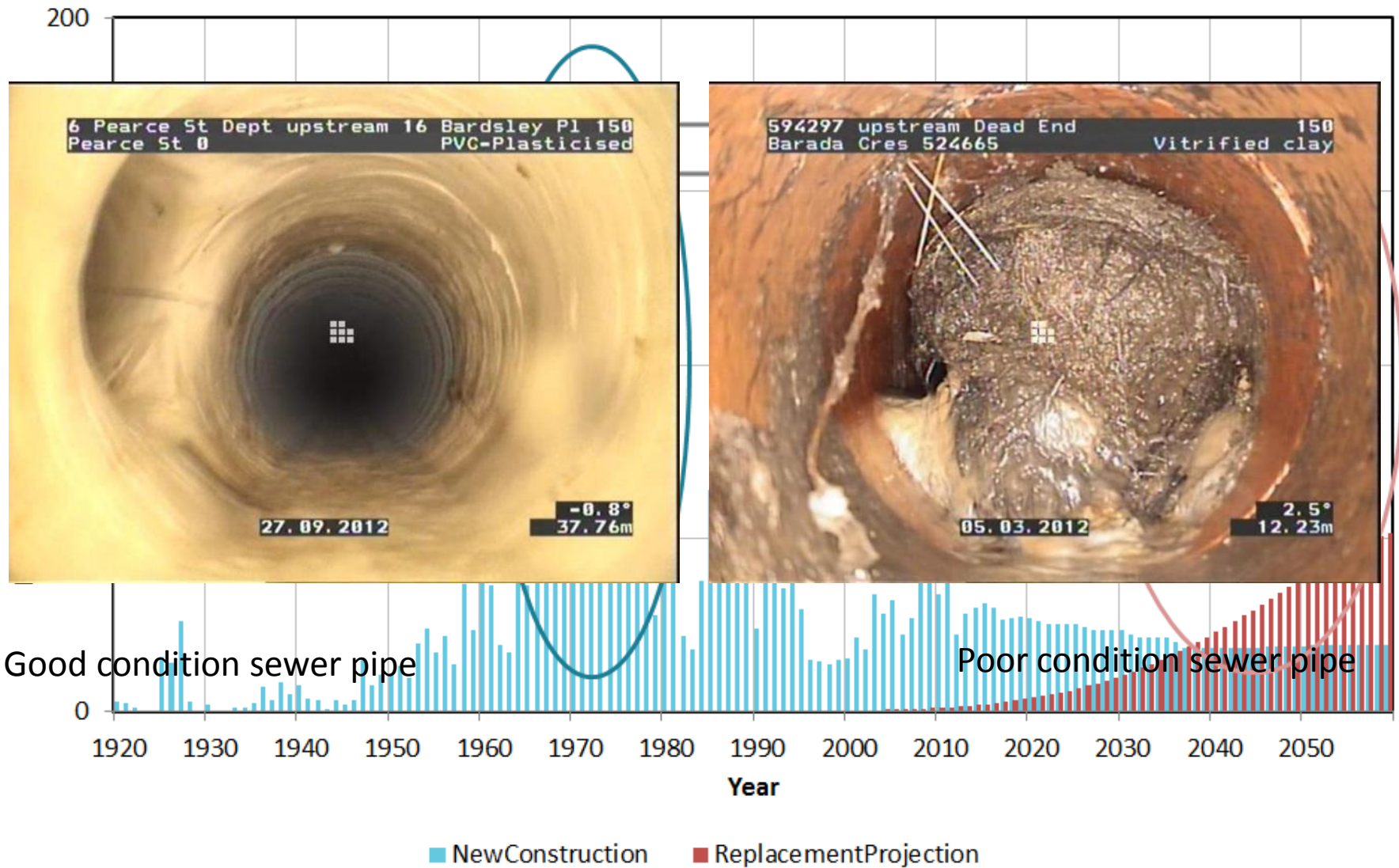


Renewal Program

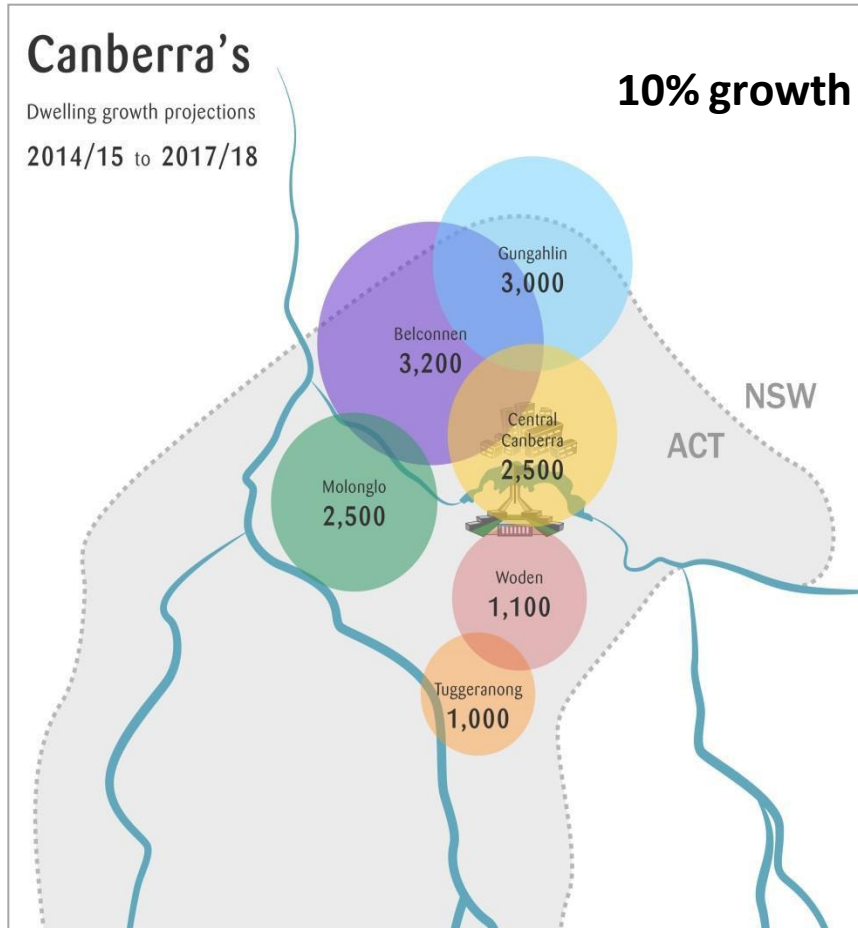
Capital projects – Renewal of the mains



Capital projects – Renewal of the mains



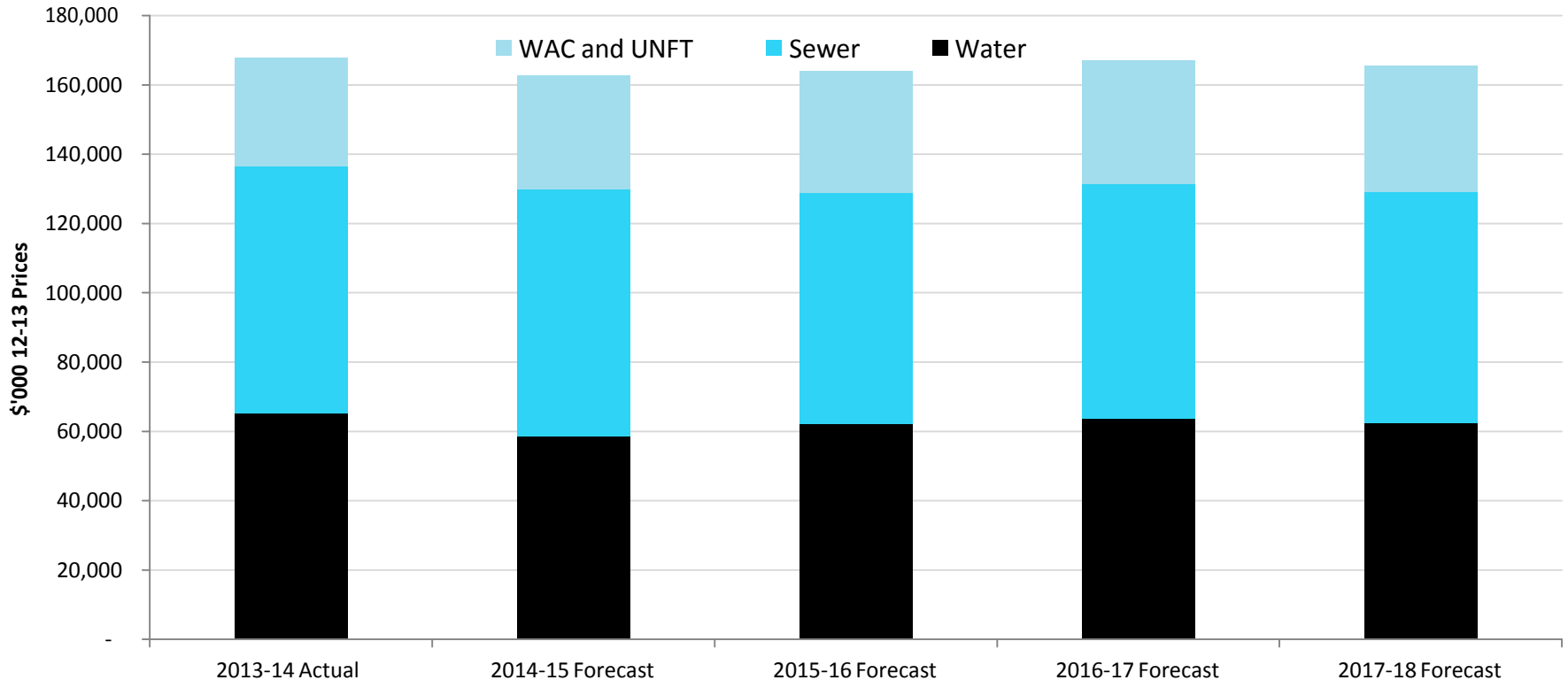
Supporting and enabling growth in the ACT



All growth in ACT supported by LMWQCC
Volumes of water have not increased but sewer loading has increased

Operating costs

Actual operating costs (\$'000 12-13 prices)



Costs are not predicted to increase in real terms despite ageing network and a 25% increase in asset base

Icon Water

Areas in which we are seeking
reconsideration

Sam Sachse
General Manager, Finance

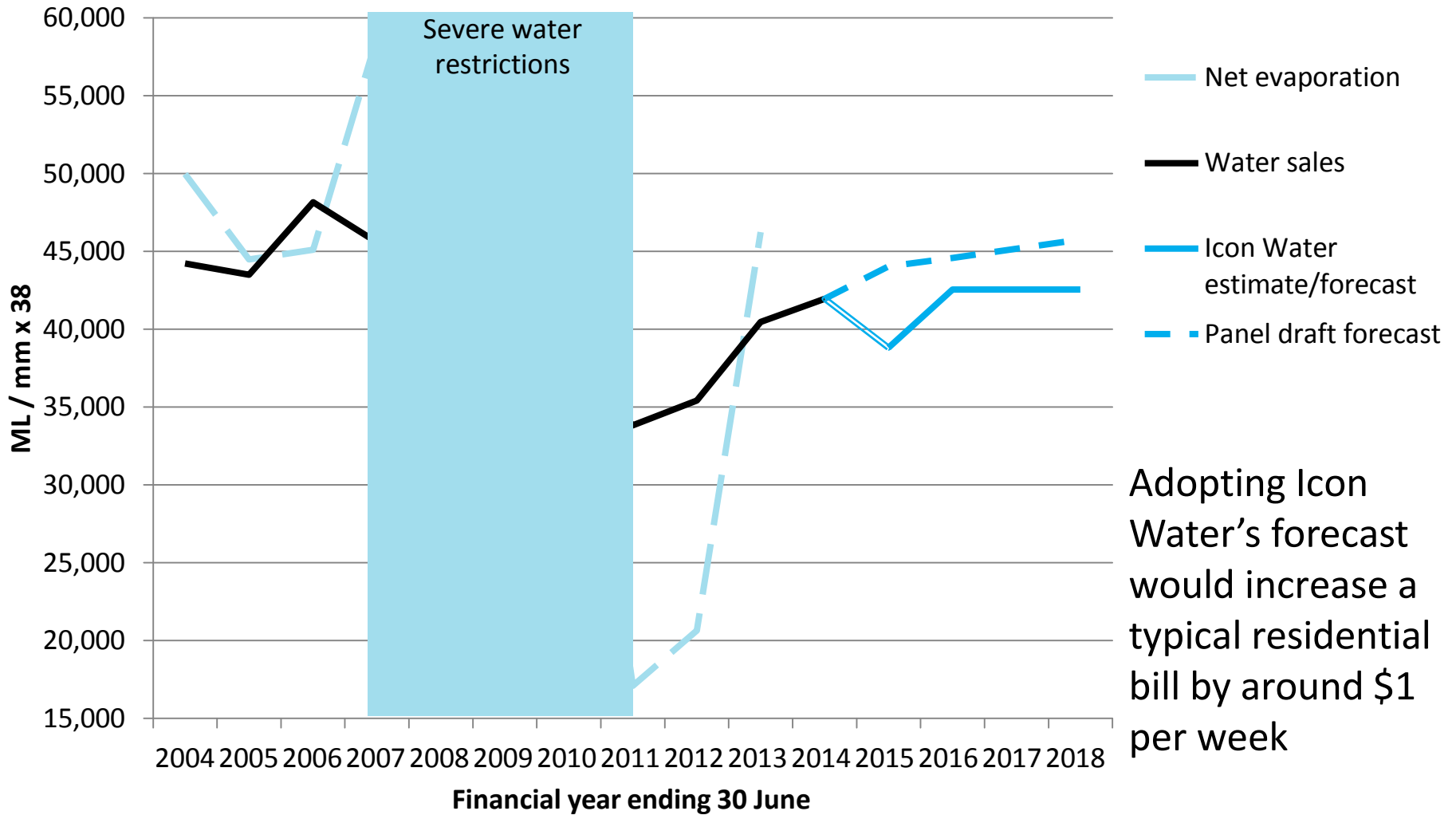
Icon Water is seeking reconsideration of

- Demand risk
 - Water sales forecasts
 - The deadband for the demand volatility adjustment mechanism
- Cost of capital parameters
 - Equity beta
 - Gamma

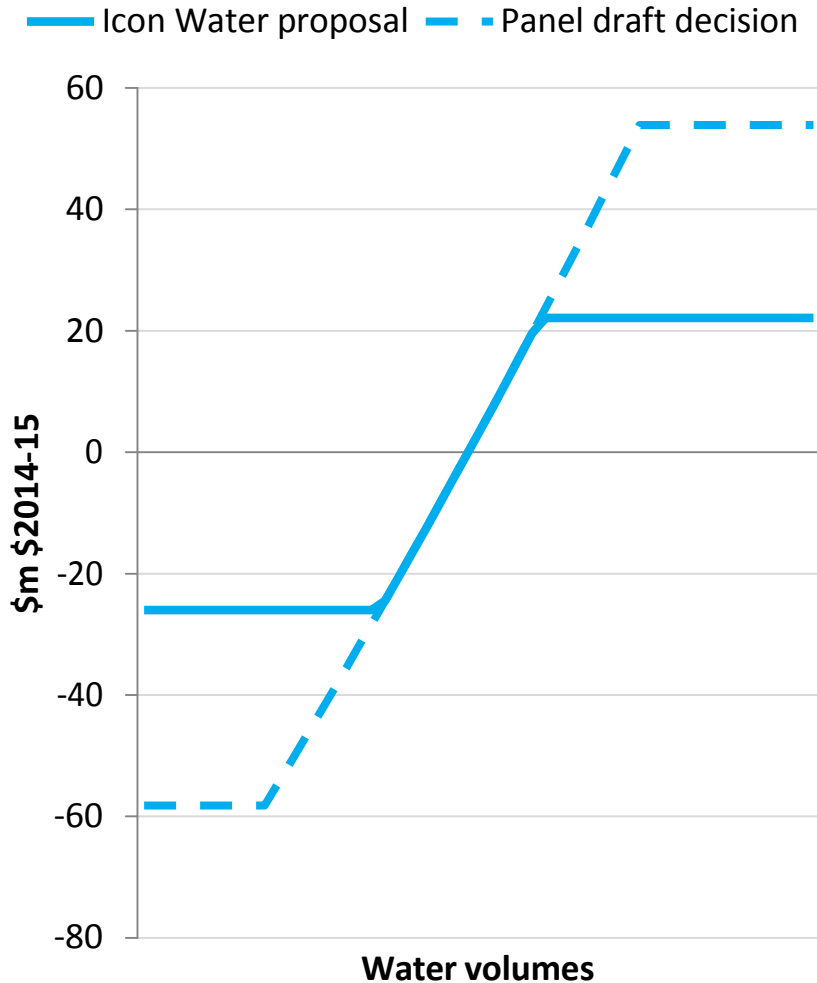
Demand risk

- Risk that revenue will fall significantly short of efficient costs:
 - Water volumes are uncertain and sensitive to weather outcomes
 - Revenue highly sensitive to water volumes
 - Relatively high water sales forecasts (in our view)
 - No adjustment for sales variance within $\pm 7\%$

Water volumes forecast



Deadband



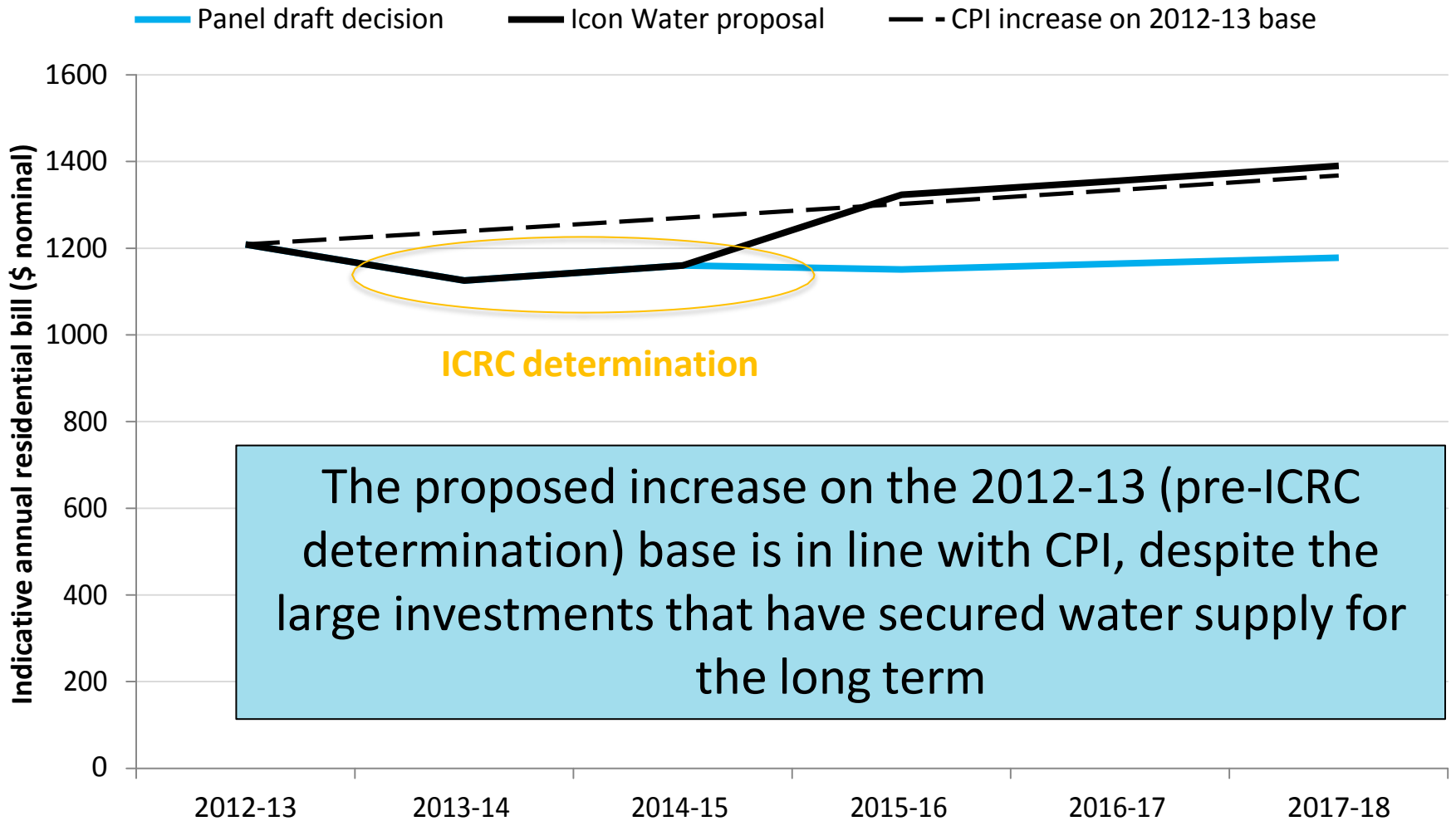
- Icon Water proposes the revenue at risk be reduced to 3% of forecast sales (from 7%)
- This benefits customers by
 - reducing the scope for Icon Water to earn more revenue than is necessary, and
 - Allowing Icon Water to fund productivity improvement initiatives

Cost of capital

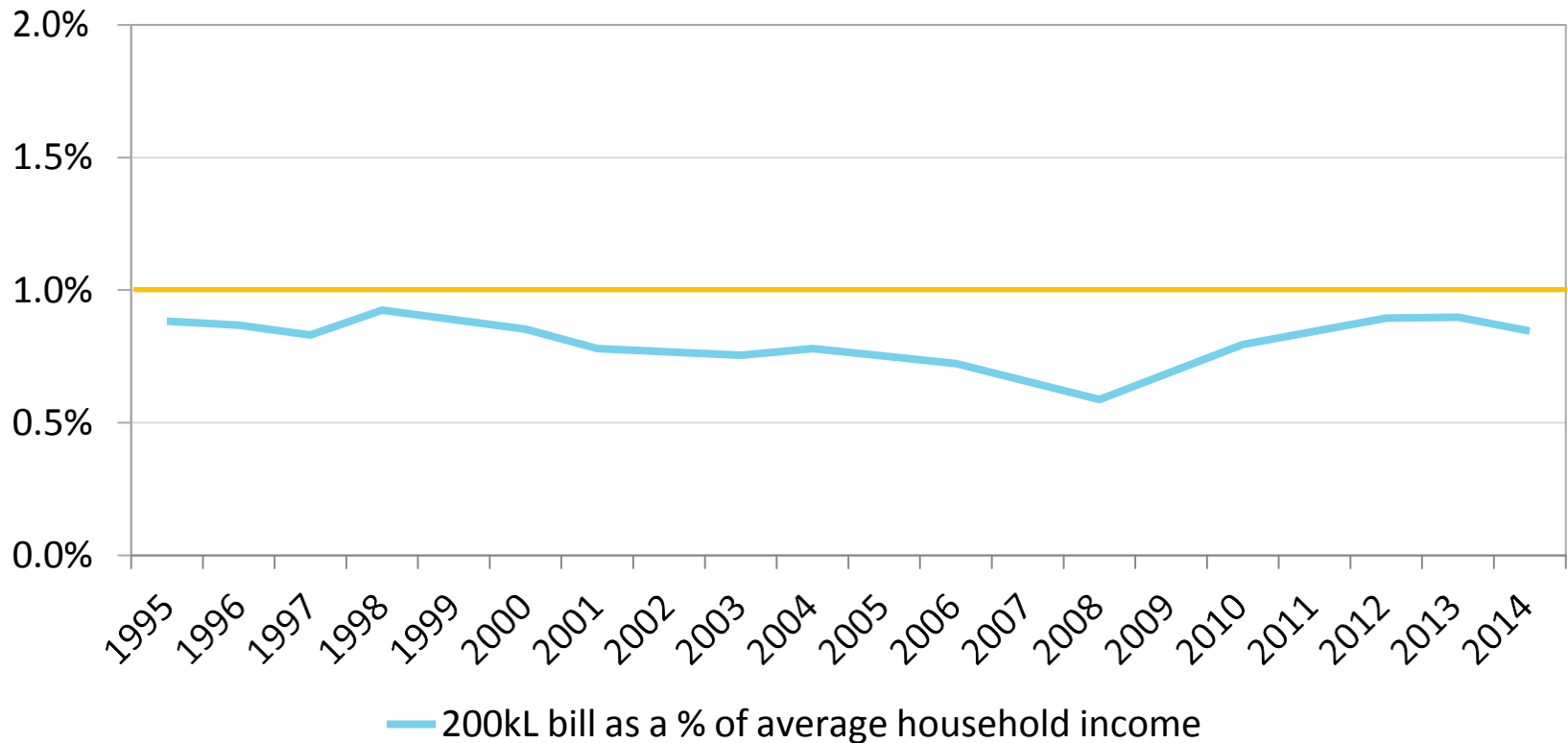
Decision component	Panel draft decision	Icon Water proposal
Equity beta	0.7	0.9
Gamma	0.5	0.25
Nominal vanilla WACC	7.20%	7.78%

- We seek an appropriate rate of return that provides incentive for efficient investment
- The WACC decisions for NSW utilities in 2013 were above 7.20%
- Impact on the annual bill for a typical residential customer would be \$2 per week

Icon Water's proposed price path



Water bill as a proportion of household income



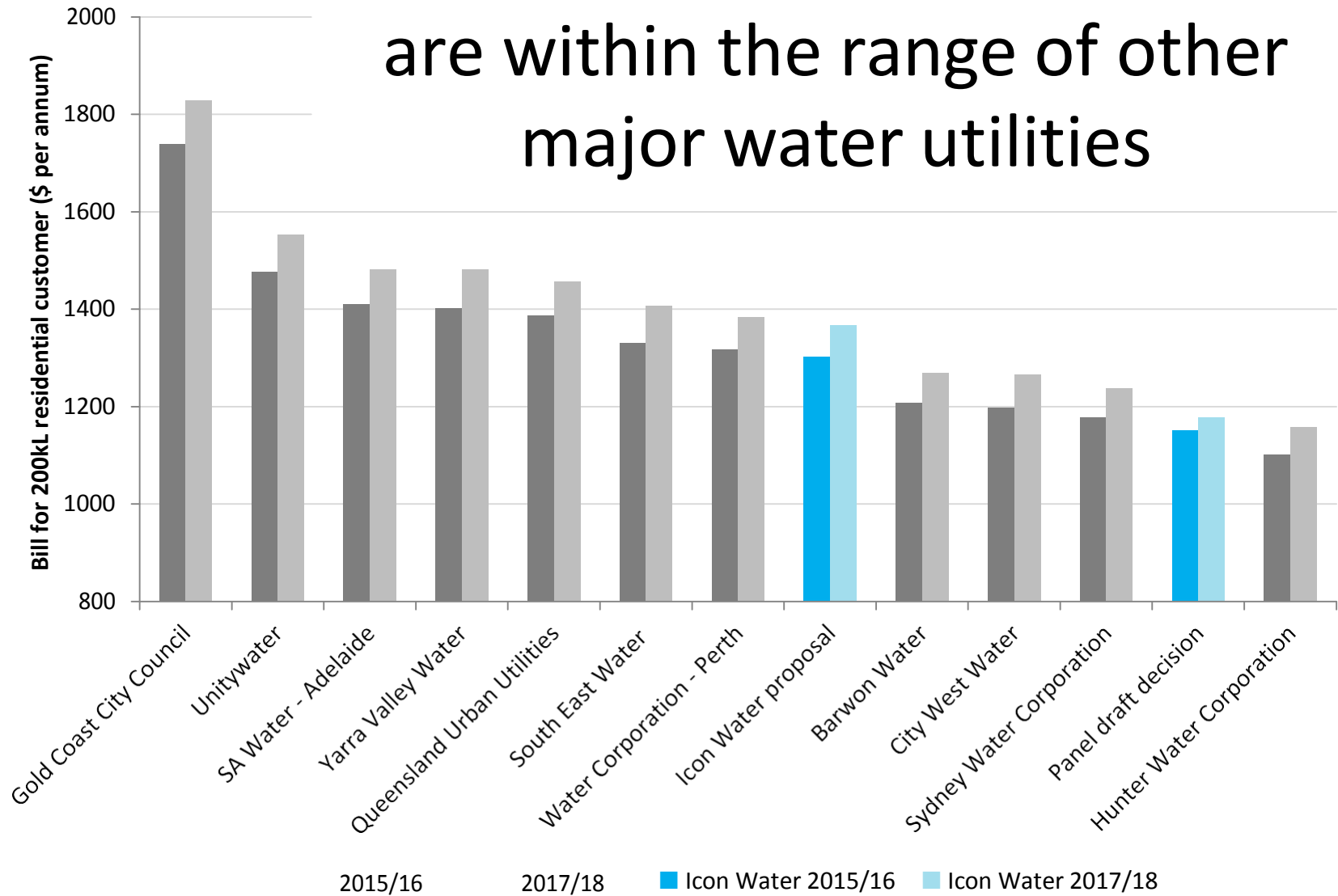
The average annual combined water bill has remained below 1% of average household income since 1994-95.

Icon Water's proposed price path

	2015-16	2016-17	2017-18
<i>Icon Water proposal</i>			
Water	CPI + 10.8%	CPI + 0%	CPI + 0%
Sewerage	CPI + 11.7%	CPI + 0%	CPI + 0%
<i>Panel draft decision</i>			
Water	CPI – 7.5%	CPI – 2.4%	CPI – 2.4%
Sewerage	CPI + 2.4%	CPI + 0%	CPI + 0%

Under Icon Water's proposal to bring prices back approximately in line with 2012-13 prices, a typical residential customer would pay around \$3 more each week.

Icon Water's proposed prices are within the range of other major water utilities



Icon Water

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Thank you

Disclaimer

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