

Key issues from submissions on matters to be considered by the Industry Panel

Matter	Issues raised in submissions other than ACTEW's statement of facts and contentions	Panel's initial view
Rate of return and the regulated asset base (RAB)	<ul style="list-style-type: none"> • The ACTEW submission about economic efficiency and firm specific rate of return ignores the fact that economic efficiency means the securing of desired supply at least cost • Panel must consider ACTEW as a publicly owned utility not as a private sector corporation • ACTEW has not disclosed the entities it has used as benchmarks – Panel should require the use of comparable utilities • ACTEW should not be entitled to any rate of return on any notional RAB, only on monies actually contributed in cash by the ACT Government • ACTEW should not be entitled to revalue upwards the cost of infrastructure and charge customers accordingly • ACTEW and ACT government should not be entitled to a rate of return on the replacement cost of assets they didn't create or pay for • The rate of return should be based on the average rate of return for large super funds • Concern about large level of debt • Dividend should not affect price 	<p>The Panel will consider the appropriate rate of return, having regard to all relevant considerations and well-established regulatory practice. This is consistent with s20(2)(d) of the ICRC Act, which requires that regard be given to an appropriate rate of return on any investment in the regulated industry.</p> <p>The Panel will also have regard to ACTEW's balance sheet, of which debt is a part, in considering the financial viability of ACTEW. This is consistent with s20(2)(i) of the ICRC Act, which requires that regard be given to the borrowing, capital and cash flow requirements of people providing regulated services and the need to renew or increase relevant assets in the regulated industry.</p>

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Water security projects	<ul style="list-style-type: none"> • Population is growing so they will get their money • Current method of financing means that current generation will pay more and future generations less • Dam too expensive 	<p>The Panel will consider the regulatory treatment of water security projects, and has engaged expert consultants to assist it with this task.</p> <p>This is consistent with part (d) of the terms of reference for the price direction, which require consideration of 'the ability of the pricing path to match revenue recovery arrangements to the consumer benefits accrued from the water security program'.</p>
Demand forecasts	<ul style="list-style-type: none"> • Demand should be forecast on the basis of long term data, not February data • Revenue will increase as people use more water 	<p>The Panel will be considering demand forecasts, and their implications for ACTEW's total revenue requirement, and has requested information on demand from ACTEW.</p> <p>The Panel has engaged expert consultants to assist with its examination of demand. Longer term data will be included in their analysis.</p>
Operating expenditure	<ul style="list-style-type: none"> • Pay executives too much • If they have to cut a few jobs and profit and community handouts so be it • ACTEW benchmarks are from energy sector, not water • Panel should deal with ACTEW Water separately from ACTEW Corporation (also relevant to capital expenditure and other financial matters) • Efficiency should be measured by benchmarking the cost of supply against similar jurisdictions 	<p>The Panel will be considering the overall reasonableness of ACTEW's operating expenditure in line with well-tested regulatory practice.</p> <p>This is consistent with s20(2)(c) of the ICRC Act, which requires that regard be given to the need for greater efficiency in the provision of regulated services to reduce costs to consumers and taxpayers.</p> <p>The Panel has engaged expert consultants to review and provide advice on forecasts of operating expenditure.</p>

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Capital expenditure	<ul style="list-style-type: none"> • ACTEW's infrastructure is comparatively new • ACTEW competence in budgeting major projects • ACTEW is rewarded for gold plating by being given better return 	<p>The Panel will be considering ACTEW's capital expenditure in line with well-tested regulatory practice.</p> <p>This is consistent with s20(2)(c) of the ICRC Act, which requires that regard be given to the need for greater efficiency in the provision of regulated services to reduce costs to consumers and taxpayers.</p> <p>The Panel has engaged expert consultants to review and provide advice on forecasts of capital expenditure (including whether the expenditure is prudent and efficient), and to advise on ACTEW's governance processes around capital expenditure decision-making.</p>

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Tariff structures	<ul style="list-style-type: none"> • Need more flexibility • Tier 1 should be 300KI • The IBT Tier 2 threshold causes a deadweight loss for relatively small and large households – should change the threshold by using dwelling-level data for water and use water estimate for sewerage charge • Should have 2 part tariff with availability charge and a charge for the short run marginal cost of water • Demand should be managed by rewarding those who use less water 	<p>While falling within its statutory mandate, and noting the material impact on consumers, the Panel does not intend to consider the structure of water tariffs in any detail as part of its review.</p> <p>A review of tariff structures would require extensive analysis and consultation, which is not possible within the Panel's proposed timeframes and with the resources available to it. The Panel also notes that other processes have been foreshadowed by the ICRC to review tariff structures.</p> <p>The Panel is mindful of the need to accommodate any changes to tariffs arising from any separate review.</p>
The level of prices	<ul style="list-style-type: none"> • Water too expensive, we have been paying too much for water we saved • Regulator should not be concerned with price, only with efficiency • Water bills have risen 450% over the past 10 years while consumption was relatively stable and CPI increase was 28.2% - no other service provider has imposed this level of increase • Should consider social impacts of price increases • ACTEW submission does not consider Section 20(2) (a) (c) (g) and (j) • Revenue will increase as people use more water 	<p>The Panel will consider the level of prices.</p> <p>This is consistent with s20(2)(g) of the ICRC Act, which requires that regard be given to the social impacts of the pricing decision. In its Statement of Facts and Contentions, ACTEW has indicated that it will work with the Panel to develop an approach to managing bill impacts.</p> <p>The Panel will also consider the form of price control (e.g. in the form of a revenue cap or price caps, or a combination of the two), as required by s20A of the ICRC Act.</p> <p>As part of its analysis, the Panel will consider appropriate benchmarks of water prices in other Australian jurisdictions.</p> <p>The Panel is required to take account of <u>all</u> matters in s20(2), as well as s20(5).</p>

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Government policy and governance of ACTEW	<ul style="list-style-type: none"> • Regulator should ensure that profits from the sale of water are distributed equitably and stay in ACT • Community should be invited to fund the infrastructure from their savings, not paying interest to external parties – use a voucher system • Should use dam level water consumption charge • The regulatory system is institutionally corrupt • ACTEW should not be a revenue collector for the ACT Government • Concern about the “undue and unnecessary” influence of Treasurer • Dividends should be stopped • ACTEW should be made to save any rate of return above the actual borrowing costs • Competence in naming business ACTEW Water • Water abstraction charge should be billed separately by Government • Mandatory water meters in new dwellings 	<p>The Panel does not have the mandate to make decisions about government policy on matters such as dividends or the water abstraction charge, or on alternative financing strategies for long-lived assets.</p> <p>The Panel may, however, note matters for further consideration by the ACT Government.</p> <p>The Panel notes that a review of the institutional arrangements for ACTEW, led by Dr Bruce Cohen, was completed in December 2013.</p>

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<p>The Panel's approach to the review</p>	<ul style="list-style-type: none"> • Panel must encourage ordinary ratepayers to participate in the review • Ratepayers should be given information promised by ACTEW in 2013 • ACTEW projections should be published 	<p>Under its charter, the Panel is committed to conducting an open and accessible review process. All hearings held to date have been open to the public, and the Panel's website contains details of the Panel's activities, and copies of all submissions received to date.</p> <p>The Panel will be seeking feedback from the ACT community more generally with a public consultation process once it has released its draft decision. It will be at this stage when the implications of the Panel's investigation on the pricing of water and sewerage become clear.</p> <p>The release of the Panel's draft report and the date of the public hearing following the report's release will be advertised.</p> <p>The Panel is also committed to transparency, but accepts there are circumstances when information may be provided in-confidence. The Panel will assess any claims for confidentiality and discuss appropriate steps to ensure that material deemed to be confidential will be protected.</p>