

Summary – ACTEW submission to the Independent Competition and Regulatory Commission

July 2012



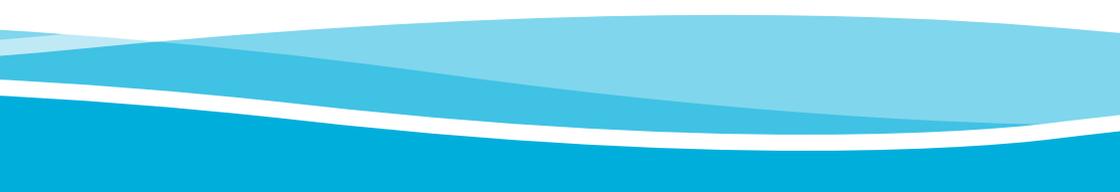
The price of water, sewerage and other essential services in the ACT are established by the Independent Competition and Regulatory Commission (ICRC).

The ICRC is a statutory body established and controlled by the ACT Independent Competition and Regulatory Commission Act 1997.

As required, ACTEW Corporation provides a detailed submission to the ICRC as part of the process of regularly reviewing the price of water and sewerage services. This document is a summary of the 2012 submission to the ICRC in relation to the 2013-2018 regulatory period.

A complete copy of the submission can be found on the ACTEW Water website at www.actew.com.au

ACTEW Corporation ABN 86 069 381 960
ACTEW Water is a business name of ACTEW Corporation



The Independent Competition and Regulatory Commission (the ICRC) is currently undertaking a **water and sewerage services inquiry** to determine the prices that ACTEW Corporation (ACTEW) will be able to charge for its water and sewerage services from 1 July 2013. The ICRC final report is due by 1 May 2013 and will provide a price direction to cover the 2013 – 2018 time period.

Since the last ICRC review of water and sewerage prices, ACTEW has continued to deliver a reliable service to our community. During this time ACTEW has also undertaken a large program of capital projects, with the construction of the Enlarged Cotter Dam and the Murrumbidgee to Googong Water Transfer. These projects will together significantly improve the ACT's water supply and are expected to secure the ACT's water supply for the next 20 years.

Despite this significant capital investment in water infrastructure, average water bills for customers have declined in recent years as a result of less water consumption.

Through the review of water and sewerage prices, the ICRC seeks to balance the prices paid by customers and the need to continue to maintain and invest in the city's water and sewerage infrastructure.

As part of the review process ACTEW has presented a detailed submission to the ICRC, this document is a summary of the key aspects of that submission.

As part of the price review the ICRC has released several related papers which can be found on the ICRC website www.icrc.act.gov.au

ACTEW is a territory-owned corporation of the ACT Government. ACTEW owns the Territory's water and sewerage infrastructure and is the regulated provider of water and sewerage services to the residents of the ACT. ACTEW's water and sewerage assets include four large dams, two water treatment plants, over 3,000 km of water mains, a similar length of sewerage mains and two sewerage treatment plants.

ACTEW provides services to Canberra's 365,000 residents through over 150,000 water connections and over 146,000 sewerage connections in the ACT and bulk water to the neighbouring city of Queanbeyan.

During the current regulatory period, which concludes on 30 June 2013, ACTEW has focused significantly on securing Canberra's water supply, as was appropriate following the Canberra bushfires and impacts of the Millennium Drought. In the next regulatory period, ACTEW will consolidate its water security assets and shift focus towards the sewerage network, where investment is required to enhance capacity and ensure continued provision of a safe, secure and sustainable sewerage system.

Canberra has the largest inland sewage treatment plant in Australia. Continued investment in our sewerage infrastructure is a key part to ensuring Canberra's water system continues to work well.

There are five broad areas of discussion in ACTEW's 2012 submission to the ICRC:

- new corporate structure
- maintaining and improving service delivery levels
- proposed capital and operational expenditure for the 2013-2018 regulatory period
- impacts of shortfall in revenue during current regulatory period
- water and sewerage prices



New Corporate Structure

From 1 July 2012 ACTEW Corporation has integrated the water and sewerage operations within the direct control of the Corporation and now operates as the business name ACTEW Water.

The establishment of ACTEW Water brings together the management of Canberra's water and sewerage services, from metering and customer service to management of the assets and maintenance of the system.

Since 2000 the operations and maintenance of the water and sewerage assets has been outsourced to ActewAGL to take advantage of the reduced costs arising from the economies of scale achieved by this relationship with ActewAGL.

In 2011 a review of the contractual and governance arrangements of Canberra's water and sewerage business highlighted the competing demands in the regulated water and sewerage business – those of generating shareholder and community returns, while at the same time ensuring customer value. Under the Territory Owned Corporations Act ACTEW Water is required to maintain a balance between profit, perceived customer value and community well-being. The review of the water and sewerage business found that the reintegration of this business into ACTEW Water provided the best opportunity to balance these into the long term.

Under the new arrangements those areas that can benefit from economies of scale will continue to be purchased from ActewAGL. These include corporate and retail services such as billing, human resources, ICT and legal.

Maintaining and improving service levels

ACTEW seeks to be a leader in the water business in Australia and this will mean presenting a clear report card on how it measures up. The submission to the ICRC is part of ACTEW's regular reporting to the Canberra community.

In the current regulatory period ACTEW has continued to provide a reliable and secure service to the ACT community and is committed to maintaining and improving these service levels over the next regulatory period.

An area that ACTEW will target as an improved service priority over the coming years is to continue the reduction in the number of sewer blockages experienced in Canberra's neighbourhoods. Despite a targeted preventative sewer maintenance program that has achieved a significant reduction over recent years, the ACT continues to have one of the highest rates of sewer blockages in Australia and this priority has been recognised in expenditure planning for the 2013 – 2018 regulatory period.

ACTEW's planned approach to managing its networks will ensure the ACT community continues to receive the safe, secure, sustainable and efficient water and sewerage services it has come to expect.



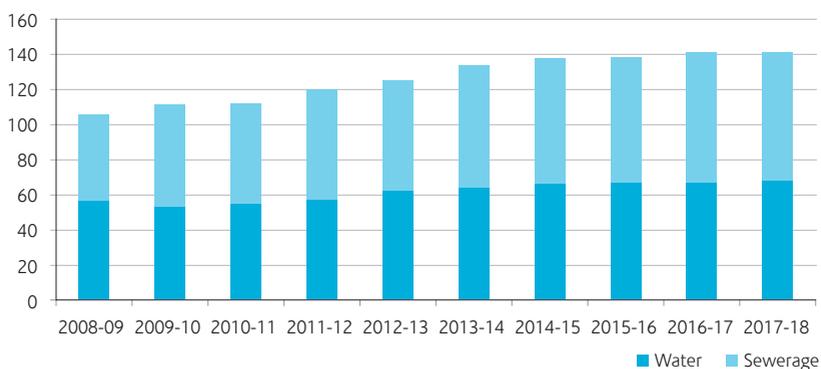
ACTEW's Expenditure

Expenses associated with the provision of water and sewerage services to the Canberra region are divided into two types – capital and operational expenditure.

The construction of significant water security projects during the current regulatory period means that there has been a greater level of capital expenditure in this period than previously undertaken by ACTEW. Capital expenditure in the current regulatory period is forecast to be around 67 per cent above that predicted by the ICRC in its 2008 review. This is as a result of the essential water security infrastructure investment during this time.

Operational expenditure during the current and future regulatory periods is also higher as a result of growth in the network, particularly increased land-release programs in Gungahlin and Molonglo, and costs associated with the management of the new water supply assets. ACTEW Water's annual operating expenditure in the current regulatory period is forecast to be around 1.8 per cent higher than the ICRC 2008 determination. It is anticipated that a \$10.6 million increase in operating expenditure activities will occur between 2010-11 and 2013-14. This is a vast majority of operational expenditure changes until 2017-18, and as a result operational expenditure is expected to plateau from 2013-14.

Figure 1 Total operating expenditure 2008-18 in current dollars



The submission to the 2012 ICRC review outlines ACTEW's proposed capital and operating programs for the 2013-2018 years as well as a 20-year expenditure forecast for capital expenditure.

As part of developing the capital and operating programs, ACTEW reviews current or potential gaps in services or where there is the potential for service delivery levels to be compromised. Where possible these gaps are met through alterations or improvements in operations, but often this cannot be achieved, or it is more cost-effective over time to undertake a capital improvement. Both the capital and operational programs need to meet ACTEW's requirements of prudent and efficient expenditure and be considered in the context of the customer expectations. When determining customers' expectations, ACTEW considers a range of information including Government policy, community feedback and targeted research such as the recent analysis of customers' willingness to pay to avoid water restrictions, which was taken into consideration when assessing the costs and benefits of the water security infrastructure program.

To develop the final capital expenditure program ACTEW Water undertakes an extensive process of assessing the priority for each project against the risk of not undertaking the work. From 150 identified capital projects, 79 are recommended for the next regulatory period.

Projects proposed for the 2013-2018 regulatory period can be divided into the following categories across both water and sewerage projects:

Renewal projects are driven by asset condition and compliance requirements relating to safety, reliability and asset protection. For example during the 2013-18 regulatory period funds will be spent on the Sewer Mains Rehabilitation program which involves pipe rehabilitation in areas of the sewerage system that are demanding high levels of maintenance as a result of frequent blockages. Funds will also be spent over the next regulatory period on upgrade of the aeration system at the Lower Molonglo Water Quality Control Centre.

Improvement projects are works that will reduce costs, ensure compliance with licence conditions or environmental or safety standards. In the next regulatory period these will include upgrades at Corin Dam and the pumping station in the Lake Tuggeranong Precinct.

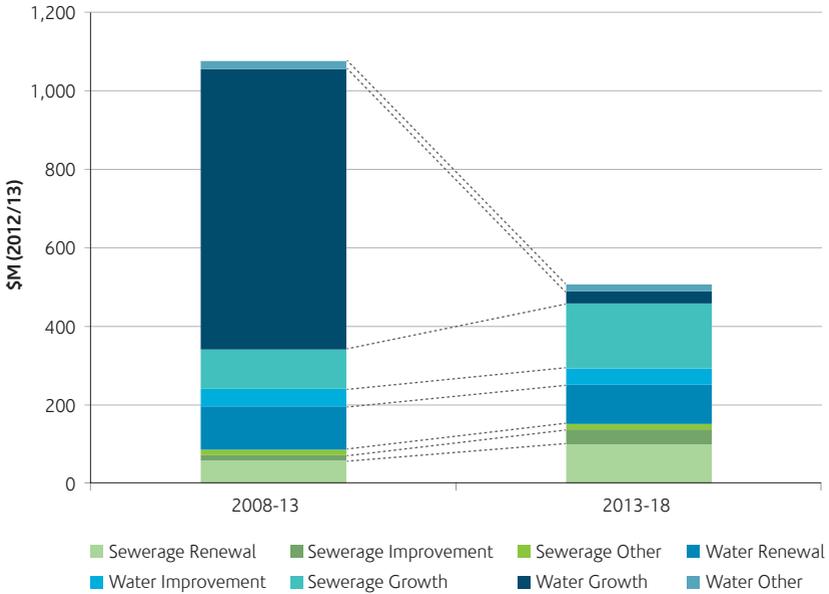


Growth projects are developed to create new assets, or to upgrade an asset to enhance capacity in response to population growth in the Territory. Funds will be spent over the next regulatory period to install additional effluent filters at the Lower Molonglo plant, for upgrades to trunk sewers and the Fyshwick sewer pumping station.

Other projects relate to capital expenditure that is not directly located within the water or sewerage networks. The most significant in the next regulatory period are plans to extend and renovate ACTEW's Northern Services Centre in Mitchell.

Figure 2 (over) demonstrates the significant decrease in capital expenditure between the current and next regulatory period which reflects the completion of the water security capital projects, including the new Cotter Dam and the Murrumbidgee to Googong transfer. Capital expenditure on the sewerage system, however, will increase due to asset renewal requirements, particularly an upgrade in filters at the Lower Molonglo Water Quality Control Centre and the sewer mains replacement program.

Figure 2



ACTEW's revenue

Revenue collected by ACTEW in the form of water and sewerage charges is used directly to fund the operation, maintenance and continued improvement of Canberra's water and sewerage infrastructure. To ensure the long-term sustainable supply of water and sewerage services revenue collected must cover the operational and capital expenditure required to deliver those services.

There are two key factors that determine ACTEW's annual revenue – the price ACTEW can charge for water and sewerage services (as set by the ICRC) and how much water is used by ACTEW's customers.

Surplus revenue, or profit, made by ACTEW is returned to the ACT Government and therefore the ACT community through an annual dividend.

Water conservation measures and temporary water restrictions were important during the drought period to ensure the long-term supply of water and ACTEW continues to be committed to sustainable water use. Recent years of higher rainfall have seen Canberra's water storages fill, while the rainfall has also meant that Canberrans have not needed water to maintain gardens. Canberrans actually consumed less water during the rain of 2010-2012 than in the harshest years of drought.

Under the current form of regulation, which includes a five year price review, there is not the flexibility to make timely adjustments to water prices to reflect the scarcity of supply or changes in water consumption patterns.



Lower than forecast water consumption has had a negative impact on ACTEW's revenue. During the current regulatory period ACTEW expects to collect around \$268M (or 27 per cent) less revenue than the amount required to cover the costs anticipated by the ICRC during the 2008 pricing review. Although revenue has declined, ACTEW has continued to provide the same level of water and sewerage services to the Canberra region and in fact has progressed with significant water infrastructure investment essential, over the longer term, to protect the ACT from future water shortages.

The impacts of reduced revenue on ACTEW are:

- reduced ability to return a profit dividend to the ACT Government; and
- the need to 'catch-up' on this income over time to cover costs associated with continued service delivery.

ACTEW has recognised in its submission to the ICRC that there is a need to recover the revenue shortfall in order to maintain the necessary level of water and sewerage services into the future. Recovering the revenue shortfall is achieved by building it into the price of water, although this can be done over a number of years.





The ACT's Administrative and Civil Appeals Tribunal (ACAT) and the ACT Government in their submissions to the ICRC's February 2012 Issues Paper on water and sewerage services, support recovery of the revenue shortfall over a period of time rather than as an immediate one-off price rise. Determining how quickly to recover the lost revenue, which is necessary to continue the provision of quality water and sewerage services in the ACT, is one of the key issues facing the ICRC.

The submission further recommends that the ICRC consider an alternative form of regulation of water prices. ACTEW's submission recommends moving back to an annual price reset for water, rather than the current five year setting of prices. This will allow for the price of water to be adjusted more promptly to reflect current water supply and customer behaviour. The Commission has acknowledged that forecasting water demand is difficult and the uncertainty increases as the timeframe being forecast is extended. Annual price adjustments will minimise the likelihood of significant revenue shortfalls or excessive profits and the need for significant price adjustments to return or recoup that revenue. ACTEW is keen to collaborate with the ICRC on development of an appropriate forecasting model to be used for annual price resets.

Water and sewerage prices

As part of the submission to the ICRC ACTEW makes recommendations on the water and sewerage prices for the 2013-2018 regulatory period.

With respect to **water prices** the submission proposes to restructure prices structure as follows:

- Reduce the price step to 30 kilolitres per quarter – which is enough to cover basic indoor uses for most households.
- Above 30 kilolitres in a quarter a 'tier 2' price would apply.
- The fixed charge be increased to \$130 per annum.

This restructure reflects a continued commitment to community interests by providing water required for basic household use at a lower price. In relation to **sewerage prices** ACTEW proposes no change in the structure of current supply and fixtures charges for the majority of customers. However the submission does propose to implement a liquid trade waste policy and associated pricing regime in 2017.

Liquid trade waste is sewage from businesses, educational and research institutions that is stronger than traditional household sewage and therefore incurs additional network and treatment costs. In most states of Australia businesses that discharge non-domestic sewage incur additional sewerage fees.

Prior to the implementation of liquid trade waste charges in the ACT ACTEW will undertake a comprehensive customer communication and education program to encourage and assist businesses to dispose of liquid trade waste in a cost-effective and environmentally sensitive manner. A three-year transition period will provide time for businesses to adjust to the impacts of the new sewerage charges.



The ICRC's five year review of water and sewerage services is an important process that determines the price of water and sewerage in the ACT, while also defining a range of operational parameters for ACTEW, from its five year capital expenditure to annual operational expenditure levels. The role of the ICRC is to ensure that a monopoly provider such as ACTEW operates in an efficient and prudent manner.

This summary of ACTEW's submission to the ICRC ***water and sewerage services inquiry*** for the 2013-2018 regulatory period provides an overview of the key matters explored in the submission which was lodged with the ICRC in July 2012.

ACTEW seeks to work collaboratively with the ACT Government, the ICRC and the community and encourages community participation in the ICRC process. The ICRC provides a range of opportunities for the community to contribute to the review of water and sewerage services in the ACT such as providing feedback and responses to the submission.

For further information on how to participate in the ICRC ***water and sewerage services inquiry*** visit www.icrc.act.gov.au

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