Attachment D – Assessment of the ICRC's recommended pricing methodology

Summary of the ICRC's Review

1. The ICRC assessed the current WAC framework and found it inconsistent with the national legislative requirements and ACT policy objectives, for reasons that:
    a. Water policy planning costs were included, and legislative frameworks since 2003 state it should not be included;
    b. the WAC rate has increased independently of the methodology developed by the ICRC in 2003, which took into consideration the legislative requirements and policy objectives at the time; and
    c. the methodology has not been reviewed or developed in the last 20 years, and as a result, does not account for legislative changes introduced since 2003, the ACT's participation in a series of intergovernmental agreements nor the ACT's most recent Water Strategy.

2. Notwithstanding those issues, the ICRC advised that current water prices are estimated to be within 2 to 4 per cent of what they would be under their recommended approach in calculating the WAC. Moreover, given that consumers receive a combined bill for water and sewerage, the bill impact generated by a change in the WAC is expected to be between 1 and 2 per cent.

3. Further, the ICRC found that the 2003 methodology remained broadly appropriate and feasible, including use of scarcity cost and environmental externalities in the fees and charges for water take.

4. The ICRC particularly noted the importance of the WAC being subject to periodic reviews, rather than being indexed annually by 3 per cent, to ensure it remains consistent with its recommended methodology and that it appropriately reflects its costs.

5. The ICRC reviews the maximum allowable charge for potable (drinking) water and sewerage services every five years. The ICRC has recommended the rate of the WAC be subject to an in-depth review by the ICRC every five years with annual 'true-ups', in tandem with its role in determining a price direction for regulated water and sewerage services provided by Icon Water.

6. The ICRC's WAC review recommended that the WAC be comprised of two separate components, including a:
    a. water sustainability costs (WSC) which reflects both the estimated economic value of water as a scarce resource and an estimate of negative environmental externalities associated with extracting water for consumptive purposes; and
    b. water planning and management (WPM) charge which reflects the costs associated with planning and managing water and catchment areas in the ACT. These costs are directly related to the provision of potable water and are not included in Icon Water's regulated costs.

7. The ICRC noted that the WSC is aimed at achieving a sustainable supply of water both for consumptive use and the environment (See Attachment B, Page 16).

8. For future periods, the ICRC recommended that the methodology be reviewed as part of the 5-year price investigation process for determining Icon Water's water and sewerage service prices. The ICRC noted that over time, as the methodology is developed and refined, more accurate estimates would be available to signal to customers the costs of achieving a sustainable water supply.

9. The ICRC have also proposed that the next review of the WAC methodology be held in 2026 to inform WAC calculations for the 2028-32 regulatory period.

Assessment of the ICRC's recommended pricing methodology

10. Treasury supports the ICRC's recommendation to undertake an in-depth review of the WAC methodology every 5 years. This would ensure that the methodology remains consistent with legislative requirements and policy objectives, whilst also allowing it to be considered alongside the ICRC's 5-yearly price investigations for water and sewerage prices.

11. Treasury also supports the ICRC's recommendation to improve transparency in determining the components of the WAC. This would assist the ACT to respond to claims of over recovery of water fees and charges in the ACT, which is published annually through the ACCC's water monitoring report.

12. Further, Treasury supports the adoption of ICRC's recommended approach to determining the WPM charge component of the WAC, which involves using a building block approach to estimate WPM charges for a 5-year regulatory period. This is similar to how the ICRC regulates Icon Water's water and sewerage prices, with an annual true-up process to account for differences between forecast and actual costs. This helps ensure that there is a robust methodology underpinning the calculation of the WPM component of the WAC.

13. Treasury recommends the use of actual ACT specific data as an input to calculate the WSC wherever actual data is available.
    a. Treasury considers actual ACT specific data (metered and gauged), wherever available, better reflects the water extracted as a proportion of the total ACT water resource, and the downstream impacts of water take on the environment.
    b. Using actual ACT specific data is also consistent with the principle in water management to use the best available information.
    c. In December 2024, the ICRC agreed to provide an update on water abstraction charges based on a range of inputs including alternative inputs provided by OoW which are based on ACT specific data (Attachment C).

14. Treasury is satisfied that the ICRC has successfully met all the requirements set out in the scope of work, and that implementing the recommended methodology will mitigate the major risks associated with the WAC.