



Chief Minister, Treasury and Economic Development Directorate

# Ministerial Brief

<b>To:</b>	Treasurer	<b>Tracking No.:</b> CMTEDD2025/3153
<b>Date:</b>	1/08/2025	
<b>From:</b>	Executive Branch Manager, Economic Policy and Commercial	
<b>Subject:</b>	Review of the Water Abstraction Charge (WAC) pricing methodology	
<b>Critical Date:</b>	<b>15/08/2025</b>	
<b>Critical Reason:</b>	To facilitate the development of a business case for the 2025-26 Budget Review process, if agreed	

- UT 06/08/2025
- A/g DUT 05/08/2025

## Recommendations

That you:

1. **note** that the Independent Competition and Regulatory Commission (ICRC) has recommended an updated WAC pricing methodology, consistent with the scope of work jointly developed by the then Treasurer and Minister for Water, Energy and Emissions Reduction; and
2. **agree** to develop a business case for the 2025-26 Budget Review Process that will explore options to update the ACT's WAC pricing methodology.

*[Signature]* / Please Discuss

Agreed / Not Agreed / Please Discuss *[Signature]*

Chris Steel MLA ..... *[Signature]* ..... 16/9/25

Minister's Feedback



## Background

1. The Water Abstraction Charge (WAC) is intended to recover water planning and management costs, reflect the environmental costs from water abstraction, and the value of the water as a natural resource (also known as the scarcity value of water).
2. The WAC is a volumetric charge on those licensed to take water and is set by the ACT Government. The WAC is incurred when license holders' abstract water for either urban water supply or for non-potable use and is collected by the Environment Protection Authority within Access Canberra.
  - a. Icon Water treats the WAC as a non-controllable cost that is fully recovered from customers through their water bills. This pass-through is managed by the Independent Competition and Regulatory Commission (ICRC) through the annual water and sewerage services price adjustment process.
3. The WAC is separately determined for two categories of water use under the [Water Resources \(Fees\) Determination 2025](#), including:
  - a. Potable WAC – Water taken for the purposes of urban water supply (that is, potable/drinking water use) – \$0.732 per kilolitre in 2025-26; and
  - b. Non-potable WAC – Surface water or groundwater taken for non-potable use – \$0.354 per kilolitre in 2025-26.
4. The 2025-26 Budget estimates ACT Government revenue from the WAC of \$40.3 million in 2024-25, increasing to \$47.9 million by 2028-29.
5. Revenue from the WAC is not hypothecated for specific purposes and funding to undertake water planning and catchment management activities are considered as part of annual ACT Government Budget processes. WAC revenue is allocated to consolidated/Territorial revenue and any proposed expenditure on water planning and management activities is subject to the standard budget process.
6. The ACT's method for calculating water charges has not been updated since the ICRC's 2003 review to reflect subsequent policy and legislative changes, including the *Water Act 2007* (Cth), 2010 National Water Initiative (NWI) Pricing Principles and the Commonwealth Water Charge Rules (WCRs). Multiple decisions have been taken by the ACT Government in the intervening period to increase the WAC by various amounts, with the most recent decision taken in the 2016-17 Budget Review to introduce 3 per cent annual indexation.

## Issues

7. There has been ongoing scrutiny of the WAC; most recently through the [State of the Lake and Waterways Report \(2022\)](#), which was prepared by the Office for the Commissioner for Sustainability and the Environment (the Commissioner). The Commissioner recommended that the ACT Government publish an annual detailed breakdown of how WAC revenue is expended. The then [Government's response \(CAB2022/442\)](#) agreed to this recommendation in principle.



8. In 2022, the Office of Water (OoW) within the City and Environment Directorate (CED, then EPSDD) contracted an external consultant, Slattery and Johnson, to review the appropriateness of the current WAC reporting ([Attachment A](#)).
9. Slattery and Johnson advised on a range of issues relating to the WAC that might expose the ACT Government to financial, operational and compliance risk.
  - a. Slattery and Johnson found that applying the ICRC's 2003 methodology does not support the WAC increases from 2003-04 to 2022-23 ([Attachment A](#), Figure 2).
  - b. This poses a risk of the WAC over-recovering costs given that increases are not aligned with the ICRC's original methodology. For instance, the decision of the ACT Government to apply 3 per cent annual indexation to the WAC for potable and non-potable water is not aligned with the methodology.
  - c. In addition, the NWI Pricing Principles state that "where usage charges lead to revenue recovery in excess of upper bound revenue requirements... jurisdictions are to address the over recovery. In addressing the over recovery, revenues should be redistributed to customers as soon as possible".
10. This prompted the Government to undertake further work to ensure the WAC remains fit for purpose. A scope of work was developed in consultation with the then Treasurer and Minister for Water, Energy and Emissions Reduction, which requested the ICRC to:
  - a. determine whether the current WAC rate and framework (for both potable and non-potable water) adheres to intergovernmental agreements and is effective in supporting the Territory's water policy objectives; and
  - b. recommend a methodology for setting the Territory's fees and charges for potable and non-potable water going forward, and appropriate review intervals for the methodology.
11. On 21 February 2024, the ICRC's Senior Commissioner provided the then Treasurer with the ICRC's final report on the ACT WAC pricing methodology ([Attachment B](#)).
  - a. The report has not been publicly released, but has been referenced in response to [QTON No. 140](#) from August 2024, that lists each project the ICRC has undertaken since 2019, which falls outside their day-to-day remit.
12. In December 2024, the ICRC developed a briefing which contained a series of updated water abstraction charges based on the ICRC's recommended methodology and alternative inputs provided by OoW ([Attachment C](#)).
13. 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 would ameliorate the major risks associated with the WAC to date.
  - a. A summary of the ICRC's WAC Review can be found at [Attachment D](#), alongside Treasury and OoW assessment of the recommended pricing methodology.

Proposed 2025-26 Budget Review WAC Business Case

14. Treasury recommends a business case is prepared for consideration as part of the 2025-26 Budget Review to enable ERC/Cabinet to be informed of the ICRC's 2024 report and consider the appropriate policy response.
15. Treasury envisages this business case would examine the following options.
  - a. Option 1: Adopt the ICRC's proposed methodology and inputs in full.
  - b. Option 2: Adopt the ICRC's proposed methodology in full but with the use of alternative inputs, as suggested by OoW, which utilise appropriate inputs available based on actual ACT centric data.
  - c. Option 3: Adopt a phased approach to implementing either Option 1 or Option 2, allowing the impact of the forgone revenue to be smoothed across several years.
  - d. Option 4: Do nothing. Continue to index the WAC by 3 per cent annually as determined in the 2016-17 Budget Review, or an alternative indexation rate.
16. Recognising their alignment with the WAC methodology and the efficiencies gained by addressing them concurrently, the business case will also seek to address the following related matters.
  - a. The [Non-potable Water Review's](#) recommendations regarding the pricing framework for the non-potable WAC and the financial assistance mechanisms available to non-potable water users.
    - i. As part of the Parliamentary and Governing Agreement for the 10<sup>th</sup> Legislative Assembly, a review was undertaken into water costs for high-intensity club users of non-potable water in 2021, with the aim to allow clubs to maintain operations while not requiring cross-subsidisation from other ACT water users.
  - b. Recommendation 2 of the *State of the Lakes and Waterways in the ACT* report, which recommended the ACT Government publish an annual detailed breakdown of how WAC revenue is expended.
17. [Attachment E](#) presents further detail on the proposed options to be explored in the business case.

### **Financial Implications**

18. Implementing changes to the WAC through any of the suggested options, other than the 'do nothing' option, would result in forgone revenue, with an upper bound estimate of around \$15 million a year, subject to further refinement as part of business case development.
19. The proposed business case would also seek funding to progress the review of the WAC methodology as part of the ongoing ICRC 5-year price investigation process for determining Icon Water's water and sewerage service prices. Funding required to progress this review is estimated at around \$150,000, but this would be refined through further engagement with the ICRC.



## Consultation

### Internal

20. Policy and Cabinet Division, Chief Minister, Treasury and Economic Development Directorate.

### Cross Directorate

21. Office of Water, City and Environment Directorate.

22. ICRC.

### External

23. Nil.

## Work Health and Safety

24. Nil.

## Benefits/Sensitivities

25. The methodology for setting the WAC was developed to support water conservation, by providing a price signal to the community on use of a critical and scarce resource.

26. A reduction in WAC revenue would impact the Government's capacity to fund projects that help achieve other Government priorities and policy objectives, noting that WAC revenue is not hypothecated.

27. The ICRC noted that the ACT appears to have over-recovered water management and planning costs due to the nature of reporting, which compares the total WAC revenue against costs. The ICRC's recommended methodology would address this issue.

28. While increases to the WAC since 2003 have lacked transparency, the ICRC found no evidence that it had been levying charges for the purpose of revenue raising. [REDACTED]

29. Should the Government implement the recommended methodology, there is likely to a greater focus on how the Government chooses to spend revenue collected through the water sustainability charge noting it has been recalibrated to cover costs.

## Communications, media and engagement implications

30. No communications or media are proposed at this stage, with any changes expected to be announced through the 2025-26 Budget Review process.

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## Attachments

Attachment	Title
Attachment A	Review on the reporting of the WAC, Slattery and Johnson 2022
Attachment B	ICRC's final report on the ACT WAC pricing methodology – Feb 2024
Attachment C	ICRC brief on updated WAC estimates – Dec 2024
Attachment D	Assessment of the ICRC's recommended pricing methodology 2024
Attachment E	Overview of WAC options