

Chief Minister, Treasury and Economic Development Directorate

To: Treasurer

Tracking No.: CMTEDD2024/3510

Date: 21/08/2024

From: Executive Branch Manager, Economic Policy and Commercial

Subject: Review of the Water Abstraction Charge (WAC)

Critical Date: 06/09/2024

Critical Reason: To enable your consideration of the WAC Review and proposed next steps prior to the commencement of the Caretaker period

- UT 29/08/24
- DUT 29/08/24

Recommendations

That you:

1. **Note** that the Independent Competition and Regulatory Commission (ICRC) has recommended an updated ACT WAC pricing methodology, consistent with the scope of work that you jointly developed with the Minister for Water, Energy and Emissions Reduction; and

Noted / Please Discuss

2. **Note** that Treasury is continuing to work with EPSDD and the ICRC to consider the potential implementation of the ICRC's recommended methodology and will provide further advice to the incoming government.

Noted / Please Discuss

Andrew Barr MLA.....



4./9./24

Minister's Office Feedback

Background

1. On 30 October 2023, you provided the ICRC with a scope of work for a review of the Water Abstraction Charge (WAC) under Section 12 of the *Independent Competition and Regulatory Commission Act 1997*, following consultation with the Minister for Water, Energy and Emissions Reduction, which largely 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.
2. Treasury and EPSDD jointly developed the scope of work, noting the ACT had yet to amend the WAC to account for changes in water conservation rules since the WAC was last amended, in 2003.
3. On 21 February 2024, the ICRC's Senior Commissioner, Mr Joe Dimasi, provided you with the ICRC's final report on the ACT WAC pricing methodology.
4. Due to budget process and implementation timelines, there was insufficient time to consider the Review, determine the appropriate policy response, or for the Expenditure Review Committee to consider any resulting changes to the WAC for 2024-25

The WAC Review and ICRC's recommended pricing methodology

5. The ICRC assessed the current WAC rate and framework and found it inconsistent with the national legislative requirements and ACT policy objectives, for reasons that:
 - a. the WAC rate has increased independent of the methodology developed by the ICRC in 2003, which took into consideration the legislative requirements and policy objectives at the time; and
 - b. the methodology has not been reviewed or amended 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 updated *ACT Water Strategy 2014-44*.
6. Notwithstanding those issues, the ICRC advised that current water prices are within around 2 to 4 per cent of what they would be under its recommended revised methodology for the WAC.
7. Further, the ICRC determined key components of the WAC remain broadly appropriate and feasible, by requiring consideration of scarcity costs and environmental externalities in the fees and charges for water take.
8. The ICRC particularly noted the importance of the WAC being subject to ongoing review, rather than being indexed to CPI and not being subject to periodic true-ups to ensure it appropriately captured costs.

CABINET

9. 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 in-depth review by the ICRC every five years, in tandem with its role in determining a price direction for regulated water and sewerage services provided by Icon Water.
10. The ICRC has proposed to set the WAC using a methodology similar to that developed through its 2003 review, but with changes to reflect the legislative requirements and updated information at the next available opportunity. That is, the WAC is recommended to be comprised of two separate components:
 - a. a water sustainability charge 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. a 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.
11. For future periods, ICRC recommends that the methodology be reviewed as part of the five-year price investigation process for determining Icon Water's water and sewerage service prices. Over time, as the methodology is developed and refined, better estimates will be available to more accurately signal to customers the cost of achieving a sustainable water supply.

Next Steps

12. Treasury has identified elements of the Review and the proposed methodology that require further examination and consideration with EPSDD and the ICRC to determine the final scope of any proposed changes to the WAC methodology. Moreover, some elements of the methodology would need to be updated with more recent data prior to setting the WAC for 2025-26.
13. Treasury and EPSDD will work together with the ICRC to ensure these issues are considered when developing further advice for the incoming government.

Financial Implications

14. Nil at this stage; however, a change to the WAC methodology would have a financial impact which would need to be considered and accounted for through future budget processes.

Consultation

Internal

15. Nil.

Cross Directorate

16. Office of Water, EPSDD.
17. ICRC.

External

18. Nil.

Work Health and Safety

19. Nil.

Benefits/Sensitivities

20. The WAC is an essential component in supporting water conservation, by providing a price signal to the community on use of a critical and scarce resource.

21. The recommended approach by the ICRC on adjusting the WAC methodology would likely have a small but positive impact on water affordability. The ICRC tested its proposed methodology and found that it would have reduced water prices (supply and usage charges) for 2023-24 and 2024-25 by 1.7 per cent and 3.4 per cent respectively, compared with the current approach.

22. 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 accounted for in the Territory's consolidated revenue.

Communications, media and engagement implications

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

Signatory Name: Nathan Brown

Phone: [REDACTED]

Action Officer: Hock Quek

Phone: [REDACTED]