

Environment, Planning and Sustainable Development Directorate**To:** Minister for Water, Energy and Emissions
Reduction

Tracking No.: 21/54251

Date: 20 July 2021**From:** Executive Group Manager, Environment, Heritage and Water**Subject:** Water pricing and options for not-for-profit organisations**Critical Date:** 4 August 2021**Critical Reason:** Routine brief – requested at a briefing with EPSDD

- DDG, Environment, Water and Emissions Reduction 20/07/21

Recommendations

That you **note** the information contained in this brief for future discussions on options related to water pricing and affordability.

Noted / Please Discuss

Shane Rattenbury MLA

14/3/22

Minister's Office Feedback

Can we please discuss the link between this work and the non-potable water review. It feels like the system is very piecemeal, based on historical vagaries, and potentially inconsistent between like users.
Also, can I get a list of the entities currently eligible for the CSO discount.

Background

1. On 18 June at a regular briefing with ESPDD officials, further advice was requested on the general process for water pricing and options for supporting not-for-profit organisations with affordable water access. This brief aims to provide this additional information (previous brief reference 21/04348).
2. The Independent Competition and Regulatory Commission (ICRC) conduct 5-yearly investigations into, and make price direction for regulated drinking water supply services in the ACT. The current price direction expires 30 June 2023. Annual price adjustments are made by the ICRC to account for changes in the consumer price index and cost of debt, and to pass-through approved government charges.
3. Drinking water is charged based on a two-tiered tariff structure for water consumption and a water and sewage supply charge. The price setting by the ICRC provides an approved level of revenue for the Utility, based on forecast water demand and expenditure that must be demonstrated to be prudent and efficient.
4. Price setting for non-drinking water supply is not regulated by the ICRC, with prices set by the utilities.
5. The Water Abstraction Charge (WAC) is an additional charge applied to recover the costs of water provision to the ACT that are not incorporated in the mains water tariffs, such as catchment management costs, environmental costs and scarcity value of water. The WAC applies to all water users and is set by Government (Water Resources (Fees) Determination 2020). The WAC is not hypothecated.

Non-drinking water price review

6. ACT Treasury is currently conducting a review of water costs for high-intensity users of non-drinking water, such as sports clubs (using greater than 3,000 kilolitres of surface and ground water). This review will provide recommendations to the Government on the appropriateness of the current pricing frameworks and any adjustments that could be made, while ensuring there is no cross-subsidisation between water users. The report was due to be finalised in July 2021.
7. In scope for review are the existing Government assistance scheme, namely Infrastructure Offset Scheme, Market Equity Scheme, and Competition Equalisation Payment (rural irrigators).
8. On 9 April 2021, the Standing Committee on Economy and Gender and Economic Equality (the Standing Committee) recommended that

any recommended changes to pricing frameworks for non-drinking water arising from the Non-drinking Water Review into water costs for high-intensity club users of non-drinking water should be consistent with the following principles:

- (i) the price of non-drinking water should generally reflect the cost of supply;*
- (ii) any subsidy provided should be transparent and based on a demonstrated need; and*
- (iii) cases for support should have regard to the ongoing wider benefits to the community such as economic, social and environmental outcomes.*

National Water Initiative water pricing principles

9. The National Water Initiative (NWI) water pricing principles were agreed by governments in 2010 and guide consistent practices in rural and urban water pricing.
10. The Productivity Commission has recently finalised its review of the NWI implementation and identified areas where water pricing could generally be modernized to better support integrated water management. Areas of improvement in water pricing include:
 - developing pricing policies for recycled water and stormwater that are congruent with drinking water to promote efficient water use;
 - ensuring developer charges are cost reflective of capital investment;
 - consideration of nodal pricing and other flexible pricing approaches, rather than uniform pricing that creates cross-subsidies between user groups and are not cost-reflective.
11. The final report of the Productivity Commission was handed to the Australian Government on 28 May 2021 and is required under legislation to be tabled within 25 sitting days (September 2021).

Issues

12. Potential options to support not-for-profit organizations accessing affordable water for their activities within the ACT community are discussed below. Subject to your direction, options will require further analysis and consultation across ACT Government agencies.

Financial assistance

13. Under the *Utility Act 2000*, the Minister can direct a utility to apply Community Service Obligations (CSOs). The Government makes payment to Icon Water equivalent to the concessions made under the CSO.
14. CSOs are currently only applied to parcels of land used for the purpose of a church or religious establishment and schools registered under the *Education Act 2004*:
 - a. Institutions eligible for the CSO receive a 50% discount on water consumption charge.
 - b. In 2020-21 CSO payments by the Government for water services is estimated at \$2.3M.
15. Application of the discount made under the CSO payment could be expanded to other not-for-profit entities/community clubs, equitably utilizing an existing scheme. Expanding the entities benefiting from the CSO payment would be through Government direction to Icon Water.
16. Expansion of the discount could be made on the basis that the recipient:
 - a. provide demonstratable social, environmental or economic benefits to community; and
 - b. experiencing economic hardship that may result in the community benefits being reduced or ceased.
17. The budget impact of expanding CSO eligibility has not been assessed as this will be based on the number of entities and value of concessions to be made. Any increase in CSO payment could be attributed to the revenue received through the WAC.

18. The approved revenue for Icon Water (through the ICRC pricing determination) does not change with financial concessions applied. Revenue will be made up through payment by Government (e.g. CSO), reduced dividend payment to Government or increased water prices for other water users (cross-subsidisation).
19. Government assistance schemes related to non-drinking water use target rural and high intensity urban water users (e.g. golf clubs) through discounts to the WAC. Continuation of these schemes in their current form may be subject to change, pending recommendations from Treasury's current non-drinking water review.

Regulating price setting for non-drinking water supply

20. Bringing non-drinking water pricing into a regulated framework has the potential benefit to improve affordability through:
 - a. cost assignment for water supply is shared across a broader customer and asset base;
 - b. regulated pricing is determined based on prudent and efficient expenditure; and
 - c. capital expenditure is included within the price determination promoting investment in innovation and integrated water supply.
21. Regulating pricing for non-drinking water could be conducted based on the integrated water supply system. The cost reflective price could be holistically determined on total cost of water supply across the ACT. Differential pricing may still be required based on the standard of treatment (increased cost) for the water product supplied.
22. Detailed analysis of the benefits for bringing non-drinking water supply into the regulated price setting would be required, particularly the cost of regulation, changes in water pricing and changes in cost to consumer.
23. There are costs associated with pricing investigations conducted by the ICRC. Setting water price based on a single integrated water supply system, rather than differentiated supply, could reduce the cost of regulation and provide consistency in pricing.
24. Instituting regulatory oversight in price setting would be consistent with NWI principles for institutional arrangements that provide functional separation between price setting and service provider.

Financial Implications

25. The options identified above will have financial implications for the ACT Government budget process (reduced revenue) and water users. Detailed cost-benefit analysis would need to be conducted subject to directions provided following this brief.

Consultation

26. Preliminary discussions were held with ACT Treasury and Icon Water staff on general water pricing issues and feasibility of a range of different options. Further consultation is recommended on any preferred option subsequent to this brief.

Work Health and Safety

27. There are no work health and safety issues related to matters in this brief.

Benefits/Sensitivities

28. Options presented in this brief will have financial implications (noted above) that require

thorough investigation prior to any external consultation.

Communications, media and engagement implications

29. There are no communications, media or engagements proposed regarding matters in this brief.

Signatory Name: Ian Walker

Phone: 6205 9027

Action Officer: Ryan Breen

Phone: 6207 8268