



Attachment 10

Revenue requirement

30 June 2022

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10.1 Introduction

This attachment sets out Icon Water's approach to calculating the total revenue requirement and the net revenue requirement for water and wastewater services.

Icon Water's total revenue requirement is calculated as the sum of each of the building blocks. Other adjustments are then deducted from this total to calculate the net revenue requirement. The net revenue requirement is then used to determine the prices for water and wastewater services.

Box 10-1: Key points

The total and net revenue requirement for water and wastewater are calculated using the same approach applied in the Commission's 2018 price investigation. The net revenue requirement for 2023–24 represents a slight decrease on the net revenue requirement estimated by the Independent Competition and Regulatory Commission (the Commission) for 2022–23. The nominal net revenue requirement increases by about 5.5 per cent each year of the regulatory period after 2023–24, which is being driven by the capital expenditure program, higher operating expenditure and inflation.

Net revenue requirement (\$million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Water	\$180.3	\$189.2	\$198.3	\$207.3	\$215.8
Wastewater	\$143.3	\$151.6	\$161.5	\$172.7	\$184.2
Total revenue requirement	\$323.6	\$340.8	\$359.8	\$380.0	\$400.0

Source: Icon Water.

The net revenue requirement is converted to a price path with the objectives of recovering the prudent and efficient costs of providing water and wastewater services, while minimising significant bill increases for our customers in the 2023–28 regulatory period and beyond.

10.2 Total revenue requirement

10.2.1 Introduction

The total revenue requirement is the sum of the building blocks discussed in attachments 6–9. Specifically, the total revenue requirement is comprised of the following elements:

- Operating expenses, including controllable operating expenditure, and non-controllable operating expenditure. Non-controllable operating expenditure includes the Water Abstraction Charge and the Utilities Network Facilities Tax (**Attachment 6: Operating expenditure**).
- Depreciation (**Attachment 8: Regulatory asset base and corporate income tax**).
- Return on capital (**Attachment 7: Capital expenditure** and **Attachment 9: Rate of return and forecast inflation**).
- Net tax liabilities (**Attachment 8: Regulatory asset base and corporate income tax**).

10.2.2 Total revenue requirement

Each of the building blocks that make up the total revenue requirement are presented in Table 10-1 for water and Table 10-2 for wastewater.

Table 10-1: Total revenue requirement, water (\$millions, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Return on capital	\$42.4	\$42.9	\$43.0	\$42.7	\$42.1
Depreciation	\$41.1	\$45.2	\$49.1	\$52.9	\$56.3
Controllable operating expenditure	\$73.5	\$76.9	\$80.7	\$84.4	\$88.0
Water Abstraction Charge	\$35.8	\$37.3	\$38.9	\$40.6	\$42.4
Utilities Network Facilities Tax	\$6.9	\$7.2	\$7.5	\$7.8	\$8.2
Net tax liabilities	\$0.2	\$0.1	\$0.2	\$0.5	\$1.0
Total revenue requirement	\$199.9	\$209.5	\$219.3	\$228.9	\$238.1

Source: Icon Water.

Note: Totals may not sum due to rounding.

Table 10-2: Total revenue requirement, wastewater (\$million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Return on capital	\$27.7	\$28.4	\$29.1	\$30.5	\$32.0
Depreciation	\$40.8	\$44.0	\$47.9	\$52.8	\$57.6
Controllable operating expenditure	\$84.8	\$88.6	\$93.1	\$97.3	\$101.5
Utilities Network Facilities Tax	\$5.5	\$5.8	\$6.0	\$6.3	\$6.6
Net tax liabilities	\$1.5	\$2.3	\$3.2	\$4.2	\$5.4
Total revenue requirement	\$160.3	\$169.1	\$179.4	\$191.1	\$203.1

Source: Icon Water.

Note: Totals may not sum due to rounding.

10.3 Revenue adjustments and net revenue requirement

10.3.1 Revenue adjustments

To determine the net revenue to be recovered through water and wastewater prices, adjustments to the total revenue requirement must be made so that only the costs related to standard water and wastewater services are passed on to customers. Adjustments are comprised of:

- sales of bulk water to Queanbeyan-Palerang Regional Council (QPRC)
- other income, including miscellaneous fees and charges, trade waste charges for receiving tankered waste at Lower Molonglo Water Quality Control Centre (LMWQCC), mini-hydro revenue and rental income from lease of commercial property
- subvention payments from the Commonwealth Government
- notional community service obligation (CSO) payments
- adjustments related to services that are not price-regulated.

The last category is a new adjustment for the 2023–28 regulatory period and has been created to improve transparency about how costs are allocated between services that are price regulated and services that are not. This category includes adjustments for costs related to non-potable water services (including the supply of raw water to Uriarra Village and recycled water from LMWQCC).

An adjustment is made for notional CSO payments for two projects:

- greenhouse gas abatement activities associated with water security projects
- Uriarra Village wastewater services, over and above what would be recovered from local residents through the standard wastewater charge.

In its 2013 final decision, the Commission concluded these projects should not be paid for by customers and should have been funded via a CSO.¹ The Commission therefore reproduced the outcomes that would have been achieved had a CSO been applied before the project was undertaken. This was achieved by including the efficient project costs in the Regulatory Asset Base (RAB), but then making a revenue adjustment equal to the ongoing costs (return on capital, depreciation and operating expenditure) of the projects.

Icon Water has adopted the same approach as the Commission's 2013 and 2018 decisions to calculate notional CSO payments, and expanded the scope of revenue adjustments to better capture income derived from other sources and their related costs.

A revenue adjustment is also required for miscellaneous fees and charges, to ensure there is no cross-subsidisation with customers who pay for standard water and wastewater services. The adjustment for miscellaneous fees and charges reflects Icon Water's proposed new prices for miscellaneous services, as detailed in **Attachment 12: Tariff structure and proposed prices** (see section 12.4.5).

Each of the revenue adjustments which inform the net revenue requirement are presented in Table 10-3 for water and Table 10-4 for wastewater.

¹ Independent Competition and Regulatory Commission, *Final Report - Regulated Water and Sewerage Services 1 July 2013 to 30 June 2019*, 2013, p. 93.

Table 10-3: Revenue adjustments and net revenue requirement, water (\$million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Total revenue requirement	\$199.9	\$209.5	\$219.3	\$228.9	\$238.1
Subvention	\$1.3	\$1.3	\$1.3	\$1.4	\$1.4
Sales to QPRC and other adjustments	\$17.8	\$18.5	\$19.1	\$19.7	\$20.4
Notional CSO payments	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5
<i>Total other income</i>	\$19.5	\$20.3	\$21.0	\$21.6	\$22.3
Net revenue requirement	\$180.3	\$189.2	\$198.3	\$207.3	\$215.8

Source: Icon Water.

Note: Totals may not sum due to rounding.

Table 10-4: Revenue adjustments and net revenue requirement, wastewater (\$million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Total revenue requirement	\$160.3	\$169.1	\$179.4	\$191.1	\$203.1
Subvention	\$12.6	\$13.0	\$13.3	\$13.7	\$14.0
Other adjustments	\$3.5	\$3.6	\$3.7	\$3.8	\$3.9
Notional CSO payments	\$0.9	\$0.9	\$0.9	\$0.9	\$1.0
<i>Total other income</i>	\$17.0	\$17.5	\$17.9	\$18.4	\$18.9
Net revenue requirement	\$143.3	\$151.6	\$161.5	\$172.7	\$184.2

Source: Icon Water.

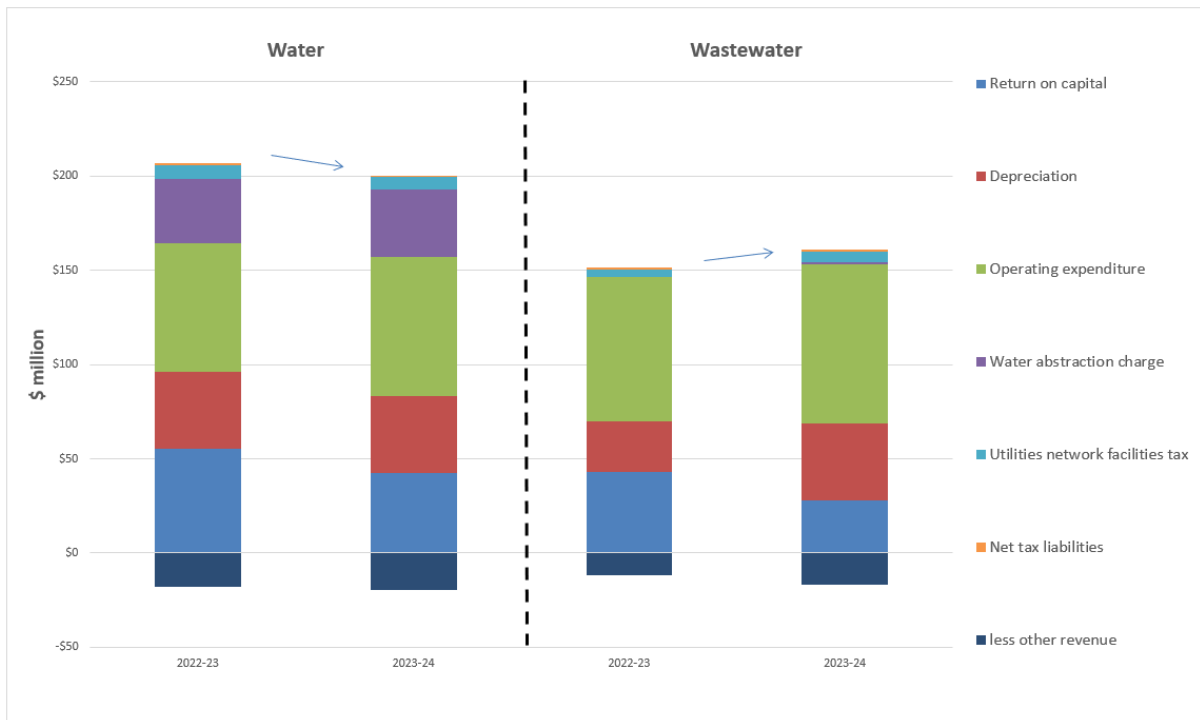
Note: Totals may not sum due to rounding.

10.3.2 Net revenue requirement

The change in the net revenue requirement from the final year of the 2018–23 regulatory period (2022–23) to the first year of the 2023–28 regulatory period (2023–24) is shown in Figure 10-1 below. Icon Water’s revenue requirement will decrease between 2022–23 and 2023–24 by \$4.2 million or 1.3 per cent. This comprises a change in the revenue requirement for:

- a reduction in the water revenue requirement of \$8.2 million
- an increase in the wastewater revenue requirement of \$4.0 million.

Figure 10-1: Net revenue requirement 2022–23 to 2023–24 (\$million, nominal)



Source: Icon Water.

Appendices: Supporting documents

Reference number	Appendix title	Author
10.1	Revenue model	Icon Water

Abbreviations and acronyms

Commission	Independent Competition and Regulatory Commission
CSO	Community service obligation
LMWQCC	Lower Molonglo Water Quality Control Centre
QPRC	Queanbeyan-Palerang Regional Council
RAB	Regulatory Asset Base