Attachment 12

Tariff structure and proposed prices

30 June 2022

Table of contents

List of tables

List of figures

List of boxes

12.1 Introduction

This attachment sets out Icon Water's proposed tariff structure and price path for the 2023–28 regulatory period. The proposal has been shaped by community feedback through our Customer and Community Strategic Engagement Program including surveys and targeted discussions with stakeholders. It has also been developed by reference to the Independent Competition and Regulatory Commission's (the Commission's) pricing principles, established during its 2016–17 review of tariff structures.[1]

Box 12-1: Key points

- Icon Water's tariff proposal has been guided by community feedback, and the Commission's pricing principles.
- The tariff proposal for the 2023–28 regulatory period is to maintain the two-tier water tariff for all customers and keep the balance of supply and usage charges we applied in the 2018–23 regulatory period. This means price changes will be applied uniformly across all tariff components, rather than increasing the supply charge by $20 per year as was done in the 2018–23 regulatory period.
- The existing wastewater tariff structure will be retained, comprising a fixed annual supply charge for all customers, and a flushing fixture charge applying to non-residential customers.
- The combined water and wastewater bill for a typical residential customer using 200kL will increase by 4.5 per cent per year on average over the 2023–28 regulatory period.
- Bills for non-residential customers will increase by between 3.0 and 6.4 per cent, depending on their water usage and number of flushing fixtures.

Forecast prices for water and wastewater services ($, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Water supply charge ($/customer)	$205.87	$211.92	$218.14	$224.55	$231.14
Tier 1 water usage charge ($/KL)	$2.35	$2.42	$2.49	$2.56	$2.64
Tier 2 water usage charge ($/KL)	$4.71	$4.85	$5.00	$5.14	$5.29
Wastewater supply charge ($/customer)	$534.40	$568.68	$605.17	$643.99	$685.31
Wastewater fixtures charge ($/fixture)	$522.64	$556.17	$591.85	$629.82	$670.23

Source: Icon Water.

[1] Independent Competition and Regulatory Commission, *Final Report Tariff Structure Review 2016–17*, March 2017.

Table 12-1: Customer and community engagement feedback

What we heard	Our response
Affordability should underpin any investment decision. If we need to invest to avoid causing issues in the future, we will consider support for vulnerable customers and other impacted customer segments	We recognise that the tariff structure is key to maintaining affordability for our customers. In designing the tariff for the 2023–28 regulatory period, we engaged extensively with customers and our Customer Advocacy Forum to understand their values and expectations around tariffs and prices. The water tariff structure we have proposed provides the lowest price path for most residential customers and small non-residential customers, compared to continued tariff rebalancing. We acknowledge the concerns raised by some non-residential customers on the tier 2 price and flushing fixture charge and will continue our investigations into non-residential charges over the 2023–28 period. The ACT community told us that affordability is important, in particular ensuring appropriate support mechanisms are in place for vulnerable customers. We will engage with customers from these cohorts to learn through their lived experience, and seek advice from their advocates, to review our existing support mechanisms and design how we best support customers in the future.

12.1.1 What our customers told us

We have placed customers at the centre of our tariff proposal for the 2023–28 regulatory period. We recognise that the tariff structure is key to maintaining affordability for our customers, and we are committed to continuously exploring whether our tariff structure can be improved. As part of this, it is essential our tariffs keep pace with customer preferences, usage patterns, environmental considerations and other aspects of our operating context.

Given the importance of tariffs to all our customers, Icon Water's position is that the tariff structure should only change where there is broad and strong community support. Therefore, we have engaged extensively with different customer segments to understand their views on the tariff structure. We engaged on topics including the balance of fixed and variable charges, and openness to introducing a differentiated tariff structure for non-residential customers. We recognise the diverse views presented in the engagement, the concerns raised by some customer segments, and the challenges of designing a tariff structure that balances the needs of all customers. The major insights from the engagement on tariffs included:

- Equity across customer groups is a priority for the tariff structure and we need to minimise impacts on vulnerable customers.
- There is reasonable support for Icon Water's two-tier water tariff structure. The Tier 2 price is viewed as important for encouraging water savings, especially among residential customers.
- Large non-residential water users (for which the Tier 2 price makes up a bigger proportion of their bill), consider the current water structure to be less fair. The majority feel that the current water structure (with a high Tier 2 price) does not adequately cater for large water users. They are concerned the Tier 2 price, in practice, does not incentivise water conservation because many larger non-residential users have a limited ability to reduce their water use.
- Opinions are mixed on the preferred balance of fixed and variable water charges, and there is not strong and consistent support for Icon Water to change the current balance. Larger households and businesses are more supportive of having a higher annual supply charge (lower usage charges) which would reduce their bills overall. Smaller water users tend to favour lower supply charges (higher usage charges) as being more appropriate.
- The idea of a non-residential water tariff is generally supported in principle, particularly by our largest customers. However, residential customers are generally not willing to consider a non-residential tariff if it means bill increases for the residential sector.

On balance, the feedback supports Icon Water retaining its current water tariff structure. While some customer segments strongly supported continued tariff rebalancing and/or introducing a non-residential tariff, there was not a broad level of support across all customer segments to pursue changes at this time.

We also received feedback on our wastewater tariff structure, which comprises an annual supply charge payable by all customers and a flushing fixture charge payable by non-residential customers. Some non-residential customers (including those in the hotels and accommodation sector) feel the flushing fixture charge is too high and does not reflect their costs on the wastewater network, particularly when compared to residential customers on a per-person basis.[2] Icon Water acknowledges these concerns and will continue to investigate non-residential discharges, their impacts and how we can best manage these discharges (including possible pricing options).

We recognise that tariff reform is a gradual process that is influenced by the broader Australian Capital Territory (ACT) context and changing community expectations. We remain committed to continuing dialogue with our customers to ensure our suite of tariffs provide options for all members of the ACT community, which may include new tariff options in future regulatory periods.

12.1.2 Our proposed tariffs

Icon Water's tariff proposal for the 2023–28 regulatory period is to maintain the current tariff structure, as shown in Table 12-2.

Table 12-2: Icon Water proposes to retain the existing tariff structure in 2023–28

Tariff component	Description
Water tariff	
Supply charge ($/year)	A supply charge to each parcel of land, payable irrespective of water usage.
Tier 1 consumption charge ($/kL)	A consumption charge for the first 0.548 kilolitres supplied on average per day of the billing period; plus
Tier 2 consumption charge ($/kL)	A consumption charge for all water supplied in excess of 0.548 kilolitres on average per day of the billing period.
Wastewater tariff	
Supply charge ($/year)	Standard wastewater charge
Fixture charge ($/fixture/year)	An annual charge applying to non-residential customers, for each flushing fixture in excess of two flushing fixtures.

We are proposing a 'smooth' price path over the 2023–28 regulatory period to help manage bill impacts and provide greater price-certainty for the community. This involves applying price changes uniformly, in percentage terms, in each year of the regulatory period.

Proposed water tariffs

Our proposal is to maintain the current balance of water supply and usage charges. Under this approach, price changes will be applied uniformly across the water supply and usage charges. This contrasts with the 2018–23 regulatory period, where the fixed charge increased by $20 per year while

[2] For example, see Australian Hotels Association and Accommodation Association, *Regulated Water and Sewerage Service Prices 2023-28*, submission to the Independent Competition and Regulatory Commission's Issues Paper, 8 April 2022: https://www.icrc.act.gov.au/__data/assets/pdf_file/0010/1996516/Australian-Hotels-Association-and-Accommodation-Association.pdf

usage charges increased at a rate below inflation. Our proposal to maintain the current balance provides the lowest price path for most residential and small non-residential customers.

Icon Water's forecast water tariffs for each year of the 2023–28 regulatory period are set out in Table 12-3.

Table 12-3: Forecast water tariffs ($, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Supply charge($/annum)	$205.87	$211.92	$218.14	$224.55	$231.14
Tier 1 charge ($/kL)	$2.35	$2.42	$2.49	$2.56	$2.64
Tier 2 charge ($/kL)	$4.71	$4.85	$5.00	$5.14	$5.29

Source: Icon Water.
Note: All prices and bill impacts are inclusive of inflation of approximately 2.6% per year. The Tier 1 price applies to water usage up to 0.548 kL on average per day of a customer's billing period. The Tier 2 price applies to any water use in excess of 0.548 kL on average per day.

Proposed wastewater tariffs

Icon Water proposes to maintain the current wastewater tariff structure, comprising a supply charge and flushing fixture charge (payable by non-residential customers). Icon Water considers that the benefits of maintaining a simple and familiar wastewater tariff structure outweigh the costs of transitioning to a volume-based wastewater tariff at this time. However, we will continue our investigations into liquid trade waste over the 2023–28 period, which may lead to new wastewater tariff options for non-residential customers in the future.

Forecast wastewater tariffs for each year of the 2023–28 regulatory period are set out in Table 12-4.

Table 12-4: Forecast wastewater tariffs ($, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Supply charge ($/annum)	$534.40	$568.68	$605.17	$643.99	$685.31
Charge for flushing fixtures in excess of two ($/annum)	$522.64	$556.17	$591.85	$629.82	$670.23

Source: Icon Water.
Note: All prices and bill impacts are in inclusive of inflation of approximately 2.6% per year. The flushing fixture charge applies to non-residential customers for each flushing fixture in excess of two.

Customer bill impacts

The impact of the proposed tariffs on customer bills will vary depending on how much water a customer uses and, in the case of non-residential customers, the number of billable fixtures.

Table 12-5 shows that the combined water and wastewater bill for a typical residential customer using 200kL will increase by 4.5 per cent per year on average during the 2023–28 regulatory period. Detailed bill impacts for different customer segments are provided in Section 12.4.4.

Table 12-5: Forecast bill impacts ($, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Residential customer using 200 kL per annum					
Combined water and wastewater bill ($ per annum)	$1,229	$1,284	$1,342	$1,402	$1,466
Change in bill ($)	$52	$55	$57	$60	$64
Change in bill (%)	4.4%	4.5%	4.5%	4.5%	4.5%

Source: Icon Water.
Note: All prices and bill impacts are in inclusive of inflation of approximately 2.6% per year.

12.2 History of our tariff structure

This section describes the current tariff structure and how it was developed.

12.2.1 What is a tariff structure?

The tariff structure refers to the mix of charges Icon Water uses to recover its required revenue from water and wastewater customers. The tariff structure encompasses more than just the prices customers pay – it also determines the basis on which customers are charged for services. Typically, water utilities set tariffs using a combination of fixed charges (paid by customers regardless of their usage) and variable charges (paid based on how much of a service a customer uses). More broadly, the tariff structure considers issues such as:

- whether the usage price should change when specified usage levels are reached
- the balance between fixed charges and variable charges
- whether tariffs should vary between different customer classes.

Each of these issues involves trade-offs, such as balancing affordability for small and large users, incentivising water-saving behaviours and sending customers a price-signal about the value of the services they use. Importantly, under the Commission's regulatory approach, Icon Water can only fully recover its approved revenues if it charges the maximum price approved by the Commission for each tariff component. It follows that any change to the tariff structure that reduces prices for one tariff component also requires a commensurate increase in the price for other tariff components.

Determining an appropriate tariff structure is complex and requires consideration of economic efficiencies as well as affordability, distributional impacts on different customers, environmental considerations, the ACT context and customer preferences.

For our water tariffs, the balance of fixed and variable charges can affect customer segments in different ways. Higher fixed charges tend to result in larger water bills for small customers because the fixed charge makes up a relatively large proportion of their bill. In contrast, higher water usage charges can have a greater impact on large water users. Water usage charges provide customers with more control over their bills by allowing them to adjust their usage, which can help improve affordability for smaller water users. However, some customers have limited practical ability to reduce their water use having already taken steps to become more water efficient, and these customers may prefer tariffs that are balanced towards higher fixed charges.

Wastewater tariffs also require balancing economic efficiency, fairness and environmental concerns. Our wastewater tariff, with a fixed annual supply charge and a flushing fixture charge (payable by non-residential customers), is designed as a simple approximation for a volume-based charge. The design reflects the fact that Icon Water cannot accurately measure wastewater discharges for individual customers at this time. While the structure has the benefit of being simple, it is not necessarily cost-reflective for all customers, and it may not incentivise customers to reduce their impacts on the wastewater network. For instance, all residential customers pay the same fixed supply charge, regardless of their usage levels. Similarly, the flushing fixture charge paid by non-residential customers can be an imperfect proxy for actual discharge volumes and does not incentivise uptake of water-efficient fixtures such as waterless urinals.

Balancing these factors cannot be done by Icon Water in isolation, and therefore we have engaged extensively with the community in developing our tariff proposal for the 2023–28 regulatory period.

12.2.2 Icon Water's current tariff structure

The **water tariff structure** in 2022–23 comprises:

- a fixed supply charge of $200 per annum; plus

- a two-tier water usage charge of $2.28 per kL for the first 50kL of use per quarter and $4.58 per kL thereafter.[3]

This same tariff structure applies to all customers (residential and non-residential) who receive a drinking water service under the Standard Customer Contract.

The two-tier tariff was originally designed to balance economic efficiency, impacts on customer bills and environmental considerations. The higher Tier 2 price sends a price signal to conserve water, while the lower Tier 1 price ensures some water is available at a more affordable price to meet essential needs. The usage threshold for the Tier 2 price is set at 50kL per quarter, which is around the amount used by a typical residential customer in the ACT.

The **wastewater tariff structure** in 2022–23 comprises:

- A fixed supply charge of $502.18 per annum; plus
- For non-residential customers and common properties, a charge on flushing fixtures (eg. toilets, urinals and cleaners' sinks) in excess of two of $491.13 per annum.

The wastewater supply charge is designed to reflect typical wastewater volumes for a residential customer and their associated costs on the wastewater network. The flushing fixture charge recognises that non-residential customers are likely to produce more wastewater, depending on how many flushing fixtures they have and hence contribute more to the cost of operating the wastewater network.

12.2.3 How we got here

The two-tier water tariff was first introduced in 2008–09 to help manage water usage following the millennium drought which occurred between 2003 and 2010. The introduction of the tariff structure coincided with a broader industry shift away from fixed charges towards usage charges since the early 2000s. This shift was driven by several factors, including customer desire for a tariff structure that signals the social and environmental value of water, and a preference towards 'pay for use' pricing. As a result, the annual water supply charge decreased from 33 per cent of the typical residential water bill in 2004–05, to 16 per cent by 2017–18.

The Commission's 2017 review of water and wastewater tariffs

In 2017, the Commission undertook a review of Icon Water's tariff structure to examine whether it was promoting efficient investment in, and operation of, the water network in the long-term interests of consumers.[4] The review found that, while there were good reasons to maintain a two-tier water tariff, the shift towards higher usage charges had moved Icon Water further away from cost-reflective pricing. This was having a disproportionate impact on large water users, with Icon Water's Tier 2 price among the highest in Australia.

The Commission's review also examined Icon Water's wastewater tariffs, finding that they were simple but not necessarily cost-reflective. However, it was noted that Icon Water cannot accurately measure individual customers' wastewater volumes, and that the incremental cost of treating wastewater was low compared to the high fixed costs of maintaining the wastewater network. The Commission therefore concluded that the benefits of retaining the current tariff structure outweighed the costs of moving to a volume-based charge.

[3] In practice, customer billing periods may be slightly longer or shorter than a calendar quarter due to the timing of meter reads. Therefore, customer bills are calculated by applying the Tier 1 price to the first 0.548kL on average per day of their billing period, and the Tier 2 price for any usage thereafter. Note, 200kL ÷ 365 days = 0.548kL.

[4] Independent Competition and Regulatory Commission, *Final Report Tariff Structure Review 2016–17*, March 2017.

The 2018–23 regulatory decision

In its decision for the 2018–23 regulatory period, the Commission approved a gradual rebalancing of Icon Water's water tariffs to better reflect supply costs. This involved increasing the water supply charge by $20 per year while keeping the growth of Tier 1 and Tier 2 charges below inflation (ie a real price decrease). While some community groups were concerned about increasing fixed charges, the rebalancing was implemented for three main reasons:

- **Icon Water is predominantly a fixed-cost business**, with a relatively low marginal cost of supplying water.[5] Increasing fixed charges better reflects Icon Water's costs and encourages more efficient use of the network.
- **Icon Water's Tier 2 price is among the highest in Australia**, and this has a disproportionate effect on large water users and non-residential customers, especially those with little or no discretionary water use. Icon Water received feedback from some large non-residential customers that the Tier 2 price creates significant financial pressures and, in some cases, creates the risk of uneconomic bypass.[6] Rebalancing tariffs helps maintain affordability for these customers.
- **Water demand can be highly variable and is strongly influenced by the weather.** In turn, the revenue Icon Water collects can also change significantly from year to year. Having higher fixed charges means Icon Water's revenue is more stable over time, allowing Icon Water to better plan and undertake long-term investments for a safe and reliable network.

The Commission's tariff rebalancing is set to conclude in 2022–23, the final year of the current regulatory period. Icon Water believes the gradual rebalancing of water tariffs has provided a more efficient tariff structure while preserving affordability and meeting community expectations for a Tier 2 price that encourages water conservation (as discussed in section 12.3.2).

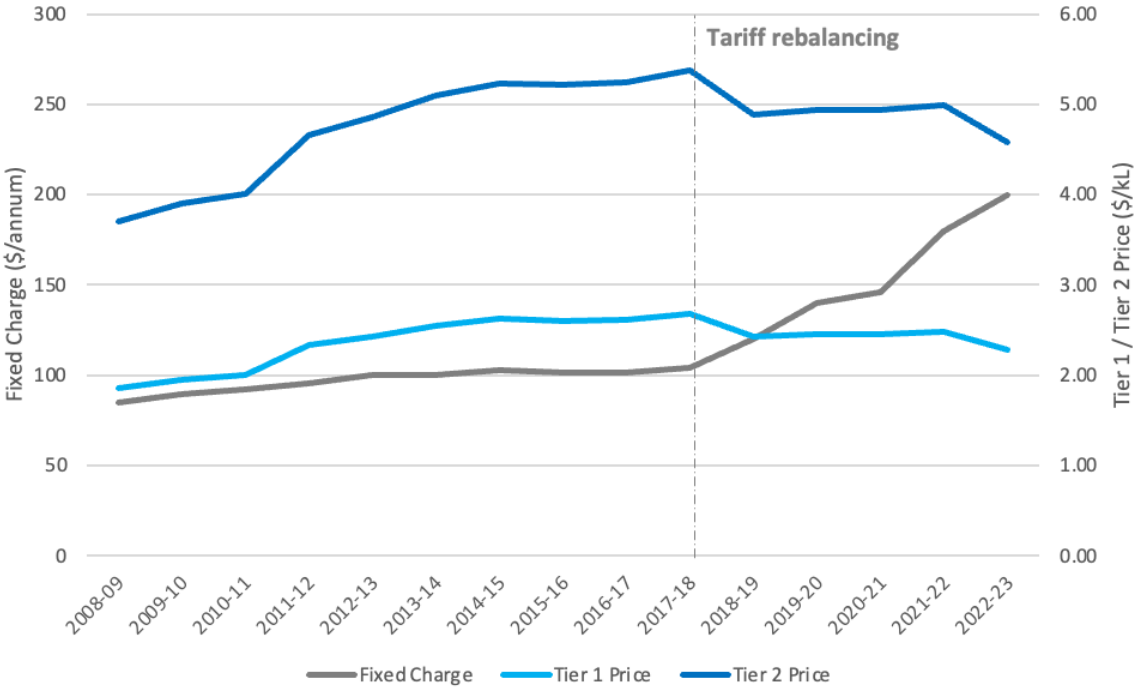
Figure 12-1 shows the evolution of the water fixed and usage charges over time, including the tariff rebalancing that occurred after 2018. The tariff rebalancing has contributed to Icon Water's Tier 2 price decreasing by around 15 per cent, from a historical high of $5.38 in 2017–18 to $4.58 in 2022–23.[7] This has provided a significant improvement in affordability for large water users. The Tier 1 price, which accounts for most of the water bill for a typical residential customer, has also decreased by around 15 per cent, from $2.68 in 2017–18 to $2.28 in 2022–23.

[5] In 2016, the Commission estimated Icon Water's marginal cost of water in the ACT was between $0.72/kL to $1.74/kL depending on the measure used. See: Independent Competition and Regulatory Commission*, Technical paper 2: Marginal cost pricing in the ACT*, June 2016.

[6] Uneconomic bypass refers to a situation where a large water customer finds a cheaper, alternative water source to Icon Water, even though the costs of the alternative supply may be higher than Icon Water's efficient costs of serving the customer. Uneconomic bypass has negative consequences for all customers since, if a large customer disconnects from the network, the lost revenue will need to be recovered from the remaining customer base.

[7] Some of the price decrease is also attributable to a falling cost of debt over the 2018–23 regulatory period, and the effects of pass-throughs.

Figure 12-1: Icon Water tariffs 2008–09 to 2022–23 ($, nominal)



Source: Icon Water.

The Commission's tariff review also noted that there may be scope to introduce differentiated tariff structures for non-residential customers, with higher fixed and lower variable charges. Several Australian water utilities use differentiated tariffs for residential and non-residential customers, such as Hunter Water in NSW. The Commission reasoned that a non-residential tariff could reduce the impact of Tier 2 charges on large customers and mitigate the risk of uneconomic bypass. The Commission also considered that a non-residential tariff could soften bill impacts for residential customers by limiting tariff reforms to the non-residential sector.

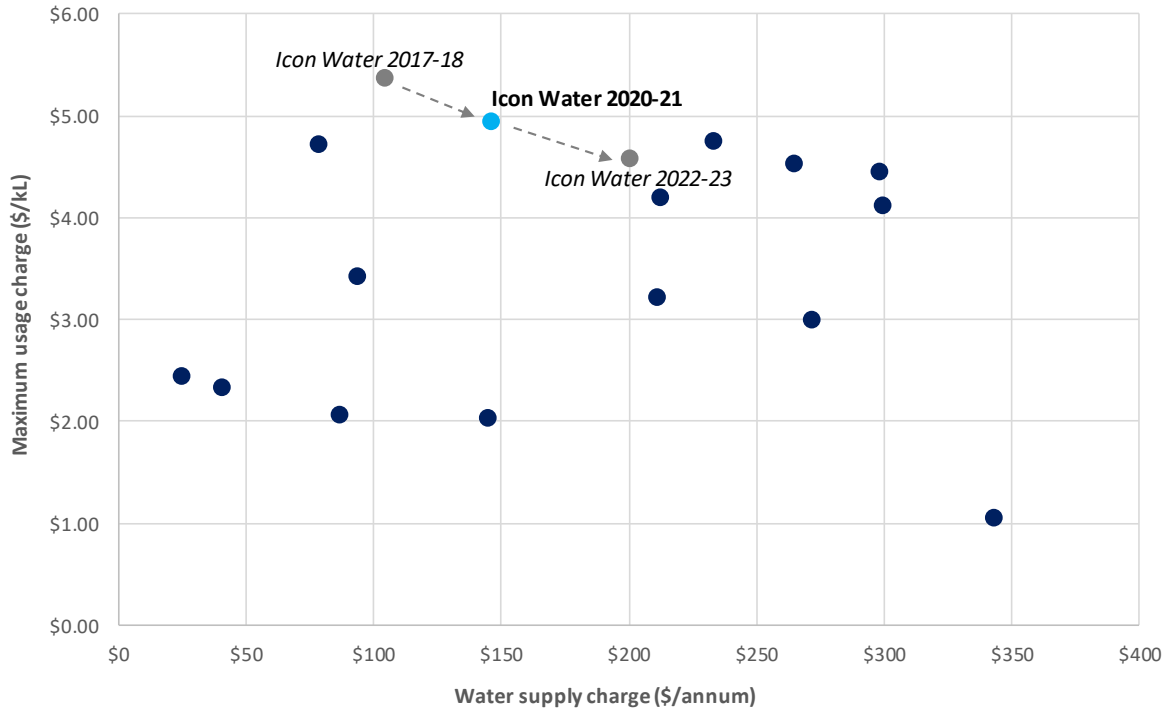
At the time, Icon Water determined that a non-residential tariff was not feasible because a reduction in usage charges for large non-residential customers would require significant bill increases for smaller customers.

12.2.4 Comparisons with other jurisdictions

Most major water utilities in Australia implement a combination of fixed charges and usage charges in their water tariff structure. Historically, Icon Water has had one of the highest Tier 2 (or equivalent) charges in Australia, and a fixed charge that is amongst the lowest.

As shown in Figure 12-2, Icon Water has made significant progress over the 2018–23 regulatory period in rebalancing its water tariff towards higher fixed charges and lower usage charges. This has moved Icon Water further in the direction of cost-reflective pricing, and closer to the pricing structures of other water utilities.

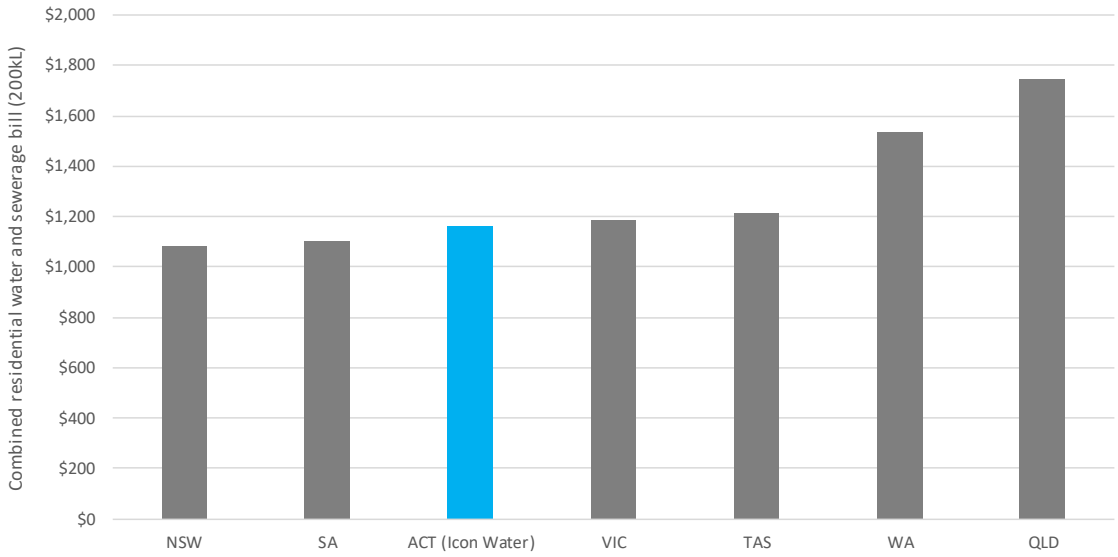
Figure 12-2: Tariff structure compared to other Australian major urban water utilities (2020–21)



Source: Bureau of Meteorology, *National Performance Report 2020–21*, residential water tariff structures.

As shown in Figure 12-3, Icon Water's combined water and wastewater bill for a typical residential customer is towards the lower end compared to other major Australian urban water utilities.

Figure 12-3: Residential water and wastewater bills for major urban water utilities (2020–21)



Source: Bureau of Meteorology, *National Performance Report 2020–21*.
Note: Amounts represent the average across all major water urban water utilities in each state/territory.

12.3 How we developed this proposal

12.3.1 Our approach

In developing our tariff proposal, Icon Water was guided by the core principle of ensuring our tariff structure not only meets the objective of economic efficiency, but also considers community expectations for affordability, equity and environmental sustainability.

Our tariff proposal has been informed by customer preferences and community feedback obtained during our customer and community engagement, as well as the pricing principles established by the Commission in its 2017 tariff review.

These considerations are discussed in the sections below.

12.3.2 What our customers told us

Icon Water's position is that the tariff structure should only be changed if there is strong and broad community support across all customer segments. We therefore engaged extensively on the water tariff structure for our 2023–28 proposal, including various options for further rebalancing fixed and variable charges.

The engagement on tariffs was a core element of our engagement program. Key engagement activities included:

- **Community Advocacy Forum**, which was asked to consider the balance of fixed and variable charges, and whether there was a desire for a non-residential tariff.
- **Deliberative deep dive**, which included discussion around bill fairness, options for tariff rebalancing, and the potential for a non-residential tariff.
- **Key customer interviews**, which included discussion of what large organisations thought of the current tariff structure and what potential changes could make it more suitable.
- **Open community survey**, where tariffs were part of the unprompted rationale for participants rating their satisfaction with Icon Water.

The engagement focused on two major questions for the water tariff structure:

(1) Whether the balance of fixed and variable charges was appropriate, and if further rebalancing should take place in 2023–28.

(2) Whether there was merit in further investigating a non-residential tariff, including seeking initial stakeholder views on the principles that might inform a non-residential tariff in future regulatory periods.

These matters are discussed in the sections below. A detailed report on all feedback received is provided in **Appendix 2.1: Icon Water Customer and Community Strategic Engagement Project Report**, which should be read alongside this attachment.

Balance of fixed and variable water charges

Participants in the Customer Advocacy Forum and the deliberative deep dive processes were presented with detailed information on three potential water tariff structures for the 2023–28 regulatory period:

A. Customers pay a higher fixed supply charge: the water supply charge continues to increase by $20 a year, as it has done in the 2018–23 regulatory period. This option minimises increases in usage charges.

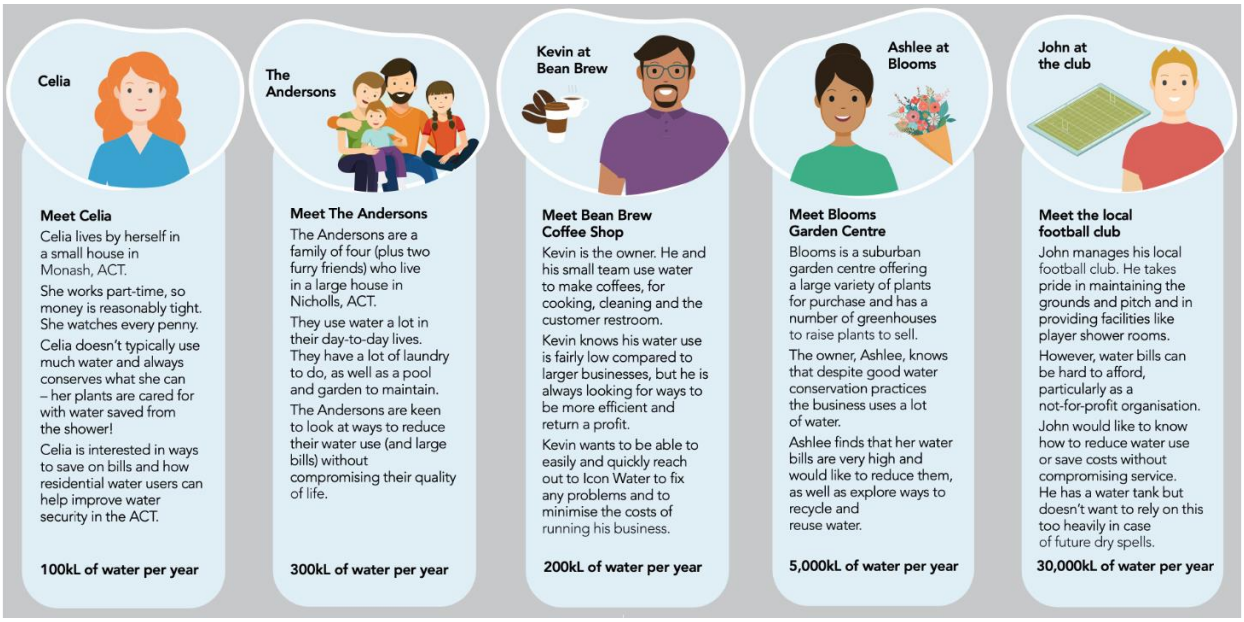
B. Take the middle road: the water supply charge will increase by $10 per year, half the increase seen in the 2018–23 regulatory period. This results in a moderate increase in usage charges.

C. **Customers pay an increase in overall charges:** price changes will be applied uniformly across the water supply charge and usage charges. This option would mean there is no further tariff rebalancing towards higher supply charges. This results in higher usage charges compared to options A and B.

These options represent a spectrum of tariff rebalancing towards greater cost reflectivity (higher fixed charges). Option A has the highest level of rebalancing, while Option C has no rebalancing at all. All the options would result in the same level of revenue being collected by Icon Water, but they differ in terms of how much revenue is collected from fixed charges compared to usage charges.[8]

To help present these options to the community, Icon Water developed indicative bills for each option for five customer personas. The customer personas are shown below.

Figure 12-4: Five customer personas used in the Customer and Community Strategic Engagement Program



The personas were intended as stylised representations of typical customers using Icon Water's network.

Higher fixed water charges generally result in larger proportional bill increases for small water users, while higher usage charges have a greater impact on large water users. Under Option C, all customers would see a similar annual water bill increase in percentage terms.

The engagement showed there is reasonable support among participants who use less water for the two-tier tariff structure. One-in-four say on an unprompted basis that they value this two-tier structure to help curb unnecessary water use.

However, opinions across all forums in relation to the three tariff structure options were very mixed. Among participants, opinion was most divided on how to achieve a fair outcome for:

- large not-for-profit water users who deliver a community service (eg. sporting clubs)
- low-income households who may struggle to afford a high supply charge or, potentially, usage charges if they faced the Tier 2 price (eg. a large family using more water).

[8] While each option would result in prices being set to recover the same amount of forecast revenue, actual revenue recovery may still vary depending on demand over the regulatory period. The options with higher fixed charges are less susceptible to variations in demand, since they result in less revenue being collected from water usage which can vary more significantly from year to year.

For this reason, an increase in overall charges (Option C) was slightly more preferred by most residential customers. This tariff option gave each of the five customer personas a similar percentage increase in their bills over the 2023–28 period. Larger water users and small to medium enterprise (SME) business customer participants favoured the higher supply charge (Option A). A minority of participants were concerned about the charges that large water users would be paying compared to low users. These participants preferred Option B (the 'middle road' option).

Feedback from the engagement also included that, among larger water users, there is a perception that the Tier 2 price is unfair. It was noted that many large non-residential users have limited ability to reduce their water usage, and therefore the Tier 2 price is not an effective signal for water conservation, nor does it reflect Icon Water's marginal cost of supply. Larger water users tended to be the biggest advocates for tariff change. In contrast, some residential customers perceived that 'big business' and 'big institutions' could afford to pay their way.

In the absence of strong and consistent support for continued water tariff rebalancing across all customer segments, we propose maintaining the current balance of fixed and variable charges (Option C) for the 2023–28 regulatory period.

Non-residential water tariff concept

Our engagement program sought initial feedback on a potential non-residential tariff to determine if there was merit to further investigate differentiated tariff structures in future regulatory periods. Icon Water wished to seek community views on this topic in recognition of:

- Feedback from some large non-residential customers, who believe that the current water tariff structure is designed primarily for residential customers and does not cater to the needs of large water users. This includes the perception that Icon Water's high Tier 2 price, which applies to usage above 200kL per year (around that of a typical residential customer), is unfair to large non-residential users.
- Commentary by the Commission in its 2018–23 decision which suggested that a non-residential tariff could soften the impacts of the Tier 2 price on large non-residential users and mitigate the risk of uneconomic bypass.

During the engagement, Icon Water presented the non-residential tariff as a concept only, without detailed economic modelling. The purpose of the engagement was to determine if there was openness to further consider a non-residential tariff for implementation in future regulatory periods. The conversations on this concept were brief and limited to the Customer Advocacy Forum and the deliberative deep dive process.

To help frame the discussion, Icon Water provided stakeholders with an overview of the current regulatory framework. Icon Water explained that introducing a lower price for large non-residential customers would require higher prices for other customers, for example residential and/or smaller non-residential customers.

The idea of a non-residential tariff was generally supported in principle, particularly by Icon Water's largest customers, and there was broad recognition that the high Tier 2 price created challenges for some larger customers. However, as noted above, among residential customers there was a perception that 'big business' and 'big institutions' could afford to pay their way.

There was unprompted discussion in some forums about the need for a different tariff structure for large water users who use that water to provide essential community activities. When participants were asked about this concept, there was support in principle for a non-residential tariff for non-commercial, not-for-profit organisations. Members of the Customer Advocacy Forum that run large sporting grounds noted they do not have the ability to greatly reduce their water consumption. These members supported the concept of a non-residential tariff for its potential to reduce costs, and reward or support those organisations that provide community value.

Icon Water acknowledges that it has a shared responsibility for supporting community organisations in the ACT community, and currently fulfills a range of Community Service Obligations (CSOs) on behalf of the ACT Government. These include, among other things, a 50 per cent price discount for water and wastewater services provided to community organisations such as schools, hospitals, charities and churches. The CSOs are social, rather than commercial, in nature and are explicitly funded by the ACT Government. While these measures fall outside the scope of Icon Water's regulated water and wastewater tariff structure, Icon Water recognises their importance to the ACT community.

12.3.3 Pricing principles for the tariff structure

Ultimately, the prices for water and wastewater services in the ACT are set by the Commission. Icon Water has therefore developed its proposal having regard to the Commission's guidance on tariff structure. The Commission undertook a detailed review of Icon Water's tariff structure in 2016–17. In its final report the Commission defined an overarching objective for the tariff structure and a set of pricing principles.[9]

The objective, which mirrors s19L of the *Independent Competition and Regulatory Commission Act 1997* (ACT), is:

> To promote efficient investment in, and efficient operation and use of, regulated services for the long-term interests of consumers in relation to the price, quality, safety, reliability and security of the service.[10]

The Commission indicated that its interpretation of this objective is that 'the ultimate objective [is] the long-term interests of consumers'.[11] It further elaborated that 'consumer interests must take account of equity and other social impacts as required by the ICRC Act'.

Having regard to this objective, the Commission developed a set of pricing principles that account for both legislative and government policy objectives, as well as generally accepted economic and regulatory principles:

- economic efficiency in use
- economic efficiency for investment and operation
- environmental considerations
- community impact – gradual adjustment
- community impact – fair outcomes for low-income households
- regulatory governance – simplicity
- regulatory governance – transparency.

To meet these principles, Icon Water's tariff structure must consider not only economic efficiency, but also distributional impacts on different customer segments, and the extent to which the prices achieve community expectations for affordability and environmental sustainability.

The first two pricing principles recognise the importance of considering the whole-of-community impacts described by economic efficiency. Icon Water's submission to the tariff review highlighted that cost-reflective pricing would result in the best whole-of-community outcome and is therefore an important starting point for community discussions about tariff structures.[12]

---

[9] Independent Competition and Regulatory Commission (ICRC), *Final Report Tariff Structure Review 2016–17*, March 2017.

[10] ICRC, *Final Report Tariff Structure Review 2016–17*, March 2017, p. 16.

[11] ICRC, *Final Report Tariff Structure Review 2016–17*, March 2017, p. xv.

[12] Icon Water, *Submission to Tariff Review 2016*, 14 July 2016.

Economic efficiency is achieved when the variable (usage) charge is set equal to the incremental cost of supply (the 'marginal cost'). The fixed (supply) charge should be set to recover the remaining fixed ('non-variable') costs. When prices are set to reflect costs, including water security and environmental costs, consumers have an incentive to use water up to the point where the value they derive is equal to the incremental cost, and no more.

In 2016, the Commission estimated that Icon Water's marginal cost to supply water is around $1.70/kL, with a resulting efficient fixed charge of approximately $600 per year (2016 dollars).[13] The relatively high fixed charge reflects the capital-intensive (fixed cost) nature of providing water services. The current water usage charges (both Tier 1 and Tier 2) are above Icon Water's marginal cost, while the fixed charge is below efficient levels. This may cause consumers to use less than the efficient level of water because, at the margin, the benefits consumers would derive from using more water will exceed the actual cost of supply.

Economic efficiency is also an important consideration for Icon Water's business. A cost-reflective fixed charge would provide greater revenue certainty and reduce revenue risk if water demand differs from the forecast. If usage charges are not set at cost-reflective levels, there is a risk that customers will pay too much (when water demand is high) or too little (when water demand is low) relative to Icon Water's costs. Cost-reflective pricing also helps Icon Water plan the network by signalling to customers the investment costs associated with their usage, thereby helping to ensure an efficient level of spend in the services that matter most to the community.

The Commission's pricing principles recognise that the tariff structure needs to consider not only economic efficiency ('the size of the pie'), but also impacts on individual consumers ('how the pie is sliced up'). While cost-reflective pricing would result in customers as a whole being better off, some customers may be worse off. For example, moving towards cost-reflective pricing would involve increasing the water supply charge which would disproportionately impact smaller water users.

Similarly, deviating from cost-reflective pricing may also leave some customers worse off. One consequence of Icon Water's two-tier water usage charges is that large customers pay a much higher price, on average per kilolitre, than smaller customers. Icon Water has received feedback from large, non-residential customers that the Tier 2 price can impose significant financial pressures and, in some cases, creates the risk of uneconomic bypass (see 12.2.3).

Environmental considerations are also important for the tariff structure. The current inclining block tariff structure was significantly influenced by the need to encourage water conservation following the millennium drought. Many of Icon Water's customers, especially residential customers, continue to support a higher Tier 2 price because it signals the environmental and social value of water.

Achieving the right balance between fixed and variable charges requires careful analysis of, and judgement about the distributional impacts on different customer groups in addition to considering economic efficiency. In contrast to the more objective measures of economic efficiency, comparing the merits of equity outcomes across tariff structure options requires subjective, ethical judgements. Therefore, Icon Water has engaged extensively on its water tariff structure in developing its 2023–28 proposal (see section 12.3.2).

The Commission's pricing principles are also applicable to Icon Water's wastewater tariff. The current wastewater structure comprises an annual supply charge payable by all customers, and a flushing fixture charge payable by non-residential customers for flushing fixtures in excess of two.[14] This tariff structure is designed to approximate the volume of wastewater, and hence the costs, imposed on the

[13] Independent Competition and Regulatory Commission (2016), *Marginal cost pricing in the ACT – Tariff Review 2016*, June 2016.

[14] A flushing fixture includes anything with a flushing cistern or flush valve. This includes, but is not limited to, toilets/closets; urinals; cleaners sinks; slop hoppers; sluice sinks; and morgue tables.

network by different customers. One consequence of this simple approximation is that it may not be perfectly cost-reflective or equitable for all customers. For instance, all residential customers pay the same supply charge, but some may produce significantly more wastewater than others. Similarly, some non-residential customers may have a large number of flushing fixtures but contribute comparatively less wastewater than other customers with fewer fixtures. These concerns were recently highlighted in feedback received from the ACT hotel and accommodation industry, which posited that accommodation businesses pay a much higher wastewater charge when compared to residential customers on a per-person basis.[15]

The simplified wastewater tariff structure may also not send customers a price signal that encourages them to minimise their impact on the network, for example by adopting water-efficient fixtures like waterless urinals.

In its 2016–17 review of tariffs the Commission concluded that, while the wastewater tariff does not provide efficient price signals, the administrative and regulatory costs of introducing a volume-based charge would outweigh the efficiency benefits. The Commission also observed that Icon Water has a relatively low marginal cost of about $0.26 per kL ($2017) for wastewater treatment and pumping. This reduces the importance of usage-based price signals. Overall, the Commission favoured retaining the current wastewater tariff structure:

> The Commission's final position, consistent with what was presented in the draft report, is that, particularly in the absence of a reliable measure of actual discharge volumes, it is unlikely that any potential economic efficiency benefits of introducing a sewerage volume charge would outweigh the costs. The Commission therefore considers that the current tariff structure should be retained.[16]

Our proposal to retain the current wastewater tariff structure is also consistent with the Commission's position. Icon Water agrees that, at this time, any potential efficiency benefits of introducing a sewage volume charge would outweigh the costs. Icon Water also considers that any future reforms to wastewater tariffs should account for the outcomes of Icon Water's review of liquid trade waste.

[15] For example, see Australian Hotels Association and Accommodation Association, *Regulated Water and Sewerage Service Prices 2023-28*, submission to the Independent Competition and Regulatory Commission's Issues Paper, 8 April 2022: https://www.icrc.act.gov.au/__data/assets/pdf_file/0010/1996516/Australian-Hotels-Association-and-Accommodation-Association.pdf

[16] Independent Competition and Regulatory Commission, *Final Report Tariff Structure Review 2016–17*, March 2017, p. xxi.

12.4 Our proposed tariffs

12.4.1 Water tariffs

Based on feedback from the community and an assessment against the Commission's pricing principles, Icon Water proposes retaining the current structure for water tariffs. The proposed tariff structure for water is shown in Table 12-6. The key elements of the proposed tariff structure include:

- maintaining the same tariff structure for all water customers (including residential and non-residential customers)
- maintaining an annual supply charge for water
- maintaining the two-tier inclining block usage charges, with a Tier 1 and Tier 2 price
- keeping the current balance of fixed and variable charges, such that any price changes are applied uniformly across all tariff components.[17]

This tariff structure means Icon Water would discontinue the annual tariff rebalancing which occurred during the 2018–23 regulatory period, whereby the annual supply charge was increased by a fixed amount of $20 per year.

Table 12-6: Proposed standard water tariff structure 2023–28

Tariff component	Description
Supply charge ($/year)	A supply charge to each parcel of land, payable irrespective of water usage.
Tier 1 consumption charge ($/kL)	A consumption charge for the first 0.548 kilolitres supplied on average per day of the billing period: plus
Tier 2 consumption charge ($/kL)	A consumption charge for all water supplied in excess of 0.548 kilolitres on average per day of the billing period.

How the tariff structure has been shaped by stakeholder feedback

The tariff proposal has been shaped to a large degree by community feedback, including engagement with customers on various options for tariff reform. As discussed in section 12.3.2, there was reasonable support expressed for Icon Water's two-tier usage charges. However, preferences on the balance of fixed and variable charges were split, with no clear consensus. Larger customers tended to prefer higher supply charges (lower usage charges), while smaller customer favoured lower supply charges (higher usage charges). Most participants agreed that affordability is a major consideration, particularly as it relates to small and vulnerable customers.

Icon Water recognises the diverse views presented in the engagement, the concerns raised by some customer segments and the challenges of designing a tariff structure that balances the needs of different customers. Icon Water believes its proposed tariff structure for 2023–28 represents a balanced outcome reflecting feedback from various customer segments, as well as principles of economic efficiency. While some customer segments supported continued tariff reform, Icon Water does not consider that there is sufficiently strong and broad support, particularly among residential customers, to pursue tariff changes in 2023–28.

Icon Water also notes that retaining the current balance of supply and usage charges provides the lowest price path for most residential and small non-residential customers.

[17] Specifically, Icon Water proposes that each tariff component will be updated using the same 'CPI-X' approach. For more details on this approach, see **Attachment 4: Regulatory controls**.

Proposed price path for water services

The 'price path' determines how prices are set each year so that Icon Water recovers its approved revenue over the five-year regulatory period. The objective of the price path is to 'smooth' the variable nature of Icon Water's costs and demand over time, and to minimise price volatility from year to year. For the 2023–28 regulatory period, Icon Water proposes a uniform price path where prices would change by the same amount (in percentage terms) in each year of the regulatory period.[18] A uniform price path provides customers with greater bill certainty and minimises annual price variations.

Our proposed price path for water in 2023–28 is shown in Table 12-7 for each water tariff component. The prices shown in Table 12-7 are forecasts, and the actual prices each year will depend on actual inflation, any cost pass-throughs approved by the Commission, and annual updates to the cost of debt.[19]

Table 12-7: Forecast water tariffs ($, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Supply charge ($/annum)	$205.87	$211.92	$218.14	$224.55	$231.14
Tier 1 charge ($/kL)	$2.35	$2.42	$2.49	$2.56	$2.64
Tier 2 charge ($/kL)	$4.71	$4.85	$5.00	$5.14	$5.29

Source: Icon Water.
Note: All prices and bill impacts are inclusive of inflation of approximately 2.6% per year. The Tier 1 price applies to water usage up to 0.548 kL on average per day of a customer's billing period. The Tier 2 price applies to any water use in excess of 0.548 kL on average per day.

12.4.2 Wastewater tariffs

Icon Water proposes to retain the current tariff structure for wastewater services in 2023–28, as shown in Table 12-8.

Table 12-8: Proposed standard wastewater tariff structure 2023–28

Tariff component	Description
Supply charge ($/year)	Standard wastewater charge.
Fixture charge ($/fixture/year)	An annual charge applying to non-residential customers, for each flushing fixture in excess of two flushing fixtures.[20]

The wastewater tariff structure is designed to be a simple approximation for a volumetric wastewater tariff. At this time, Icon Water considers that the benefits of maintaining a simple tariff structure outweigh the economic efficiencies that could be gained from transitioning to a more cost-reflective, volumetric based charge. This is also consistent with the Commission's conclusions in its 2016–17 review of tariffs.

Over the course of the 2023–28 regulatory period, Icon Water will continue its investigations into liquid trade waste. This is expected to provide a better understanding of non-residential discharges, their impacts, and how Icon Water can best manage these discharges (including the potential for new wastewater pricing options). Icon Water considers it is appropriate to retain the current wastewater tariff

[18] Subject to any annual adjustments for cost-pass throughs, inflation, and other requirements under the regulatory framework.

[19] For more information on the annual price variation process, see **Attachment 4: Regulatory Controls**.

[20] A flushing fixture includes anything with a flushing cistern or flush valve. For more information on flushing fixtures, see: https://www.iconwater.com.au/my-home/flushing-fixtures.aspx

structure while investigations into liquid trade waste are ongoing. We remain committed to continued dialogue with our customers on wastewater tariffs as investigations progress.

Proposed price path for wastewater services

Our proposed price path for the 2023–28 regulatory period is set out in Table 12-9, for each wastewater tariff component. Icon Water proposes a uniform price path over the five-year regulatory period to minimise price variations from year to year. The prices shown in Table 12-9 are forecasts, and the actual prices each year will depend on actual inflation, any cost pass-throughs approved by the Commission, and annual updates to the cost of debt.

Table 12-9: Forecast wastewater tariffs ($, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Supply charge ($/annum)	$534.40	$568.68	$605.17	$643.99	$685.31
Charge for flushing fixtures in excess of two ($/annum)	$522.64	$556.17	$591.85	$629.82	$670.23

Source: Icon Water.
Note: All prices and bill impacts are in inclusive of inflation of approximately 2.6% per year. The flushing fixture charge applies to non-residential customers for each flushing fixture in excess of two.

12.4.3 Customer bill impacts

The combined water and wastewater bill for a typical residential customer using 200kL of water will increase by 4.5% per year on average over the regulatory period. In real terms (ie excluding inflation), this equates to a bill increase of around 1.8% per year on average.

The impacts of the forecast water and wastewater tariffs on bills for different types of customers are set out in Table 12-10 (residential customers) and Table 12-11 (non-residential customers).

Table 12-10: Forecast residential bill impacts ($, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Residential customer using 100 kL per annum					
Combined water and wastewater bill ($ per annum)	$975.0	$1,022.2	$1,072.0	$1,124.5	$1,180.0
Change in bill ($)	$44.8	$47.2	$49.8	$52.5	$55.4
Change in bill (%)	4.8%	4.8%	4.9%	4.9%	4.9%
Residential customer using 200 kL per annum					
Combined water and wastewater bill ($ per annum)	$1,229.4	$1,284.1	$1,341.6	$1,402.1	$1,465.6
Change in bill ($)	$52.0	$54.7	$57.5	$60.5	$63.6
Change in bill (%)	4.4%	4.5%	4.5%	4.5%	4.5%
Residential customer using 300 kL per annum					
Combined water and wastewater bill ($ per annum)	$1,681.1	$1,749.1	$1,820.2	$1,894.7	$1,972.8
Change in bill ($)	$64.9	$68.0	$71.1	$74.5	$78.0
Change in bill (%)	4.0%	4.0%	4.1%	4.1%	4.1%

Source: Icon Water.
Note: All prices and bill impacts are in inclusive of inflation of approximately 2.6% per year.

Table 12-11: Forecast non-residential bill impacts ($, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Non-residential customer using 1,000 kL per annum, with 10 fixture charges					
Combined water and wastewater bill ($ per annum)	$10,207.6	$10,707.8	$11,235.5	$11,792.4	$12,380.3
Change in bill ($)	$474.2	$500.2	$527.7	$556.9	$587.8
Change in bill (%)	4.9%	4.9%	4.9%	5.0%	5.0%
Non-residential customer using 7,000 kL per annum, with 10 fixture charges					
Combined water and wastewater bill ($ per annum)	$38,494.6	$39,825.4	$41,208.1	$42,645.2	$44,139.0
Change in bill ($)	$1,281.1	$1,330.8	$1,382.7	$1,437.0	$1,493.8
Change in bill (%)	3.4%	3.5%	3.5%	3.5%	3.5%
Non-residential customer using 7,000 kL per annum, with 100 fixture charges					
Combined water and wastewater bill ($ per annum)	$85,532.1	$89,880.7	$94,474.9	$99,329.4	$104,459.8
Change in bill ($)	$4,117.0	$4,348.6	$4,594.1	$4,854.5	$5,130.5
Change in bill (%)	5.1%	5.1%	5.1%	5.1%	5.2%

Source: Icon Water.
Note: All prices and bill impacts are in inclusive of inflation of approximately 2.6% per year.

12.4.4 Assessment against the Commission's pricing principles

Icon Water's tariff proposal is consistent with the objectives and pricing principles outlined by the Commission in its 2016–17 tariff review. An assessment of our proposal against the Commission's pricing principles is set out in Table 12-12.

Table 12-12: Assessment against the Commission's pricing principles.

Principles	Water tariff	Wastewater tariff
Economic efficiency **1.** Efficiency in use **2.** Efficiency for investment and operation	Icon Water is maintaining the water tariff rebalancing achieved in 2018–23, which resulted in charges moving closer to cost-reflective levels. This includes: • a proportionally higher fixed charge which provides Icon Water with greater revenue certainty to undertake network planning and investment • proportionally lower usage charges which better signal the marginal cost of water use to customers.	While the wastewater tariff does not have a usage (volumetric) component, the flushing fixture charge provides an approximation of wastewater volumes for non-residential customers. The dominance of fixed costs in providing wastewater services makes a usage charge less important for achieving economic efficiency. At this time, the regulatory and administrative costs of moving to a volumetric tariff are likely to be significant. However, Icon Water will continue to investigate potential future options as part of its liquid trade waste review.
3. Environmental considerations	Icon Water is maintaining the two-tiered tariff structure, with prices set above marginal cost to reflect the community's strong preference for water conservation. Priority environmental objectives will continue to be addressed with separate permanent water conservation measures and temporary water restrictions.	The absence of a volumetric usage charge means the current tariff structure does not fully incentivise customers to adopt water efficient fixtures and minimise their impact on the wastewater network. Icon Water currently maintains a compliance-based regime for liquid trade waste, and actively promotes wastewater literacy in the community.
Community impact **4.** Gradual adjustment **5.** Fair outcomes for low-income households	Icon Water's proposed price path is to apply price changes uniformly over the regulatory period, providing customers with greater bill certainty and minimising price volatility from year to year. The decision to maintain the current tariff structure provides the lowest price path for small water users (compared to continuing to rebalance towards higher fixed charges).	No changes are being proposed to the wastewater tariff structure at this time, and Icon Water has proposed a uniform price path which minimises price volatility from year to year. There may be opportunity to improve the tariff structure for some non-residential customers, and Icon Water is progressing investigations into non-residential discharges, which may include new pricing options in future.
Regulatory governance **6.** Simplicity **7.** Transparency	The proposed tariff structure is simple to understand and remains unchanged from the previous regulatory period. Icon Water is maintaining the same water tariff for all customers (residential and non-residential). The tariff proposal was developed through a transparent process involving significant customer and community engagement including various forums and customer segments.	The current tariff structure is simple to understand and implement. It is also familiar to Icon Water's customers, having been in place for a long time. The wastewater tariff was originally developed through an open and transparent public process.

12.4.5 Other regulated charges

Miscellaneous services and other fees

Icon Water currently provides several regulated miscellaneous water and wastewater services, including:

- special meter readings – requested by the customer, generally when moving into or out of a property, or as a discretionary request if they prefer more frequent reads than once per quarter.
- testing of water meters – requested by customers if they believe their meter to be faulty. Icon Water refunds the cost of the test if it shows the meter is defective as defined in the Water Metering Code and has been over-recording the customer's water consumption.

- provision of conveyancing certificates – requested by the customer to enable water charges to be appropriately apportioned on sale of a property. This would ordinarily be charged in addition to the special meter reading fee.
- tapping into water mains – connection of a new service to Icon Water's network. This is generally requested by developers as part of a new build or subdivision.
- disconnection of water service – this service is usually provided in conjunction with another service, for instance a customer may request a disconnection of one service and relocation or reconnection of a new service.
- meter relocation – usually a discretionary request by a residential customer to enable them to re-landscape their yard, although it can also be requested by a developer to facilitate the construction of a new residence or an extension to an existing residence.
- Altering the height of a manhole – this is often a discretionary request by a residential customer to enable them to re-landscape their yard, although it can also be requested by a developer to facilitate the construction of a new residence or an extension to an existing residence.

In addition, Icon Water's schedule of standard water and sewerage services charges contains several charges termed 'Other Fees and Charges'. These charges cover meter readings and related charges, attendance fees for debt collection and related activities, and fees for rejected payments.

While the fees and charges for these services are adjusted annually for inflation, there has not been a recent review of prices to ensure they continue to represent our cost of delivery. Setting these fees and charges at cost-reflective levels ensures customers pay an economically efficient price, and there is no cross-subsidisation with the provision of standard water and wastewater services. That is, customers who do not use miscellaneous services or incur other fees should not contribute to the recovery of their costs.

As part of our price proposal, we have undertaken a detailed review of the miscellaneous services and other fees to ensure they remain cost-reflective and deliver value to our customers. The review involved a 'bottom-up' build to identify the key cost drivers associated with delivering each service. It was found that, to improve cost-reflectivity, the prices for some services should decrease, while others should increase. Overall, the new prices would not materially change Icon Water's revenue.

Icon Water also assessed the possible customer impacts from implementing the price changes. In general, the updated pricing is expected to deliver cost reductions to customers who are more frequent users of the services (eg. developers). Customers who only use a small number of services may see a price increase. It is noted that a significant majority of Icon Water's customers will only infrequently request a miscellaneous service and, among those, many are one-time users for whom the requested service is discretionary in nature.

Icon Water is proposing to introduce the updated charges from 1 July 2023. The proposed new prices for miscellaneous fees and charges and other fees and charges are contained in Appendix 12.1. We propose to continue the current approach of updating the fees and charges each year to account for changes in the Consumer Price Index (CPI).

Capital contributions

Icon Water collects capital contributions from customers that are increasing demand on the water and wastewater network in established suburbs.[21] This generally occurs as a result of 'infill' or 'densification', for example subdividing a block, replacing single-dwelling residences with apartments or redeveloping a commercial block.

The formula for the charge is set out in the *Water and Sewerage Capital Contributions Code*: [22]

C2IC = **net increase in Equivalent Population (EP**) x **C**

where,

'C2IC' is the Class 2 Infrastructure Charge for a Development inside a Precinct

'net increase in EP' is determined by the Utility in accordance with the principles in clause 9.1(b)

'C' is the precinct charge

The Capital Contributions Code came into effect on 1 January 2018, which included an 18-month transition period where eligible customers were exempt from the precinct charge.

In 2018–23 Icon Water has monitored the implementation of the Capital Contributions Code to identify improvements to the methodology used to calculate the precinct charge. During this time, we observed more volatility in the precinct charge than had been anticipated when the Capital Contributions Code was introduced, caused by both changes in ACT population projections and Icon Water's forecast augmentation costs. To provide greater price stability and therefore price certainty to customers, in 2022–23 we adopted a 'five-year moving average' approach to calculate the precinct charge. This timeframe will help to minimise 'price shocks' as it aligns to our five-year growth planning cycle which is when we expect the most significant changes to the precinct charge calculation will occur.

Icon Water is required to review and update the precinct charge schedule each year, subject to approval by the Commission.[23] We propose to continue this approach for 2023–28, with the precinct charge schedule published on our website.

The precinct charge for 2022–23 is set at $1,094 per net increase in EP.

[21] Referred to as the 'Class 2 Infrastructure Charge', which is payable for developments 'inside a precinct'. The Commission approves the Precinct Map each year, which identifies which areas are 'inside a precinct.'

[22] Independent Competition and Regulatory Commission, *Water and Sewerage Capital Contributions Code*, 2017, section 9.1(a), p. 22.

[23] Independent Competition and Regulatory Commission, *Water and Sewerage Capital Contributions Code*, 2017, section 9.3

Appendices: Supporting documents

Supporting appendices

Reference number	Appendix title	Author
12.1	Proposed Miscellaneous Fees and Charges 2023–24	Icon Water

Abbreviations and acronyms

ACT	Australian Capital Territory
CPI	Consumer Price Index
CSO	Community Service Obligations
EP	Equivalent Population
ICRC	Independent Competition and Regulatory Commission
SME	Small to medium enterprise