

PRICE PROPOSAL UPDATES

Response to the Commission's
draft decision for regulated
water and wastewater services 2023–28



Acknowledgement of Country

Icon Water acknowledges the traditional custodians of the Canberra region, the Ngunnawal people and pay our respect to their Elders – past, present and emerging. We recognise and value their continuing culture and the contribution they make to the life of the city and the region. We also acknowledge the First Peoples of the broader region in which we live and work.

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OVERVIEW

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Our revised proposal is for revenue of \$1,921.2 million over five years in order to continue providing quality water and reliable wastewater services, and make responsible investments for the city's future. This will see the bill for a typical residential customer consuming 200 kilolitres (kL) of water per year grow by around 6.5 per cent each year. Inflation and economic conditions outside of our control continue to impact prices and are driving almost all of this increase.

We acknowledge the challenging environment, and we are doing everything we can to keep prices as low as possible. Examples of additional actions we have taken include:

- We have increased our operating expenditure efficiency target, to challenge ourselves to find an additional \$4.4m of savings over the next five years on top of our original commitment of \$12m of savings.

- We have continued to use lower-bound estimates for a number of capital projects and reduced the contingency we are including in the proposal, which has reduced our capital investment plan for the next five years by approximately \$40m in addition to the more than \$70m excluded in our original proposal.

These actions have helped us to keep the price path as low as possible for customers while continuing to deliver the services our customers value and operate within the bounds of our regulatory framework.

The blue boxes below identify the four key factors that were shaping our operating environment when we developed our regulatory proposal earlier this year – ageing infrastructure, climate change, growing population and government policy. We have since added a fifth operating factor shaping our environment – economic conditions. Inflation and the cost of capital have increased significantly since we made our proposal, which are pushing water and wastewater prices higher.

Our operating environment is being shaped by...



Current economic conditions are impacting our costs and the prices we need to charge customers. We share the community's concerns about affordability and the pressure on prices across the economy. We have considered our response to each of the adjustments made by the Independent Competition and Regulatory Commission in its draft decision, with a view to keeping prices as low as possible for customers without jeopardising drinking water quality or the reliability of wastewater services for Canberrans.

“We need to make responsible investments so future generations are not left to pay – either through high bills, environmental damage or poor quality and unreliable services.”

Icon Water Board, 2023–28 Price Proposal Overview (pg. 2)

We recognise the cost-of-living pressures facing our community and that more of our customers may need extra assistance managing their bills. This could range from a payment arrangement for extra time to pay a bill through to accessing our long-term financial hardship program, Staying Connected. See page 21 for more information about how customers can access our support programs.



BACKGROUND

BACKGROUND

As the ACT’s provider of essential water and wastewater services, our maximum prices are set by an independent regulator to ensure they are no higher than needed to deliver safe, reliable services at efficient cost. This independent regulator is the Independent Competition and Regulatory Commission (the Commission).

The Commission is currently in the process of determining prices for the period 1 July 2023 to 30 June 2028. As part of that process, on 30 June 2022 we submitted our price proposal to the Commission. Our proposal is available on our website iconwater.com.au/priceproposal and outlines our focus on delivering the services our customers told us they value most:

- reliable water and wastewater services
- quality drinking water
- affordable pricing
- responsive customer service.

At the same time, our proposal addresses the increasing need to respond to major factors influencing our operating environment – we must proactively address our ageing infrastructure, the challenges of climate change, a growing ACT population, and changing government policy.

Under the regulatory framework, the Commission must assess each of the components of our proposal for prudence and efficiency. In other words, the Commission determines how much operating and capital

expenditure Icon Water needs to deliver a safe and reliable service, and how much demand there will be for our services. Then, these components are added up to work out water and wastewater prices over the five-year regulatory period.

Importantly, the regulatory framework requires each component of the proposal to be assessed on its merits. It does not start with a particular price level in mind, and then work backwards to determine how much we should be allowed to spend. This is because prices can be affected by many factors, including circumstances out of our control. For instance, inflation and market conditions can change significantly from year to year. In contrast, our costs of providing water and wastewater services are more predictable. We believe that the starting point for the regulatory process should always be to determine the right level of expenditure to efficiently deliver the services our customers have told us are most important.

We are also very conscious about affordability for our customers. That’s why when we engaged with the ACT community, we

spoke to customers about the price impacts of the investments needed to deliver on our customers’ expectations. In this way, we worked hard to make sure our proposed expenditure provides value to the community and achieves the community’s preferred balance between price and service.

The Commission engaged Marsden Jacobs Associates (MJA) to help assess the prudence and efficiency of our expenditure.

On 21 October 2022, the Commission released its draft decision for the 2023–28 regulatory period and invited public submissions.

This document is Icon Water’s submission – it outlines our response to the Commission’s draft decision and provides updated information where appropriate.

Timeline



CUSTOMER VALUES AND EXPECTATIONS

In preparing this submission, we have continued to consider our customers' values and expectations for how we plan and invest in the future.

Our customers value:



Reliable water and wastewater services



Quality drinking water



Affordable pricing



Responsive customer service

... and expect that



The community agrees with the need to continue to plan for the future, this includes investing in water security and exploring alternative water sources.



There is community support for achieving greater environmental sustainability and accelerating net zero while limiting impact on customer prices.



The community is committed to Icon Water maintaining quality and reliable core services and is willing to pay something towards reducing interruptions or issues for those who experience them more than usual.



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.



The community considers Icon Water an essential service provider. To be a valued partner in the community customers want us to be more visible – this means being targeted in our partnering initiatives, education and supporting activities, and proactively talking about it with the community.

Our plan for the next five years

Our plan for the 2023–28 regulatory period is summarised in eight customer-focussed outcomes. These outcomes were informed by our customer values and expectations, alongside our business needs and regulatory obligations.



Prepare and plan for the future



Care for and protect the environment



Affordability for all



Valued and visible community partner



Maintain core service levels



Safe and healthy drinking water



Reliable water and wastewater services



Contemporary and responsive customer service



GUIDE TO THIS
DOCUMENT



GUIDE TO THIS DOCUMENT

Purpose

This document provides a concise summary of our response to the Commission's draft decision. This includes an overview of information that has been updated since we submitted our price proposal, our proposed revenue requirement for the 2023–28 regulatory period and the impact on customer bills.

Our pricing website

A user-friendly and customer-focused website iconwater.com.au/priceproposal enables our customers to explore our price proposal. The website also provides links to this overview and the attachments.

Detailed attachments

More detailed information on the updates to Icon Water's proposal and response to the Commission's draft decision is set out in three attachments. The attachments enable full scrutiny by the Commission ahead of their final decision on prices for the 2023–28 regulatory period.

The attachments cover:

1. Operating expenditure
2. Capital expenditure
3. Other matters



ABOUT US



ABOUT US

As the ACT's supplier of essential water and wastewater services, we are committed to providing a safe, secure and sustainable water supply for the people of the ACT and the region.

We have been part of the Canberra community for over 100 years; we source, treat and supply water and manage wastewater services. We play a fundamental role in the community, providing essential services that contribute to public health and the prosperity and liveability of the region.

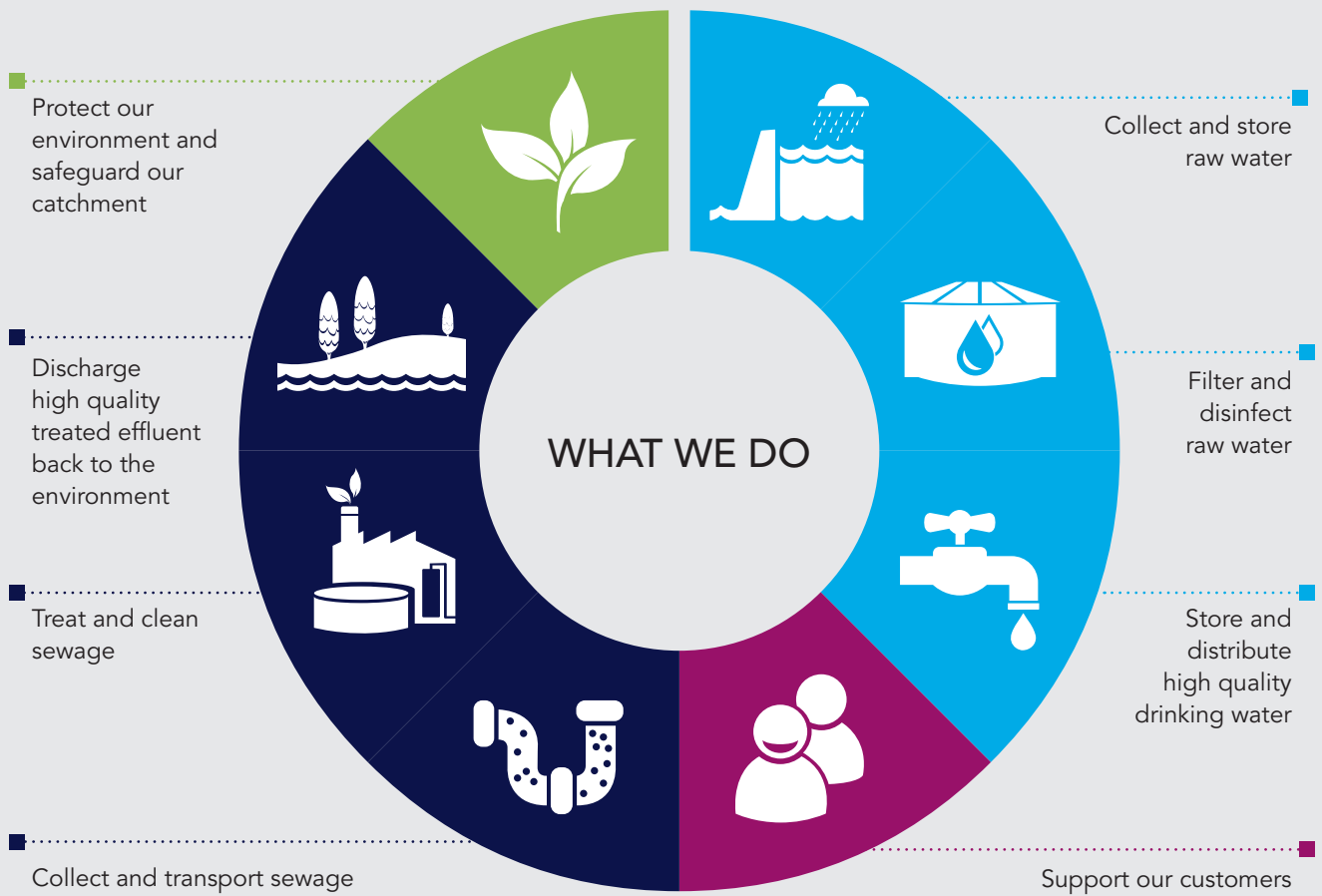
The current value of our assets is around \$3.2 billion and includes the territory's network of dams, water treatment plants, wastewater treatment plants, reservoirs, water and sewage pumping stations, pipes and other related infrastructure.

A major part of our role is protecting the environment. We operate one of Australia's largest inland wastewater treatment plants, returning around 70 per cent of the water Canberra uses as high quality flows to the Murrumbidgee River at a standard suitable for beneficial reuse downstream. Our reliability, expertise and community focus mean we are well placed to provide these essential services.

As a Territory-owned corporation we have four obligations under the ***Territory-owned Corporations Act 1990***:

1. To operate at least as efficiently as any comparable business.
2. To maximise the sustainable return to the Territory on its investment in Icon Water and ActewAGL, in accordance with the performance targets in the Statement of Corporate Intent.
3. To show a sense of social responsibility by having regard to the interests of the community in which we operate, and by trying to accommodate and encourage those interests.
4. Where our activities affect the environment, to effectively integrate environmental and economic considerations in decision-making processes.

Our essential services support the wellbeing of the Canberra community, particularly in relation to the ACT Wellbeing Framework domains of health, environment and climate, and economy.



OUR CUSTOMERS

453,324

Population reach

186,833

Residential customers

9,939

Non-residential customers

45.4

Gigalitres of water supplied in 2021–22

OUR TEAM

~400

Employees

97%

Employed full-time

21%

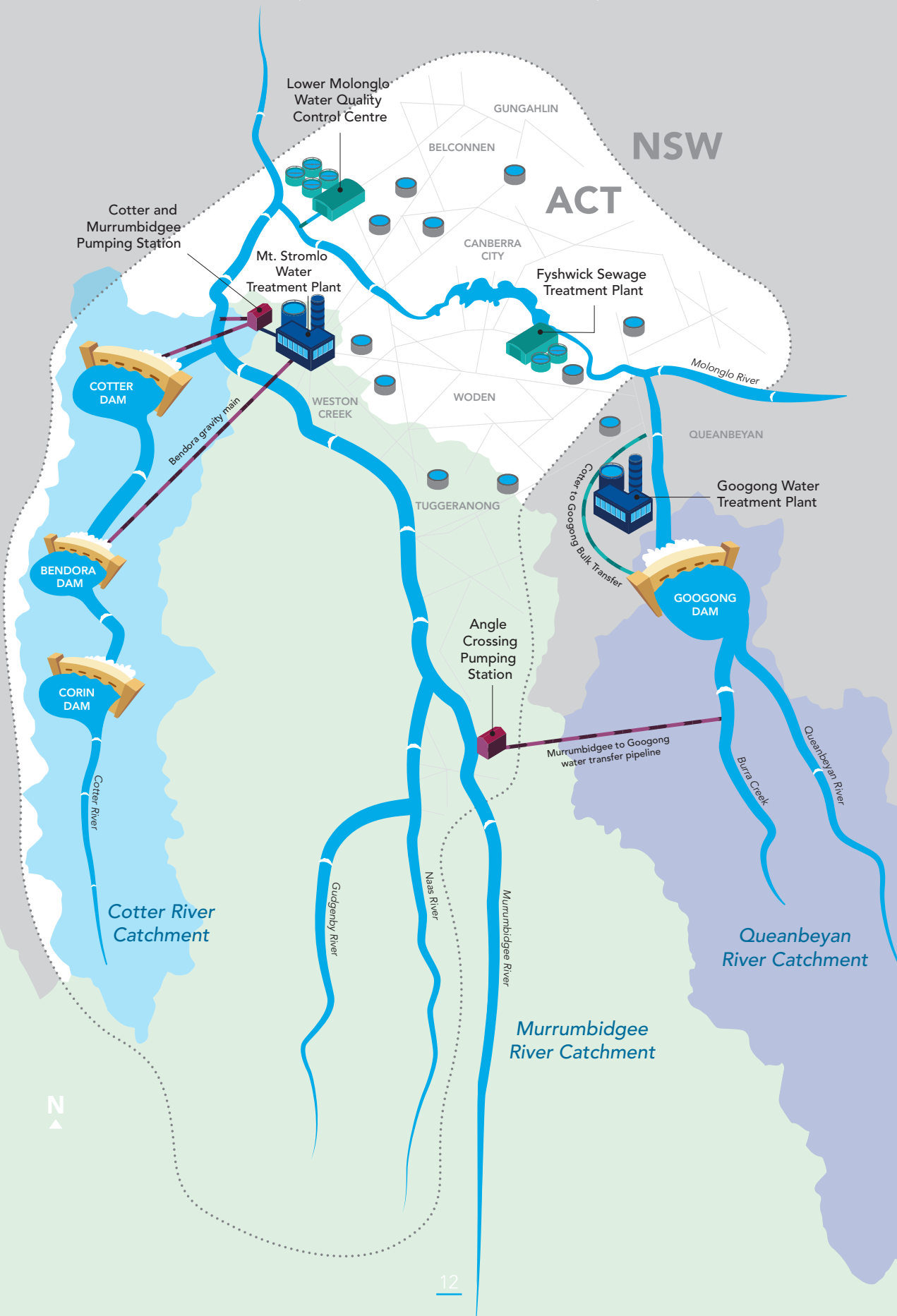
15+ years loyal

44

Average age

OUR NETWORK

(WATER & WASTEWATER)



OUR ASSETS

\$3.2 billion

of water and wastewater related assets



278 GL

Combined dam capacity



3,400km

Network of water pipes



25

Water pumping stations



2

Water treatment plants



50

Reservoirs



3,400km

Network of sewer pipes



27

Sewage pumping stations



4

Sewage treatment plants



UPDATES TO
PRICE PROPOSAL



OVERVIEW

Operating expenditure

Operating expenditure refers to the day-to-day costs we incur to plan, operate and maintain our network so we can provide water and wastewater services to our customers. Operating efficiently is important to us and our customers, and over the last five years we challenged ourselves to find savings and achieved efficiencies of 1.7 per cent per year. Despite the significant efficiencies we've already achieved, as well as current challenging economic conditions, we have proposed further efficiencies of 0.7 per cent per year for the next five years.

Based on our prudent and efficient costs, our operating forecast for the 2023–28 regulatory period is \$214.6 million per year (in 2022–23 dollars).

This forecast considers the Commission's draft decision, as well as updated assumptions to reflect more recent information. Key updates to the operating forecast include:

- A reallocation of costs between controllable and non-controllable expenditure, to be consistent with the Commission's draft decision.
- Updated forecasts to reflect the latest available information for forecast inflation, labour, construction, electricity and insurance costs.
- Consistent with the accounting guidance for cloud-based technology projects, we have shifted expenditure from our capital forecast to our operating forecast. This has not increased our total expenditure.
- Allocating additional funding to comply with regulatory requirements, including the critical infrastructure obligations passed earlier this year to protect businesses and their customers from cyber security and other threats.
- Challenging ourselves to find an additional \$4.4 million in savings over the next five years on top of our original commitment of \$12 million.

[Attachment 1](#) provides further information on the updates to our operating forecast.

This level of operational funding will enable us to strengthen the resilience of the ACT's water and wastewater network while continuing to maximise value for our customers, both of which are in the long term interest of Canberrans.

Capital expenditure

A significant proportion of the ACT's water and wastewater assets were built in the late 1960s and early 1970s during a period of rapid expansion in Canberra, including our main wastewater treatment plant. We have carefully planned our investments for the next five years to ensure we renew assets approaching the end of their service life and upgrade assets reaching capacity in a timely and cost-efficient manner, while minimising disruption to customers. By making these responsible investments, we will make sure that future generations continue to benefit from a safe and reliable water and wastewater network.

Our forecast capex for the 2023–28 regulatory period is \$689.1 million (in 2022–23 dollars). This includes \$206.8 million for water assets and \$482.2 million for wastewater assets. This funding will enable us to renew and upgrade our infrastructure at the right time, so we can continue to deliver quality drinking water

and reliable wastewater services to our customers, and preserve our essential, long-lived infrastructure for future generations.

An additional \$28.3 million of investment will also be funded by developers through the capital contributions charge.

This forecast considers the Commission's draft decision, as well as updated assumptions to reflect more recent information.

Key updates to the capital investment plan include:

- For the top 10 forecast capital projects, we considered MJA's assessment and have provided updated information and forecasts for four projects.
- We removed (either in part or full) nine ICT projects, to reflect the shift in expenditure from capital to operating expenditure. This has reduced our capital investment plan compared to our initial proposal.

- For the remainder of the portfolio, we undertook a risk-based re-profiling of some of our projects, which means a delay in passing on these costs to customers.
- We also made a number of relatively minor changes to reflect updated project cost and delivery timeframe forecasts.

In developing our capital investment plan and making the above updates, we have intentionally omitted a portion of project costs to minimise the upfront impact on customers. If projects move forward as we anticipate and the full project cost is realised in the 2023–28 regulatory period, we intend to submit this prudent and efficient expenditure for review as part of the 2028–33 price investigation.

[Attachment 2](#) provides further information on the updates to our capital forecast.

Other matters

We note and welcome the Commission's commitment to review the wastewater tariff structure in the next regulatory period and look forward to engaging with our customers and the Commission on this topic soon.

[Attachment 3](#) provides further information on the other elements of Commission's draft decision including the demand forecast and weighted average cost of capital.



OUR REQUIRED REVENUE

Icon Water’s net revenue, which is the amount we propose to recover from our customers over the 2023–28 regulatory period, is shown in Figure 1.

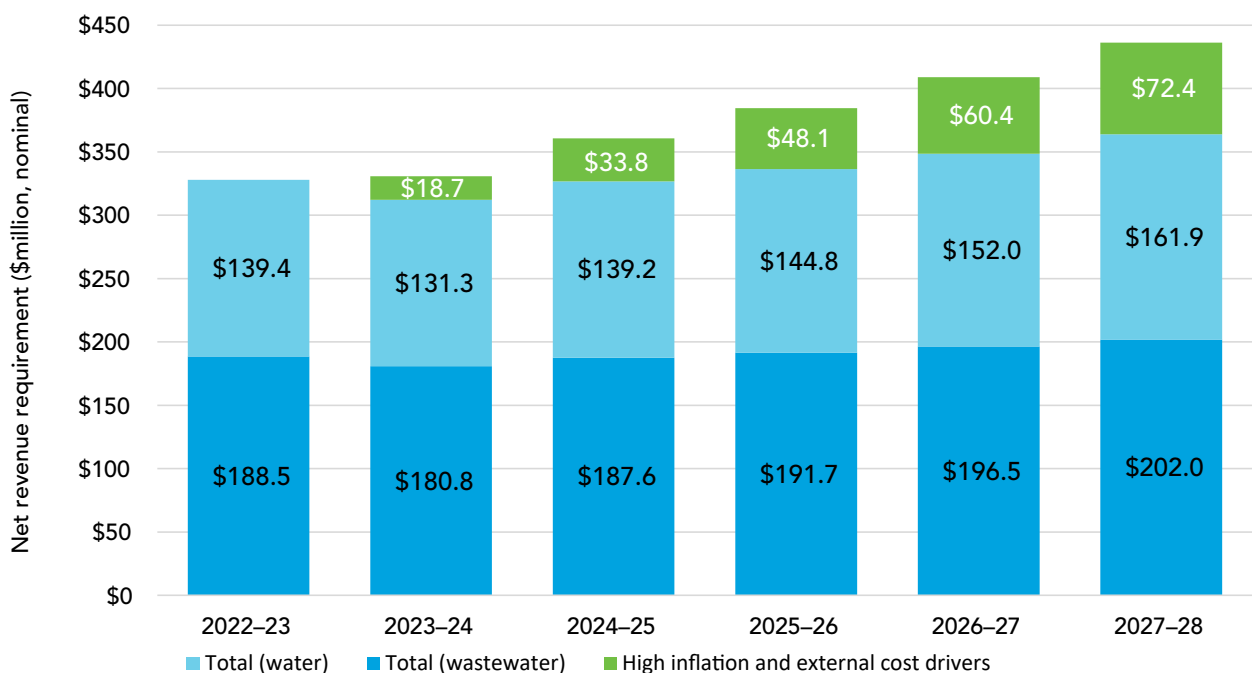


Figure 1 Net revenue requirement for water and wastewater (\$million, nominal)

As shown in Figure 1, the increase in the net revenue requirement for the 2023–28 regulatory period (compared to the current financial year) is almost completely driven by higher forecast inflation and higher operating costs outside of Icon Water’s control (including higher insurance costs)¹. This unfortunately mean higher prices for our customers over the next five years; as while our customer numbers will continue to increase, this growth will not offset higher inflation and other costs.

¹ High inflation and external cost drivers includes step changes in operating expenditure, inflation above 2.5 per cent and a WACC above 5.11% (consistent with our initial proposal)

Table 1 and Table 2 show Icon Water’s net revenue requirement for water and wastewater for the 2023–28 regulatory period.

Table 1: Forecast net revenue requirement – water (\$million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Return on capital	\$46.8	\$51.2	\$55.5	\$60.2	\$65.1
Depreciation	\$38.5	\$42.0	\$45.1	\$48.7	\$52.6
Operating expenditure	\$79.4	\$87.2	\$89.9	\$91.8	\$92.5
Water abstraction charge	\$36.0	\$37.4	\$38.9	\$40.5	\$42.2
Utilities network facilities tax	\$6.8	\$7.1	\$7.4	\$7.7	\$8.0
Other non-controllable operating expenditure	\$0.8	\$0.9	\$0.9	\$1.1	\$1.5
Net tax liabilities	\$0.0	\$0.0	\$0.0	\$0.0	\$0.9
Total revenue requirement	\$208.4	\$225.7	\$237.7	\$250.0	\$262.8
Less other adjustments	\$19.6	\$20.4	\$21.2	\$21.9	\$22.6
Net revenue requirement (water)	\$188.7	\$205.3	\$216.5	\$228.2	\$240.2

Source: Icon Water

Note: Totals may not sum due to rounding

Table 2: Forecast net revenue requirement – wastewater (\$million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Return on capital	\$29.8	\$33.3	\$37.3	\$42.6	\$49.9
Depreciation	\$36.6	\$40.0	\$43.6	\$48.1	\$54.3
Operating expenditure	\$84.7	\$91.4	\$96.4	\$98.8	\$100.3
Utilities network facilities tax	\$5.5	\$5.7	\$5.9	\$6.2	\$6.5
Other non-controllable operating expenditure	\$1.2	\$1.2	\$1.2	\$1.5	\$1.9
Net tax liabilities	\$1.4	\$1.3	\$1.5	\$1.9	\$2.2
Total revenue requirement	\$159.1	\$172.9	\$186.0	\$199.2	\$215.1
Less other adjustments	\$17.0	\$17.5	\$18.0	\$18.5	\$19.0
Net revenue requirement (wastewater)	\$142.1	\$155.4	\$168.0	\$180.7	\$196.0

Source: Icon Water

Note: Totals may not sum due to rounding

IMPACT ON TYPICAL BILLS

A typical residential customer consuming 200 kL of water per year is forecast to see an increase in their combined water and wastewater bill of 6.5 per cent (or around \$87) per year on average during 2023–28. This includes forecast inflation of 3.35 per cent per year.

Illustrative water and wastewater bills for 2023–28

As part of our customer engagement program, we developed five community personas to help with discussions about tariffs and their impacts on customer bills.



Celia

Meet Celia

Celia lives by herself in a small house in Monash, ACT. She works part-time, so money is reasonably tight. She watches every penny. Celia doesn't typically use much water and always conserves what she can – her plants are cared for with water saved from the shower! Celia is interested in ways to save on bills and how residential water users can help improve water security in the ACT.

100 kL of water per year

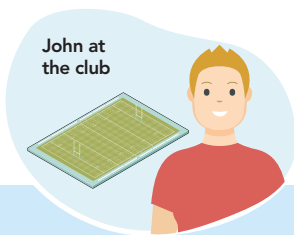


The Smiths

Meet the Smiths

The Smiths are a family of four (plus one furry friend) who live in a house in Kaleen, ACT. They use water in their day-to-day lives. They have a lot of laundry to do, as well as a garden to maintain. The Smiths are keen to look at ways to reduce their water use (and bills) without compromising their quality of life.

200 kL of water per year



John at the club

Meet the local football club

John manages his local football club. He takes pride in maintaining the grounds and pitch and in providing facilities like player shower rooms. John would like to know how to reduce water use or save costs without compromising service. He has a water tank but doesn't want to rely on this too heavily in case of future dry spells.

30,000 kL of water per year



Ashlee at Blooms

Meet Blooms Garden Centre

Blooms is a suburban garden centre offering a large variety of plants for purchase and has a number of greenhouses to raise plants to sell. The owner, Ashlee, knows that despite good water conservation practices the business uses a lot of water. Ashlee finds that her water bills are very high and would like to reduce them, as well as explore ways to recycle and reuse water.

5,000 kL of water per year



Kevin at Bean Brew

Meet Bean Brew Coffee Shop

Kevin is the owner. He and his small team use water to make coffees, for cooking, cleaning and the customer restroom. Kevin knows his water use is fairly low compared to larger businesses, but he is always looking for ways to be more efficient and return a profit. Kevin wants to be able to easily and quickly reach out to Icon Water to fix any problems and to minimise the costs of running his business.

300 kL of water per year

The persona approach was positively received so we have extended its use to show the impacts of our proposed prices for different community personas, as shown in Table 3.

Table 3: Forecast bill impacts for community personas (\$, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Celia – using 100 kL per year					
Combined water and sewerage bill (\$ per annum)	\$991	\$1,056	\$1,126	\$1,200	\$1,278
Change in bill (\$)	\$61	\$65	\$69	\$74	\$79
Change in bill (%)	6.6%	6.6%	6.6%	6.6%	6.6%
The Smiths – using 200 kL per year					
Combined water and sewerage bill (\$ per annum)	\$1,253	\$1,335	\$1,421	\$1,513	\$1,611
Change in bill (\$)	\$76	\$81	\$86	\$92	\$98
Change in bill (%)	6.5%	6.5%	6.5%	6.5%	6.5%
Bean Brew Coffee Shop – using 300 kL per year					
Combined water and sewerage bill (\$ per annum)	\$1,719	\$1,828	\$1,945	\$2,069	\$2,201
Change in bill (\$)	\$103	\$109	\$116	\$124	\$132
Change in bill (%)	6.4%	6.4%	6.4%	6.4%	6.4%
Blooms Garden Centre – using 5,000 kL per year					
Combined water and sewerage bill (\$ per annum)	\$24,557	\$26,058	\$27,650	\$29,341	\$31,134
Change in bill (\$)	\$1,414	\$1,501	\$1,593	\$1,690	\$1,794
Change in bill (%)	6.1%	6.1%	6.1%	6.1%	6.1%
Local Football Club – using 30,000 kL per year, with 10 billable wastewater fixtures					
Combined water and sewerage bill (\$ per annum)	\$151,287	\$160,555	\$170,392	\$180,832	\$191,913
Change in bill (\$)	\$8,733	\$9,269	\$9,837	\$10,440	\$11,080
Change in bill (%)	6.1%	6.1%	6.1%	6.1%	6.1%

Source: Icon Water.
All prices and bill impacts are inclusive of inflation of approximately 3.35% per year



HOW WE SUPPORT OUR CUSTOMERS

We recognise the cost-of-living pressures facing our community which are impacting our customer segments in different ways.

For many, it's an incredibly challenging time and we understand that more of our customers may need extra assistance managing their bills. We have a range of support options for residential and small business customers which include:

- flexible payment plans
- payment extensions
- personalised case management through the Staying Connected program which has been recently expanded to include small business customers.

Customers can access these support mechanisms by:

- requesting a payment extension through our online self-service portal
- talking to us directly by calling 6248 3111 and selecting option 2
- sending an email to talktous@iconwater.com.au
- visiting our website to contact our Staying Connected team to discuss how we can help. Our website also provides information on how to contact us via language assist services for customers who are deaf or have a hearing or speech impairment.

When talking about our plans for the next five years, customers told us they understood the need for timely investment to ensure affordability over the long-term. At the same time, they asked that we consider financially vulnerable customers in our decisions. The original engagement activities did capture vulnerable customers within the broader engagement activities. As a next step, we will be engaging directly with those experiencing vulnerability and their advocates in 2023 to explore our current customer support programs, potential enhancements to their design and other support opportunities.





HOW WE SUPPORT OUR COMMUNITY

Icon Water administers Community Service Obligations (CSOs) on behalf of the ACT Government, which provide subsidised tariffs for eligible institutions including churches and other religious establishments, hospitals, schools, benevolent institutions and charitable institutions.

Through our Community Support Program, we also support many community services and programs, to give back to our local community and provide direct support to

Canberrans in times of need. In 2022–23 we are providing more than \$400,000 in sponsorship, donations and in-kind support to local non-for-profit and community

organisations such as Lifeline, OzHarvest, Menslink, Karinya House, Roundabout Canberra and Domestic Violence Crisis Support (DVCS).

WHERE TO FROM HERE

The Commission will release its final report and price direction for the 2023–28 regulatory period between March and May 2023. Following this, we will notify our customers of our updated prices which will come into effect on 1 July 2023.

Principal Registered Office

Level 5, ActewAGL House
40 Bunda Street
Canberra ACT 2600

Mitchell Office

12 Hoskins Street
Mitchell ACT 2911

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GPO Box 366
Canberra ACT 2601

ACN: 069 381 960

ABN: 86 069 381 960

TTY for Hearing Impaired

133 677

Language assistance

13 14 50, 24 hours

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