



8 April 2022

Mr Joe Dimasi
Senior Commissioner
Independent Competition and Regulatory Commission
PO Box 161
Civic Square ACT 2608

By email: icrc@act.gov.au

Dear Mr Dimasi,

Re: Regulated Water and Sewerage Services Prices 2023-2028

On behalf of the Australian Hotels Association (ACT Branch) and the Accommodation Association, and representing the interests of over 70 accommodation providers in the ACT, we make this joint submission to the Independent Competition and Regulatory Commission's price investigation into prices of the fixed sewerage charges price from 2023-2028.

The role of the Commission in this price investigation is to ensure that customers pay no more than is required for safe and reliable water and sewerage services.¹ Presently, the fixed sewerage charge for accommodation hotels is approximately \$500 for each flushing fixture. This current sewerage supply charge and its methodology is inequitable and disadvantageous to the accommodation sector, especially when compared with residential and commercial office properties.

We appreciate the need for Icon Water to earn enough revenue to cover its prudent and efficient costs, as well as provide an appropriate return on investment, that is noted throughout the Issues Paper. However, the current pricing methodology does not reflect the efficient and prudent costs of providing sewerage connections to accommodation hotels. It ought not be the burden of the ACT's accommodation sector to subsidize other users of the sewerage network.

As such, we propose that improvements are made to aspects of the current regulatory model's methodology. These changes will significantly improve the affordability of fixed sewerage charges for the accommodation sector but will not affect the delivery of other outcomes discussed in the Issues Paper. These other outcomes relate to the continuation of service standards, water security and Icon Water's climate change risk management.

To support our assertion that the present fixed sewerage charge for accommodation hotels is inequitable and disadvantageous, we make the following observations:

¹ Independent Competition and Regulatory Commission (2022), *Issues Paper: Regulated Water and Sewerage Services Prices 2023-2028*, p. 6

Comparison with Residential Premises

1. Hotels are charged for each flushing fixture. Conversely, residential houses and apartments are charged one supply charge for each address regardless of the number of flushing fixtures. Although firm data is sparse, it is a reasonable assumption that residential premises in the ACT average two flushing fixtures per premises.² In effect, this means that accommodation hotels are paying twice as much as residential properties per flushing fixture.
2. Despite paying twice as much as residential properties, the use of the sewerage network by accommodation properties is significantly lower. The Water Directorate has previously assumed sewerage usage to be split into 15% kitchen usage, 25% laundry usage, 30% toilet usage and 30% bathroom usage.³ Since hotel rooms (Class 3 under the National Construction Code) do not have laundries or kitchens, their usage of the sewerage network is immediately reduced by 40% compared to a comparable residential premises.
3. On average, there are 2.5 individuals per residential premises in the ACT.⁴ By comparison, a representative sample of AHA ACT and AA members showed that the guest density per hotel room averaged only 1.46 in 2019.⁵ This means the load on the sewerage network per hotel room is 42% lower than a residential premises.
4. Combining the three factors above, the fixed sewerage charge for flushing fixtures in accommodation properties ought to attract 17.4% of the charge of residential premises (i.e., $\text{Residential Charge} \times 50\% \times 60\% \times 58\%$). The current pricing methodology does not reflect this.
5. Further to the above, it is our contention that residential dwellings place a higher burden on the sewerage network. Hotel guests are transient in nature, and it is atypical for guests to remain in a hotel room throughout the waking hours. Because residential properties are occupied for more of the day, it is logical that their flushing fixtures are used more frequently throughout the day. The current pricing methodology does not reflect this.
6. With a residential occupancy rate in the ACT of 0.9% in the December quarter 2021, most residential properties can be assumed to be occupied.⁶ This differs from the accommodation sector, which had an occupancy rate in the ACT of 77.5% in FY18-19.⁷

² This estimate has been arrived at using the following data:

CommSec, 2021, *Commsec Annual Home Size Report*, accessed 8 April 2022,

https://www.commsec.com.au/content/dam/EN/ResearchNews/2021Reports/November/ECO_Insights_011121-CommSec-Home-Size-Report-2021.pdf and

Schlunke A, Lewis J and Fane S, 2008, *Analysis of Australian Opportunities for More Water-Efficient Toilets*, Institute of Sustainable Futures, accessed 8 April 2022,

<https://www.waterrating.gov.au/sites/default/files/2019-01/water-efficient-toilets.pdf>

³ Water Directorate, 2017, *Section 64 Determinations of Equivalent Tenements Guidelines*, accessed 8 April 2022, <https://www.kyogle.nsw.gov.au/wp-content/uploads/2019/04/Section-64-Determinations-of-ETs-Guidelines-2017.pdf>, p. 29.

⁴ Australian Bureau of Statistics, 2016, *2016 Census QuickStats*, accessed 8 April 2022, https://quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/8ACTE?opendocument

⁵ See Appendix for data collected by AHA ACT and the Accommodation Association

⁶ ACT Government, 2021, *Residential Property Market – December Quarter 2021*, accessed 8 April 2022, https://treasury.act.gov.au/_data/assets/pdf_file/0007/399985/RESPROP.pdf

⁷ STR, 2020, *Australian Accommodation Monitor – Summary 2018-2019*, accessed 8 April 2022, <https://str.com/whitepaper/past-australian-accommodation-monitor-reports>

Recommendation 1: That the fixed sewerage charge for flushing fixtures in accommodation properties in the ACT is 17.4% of the residential charge.

Comparison with Commercial Offices

1. According to Safe Work Australia's 'Managing the Work Environment and Facilities' Code of Practice, office buildings require one toilet for every 15 females, one toilet for every 20 males, and one urinal for every 25 males.⁸ This average of 20 users per flushing fixture translates into an annual cost of \$34.66 per user.⁹ Accommodation hotels have an annual cost of \$437.61 per user.¹⁰ As such, accommodation hotels should be charged 7.92% of the fixed sewerage charge for each flushing fixture in a commercial office building.
2. Additionally, peak demand times for a commercial office building are substantially higher than for an accommodation hotel. This is because more waking hours are spent in a commercial office space than a hotel room. Typically, an individual will begin to digest two meals during a working day in a commercial office space.

Recommendation 2 (if Recommendation 1 is not agreeable): That the fixed sewerage charge for flushing fixtures in accommodation properties in the ACT is 7.92% of rate applied to commercial office spaces.

Equivalent Tenements

It is clear that buildings have different prudent and efficient costs of sewerage depending on their use. As is demonstrated above, an accommodation property places a different load on the sewerage system compared to a residential property or a commercial office building. To be equitable, this difference ought to be incorporated into the pricing methodology for determining fixed sewerage charges in the ACT.

In Tasmania, TasWater uses the 'Equivalent Tenement' (ET) methodology to measure the load a property places on the sewerage system and determine an equitable price. The methodology is underpinned by the *Section 64 Determinations of Equivalent Tenements Guidelines*, where 1 ET is equal to the load placed upon the sewerage system by an average single residential house. According to TasWater, 'The practical application of the ET methodology means that if a property is deemed to be capable of discharging twice as much sewage into the sewerage system [as a single residential property], it will be assessed as 2 ETs and the target price will be twice the standard fixed sewerage charge.'¹¹

The key benefits of this methodology are that it is rigorous, transparent and independent. It is tried and tested, being used in a comparable jurisdiction.

We believe that the ET methodology is another suitable way to assess the load that accommodation properties place on the ACT's sewerage system, and to determine an equitable price. The below table is extracted from the *Section 64 Determinations of Equivalent Tenements Guidelines*. It shows

⁸ Safe Work Australia, 2011, *Managing the Work Environment and Facilities Code of Practice*, accessed 8 April 2022, https://www.safeworkaustralia.gov.au/system/files/documents/1702/managing_work_environment_and_facilities2.pdf p. 17

⁹ See Appendix

¹⁰ See Appendix

¹¹ TasWater, 2020, *Equivalent Tenements Explained*, access 8 April 2022,

<https://www.taswater.com.au/accounts-billing/fees-charges/equivalent-tenements-explained>

the load placed by a hotel room is 45% of an average single residential house, and that the load placed by a one-bedroom serviced apartment is 50% of an average single residential house.

Category	Unit	Applicable ET
Camping Site (Temporary)	Site	0.63
Caravan/Cabin Site (Temporary)	Site	0.63
B&B/Guest house	Room	0.5
Motel/Hotel/Resort	Room	0.45
Backpackers/Hostel	Room	0.23
1 Bedroom Serviced Apartment	Dwelling	0.5
2 Bedroom Serviced Apartment	Dwelling	0.75
3 Bedroom Serviced Apartment	Dwelling	1

We recommend that the pricing methodology for fixed sewerage charges in accommodation hotels is improved to utilise this Equivalent Tenements methodology. Taken at the current residential rate of \$506.30, the relevant charges per flushing fixture would be:

Category	Unit	Supply Charge per Connection
Camping Site (Temporary)	Site	\$ 318.97
Caravan/Cabin Site (Temporary)	Site	\$ 318.97
B&B/Guest house	Room	\$ 253.15
Motel/Hotel/Resort	Room	\$ 227.84
Backpackers/Hostel	Room	\$ 116.45
1 Bedroom Serviced Apartment	Dwelling	\$ 253.15
2 Bedroom Serviced Apartment	Dwelling	\$ 379.73
3 Bedroom Serviced Apartment	Dwelling	\$ 506.30

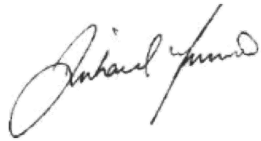
Recommendation 3 (if Recommendation 2 and 3 are not agreeable): That the fixed sewerage charge for flushing fixtures in accommodation properties in the ACT be determined using existing Equivalent Tenement methodology.

In conclusion, the current pricing methodology for fixed sewerage charges is inequitable and disadvantageous to accommodation providers. Accommodation providers are paying substantially more than residential and commercial office users, despite placing a reduced burden on the

sewerage network. We ask that the Commission gives strong consideration to our reasonable recommendations so that accommodation providers pay no more than is required for safe and reliable sewerage services. We acknowledge the need for sewerage prices to cover the efficient and prudent costs of Icon Water, as well as allow for an appropriate return on investment, but the current pricing methodology is distorted and needs significant improvement.

Please contact us for clarification on any aspect of this submission. We would welcome the opportunity to participate in the public hearing. In the interim, we await Icon Water's pricing proposal and the Commission's draft report with keen interest.

Yours sincerely,



Richard Munro
CEO
Accommodation Association



Anthony Brierley
General Manager
Australian Hotels Association (ACT Branch)