



10 October 2018

Our Ref: [REDACTED]

File No: [REDACTED]

Independent Pricing and Regulatory Tribunal  
By Email: [ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au)

To whom it may concern,

### **Submission to the Independent Pricing and Regulatory Tribunal Recycled Water Pricing Review for Public Water Utilities**

The City of Sydney (the City) is pleased to make this submission to the Independent Pricing and Regulatory Tribunal's (IPART): Recycled Water Pricing Review for Public Water Utilities.

#### **Importance of recycled water in the City of Sydney area**

The issue of recycled water pricing is of great significance for the city as it strives to be a water sensitive city. The City's Environmental Strategy and Action Plan 2016-2021 lists the following water outcomes for our community:

- Efficient use of potable water and reduced demands on the water and sewerage networks
- Increased amenity and urban cooling through improved green space maintained by independent, climate resilient water supplies
- Improved quality of local waterways through reduced pollution discharged via wastewater and stormwater outlets.

These outcomes are increasingly important as we respond to the demands of population growth and a changing climate, including warmer temperatures and changing rainfall patterns.

#### **A broad review of the NSW water sector is required**

Whilst the City values the opportunity to comment on this IPART review, we would like to reiterate our view that the considerable resources and expertise required to make a detailed submission are beyond the means of most local government and small organisations. The City encourages IPART to undertake a more holistic review that employs more inclusive and engaging methods that promote collaborative local government and industry input into a single review.

The City's position on recycled water pricing has not changed. The City is waiting to hear the outcomes of the current review by the NSW Government into the barriers to cost-effective water recycling. Based on Infrastructure NSW's presentation of initial review findings, the City is concerned that the existing price distortions may not be adequately addressed and a further review will be required. The City will continue to advocate against the 'retail-minus' pricing methodology used to determine wholesale prices.

The Metropolitan Water Plan 2017 notes current pricing and regulatory settings can bias investment towards traditional service models even when alternatives, including water recycling are cheaper.

IPART needs to determine pricing that is clear, relevant and predictable, which encourages diversification of local water supply and results in more resilient communities.

While this review into recycled water pricing is welcomed, reform will not result without considering the sector as a whole i.e. without addressing developer charges, 'ring fencing' recycled water schemes, wholesale pricing, and non-cost reflective pricing (postage stamp pricing), which are the key issues that the City maintains its position on:

- **Prices for centralised water and sewerage are not cost reflective:** postage stamp pricing applies the same price across the network in spite of cost variations – cost reflective pricing would improve competitiveness.
- **Postage stamp pricing does not apply to recycled water schemes:** recycled water schemes are required to be self-funded rather than funded by the broader water and/or sewerage customer base, unless they can demonstrate avoided costs. Recycled water reduces stress on the centralised system and provides public benefit therefore should be subsidised by a utilities broad customer base, similar to Sydney's desalination plant.
- **Avoided and deferred costs:** recycled water schemes have a cumulative effect on reducing costs for central water and sewerage infrastructure. Avoided and deferred costs need to be recognised as such without an applicant having to demonstrate this. A simple and practical method of calculating and applying for avoided costs is needed.
- **Developer charges are only applied to recycled water schemes:** developer charges for water, sewerage and stormwater were set to zero in 2008 however, they still apply to recycled water. This leads to higher costs to developers and the community to develop recycled water schemes even if they may provide greater economic benefits in the long term.
- **Current pricing does not value water security and environmental benefits:** The City supports the IPART review of this aspect of recycled water pricing. Recycled water provides water security benefits to society by reducing potable water use and using fit for purpose water, reducing stress on the centralised water and sewerage system and potentially reducing impacts on waterway health. Valuing these benefits needs to be explicit and incorporate both present and future environmental values.

### Conclusion

The City anticipates that IPART will consider the above points in its determination under the current recycled water pricing review.

Yours sincerely

**Monica Barone**  
Chief Executive Officer