# **Domestic waste management charges - Discussion Paper**

Submission date: 19 October 2020, 11:47AM

Receipt number: 78

Related form version: 5

Question	Response
Feedback and Submission Form	
Industry	Local Government
Review	Review of domestic waste management service charges
Document Reference	c1e253a1-4210-41d3-97de-3be8f315fce7
1. Are there concerns with the prices councils charge for domestic waste management services? Why/why not?	
2. If there are concerns, how should IPART respond? For example, if IPART was to regulate or provide greater oversight of these charges, what approach would be the most appropriate? Why?	
3. Would an online centralised database of all NSW councils' domestic waste charges allowing councils and ratepayers to compare charges across comparable councils for equivalent services (eg, kerbside collection), and/or a set of principles to guide councils in pricing domestic waste charges, be helpful? Why/why not?	
4. Do you have any other comments on councils' domestic waste management charges?	
5. Which Council do your comments relate to?	
Your submission for this review:	
If you have attachments you would like to include with your submission, please attach them below.	<u>Final GRH submission to IPART - DWMC</u> <u>151020.pdf</u>
Your Details	
Are you an individual or organisation?	Organisation
If you would like your submission or your name to remain confidential please indicate below.	Publish - my submission and name can be published (not contact details or email address) on the IPART website
First Name	Nathan

Last Name	Lopez
Organisation Name	Global Renewables Limited
Position	Chief Executive Officer
Email	
IPART's Submission Policy	I have read & accept IPART's Submission Policy



Eastern Creek Operations Pty Limited ACN 105 104 087 PO Box 202 Horsley Park 2175 Telephone: 61 2 9677 3120 Facsimile: 61 2 9677 3199 Website: www.grl.com.au

15 October 2020

Dr Paul Paterson Chair Independent Pricing and Regulatory Tribunal PO Box K35 Haymarket Post Shop, Sydney NSW 1240

# Review of domestic waste management charges - submission by Global Renewables Limited

Dear Dr Paterson

We are pleased to have the opportunity to make a submission to the review of domestic waste management (DWM) charges being conducted by IPART.

### 1. About us

Global Renewables Limited (GRL) operates the largest Alternative Waste Treatment (AWT) plant in the Southern Hemisphere, which is located at Eastern Creek in the Sydney metropolitan area. Our facility employs nearly 100 people and supports over 40 businesses in Western Sydney, which supply services to us.

The sole purpose of our Eastern Creek plant is to receive and deal with municipal solid waste (MSW) from <u>household red lidded bins</u> (red bins). From red bins we recover and recycle any extractable recyclables (glass, metals, plastics, paper, and cardboard) and organics (food and green waste) so these can be diverted from landfill. We processes approximately 15 percent of Sydney's household MSW or about 220,000 tonnes per annum.

On average we divert 64 percent of MSW from landfill via recycling (which we sell in the domestic market) and the production of an organic growth medium (OGM®), which can be applied to land under specific permission by the NSW Environmental Protection Authority (NSW EPA). By comparison, the average MSW diversion rate in NSW was 42 percent in 2018<sup>1</sup>. Our diversion rate is close to the NSW Government's 70 percent target for recycling from MSW by 2021-22<sup>2</sup>.

In total, since we began operations in 2003, we have processed 2M tonnes of MSW and diverted 1.6M tonnes from landfill. We are projected to divert a further 2M tonnes by 2032. Our diversion has also avoided the emission of over 1.2 million tonnes of  $CO_2e$  from landfill.

### 2. General comment on discussion paper

We understand that the structure and dynamics of waste market operation, including competition issues and the efficiency of costs, are important factors for IPART when considering price regulation. Given this, we are

<sup>&</sup>lt;sup>1</sup> See the NSW EPA's 2017-18 Waste Avoidance and Resource Recovery Strategy Progress Report released in June 2019

<sup>&</sup>lt;sup>2</sup> The *Waste Avoidance and Resource Recovery Act 2001* creates a Waste Avoidance and Resource Recovery Strategy with targets for waste reduction and resource recovery

concerned that the categorisation and mapping of the waste market in the Discussion Paper (Figure A.2- DWM services value chain, p26) is not an entirely accurate representation of the waste processing services for which households are ultimately paying.

Figure A.2 illustrates that all waste collected from the red bin (described in the figure as kerbside collection waste bin) only ends up in landfill with no value added services in between collection and disposal.

As demonstrated in the discussion in section 1 of our submission, we recover, recycle, and divert from landfill the bulk of material from the red bin MSW we receive. Other AWT providers deliver similar value added services. In fact, each year the AWT industry diverts about 22 percent of Sydney's total waste from landfill.

Figure A.2 in the Discussion Paper is incorrect in the following ways.

- It assumes that the nature of separate bins being collected at the kerbside determines and shapes three distinct markets for waste processing and disposal green organics, recyclables, and landfill. What it fails to capture is that dry recyclables (glass, plastics, metals), wet recyclables (paper and cardboard) as well as organics (food and green organics) are significantly present in red bin MSW and that AWT providers service the recyclable and organic waste processing markets by recovering red bin waste. Therefore it is more accurate to say that all three kinds of bins being collected at the kerbside (red, yellow, and green) can contain waste that ends up either being recycled or landfilled. Of these, red bins contain the most mixed waste that needs to be separated and recovered differently.
- It assumes that households faithfully abide by the intended use of green, yellow, and red bins to separate recyclable and non-recyclable waste. The average MSW diversion rate in NSW has fallen from 52 percent in 2010 to 42% in 2018<sup>3</sup> and this means more recyclable waste ends up in red bins. This has increased the need for AWT providers to recover non-organic and organic recyclables from red bin MSW.
- It ignores the reality that recyclable organic waste is largely food waste, not green waste. Food waste is a significant problem. The cost of food waste to the Australian economy is estimated to be around \$20 billion each year. Australian households throw away 3.1 million tonnes of edible food every year<sup>4</sup>. The National Food Waste Strategy recognises that investment in AWT services and infrastructure to recover organics from red bin MSW is essential to address this issue.

There are two primary reasons why these issues are important when IPART is considering future regulation. These are that:

- Councils contract with AWT providers to mitigate their landfill levy cost risk and drive higher recycling rates to meet NSW Government resource recovery targets. This is especially necessary because household recycling rates have been steadily falling since 2010, making the recovery of recyclables from red bin waste more essential to the overall resource recovery effort.
- Councils pay a premium for AWT services. This is because of:
  - The higher service and infrastructure costs associated with separating recyclables and non-recyclables in red bin MSW and dealing with the rates of contamination of recyclables which are generally higher than for waste found in green and yellow bins.
  - > The inability of councils to meet NSW resource recovery targets via yellow and green bin recycling alone.
  - The immediate benefit AWT provides by effectively recycling organic red bin waste to avoid landfill, and the flow on benefits of this diversion including (1) reductions in greenhouse gas emissions that would otherwise be generated from landfilled waste; and (2) the recovery of organic waste for use in land applications such as mine site rehabilitation.

<sup>&</sup>lt;sup>3</sup> See the NSW EPA's 2017-18 Waste Avoidance and Resource Recovery Strategy Progress Report released in June 2019

<sup>&</sup>lt;sup>4</sup> National Food Waste Strategy, Commonwealth of Australia, 2017, p6

We have included below a more appropriate illustration of the structure and operation of the waste market, and we encourage IPART to rely on this when assessing market dynamics.

Figure 1: The structure and operation of the NSW waste market (although this does not include FOGO collection which is almost universal in rural NSW and will become more common in metropolitan areas over time)



### 3. Responses to specific questions asked by IPART

We have responded below to some of the questions asked by IPART. We have used the question numbers in the Discussion Paper to frame our response.

## Q2. To what extent does the variation in services and charges reflect differing service levels, and community expectations and preferences across different councils?

It is important to note that DWM charges can reflect a range of factors beyond the cost of kerbside collection only. In reality a DWM charge reflects the cost of collecting, transferring, processing, and disposing of waste (the waste value chain). Charges may vary across councils for one or more of the following reasons.

- Waste service costs. There are variations in costs in the waste value chain between recycling dry recyclables (glass, plastic, metals), recycling wet recyclables (paper and cardboard), recycling organics (green waste and food waste) and landfilling. These costs can vary because of:
  - The different technology investment required for waste separation, contamination remediation, and recycling depending on the waste product being recovered.
  - The differing market demand and associated price for end products recovered and recycled from the waste stream.

- The economies of scale available to recycling and landfilling services, which are informed by population and consumption driven waste volumes, and market prices for end products.
- NSW Government regulation which sets recycling targets, imposes levies for landfilling and sets environmental standards which restrict markets for recycled organic and non-organic products.
- The volatility of international demand for recycled products, such as recent import bans by China and other South East Asian nations on recycled waste.
- Community behaviour supporting recycling. Waste industry research<sup>5</sup> conducted in 2019 showed that across NSW 92.8 percent of people agree that reducing waste and recycling products into new products and uses is important, and 87.3 percent of people support increasing recycling and reducing landfill by processing food and garden material from rubbish bins into useful products. At the same time however, the average MSW diversion rate in NSW fell from 52% in 2010 to 42% in 2018<sup>6</sup>.

This illustrates a real dilemma for many councils which is that while the community may endorse recycling in theory, their behaviour at household level may not be as supportive, as necessary. Falling levels of household recycling under the current three or two bin regimes (red, yellow and/or green) offered by most councils, can make it harder for councils to introduce new systems, such as asking households to further separate food organics for collection to support food and green organic recycling (FOGO). Where councils invest in education programs or trials to increase recycling by households, these investments may be reflected in DWM charges.

Barriers to source separation by households. The NSW Government has released a Circular Economy policy and is developing a 20 Year Waste Strategy. International experience shows that waste systems can promote innovation and deliver environmental objectives consistent with a circular economy when there is maximum source separation of waste by households. This means all organic wastes (food and green) are separated from non-organic wastes and non-organic wastes are also separated. In the United Kingdom for example, many councils strictly enforce (including via fines) the separation of organic, glass, paper and cardboard, recyclable plastic, and non-recyclable waste by households.

Significant barriers to source separation in NSW can include community intolerance for stricter recycling and infrastructure and logistical impediments. For example pre-existing and new multi-dwelling buildings (apartment buildings) largely lack the infrastructure in kitchens and communal waste disposal necessary for maximum source separation. Council areas with higher proportions of multi-dwelling buildings may have different DWM charges than others where source separation by households is easier.

Differences in waste solution performance. Where councils are seeking to offset the costs associated with landfilling (which attracts a NSW Government levy) they may seek to maximise household source separation to support recycling. Where source separation faces barriers, and there are limited solutions to these barriers, councils are often willing to pay a premium for AWT services to optimise recycling of red bin MSW. For example, only a few Sydney Councils have a fully operating or trial FOGO system because of the infrastructure and household barriers to source separation and the service costs. By comparison 26 councils in the Sydney metropolitan area contract AWT services to recycle organic material from red bin MSW.

The current comparative performance of recycling systems can also be an important factor in DWM charges. For example FOGO systems typically recover about 75 percent of available organic material from households compared to AWT systems which recover about 87 percent of organic material from red bin MSW<sup>7</sup>. The DWM charges may reflect the different recycling system performance councils are paying for.

<sup>&</sup>lt;sup>5</sup>Research conducted by Australian Council of Recycling

<sup>&</sup>lt;sup>6</sup> See the NSW EPA's 2017-18 Waste Avoidance and Resource Recovery Strategy Progress Report released in June 2019

<sup>&</sup>lt;sup>7</sup> GRL projections and calculations using the Appendix to EPA's Waste and Resource Recovery Data Report 2014-15

Limitations on waste recovery solutions. There are established systems for the recovery and diversion of recyclable organic and non-organic waste from landfill, which assists councils to apply lower DWM charges where they choose not to landfill waste. However, there are limitations on the alternative use of non-recyclable waste that would otherwise be landfilled. For example, some non-recyclable waste can be subject to heat based processes which convert waste into a refuse derived fuel that can be used to support energy generation – energy from waste (EfW). The NSW Government has an EfW policy which is designed to promote this approach. However the availability of this option for councils is often limited by community sensitivities and long lead times to develop energy from waste proposals and secure relevant approvals.

## **Q3.** Is there effective competition in the market for outsourced DWM services? Are there barriers to effective procurement?

The Discussion Paper suggests that it is not clear that contractor and consultancy costs reflect the reasonable and efficient cost of out-sourced DWM services. The Paper proposes that key reasons why this may be the case include less than ideal levels of competition and market efficiency arising from market concentration, barriers to entry for new competitors, the absence of incentives for household and council source separation and long term waste services contracts between councils and contractors.

We have offered some views on the key market structures IPART is considering.

 Market concentration. The Discussion Paper estimates that about 70 percent of waste collection services, 69 percent of MRF services and 98 percent of landfill services in Sydney are provided by the three largest service providers, respectively. Beyond these headline statistics there are some important factors IPART should consider if it has not already done so. These are as follows.

(a) <u>The waste market as we know it today is relatively new</u>. Prior to 2011 the NSW Government dominated the waste services market via its control of collection, transfer stations, recycling facilities and landfills. It provided these services via Waste Services NSW (WSN). The WSN shaped the direction of the market towards recycling via the investments it made. For example, in 2003 WSN and GRL entered a public private partnership (PPP) to build our Eastern Creek facility for the sole purpose of recovering and recycling red bin MSW.

In 2011 the NSW Government sold the assets and services (including existing waste collection and disposal contracts WSN had with councils) to the market via a competitive bidding process. During this process larger waste companies, particularly those with international experience, satisfied the capital and service criteria sought by the government. The successful bidders purchased packages of contracts and assets previously owned by WSN. Thus, this process created the legacy market structure that exists today.

(b) <u>Sub-contractors in organic and non-organic recycling markets help to diversify services and reduce concentration</u>. At the time that WSN's assets and services were privatised, WSN already contracted various providers like us to deliver recycling services. The sale of WSN did not remove those contractors from the market because successful bidders for WSN assets and services purchased existing WSN contracts with councils and waste service providers. For example, when SUEZ successfully bid for some of WSN assets and services it won control of the WSN contracts with a number of Sydney councils which supplied waste to us, and also inherited our contract with WSN. Thus we now sub-contract to SUEZ under the same contract we negotiated with WSN and we service the same councils.

• **Barriers to entry**. There are a number of issues to consider.

(a) <u>Infrastructure costs</u>. It is true that the infrastructure to provide recycling services can be a barrier to entry for new competitors. For example, our Eastern Creek facility represents a \$100 million capital investment and the cost of its annual operation and maintenance is high. However there are two factors that can operate to reduce market entry costs, particularly in relation to markets for organic and non-organic recycling. These are:

- The NSW Government encourages new entrants via infrastructure and research and development grants through its Waste Less Recycle More (WLRM) funding program. To the extent these grants are awarded to new service providers, they can lead to increased market diversification.
- Non-waste companies can create new waste market opportunities. With or without government grants, companies outside the waste industry can create innovative ways to recycle products and/or shape destination markets for recycled products where it is in their commercial interest. One good example is the creation by a construction company of recycled glass products for its use in road asphalt which has recently been approved by NSW Transport. This creates expanded opportunities for new and existing companies which specialise in glass recycling and production.

(b) <u>Landfill costs</u>. For waste that must be landfilled, the costs of this disposal can reflect the landfill levy imposed by the NSW Government (demand management) and restrictions on landfill supply created when planning and environmental regulation limit capacity at existing landfill sites and prevent new sites being developed. The combination of these factors can drive landfill costs up.

(c) <u>Purchasing power</u>. When councils combine their purchasing power by sharing the procurement of waste services there can be various effects. For example, shared purchasing by councils can drive down the costs of services by encouraging tenders to find efficiencies. But this can also favour incumbent vertically integrated waste companies which have economies of scale to deliver efficiencies. Vertically integrated companies can provide collection, transfer, materials recycling, and landfill disposal services. In some cases contractors, like us, can be used to deliver one or more of these supply chain elements.

(d) <u>Market incentives for landfill diversion</u>. IPART is correct to identify that the primary market incentive for recovery and recycling demand is the NSW Government's landfill levy. NSW Government restrictions on landfill capacity (supply) via planning and environmental regulation also create incentives for waste recovery and recycling (see b). Ratepayer expectations about recycling is not a reliable demand driver because of the variability between high community support for recycling and falling rates of recycling practised by households (see our response to Q2).

Improved source separation can increase demand for organic recycling services but it faces significant barriers from multi-unit dwellings (see our response to Q2). When export demand for recyclable waste falls there are even less incentives for landfill diversion. In the absence of more specific incentives for the dry material recycling market and combined food and green organic recycling market, AWT services in the red bin MSW recycling market are an essential option for councils wishing to offset landfill costs. Thus councils may pay a premium for these services.

(e) <u>Contract costs</u>. IPART is correct to identify that waste services are often subject to long term contracts. However, long term contracts are not necessarily an indication of market inefficiency. In our own case our original contract with WSN (subsequently purchased by SUEZ) is for a term of 30 years. The factors that were considered when the contract was originally negotiated with the NSW Government are instructive. For example, on purely efficient commercial terms our contract had to reflect:

- Market entry costs. Our Eastern Creek facility was a start-up under a public private partnership arrangement. About \$100 million was invested to enable us to enter the market for the recovery and recycling of organic and non-organic MSW in red lidded bins only.
- Market restriction costs. The PPP under which we were established was dedicated to red bin MSW recovery only. Our contract precludes us from competing in the markets for waste from yellow and green lid bins. This limits our capacity to diversify and exposes us to increased regulatory risks in the organics recycling market.
- Sole supplier risks. We sub-contract to SUEZ (formerly WSN) for the supply of AWT services. SUEZ (formerly WSN) owns the relationship with the councils who supply our waste and we cannot compete

with SUEZ for services from those councils. Capacity and contractual constraints prevent us from diversifying supply.

- Performance risks. Payment of our contract fees depends on us meeting agreed targets for the diversion of the waste away from landfill. Our performance can be affected by a range of factors within and outside our control, including higher contamination in the waste stream we receive, infrastructure operation and maintenance, and regulatory risks.
- Regulatory risks. Waste recovery and recycling is regulated by the NSW Environment Protection Authority (NSW EPA) under the Protection of the Environment Operations Act 1997. The Act assumes that all waste remains waste even when subject to recovery and recycling. This principle means that (1) waste service providers along the entire supply chain are automatically subject to the stringent provisions in the Act governing the safe handling and disposal of waste; and (2) waste recovery and recycling can only occur if the EPA has granted a general or specific Resource Recovery Order and Exemption for those services under the Protection of the Environment Operations (Waste) Regulation 2014 (Waste regulation).

This process creates significant risks when the EPA's thinking about the merit of exemptions for any particular waste product changes. We experienced this risk in 2018 when the EPA revoked the exemptions governing the treatment, production, and land application of Mixed Waste Organic Outputs (MWOO) sourced from red bin MSW. Since 2008 we have been the largest MWOO producer. Annually we treat about 50% of the 450,000 tonnes of red bin waste from which MWOO is sourced, and thus the EPA decision had a significant commercial impact on us.

## **Q5.** If IPART was to regulate or provide greater oversight of DWM charges, what approach is the most appropriate? Why?

In responding to this question we have also provided information relevant to questions 6-12 in the Discussion Paper.

We appreciate that price control can seem an appealing option to tackle actual or perceived market failure. However we would urge IPART to consider this as a last resort. We note that section 15 of the *Independent Pricing and Regulatory Tribunal (IPART) Act* 1992 requires the Tribunal to consider a range of matters when making a determination including:

- The cost of providing the services concerned.
- The protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services.
- The appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales.
- The need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers.
- The need to maintain ecologically sustainable development (within the meaning of section 6 of the Protection of the Environment Administration Act 1991) by appropriate pricing policies that take account of all the feasible options available to protect the environment.
- The need to promote competition in the supply of the services concerned.
- Considerations of demand management (including levels of demand) and least cost planning.

When balancing these matters we would urge IPART to consider that in relation to waste services, protection of the environment and demand management remain key factors influencing the scope and scale of service provision. This is particularly because the costs of service provision reflect the costs and cost risks of environment protection and demand management policies, regulations, and strategies of the NSW Government, which can be subject to change. Unless price setting can anticipate and nimbly respond to changes in waste policy and regulation it is likely to be a blunt instrument and have potentially distorting impacts. For example, future market costs, opportunities and innovation are likely to be affected by the following policies still being developed – the NSW Government's 20 year waste strategy which may prioritise

FOGO, the Council of Australian Government's National Waste Strategy, and national or state based product stewardship schemes for recyclables and products that are difficult to recycle. These policies may alter current pricing and cost structures for existing services and/or influence innovation that relies on new economically viable pricing models.

We would also urge IPART to consider that the fundamental structure of the current waste market is a legacy of the privatisation of WSN. The process of privatisation preserved and packaged pre-existing contractual and service arrangements to attract maximum market payments for public assets consistent with the rate of return policies of the NSW Government at the time. It is not clear that price setting alone can sustainably address legacy structural issues.

Given this context, our view is that the solutions to improve market efficiency should include a combination of the ideas in (a) – (c) discussed here. We believe that these ideas support IPART's proposed pricing principles (Box 3.1 in the Discussion Paper).

(a) <u>Councils should negotiate waste service contracts based on the principle of diversion from landfill</u> <u>performance, rather than tonnes disposed</u>. We have highlighted in our response that source separation by households is a key demand tool to incentivise efficient resource recovery and recycling services. We have also pointed out that source separation is not currently optimised and there are many barriers to achieving this in the short-medium term.

In the absence of optimised source separation by households the primary and immediately available demand tool to increase waste recovery and recycling in all markets (dry recyclables, wet recyclables, green organics, food organics) is council contracts for waste services. If the performance of these contracts is only based on the tonnes collected and disposed, then there is little incentive for the market to offer proven or innovative solutions to increase recovery and recycling. However if contracts are based on seeking and rewarding diversion from landfill performance this can stimulate more efficient market responses.

Seeking diversion performance, rather than tonnes disposed, through contracts also incentivises market responses tailored to the circumstances of individual councils. For example in local government areas with high percentages of multi-dwelling units where source separation is limited, AWT services for red bin MSW recovery and recycling are likely to offer the most innovative and cost effective solutions.

Even where government policy encourages greater source separation, such as through FOGO, it is ultimately contracting at council level that will drive recycling performance outcomes which respond to the community needs and expectations within each local government areas and broader state-wide environmental objectives. For example, we estimate that even if all NSW councils eventually adopted FOGO without any AWT services to deal with red bin MSW, the amount of waste needing to be landfilled would be over 450,000 tonnes higher than if all councils used AWT services. This is because on current data, the AWT services out-perform FOGO systems when it comes to recovering organic waste for recycling<sup>8</sup>.

(b) Any price regulation, methodology or oversight options considered by IPART should be based on the reasonable costs for essential and basic waste (*must have*) services, but not premium (*good to have*) services. To meet the needs of consumers and environmental regulation the essential waste service can be regarded as waste collection, and the basic service is safe disposal of waste collected. The basic service can be satisfied by landfill. Accordingly any price mechanism used to encourage greater market efficiency should focus on the reasonable costs of collecting waste and landfilling.

Beyond the basic (*must have*) disposal of waste, the NSW Government encourages *good to have* services, such as the recycling of organic and non-organic waste. It does this via a range of '*pull*' factors like setting recycling targets, funding community education programs, funding infrastructure for recycling and funding

<sup>&</sup>lt;sup>8</sup> GRL projections and calculations using the Appendix to EPA's Waste and Resource Recovery Data Report 2014-15

research and innovation. It also uses the landfill levy and capacity limits on landfill as '*push*' factors towards recycling. The landfill levy is a strong price signal in support of recycling.

However the *pull* factors offer limited price signals to the market. For example, councils are not required to meet certain recycling targets to contribute to the NSW Government's overall goal, and state government funding is not used in any carrot or stick way to encourage councils to optimise recycling. State government funding for infrastructure reduces the cost of capital, but this alone is not a price signal for innovative service responses to tackle wastes that are difficult to recycle, particularly if most funding is used to build capacity for existing recyclables. The State government is unlikely to mandate that councils must implement systems for the source separation and collection of food and green organics (FOGO), but it may encourage this through funding or other mechanisms in its future 20 year waste strategy. All of this means that the market must find within itself the economically viable premium (*good to have*) solutions to lift recovery and recycling rates.

Where councils face barriers to achieve complete source separation, they must rely on AWT services to recover and recycle red bin MSW in order to meet their recovery and recycling objectives. By its nature red bin recovery is a premium (*good to have*) service because:

- It is responding to the price signals offered through NSW Government policy to optimise recycling.
- The infrastructure investment is high due to the need to separate mixed waste that is often contaminated; recover dry and wet recyclables and organic MSW; and subject those wastes to different treatment processes in order to create products that meet environmental rules.
- It includes the transformation of organic waste into compost products for land application (where permitted by the EPA) to support third party markets like agriculture (no longer permitted) and mine site rehabilitation.
- We, along with other AWT providers, are continually improving our processes and investing in research and development to increase the recovery and recycling of waste from red bin MSW. By doing so we are seeking solutions to 'wicked problems' like the difficulties with recycling plastic film, nappies and some metals and creating products from recovered waste that third party markets want.

Our commercial incentives to invest in maximising the recovery of red bin waste are a combination of:

- The costs of landfilling which create a waste supply for us.
- The entrenched implementation and performance problems with full source separation, which means there will always be organic waste or hard to recycle non-organic waste in red bin MSW.
- Funding from the NSW Government for research and development and infrastructure.
- The needs of consumers and industry for new recycled products that meet ecologically sustainable goals.

Therefore, any price regulation or methodology imposed on councils which includes the cost of AWT (*good to have*) services is likely to:

- Distort the commercial incentives for innovation needed to optimise red bin waste recovery and solve 'wicked recycling problems'.
- Reduce the capacity of councils to meet the NSW Government's recycling targets if efforts to optimise red bin MSW recovery decrease.
- Lower the economic appeal of investing in AWT infrastructure.

Accordingly, we would urge IPART to avoid price setting for premium *good to have* waste services and ensure that any pricing methodologies which Councils are asked or encouraged to use exclude premium *good to have* waste services.

(c) If IPART introduces benchmarking to monitor council performance, one of the key purposes of benchmarking should be to increase recovery and recycling of organic and non-organic wastes, including from red bin MSW. To achieve this, issues to include in benchmarking for comparative purposes and market development could include:

• The separate reporting by councils of *essential* (waste collection), basic *must have* (waste disposal) and premium *good to have* (recovery and recycling) services and associated costs.

- The reporting by councils of their future strategies to increase resource recovery. This could include the
  efforts councils make to collaborate with industry to identify and design suitably practical and economically
  viable strategies.
- The transparent reporting in rate payer bills of the individual components of DWM charges. For example, these components may include collection, landfilling, materials recycling and/or AWT services for red bin MSW recovery. We consider that this can help to increase community understanding of the services they are paying for and the link between DWM charges and the recovery and recycling priorities they may consider important. Improving consumer understanding may help to address the current decline in recycling by households, particularly if consumers understand that they are likely to pay a higher DWM charge (for AWT red bin MSW recovery) if they do not maximise their source separation. It may also better enable consumers to demand the kind of premium *good to have* services they prefer. Where consumers understand this, they may also increase their demand and support for source separation strategies which councils may be currently reluctant to implement.

We thank you for considering this submission. If you have any questions please contact me.

Yours sincerely



Nathan Lopez Chief Executive Officer