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Jean-Marc Kutschukian
Director, Water Pricing
Independent Pricing and Regulatory Tribunal
Level 15 / 2-24 Rawson Place
Sydney NSW 2000

**Associate Professor
Simon Fane**
Institute for Sustainable Futures
Main Campus
PO Box 123 Broadway
NSW 2007 Australia

www.isf.uts.edu.au

UTS CRICOS PROVIDER CODE 00099F

Dear Jean-Marc

RE: Submission on the Draft Report for the Review of Recycled Water Prices for Public Utilities

On behalf of the Institute for Sustainable Futures (ISF) at the University of Technology Sydney (UTS), I am pleased to submit to you these comments concerning IPART's Review of Recycled Water Prices.

Overall, we see this report and determination as an important and positive step in addressing some of the more significant barriers to public utility recycled water investment, particularly the challenges posed by ringfencing recycled water investments. We would like to acknowledge and thank IPART for clearly and specifically addressing the issues ISF raised in its previous submission. We have focused our attention on the questions and areas of the review in which we are best qualified to comment.

Creating a level playing field for least-cost recycled water solutions

We welcome the clarity and changes around least cost servicing solutions. We agree that this framework provides a level playing field for recycled water and will remove the burden of additional financial risk for recycled water investment over traditional servicing solutions. We note that the boundaries of analysis and the assumptions used in both the traditional servicing base case and for alternative solutions, including recycled water, will influence the assessment. It would be useful for IPART to make completely clear that least cost analysis should be conducted on a system-wide basis and including long run marginal costs of using existing system capacities for both traditional and alternative solutions.

A cost recovery framework and funding hierarchy for higher cost recycled water schemes.

We understand this framework would mean that in areas where water and wastewater developer charges are set to zero only the cost above that of a traditional servicing solution would need to be funded by one or a combination of sources as per the funding hierarchy. Based on this understanding we agree in principle with the cost recovery framework and funding hierarchy for recycled water where it is not the least-cost servicing solution. We suggest that additional clarity could be provided in the final report by providing two graphs similar to the one provided for least cost solutions (figure 3.1):

- the first demonstrating the cost recovery framework and funding hierarchy for higher cost recycled water schemes with developer charges in place for water and wastewater
- the second demonstrating the cost recovery framework and funding hierarchy for higher cost recycled water schemes where developer charges for water and wastewater are set to zero.

Cost recovery framework for sewer mining and stormwater harvesting

We generally support the changes to cost recovery frameworks for sewer mining and stormwater harvesting, particularly the provisions to allow for public utilities to provide payments to scheme owners in recognition of avoided costs. We will watch with interest as to how the incentive mechanism proposed by IPART is implemented. While we can see the benefit in providing Sydney Water with an incentive to seek out opportunities to work with private providers, the way the benefits are shared and the process for negotiating that division will be influential in its ability to influence recycled water investment outcomes. We have a degree of caution, noting that the benefits being shared here arise solely due to an investment by a third party in an alternative water source. If the proportion of the benefit returning to that third party is not sufficient, then a particular investment may not occur despite it being economically efficient. We will watch with interest to see whether and how this mechanism works in practice. This is yet another area where publicly available information on system costs, such as that in the energy sector (see <https://www.energynetworks.com.au/network-opportunity-maps>), would provide transparency and equity in negotiations.

Further, the provision of and contributions to external benefits are not exclusive to utility-owned recycled water schemes. The contribution non-public utility schemes make to external benefits valued by the broader customer base should be accounted for in a similar manner to avoided costs. We appreciate the challenges with identifying, measuring and accounting for external benefits, but suggest that flexibility to attribute these benefits to sewer mining and stormwater harvesting schemes be included in the determination.

The role of government policy

We remain concerned that Government policy does not in itself provide direction for investment. In particular, the Greater Sydney Metropolitan Water Plan and Lower Hunter Water Plan (LHWP), despite being regularly updated with state of the art thinking and modelling, and being endorsed by the Premier, by Cabinet, and by the relevant Minister are not statutory documents. They do include obvious policy directions as well as planning elements such as trigger levels for restrictions, and are quite explicit in being NSW Government's plans for water security in the two regions. As stated in its introduction, *"the Metropolitan Water Plan is the NSW Government's plan to ensure sufficient water to meet the needs of the people and environment of the Greater Sydney region now and for the future"* and the LHWP has a similar Status in that region. Requiring the government to provide specific directions for individual recycled water schemes that form part of a least cost solution for meeting the directions set in the Water Plans appears to be overly onerous. The proposal in NSW regarding the status of such plans is seemingly in contrast with other Australian States. For example, in Victoria, the government policy direction is set in the equivalent "Water for Victoria", it is then the role of the utilities to meet those strategic directions in the most efficient way possible.

Avoided costs

Avoided costs and the method and granularity in which they are calculated are emerging as a critical issue, not just for this determination, but also for wholesale pricing, access pricing and potentially for ELWC outcomes. There is a need to get the scale at which avoided costs are estimated right in order to be able to see those areas with higher avoided costs. There is a danger that if avoided cost are estimated at too coarse a scale then the averaging of avoided costs will see potentials for small scale decentralised recycling systems lost. Ideally there might be network opportunity maps (see above) to illustrate the heterogeneity of avoided cost across systems.

As well as the issue of granularity, ISF suggests it is imperative that an inclusive and collaborative approach is adopted for determining how they are calculated, communicated and updated. While we acknowledge that the Tribunal cannot bind the decisions of future tribunals, point-in-time certainty would be of benefit to all parties.

We are concerned with the inclusion of a discretion as to the timing of payment of avoided costs (pg 50). We are unclear as to the circumstances of when and how this would be applied. Timing and clarity around funding for projects, particularly by smaller proponents is critical. We would expect that as more schemes are developed the application of this clause would become clearer, however, we would be concerned if it introduced a new risk to recycled water investment, undoing the benefits of other changes proposed in this determination.

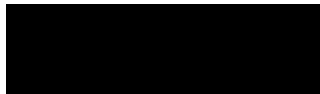
Willingness to Pay

On willingness to pay, the Tribunal should allow the potential to reuse studies including existing studies that have shown that a particular utilities' customer base has a willingness to pay for a particular attribute such as avoiding restrictions or river health (fish ability, swim ability). For example, the NSW Government conducted choice modelling studies specific to Sydney Waters and Hunter Water's customers for the last Metropolitan Water Plan and LHWP. The values of attributes from studies such as these might be reused (with appropriate updating, for example, for the time value of money).

We would like to acknowledge and note our appreciation for the Tribunal's decision to grant ISF an extension in making this submission.

We would be happy to discuss our submission in further detail, or to provide corroborating evidence, should the Tribunal wish.

Yours sincerely,



Dr Simon Fane
Research Director and Associate Professor
Institute for Sustainable Futures
University of Technology Sydney