



IPART Review of Pricing Arrangements for Recycled Water and Sewer Mining

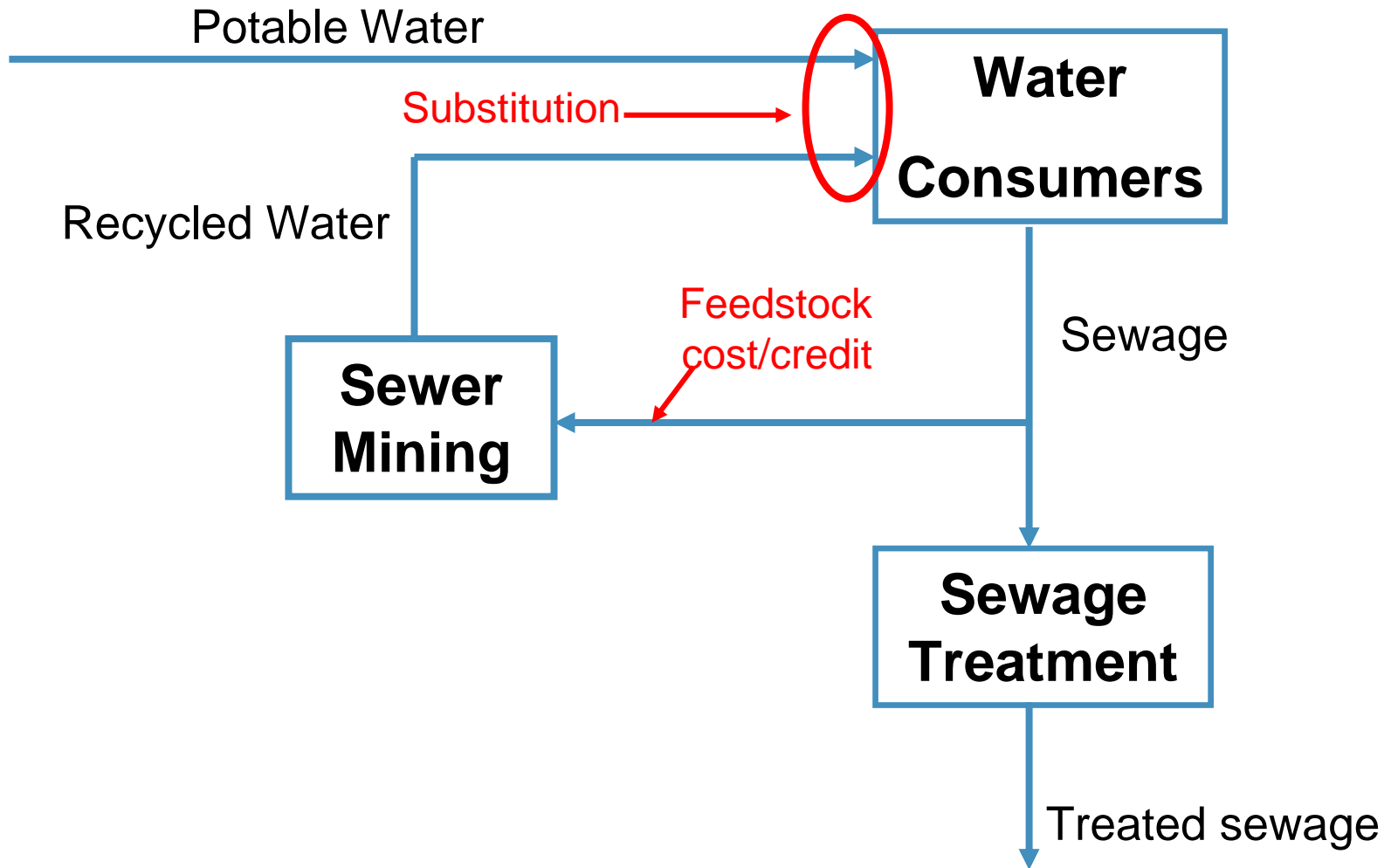
AGL Submission

March 2006

Why AGL?

- NSW Government looking to private sector to develop innovative recycled water services
- AGL is a potential participant as an owner/operator of recycled water infrastructure
- Pricing and policy settings will have an impact on viability of private sector involvement

Water Prices Inter-related



Long Run Marginal Cost

- IPART have stated that the usage charge of potable water is equal to the long run marginal cost of water supply
- The Metropolitan Water Plan states that recycled water is “critical” to achieving a sustainable water supply
- Considerable evidence that recycled water projects are uneconomic at the current potable water price
- Conundrum?

Recycled Water Pricing

- For mandatory use, set the recycled water price at or slightly below potable water price
- For discretionary use, retail price of recycled water can be determined by negotiation (potable price will always be the reference point)

Cost Recovery

Costs not recoverable through usage charges could be recovered through:

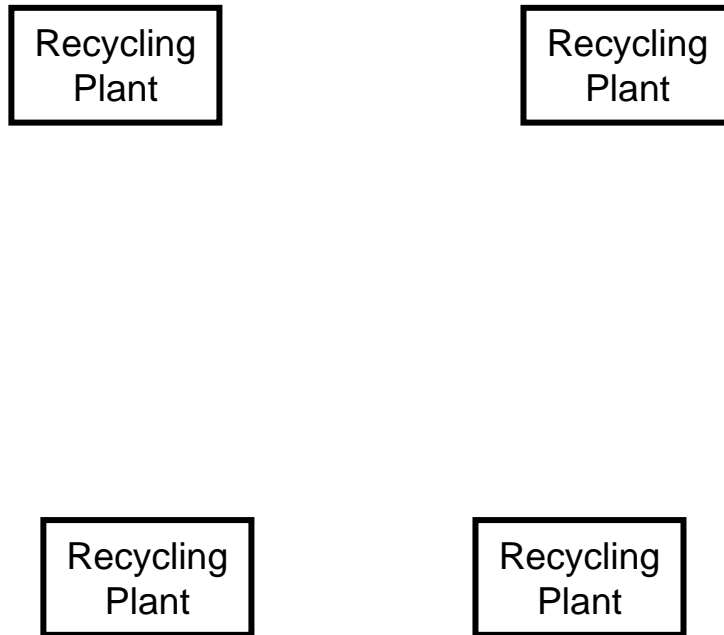
- Application of avoided water agency costs
- Recovery from the broader customer base (opportunity for removal of any price distortions)
- Government subsidies/grants

Most Efficient Solution

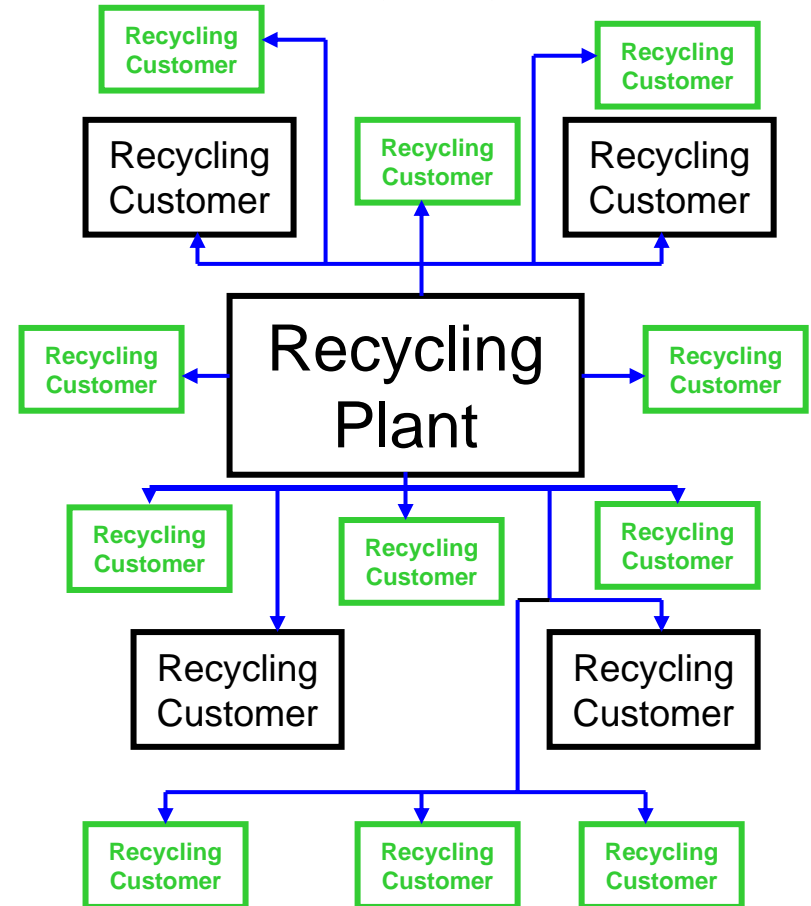
- It is important that policy settings provide incentives for the most economically efficient recycling solutions
- Large scale centralised production is likely to be the most efficient solution
- Policy settings that provide extra benefits for stand-alone projects will put large scale projects at risk

Most efficient solution

Stand alone



Network



Summary

- A portion of recycled water delivery costs will need to be recovered by one or all of the following:
 - avoided costs
 - from the broader customer base
 - subsidies
- For discretionary use, retail price of recycled water can be determined by negotiation.
- Policy settings that provide extra benefits for stand-alone projects will put more efficient large scale projects at risk.