



**Australian Council for  
Infrastructure Development  
Limited** ACN 061 241 638

Level 9, 60 Pitt Street  
SYDNEY NSW 2000  
Australia

GPO Box 1295  
ROYAL EXCHANGE NSW 1225

**Telephone:** (02) 9247 2022

**Facsimile:** (02) 9247 3477

**E-mail:** ceo@auscid.org.au

<http://www.auscid.org.au>

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Recycled Water Price Review  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office NSW 1230

Dear Sir/Madam,

The Australian Council for Infrastructure Development (AusCID) appreciates this opportunity to make a submission on the Recycled Water Price Review on behalf of its 83 members, which include equity investors, operators, constructors and advisers in the water sector.

AusCID's members support initiatives to promote the development of sustainable urban water systems. While these will necessarily involve demand side responses, it is vitally important that additional avenues of supply also be factored in.

IPART's Review is therefore most important as these additional supply sources may require differential pricing from traditional potable sources to reflect not only the application of technology to produce the "new" water but also to reflect market realities such as demand for particular end uses or cost savings to users. Circumstances may arise where it becomes reasonable to price recycled water higher than potable water.

Recycled water is a substitute for potable water in urban applications and so recycled water pricing, and the economics of water recycling, are closely linked to the price of potable water.

AusCID's reasons for making this observation include:

1. Recycled product will be used as a direct substitute in non-potable applications;
2. The quality will be as good as or superior to potable;
3. In irrigation applications such as golf courses, there are shortages due to restrictions in Sydney, and customers will actually be happy to pay more for the recycled water, ie a true market reflecting supply and demand factors can be established.

While the Tribunal's remit does not cover recycled water supplied by a private sector provider, its conclusions and determinations will have a significant impact on the viability of private sector infrastructure projects.

Setting the usage charge for recycled water at, or close to, the potable usage charge will avoid perverse incentives for over/under consumption of recycled water and assist the viability of investment in recycled water infrastructure.

IPART's assessment that the price of potable water is equal to the long run marginal cost (LRMC) is questionable given that the Metropolitan Water Plan states that 'recycled water is critical to achieving a sustainable and secure water supply for greater Sydney' The Plan also states there is strong evidence to suggest that water recycling is uneconomic at current potable water prices.

If the potable water price is to remain below true LRMC then it will be necessary to subsidise recycled water prices. Recovery of recycling costs is best done through potable water charges rather than sewerage charges. Allocation of unrelated costs to sewerage services could distort decisions relating to those services.

Policy settings should encourage the most efficient solution. For example, systems involving large scale centralised production and reticulation have potential to be more efficient and deliver greater social benefits than a large number of stand alone systems.

While these comments only skim the surface of the matters raised in the Issues Paper, it is the view of AusCID that unless these threshold issues are satisfactorily addressed the detail which follows will be next to irrelevant.

Please do not hesitate to contact me to discuss these issues further. AusCID would be available to present to any public hearings on this matter.

Yours sincerely,

Dennis O'Neill  
Chief Executive Officer