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30 March 2006

Independent Pricing and Regulatory Tribunal  
PO BOX Q290  
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Sydney NSW 1230

**Re: Submission Review of Recycled Water Prices for Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council**

The Nature Conservation Council of NSW welcomes the opportunity to contribute to the Independent Pricing and Regulatory Tribunal (IPART) review of pricing arrangements for recycled water and sewer mining for the metropolitan water agencies.

Please contact our Freshwater Campaigner, Cécile van der Burgh on ph 02 92790955 or [cvanderburgh@nccnsw.org.au](mailto:cvanderburgh@nccnsw.org.au) should you require any further information with regards to this submission.

Thank you again for the opportunity to comment on IPART's review of pricing arrangements for recycled water and sewer mining for the metropolitan water agencies.

Yours sincerely

Cate Faehrmann  
Director

The development of water recycling projects is an essential component of a sustainable urban water supply. Water recycling projects take pressure off natural freshwater systems, reduce environmental damage as a result of sewage discharge of receiving waters and are crucial in avoiding unsustainable supply augmentation options such as desalination plants, the construction of new dams and unsustainable use of groundwater.

Pricing for recycled water cannot be considered in isolation from potable water pricing. The current potable water prices are undervalued and represent a major impediment to the further development of recycling. It is difficult for recycled water projects to be viable while maintaining a sufficient price advantage over potable water. Continued reform of potable water pricing is a vital part of enduring the long term viability of recycled water projects.

### **External cost and benefits**

The use of potable water or recycled water can lead to other costs and benefits for the whole community, known as externalities. NCC supports that these costs and benefits are part of the economic value of recycled water and should be reflected in pricing.

The Nature Conservation Council (NCC) notes IPARTS comment that *current potable water prices for Sydney Water constitute a firm basis against which recycled water schemes can compete and against which their viability can be evaluated* (IPART 2006 p. 32). Whilst NCC supported the intent of the IPART pricing determination 2005 to increase prices for potable water supplied by Sydney Water Corporation, the determination still falls short of recovering the cost of the majority of externalities. NCC notes that continued water pricing reform is essential.

Historically, the community, government and the environment have subsidised potable water prices on a continuous basis as water prices did not account for external costs borne by communities, industries, our direct environments and biodiversity affected by damaged freshwater systems as a result of over extractions of rivers. Nor did they account for the cost borne by government agencies that seek to restore river and landscape health, such as the Department of Environment and Conservation, the Department of Natural Resources, Catchment Management Authorities and Local Government. Similarly, damage to water systems resulting from discharge from polluted sewage has not been fully accounted for in sewage bills.

As with cost, it is essential to account for external benefits of any water supply project, including a water recycling project. Benefits can include reduced effluent discharges into receiving waters or the provision of environmental flows as a result of reduced pressure on rivers and potable supplies. This point is acknowledged by The Hunter Water Corporation in their submission where they note that: *“supply of recycled water may reduce the need for investment in water supply and wastewater systems”* and that *“pricing of recycled water needs to recognise these whole-system relationships and the associated avoided cost.”*

### **Allocation of costs**

High levels of fixed cost provide disincentives for customers to adopt more efficient water use practices. NCC supports that costs should be recovered by maximising volumetric charges of water, whilst keeping fixed charges low for both potable and recycled water. This will provide for additional funds to cover costs incurred when building water recycling projects.

Recycling water schemes must be viewed as a component of overall water and waste water systems. In this respect it may be appropriate for some of the cost of recycled water to be incorporated into potable water prices and sewerage bills.

NCC acknowledges the tribunal's point that schemes built to meet mandated recycling targets may impose higher costs on water agencies and water users relative to other approaches (IPART 2006). Meeting these targets should, however, be viewed as an essential component of achieving water sustainability and thus a normal cost of business to be treated in the same way as other licence and regulatory requirements.

### **Willingness to pay**

Recycling schemes will not create a customer base unless there is an appropriate price differential with potable water to encourage customers to switch to recycled water.

Continued reform of potable pricing is essential in order for such a differential to be maintained while ensuring the viability of recycled water schemes.

In the meantime, NCC supports that State Government supports and subsidises recycling projects until such time as the potable water pricing arrangements are set to recover full cost of externalities and recycled water projects are economically viable to compete.

### **Sewer Mining**

NCC supports that charges for sewer mining should not extend beyond those required to meet an agency's costs of providing access to their infrastructure. There should be no charge for actual sewage taken as it is currently regarded as a waste product and not used by utilities.

Furthermore, NCC supports that credits are provided for avoided cost resulting from reduced pumping and reduced sewage treatment at other sewage treatment plants.

### **References**

Hunter Water Corporation (2006), *Submission to IPART's Review of Recycled Water Prices*, HWC.

Independent Pricing and Regulatory Tribunal (2006), *Recycled water prices for Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council –Issues Paper*. IPART.