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Dr Michael Keating
Chair
Recycled Water Price Review
Independent Pricing and Regulatory Tribunal
PO Box Q290
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27 March 2006

Dear Dr Keating

Recycled Water Price Review

The Public Interest Advocacy Centre (PIAC) is pleased to participate in IPART's review of recycled water prices for Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council. Through public forums held at the years' commencement the community has expressed its desire for the sustainable investment in Sydney's water supply and the greater development of recycled water infrastructure in the region. The way in which recycled water services are priced will be critical in determining how public interest concerns relating to Sydney's water supply are advanced.

As identified in the *Issues Paper*, the delivery of recycled water services to the residential sector is expected to change significantly in coming years. To date Sydney has seen just one large-scale residential development of a recycled water facility at Rouse Hill and one smaller development associated with the Sydney Olympic Park Authority. It is expected that residential recycling will become more widespread in new greenfield developments to meet requirements of BASIX and Sydney's Metropolitan Water Plan 2006. It is appropriate for IPART to consider the development of price regulation in line with these expectations.

Regulation of recycled water prices has a two-fold significance to the community. Residential customers of recycled water facilities require safe, equitable and affordable access to essential water and wastewater services. Where that service is delivered by a monopoly provider and includes mandated recycled water services, regulation acts as a proxy for the market ensuring suitably priced access and consumer protections. At the same time, price regulation will assist the recycled water market to develop and fulfil important environmental aspect of public policy.

Pricing Model

The expected expansion in recycling schemes, beyond the pilot projects that have thus far characterised the recycled water market, suggests that greater regulatory oversight is appropriate in the residential recycled water market. The *Issues Paper* suggests three potential pricing models for recycled water: an open market approach; direct price regulation by IPART; or prices regulation using a pricing methodology determined by IPART.

PIAC is primarily concerned with the pricing protections available for residential consumers of the four metropolitan water utilities, particularly where recycled water schemes are established on a mandatory basis. These schemes generally have the characteristics of large number of small customers with minimal capacity to enter into a competitive arrangement or use substitute water sources. We note, however, that the residential market is different to other, more competitive commercial customers, which may justify the use of a combination of pricing methodologies by IPART.

Residential recycling schemes delivered by the water utilities play an important role in securing the long term sustainability of metropolitan water supplies. PIAC lends its full support to schemes which can meet economic efficiency criteria and have a broad public benefit. Where these schemes are provided by the statutory water utility, the community should be confident that all customers' prices continue to be affordable and do not prohibit access to essential services. PIAC therefore supports direct price regulation in residential recycling schemes that are mandated or intended for essential, non-discretionary water use.

The *Issues Paper* suggests that a single postage-stamped price would be the most administratively simple option available for price regulation. Postage stamp pricing introduces socially efficient cross subsidies to ensure that all consumers are able to meet essential water and wastewater needs. In the decision of the Australian Competition Tribunal which declared third party access to Sydney Water's infrastructure, it was noted that "there are strong equity concerns with variable pricing and the NSW Government remains committed to postage stamp pricing" and that "Postage stamp pricing reflects long-standing community concerns with affordability of sewage as an essential service and the equity of its pricing" (Application by Services Sydney Pty Limited [2005] ACompT 7 (21 December 2005) at 204). PIAC supports postage stamp pricing of essential water and wastewater services, including recycled water.

PIAC would like to further explore with IPART the postage stamp pricing options available for residential customers. In particular we are interested to understand the implications of pricing recycled water and potable water at very similar or the same price. As we understand it, consumers of recycled water services enjoy fewer public water restrictions on discretionary water use in times of drought, a benefit which is highly valued among residential customers.

The *Issues Paper* also comments on the role that BASIX will play in recycled water schemes. BASIX is a flexible tool which allows the user to select from a range of options in order to meet the energy and water reduction targets. While one option available to meet the BASIX requirement is the establishment of large scale recycling schemes, the target can also be met through other measures (eg rain water tanks and water-efficient appliances). The tool is

designed to enhance energy and water efficiency in all developments at a localised cost and benefit. PIAC's view is that there can be little argument for spreading the costs of meeting developer's BASIX requirement across the customer base of the water business.

Where a recycling scheme is established to provide recycled water exclusively for discretionary water use, such as in outdoor facilities, or on a competitive basis for commercial use, a light light-handed approach to regulation would be sufficient. This form of regulations may still involve cost reflective pricing principles with regulatory oversight and effective auditing, without the need for postage stamp pricing.

Private Sector Providers

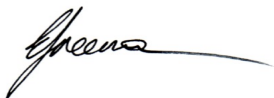
While we note that IPART's review will not cover private sector providers, the principles established by this review will nonetheless inform the debate around establishing an access regime for water and wastewater services in Sydney. For this reason, PIAC supports a pricing methodology that;

- Is consistent with the principles of postage-stamp pricing for essential water and wastewater services;
- Does not impose financial burdens associated with competitive schemes on the existing customer base;
- Promotes a robust financial compliance culture; and
- Facilitates effective community participation in investment decisions.

Auditing Requirements

The *Issues Paper* seeks comment on whether it is appropriate for IPART to commit to an auditing regime around recycled water pricing. PIAC'S view is that IPART should seek to encourage a high level of efficient conduct for businesses engaged in the production and distribution of essential water and wastewater services to consumers. The economic interests of consumers will be met when customers are confident that monopoly suppliers of essential services are held accountable for the prices they charge to consumers. PIAC therefore supports auditing requirements on the provision of recycled water to residential customers.

Yours sincerely
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