

**REVIEW OF RECYCLED WATER PRICES FOR  
SYDNEY WATER CORPORATION, HUNTER WATER  
CORPORATION, GOSFORD CITY COUNCIL AND  
WYONG SHIRE COUNCIL**

**SUBMISSION BY TOTAL ENVIRONMENT CENTRE TO  
THE INDEPENDENT PRICING AND  
REGULATORY TRIBUNAL**

**March 2006**

## **INTRODUCTION**

Total Environment Centre (TEC) 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.

Development of increased recycling is an essential component of urban water sustainability, in particular avoiding unsustainable supply augmentation options such as desalination and construction of new dams.

In the case of Sydney Water development of improved recycling over the next few years will be critical in preventing the construction of a desalination plant at Kurnell. The recent plan to shelve the plant while developing supply from aquifers and increased recycling will only succeed if major investment in recycling projects proceeds. Failure to do so will result in the unsustainable desalination option once again being placed on the agenda.

Gosford and Wyong Councils are also known to be investigating desalination despite currently achieving very low levels of recycling. In the case of Hunter Water rapid population growth and new development in the region will place increased burdens on present supplies and sewerage systems.

TEC believes that pricing for recycled water cannot be considered in isolation from potable water pricing. Continued reform of potable water prices is an integral component of encouraging greater levels of water recycling.

## **CURRENT APPROACHES TO PRICING WATER SERVICES**

### **Rouse Hill Development Area**

TEC notes the Tribunal's comments that total water consumption at Rouse Hill is around 20% higher than the Sydney average despite potable use being relatively low and that recycled supplies are sometimes unable to meet demand and need to be topped up with potable water (IPART, 2006).

It is clear from this that the current price for recycled water is too low and is encouraging overuse. As noted by the Tribunal the major disparity between potable and recycled water prices at Rouse Hill was intended to encourage the use of recycled water. This may have been appropriate as an initial measure to promote acceptance of the scheme and adoption of recycled water, however, it is now appropriate to revisit this arrangement. Topping up recycled supplies with potable water diminishes the benefits of recycling in terms of total potable water saved.

TEC believes that the price for recycled water in the Rouse Hill Development Area should be increased to a level necessary to minimise potable water top up while maintaining a significant price advantage over potable supplies. The current disparity between prices for recycled (\$0.293/kL) and potable water (\$1.20/kL) provides considerable scope for adjustment in this respect.

## **FACTORS TO BE CONSIDERED WHEN PRICING RECYCLED WATER SERVICES IN THE FUTURE**

### **Allocation of costs**

As noted above TEC strongly believes that pricing for potable and recycled water must be considered together. We strongly believe that current potable water prices are undervalued and represent a major impediment to 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 ensuring the long term viability of recycled water projects. In particular TEC strongly believes that volumetric prices for potable water must be increased. Impacts on customers should be managed with corresponding reductions in the level of fixed charges. Greater reliance on usage charges and an increase in volumetric prices would provide stronger resource conservation signals and promote the viability of recycled water schemes.

Recycled water schemes must be viewed as a component of overall water and wastewater systems. In this respect it may be appropriate for some of the costs of recycled water to be incorporated into potable water and sewerage prices. While TEC acknowledges that not all customers will have access to recycled water and thus the benefits of lower costs, all customers will benefit through avoided costs and environmental impacts that would result from development of potable supply augmentation and reduction in sewage treatment costs. As an example the proposed Kurnell desalination plant would have cost a minimum of \$1.2 billion – a cost that would have been met by all Sydney Water customers. Development of recycling in Sydney is thus a major contribution to preventing this cost burden from being imposed on Sydney water customers.

Equally, the benefits of reducing effluent discharges to receiving waters or of being able to provide environmental flows as a result of reduced pressure on potable supplies represent a benefit to the entire community. This point is acknowledged by 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 costs” (HWC, 2006).

TEC acknowledges the Tribunal’s point that schemes built to meet mandated 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**

Willingness to pay is clearly an important factor in determining recycled water prices. Recycling schemes will fail unless there is an appropriate price differential with potable water to encourage customers to switch. As noted above continued reform of potable pricing is essential in order for such a differential to be maintained while ensuring the viability of recycled water schemes.

While providing recycled water at a discounted rate is necessary the example of Rouse Hill provides a clear indication of the importance of achieving the appropriate balance between providing an incentive to use recycled water and preventing over use. Prices should be set at a level to minimise potable top up while still providing a strong incentive to switch to recycled water.

As noted above TEC believes that it is appropriate for some of the costs of recycled water schemes to be spread across the water and sewerage customer base – particularly in relation to mandated schemes.

### **Price structures**

TEC has long taken the view that high levels of fixed charges provide disincentives for customers to adopt more efficient water use practices. We note also the Tribunal's comment that high fixed charges may deter small users from connecting to recycled water systems (IPART, 2006). In view of this TEC strongly believes that all efforts should be made to minimise fixed charges for recycled water and to recover costs from volumetric charges. We acknowledge that this may expose agencies to greater revenue volatility and recommend that the Tribunal give consideration to mechanisms for adjusting prices in subsequent determinations if consumption differs significantly from forecasts. We note that such models have been considered for potable prices (IPART, 2004).

### **OPTIONS FOR SETTING RECYCLED WATER**

TEC notes the options listed by the Tribunal as maintaining the current arrangements with the market deciding prices via negotiation between agencies and customers, direct price setting by the Tribunal and allowing agencies to set prices according to a methodology set by the Tribunal (IPART, 2006).

TEC does not believe that allowing agencies to set prices is appropriate for small customers such as residential consumers who lack the market power of large users. We also agree with the Tribunal's view that it is likely to mean that recycled water projects would only be undertaken if they were commercially viable or provided some other benefit to either the supplier or customer (IPART, 2006).

It is unlikely that one single 'postage stamp' price would be appropriate for all recycling schemes due to variations in the nature of the schemes and the grades of water produced. Recycled water should be fit for the purpose it is supplied for and this will vary from application to application. As noted in the discussion paper this could cause distortions in investment in recycled water projects.

TEC sees logic in allowing agencies to set prices using a methodology developed by IPART. We support the view put by Hunter Water that such a methodology should include a focus on avoided costs (HWC, 2006)

It is important, however, to ensure that such a methodology is correctly used and that agencies do not abuse monopoly powers. In this respect we strongly recommend that the Tribunal require agencies to demonstrate their use of the methodology in setting

prices to ensure that the Tribunal is able to audit the process followed and the appropriate charges set in every instance. If the Tribunal is dissatisfied with the appropriateness of these prices it should have the power to deny approval of the prices and require the agency to address any inadequacy.

## **SEWER MINING**

TEC believes that charges for 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 the actual sewage taken as this represents a waste product that is not currently utilised by the water agencies. Charging for sewage could also be used by agencies to create a barrier to competition by reducing the viability of private sector recycling schemes.

Furthermore we believe that it could be appropriate that credits be provided for avoided costs such as reduced pumping and sewage treatment. Such a system of providing credits for avoided costs would increase incentives for investment in sewer mining schemes. However, in the absence of further detail about arrangements (who pays, calculation methodology) TEC does not have a firm view at this stage.

## **REFERENCES**

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

Independent Pricing and Regulatory Tribunal (2004) "Review of Metropolitan Water Agency Prices – Issues Paper", IPART.

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.