

3 May 2019

Dr Paul Paterson
Chair
IPART
PO Box K35
Haymarket Post Shop NSW 1240

Dear Dr Paterson,

Review of recycled water prices for public water utilities – Draft report

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to comment on the Draft Report on the review of recycled water prices for public water utilities.

PIAC is broadly supportive of the approach taken in the Draft report.

Recycled water will be an increasingly crucial part of the delivery of services by water utilities in NSW, and a vital means of responding to water scarcity and insecurity, particularly in the context of the escalating impacts of climate change. Pricing structures, along with other mechanisms encouraging water conservation and efficiency, must be used to provide a strong incentive to implement recycled water solutions to the greatest degree efficient and appropriate.

Further, we support the approach outlined in the draft report as an important positive step towards pricing that recognises all water as a single, valuable, limited and increasingly insecure resource, and helps to ensure that it is sourced, provided and utilised as efficiently and sustainably as possible.

Accordingly, PIAC highlights the following elements of the draft report as positive steps facilitating the efficient employment of recycled water schemes:

- Refining the definition of mandatory recycled water schemes according to the ability of affected consumers to exercise effective choice.
- Monitoring mandatory recycled water schemes against consistency with IPART pricing principles, retaining the option to determine scheme specific prices where there is inconsistency (or where there is a request to undertake a review).
- Recovering costs for recycled water schemes on an equivalent basis to 'traditional' network schemes, where they are the least-cost solution.
- Adopting a cost recovery funding hierarchy where:
 - if the recycled water scheme is not the least-cost solution, allow avoided or deferred costs arising from the scheme to be recovered from the broader customer base, and

- residual extra costs are ring-fenced and recovered directly from affected recycled water customers through periodic charges.
- Recognising the ‘external benefits’ that accrue to the broader customer base, flowing from the implementation of recycled water schemes, regardless of whether they are the least-cost option, where:
 - They are additional to outcomes mandated by Government
 - They are specific to the recycled water scheme in question
- Establishing a common set of pricing principles for recycled water schemes.
- Requiring utilities, when setting prices for least-cost recycled water schemes, to:
 - Ensure appropriate price signals to users encouraging supply and demand balancing
 - Have regard to customer willingness to pay.
- Allow the public water utility to retain 50% of the revenue recovered from recycled water customers of least cost schemes, funded by the broader customer base.

PIAC strongly supports the objective, stated in the Draft, to incentivise the employment of recycled water schemes that yield the greatest net social benefits. However, PIAC contends that there remains greater scope to recognise the social benefit impact of long-term security of access to water, and consider the ‘cost’ related to long term insecurity and scarcity of limited water resources.

Accordingly, PIAC contends there is greater scope for pricing of recycled water to address the long-term issues of water resource scarcity and insecurity, by going beyond recognition of avoided and deferred costs and external benefits, and explicitly factoring in the impact of water use on the long-term availability of water as a limited resource. For instance, the Draft cites avoided or deferred costs related to augmentation of potable water sources, as a primary consideration in valuing the benefit of a recycled water scheme. However, implicit in this framework is an assumption that augmentation of potable water resources is possible (i.e. That water is a resource limited only by the cost to access it). Considering the natural limit on potable water resources, the projected growth of populations covered by many utilities, and the increasing insecurity of water resources in the face of climate change, PIAC contends that this approach is not sufficient in the longer term, and pricing for scarcity and insecurity will need to be considered.

Further engagement

PIAC would welcome the opportunity for further engagement with IPART and other stakeholders to discuss these issues in more depth. Please do not hesitate to contact Douglas McCloskey on 8898 6534 or dmccloskey@piac.asn.au.

Yours sincerely,

Douglas McCloskey

Policy Officer, Energy and Water
Public Interest Advocacy Centre

Direct phone: +61 2 8898 6534
E-mail: dmccloskey@piac.asn.au

Craig Memery

Team Leader, Energy and Water
Public Interest Advocacy Centre

Direct phone: +61 2 8898 65
E-mail: cmemery@piac.asn.au