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Dear Lyndon

Inquiry into Pricing of Recycled Water in Western Australia

On behalf of the South West Development Commission I would like to congratulate the Economic Regulation Authority (ERA) for conducting the Inquiry into Pricing of Recycled Water in Western Australia.

Overall use, access and allocation of water has become a critical challenge to the future development of the South West. Ensuring that wastewater is appropriately priced so that it can make a contribution to meeting the community's varied water needs is required.

For the purpose of providing feedback the Commission has identified key elements in the ERA's *Issues Paper* we believe warrant comment providing either support or suggested alternative approaches for your consideration.

Yours sincerely

DON PUNCH
CHIEF EXECUTIVE OFFICER

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Inquiry into Pricing of Recycled Water in WA

Comment by South West Development Commission

1) Cost benefit analysis of 'new' water procurement

The Commission believes that wastewater pricing must be considered in the context of the whole integrated water supply system not in isolation. Presently, a considerable proportion of potable water is consumed in residential garden reticulation, public open space maintenance and non-consumptive industrial uses.

Further, water is accessed through self-supply by third parties that is of a standard that could be developed in the future for potable use, but is currently used for alternative purposes for which A or B class treated wastewater may well be an appropriate substitute.

Increasing the reuse of water in regional Western Australia could have considerable benefit in delaying the capital investments now occurring to develop 'new' water supplies. Every time that treated water can effectively be used to substitute the current consumption of potable water, a cost benefit is accrued by the State for deferring new water investment. Given recent desalination development costs are nearing \$12-15 million per gigalitre, the balancing of this cost against the use of recycled water needs closer investigation to identify at a regional level the trigger point at which recycled options are cost beneficial.

Recognising the opportunity for recycled water to be a substitute use option that would free up potable water needs to be reviewed in regional Western Australia. A common statement from the Water Corporation is that all potable water supply in regional WA is subsidised by Community Service Obligations (CSO) placed upon the Corporation. Where recycled water can be used for functions that were previously supplied by potable water, a double benefit in addressing future demand for potable and non-potable uses may be achievable. Given the scale and unique circumstances of each water supply in rural WA this would need to be assessed on a case-by-case basis.

Recommendation:

As part of its final report the Commission believes the ERA should undertake a range of cost benefit analyses evaluating the net benefit accruable to the State where use/substitution of potable water by wastewater can lead to increased availability/reliability of potable water.

2) Pricing incentive/disincentive for industrial use

The Commission is aware that on numerous occasions during the past five years approaches have been made by industrial water users in the South West Region to become wastewater consumers.

Although prepared to enter into such discussions, a common response from various companies has been that almost unilaterally the price for this water being sought by the Water Corporation offers no benefit to the potential industrial user. In several cases the cost comparison between the existing sources used by industry and converting to the treated water offered would result in doubling or trebling of annual water operating costs to the purchaser.

A heavy reliance upon the corporate sector being prepared for 'the community good' to use recycled water appears to exist rather than offering a mutually beneficial outcome. In fairness to Water Corporation staff it appears that their operational charter creates a 'catch 22' situation whereby they must seek the highest commercial outcome from the sale of wastewater.

An anomaly of the commercial approach adopted by the Corporation is that in numerous locations around the South West the Water Corporation, as part of its environmental obligations, treats wastewater to an A class standard to enable this water to be 'released' into the environment such as rivers or tree woodlots.

The cost of treating water to this standard is already factored into the pricing of the product when it is first delivered as potable water through direct charges to consumers and/or with CSO contributions made to the Water Corporation by Treasury. Unfortunately though, once third parties have expressed an interest in an alternative use of this wastewater various pricing models then emerge that appear to focus on recovering all treatment costs that are currently being covered.

As a consequence of this approach, increasing the use of wastewater in various locations throughout the South West is unlikely until pricing issues are resolved.

Recommendation:

Pricing of treated wastewater to user groups should only be comprised of the additional operating costs of delivery and associated long-term infrastructure maintenance costs as they relate to supplying wastewater from the treatment plant to potential user groups.

Costs currently being met to treat wastewater to an A or B class level for release into the environment should not be recovered through the sale of wastewater as a means of supporting the growth of recycled water. Where this may incur additional cost on to the Water Corporation an increased CSO should be provided by Treasury to facilitate critical mass outcomes.

3) Fit-for-purpose grids

In building any water supply grid significant questions arise about achieving critical mass size. This issue is significantly compounded if the proposed grid is operated solely on the basis of being for treated wastewater.

Where mains supply has been constrained to treated wastewater alone it faces difficulty in that its supply growth can only occur in parallel to the growth of wastewater which in turn constrains the operation from being able to commit to larger supply contracts and achieve scales of efficient operation quickly.

To overcome this situation it is essential that any grid transporting treated wastewater should also be able to, at this time, access higher quality (though not treated to potable standard) water as an interim measure. The intent of this would be to create fit-for-purpose (non-potable) grids that long-term will supply increasing volumes of treated wastewater, although in the first instance this would involve the delivery of a mix of water qualities. This could be achieved through permitting a fit-for-purpose grid to access water that is reserved long-term (e.g. Yarragadee) for potable use as an interim measure while the total volume of wastewater grows with population increases.

Recommendation:

That the ERA assesses the business case for fit-for-purpose water grids that will initially source a range of water supplies with the long-term goal of wastewater being the core source.

Summary

Treated wastewater must become a cornerstone element of water supply in regional Western Australia, dependence upon the augmenting of new water sources into the grid to supply additional demands is now in a capital cost range that warrants a more flexible and innovative response when developing additional water supplies.

To achieve this outcome the Commission recommends due consideration be given to the development of a range of policies that assist in overcoming current pricing and critical mass constraints to expand the use of recycled water in regional WA.