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Inquiry into Pricing of Recycled Water in Western Australia
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

Dear Mr Rowe,

On behalf of the Australian Water Association (AWA) I am pleased to make this submission to the **ERA's Inquiry into the Price of Recycled Water in Western Australia**. The AWA is the peak body representing water professionals in Australia. Independent and not-for-profit, AWA promotes sustainable water management through collaboration, advocacy and professional development.

The AWA in Western Australia has taken a strong interest in this Inquiry, and appreciates the time taken by you and your colleagues to brief us on your draft recommendations.

As an overview comment, the AWA is supportive of initiatives that are economically rational and which reduce uncertainty and improve transparency in the market for recycled water in Western Australia. We also consider it vital that pricing reforms that are introduced are in line with the principles of the **1994 COAG Agreement on Water Reform and the National Water Initiative**. Our reading of the ERA's draft recommendations is that they will create appropriate market conditions and to that extent AWA is supportive of the recommendations. However, we have a number of more detailed comments that we believe it is important that the ERA address. These are set out below:

1. The rate of take up of recycled water in Western Australia is low. This is especially so in Perth, and is remarkable considering the scarcity of water in the State, and the strong community desire for increased recycling. There is a broad view that the regulation of recycled water use in Western Australia is complex and lacks transparency and that this works against the development and extension of recycling schemes. In particular, many AWA members are of the opinion the regulatory approvals process needs to be clarified and applied with more consistency. To this end, the AWA would make the following suggestions:
 - A framework for assessing the risks associated with recycled water use should be developed. The point of such a framework would be to determine, objectively, the risks associated with the use of recycled water in particular applications. These would range from replacement of environmental flows to, potentially, direct potable reuse.

The framework would require rigorous consideration of:

- The likely concentrations of contaminants
- Human and ecological health effects
- Likely exposure pathways
- The availability and practicality of risk mitigation techniques, and
- Other factors which would affect the risk faced by consumers in accessing recycled water



An objective assessment process utilising well-understood guidelines and criteria would provide certainty in the market place, rationalise investment decisions and provide security to users. AWA members would be well positioned to assist in the development of such a framework.

- Case-studies of successful recycling schemes in Australia and internationally should be compiled. These would be an adjunct to the framework discussed above, in that they would provide examples of the way in which risks have been assessed and mitigated, provide actual field-verified results of particular schemes and provide insight into the effectiveness of various technologies and the relations between suppliers and users. The goal of this suggestion and the framework referred to above would be to facilitate the economically rational and sustainable use of recycled water which, AWA believes, is hindered when practitioners and potential users face obscurity.
2. **The ERA's recommendations should explicitly call for efforts to be directed to the inclusion of externalities in the price of recycled water.** The 1994 COAG water reform principles referred to the need to consider externalities in water prices. Subsequent reviews of progress have noted that internalisation of externalities remains largely unaddressed, although it has frequently been noted that quantifying externalities is complex. AWA believes, however, that effort should **still be directed to this issue. Indeed, the ERA's recommendations state "A negative adjustment in price [could be made] to take into account any costs that are avoided as a result of selling the recycled water. For example, the operating costs of discharging the wastewater to the environment would be avoided"** This is an example of an externality, but while acknowledging the existence of such costs and benefits, there is no explicit call for the full range of externalities to be dealt with. With regard to the use of recycled water, such a recommendation would be particularly important as it is likely that the environmental externalities associated with recycled water will be fewer and of lower magnitude than those associated with water from traditional sources. Thus, at least in this regard, the cost of recycled water should be comparatively cheaper, boosting the attractiveness of recycled supplies to those able to utilise them.
 3. Boundary conditions need to be set and be transparent. The ERA has rejected suggestions that the cost of the wider sewerage network should be attributed to the cost of recycled water provision, but this is just one example of the setting of a boundary condition relevant to recycled water. AWA notes that the ERA has said that **"A negative adjustment in price [may be made] to take into account any costs that are avoided as a result of selling the recycled water"** An understanding of what costs (positive or negative) will be included in calculations of recycled water price will be important boundary conditions, and there may be others. Some AWA members have suggested that the Rouse Hill recycled water project in western Sydney would form an appropriate case study of the effective setting of boundary conditions. Once again, the boundary conditions should be consistent and transparent; they could usefully be included in the Framework Principles referred to earlier.
 4. The Federal Department of Environment, Water, Heritage and the Arts recently circulated draft National Water Pricing Principles covering Capex, Urban Water Tariffs, Water Planning and Management, and Recycled Water and Stormwater Reuse. Among the principles relevant to the pricing of recycled water were the following:



Principle 4

Regard to the price of substitutes (potable water and raw water) may be necessary when setting the upper bound of a price band.

Principle 5

Prices should be flexible enough to provide for differentiation in quality or reliability.

Principle 6

Where appropriate, pricing should reflect the role of recycled water as part of an integrated water resource planning (IWRP) system.

Principle 9

Prices should be appropriate for adopting a strategy of 'gradualism' to allow consumer education and time for the community to adapt.

A combined reading of these suggests that there may be justification in setting a price for recycled water below that of water from other sources. AWA believes that community and industry acceptance of recycled water use will take time to develop. While, generally, AWA is not in favour of subsidies, there may be some justification for limited cross-subsidisation or the provision of transparent CSOs for a limited period, particularly where the use of recycled water will lower system costs (say through deferred augmentation) in the longer run.

5. **Implicit in the ERA's recommendations is that recycled water is a legitimate source of supply** that can service a range of needs at a range of qualities. It is also acknowledged that competitive pressures are desirable as contestability will ensure that willingness to pay is the key determinant of water price. However, monopoly control over recycled water has been established in Western Australia in certain areas in that under the Water Services Licensing Act 1995, the Authority specifies the areas within which water service providers must hold a licence. This Act empowers the ERA to pronounce operational licensing areas as either competitive or monopolised by the Water Corporation. This would appear to limit contestability and the development of new water sources. Some AWA members feel that there should be modification of this system to ensure that any monopoly that is granted is appropriately regulated and transparent and that access can be gained by third parties that are able to meet clearly defined and transparent conditions.
6. Nodal-based pricing is preferred over postage-stamp pricing. Recycling schemes will have different costs and benefits in different circumstances and will not be available to all consumers. While all may share equally in the environmental benefits of recycling, there are no social equity considerations associated with the provision of recycled water that would justify a postage-stamp price approach. Furthermore, to adopt such an approach would be to work against the extension of recycling schemes by limiting the costs that could be recovered (say, from users who particularly valued the recourse) or exaggerating the costs of a scheme to consumers in areas in which services could be provided more cheaply than the average.
7. The transparency and intent of CSOs directed to water – regardless of the source – should be improved. Some AWA members have expressed concern that CSOs have been directed to systems generally, rather than objectives. Thus, for example, CSOs used to extend water supplies subsidise supplies for garden watering – a non-essential use – to the same extent as water for basic human health requirements. If subsidies were better targeted it is the belief of some members that more important objectives, such as reducing environmental impact or achieving a reduction in demand on existing systems that are already at capacity (which might



involve the establishment of recycling schemes) would be funded over discretionary water uses.

8. In some cases recycled water schemes may receive funding from grants or similar funding sources. In such situations, the case for light-handed regulatory oversight is weakened. Some AWA members believe that where such funding has been obtained there should be an obligation on the operator to reduce the price charged to consumers, reflecting the contribution the community has made through the grant.

As indicated at the outset, AWA supports the majority of recommendations of the ERA and the general thrust of its approach. We have therefore not commented on particular recommendations but propose that the comments above be read in conjunction with the ERA's recommendations.

Should you require further information please contact Andrew Speers at our National office on (02) 9467 8426 or at aspeers@awa.asn.au

Yours sincerely,

Tom Mollenkopf
Chief Executive Officer
Australian Water Association.