



Department of Agriculture and Food  
Government of Western Australia



15 December 2008

Inquiry into Pricing of Recycled Water in Western Australia  
Economic Regulation Authority  
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PERTH BUSINESS CENTRE WA 6849

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**DRAFT REPORT INQUIRY INTO PRICING OF RECYCLED WATER IN WESTERN AUSTRALIA**

Thank you for the opportunity to provide comment on the draft report inquiry into pricing of recycled water in Western Australia.

The Department of Agriculture and Food (the Department) have identified two issues in the draft report. These are summarised below and more detailed information is provided in Attachment 1.

The first issue concerns groundwater replenishment. The Department recommends a process for deciding what portion of recycled water should be allocated for groundwater replenishment, rather than assume that all recycled wastewater should be used for this purpose. The process should engage community and industry in identifying relevant social, economic and environmental issues and potential uses for the recycled water. The process should also take into account how the use of recycled water for groundwater replenishment may affect current and future allocations.

The second issue concerns the internalisation of externalities that occur as a result of the wastewater recycling process. The Department recommends that a rigorous process of evaluation be completed to develop community agreed values for externalities, and to assess the impact of applying a cost for externalities. The proposed application of a proxy to account for perceived externalities is not supported by the Department.

Should you require any further information please contact Mr Eric Wright on (08) 9368 3954 or [ewright@agric.wa.gov.au](mailto:ewright@agric.wa.gov.au).

Yours sincerely

David Hartley  
EXECUTIVE DIRECTOR  
NATURAL RESOURCE MANAGEMENT

Attachment 1

**Natural Resource Management**

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## ATTACHMENT 1

**SUBMISSION PREPARED BY DEPARTMENT OF AGRICULTURE AND FOOD  
REGARDING THE REVIEW OF INQUIRY INTO PRICING OF RECYCLED  
WATER IN WESTERN AUSTRALIA  
DECEMBER 2008**

**Allocation**

The Water Corporation supports the reservation of recycled water to public water supply, but also recognises the issue of groundwater replenishment.

The Department of Water requires an allocation of recycled water from the Beenyup Waste Water Treatment Plant to be reserved for potential groundwater replenishment. This endorses the State Water recycling strategy to support future potable water needs.<sup>1</sup>

The reservation of recycled water to specific uses such as groundwater replenishment or horticulture is not supported by the Economic Regulatory Authority or the Department of Treasury and Finance. They favour a neutral auctioning process to ensure the recycled water flows to its highest value use.<sup>2</sup>

The State Water Recycling Strategy recognises groundwater replenishment as a high value use but only considers horticultural use as a viable alternative use for recycled water. The Department of Agriculture and Food supports the issue of allocating recycled water to groundwater replenishment but requires clarification of how this reflects the State Water Recycling Strategy. Prior to allocating recycled water to groundwater replenishment, a comprehensive process should be undertaken to analyse the impact of the returned water. This process should address similar values to those considered by the process undertaken by the Department of Water Statewide Policy No 5.<sup>3</sup> Some of the important issues include:

- The impact on existing allocations; whether the recycled water will change current allocations to social, ecological, or economic values;
- The effect on future allocations; how the recycled water should be allocated according to social, ecological, or economic values;
- Environmental and community values, how the community responds to the use of recycled water for social, ecological, or economic values;
- Water security issues, ensuring that future water needs are adequately assessed and catered for across social, ecological, and economic values;
- Allocation for economic production, such that water is allocated to important community value uses (water supply, food production) once environmental values are met.

**Externalities**

Compliance with the NWI requirement to recover the cost of environmental externalities<sup>4</sup> raises the question of pricing recycled water to recognise the costs and benefits to the environment. The inherent difficulty in quantifying these costs and benefits is acknowledged by submissions.

<sup>1</sup> Draft Report: Inquiry into Pricing of Recycled Water in Western Australia, 51.

<sup>2</sup> Draft Report: Inquiry into Pricing of Recycled Water in Western Australia, 51.

<sup>3</sup> State Wide Policy No 5, Environmental Water Provisions Policy for Western Australia, 2000.

<sup>4</sup> Intergovernmental Agreement on a National Water Initiative, [65] 'In accordance with NCP commitments, the States and Territories agree to bring into effect pricing policies for water storage and delivery in rural and urban systems that facilitate efficient water use and trade in water entitlements, including through the use of: ... (ii) full cost recovery for water services to ensure business viability and avoid monopoly rents, including recovery of environmental externalities, where feasible and practical.'

The Department of Treasury and Finance propose a proxy to approximate the cost of externalities created by the use of recycled water, until a method of quantifying these externalities is developed.<sup>5</sup> This was not supported by the Water Corporation submission.<sup>6</sup> Regulation designed to internalise negative externalities was preferred as a management method.

The Department of Agriculture and Food does not support the application of a proxy in the interim while an appropriate methodology is designed. Rigorous evaluation should be applied to determine the effect of positive and negative externalities. Compliance with paragraph 65(ii) of the NWI requires full cost recovery of water services including environmental externalities, therefore further analysis into this issue is recommended.<sup>7</sup> Intervention to internalise externalities may be required to correct recognised market failure. However, this should not be implemented until externalities are analysed and quantified, through an open community and industry engagement process.

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<sup>5</sup> Draft Report: Inquiry into Pricing of Recycled Water in Western Australia, 25.

<sup>6</sup> Water Corporation Submission, 3; Draft Report: Inquiry into Pricing of Recycled Water in Western Australia, 25.

<sup>7</sup> This is the position agreed by the Economic Regulatory Authority and the Department of Treasury and Finance. Draft Report: Inquiry into Pricing of Recycled Water in Western Australia, 26.