

4 September 2018

WHAT

IPART is reviewing pricing arrangements for recycled water, sewer mining and stormwater harvesting services for Sydney Water, Hunter Water, the Central Coast Council and Essential Energy (Essential Water in Broken Hill). The review includes developer charges for recycled water.

Today we released an Issues Paper summarising the key issues and questions we are seeking comment on.

WHY

In 2006, we established guidelines for pricing recycled water and related services for Sydney Water, Hunter Water and the Central Coast Council.¹ We also made a determination for recycled water developer charges.

Our current review is revisiting our 2006 Guidelines and the accompanying determination of recycled water developer charges. The revised guidelines will this time also apply to Essential Energy, where it provides recycled water services.

Through this review, we will seek to establish a pricing framework that is flexible and administratively simple to implement, yet promotes efficient investment in and uptake of recycled water.

¹ IPART, *Pricing arrangements for recycled water and sewer mining – Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council - Final Report*, September 2006.

WHO

In addition to the public water utilities, this review is relevant for a wide range of stakeholders, including:

- ▼ customers of recycled water, sewer mining and stormwater harvesting services
- ▼ developers, who may be affected by recycled water developer charges
- ▼ privately owned water utilities who may wish to compete with public water utilities to provide water, wastewater or recycled water services, and
- ▼ the wider community and the utilities' broader customer base, who may benefit indirectly from recycled water schemes, and who may contribute to the funding of recycled water schemes.

HOW

Stakeholders are invited to make submissions on our Issues Paper, and will have further opportunities to comment at a public hearing and on our Draft Decisions. See page 3 for details on how to make a submission.

Key dates for this review

4 September 2018	Release Issues Paper
12 October 2018	Submissions due
4 December 2018	Public hearing
Early April 2019	Release Draft Decisions
Late April 2019	Receive submissions on Draft Decisions
June 2019	Release Final Decisions

What are the key issues in this review?

Through this review, we are looking to improve our pricing arrangements for recycled water to ensure that our regulatory approach supports efficient investment in recycled water and related services to maximise the long-term benefits to customers and the community. We outline some of the key issues below.

We consider a less intrusive approach to regulation remains appropriate

We distinguish between **mandatory** and **voluntary** recycled water schemes, where the distinction reflects the degree of effective choice that customers have when connecting to recycled water schemes. As under our existing regulatory framework, we are proposing to continue to defer regulating maximum prices for those recycled services where customers have effective choice. This generally relates to voluntary recycled water schemes, sewer mining and stormwater harvesting, where customers are typically commercial entities that have alternative options and an ability to negotiate with public water utilities.

In these cases, we encourage stakeholders to negotiate and enter into unregulated pricing agreements. Where stakeholders are unable to negotiate such agreements, they can ask IPART to undertake a scheme specific review to determine prices. We are seeking stakeholder views on whether this approach remains appropriate.

We propose to continue regulating prices for mandatory schemes

We consider there is a need to continue price regulation to protect customers of mandatory schemes. If customers cannot choose their water supplier, or there are practical barriers to opting out, there is potential for the abuse of monopoly power. The majority of residents in new development areas receiving recycled water via third-pipe systems fall under this definition. As part of this review, we are seeking views from stakeholders on what cap, if any, to apply to recycled water charges to protect these customers.

Our pricing arrangements should maximise net economic benefit

A key focus of this review is ensuring our pricing arrangements support investment in recycled water schemes where they maximise the net economic benefit to the community or deliver services at least economic cost. This means prices must accurately reflect the efficient costs and benefits of the schemes.

Our current pricing arrangements aim to achieve this through a number of mechanisms. In addition to charging direct users of the recycled water services, the public utilities can also levy recycled water developer charges on developers to recover upfront the efficient cost of providing recycled water infrastructure to new developments (or redevelopments).

Further, under current arrangements, some of the costs of recycled water schemes may be recovered from parties other than developers and the direct users of the recycled water service, through cost offsets. These are generally recovered from the utilities' broader customer base for water and wastewater services, and relate to avoided and deferred costs – ie, cost savings from delaying or averting the need for augmentation of a water utility's potable water and/or wastewater network as a result of the recycled water scheme.

Allowing for these cost offsets is an important feature of the recycled water pricing framework, because it effectively signals the net scheme costs to recycled water customers and developers, and therefore where recycled water is most beneficial in terms of alleviating capacity constraints on the existing water and wastewater network.

Under our current (2006) Guidelines, there is also scope for external benefits to be recovered from other parties, and therefore offset the cost of a recycled water scheme to its customers or developers, through either:

- ▼ an explicit payment by Government, or
- ▼ the broader customer base, if there is an explicit directive from Government to do so.

We are proposing that where a utility can demonstrate the existence of external benefits through evidence of its broader customer base's willingness-to-pay, it should be able to recover the value of these benefits from the broader customer base without a Government directive. This would then be used to offset the cost of a recycled water scheme.

We are seeking stakeholder views on our proposed methodology and framework for regulating recycled water prices and determining recycled water developer charges, including how to account for avoided costs and external benefits of recycled water schemes.

Public and private water utilities should compete on an even footing

Private sector providers are playing an increasing role in the provision of water, wastewater and recycled water services. Our pricing arrangements should continue to facilitate competition as a means of encouraging innovation and economic efficiency, for the benefit of customers and the wider community. That means ensuring that public and private water utilities face similar commercial risk and cost recovery frameworks for recycled water services. We are seeking stakeholder views on how we can best achieve this.

Our pricing arrangements should provide investment certainty

While we consider our existing pricing principles and guidelines remain broadly appropriate, there may be opportunities to provide greater certainty for investment in recycled water schemes. This relates in particular to how we calculate and assess claims for avoided and deferred costs, and claims for external benefits.

For example, utilities may need clearer regulatory guidance on how to prepare a business case that would meet IPART's standards for claiming cost offsets, or on how we might retrospectively adjust cost offsets if there were material differences between forecast versus realised demand.

We note that any assessment process must balance a water utility's need for certainty with IPART's role in protecting the wider customer base by properly assessing the efficiency and legitimacy of avoided and deferred cost claims and external benefits.

We are seeking stakeholder views on how we should best assess claims for costs offsets, and on the other elements of our existing assessment guidelines, particularly with respect to the timing of assessments and the design of a cost-offset adjustment mechanism.

What next?

Submissions on the Issues Paper are due by **12 October 2018**.

We prefer submissions via our online form, available on our website www.ipart.nsw.gov.au. You can also send comments by mail to:

Review of recycled water and related services

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Unless identified as confidential, we plan to publish all submissions on our website soon after the closing date.