

## Independent Recycled Water Review – Government response

Recommendation	Response	Agencies
<p><b>By the end of 2020, the Department of Planning and Environment (DPE), in its role in leading the development of the NSW Government’s Metropolitan Water Plan, should:</b></p>		
<p><b>Reconfirm</b> that a key objective of the policy and regulatory framework is to facilitate cost-effective water recycling (where and when the benefits of water recycling to the community exceed the costs), rather than supporting or mandating water recycling projects for their own sake. This objective should be confirmed in the next Metropolitan Water Plan. <b>(Recommendation 1)</b></p>	<p>Support in principle. Government’s key objectives for metropolitan NSW water services is to ensure they are affordable, secure and sustainable. Government is committed to supporting recycled water where it delivers against these objectives.</p>	<p>DPE</p>
<p><b>Assess and report on progress</b> in the next Metropolitan Water Plan towards refining the policy and regulatory framework in line with the recommendations in this report to ensure the framework is meeting four key preconditions necessary to facilitating cost-effective water recycling:</p> <ul style="list-style-type: none"> <li>• Encouraging consideration of the broader costs and benefits of water recycling</li> <li>• Providing consistent incentives and signals for public water utility investment in and use of water recycling relative to other services and assets</li> <li>• Promoting efficient private sector entry in water recycling</li> <li>• Being congruent with government policy settings. <b>(Recommendation 2)</b></li> </ul>	<p>Support in principle. Before accepting the recommended preconditions, it is important that the broader community (as beneficiaries) be engaged to determine what external benefits are desired, the value attributed to those benefits and the capacity to pay for those benefits.</p>	<p>DPE</p>

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<p><b>Commission</b>, in conjunction with the public and private water utilities, a review of measures to enhance industry ability to coordinate and engage with potential sources of co-funding in water recycling. <b>(Recommendation 8)</b></p>	Support	DPE
<p><b>Provide information</b> to IPART and the broader market regarding expectations of any Ministerial direction to IPART to allow some of the costs of investment in water recycling to be recovered from the broader customer base, and the alignment of any direction with the NSW Government’s priorities as set out in the next Metropolitan Water Plan. <b>(Recommendation 10)</b></p>	Support. Any material changes to the metropolitan water policy and regulatory framework will be based on consultation and will be clearly communicated to market.	DPE
<p><b>Amend</b> the operating licences for the NSW public water utilities (WaterNSW, Sydney Water and Hunter Water) to ensure they develop and publish an annual ‘system limitation report’ that makes key information publicly available on long-term growth servicing plans, system constraints and the costs (or savings) of alleviating (or deferring) constraints in each water and wastewater system in a consistent, timely and accessible way. These ‘system limitation reports’, signed by the Boards of the public water utilities, should reflect integrated long-term planning between agencies, be consistent with the Metropolitan Water Plans and underpin price submissions to IPART and any wholesale prices that may be negotiated with wholesale customers (such as private sector recycled water proponents). <b>(Recommendation 11)</b></p>	Support in principle. Government supports the intention of the recommendation, but will further consider the proposed ‘system limitation report’ and the arrangements to best achieving it.	DPE IPART Water NSW Sydney Water Hunter Water
<p><b>Develop</b> a framework for monitoring the ‘system limitation reports’ developed by the public water utilities to ensure they are consistent with the Metropolitan Water Plans (see related Recommendation 11). <b>(Recommendation 12)</b></p>	Support in principle. As above.	DPE IPART Water NSW Sydney Water Hunter Water

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<p><b>Amend</b> the operating licences for Sydney Water (Section 3.2) and Hunter Water (Section 2) to require these public water utilities to develop and publish an annual report on ‘when and how’ they have considered cost-effective water recycling in meeting community needs (that is, extending beyond water conservation purposes) as part of their existing licence obligations to prepare a Water Conservation Report <b>(Recommendation 15)</b></p>	<p>Support in principle. Government supports the intention of the recommendation, but will further consider the proposed report framework and the arrangement to best achieving it.</p>	<p>DPE IPART DPC</p>
<p><b>Progress</b> the action proposed in the 2017 Metropolitan Water Plan to pursue and publicly report on engagement with the community on whether highly treated recycled water can be considered as an option for drinking water supply in the future. DPE should also review the appropriateness of other restrictions on the use of recycled water raised in this review. <b>(Recommendation 30)</b></p>	<p>Support</p>	<p>DPE Sydney Water</p>
<p><b>Review</b> the potential barriers relating to environmental regulation raised in this review, including the extent to which environmental regulation of the urban water sector is proportionate, flexible and efficient in line with best practice principles. <b>(Recommendation 31)</b></p>	<p>Noted. Government is cognisant of the need to ensure the appropriate balance between environmental protection and encouraging the uptake of water recycling.</p>	<p>DPE Office of Environment and Heritage/ EPA</p>
<p><b>Review</b> the planning and related issues raised during this review, including the BASIX mechanism. <b>(Recommendation 32)</b></p>	<p>Support</p>	<p>DPE</p>
<p><b>The Department of Planning and Environment, in its role in leading the development of future Metropolitan Water Plans every five years, should:</b></p>		

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<p><b>Assess and report on:</b></p> <ul style="list-style-type: none"> <li>The 'state of play' of cost-effective water recycling in supporting the government's priorities</li> <li>Whether the policy and regulatory framework is meeting the four key preconditions necessary to facilitating cost-effective water recycling set out in Recommendation 2. <b>(Recommendation 3)</b></li> </ul>	<p>Support in Principle. As per response to Recommendation 2.</p>	<p>DPE</p>
<p><b>Review and report on</b> the costs and benefits of a continuation of the 2008 NSW Government Direction to set specified water, wastewater and stormwater developer charges for Sydney Water and Hunter Water to zero. <b>(Recommendation 19)</b>.</p>	<p>Noted. Government is cognisant of the impact of developer costs in delivering an affordable housing supply.</p>	<p>DPE Treasury</p>
<p><b>Request</b> IPART to review and report by the end of 2021 (and then every five years thereafter) on potential changes to the framework for competition in the NSW urban water sector, including postage stamp pricing, to improve the efficiency of water, wastewater and stormwater services across the Greater Sydney, Lower Hunter and Central Coast regions. <b>(Recommendation 29)</b></p>	<p>Do not support. Removing postage- stamp pricing will have inequitable impacts.</p>	<p>N/A</p>
<p><b>Review</b>, in conjunction with other NSW Government agencies, the IPART Act to ensure it is keeping pace with best practice economic regulation and changes in the sectors it regulates (including the increasing role of private sector water recycling). <b>(Recommendation 28)</b></p>	<p>Noted. Government is cognisant the recommended review goes beyond just metropolitan water and as such will be considered as part of a future statutory review of the IPART Act - if it is determined appropriate by the portfolio Minister.</p>	<p>DPC DPE</p>

**Recommendation (All IPART recommendations will be forwarded to IPART for their consideration).**

**As part of its 2018 recycled water review, IPART should:**

**Amend** the framework for assessing avoidable costs associated with recycled water schemes to ensure any ex-post review considers only information that was available at the time of the decision to invest in water recycling. **(Recommendation 4)**

**Extend** the framework for assessing avoidable costs associated with recycled water schemes to include stormwater assets owned and operated by the public water utilities. **(Recommendation 5)**

**Consider** how public water utilities can be given incentives to engage with private sector recycled water proponents that generate avoidable costs, but where there is no wholesale service being provided to the private sector recycled water proponent. **(Recommendation 6)**

**Extend** the framework for assessing avoidable costs associated with recycled water schemes to allow for the value of external benefits to be recovered from the broader customer base where public water utilities can demonstrate customer willingness and capacity to pay. **(Recommendation 7)**

**Provide** greater regulatory guidance on the circumstances in which it would expect co-funding to be received for water recycling schemes when setting prices for recycled water. **(Recommendation 9)**

**Amend** its *Guidelines for Water Agency Pricing Submissions* to strengthen the regulatory guidance on 'when and how' the public water utilities should undertake a 'Regulatory Investment Test' to identify the 'preferred investment option' (including the potential for water recycling) when making major investment decisions to meet an identified need - similar to the guidance published by the Australian Energy Regulator under the National Electricity Rules. The Guidelines should also indicate how any 'Regulatory Investment Test' should support business cases and regulatory proposals provided to IPART. **(Recommendation 14)**

**Strengthen** the regulatory guidance it provides about the scope and form of retail price regulation of recycled water provided by **public water utilities** (including principles and decision-making processes for establishing this form of price regulation). **(Recommendation 16)**

**Strengthen** the regulatory guidance it provides about the scope and form of retail price regulation of recycled water provided by **private WICA licensees** (including principles and decision-making process for establishing this form of price regulation). **(Recommendation 26).**

**Provide** regulatory guidance on what may be classified as a recycled water asset in the context of cost-effective catchment-wide planning solutions (including assets used either as a pathway to or end-point for some form of potable reuse) and how expenditure associated with these assets will be treated with regards to cost recovery. **(Recommendation 17)**

**Review** the pricing principles for the structure of recycled water prices to ensure they promote economically efficient outcomes, including promoting cost-effective integrated catchment scale land use and water cycle planning solutions. **(Recommendation 18)**

**Review** the developer charges formula and methodology for recycled water to ensure it remains fit for purpose and reflects current common industry assumptions. **(Recommendation 20)**

**Evaluate** the merits of publishing annual market guidance on the range of long-run marginal cost (LRMC) estimates for each water and wastewater supply area, drawing on information contained in the annual 'system limitation reports' published by the public water utilities (see related Recommendation 11). **(Recommendation 22)**

**Provide** guidance to stakeholders on how it intends in practice to apply aspects of its proposed wholesale pricing methodology ('retail-minus' approach) when setting prices for wholesale services to customers with a recycled water plant. **(Recommendation 27)**

**Continue** to set the regulated asset base (RAB) for regulated services based on the 'line-in-the-sand' to which new assets are added (subject to prudence and efficiency) and depreciation (and disposals removed). **(Recommendation 21)**

**Evaluate** the merits of adopting a more light-handed form of price control, such as a tariff basket used in regulation of monopoly services in other jurisdictions, where prices can be updated annually where there are material changes in the operating environment (such as capacity constraints or government policy), subject to clear pricing principles and pricing constraints. **(Recommendation 23)**

**Set** usage charges for water and wastewater (for those customers that pay wastewater usage charges) with regard to the long-run marginal cost (LRMC) of providing services to give better signals regarding emerging capacity constraints. This includes ensuring the estimated LRMC of supply reflects the 'system limitation reports' published by each of the public water utilities (see related Recommendation 11). **(Recommendation 24)**

**Evaluate** the merits of removing the discharge factor applying to wastewater service charges. **(Recommendation 25)**

**Ensure** that the 'system limitation report' published by each of the public water utilities is consistent with the framework developed by DPE, robust and fit for purpose (see related Recommendation 11). **(Recommendation 13)**