



# FACT CHECK ON RECYCLED WATER PRICING IN SYDNEY AND HUNTER

The water industry strongly supports increasing the use of recycled water to meet our growing needs. In Sydney and the Hunter region, public and private water utilities both undertake significant water recycling.

Recently, there has been significant confusion among some stakeholders about the pricing of recycled water. There are claims that IPART, the independent NSW pricing regulator, is imposing a surcharge or levy on the sale of recycled water. In particular, some groups have incorrectly claimed that what is known as the retail minus method (see box) effectively adds a levy to the cost to supply recycled water.

**FACT: All suppliers of recycled water are free to choose the price they sell it for**

IPART has not restricted or imposed a method on what any supplier charges for recycled water. IPART has set principles for publicly-owned utilities to follow when they set recycled water charges, but these do not apply to other operators.

**FACT: The retail-minus approach does not apply to the sale of recycled water**

Making recycled water sometimes requires a small amount of drinking water, and the treatment process will leave waste that needs to be disposed of. If a recycled water provider buys drinking water from Sydney Water or Hunter Water or chooses to dispose of waste through Sydney or Hunter's systems, they only pay standard non-residential charges just like any other business who relies on water and wastewater services to produce the products they sell.

**FACT: The retail-minus approach does not apply to stand-alone schemes**

If a new provider sets up a full wastewater (sewerage) scheme, independent of Sydney Water or Hunter Water's wastewater network, the provider would not be subject to the retail-minus approach.

A standalone wastewater service involves taking wastewater from homes and businesses, transporting it via pipes to treatment facilities, treating it to an appropriate standard so that it can be discharged back into the environment (or reused in the case of water recycling), and disposing of the biosolids removed during the process.



**FACT: Retail minus only applies where one utility on-sells the services provided by another utility**

In NSW, water utilities can use the services provided by another utility operating in the same area. For example, rather than build its own pipe network, a utility may choose to use the network of another utility to transport, treat and dispose of waste. This is known as on-selling. In these cases, it is important they pay the other utility for the service(s) they are on-selling. If the price they are charged is too low, one group of customers ends up subsidising the bills of the customers served by the other utility, and could even face higher bills. Retail minus pricing is the only method which has been found appropriate for such cases in Australia since it was first determined by the ACCC in 2007.

**Box: The retail-minus pricing method**

The retail minus pricing method applies when a new operator wants to offer water or wastewater (sewerage) services to retail customers, while using Sydney or Hunter Water's pipes and treatment plants to do so. The method sets the charge (often called the access price) for using those existing systems.

It is called the retail minus method because the access price is calculated by deducting (minusing) the costs Sydney Water or Hunter Water will save by not having to provide retail services (and sometimes local reticulation) from the standard retail charges.

For example, Sydney Water would normally collect around \$600 - \$700 dollars from each household property for the full wastewater service. From this, the cost of services provided by the new utility are deducted (these are retail services such as billing and any local reticulation services). The remaining charge is the cost per property that the new utility will pay to Sydney Water or Hunter Water to cover the system wide costs of the pipes, pumps and treatment plants, and supply (for water) or waste disposal (for wastewater).

As set out by IPART, it is important to use the retail price as the starting point to protect all consumers in Sydney and the Hunter region. Under the system of postage stamp pricing for water and wastewater, prices are the same for all consumers within a utility's area of operations, regardless of the location-specific costs of providing their service. Some areas are higher cost and some are lower, however a single price is set sufficient to cover total costs across the whole network. Without retail-minus prices, new utilities could earn large profits in low cost areas, leaving the existing utility customers to pick up the bill for the high cost areas.