



# RECYCLED WATER POLICY NSW

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## About Open Cities

Open Cities Alliance is a national peak association for Next-Gen infrastructure and services. We are working with our industry and government members to create policy and market setting that enable more sustainable, resilient and affordable utility and mobility services for communities and businesses. We are advocating for Integrated Water Management (IWM) and greater competition and transparency in water markets. This policy submission represents the views of our members.

Our purpose is to accelerate the take-up of sustainable utility and mobility innovation and services by:

- promoting and enabling evidence-based policy and regulation
- highlighting best practice projects driving economic growth and social benefit
- driving greater awareness of the rights of prosumers

## Summary

These recommendations represent the collective views of Open Cities members. The adoption of its recommendations would ensure Australia remains globally competitive, transitioning to next generation multi-utility businesses and services, driving innovation, job creation while decarbonising the economy.

The rapid convergence of utility and mobility solutions enabled by Next-Gen data and Internet of Things (IoT) is future-proofing economies around the world, delivering liveability, sustainability and resilience, and importantly putting downward pressure on utility bills and infrastructure costs.

Open Cities envisages a future for Australia characterised by abundance not scarcity.

Australians are missing out on the many benefits the digitisation of infrastructure and services are bringing people, families and businesses around the world – not just significantly reduced household bills but the ability to generate income.

It is of significant concern to Open Cities members that a decade on from the end of the Millennium drought, the State of NSW has not invested in scaling-up next generation (Next-Gen) integrated water management (IWM) measures proven to drought-proof communities and reduce costs. Drought response measures must be part of Sydney Water and Hunter Water's essential plans and included in their pricing proposal.

In 2019, NSW is again in drought, yet progress to transition Sydney to a sustainable, liveable, affordable future has not only slowed but been reversed.

Modernising our 21st century water network must be a priority to ensure families and businesses can reap the benefits of new water infrastructure solutions that are getting smaller and more efficient.

Open Cities recommends:

1. **Establish an Independent Market Operator**
2. **Removal of the retail minus tariff framework**
3. **Minimum standards for recycled water in all new growth**
4. **Targets for zero ocean outfall**

# Recommendations

## COMPETITION & MARKET ACCESS

Competition remains absolutely critical to drought-proofing NSW and delivering more sustainable water management solutions and customer choice. A competitive water market is a requirement to ensure families and businesses are not locked into costly, gold-plated and outdated water management services that fail to enhance liveability, tackle climate change and heat island effect.

The lack of innovation and competition in the NSW market is impacting negatively on the health, productivity and efficiency of NSW communities who would be better served with more efficient water management solutions at the household and precinct-scale.

Pricing mechanisms must improve water security and sustainable development to offset climate change-associated risks.

Open Cities believes an Independent Market Operator (IMO), separate to IPART, can assist with a whole-of-Government solution to addressing lack of competition, transparency and level playing field in the water market. The aim of an IMO is to deliver new homes quicker, more affordably and with a safe and reliable water supply in a competitive and contestable environment.

1. **Removal of the retail minus tariff framework**
  - a. **Non-residential prices need to be re-introduced**
  - b. **Schemes such as Green Square Stage 2 wastewater recycling scheme and others be exempt from the wholesale pricing determination and non-residential prices apply**

Open Cities maintains the biggest barrier is the retail minus tariff framework introduced in January 1, 2018. Which has killed competition by increasing the cost of recycled water scheme operations by 400 to 1200 percent in urban regeneration developments. As a result, not one new application for a Water Industry Competition Act (WIC Act) licence has been made this year.

Lack of commercial viability since tariff change:

- IPART's wholesale price determination has made wastewater recycling for private utilities commercially unviable – increases of 400-1200 percent in urban infill
- previously these schemes were subject to non-residential prices, like trade waste charges for disposing of their waste streams to Sydney Water's sewers – a reasonable and fair approach
- IPART determined new prices for private water utilities in June 17, to apply from Jan 18, remains untested to date.
- There have been no new Water Industry Competition Act (WIC Act) licences since its introduction
- The wholesale prices use a 'retail-minus' methodology which has been discredited in jurisdictions around the world in the energy, telecommunications and water sectors.

2. Establish an independent NSW Water Market company to set frameworks to transition from existing centralised approaches to a new competitive IWM market, including:
  - a. Defining IWM and how it applies to water management of new precincts
  - b. Rules of engagement, information & guidance for councils, stakeholders & industry
  - c. Collating and sharing of data

The establishment of an IMO capable of setting the rules of engagement between centralised and precinct-scale solutions, delivering a level playing field, and ensuring innovative approaches to water management are implemented, is essential.

Information relating to water infrastructure servicing and investment should not sit exclusively with Sydney Water. This information should be available to the market and kept with an IMO advised by Planning NSW. An IMO would also be able to oversee and review inter-utility agreements which currently support centralised water management practices and therefore incumbent utilities.

In a competitive WIC Act market landscape, an IMO can help to plan for new water infrastructure in an open and transparent way. It can facilitate greater competition by establishing frameworks for the WIC Act sector to contest for water services in new growth areas. It can also play a key role in ensuring new communities leapfrog in management/technologies driving the most innovative and sustainable outcomes for customers.

The solution is in the policy approach Governments Australia-wide have taken to the energy, finance and telecommunications markets. For example, by establishing the Australian Stock Exchange or the Gas Market Company – Government has ensured a transparent and arms-length level playing field to enable the private sector to compete without fear or favour and according to agreed terms and conditions.

The establishment of a wholesale water market is a policy response to the following blockages:

- Expensive and unsustainable (no recycled water) servicing water strategies by Sydney Water
- Exclusive Gateway processes that entrench BAU
- Urgent need to transition to Integrated Water Management to tackle heat island, liveability and resilience issues.
- Slow delivery of water infrastructure for new homes
- Increasing cost of land and housing products
- A slowing down of land and housing release by as much as 12 month

## Gas Market Model

In the same way Government moved to establish an independent gas market to break AGL's monopoly over the gas market and deliver diverse services to consumers in 2000 - Government now needs to establish an independent operator for the water market. A Gas Market Company equivalent, such as a 'Water Market Company', will remove decision making from public water utilities and Government and put it rightly with an independent body capable of protecting consumers and encouraging a level playing field, fostering innovation and self-sufficiency to deliver sustained downward pressure on utilities.

### **An Independent Market Operator would:**

- Ensure industry wide membership and contribution;
- Create a logistics framework for the operation of a new market;
- Determine the rules on how private companies can enter the market, operate in the market, connect to existing infrastructure, and deliver services;
- Enable private sector competition to drive faster housing release and lower cost housing;
- Set water service strategies and manage procurement processes for those strategies from both the public and private water utilities;
- Create a transparent framework through which the market can develop to ensure incumbent monopolies cannot distort the market.

Control of decision-making surrounding 'access to market' issues must be independent and cannot sit with Sydney Water only. Government and Sydney Water need to open up all water data to provide transparency for from third parties to provide solutions. Agencies like Transport for NSW have done this successfully and there are strong benefits to the people and businesses.

It is very difficult for WIC Act utilities to compete when public utilities control key decision making around access to market. As part of its role to establish a transparent framework through which the new private water market can develop, the IMO would take responsibility for decision-making over access to the market.

WIC Act utilities need access to this strategic data before they are able to submit a truly competitive tender. At the moment this data can only be obtained second or third hand from developers or consultants. Its accuracy is not always guaranteed, and the regional water plan may not form part of the solutions offered.

An IMO can hold and control the release of all data relating to water infrastructure service delivery, including regional water plans and water servicing strategies. At the moment there is no independent decision-making process which would be able to enable private sector participation in the delivery of services. Without these changes it will be near impossible to achieve a competitive marketplace.

## LAND USE TARGETS

Recycled water is critical to the NSW and national economy, liveability and competition. It drives competition for more affordable, innovative water infrastructure and services, putting downward pressure on utility bills as recycled water is 10-30% cheaper than drinking water.

Recycled water preserves potable water supplies by reducing drinking water demand by up to 70 percent per household and 50 percent per apartment. It also provides a secure local resilient water supplies and is critical for environmental flows and irrigating. It helps create more resilient, cooler communities and healthier waterways, while driving up value. Green, liveable communities are more valuable and attract people and investment.

However, there is limited ability to compel developers to connect to recycled water schemes. Private utilities need to invest in the infrastructure, at the moment there is no certainty developers will choose to connect and if so, when. This creates high risk and uncertainty. Councils cannot mandate dual plumbing through planning controls, they can only encourage and in some instances negotiate. This means new standards need to be implemented by the State government.

3. **Minimum standards for recycled water in all new growth**
  - a. **Minimum standards for recycled water in new growth will ensure developers connect to recycled water.**
  - b. **This can be achieved for example, through BASIX, or similar existing SEPPs such as the Sydney Region Growth Centres 2006.**
  - c. **These measures should be applied to new developments as a future proofing measure.**

Minimum standards for recycled water will enable water security in new growth. They will:

- deliver water security through diversified water supplies.
- enable supply to all future growth
- lower long-term costs by avoiding/ deferring trunk wastewater and drinking water infrastructure
- private and Council recycled water infrastructure and services takes capital costs for new growth off the State's balance sheet

## OCEAN OUTFALL TARGETS

Sydney will flush away the equivalent of 1.8 Sydney Harbours of wastewater every year through deep-water ocean outfalls including North Head, Bondi and Malabar. This volume would fill more than 1,000 Olympic swimming pools every day.

Wastewater can be reused for 70 percent of daily needs and 100% of non-drinking purposes: toilet flushing, clothes washing, irrigation, water features, and to cool homes, businesses and communities facing more 50-degree days in coming decades. This water must be made available for household, business, industrial, agricultural and environmental uses. It can assist in environmental flows, provide critical water for greening and cooling particularly in communities impacted by heat island effect.

4. Targets for zero ocean outfall
  - a. Targets to reduce to zero the 1.8 Sydney Harbours of valuable wastewater currently pumped out to sea
  - b. This will drive investment (private and public) into reused schemes
  - c. Provides a stable vision for the market that will attract investment and jobs