



Mr. Sean Crees
Director Regulation (Water)
Essential Water Services Commission
Level 2
35 Spring Street
Melbourne VIC 3000

Dear Sirs

RE – Essential Services Commission 2009, Metropolitan Melbourne Water Price Review 2008-09 – Draft Decision, Volume 1, April.

RE – Scheduled third pipe recycled water charges

The purpose of this Submission is to communicate the reasons why a significant number of Recycled Water residential users are not satisfied with process and the draft decision made by the Essential Services Commission (ESC) in response to the Water Retailers proposals in relation to scheduled third pipe recycled water charges.

This lack of satisfaction has been instrumental in the formation of a new community group. PurplePipe Association Incorporated is the direct result of the failure of the Water Retailers and the ESC to engage in an open and transparent process. PurplePipe was launched on the eve of this Submission and is charged by Recycled Water residential users to represent their voice in the formal processes. PurplePipe is a not-for-profit, non-political community organisation keen to create a more sustainable proposition for recycled water users.

Reason 1: Lack of real evidence of community consultation.

From humble beginnings PurplePipe now has 310¹ signatures on a petition that is growing day by day, from affected and concerned residents in the South East Water region. PurplePipe are open to sharing² the concerns

¹ Petitions to the Minister and Essential Services Commission oppose the proposed price increases to Class A recycled water and recommend a price freeze to residential customers.

² For privacy reasons, petition information is not for public presentation but can be submitted in-confidence.

that underscore the level of growing community displeasure and unrest with the ESC draft decision and the lack of engagement by Water Retailers. Our research indicates the vast majority of recycled water customers have not been told of the savage price rises proposed by the Water Retailers: They do not understand the rationale for the price surge for Recycled Water and its implications on value when water restrictions are proposed to be eased and eventually removed after 2012/13³;

Reason 2: No credible cost model.

The Water Retailers and the ESC have not openly discussed their cost modelling or analysis: it's a secret to outsiders. These Government organisations cannot provide the actual cost of processing, or distribution which is directly attributed to residential dual-pipe communities.

This raises the following questions 'Do the cost models calculate the direct marginal costs of recycled water compared to dumping the unwanted treated sewerage water into Bass Strait? Where are 'greenfield estate' developer fees, government funding and subsidies taken into account?

Under this cloud of secrecy, PurplePipe is of the opinion that their cost modelling is severely flawed and that the agencies are averaging costs and passing on inflated prices to consumers for their own convenience;

Reason 3: Political folly.

Victorian government legislation has mandated the supply of recycled water to all future residential developments in the Cranbourne and Pakenham growth corridors. Household use of recycled water is a key initiative in the Brack's Government's *Our Water Our Future* action plan to secure Victoria's water future for the next 50 years. The new Recycled Water community has been sold a vision for 'saving the world', how their behaviour would reduce the demand for our precious drinking water – and supported by the Government's message⁴ it would send the right signals to the market that would keep prices at a reasonable level.

PurplePipe offers an open invitation to our political representatives to attend our community meetings so they too can hear Recycled Water users speaking about their growing displeasure and anger;

Reason 4: Useability of Recycled Water.

The water from the third pipe has limited use. Whilst it may be suitable for restricted use on vegetable gardens and lawns, it is not suitable for washing windows or motor vehicles. Why? Because it leaves streaks creating additional need for commercial cleaning products. Households

3 ESC draft decision public forum. Water Restriction forecast. Stage 2 – 2011/12, Stage 1 – 2012/13. No restrictions 2013/14.

4 Our Water Our Future, 2004. Chapter Six: Pricing for sustainability. Pg 125. "Pricing structures which reward water conservation and encourage the efficient and beneficial use of the most sustainable, fit for purpose, source of supply".

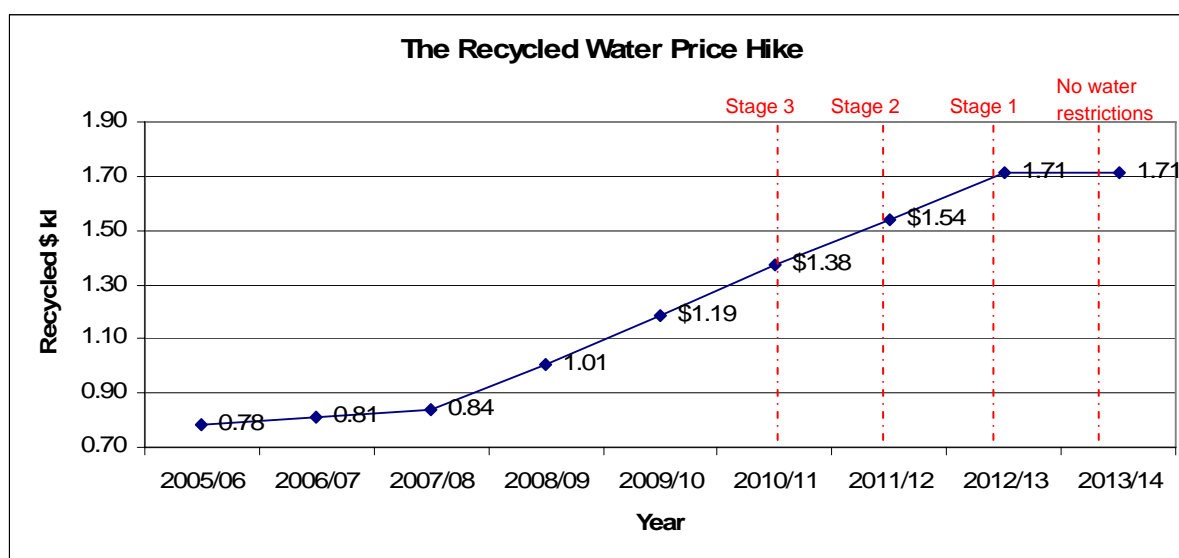
with toilets plumbed to recycled water are not thrilled about the unwanted odour⁵ in their homes and the discolouration in the bowl. These householders are embarrassed by the constant odour and have to rationalise the state of their toilets to their visitors; and,

Reason 5: Value for money.

Recycled Water consumers do not believe they are getting value for money.

Most users accept that they have invested up to \$4,500⁶ in the interest of social responsibility to reduce their long-term drinking water usage. The combination of an ESC sponsored escalating price for recycled water and the substantial ongoing ancillary costs means that their family budget is under real cost pressure and is stretching their tolerance⁷ and support for the environmental benefits.

Figure 1.0 – Proposed recycled water price hikes since the release of the Victorian Government's 'Our Water Our Future' water policy. Includes forecast easing of water restrictions when a number of major augmentation projects are delivered⁸.



Simple financial modelling using Net Present Value analysis shows the poor financial score.

5 CRC for Water Quality & Treatment, Community Attitudes to recycled water Use, part 2, Mawson Lakes, SA study, 2007. "...28.3% of respondents said recycled water had an odour at times, and 49.1% said recycled water had a colour at times".

6 Media Release, Sandhurst Club, 26 October 2006. "...The cost of providing recycled water adds around \$4,500 to every home ..."

7 Anthony Burne MP, Federal Member for Holt. Submission to ESC 17th April 2009 "...any substantial price increase ...is an unfair burden to impose at this time, as many families are tightening their belts ...".

8 ESC Metropolitan Melbourne Water Price Review 2009, Draft Decision – Volume 1. pg. 147. "...water restrictions expected to ease, customer may become less willing to pay for recycled water because of its lower quality than potable water". Note: Figure 1 - 2013/14 is shown for illustrative purposes as pricing for this period is excluded from the current review.

Assume: A 'Greenfield estate' compared with an 'established estate'. Developer estimate to connect the third pipe infrastructure adds costs of up to \$4,500⁹ per block; interest rate 10%; Step 1 verses Step 2 average customer usage savings of \$14.75 to \$61.40¹⁰ per annum; extra service charges for the third pipe and builder charges; new household budget costs for air fresheners and toilet cleaners of up to \$20 per month. Under this scenario, a householder will pay for the privilege for decades unlike an investment in other Water Smart Homes and Garden Rebate Schemes initiatives like a greywater permanent tank or rainwater tank to toilet systems.

How does the Government's *Our Water Our Future* rationalise these incongruent price signals to the market?

Today 1000 households are connected to Recycled Water with nearly 43,000¹¹ planned homes for dual-pipe connections by 2020. South East Water, as the dominant provider of Recycled Water, has forecast consumption to rise to 566ML¹² by 2013 from 120ML presumably predicated on price elasticity of demand staying the same as drinking water. This is an understandable assumption as many of the planned 4,000 new homes are mandated to be connected to recycled water for flushing toilets. Significantly, approximately, 60% of the new homes will be for first home buyers who we might expect will not have the financial resources to manage non-forecast and unexpected prices hikes for essential services including recycled water.

If the Water Retailers' proposed savage price increases for Recycled Water are accepted by the ESC, the Government will have to be open and honest and explain that as more households in mandatory Recycled Water Estates are connected, a consumer movement to have 'the third pipe' disconnected looks sure to emerge? PurplePipe notes the Victorian Government has specified new targets to substitute 6.2 billion litres of recycled water for potable water by 2015 and Government support for third pipes is mandated in new developments to meet these revised targets.

⁹ This amount is assumed to be lower for Hunt Club and Marriott Waters, however developer estimates were unavailable prior to this submission.

¹⁰ South East Water, 18th May 2009. Average annual customer usage savings for 2008/09 are \$14.75 (Hunt Club) to \$61.40 (Sandhurst) based on recycled water pricing being aligned to the lowest priced tier. Forecast average annual customer usage savings for 2009/10 are \$4.28 (Marriott Waters), \$17.40 (Hunt Club) to \$72.45 (Sandhurst).

¹¹ Marriot Waters, Hunt Club and Sandhurst are current supply estates. In Casey, planned connections include Sierra, The Eve, The Avenue, Cascades on Clyde, Blue Hills Retirement Village and Cameron Street and The Arena, Officer Horizons and Lakeside in Pakenham. Also planned are Wyndham, Manor Lakes and Frankston, Sandarra.

¹² Metropolitan Melbourne Water Price Review, Draft Decision, Volume 1, April 2009, pg. 102. City West forecast residential recycled water volumes to increase to 277ML.

In summary, PurplePipe is not satisfied that an adequate case has been made by the Water Retailers for savage price increases in recycled water. The main factors driving the Water Retailers price increases are not related to their costs of supplying recycled water for residential communities.

Further, the ESC accepts that Melbourne Water, for example, uses prices to send signals about its costs to its customers; unlike the behaviour of the Water Retailers to their recycled water users.

PurplePipe recommends that the ESC declines to accept the proposed price escalation until the current 'averaging' cost model has been adjusted and independently verified. The Water Retailers pricing strategies for inferior recycled water are flawed and therefore there appears little relief in sight when water restrictions are eased and eventually removed after 2012/13.

PurplePipe wants an open and transparent cost modelling assessment in a collaborative engagement to meet the proposed final decision scheduled for June 2009.

Further, the Government, the ESC, the Water Retailers and the Developers are encouraged to be more open about their objectives with the poorly informed prospective and existing recycled water users.

For further clarification please contact PurplePipe via info@purplepipe.org.au or phone Robert Cullen on mobile 0418 724 224.

Yours sincerely,



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