



25 January 2013

Dr Ron Ben-David  
Chairman  
Essential Services Commission  
Level 2, 35 Spring Street  
Melbourne 3000

Dear Dr Ben-David,

## **WATER PRICE REVIEW 2013-18**

### **- Submission on Metropolitan Retailer Papers -**

PurplePipe was grateful for the opportunity to engage all Metropolitan Water Retailers in the lead-up to and throughout the Draft and Final Water Plans submissions to the ESC in October 2012. We listened with interest at your ESC Public Forum on December 3.

Back in January 2007, the then Minister for Water announced that 40,000 homes were to be forced to connect with recycled water: it was all part of a grand plan to save about 4 billion litres of water a year.

Under changes to planning laws, metropolitan water authorities were to connect a "dual pipe" system to all new houses to supply class-A non-drinking water for toilet-flushing and outdoor use. It was asserted this mandatory directive would cut by a third the amount of drinking-quality water used in each home.

*Forcing people to connect to recycled water will save "4 billion litres of water a year"*

In considering and shaping this submission, we ask is the Grand Plan working for us.

We read and heard the water retailers assert that recycled water users are being subsidised; recycled water users especially those in the south east. They have reservations on accelerating price, and concerns about cosmetic qualities.

As a community body, PurplePipe is disappointed with the lack of transparency and glib commitment to recycled water by the water retailers. We had been optimistic that this new planning period would redress the gaps in the execution evident in the current 5-Year Water Plans.

## **Recap 2nd Regulatory period (2008/13)**

The Essential Service Commissions (ESC) in its Final Water Plan determination for the 2008/13 highlighted two key requirements to Water Retailers in relation to Recycled Water:

- Each Retail Water business must respond with an improved price proposal for customers when water restrictions are eased to address the loss in value;
- Commission fees moved to protect households from being overcharged on sewerage disposal fees.



It is now a point of fact that water restrictions were removed in December 2012 and not forecast to return not only during the 2013-18 Pricing Period but for the next 10 years. <sup>1</sup>

### Recycled Water potential

Through varying sources, PurplePipe has been able to consolidate the *Master Plan forecast* for recycled water residential households within Metropolitan Melbourne regions – 168,000 residential homes. Once validated with the ESC, PurplePipe propose these figures be adopted in Capital, Operational expenditure and New Customer Contribution justifications. We had assumed all are already be included in Demand Forecast specifically for Recycled Water yet this wasn't easily identifiable within each Water Plan.

Melbourne Metro Water Retailer	Master Plan Forecast total growth of Recycled Water to homes	Master Plan Demand Forecast KL to Recycled Water homes	Master Plan Demand Forecast ML to Recycled Water homes	Master Plan Demand Forecast GL to Recycled Water homes	Forecast assumption
City West					
Residential	25,000	1,750,000	1,750	1.75	70KL pa per home
South East Water					
Residential	43,000	2,580,000	2,580	2.58	60KL pa per home
Yarra Valley Water					
Residential	100,000	7,000,000	7,000	7.00	Unclear. Assume 70KL pa per home
<b>Grand Totals - Metro Melb Retailers</b>	<b>168,000</b>	<b>11,330,000</b>	<b>11,330</b>	<b>11.33</b>	

PurplePipe aimed to consolidate forecast demand for Recycled Water for the second, third and fourth regulatory periods across Metro Melbourne Water Retailers to complete a thorough assessment - however this information wasn't readily identifiable.

## Methodology - PurplePipe's assessment

As an investment in building an evaluation framework we developed the PurplePipe's SOLVE methodology; a tool to evaluate the metropolitan water retailers' vis-à-vis to recycled water.

Derived from PurplePipe's community engagement, industry consultation and on-going connection with some 1300+ Supporter Members, SOLVE incorporates an 17-point assessment criteria for evaluation of Melbourne Metropolitan Water Retailers with a focus on growth and take-up of Class A or Fit-for-Purpose Recycled Water.

A five-point scale was adopted [1 - Strongly Disagree; 2 - Disagree; 3 - Neither Agree nor Disagree; 4 - Agree and 5 - Strongly Agree] to assess the seventeen questions defined against the SOLVE principals:

1. **Sustainability**
2. **Obligations**
3. **Living Victoria**
4. **Value**
5. **Elasticity**

<sup>1</sup> "... We are forecasting that no water restrictions occur over the next two Water Plan periods (2013/14 to 2022/23)..." [YVW Water Plan 2013/14 to 2022/23 pg.52]



## Evaluation - Draft Water Plans

During the consultation process with Melbourne Metro Water Retailers – City West Water, South East Water and Yarra Valley Water, a summary of key community messages were tabled with each Retailer for consideration. Refer Appendix 1.

In each Draft Water Plan, our consultation with each Water Retailer identified and requested some key opportunities for improvement, namely:

### What we liked:

- The Water Plan 3 is the first real opportunity for the community to review Recycled Water in detail since landmark Government policy framework announced by the Minister for Water in January 2007;
- Simplification of the Sewage Disposal Charge;
- First price reductions in Recycled Water over Potable water.

### Opportunities for improvement:

- Missing bold clarification statements on Recycled Water (decoupling, pricing, cosmetic standards and broader community value) to drive take-up, growth, adoption and acceptance;
- Requires clearer and more consistent messaging for Recycled Water (i.e. separate the products - Recycled Water; Potable Water; and Sewerage);
- Financial and forecast facts and data lacking specifically to Recycled Water customers.

## The Report Card

Water Retailer	Score	Achievement Level
City West Water	36	42.4%
South East Water	47	55.3%
Yarra Valley Water	49	57.6%

### City West Water

Overall assessment is a poor Water Plan with a score of 36 from a possible 85.

What we liked:

- Growth opportunities – such as Docklands Recycled Water project;
- Inclusion of Alternative Water demand forecasts (Class A Recycled Water).

Opportunity for Improvement:

- Address the value proposition as water restrictions have been removed
  - Decouple price alignment to potable Water Block 1;
  - Remove first year price increases which are linked to the desalination cost driver as an unrelated augmentation for early recycled water communities and developers that made their investment in dual-pipes.
- Provide transparent and clear messages on the subject of cross-subsidy, if any:
  - Master Plan forecast – costs should be applied on all beneficiaries;
  - Capital and Operations expenses;
  - Define who is paying what across the value chain;



- Be clear on NCC and how government grants affect prices;
- The rights of Users to Opt-out from recycled water supply.
- City West Water is yet to supply Recycled Water to a single residential household. Yet it has proposed price increases of 47.5% on service charges and 47.5% on the Variable charge<sup>2</sup>;
- Absence of a clear community engagement other than the traditional approach of consultation with the EPA, ESC and the Department of Health and the Government: it's an inward approach more akin to what you'd expect from the MMBW;
- Delays in delivery of recycled water to households with costs being incurred within Regulatory Period 3 (rather than Period 2 as planned). How then were increases in Recycled Water tariffs justifiable for the 2<sup>nd</sup> Regulatory price period?
- Providing non-residential customers with an 85% of the potable water price due to providing an appropriate incentive – however not applying the same principals to residential households?<sup>3</sup>;
- No Service Levels have been proposed for recycled water (including cosmetic attributes required for household use) even though the product is being positioned - optimistically by Water Retailers - as a like for like with potable water?
- Missed opportunity to integrate the Altona Recycled Water project with approval for recycled water for washing machine use like Yarra Valley Water;
- Developer charges (or new customer contributions) are positioned as a levy on developers however these impact Greenfield estates and are indirect costs passed onto households (where Recycled water is mandated)<sup>4</sup>.

### South East Water

In our opinion, an average Water Plan with a ranking of 47 from a possible 85, or 55.3% Achievement Level.

What we liked:

- In our opinion, SEWL set the benchmark for the three Metro Water Retailers in Community Consultation on recycled water with it being integrated into their Resident Advisory Committee;
- 85% of the block 1 tariff for Recycled Water customers;
- Potential to de-couple Recycled Water from Potable water during Water Plan 3.

Opportunity for Improvement:

- Address the value proposition as water restrictions have been removed
  - Decouple price alignment to potable Water Block 1;
  - Remove first year price increases which are linked to the desalination cost driver as an unrelated augmentation for early recycled water communities and developers that made their investment in dual-pipes.
- Provide transparent and clear messages on the subject of cross-subsidy, if any:
  - Master Plan forecast – costs should be applied on all beneficiaries;
  - Capital and Operations expenses;

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<sup>2</sup> City West Water – Water Plan 2013/18, pg 62

<sup>3</sup> City West Water – Water Plan 2013/18, pg 67

<sup>4</sup> City West Water – Water Plan 2013/18, S8.3, Developer Charges, pg 67



- Define who is paying what across the value chain;
- Be clear on NCC and how government grants affect prices;
- The rights of Users to Opt-out from recycled water supply.
- Lack of detailed Recycled Water Demand and Forecast data and commitments in a consistent format across all Water Retailers;
- Usage assumptions per household for Recycled Water have dropped from 105KL to 60KL since regulatory period two with no explanation or strategy to increase demand;
- Missed opportunity to consult with wider community on de-coupling (to commence after Year one is ludicrous!);
- Missed opportunity to integrate the Eastern Treatment Upgrade with an approved quality of recycled water for washing machine use as with Yarra Valley Water;
- No Service Levels have been proposed for recycled water (including cosmetic attributes required for household use) even though the product is being positioned optimistically by Water Retailers as a like for like with potable water?

### **Yarra Valley Water**

Overall assessment is an average Water Plan with a ranking of 51 from a possible 85.

What we liked:

- Detailed and in-depth Marketing Analysis "Voice of Customer" including new approach to trial 1000 customers a volume based tariff scheme;
- YVW lead the market with a product that can also be used in the laundry;
- 85% of the block 1 tariff for Recycled Water customers.

Opportunity for Improvement:

- Address the value proposition as water restrictions have been removed
  - Decouple price alignment to potable Water Block 1;
  - Remove first year price increases which are linked to the desalination cost driver as an unrelated augmentation for early recycled water communities and developers that made their investment in dual-pipes;
- Provide transparent and clear messages on the subject of cross-subsidy, if any:
  - Master Plan forecast – costs should be applied on all beneficiaries;
  - Capital and Operations expenses;
  - Define who is paying what across the value chain;
  - Be clear on NCC and how government grants affect prices;
  - The rights of Users to Opt-out from recycled water supply.
- A lack of forecast or demand data associated with Recycled water customers;
- No decoupling from Potable Water (proposed for community consultation or considered due to bulk price increases being required for the Potable Water segment – not Recycled Water community);



- Remove the contradictions and provide clarifications regarding the real community cost and benefit for Recycled Water (including the actual cross-subsidy based on 100,000 forecast household users);<sup>56</sup>
- Adopt PurplePipe's recommendation for a Recycled Water voice be included in each Customer Advisory Committee to ensure this growing segments needs are clearly captured and understood
  - PurplePipe has requested participation in such a forum to reduce re-work and assist with cross-leverage of learnings and opportunities across Melbourne Metro Water Retailers.

## Open Questions to ESC

PurplePipe is open to clarify the following discussion questions:

### The Contribution of Recycled Water

- Are Recycled Water initiatives still cost justified both in their own right and as a benefit to the greater community?
- Validate Potable Water substitution achieved to date – What is the actually community saving for the investment in recycled water?
- Can ESC clarify Recycled Water take-up and forecast demand
- On what basis is further capital expenditure on Recycled Water justified? According to City West, only 10.5%<sup>7</sup> of outdoor use is attributed to total residential water use. Most Water Retailers and Developers position up to 40% savings?<sup>8</sup>
- Does ESC support new entrants in the current industry closed structure;
- We don't see a linkage between the Living Victoria policy framework and the proposed water plans. How are is the Living Victoria initiative associated with improving Melbourne's liveability and social economic benefits being incorporated within proposed Water Plans (outside of general statements of support)?
- The community should have confidence and clarification on the detailed assumptions associated with recycled water's role within the community<sup>9</sup>

### Still No Service Levels for Recycled Water

- Water Retailers assert Recycled Water is a like product to Potable Water in many instances. PurplePipe requests that ESC ensure all Water Retailers incorporate Service

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<sup>5</sup> "...this servicing strategy involves the provision of recycled water to all new homes. This represented the lowest community cost and the most sustainable solution, taking into account a complete Integrated Water Cycle Management (IWCM) approach..." [Yarra Valley Water – Water Plan 2013-18 – Providing infrastructure to new suburbs. Pg 38].

<sup>6</sup> "... Although recycled water has benefits for the wider community in terms of more secure supply, it is more expensive to produce than potable water..." [Yarra Valley Water – Water Plan 2013-18. Proposal pg 62]

<sup>7</sup> City West Water – Water Plan 2013-18. Outdoor end use, pg52

<sup>8</sup> City West Water Plan 2013-18, Outdoor end use. Pg 52

<sup>9</sup> "...A servicing strategy study identified the ARWP2 as the optimal solution for supplying alternative water to additional Altona Industrial Precinct customers. The project has the effect of reducing prices to all customers as potable water is replaced by recycled water. This is achievable because of the significant future costs of desalination that will be avoided as a result of undertaking this project ..." [City West Water Plan 2013-18 – pg 37]



Levels and future potential for Guaranteed Service Levels (GSL's) for Recycled Water that address:

- o Cosmetic attributes for householders (availability, flow through pressure, odour, colour, salt and PH levels)

### Open Financials

- The ESC is called upon to ensure there is accurate financial and forecast information captured within each Water Plan. PurplePipe is seeks a consolidated summary for Recycled Water by Melbourne Metro Retailer including a break-down and total by residential and non-residential whereby any distribution network infrastructure is shared
  - o Demand and forecast for each Water Retailer;
  - o Greater transparency with regards to Capital and Operational expenses associated with residential coupled with revenue streams from New Customer Contributions and Governance grants;
  - o Validation of usage consumption estimates incorporating actual where available<sup>10</sup>.

### Is Recycled Water subsidised?

In an environment where the retailers assert they are subsidising residential customers and residential pay significant outlays for the connections and ongoing extraneous costs to combat cosmetic defects with recycled water, it's about time we closed the matter.

- If there is a cross-subsidy (above and beyond New Customer Contributions) for Recycled Water supply, can this be tabled with Final Water plans for public consultation and debate?
- Why should Recycled Water customers cross-subsidise the potable water customer base for the up-front and on-going order demand for Desalination – it's already been acknowledged they mitigate the need for the Desalination Plant investment.<sup>11, 12, 13, 14</sup>
- How will New Customer Contributions (NCC) integrate within each Water Plan?

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<sup>10</sup> PurplePipe conducted research within the 1-2 years that identified an average Recycled Water usage consumption of between 90 KL pa (Sydney Water) and 105KL pa (South East Water). The average KL household usage proposed in Melbourne Water Retailers is between 60KL and 70KL and undefined with Yarra Valley Water. What are the proposed mechanisms for altering Water Plans in the event average usage is well above or below forecast?

<sup>11</sup> "...this servicing strategy involves the provision of recycled water to all new homes. This represented the lowest community cost and the most sustainable solution, taking into account a complete Integrated Water Cycle Management (IWCM) approach..." [Yarra Valley Water – Water Plan 2013-18 Pg 38]

<sup>12</sup> "...this servicing strategy involves the provision of recycled water to all new homes. This represented the lowest community cost and the most sustainable solution, taking into account a complete Integrated Water Cycle Management (IWCM) approach..." [Yarra Valley Water – Water Plan 2013-18 Pg 38]

<sup>13</sup> "... A servicing strategy study identified the ARWP2 as the optimal solution for supplying alternative water to additional Altona Industrial Precinct customers. The project has the effect of reducing prices to all customers as potable water is replaced by recycled water. This is achievable because of the significant future costs of desalination that will be avoided as a result of undertaking this project ..." [City West Water Plan 2013-18 – pg 37]

<sup>14</sup> "... Although recycled water has benefits for the wider community in terms of more secure supply, it is more expensive to produce than potable water..." [Yarra Valley Water – Water Plan 2013-18 – Proposal - Pg 62]



- PurplePipe is concerned that removing New Customer Contributions from the Water Plans and having these reviewed later – this removes all consultation on the value proposition to all Recycled Water households (i.e. the significant up-front costs that each household incurs for Dual-Pipe connections which have no pay-back and no consideration for the long-term
- Can the ESC remove tariff impacts to Recycled water customers:
  - What is the proposed Service Charge for each respective retailer for Recycled Water?
  - Will Recycled Water customers incur Volume Order fees associated with the Desalination Plant?
  - What is the formula for this? What allowances and or discounts will be attributed to this product segment that has no need for further demand on Potable drinking water?
  - What additional fees from New Customer Contributions will be made to the general customer base – this shouldn't be one way?

## Recommendations

PurplePipe engaged each Metropolitan Water Retailer in an open approach seeking to express our perspective and contribute to their Plans.

Naively, we presumed that Water Plan 3 planning would be an ideal opportunity to redress our concerns from a rushed and poorly executed Recycled Water policy from the previous Government. Our views were formed by our engagement with a significant recycled water community of interest. These expressions are shown at Appendix One.

The Report Card, using our SOLVE principles, for each water retailer underscores our disappointment in the proposed Water Plan 3. Yet, each retailer can be given some credit

*No clear case for recycled water price hikes*

for initiatives on their recycled water plans, as modest as some are.

We understand that the financial impact of the desalination plant is distorting the costs and prices for potable water. No retailer has been able to develop a logic that explains or rationalises these drivers and the massive price hikes for recycled water.

It's for this simple reason PurplePipe recommend that the Essential Services Commission invite each retailer to reconsider and specifically to improve the economic value proposition for the Melbourne recycled water community.

If we can clarify this Submission, please call or write to [dermot@purplepipe.org.au](mailto:dermot@purplepipe.org.au).

Yours sincerely,

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## Appendix 1: Summary of Key Messages

The key messages and major concerns raised by PurplePipe on behalf of the recycled water community are:

### **Sustainability**

Recycled water is a shared community investment. It drives down the demand for potable water, supports new environmentally friendly horticultural industry, avoids the impact of polluting Bass Strait, and avoids the need for future supply of augmentations and drawing water from the desalination plant which benefits financially all of Melbourne's water users.

### **Obligations**

The Water Policy must guide the industry on the importance of Recycled Water as a contributor to a sustainable future for the State of Victoria. Clear and measurable outcomes for the expansion of recycled water connections and usage must be included in the Statement of Obligations.

### **Living Victoria**

Recycled water communities benefit and contribute towards better community health and quality of life outcomes. Water Retailer infrastructure and distribution network cost must be modelled including the liveability and social economic upside of recycled water to the broader community. The Water Retailers investment in recycled water infrastructure must be supported by cross-agency financial contributions.

### **Value**

As water restrictions are eased, the value proposition to dual-pipe households is reduced and outweighed by the limitations of use and the variation in quality across regions. Recycled Water does not conform to consistent quality and cosmetic standards; it varies from plant to plant. Odour, colour, salt levels vary across the infrastructure impacting useability in the home and the garden. The reference to Class A - a label of the Department of Health – causes consumer confusion.

### **Elasticity**

Recycled water pricing must be de-coupled from potable water price strategy. PurplePipe recommend that recycled water pricing is reset to \$1.30 per KI – or a minimum of 50% below potable water - to send correct messages from retailers and drive market behaviours of use and adoption. Supporting this amended price strategy, current residential users do not see any positive cost-benefit for significant upfront costs and adverse impacts to daily in-home use. A pro-active repositioning coupled with an integrated community engagement program are required by the water retailers.

### **About PurplePipe**

*PurplePipe is the leading source of independent trusted information on Class A or Fit-For-Purpose recycled water, leveraging our experience, passion and commitment to the benefit of local communities where we live. [www.purplepipe.org.au](http://www.purplepipe.org.au)*