

5. Transferability of the agreement

5.1. Transfer by the customer

The right to receive a supply of recycled water is usually personal and confined to the customer who enters into the agreement. Most agreements also provide that the recycled water may only be used on the particular property identified in the agreement or, more specifically, the part of this property where recycled water is used, stored or conveyed.

Under the *Model recycled water agreement* (clause 14.1 (Assignment by customer prohibited without consent)), the customer may not transfer to another individual or business its rights to receive recycled water without the supplier's written consent. As a measure to encourage continuity of the supply arrangement, clause 14.3 (Withholding consent) provides that the supplier must consent to an assignment to a new landowner or occupier, as long as certain conditions are met. This may allow the customer to pass on the full benefit of the agreement (for the time remaining in the term) to a purchaser of their business or land. This is likely to be an attractive provision for customers who join a water recycling scheme early in its development and in schemes where there is strong competition for a limited supply of recycled water. It may improve the resale value of the customer's business or land if they can show prospective customers that recycled water may continue to be available on the terms of their agreement.

The supplier must consent to an assignment unless the customer is in default of the agreement (which would include failing to provide information about the assignee), the assignee proposes to change the use of the site or the proposed assignee has inferior experience or financial standing. The supplier may impose conditions on its consent, including the requirements set out in clause 14.4 (Conditions on consent). These include a requirement for the customer and the proposed assignee to execute a (new) deed in a form provided by the supplier under which the proposed assignee agrees to comply with the customer's obligations under the existing agreement arising on and after the date of assignment.

An alternative to a clause providing for assignment is a clause which provides that in the event of the sale of the customer's business or land, the subsequent customer and supplier will enter into a new agreement for the supply and use of recycled water that is consistent with the terms of the agreement with the original customer.

Under clause 10.1 (Use) of the *Model recycled water agreement*, the customer may only use the recycled water at the site identified in the agreement unless the supplier agrees in writing. Therefore, the customer may not transfer their rights to a supply of recycled water to a

different site that they or another party own or occupy. The customer may not resell any of its allocated volume of recycled water to another party without the supplier's written consent (clause 10.4 (Resale)). Sometimes the supplier may not be concerned if a customer on-sells recycled water to another party or transfers it to a different site for use there. However, such arrangements are not optimal for managing environmental, health and safety risks. Recycled water customers should have a risk management plan that relates to their particular site or process. To ensure this occurs, the supplier may require the recycled water use management plan to be revised or that a new plan or plans be prepared as a condition of its consent to resale of the recycled water or use of the water at a different site.

5.2. Transfer by the supplier

The *Model recycled water agreement* includes a provision that protects the customer's rights to receive recycled water should the supplier sell its wastewater treatment facility and/or the delivery infrastructure to another party, or decide to decommission the treatment facility. While this has not been common in Queensland, it may become more common with increasing interest in public-private partnerships and corporatisation of council-operated water services, and consolidation of small, outdated sewerage systems into new facilities.

Under clause 14.5 (Assignment by supplier), the supplier may assign its rights and obligations under the agreement if the assignee (that is, the party that is buying the treatment and/or delivery infrastructure) agrees to continue to supply the customer under the terms of the original agreement. It should be noted that if the assignee does not agree to this and does not formalise the assignment through signing a deed with the supplier, the supplier remains bound under the original agreement to continue to supply the customer with recycled water. Failure to honour this obligation would give the customer the right to seek compensation.

Either the supplier or customer could arrange for a third party to assist them to comply with their obligations under the agreement (for example, to carry out certain construction, maintenance or monitoring tasks) but this would not relieve them from their contractual obligations to the other party.

6. Duration of the agreement

In Queensland, recycled water agreements have ranged from one to 20 years' duration. A long-term recycled water agreement may provide certainty to both the supplier and customer, whereas a short-term agreement may provide flexibility. Provisions relating to pricing, renewal and termination of the agreement will impact on certainty and flexibility for the supplier and the customer. For example, if a low recycled water fee applies over a long term, it can prevent the supplier from obtaining an appropriate economic return from the scheme. Conversely, customers in a long-term agreement may be financially disadvantaged by a 'take or pay' pricing system if their initial recycled water entitlement is overestimated.

The following questions should be considered when negotiating the duration of the agreement:

- is recycled water likely to become a more valuable resource in the future? (A short agreement term can provide greater flexibility in pricing and the ability to respond to changes in the market value of recycled water);
- is the quality or reliability of the supply of recycled water likely to improve in the future? (This may alter the range of suitable end uses and potential customers for recycled water); and
- what is the time and cost involved in renewing and renegotiating agreements?

6.1. Long-term agreements

Recycled water agreements of 10 to 20 years are common in Queensland. Long-term agreements tend to be desirable if one or both parties have made a significant capital investment in the water recycling scheme.

A supplier of recycled water may seek, or be prepared to offer, a long-term agreement:

- to attract initial customers and allow a new scheme to go ahead;
- to ensure a predictable revenue stream from recycled water fees to offset capital investment in a scheme;
- to provide certainty of wastewater disposal arrangements (for example a council may need to sell a certain amount of recycled water from its STP in order to reduce or eliminate a discharge to a waterway and comply with environmental requirements);
- if they rely on only one or a few customers to take all of the recycled water produced at the wastewater facility; or
- if the cost of alternatives to the water recycling scheme, such as a treatment upgrade at the wastewater facility, or building an extended outfall, is high.

To date, long agreement terms have tended to favour customers of recycled water by providing a secure and reliable water supply, often at a relatively low price.

A recycled water customer may seek a long-term agreement with a supplier where:

- they have made a significant capital investment in infrastructure to use the recycled water and therefore require long-term security of supply and certainty about pricing;
- it is a scheme with multiple customers who compete for a limited recycled water supply; or
- it is a high value use of recycled water (for example, industrial process water) and there are no economically or technically feasible alternative water sources.

Great care is needed in establishing long-term agreements to ensure that changes to environmental standards, policies or guidelines relating to water recycling are incorporated into the recycled water management plans for the customer's site and the supplier's system, and that details of the customer's water recycling activities are kept up to date. Clause 12.2 (Review of usage of recycled water and management plans) of the *Model recycled water agreement* provides for reviews of the recycled water management plan at least once every two years.

Occasionally agreements with an indefinite term have been entered into, either as an oversight or intentionally. While they may provide an immediate solution for a generator of recycled water, indefinite term agreements are not advisable. In a few cases, such agreements have given the customer exclusive access to the recycled water from an STP or other wastewater facility. This situation can greatly limit alternative future beneficial uses of the recycled water.

6.2. Short-term agreements

Recycled water agreements of up to two years duration have been used in a range of situations in Queensland, including:

- trials of the suitability of recycled water for a particular use by a potential customer;
- experimental or demonstration purposes;
- supply to short-term occupiers of a property;
- when a supplier is still determining customer demand characteristics across a scheme; and
- as an interim measure while a supplier seeks other customers with a larger and/or higher value end use, or if an upgrade to the wastewater facility is imminent that will improve recycled water quality and increase

the range of suitable end uses and customer's willingness to pay for the recycled water supply.

Short-term agreements give suppliers greater flexibility in the price charged for recycled water, allowing them to take advantage of increases in its market value. However, short-term agreements may disadvantage customers due to the uncertainty about continued access to recycled water, price and other conditions of supply. An acceptable alternative may be to set out a 'price path' for the recycled water over a longer agreement term (see section 7.4).

A customer is unlikely to want a short-term agreement if they have made a significant investment in scheme or on-site infrastructure. The time and cost of renewing and renegotiating agreements also increases with short-term agreements.

6.3. Synchronising duration of agreements

For large water recycling schemes with multiple customers, the supplier may achieve efficiencies in administration, operational and financial planning, if agreements for all customers run for the same period and expire on the same date. The renewal and renegotiation process for all customers would coincide, which can also make it easier for the supplier to estimate current usage and future demand for recycled water.

6.4. Early termination

If the supplier has significantly invested in the delivery infrastructure for the recycled water, significant financial losses can potentially be suffered if a customer withdraws early from the scheme or a situation such as financial failure of the business prevents the customer from continuing with the supply agreement. For example, if a customer becomes bankrupt it could leave the supplier with hundreds of thousands of dollars in redundant pipes, pumps or storage lagoons and other assets without the ongoing revenue from the sale of recycled water.

Early termination payments have been used in some large irrigation schemes in Victoria and New South Wales to provide a deterrent for early termination and a mechanism for the supplier to recover infrastructure costs if this does occur. Provision for such payments may be particularly important in the early stages of water recycling schemes, where the route and extent of delivery infrastructure is largely determined by the requirements of initial customers. Early termination payments generally diminish over time, eventually to zero as the date of the customer's termination or withdrawal approaches the original term of the agreement.

Clause 4.2 (Contribution to the cost of supplier infrastructure) of the *Model recycled water agreement* is an example of a clause providing for early termination payments. This is one way of providing for payments in the case of early termination. There are many other methods and formulas which may be used to fit with the particular financial arrangements for a scheme. A supplier would need to ensure that the early termination payment is a genuine pre-estimate of the loss to the supplier, otherwise it may not be legally enforceable.

A supplier may consider an early termination payment as unnecessary because there are plenty of existing and potential recycled water customers and/or there are no appreciable capital costs to recover in relation to the individual customer.

If the customer has invested heavily in infrastructure to enable use of the recycled water supply, they may seek a similar clause providing for a payment by the supplier to the customer if the supplier withdraws early from the scheme or the customer terminates the agreement because the supplier has been unable to supply recycled water for a prolonged period. For example, supply agreements for some large industrial customers who have installed major pipeline systems to use the recycled water may include a clause requiring the supplier to pay the depreciated costs of the pipeline as at the time the supplier withdraws.

6.5. Renewing the agreement

Issues to be considered in providing for renewal of a recycled water agreement include:

- **The party given the option to renew:** Generally an option to renew is a 'call option' in favour of the customer. That is, the customer may decide whether to renew the agreement for a further term. Alternatively, there may be a 'put option' in favour of the supplier, under which the supplier decides whether to renew.
- **Terms of the agreement during the option period:** The price and other terms of the supply of recycled water must be specified with sufficient certainty. An agreement which gives the supplier discretion to set the price during the option term is unlikely to be accepted by a customer and may not be enforceable. Terms of the agreement that are only applicable during the initial term should not be included in the renewed term. For example, the agreement for the initial term may include clauses requiring the customer to install or pay for infrastructure and these clauses may not apply to a renewed term. Additionally, the clause providing for the option to renew should be amended or deleted to make it clear that the option has been exercised and the same option cannot be exercised again.

- **Time for exercise of the option:** If it is a long-term agreement or the scheme is being expanded in stages, the supplier may require several years' notice of the exercise of the option to assist operational and financial planning. If it is a short-term agreement, for example up to two years, a typical requirement is for the customer to exercise the option three to six months before the expiry date.
- **Price during the option term:** The price payable during future terms of the agreement should be specified in the agreement. Refer to section 7.4 for information about setting long-term price paths for recycled water. Suppliers may be reluctant to set a price that will apply in future terms of the agreement, which may be 10 to 20 years away. The agreement could specify that the price payable during a future term is to be a reasonable price. While the agreement would not fail for incompleteness, stating that the price payable during a future term is to be a reasonable price may lead to disagreement between the parties about what is a reasonable price. An alternative could be to specify an upper limit or boundary for the price in the future term or in relation to the price of an alternative water source or service, for example 'a reasonable fee of no more than 70 percent of the council's usage fee for potable water at the time'.



7. Recycled water price

Clause 3 (Renewed Term) of the *Model recycled water agreement* is an example of a ‘call option’ in favour of the customer to renew the agreement. The recycled water fee for the renewed term is specified in the Particulars of the *Model recycled water agreement*.

In Queensland, recycled water has often been provided free of charge or at a nominal fee, particularly in water recycling schemes involving agricultural and open space irrigation. This approach has been used to attract and secure initial customers so that a scheme can go ahead, or to reward early subscribers. It reflects that suppliers (mostly local councils) have been driven primarily by the need to secure a means of applying recycled water for beneficial use rather than to achieve an economic return from water recycling schemes. Low/zero prices have been feasible in several large schemes in which capital costs were substantially subsidised by the State and Commonwealth governments and by industry funds.

It is unlikely that low/zero prices for recycled water will continue in the future. It is now widely recognised that water should be priced to provide incentives to use water conservatively and carefully and, where possible, to use water of a quality that matches the purpose for which it is to be used (DSE 2004).

7.1. The value of recycled water

Charging a reasonable price for recycled water helps to establish community understanding about the value of recycled water. Customers will be more likely to use recycled water efficiently and in an environmentally sound way if they can appreciate its true value. The aim for suppliers of recycled water will be to set a price that reflects the true value of the resource, attracts customers, and values and promotes future opportunities for its most beneficial use.

Determining a mutually acceptable price for recycled water can be complicated and entail lengthy negotiations. The main decisions are the type of pricing system and the ‘price path’ to use, and how to factor in the financial contribution each party has made in establishing the scheme as well as the financial benefits they will derive from it.

For suppliers of recycled water, it is legally and strategically important that customers of recycled water pay something for the recycled water they receive. Once a payment arrangement has been entered into, provisions may be triggered that include certain obligations under the *Water Act 2000*. In addition, a contract for the supply of ‘goods’ that is recycled water, may include conditions implied by the *Trade Practices Act 1974*, which is

discussed further in section 9.1. A simple ‘supply’ arrangement may not be sufficient to demonstrate that ‘consideration’ has been provided or ownership of recycled water has been transferred (Sherman 1998).

7.2. Pricing recycled water

The pricing system and the price path for recycled water is the key commercial aspect of a recycled water scheme. Pricing based on recovering the full cost of providing water services, including delivery, planning and environmental impacts (‘externalities’) and, in some cases, a rate of return on investment, is the target for urban and rural bulk water supplies adopted by Australian Governments under the national water reform process (NCC 1998, COAG 2003). In the immediate future this target may be unrealistic for recycled water due to the high costs involved in operating new treatment and delivery systems, the small scale of many projects and the lack of an established market for recycled water.

In practice, the price of recycled water will be what customers are willing to pay. Recycled water has to compete with other sources of water, including bulk surface water and groundwater supplies in rural areas and potable water in urban areas. The price that customers are willing to pay will be constrained by the local price of these sources, which is low in many areas. For example, many of Queensland’s irrigation schemes are yet to attain pricing based on recovering delivery costs (DNRM 2003). Prices for traditional water sources do not account for the environmental externalities associated with the water supply, such as reduction in groundwater quality and quantity or modification to river flows. Therefore, the environmental benefits often associated with recycled water use are not reflected in its price.

In some Australian and overseas markets, recycled water has been priced at about 30 percent of the potable water price. With the exception of a few STPs providing highly treated recycled water for high value end uses, prices have not reached this level in Queensland. In some irrigation schemes where recycled water substitutes a surface water source, prices are similar to local Sunwater charges but in other cases are lower than these.

Some of the factors that influence customers’ ‘willingness to pay’ for recycled water include:

- price of alternative water sources (for example potable, surface water and groundwater supplies);
- perception of the scarcity of alternative sources;
- competition for the recycled water supply;
- capital and operating costs of switching to recycled water supply;

- type of enterprise (for example, the economic return per unit of recycled water use is higher for horticultural irrigation than for dairy and most other crops, with grazing lower again);
- recycled water quality;
- quantity and levels of service of the recycled water supply;
- reliability of supply of recycled water;
- long-term security of recycled water supply;
- equity with existing customers and nearby recycling schemes; and
- financial position of the customer sector (for example industrial water customers are accustomed to full cost recovery pricing for water supplies).

The capital costs of establishing the water recycling scheme and how the costs have been shared between the supplier and customers are also a significant consideration in pricing decisions. If the supplier has paid for pipelines and other delivery infrastructure, this could be reflected in higher ongoing fees for recycled water or upfront infrastructure charges. Conversely, if the customer has contributed to the cost of the delivery infrastructure and established on-site irrigation systems to use the recycled water, a smaller ongoing fee may be appropriate. In several schemes, suppliers have reduced or waived fees for an introductory period in recognition of significant upfront expenditure by customers.

There can also be additional economic benefits aside from the income obtained from selling or using the recycled water and these may also need to be factored into price determinations.

For suppliers, economic benefits can include:

- being able to transfer the responsibility and risk (to some extent at least) in relation to the disposal or recycling of wastewater;
- avoided costs in treatment and disposal of wastewater (for example it may not be necessary to install nutrient removal at the wastewater facility or to purchase more land on which to dispose wastewater); and
- savings from deferring augmentation of potable water supply infrastructure.

For the customer, a secure supply of recycled water can improve land values or the resale value of their business, as seen in the Virginia scheme in South Australia (Kelly *et al.* 2003).

7.3. Pricing systems

A range of pricing systems for recycled water are available. The following pricing systems for recycled water in Queensland used alone or in combination include:

- a two-part tariff, comprising a fixed (usually annual) access component and a usage component (typically \$ per kilolitre or megalitre);
- usage fee alone;
- once-off infrastructure charge to offset the capital costs of delivery infrastructure paid by the supplier;
- a flat fee regardless of use ('take or pay' arrangement); and
- seasonal pricing, where a higher usage fee (\$ per kilolitre) applies in periods of high scheme demand (such as the peak irrigation season) and a lower usage fee applies in low demand periods.

Regardless of the pricing system that is adopted, it is essential to include a clear, detailed description of the pricing system and the price path (see section 7.4 below) for recycled water in the agreement. This information is included in the Particulars section of the *Model recycled water agreement*.

A **two-part tariff** is the pricing system that some council service providers may be required to adopt under the *Local Government Act 1993* as part of the National Competition Policy Agreement. The fixed component may be the same for all customers in the scheme or be based on the customer's annual allocated volume of recycled water (\$ per megalitre). This is the method used in many Sunwater irrigation schemes.

A **usage fee** is common in schemes where the customers or some other party financed the delivery infrastructure. The usage charge then offsets the ongoing costs of supplying the recycled water. If the supplier also provides a potable water service, the recycled water usage charge can be linked to the potable water usage charge (for example as a percentage) to provide a transparent price path for recycled water.

An **infrastructure charge** or connection fee is a once-off contribution toward the cost of infrastructure needed to deliver recycled water to the customer's delivery point, such as pipes, pumping stations and storages. Depending on the financial arrangements for the scheme, this fee may fully or partially cover the actual works carried out by the supplier. In some Queensland schemes, connection fees have been applied. In several Victorian and South Australian irrigation-based schemes, the delivery infrastructure has been fully funded by the customers. Customers may be required to pay this charge upfront

before they receive any recycled water, or could pay in instalments over the first year or two of the agreement. Either way, a description of the actual works that were constructed and the sum the customer is contributing to these should be documented in the agreement. This information is contained in clause 4.2 (Contribution to the cost of supplier infrastructure) and the Particulars of the *Model recycled water agreement*.

‘Take or pay’ pricing provides the supplier with a guaranteed income from recycled water fees, which can be important to the financial viability of the scheme. However, this pricing system may encourage overuse of recycled water by the customer and improper discharges to the environment. Take or pay fees can also disadvantage the customer financially if their recycled water use is overestimated in setting the initial amount of recycled water to be taken or there is a major problem at the site (such as a disease in a crop) that prevents the customer from using recycled water for some period.

Take or pay fees can apply to the total amount of recycled water allocated to the customer under the agreement, or some minimum percentage of this amount. For example, cane farmers in one Queensland scheme must pay for at least 75 percent of their annual recycled water amount and for all water they use above this level. In other schemes, customers are required to pay for 100 percent of the contracted recycled water volume regardless of actual use. Setting the minimum payment at less than 100 percent of the allocated volume recognises that demand for recycled water for irrigation (and some other) purposes is variable, depending on rainfall and other factors.

Some schemes operate on a ‘take and pay’ basis, where customers are obliged to both pay for and physically take the full contracted volume of recycled water (except when doing so could cause environmental harm or other serious damage). This is a typical arrangement when there is very limited storage capacity in the system and the supplier has no alternative wastewater disposal option.

Seasonal pricing signals to customers that the size and cost of infrastructure will usually need to be much larger if the system has to be designed to meet unrestricted peak demand across the scheme or to store treated wastewater for extended periods when there is no demand. Larger storages, pipes and pumps will be required to provide all customers with the desired volume and instantaneous flow rates of recycled water at peak times (such as the height of the irrigation season) than if peak demand can be restricted and water usage spread more evenly over

the year. Running costs are also higher in peak demand periods than at other times. Flat per kilolitre usage fees send basic signals about consumption but do not reflect the additional costs and environmental impacts of providing water services at certain times of the year.

Seasonal pricing can encourage customers to construct on-site storage to take advantage of off-peak water rates to stock up on water for later use or to diversify their operations so that demand for recycled water is more evenly spread throughout the year. For example, in the Pulgul-Eli Creek scheme at Hervey Bay, a premium applies to the recycled water fee during the main irrigation season when demand from cane farmers is highest. Seasonal pricing systems require accurate and timely metering of recycled water use by the supplier.

An **‘entitlement’ fee**, payable by the landowner or lessee in return for being granted a ‘permanent’ recycled water supply, is an option used in several South Australian and Victorian schemes. An entitlement fee is based on the volume of recycled water allocated to the customer under the supply agreement and is analogous to the price they would have to pay to purchase a tradeable ground or surface water entitlement in a water market. The market value of a water entitlement varies in different areas depending on water scarcity and other factors. Recent estimates of the value of a water entitlement include \$400 to \$500 per ML in the irrigation areas of the Murray-Darling Basin (Rendell 2000), \$1000 per ML for customers in the Werribee River area near Melbourne and as high as the \$6000 per ML paid by vineyards participating in a water recycling scheme in the McLaren Vale district of South Australia (Small 2003). These values imply long-term security and the ability to transfer the water entitlement, which might not always be the case with a recycled water supply.

A **charge that reflects the mass load of nutrients** or some other desirable constituent in the recycled water could also be used as an adjunct to other pricing systems. In the Northern Shoalhaven Reclaimed Water Management Scheme (NSW), the council operator gives each participating farmer a quarterly estimate of the quantity of nutrients supplied in the recycled water based on their metered use and the average concentration of nutrients in the recycled water. This is expressed in terms of the equivalent quantity of commonly used fertiliser products, allowing the farmers to use this information in calculating nutrient budgets for their crop.

7.4. Price path

It is important that the price of recycled water can be increased over time so that suppliers can pass on increases in the cost of service delivery, respond to changes in the market value of recycled water, and recover the ongoing costs of maintenance of the relevant delivery infrastructure. This is a particularly important consideration in long-term agreements for industrial and other ‘high value’ end uses where the customers’ willingness to pay for recycled water may be highly sensitive to changes in the cost or standards of service of alternative water sources. Setting a ‘price path’ is a good idea for agreements of two to five years and longer. It is also a way for suppliers to gradually build up to an economic (cost reflective) price for the recycled water following an introductory period of low or zero prices.

Full details of the method and stages for adjusting the price over time, including any formulas used, should be documented in the agreement (refer to Particulars in the *Model recycled water agreement*). Methods commonly used to set long-term price paths for recycled water include:

- linking the price to the charges for a potable water service provided by the supplier or the local council. The recycled water price can be set as a percentage (typically 30 to 50 percent) of the potable water usage fee;
- matching the charge (or a significant percentage thereof) for alternative bulk water sources in the area, usually the local Sunwater irrigation scheme;
- specifying an introductory period (in years) where fees are waived or reduced to offset significant upfront capital expenditure by customers, before a usage fee is introduced;
- adjusting the price annually using the Consumer Price Index (CPI) or similar measure of inflation (can apply to both the fixed and usage components of the recycled water fee); or
- increasing the price by an agreed rate each year (typically 2 to 5 percent).

Flexibility in pricing can also be achieved by having a short-term agreement (one to five years) and renegotiating the price upon renewal.

Provisions that allow the supplier to alter the price within the term of the agreement (in cases where no price path has been specified) should be avoided as it creates uncertainty and favours the supplier.

7.5. Negotiations on price

Transparent and open consultation with customers is important in setting the price for recycled water. The financial details of the scheme should be explained to customers so they can understand the rationale behind the proposed fee structure. When discussing pricing, the supplier must provide enough information to allow the customer to assess the full cost of the recycled water supply, to avoid the risk of engaging in misleading and deceptive conduct under the *Trade Practices Act 1974* (see section 9.1 for further information).

An individual customer can feel daunted by what they perceive as the greater bargaining power of a large council or corporation. Collective bargaining on price by customers in a scheme or a group representative of the customers may, in certain circumstances, be useful in correcting this imbalance. However, there are risks associated with collective bargaining.

Collective bargaining arrangements may breach the competition provisions of the *Trade Practices Act 1974*. Legal advice should be obtained prior to engaging in any collective bargaining. Such arrangements may be ‘authorised’ by the Australian Competition and Consumer Commission (ACCC) if the net public benefit from the conduct outweighs any public detriment caused by the lessening of competition. The ACCC has granted authorisation for a number of collective bargaining arrangements recently, including those of sugar cane growers and dairy farmers. For further information, see *Authorising and notifying collective bargaining and collective boycott issues paper* (ACCC 2004). Industry association representation is also discussed in this document.

Committees that include recycled water customers and/or representatives from relevant industry organisations have been established for a number of water recycling schemes in Australia. Committees deal with ongoing operational issues and in some cases this has included discussions and negotiations on current and future pricing of recycled water.

7.6. Billing systems

The *Model recycled water agreement* adopts a quarterly billing period to fit with the billing system commonly used by councils for water and sewerage services and the standard Sunwater irrigation supply contracts. If a two-part tariff is used, typically the fixed access charge is paid in advance and the usage component in arrears, based on the customer’s metered use in the previous period.

Failure to pay bills within the specified period, with or without reminders, is usually a trigger for termination of supply and/or the agreement (see section 14 of this Manual).

If a usage fee is adopted, accurate metering of the customer's consumption of recycled water is required. Agreements usually outline procedures to settle customers concerns about the accuracy of the meter or to estimate the customer's usage should the meter fail (clause 7 (Meter) in the *Model recycled water agreement*). Under the *Model recycled water agreement*, the supplier is responsible for installing, maintaining and reading the meter.

7.7. Other fees and charges

The parties to the agreement may prefer to have a separate charge for particular costs associated with delivering the recycled water. Examples could include electricity used in pumping recycled water, environmental monitoring or testing of the recycled water undertaken by the supplier, or maintenance undertaken on customer infrastructure. Any additional fees and charges should be specified in the agreement.

Rent could also be required in situations where the customer leases land owned by the supplier (usually adjacent to or close to the STP or other wastewater treatment facility) and is undertaking water recycling on this land. *The reclaimed water agreement manual* (Di Carlo & Sherman 2004) includes a standard recycled water agreement that addresses rental payments and other aspects specific to the lessee–supplier relationship.

7.8. Goods and Services Tax

A supply of recycled water is generally free of Goods and Services Tax (GST), which means that usage, access or other charges related to ongoing supply, will not be subject to GST. Certain infrastructure installed by recycled water suppliers, such as water meters, may also be GST-free. However, supplies of other types of infrastructure and (customer) contributions toward infrastructure in recycled water schemes may be subject to GST. Some activities of the supplier (for example inspection and monitoring) may be separate services from the supply of recycled water and hence may be subject to GST.

Relevant Goods and Service Tax Rulings are *GSTR 2000/25: GST-free supplies of water, sewerage and sewerage-like services, storm water draining services and emptying of a septic tank* and *GSTR 2001/08: Apportioning the consideration for a supply that includes taxable and non-taxable parts*.

The supplier should obtain accounting or legal advice regarding the application of GST in the specific circumstances of the recycled water scheme. The *Model recycled water agreement* allows for situations where charges and payments due under the agreement include taxable and non-taxable supplies. It provides that the Fee and Supplier Infrastructure Contribution Option specified in the Particulars section of the *Model recycled water agreement* are inclusive of GST and that if a supply is a taxable supply then the invoice for the supply must be a GST tax invoice.

