



CHAMBER OF COMMERCE AND INDUSTRY  
WESTERN AUSTRALIA

ERA-KalBldr desal water submission rtw doc

29 July 2005

Mr Lyndon Rowe  
Chairman  
Economic Regulation Authority  
GPO Box 8469  
Perth Business Centre WA 6849

Dear Lyndon

### **Cost of Supplying Bulk Potable Water to Kalgoorlie-Boulder**

Water is critical to everyone in Western Australia – business, government, and the community as a whole. The Chamber of Commerce and Industry of Western Australia (CCI) supports removal of impediments to competition in all market sectors including in the water sector. CCI supports, both philosophically and by action, the development of competitive markets that give consumers a choice in price, quality and service.

#### **The Treasurer's reference**

CCI believes the wrong question has been posed by the Treasurer's Terms of Reference to the Economic Regulation Authority (ERA).

CCI contends that the question of the costs and benefits of the project as proposed is one for the project proponents and their financiers, not the regulator. It should not be the regulator's function to sit in judgement on whether a private sector proponent is correct in its assessment that a project is viable or delivers net benefits.

Rather, the ERA's role should be to determine under what circumstances and at what price the Water Corporation should buy water from the project. This project's viability is relevant mainly to the extent that its possible demise is a risk factor in Water Corporation's service delivery and investment planning.

#### **The cost of water**

United Utilities Australia maintains the increased water supply can meet industry demand at the same or lower cost than Water Corporation's current supply system.

There is merit in the proponent's claim that the current system of priority for householders' consumption at subsidised prices introduces a deadweight welfare loss into the current regulated environment in the Kalgoorlie market that would diminish with competition.

This should be an element in the cost-benefit analysis.

### **The cost benefit assessment**

The \$400 million Goldfields-Esperance Water Supply project proposed by United Utilities Australia would provide a strategic new desalinated water source to the Goldfields of up to 35 gigalitres a year.

The desalination plant will deliver a new water supply that will offer significant improvements to the quality of water available in Esperance, delivering benefits to both domestic and commercial customers, and in particular the Esperance Industrial Park, and supply water to towns and mines along the 400 km pipeline route to Kalgoorlie-Boulder.

The project would offer relief to Perth water supplies by providing an alternative water supply to the Goldfields, and retention of the Perth Kalgoorlie pipeline would increase water supply sources to Kalgoorlie-Boulder complementing the Water Corporation's *Security through Diversity* initiative.

Other factors, too, should be included in the cost benefit assessment, including value-adding to existing Government investment in infrastructure. For example, the extra energy demand will trigger a re-negotiation of the gas tariff which will reduce Western Power's tariff equalisation payment, and a lower tariff to the Esperance Port Authority. In addition, some consideration should be given to the increased demand for baseload generation on the stability of power distribution of the Esperance System. Greater baseload demand would yield greater utilisation of the Esperance wind farm, particularly during very low load demand conditions overnight when it is not possible to draw unrestricted wind power.

### **Conclusions**

#### *The Economic Regulation Authority*

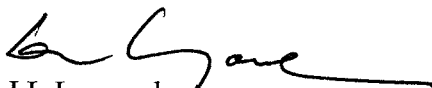
CCI believes that the ERA, as a pro-competition regulator under section 26 of its own Act, should approach its tasks with a greater presumption in favour of competition. The ERA's role is not to act as gatekeeper, determining which projects deserve to go ahead and which do not. The ERA's role should be to determine under what circumstances and at what price the Water Corporation should buy water from the project.

CCI's preferred approach to water regulation and pricing is outlined in detail in the attached copy of its 2002 *Submission To The Review Of The Water Services Coordination Act*. While the specific issues under consideration and the regulatory framework have changed since this was written, the broad principles it outlines concerning water regulation are still valid.

*The United Utilities proposal*

In the case of the United Utilities, the proposal is still at the stage of a pre-feasibility assessment, and the numbers in its costings are necessarily approximate. Given this, and the relatively small shortfall between costs and benefits estimated by the ERA in its draft report, United Utilities should be free to embark on their feasibility study without prejudice.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J L Langoulant', with a long horizontal flourish extending to the right.

J L Langoulant  
Chief Executive