

28 July 2005

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Mr Greg Watkinson
Acting Director Projects - References and Research
Economic Regulation Authority
197 St Georges Terrace
Perth WA 6000

Dear Greg

**Re: Inquiry into the Cost of Supplying Bulk Potable Water to Kalgoorlie-Boulder –
Public Submission of Demand Paper – the reasoning and evidence provided to the
Government of Western Australia by United Utilities Australia in support of the
Goldfields Water Supply Project**

We attach the above-captioned paper on water demands to be met by the Goldfields Water Supply Project.

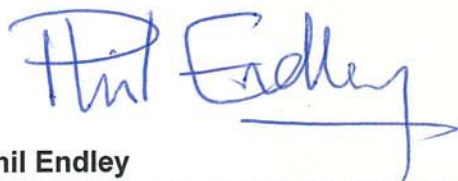
The paper considers the history of the project and describes the evidence for new demand in the resources industry. Potential demand in other industries is also considered.

The key conclusions of this paper are:

- There is evidence of demand for potable-quality water close to required launch volumes;
- The demand evidence has been provided by users in the resources industry;
- Other resources projects under development are likely to commit to purchase additional volumes of bulk water;
- The agricultural industry has indicated firm interest during July 2005;
- UUA is offering to prove this demand to the point of contract at no financial risk to Government.

No confidential information is disclosed in this paper.

Yours sincerely,



Phil Endley
Project Manager - Goldfields Water Supply Project
United Utilities Australia

PUBLIC SUBMISSION

Demand Paper – the reasoning and evidence provided to the Government of Western Australia by United Utilities Australia in support of the Goldfields Water Supply Project

Introduction

United Utilities Australia (UUA) has developed its demand data in support of the Goldfields Water Supply Project ('the Project') over a period of around four years.

Information was initially collected for the Expression of Interest process managed by DRD in 2001. This information identified mines and their owners and some contacts with them. No firm interest was identified from individual mines although overall size of the market was estimated.

This process was continued during the study carried out by UUA, the Water Corporation and the Office of Water Regulation in 2003. Some interest was evident but no potential users were prepared to identify and then confirm volumes of new water.

Commitment demonstrated by potential purchasers

This remained the position until late **October 2003**, when Goldfields Australia, the owner of the St Ives gold mine at Kambalda indicated that it may require large volumes of process water from the Project. The company confirmed this requirement in a letter to UUA. Goldfields agreed to disclosure of this interest to the Government and has since made public its interest in the Project.

Subsequently other mines have also indicated either interest in specific volumes of water or their support for the project in order to provide them with a choice of water sources.

Other mines have provided UUA with letters specifying the amount of water they may require. Two additional mines have supplied letters that identify the need for the Project and suggested they may wish to purchase water. These mines have not agreed to formal disclosure, although the Economic Regulation Authority has sighted these letters on a confidential basis.

The situation continues to evolve. Mincor has supported the project in a statement to the Kalgoorlie Miner during July 2005. Discussions with Mincor and other companies continue. There is a feeling around Kambalda that the new nickel minors have a long term future, and several are indicating a probable life in excess of ten years.

Some mines that provided letters of support have agreed to cooperate in water reviews/audits to establish their process needs.

UUA believes that mines will be prepared to enter into long term water supply agreements. It is expected that these agreements will range from relatively simple (volume/quality/price) contracts to complex, multi-layer, multi-tariff contracts. UUA may

offer long term, secure arrangements, if this can be achieved in an attractive financial package.

The existing letters shown to the Government represent commitments to a volume of up to 25 ML/d of water from the Project, commitments made at a very early stage of the Project.

The commitments, although conditional upon commercial negotiation, represent responses to a project proposal that is still at pre-feasibility stage. UUA believes that the ERA should gain confidence in the long term potential of the Project from this.

Other mines

UUA continues to talk to other mines and their owners, especially those that contemplate major expansions or entirely new projects.

UUA anticipates that these mines will wish to secure access or options over water supplies over the next twelve months. Other mines may elect to wait, and attempt to purchase water on the equivalent of a 'spot' market as construction commences.

Speculative projects

UUA has identified other speculative projects that will require water if they proceed. These include:

- Shark Lake industrial park;
- Mungari Industrial Park;
- Other large mineral discoveries (no disclosure possible); and
- Other non-resource projects.

Existing mine customers of the Water Corporation

UUA has not included the current demand from existing mine customers of the Water Corporation in its calculation of new industrial demand.

It is anticipated these mine customers will choose to retain their current supply contracts, which are said to be highly-attractive within the quota supply, but they may choose to purchase 'growth' water (beyond the quota) from the Project given that it will be significantly cheaper than the non-competitive rate under existing contracts with the Water Corporation.

Other industries

During the past month UUA has identified farmers in the region, as far north as Salmon Gums, who may purchase bulk water for use on existing broadacre crops where spraying with low-turbidity potable water will provide productivity and cost advantages. Initial discussions indicate a willingness to purchase bulk water at prices that would be viable. It has been reported to UUA that at least some of these farmers are under pressure from the Water Corporation to reduce their consumption of fresh water from

existing sources. It is assumed this is because the Water Corporation has insufficient long-term local resources.

Discussions with agricultural representatives and farmers themselves have also indicated enthusiasm to develop feedlots and intensive agriculture. Crops such as seed potatoes and industrial hemp are being considered if reliable water supplies improve.

Other industries such as tourism and aquaculture will be assessed as the project is developed further.

Other factors

UUA notes that other factors tend to support the Project:

- The Project lowers business risk for large investments by improving security of water supply;
- The Project can provide water for users wishing to move to new process technologies that require fresh water (such technologies are at proving stage);
- UUA will negotiate access arrangements with individual users – there will be no standard headworks charge;
- Work undertaken by UUA has provided evidence for the commercial value of water to some users. This evidence has been discussed and agreed by a number of mines.

Demand position

The overall effect of this information is to make UUA confident that it will achieve the volumes required for launch of a viable commercially-financed project.

In order to commit to project launch, UUA and its consortium will require forward commitments as close to 60 ML/d as possible, including demand from the Water Corporation.

The project does not represent incremental growth of the type to which the Water Corporation has previously responded – this is a step change in volume that requires new infrastructure.

The way forward

Over the next months UUA will enter marketing and negotiation to agree firm contracts for water supply. This will be a part of the justification for project implementation required by consortium partners (including the United Utilities Group), by banks providing debt finance, and by the Government of Western Australia.

Conclusions

There is considerable potential upside to the State resulting from this project, whether measured in royalties or in regional development. These matters are discussed in other papers submitted to the ERA.

UUA has identified **new demand of up to 25 ML/d** at the pre-feasibility stage of the Project.

UUA believes that it will achieve commitments and contracts for up to 60 ML/d of bulk water at launch (including winter volumes required by the Water Corporation). Interest in the Project is increasing, with contacts being received from new potential users.

This project is at 'pre-feasibility stage' and has generated firm expressions of interest. The next stage of the project will see contracts and options signed for water with launch customers.

UUA is offering to prove this demand to the point of contract at no financial risk to Government.

United Utilities Australia
27th July 2005