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27 July 2005

Ref:
File:

Economic Regulation Authority
Level 6 Governor Stirling Tower
197 St Georges Tce
Perth WA 6000

Dear Sir

INQUIRY INTO THE COST OF SUPPLYING BULK POTABLE WATER TO KALGOORLIE-BOULDER

WorleyParsons is an international engineering and project services company listed on the Australian Stock Exchange (see www.worleyparsons.com) and has an ownership interest in the Kambalda to Esperance Gas Pipeline and the Esperance Power Station. We have read the draft report on the Inquiry on the Cost of Supplying Bulk Potable Water to Kalgoorlie-Boulder and wish to comment as follows:

1. Accuracy of Analysis to Support Conclusion

Our primary comment relates to the accuracy of the costs and benefits presented in the report and their use to support the summary conclusion that "...net costs would be incurred if the EKP proposal were implemented..."

This conclusion is reached on the basis of a difference between the estimated cost and the estimated benefit of the EKP proposal of \$56m in \$916m, less than 6%. The estimate accuracy on which the benefits and costs are based are not given in the report, but in our experience it is very unlikely that the estimates at this stage of a project are developed to a point that there is confidence that the actual cost or benefit will lie with a range of 6% of the estimated mean. We would therefore assert that the appropriate summary conclusion is that, whilst the estimated mean cost exceeds the estimated mean benefit, they are sufficiently close in magnitude as to suggest that, to the extent that a conservative approach has been taken to the analysis, it is likely that a net benefit, or at worst no net costs will be incurred if the EKP proposal were implemented.

2. Source Costs of Water

It appears that the report uses a blended cost rate for source water, both for growth and for existing demand.

In reality, the Water Corporation will, in the case of avoided cost of source water for existing demand, reduce production from the most expensive source of water. In the case of the avoided cost of source water for growth, the Water Corporation would presumably increase supply from whichever water source was being utilised at less than full capacity. Again, this would be the most expensive source. On this basis we would conclude that the most



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expensive marginal cost of water production should be used, not a blended cost.

It is not clear whether account has been taken of water losses along the GAWS, and whether the EKP would eliminate such losses.

3. **Avoided GAWS Growth**

The report accepts that view that the GAWS can be expanded incrementally in the future, because it has been in the past. Whilst the ability to increase capacity at marginal costs is a characteristic of pipelines, it does not necessarily follow that the GAWS capacity can be expanded ad infinitum simply because it has been possible to do so in the past.

Pipeline capacity is increased by pressure increases (additional pumping and storage) and by increasing the cross section of the pipe (either by replacement or duplication). There are limits to both of these solutions and it is suggested that the Authority obtain an independent assessment of the ability to expand the capacity of the GAWS as well as the expected increase in operational and maintenance expenditure that one would anticipate for ageing infrastructure.

It is noted also that the Authority considers the difference between present values of the two methodologies used to cost supply augmentation to have "...very little difference in levels...."

We note that this difference accounts for more than 20% of the difference between the estimated mean cost and the estimated mean benefit of the EKP, and we would therefore assert that the choice of models is a significant factor.

There are two further issues that we would like to draw the attention of the Authority to. The first is our observation over many years that pipelines, once built, convert latent demand into actual demand very quickly. The possibility exists that demand growth in the Kalgoorlie-Boulder is restricted by the Water Corporations' capital expenditure programme. We would recommend an independent analysis of likely demand is necessary to obtain a clear picture of this variable, especially considering the sensitivity of the analysis to it.

The second is that the State Government is assessing the costs and benefits of various means of obtaining a further water supply to Perth from the Kimberley region. One of the proposals being investigated is the transport of water by pipeline via the Goldfields. This would essentially reverse the flow of the GAWS and, in so doing, eliminate the costs associated with maintaining water quality along the GAWS due to reduced flow rates.



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It may be worthwhile for the Authority to discuss the various proposals under consideration, and the supply outlook for the Perth metropolitan area are developed as part of the assessment, with the expert panel appointed by State Government, if it has not already done so.

We would be happy to discuss any of the foregoing issues with the Authority.

Please contact the undersigned on 9211 8599

Yours faithfully
WorleyParsons

David STEELE
Executive Director
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