

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

Esperance & Kalgoorlie Public Forums, 1 & 2 September 2005

Summary of Views Expressed by Stakeholders

On 1 and 2 September 2005 the Economic Regulation Authority held public forums in Esperance and Kalgoorlie as part of its inquiry into the cost of supplying bulk potable water to Kalgoorlie-Boulder.

The inquiry is to compare two options: expansion of existing supplies along the Water Corporation's Goldfield's pipeline from Perth; or a proposal by United Utilities Australia to desalinate seawater in Esperance and pipe it to Kalgoorlie.

The forums were to discuss issues raised in submissions on the draft report and to provide a further opportunity for stakeholders to make their views known to the Authority. The draft report was published on 30 June 2005 and the final report was delivered to Government on 14 October 2005, which has 28 days to table it in Parliament.

The Authority was represented at the forums by:

Chris Field, Member of the Governing Body;
Peter Kolf, General Manager;
Greg Watkinson, Acting Director, References and Research;
Robert Pullella, Acting Executive Director; and
Ursula Kretzer, Manager Projects.

Both forums were chaired by Chris Field, and Greg Watkinson gave short presentations on the key issues in the draft report, matters raised in submissions, and the Authority's approach to the analysis of the key issues.

ESPERANCE

Twenty six stakeholders attended the Esperance forum, which was held at the Esperance Bay Yacht Club.

In the discussion following the presentation, the following points were made by stakeholders. **It should be noted that these are views expressed by those attending the forum, and should not be seen as necessarily representing the views of the Authority.**

- A range of benefits claimed for the UUA proposal should be given greater consideration by the Authority in its final report, including:
 - a potential for reduced power tariffs for Esperance residents and the Esperance Port from the local power station, due to the increased demand from the proposed desalination plant;
 - better use of the wind farm, which would earn renewable energy credits;
 - reticulated gas for communities along the pipeline;
 - the freeing up of highly valuable borefields land for development;
 - improving Kalgoorlie's security of supply with an alternative source of water;
 - better amenities for local communities, which would encourage people to stay (eg, local doctors, teachers);
 - the availability of water for cattle (avoiding water carting at some times of the year);
 - environmental benefits, with mines avoiding the use of hypersaline water;
 - the expansion of mines and, with that, greater royalties.
- The Authority should calculate the true cost of delivering water to Kalgoorlie, as set out in the Terms of Reference. Some believed the draft report did not do this.
- UUA "simply want to go forward beyond the pre-feasibility stage to proving up demand, at no cost to the Government".
- Representatives of the mining community were "highly supportive" of the UUA scheme and immediately prepared to take more than 30 ML/day.
- Under the UUA scheme, the water supply would come from a single source, while the existing Goldfields pipeline draws on nine sources.
- UUA stated that comments by the Water Corporation in their submission that the Goldfields pipeline would need to be kept open to Kalgoorlie in the event of the UUA scheme going ahead to ensure security of supply were "mischievous" – there has only ever been one pipeline to Kalgoorlie.
- The \$3 a kilolitre for water quoted by St Ives in its submission to the Authority should not be interpreted by the Authority as a commercial price.
- The Authority needed to recognise "vision", which has led to many projects going ahead when the future benefits could not be identified, eg, the telegraph system, the Goldfields water pipeline, the Shark Lake industrial park, the deepening of the Esperance Port; the addition of a ship loader in the Esperance Port. It was believed that benefits evolved if infrastructure was in place.
- The UUA scheme would immediately result in improvements to Esperance's water quality. There was scepticism on the Water Corporation investing in further water quality improvements in Esperance, including the \$16m estimate that was part of the draft report. It was felt that water quality issues such as the hardness of current borefield supplies and the fact they did not meet Australian guidelines on aesthetic standards (but did meet health guidelines) meant costs used by the Authority to estimate benefits of water quality improvements should be as much as double the \$16m figure used.

- Source water costs from Perth – the Authority should not use an average cost to determine the source water costs but the cost of the most expensive source (ie, desalination).
- The Goldfields and Agricultural Water Supply (G&AWS) pipeline to Kalgoorlie could not be expanded incrementally without cost penalty, as claimed by the Water Corporation.
- UUA expressed the view that it felt that the Authority has placed a different onus on the Water Corporation and UUA regarding independent verification of cost estimates. UUA has had to independently verify its estimates of the cost of expanding the Goldfields pipeline.

KALGOORLIE

Twenty stakeholders attended the Kalgoorlie forum, which was held at the Kalgoorlie Broadwater Resort Hotel.

In the discussion following the presentation, the following points were made by stakeholders. **It should be noted that these are views expressed by those attending the forum, and should not be seen as necessarily representing the views of the Authority.**

- High headworks charges by the Water Corporation are suppressing growth in demand.
- Benefits arising from the UUA scheme should be given more weight by the Authority (although many could not be quantified).
- MPs should be given appropriate guidance to consider regional benefits of the UUA scheme. The State Government has made a commitment to regional development and should note these when considering the final report (regions should have the same access to services as metropolitan areas; attracting investment to the regions).
- Economic modelling tools, such as the Latrobe model used by the Department of Industry and Resources (DoIR) to assess the regional benefits associated with the Ravensthorpe nickel mine, could be used by the ERA to assess the regional benefits associated with new mining prospects in the Kalgoorlie region. It was important to recognise the regional benefits associated with an assumed demand profile.
- The Authority should consider the value of competition and removal of barriers to entry.
- The Water Corporation said it was interested in getting the lowest cost of supply for its customers. The competition was for the supply of bulk water and the inquiry provided a useful process for establishing the lowest cost of bulk water supply to the region.
- Some communities had to cart water for agricultural and domestic use last summer placing stress on families. The southwest had experienced suicides, in which concerns about water issues had played a role.
- The Water Corporation provided clarification on Community Service Obligation (CSO) payments: if the UUA scheme were to go ahead, the Water Corporation would purchase bulk water from UUA which it would retail on to its customers in Kalgoorlie. The CSO is to ensure that Kalgoorlie

customers pay the same amount as Perth customers for the first 350 kL, which would continue to be the case.

- The Authority should use highest-cost source of water in Perth, not the average cost, in estimating the source cost of water.
- The Authority should determine the true cost of supplying water to Kalgoorlie-Boulder, as in Terms of Reference (1).
- The power procurement process in Esperance, detailed in the DoIR submission, is an example that could be duplicated in the case of UUA. [In this example, the Esperance Port Authority built its own 6MW generating plant when it was unable to reach a commercial agreement with Western Power. The outcome of Western Power's power procurement process was that a private contractor (Burns & Roe Worley) was able to enter into a commercial agreement to supply both Western Power and the Port Authority from a gas-fired power station using gas delivered 350km from Kambalda.]
- The final report should give confidence for UUA to go forward and prove up demand. The draft report had a negative impact. Uncertainty can be overcome by allowing the project to go on to the next stage.
- Investors had concerns over security of supply, with the only source of potable water coming from Perth. The option of two sources of supply was high on the list of public priorities in Kalgoorlie. Security of supply was important – both source water and pipeline.
- Public perception was that with the UUA scheme there would be two sources of supply to Kalgoorlie. However, the inquiry is to examine a choice between two pipelines.
- UUA stated that keeping the G&AWS pipeline open was a political decision and the costs associated with this should not be charged against the UUA project. The costs should be made clear to Government, but not attributed to UUA.
- UUA stated that comments by the Water Corporation that the Water Corporation's G&AWS pipeline would need to be kept open to Kalgoorlie in the event of the UUA scheme going ahead to ensure security of supply was "mischievous" – there has only ever been one pipeline to Kalgoorlie.
- The Water Corporation stated that security of supply was an issue for Water Corporation, and not just Government. The Water Corporation would continue to be responsible for delivery of water to its Kalgoorlie customers. If the UUA scheme went ahead, the Water Corporation would be relying on a single source of water (from the Esperance desalination plant) rather than nine sources in Perth. This was against its "security through diversity" policy.
- The draft report found a net cost of -\$56m. This was within the margin of error for a large project at the pre-feasibility stage. Private companies would go on to the next stage. The draft report gave the wrong impression to Government.

- “Vision” needed to be recognised and given greater weighting. The UUA scheme was at pre-feasibility stage and there were many unknowns. Many future benefits were unknown or unquantified although many benefits had been identified since the draft report.
- It was important to capture the optimism of the regions. There was a lot of activity in the mines and mining representatives were too busy to attend forums.
- Issues of key concern to the Kalgoorlie community were:
 - security of supply
 - price
 - potential development
 - the environment; and
 - water quality.
- The environment was a key issue and the Kalgoorlie community did not waste water (witness Waterwise and recycled water programs). From a State perspective, the UUA scheme would diversify the environmental impact to the south and west.
- Water quality varied throughout the year, and Kalgoorlie people often chose to buy bottled water because they didn’t like the taste of scheme water.