



Submission by United Utilities Australia in response to the draft report on the 'Inquiry on Urban Water and Wastewater Pricing' by the Economic Regulation Authority of Western Australia.

United Utilities Australia (UUA) welcomes the opportunity to provide a submission in response to the draft report of the 'Inquiry on Urban Water and Wastewater Pricing' by the Economic Regulation Authority.

UUA is the proponent of the Goldfields Water Supply Project, which is a privately-financed desalination plant project that will supply increased volumes of water to the Goldfields region of Western Australia to support economic development and as a contribution to the need to diversify water resources in Western Australia away from rainfall-dependent sources. UUA is a part of the global United Utilities Group, which provides water and wastewater services to more than 15 million people worldwide. UUA operates a large reverse osmosis plant in Queensland.

This project is currently the subject of a separate inquiry by the Economic Regulation Authority entitled 'Inquiry on the cost of supplying bulk potable water to Kalgoorlie-Boulder'. The draft report of this Inquiry is due on 6th May 2005.

This submission by UUA is provided because the Inquiry on Urban Water and Wastewater Pricing' has:

- provided useful and relevant information inputs for the Inquiry into the UUA Goldfields Water Supply Project; and
- attracted comment from the Water Corporation on the UUA Goldfields Water Supply Project that may be prejudicial to the other ERA Inquiry.

UUA comments on the main text of the draft report

UUA agrees with the Economic Regulation Authority that 'project partnering and alliances with the private sector' could deliver capital expenditure savings over current approaches. The private sector offers almost complete risk transfer from the public sector in areas such as process, engineering, construction and operation. Furthermore experience around the world has shown that the private sector can meet and exceed both the project deadline and the project performance capability of the public sector. In the UK the United Utilities Group is delivering operations, maintenance and capital programme services to a number of private water service providers in England and Wales, leading to lower costs to consumers. This approach does not involve any transfer of assets to the private sector. A similar type of term contract is being provided by UUA to Coliban Water in Victoria.

UUA strongly agrees with the Economic Regulation Authority that economic levers can be used to drive social, environmental and economic objectives in water supply. It is noted that current water provider's policies in relation to headworks charges and other standard, statewide charges may not provide sufficient responsiveness to regional needs. This is a major driver for the Goldfields Water Supply Project, where regional demand is constrained partly by physical supply but more by the conflicted role of the



services provider in setting and implementing policy. We believe such policy should be created independently of the service provider in order to increase its responsiveness to consumer needs.

UUA is not convinced that the CSO process used in Australia is sufficiently transparent or that it can be used as an efficiency or benchmarking tool. We have insufficient knowledge of the process in Western Australia to comment upon the detailed approach used by Government in WA, but would question whether there are sufficient comparators for any efficiency improvements to be targeted and recognised within the State. One benefit of UUA's Goldfields Water Supply Project and other private sector services being introduced into Western Australia would be the potential for efficiencies to be demonstrated and benchmarked in comparison with public sector service providers in Western Australia.

Comments on the Goldfields Water Supply Project by the Water Corporation

The Water Corporation did not contact UUA before it submitted its comments to the 'Inquiry on Urban Water and Wastewater Pricing' and we assume it based its statement on outdated information and judgements.

The Water Corporation was previously a member of a commercial consortium that proposed a very similar project to Government in 2001 based upon providing water to the Goldfields from an Esperance source.

The Water Corporation withdrew from the Goldfields Water Supply Project in August 2003 with the submission to Government of a report prepared jointly with UUA. Since then UUA has proceeded as sole proponent of the Project.

In the view of UUA the comments of the Water Corporation should therefore be viewed in the context of a competitor to UUA. This may influence its position in making those comments.

UUA has now demonstrated that there is evidence for unconstrained demand in the Goldfields region in the region of 60 ML/d (60,000 tonnes/day) in 2007/2008 with the potential for this to increase to 100 ML/d. UUA is currently providing data and analysis to the Economic Regulation Authority to support UUA's contention that:

- The Project will provide the State with equivalent cost, or lower cost, bulk water at Kalgoorlie in larger quantities than can be cost-effectively pumped from Perth; and
- The Project has a considerable economic benefit to the State and to the Goldfields region.

There are additional strategic, environmental and social benefits that are more difficult to quantify but which are potentially significant.

UUA strongly disagrees with the statement by the Water Corporation that '*We understand that the avoidable costs are insufficient to make United Utilities (sic) proposal viable*' (ref page 187). We disagree with the statement because:



- The Water Corporation has had no involvement with the Project since August 2003, and since then has not supported its development '*in some detail*';

As a result UUA believes the Water Corporation based its statement upon inaccurate knowledge that dated from August 2003, and that the Corporation had no knowledge of demand information since made available to UUA by potential commercial purchasers of water from the Project. This demand has made the Project viable;

- The Water Corporation criticism of the project does not take into account that the avoidable cost approach to the analysis needs to include broader issues of economic development which is currently constrained by the limited volumes of water that can be moved into the Goldfields region;
- The Economic Regulation Authority is currently undertaking an Inquiry into the Goldfields Water Supply Project. UUA believes that it was premature of the Water Corporation to make this statement when the Economic Regulation Authority had yet to commence its Inquiry into the Project. The comment by the Corporation might be viewed by some as pre-empting that Inquiry and potentially prejudicial to the value of information or the effort provided to the Inquiry by the Corporation.

UUA welcomes the assurance of the Water Corporation that it will purchase water from the Project once it is shown by the Economic Regulation Authority that it is economically-logical for it to do so.

UUA is pleased to be working with the independent Inquiry of the Economic Regulation Authority and a team from the Water Corporation to investigate the Goldfields Water Supply Project.

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