3 September 2007

Mr Greg Watkinson
Economic Regulation Authority
PO Box 8469
PERTH BUSINESS CENTRE WA 6849

Dear Greg
Inquiry on Competition in the Water & Wastewater Services Sector

Thank you for the opportunity to comment on this Inquiry, which we think is a sound first step to uncovering all the potential issues and defusing some of the negative attitudes which have been expressed about these exciting possibilities.

Harvey Water's comments are attached. Unfortunately, limitations on time have precluded us from in-depth considerations but we shall be following developments with great interest. We believe that our organisation represents an example where a different model and structure has released forces which have resulted in better services for customers. We acknowledge that we are not really operating in a truly competitive environment but can see situations in the future where we may seek to provide similar services to Water Corporation.

Harvey Water wishes you well in this undertaking and hopes to participate in any ongoing developments

Please contact Harvey Water if you would like more information.

Yours sincerely

Geoff Calder
GENERAL MANAGER

Gjc 05/09/07

ECONOMIC REGULATION AUTHORITY INQUIRY ON COMPETITION IN THE WATER & WASTE WATER SERVICES SECTOR

"Water ain't Water"

While Harvey Water acknowledges the inquiry distinguishes between water and wastewater, we believe that there is scope for further categorisation within water as per one of our favourite mantras that "Water ain't Water!"

Harvey Water believes that the debate on water is not well served by what is often an unspoken misconception that all water is effectively the same and can be regarded as such when discussing its management. Clearly the application of sufficient capital and technology can turn any water into its highest use as a potable product, but this does not mean at all that all water should or needs to be treated this way.

As the data clearly shows only about 10% of water is actually used for potable purposes but the public debate focuses almost exclusively on this market virtually to the exclusion of all other possibilities.

IWSS – A Strength & A Weakness

The great strength and achievement of Water Corporation has been to build an Integrated Water Supply System (IWSS) across the SW of this state to benefit all consumers. However this great strength is also a major weakness because the system has the ability to only supply potable water. If any consumer, individual or industry, wants water from Water Corporation, then by and large, it has to be potable water with the consequence of higher costs.

We do not ignore the recycling projects such as at Kwinana but that example only serves to demonstrate our point that to supply a different product requires a different distribution system at significant cost of delivery.

Water Quality, Quantity & Transport

For reasons of at least quality, quantity (location or distribution) and transport and treatment costs, water is different wherever you find it, especially when viewed through the skewed prism of supplying potable water to urban populations.

Public health risk management in WA requires that public drinking water comes from protected sources (with some notable exceptions in reality). For this reason water which comes from dams on which recreation is permitted, for example Wellington Dam, is not currently available whereas water from Stirling Dam is taken for the IWSS. Unless and until these underlying public health policies are changed, and evidence suggests that they are getting tighter not more flexible, water in unprotected dams will remain unavailable for potable use.

This means that the 105 GL potentially available from Wellington Dam will not be used for Public Water Supply (PWS) in the foreseeable future for at least quality reasons but is eminently suitable for many other purposes, and even more so as and when the salinity reduces. There are significant markets in the SW which need and can use lower quality water. Those same markets also don't wish to be using potable water for reasons of cost but also negative public reaction which could arise if they are perceived to be "wasting" potable water for industrial purposes, for example. There are other sources of water, similar to Wellington, which could be used for different purposes differentiated on quality grounds.

Examples of quality differences include the presence of organisms and bacteria damaging to human health, the concentration of dissolved solids such as salt at high levels or the high levels of compounds such as Trihalomethanes from organic material which are also not suitable for drinking water.

Harvey Water believes that this kind of alternate water supply service is not in direct competition with the Water Corporation core business of potable water supply but is competitive with markets for non-potable uses. To date these markets have largely been supplied by Water Corporation using potable water at much higher quality and cost than is actually needed.

Public health policies have strict conditions on the mixing of non-potable water of most quality limitations with potable water in pipes delivering potable water. Therefore the key issue for anyone wanting to provide an alternative service is, as the inquiry notes point out, the high cost of installing an alternative water delivery system.

Harvey Water can report an attempt to provide a non-potable urban water supply which was not successful because of stringent health standards and some peculiar attitudes to pricing. There will have to be greater flexibility with these kinds of considerations if we are to make the most efficient use of all our water resources. Harvey Water suggested that we supply garden and perhaps toilet water to a new urban sub-division. A query to the health authorities provided the response that they though it was a good idea but that we would have to chlorinate the water and price it quite close to potable water so people wouldn't be tempted to us it for potable purposes within the house. We did not pursue the idea because of these requirements.

A similar argument may be mounted for quantity considerations. Although it is often correctly said, that irrigators use most of the water in WA, the reality is that most of their water supplies are drawn from their own individual relatively small dams or from bores into the upper aquifers. Relatively few farm dams are over 50 ML whereas the North Dandalup Dam built for PWS is about 75 000 ML, for example.

The cost of aggregating these many small, widely separated farm dams or individual bores into one major system of sufficient size to be useful is too costly to be practical.

In principle it may be theoretically possible to trade water from irrigators but except perhaps for special access to large volume situations such as the Gnangara mound and the irrigation cooperatives, it is not likely to be a major activity.

This leads on to the third major limitation of water which is the high cost of its treatment and transfer. The Harvey – Stirling Redevelopment is a good example. While it cost $100 m to build Harvey dam, it cost $200 m to build the dosing plant and the trunk main to transfer the water to the IWSS. Similar figures applied to the SW Yarragadee proposal. It is always more economically efficient to have the water near to the population than take the water to the population. This is clearly some of the important thinking behind desal plants.

Competitive & Complementary Services

The discussion above on the differences in water is intended to lead back to the opportunities in the market for non-potable water which Water Corporation is not well set up to supply.

As previously inferred Harvey Water knows these opportunities are available and believes that they are complementary to rather than in competition with the core business activities of Water Corporation. While not necessarily direct competition as the inquiry intends, they also offer the prospect of services which meet the requirements of customers more closely or at a lower price, which to our understanding is one of the major goals of competition.

Harvey Water believes that the opportunities for fit-for-purpose water services will steadily grow as pressure mounts on potable water supplies and the use of that water for non-potable purposes.