

Inquiry on Competition in the Water and Wastewater Services Sector

Economic Regulation Authority

Comments on Draft Report from Mr. Barry Sanders

As someone with 50 years experience in the urban water industry, I have read this report with considerable interest. While I am pleased to note the recommendation to not break up the Water Corporation, I can see nothing in favour of your support for the creation of an IPE.

1. An IPE will be less informed on water source development than the Water Corporation which has a great record of planning and managing new source projects.
2. An IPE will be nothing more than an extra, unnecessary bureaucracy in the way of timely decision making on new sources. The Government already has a group within the DPC to offer alternative advice and, if concerned about Water Corporation recommendations, can always hire one of the international water consulting firms in Perth, (thus using private enterprise), for advice. (This was done to get independent advice on canals/pipelines from the north).
3. The Water Corporation is better placed to understand the complexities of selecting new sources to fit into the existing storage and distribution systems due to its long operational experience with what is very complex integrated water infrastructure.
4. The annual source management strategy is already scrutinised by the Department of Water and certainly does not need further interference from an IPE with no operational or environmental expertise. Because of environmental and climate driven rules combined with the enormous complexity of integrating over 30 different sources, only the Water Corporation, with its 100+ years of operating knowledge of this system, can decide what is needed.

There is already huge private sector involvement in the W.A. water sector, providing help with planning and environmental studies, almost all design and construction and a considerable part of operations and maintenance undertaken by private contractors. There is little room for more without total privatisation.

In the meantime, there are many reasons why removing planning and source procurement from the Water Corporation would make little sense.

1. The Water Corporation is now universally recognised for its outstanding source planning (even by both sides in the recent Federal election campaign). Its active policy of developing diverse sources is the only reason why W.A. has been able to continue to supply reasonable water supplies to customers, despite lower rainfall and run-off for 33 successive years.

This performance is in sharp contrast to eastern states' utilities which have built no significant new assets since 1981, with the result that a few years of drought have necessitated the most severe water restrictions - all unnecessary if proper planning and action had been undertaken.

2. The Water Corporation has pioneered alliance tendering in the public sector with the result that projects have been delivered on time and within budget - unlike many other public sector projects in recent times.

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3. The Water Corporation is a major technical authority in both the Australian and international water industry and also uses many of the leading water consultants and contractors. As a result, it has access to research and all new developments with respect to sources and treatment, and would always be better informed than a stand-alone planning entity.
4. Competition in the water industry can only be maintained by the use of private sector bids for design and construction, and benchmark comparisons between utilities. Rival utilities in the same service area is an inefficient nonsense.

The support for an IPE seems to be based on the belief that it will somehow find out (from the private sector?) better ways to source water, ways of developing smaller sources (cheaper?) and thus more opportunities for "just-in-time" construction. This is purely wishful thinking as all these "bases" are already covered.

1. The Water Corporation has built many small sources (two small dams, a number of individual artesian bores and made savings from piped irrigation and wastewater reuse), while developing new major sources. These have helped yield between major projects, but are no substitute for building sources of sufficient size to be economic with respect to capital and operating costs.
2. There is usually a limit to how small a new source can be depending on time to construct and method of treatment to be used. It is just not possible economically, to keep adding only small sources, even if they do exist.
3. Large sources such as desalination do not freeze the chance to save money with better technology. While the civil construction may have a long life, such equipment as membranes and energy recovering devices will have quite short lives (especially membranes) and therefore any improvements that come along can usually be easily fitted during routine upgrades.
4. Developing new water sources requires water to be present first (whether it be salty, brackish or fresh) and the decisions to be made are based on technology needed for treatment and the methods of transport and delivery. This does not lend itself to competition in identifying the sources, and is completely different to competing for power sources. Electricity cannot be stored and must be 'manufactured' and there are many future possibilities for making this product using a variety of fuels or energy sources controlled by different public and private companies - unlike water sources.
5. An IPE with competition for sources has nothing to do with the timing of the next desalination plant. This simply depends on the amount of risk the Government is willing to take with respect to water availability for the community.

To suggest it could be deferred in case it might rain is absurd - this is where they have gone wrong in the eastern states, and all the evidence of the past 33 years suggests the next major source must start. If the Government had not prevented the development of the next most economical source (South Yarragaddee), the next desalination plant could well have been deferred for some time.

The above political decision indicates the complete ineffectiveness of an IPE which would have little influence on what the next source should be, and would certainly have no say in charges for water as the Government will not surrender this control. The suggestion that an IPE can keep charges to a minimum in this environment is fanciful. The failure of Western Power's break-up can be put down to the same issue of not being able to pass on real costs to the customer.

In summary, this report provides no evidence that interfering with major responsibilities of the Water Corporation will achieve anything other than damaging the performance of one of the World's better water utilities, while threatening timely development of water infrastructure due to even more bureaucracy.

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