

Submission to the ERA on:

Inquiry on Competition in the Water and Wastewater Services Sector

The thrust of the recommendations is, that private industry operating where natural competition exists will provide more efficient and cost effective services to the community. While this is generally the case, the Inquiry fails to recognise the following:

- Private industry borrows money at a higher rate than government, and operates at much higher rates of return to shareholders. Rates of return on investment are typically 17-25%. As the Corporation presently constructs nearly all of its capital program by competitive tender from the private sector, and similarly outsources most of its maintenance activities, it appears to be mathematically impossible for the private sector to make this level of return with the remaining Corporation 'in-house' activities. This of course is unless 1) the level of service diminishes, and/or 2) customer prices are increased, and/or 3) the innovations are substantial and unavailable to the public system. While it may be attractive to government for private industry to fund, own and operate a 3rd desalination plant, the expected rate of return must be addressed by more than the ideological argument that "private" is more innovative, and therefore more efficient in the bulk water industry.
- It is noted that many of the reforms undertaken in the eastern states have been to amalgamate rather than disaggregate.
- While overseas examples of "privatisation" are given, there is no analysis as to whether this has resulted in lower costs or better service to consumers.
- Given that government currently make the decision on any new major water source (e.g. Yarragadee vs Desalination 1) the recommendation that an IPE be established will simply add another layer of bureaucracy, and therefore cost, to the process.

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1 February 2008.