

OTTO MUELLER

JAN 28, 2008

TO THE CHAIRPERSON
ECONOMIC REGULATION AUTHORITY
PO BOX 8469
PERTH BUSINESS CENTRE 6849

DEAR SIR

SUBMISSION: Inquiry on competition in the water and wastewater services sector

I apologize for the lateness of my contribution but I only received your draft on January 22, 2008.

GENERAL COMMENTS

I cannot see the role of an economic regulator in a system which has for years increasingly called for less regulation, fast-tracking, smaller government and less "red tape". It is one of those frequently encountered oxymorons, including in your draft and of course interstate and the national level. Food for thought are poll results which showed that 3/4 of those asked (the public!) liked to see more controls of foreign companies operating in this country.

Our state treasurer has asked you for comments on introducing competition in our water services which are already occupying two agencies namely a Department of Water and the Water Corporation (not to mention the EPA or a Water and Rivers Commission). Competition is apparently meant to supply benefits, enhancements(?), lower prices etc to the public or commercial water consumers and reusers.

It is essential to review briefly the performance of our State Treasury over the last ten years. It is the same organisation which is and was closely associated with outsourcing or privatising public services. Many of which have only been held accountable by occasional news media reports or the auditor general. At present the public would have no idea whether there are or were any public/monetary benefits arising out of partly privatised bus transport systems, freight rail sale, financial performances of miscellaneous sporting venues, the convention centre, miscellaneous computerized services (Police systems, Office of Shared Services or Railway ticketing services), AIMS, Global solutions(?) and of course the disaggregation of Western Power, IMO and the proclaimed reduction of electricity prices via competition by the Electricity Reform Taskforce in 2002.

The failures to reduce community service charges in the eastern states despite higher population densities and bigger markets etc. speak for themselves. Whether any wealth has been created in the Australian community by the wholesale transfer of publicly created community assets to the tune of almost \$ 100 Billion to the private sector in the '90s remains to be proven by an independent investigator.

The RBA had no inhibitions to estimate that some 50% of those "firesales" finished up in foreign ownership. The increase in value after their sales remains an unrecorded piece of Australian social history.

Much later we were told in 2003 that the federal government would buy/acquire or organize 500 megalitres of water pa to feed additionally into that Murray Darling River System since it was and still is on the verge of collapse despite watertrading.

By 2007 not one additional litre had flowed down that river. It was a sham by the federal government and miscellaneous advising consultants and agencies, ostensibly caring about Australia's "foodbowl".

Noting my above comments it is now conceivable that any discerning citizen has no more confidence in existing administrations. The credibility account has been vastly overdrawn. The reasons for this trend require no tertiary education. It goes back to the wholesale embracing of Globalisation, free markets, followed by unrestricted moneyflows in the anglophone world. In Australia, both major parties adopted that doctrine, supported by the Hillmer report and competition being called the saviour of every economic woe.

There are only a few contributors to your draft. Three government departments, obscure agencies, the water corporation, CCI of WA, all of them supporting the entry of the private sector to ease the pains of waterrestrictions. There is also the CSIRO and astonishingly Rio Tinto Ore, a London based largest mining operation in the world plus inevitably a few consultants.

Some of the reasonings are very convoluted, others could be called classical/ main stream economic thoughts developed under entirely different conditions and taught by academics to hundreds of students every year (e.g. pages 5,6,11,18, 20, 28,45,73or 80). The only seemingly bottom-up comments originated from WACOSS and CPSU/CSA .

SPECIFIC NOTES

1) There is no water industry in WA, as there is no waterfactory to manufacture H₂O. Neither the free market nor competition in it can make water.

2) The Water Corporation and its predecessors DID plan for water, albeit a flawed one. It is not quite their fault, since this state and nation increases its population without any plan, policy or control, therefore planning-on-the-run became the story of the day. I could quote some 13 publications to proof my point. It would start with EPA Bulletin 343, Aug. 1988. *Next Major Water supply source for Perth (post1992) over a Wastewater discussion paper 2040* (1994), *Perth's waterfuture* (Dec.1994), EPA Bulletin 903 (1998) *Water allocation and Perth's Water Future Strategy*, a *State Water Strategy for WA* (2003), a *blueprint for Waterreform in WA* (2006) and so on.

There was no mention till well into 2000 about desalination needs, competition, let alone private innovation. Yet the new corporation went into contracting out e.g.maintenance work many years ago by getting rid of its bluecollar workforce.

3) Competitive pressures cannot cater for a "lifesupportsystem" without which neither RIO TINTO ORE nor "water kings" in NSW can exist.

4) The term "potential" has become meaningless in its overuse and stands for "we do not know".

5) Which are WA.s waterutilities for potable water ?

6) In your text the difference between the 13 % drinkingwater users and the 87% bulkwater users is often lost and not clear cut for the reader to follow.

- 7) That "riskpremium" is clearly all important for the envisaged private sector "middle men".
- 8) Page vi top reminds me very much of a future, problem ridden, least cost carbon trading or carbon neutral charade in years to come.
- 9) The "private" ownership of a common (or a lifesupport) source will always remain unpalatable to any community of people. Note: Sunday Times 20-1-08, Alcoa accused on water.
- 10) Page vi middle shows that the longstanding "cautionary principle" would be disregarded in favour of the "least cost" option. We learnt in school that this is, what marketforces are all about.
- 11) Page vi middle demonstrates another oxymoron namely "overly large resources" versus the widely acknowledged "economies of scale" theory eg. in the generating industry, the coal industry, the retail industry (note the ACCCs disinterest in the latter subject) and indeed the SUEZ Co. to name a few. We are now confronted with the revealing notion by a vested interest group that an overly large water enterprise could stifle competition.
- 12) Where are those "smaller, flexible watersources" or a "suite of possible options"? In the literature quoted under 2) we merely read about mores bores, Gngangara mound, other groundwater sources and for the first time seawater desalination in State Water strategy (2003). There is also an inkling about private participation on page 40/41.
- 13) Page vi bottom. Clearly the WA CCI and its water company members are scared of costly, 3/4 empty dams and even a second desalination plant.
- 14) I believe the Gngangara watermound has been overexploited and damaged beyond repair already despite many plans, workshops and public forums during the last ten years.
- 15) While the state treasurer is criticized by all and sundry including Moody's (another multinational unduly influencing politics/policies) for the salary explosion in middle and upperlevel public service and everincreasing consultancy costs your authority is not embarrassed in suggesting yet another bureaucracy (IPE). Once again we are told about transparency and accountability while by experience it will be more of "commercial confidentiality" rather than open government.
- 16) Large amounts of money will be needed for legislative reviews as per that "Blueprint for Waterreform" (Dec.2006) within the NWI under Rec. 28, 29, 30, 48, 51, 67, 68, 70 and 72.
- 17) Page viii bottom. ... "to permit large customers to choose their retailer"? What is meant here potable or non potable water? How many retailers may there be? Where does the product (as they like to call everything) come from? Is that the competition to bring the current price down from what customer A pays now to whom ever? Is the devil in the detail?
When Alinta was asked the same question after advertising 30% REDUCTION in gas price, they refused to explain how they could do it! No transparency here.
- 18) Page ix This reader has a problem with misleading terminology in your text. A CSO stands for Community Service Obligation, any service provided and needed by a civilized community. CSOs therefore are multiples of such services. However your authors are giving that acronym a different, monetary meaning. If anywhere the incomes do not match the outgoings a discrepancy in monetary terms will arise. Somebody will have to subsidise, offer a grant or pay a compensation because the activity is NOT viable. In the WA case from the taxpayer on probably an annual basis.

Having that clarified, it now appears that those services in many cases if not all, are not profit generating otherwise the Water Corporations, councils, waste services, gas suppliers, schools, kindergartens would be wallowing in money or at least draw even. Currently such differences are borne by the taxpayer via parliamentary appropriations. In your draft such payments could be paid to a private service provider after suitable legislative changes. The private sector would nowhere to be seen if an "innovative option" would not be eligible for a subsidy, what you call CSOs.

19) Where is here the competition? Why do we need it? Your proposal is merely a transfer of a public subsidisation (for a non profitable public service) to the private sector. Why is the taxpayer expected to entertain private competitive (?) tenders when there is another clause ensuring that the same tenderer does have access to a publicly financed safety net, called in your circles CSO (it is essential to remember here AIMS). With other words United Utilities will only be competitive when any expected losses are covered by the consumers via their government? One may only wonder about "public interest".

Finally I trust that in your final advise to the WA State Treasury you will point out international experiences with those large companies (who believe only in economies of scale--your own dogma) which do very well out of scarce resources. The United Utilities, Bechtel Corp., Viola, Agua Argentina and Enron who via GATS usurp community services in some 100 countries, (Dead in the Water 10-10-2006). It is a farce to constantly highlight the benefits of the private sector and competition for Australian consumers. What has the ACCC achieved in many years of empire building?

O. Mueller