

Water Review

CPSU | CSA response 29/08/07



The Authority is seeking further examples of ways to achieve greater economic efficiency and sustainability, through increased competition, in the water and wastewater industry.

The Water Corporation board and its management team are already constantly doing this as part of the water response.

It is the Union's position that the Economic Regulation Authority should be looking at the current initiatives undertaken in the Water Corporation and provide comparative comment on them vs private sector ownership and contestable markets regime.

It is essential that the Economic Regulation Authority investigate real and hard proposals rather than pursue economic theory. The Union believes that this study should not be an exercise in economics, but have measurable proposals which it can then measure against Water Corp's current initiatives and deliver triple bottom line benefits to the state.

Currently maintenance, IT Departments etc are outsourced to private enterprise, indeed there is a heavy involvement of private enterprise in all aspects of Water Corp in terms of delivery. The Water Corporation has become more a planning and management agency with private enterprise undertaking the construction work and most of the service delivery work.

The State and its people require a well resourced, profitable utility which is delivering efficiencies and services to metropolitan, remote and regional areas throughout a wide geographical area. It should bear in mind any rising costs to customers and any reduction of investment into infrastructure.

The Authority has identified the following broad types of competition: centralised procurement, trading and retail competition, and comparative competition. In addition, third party access is a mechanism that facilitates decentralised procurement, trading and retail competition. The Authority is seeking comments on whether this framework encompasses all of the potential commercial opportunities that might exist.

The Water Corporation has exemption from State Supply Commission

Act as a Government Trading Enterprise but makes use of Common User Contracts for various items such as printers, photocopiers & motor vehicles.

Water Corporation has its own Policy on Procurement PCY216 & Standard S118 which encompasses the procurement of goods & services including a code of conduct, buy local policy.

It should be noted that areas of Water Corporation that have been outsourced in the last ten years are:

- Information Technology to CSC Australia Pty Ltd,
- Operations & Maintenance :
- Perth North - Swan Water Services (Alliance Contract)
- Perth South – Western Water Services (Alliance Contract)
- Mechanical & Electrical Water Technology Division- PSN Water (Alliance Contract)
- Motor Vehicle & Plant – Easy Fleet

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Further examples of private enterprise involvement have been:

- The Capital Works Program is approximately \$900m for 2007/08 & to achieve this bundles of work have been allocated to various Alliances & private contractors.
- The Desalination Plant at Kwinana was designed, built by Multiplex Degremont Joint Venture approximately \$300m.
- The new Southern Desalination Plant in Binningup is being designed & built in a similar manner as is the new Alkimos Waste Water Treatment Plant.
- Banding purchase contracts, corporate card procurement, contractual arrangements, partnering and alliance arrangements with the private sector. Widespread use of electronic purchasing – very strong links with suppliers, e.g Blackwoods, Corporate Express.

Water Corporation is now moving to Preferred Supplier Agreements for many of its panel arrangements

This must be in line with State Government Policy with regard to procurement.

The CSA believe that the current procurement policy settings and practices are yielding best practice outcomes for the Water Corporation and its suppliers.

Centralised procurement approaches can take the form of competitive supply for a project, an outcome or the entire market. The key institutional and legislative consideration identified thus far relates to determining where responsibility lies for determining the scope of works for which tenders are to be sought and the assessment of any submissions received. The Authority is seeking comments on the most appropriate institutional and legislative arrangements to ensure effective use of competitive supply opportunities.

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From the examples above, it can be seen that the Water Corporation have already put into place contract arrangements that take the form of competitive supply for a project, an outcome or the entire market.

The CSA believe that the current procurement policy settings and practices are yielding best practice outcomes for the Water Corporation and its suppliers.

What barriers to competitive procurement need to be removed?

It is the Union's view that the current policy provides a lot of flexibility. Water Corporation currently has exemptions under the policy which allow Water Corporation to secure services direct from suppliers, further removing any State Supply Commission barriers. This should not change

The Authority is seeking comments on any constraints to the use of water trading as a source of bulk water.

Water trading is more applicable to the Irrigation sector, for public water supplies there is no value adding as there are currently strict guidelines in terms of Health etc.

In future years of plentiful rain there may be opportunity to trade with private sector.

It should be noted, however, that Water Corporation currently purchases 12-15 gigalitres from Harvey water, with proposals to increase this. There may be further opportunities for the private sector to treat and resell water, however drinking water guidelines exists which may limit future opportunities.

The Authority does need to keep in mind that proposal must be in accord with the National Water Initiative which governs water trading and Western Australia is a signatory.

The Authority is seeking comments on the most appropriate way to ensure efficient service provision in uneconomical areas.

The existing Community Service obligation payment has proven to be an effective vehicle that is subject to annual scrutiny by State Treasury.

Due to the vast geographical distances, there is great difficulty in sourcing and keeping competent workers which means there is a need for a well resourced utility to remunerate employees and maintain currency of training and technology. There are stringent

Performance Indicators for attending leaks and bursts and meeting the Australian Drinking Water Guidelines which limit the opportunity for private contractors to provide the required this on a regular basis.

Water Corporation also needs to bear in mind the sensitivities of Aboriginal Communities and should consult with representatives of these communities.

In the mid 1980's the State and Federal Government were so concerned with the state of assets and the lack of standards being applied to WA's remote Aboriginal Communities that they directed the then Water Authority to take over both maintenance and Capital works for remote communities throughout the State. This was a direct result of many years of utilizing various consultants and contractors as a low cost solution, which produced an ad-hoc and fragmented approach to ensuring even the basic water, sewer or plumbing standards were applied to the remote communities.

With Water Authority involvement structure and standards were applied to remote communities which resulted in asset improvement and forward planning for sustainable growth and scheme improvements in liaison with other utility agencies and Community and Regional Councils. This resulted in real on the ground quality of life improvements for remote community residents.

Around 1997/98 State and Federal governments under the COAG arrangements saw fit to revert again to the private sector for maintenance and capital management as a potential cost saving. This involved using select consultants to manage the funding and expenditure aspects of the Capital budget and a number of contractors throughout the State to undertake maintenance requirements. How well this has worked could be questioned as there is hearsay evidence that many communities appear to be receiving a much lower level of service, and the delivery cost of the service is more than likely higher than under the Water Authority/ Corporation management.

Recently water quality and health related issues have been identified as a concern in remote communities, and we believe the Water Corporation may in the near future be requested to again take up management of various aspects of water related services to remote communities.

The introduction of a State-based third party access regime would require a decision about the comprehensiveness of the regime, a contestable retail market, appropriate licence conditions, an access price, and a consideration of structural issues. The Authority is seeking comments on these and other matters that would assist in an assessment of whether the benefits of a State-based access regime outweigh the costs.

There is currently a 25 year Water Corporation Operating License valid to 28 June 2021 in pursuant to the ERA Act. This provides an exclusive license to provide water supply, which in turn prohibits private providers for potable (drinking) water.

The opportunities for third party access to bulk recycled water, effluent water are very limited as the current infrastructure would not support this. Any future industrial suppliers would have to supply their own infrastructure or treat their industrial water to potable standards to gain third party access to Water Corporation assets.

Would a State-based access regime result in commercial operators entering the market?

No, for the reasons alluded to above. Commercial operators would only be able to operate in the non potable market. The operators could not deliver non potable (irrigation and industrial) water through potable infrastructure, as per Drinking water guidelines, and would be required to build dedicated infrastructure.

The introduction of trading and retail competition would require the establishment of a contestable market, appropriate licensing conditions and a consideration of structural issues. The Authority is seeking comments on these and other matters that would assist in an assessment of whether the benefits of trading and retail competition would outweigh the costs.

As mentioned above, commercial operators would not be able to enter the potable water market, due to the Water Corporation's 25 years, exclusive license.

The costs would outweigh the benefits due to infrastructure requirements. Commercial operators would only be able to operate in the non potable market. The operators could not deliver non potable (irrigation and industrial) water through potable infrastructure, as per Drinking water guidelines, and would be required to build dedicated infrastructure.

The potable water market is a relatively small market, currently only about 17% of the water market.

Making Industry, Agriculture and Mining more efficient would deliver greater efficiencies – non potable market is where the big gains are to be made.

Would the removal of barriers to trading and retail competition result in commercial operators entering the market?

The Union's position is that this would be very unlikely. It would be a small market, with diverse geography. Commercial operators would also have to contend with difficult and extensive water sources as well as infrastructure issues.

Also, very high potable supply requirements mean this is harder, drinking water guidelines are only being firmed up, not softened. WaterCorp has spent lots of money to meet these guidelines. A private operator could not/would not set up a desalination plant in Leonora for 400 customers in order to meet new drinking water guidelines. Tougher health and drinking water guidelines require increased spending on infrastructure that may not display an economic return, which in turn is not profitable for private enterprise.

The introduction of a comparative competition regime would require the creation of comparable businesses and the development of a regulatory regime that would provide incentives for businesses to outperform their counterparts. The Authority is seeking comments on these and other matters that would assist in assessing the appropriateness of a comparative competition regime.

The Union believes the ERA will need to quantify the incentives to make informed comment, however it believes that costs of any viable incentives, would outweigh existing costs.

The 1999 WA Legislative Assembly Standing Committee on Uniform Legislation and Intergovernmental Agreements - Competition Policy and Reforms in the Public Utility Sector Report (S1.15; p11) confirms that the privatization of Britain's water and sewerage industry has resulted in higher prices to customers to cover the cost of maintaining and enhancing vast infrastructure yet the industry did not plough increased revenues back into the network with the resultant deterioration and compromised the inability of the network to supply service

The same conclusion was reported in (S3.5.7; p45) of the report with the observation that shareholder dividends accounting for between 12% to 42% of water revenue. This is a lot of money not being re-invested into infrastructure with a resulting deterioration in infrastructure.

The report recommends (See Finding 6 – p46) That the Waster Industry remains in state hands.

The Authority is seeking comments on any issues interested parties consider relevant to the inquiry which have not been identified in the Issues Paper.

The Authority should look at the impact on regional consumers with the contestable market, for example, the electricity market where new consumers are heavily penalized when trying to connect to the grids. Figures of up to \$15,000 and more have been quoted. There are very strong disincentives for regional development, this needs to be addressed.

The Authority is seeking comments on other ways in which competition can be increased in the water and wastewater industry.

There is currently widespread involvement in Water Corp – competitive tendering, maintenance and support services

The continuation of the current philosophy of having Water Corp having planning and management focus needs to continue.

Water restrictions have not been as dramatic or has had the same effect that the Eastern States have suffered because in WA there is a single Water Corporation that is well funded and well resourced to invest in new infrastructure to meet the challenges of the drying climate. This has been done through consistent and proactive planning policy that is not subject to narrow considerations and with the investment program being delivered through strong and well developed partnerships with the private sector

Look at current Water Corp policies and practices on procurement and partnerships and compares how efficiently the current arrangements deliver in comparison to a competitive and contestable market model. The current model is delivering superior results.

Well resourced State Corporation to properly plan for and manage the orderly investment in infrastructure and assets is essential to maintain a high standard of water service delivery to the people of WA and meet the increasing challenges for the future.

The Authority is seeking comments on the areas to which it should pay most attention when developing its recommendations, to allow for the greatest introduction of competitive pressures and the delivery of the greatest benefits to customers.

The non potable water market counts for 17% of the market. The Union believes the focus of the ERA study should be on the efficiencies to be found in Industry, Mining, Agriculture (non potable users). Better management of these areas will deliver larger benefits to the State.

The current 17% non potable market is currently managed by a talented, hard working workforce. Big opportunities exist for the WA economy in the potential efficiencies which exist in the 83% non potable market.

The Water Corporation is leading Australia in terms of waterwise and education programs. Private enterprise may compromise the waterwise program because selling water will be their focus, not necessarily water wise programs. Any change in focus of the Waterwise Program will have a significant impact on the additional investment requirements to develop future water sources. Dams are currently 60% less productive than the 1970's. There has been growth to be managed, and changes may result in staff expertise being lost and diluted. It will also inhibit the ability to properly plan and deliver for infrastructure development.

The Authority should look at what happened in Britain, where despite operating in a favorable rainfall environment, they have had issues maintaining supply. The drought 10-15 years ago after privatization resulted in the commercial operator not being able to supply and the dislocations and resulting losses suffered to the local economy.

The risk of maintaining adequacy and continuity of water services to customers and the impacts of dislocations to the economy of not maintaining adequate supplies need to be considered. ie the South East Queensland experience of 2006 & 2007.

Private companies will use the cheapest way, not necessarily the best way of doing things. They will consider bottom line and shareholder interests as their first priority rather than any environmental impact or community infrastructure needs.

As stated above, Water Corporation is leading the country and the rest of Australia is learning from our programs such as:

- Water efficiency program
- Rebates
- Infrastructure technologies
- Desalination technologies – plans have been sold to NSW, Gold Coast and Melbourne – using the WA example and technology

has been developed in WA by the Water Corp

There is a considerable budget for Research & Development which may be at risk by a privatized model.

The Union also believes that the following areas will be lost/diminished should a privatization model be developed.

- Long term research and development projects:
- Aquifer recharge program – injecting recycled effluent into aquifers to sustain groundwater in 10-20 years time
- Catchments thinning program – in consultation with EPA and CALM, other stakeholders – setting out of trees (natural state – closer to old growth forest) etc again, benefits likely 10-20 years time
- Reforestation of Wellington Dam catchment area a 40 year plus program
- Flag ship projects with huge benefits to community and environment such as purchase of renewable energy for desalination plants and the water Corporations aspirational targets to be Greenhouse Gas Neutral by 2030.
- The States Waterwise and Demand Management Program.

The 1999 WA Legislative Assembly Standing Committee on Uniform Legislation and Intergovernmental Agreements - Competition Policy and Reforms in the Public Utility Sector Report Finding 11 (p109) shows that where corporatised utilities have been removed from Parliamentary scrutiny they increase profits and dividends without necessarily considering the public interest.