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SUBMISSION TO

THE FIRST BIENNIAL ASSESSMENT OF THE NATIONAL WATER INITIATIVE from Mrs. Liz Penfold MP Member for Flinders in the Parliament of South Australia

19th February 2007

I will address my issues under the same eight inter-related elements of water management used in the overview of the National Water Initiative. My arguments will be based on the water issues relating to the 55,000 square kilometres of my electorate of Flinders in the Parliament of South Australia and are my opinion only.

This region covers most of Eyre Peninsula, has 22,000 voters spread over eight Local Government and one Unincorporated Local Government area that stretches through to the Western Australian border. The area is relatively flat with no significant rivers. It is serviced by water from underground artesian basins mainly located south of the major town of Port Lincoln and piped by SA Water across the region. The electorate produces about 40% of South Australian grain, 60% of the State's seafood and is underlaid by the Gawler Craton mineralisation which contains one of the richest mineral regions in the world.

1. Water access entitlements and planning framework.

Under this heading it is stated that, *'A key aim of the Initiative is to restore surface and groundwater systems to environmentally sustainable levels.'*

The South Australian Government has failed dismally in this objective. In the Flinders electorate the underground resources have continued to be depleted to such an extent that at least five basins, the Polda, Uley/Wanilla, Uley East, Uley South and Robinson basins have all been overdrawn. (See Attachments 1, 2, 3, 4, 5.)

I was incredulous when I recently discovered that the overdrawn southern basins were being used to recharge the overdrawn Robinson Basin aquifer that services the township of Streaky Bay. ('Eyre Peninsula Water Supply', House of Assembly, Hansard 6th February 2007, Attachment 6; Radio précis 13/2/07 Attachment 7.)

Because of the parlous state of the basins on Eyre Peninsula, a State Government instrumentality SA Water has commissioned numerous studies over the years. The PPK 'Eyre Peninsula Water Supply Master Plan' (Attachment 8) is the most extensive and recent of these. A full copy of the

report (181 pages) is available on http://www.sawater.com.au/NR/rdonlyres/7E2ADBDF-29BF-4BF8-A585-26FD9F81AEFB/0/EPMaster_Plan_low.pdf.

For reasons known only to SA Water, they recently built a 90 kilometre pipeline at a cost of \$48.5 million from Iron Knob to Kimba that links our stand alone piping system into the overdrawn River Murray (over 600 kilometres away) to pump in 1.4 gigalitres of highly chlorinated water to the region. The Hansard transcripts of my written and verbal submissions to the Parliamentary Public Works Standing Committee hearing on the 'Eyre Peninsula Water Supply Upgrade' protesting the stupidity of this decision and the lost opportunity cost are referenced below. (See Attachment 9 pages 1/ 10). <http://www.lizpenfold.com/PDF/Public%20Works%20Standing%20Committee-%20Pipeline%20-%202029.6.052.pdf>

I believe the cost of the delivered water will exceed \$6.00 per kl. The eventual cost of the \$48.5 million pipeline plus annual operating losses (over an expected 75 year period of its life at 6% compounded is \$9 billion) was not taken into account in the "cost of the water" put forward by SA Water executives. (See Attachment 10 showing four scenarios on the cost of the pipeline that a private enterprise business would have to take into account to the taxpayer of South Australia.)

SA Water conveniently used Net Present Value and therefore the long term cost became irrelevant. This could be less relevant if the project eventually became profitable but it will not.

I most strenuously dispute the SA Water methodology. SA Water is 'corporatised' to operate as a business. No business can incur massive operating losses that are inevitable with this pipeline and subsidising the waste of money from other operations does not change the fact that constructing this pipeline was irrational and appears politically motivated.

The State and SA Water are only big businesses that use our taxes and charges and therefore must work under similar rules or go broke as any business does. Do we have another State Bank disaster looming?

SA Water statement in their submissions to the Public Works Committee can be accessed at <http://www.parliament.sa.gov.au/Committees/Standing/HA/PublicWorksCommittee/CompletedInquiries/Water/Report217EyrePeninsulaWaterSupplyUpgrade/Hansard29June2005.htm>.

The pipeline is not a solution to resolve Eyre Peninsula's critical water issues even if it is increased to the 2.3 gigalitres proposed to be provided *when and if* a desalination plant is built at Whyalla. The region needs at least 10 gigalitres more water to provide for development of the towns, industry and in particular mining and the associated value adding.

Based on the assumption that desalinated sea water can be produced for \$1.60/kl (prices are now being estimated at under \$1) it could have been produced near where it is to be consumed and the Iron Knob to Kimba pipeline would not have been needed. On Eyre Peninsula new water could have been desalinated with wind or solar energy as the two wind farms can produce more power than is consumed on the Peninsula.

While on water access, I mention the plight of the Elliston Council which has a rate base of only 873 full paying rate payers but has one of the largest areas of any Council in Australia at 6,693 square kilometres. See their web site <http://www.elliston.sa.gov.au/site/page.cfm>.

The Elliston Council has been advised that providing water to the small communities in their council area is their problem. The charter of SA Water is or should be to provide water to the people of the State and if our forefathers had had their current attitude, little of Eyre Peninsula would have

any reticulated water. The Elliston Council are by no means the only council faced with a cost that is beyond their capacity and should not be their responsibility anyway.

The SA Water Charter states under Strategic Directions: 'assist in promoting economic development in South Australia'. However the economic development, of many small regional communities across South Australia, is being severely restricted because of lack of water.

2. Water markets and trading.

This objective relates '*to the removal of institutional barriers to trade in water*'.

The predicament on Eyre Peninsula has stimulated a number of desalination plant options to be looked at to provide more and better water for particular locations. The most recent of these is at Ceduna which because it is over 400 kilometres away from the Southern basins receives very poor quality water piped from the southern basins.

The Council at Ceduna has already taken over supplying water to the people who live towards the Western Australian border by buying water from SA Water and piping it to them. In order to provide plenty of good quality water at a reasonable cost to a new marina development and for the expansion of mining operations in the area they have signed a memorandum of understanding with Cynergy Pty Ltd. This company has undertaken to provide the water by mechanical vapour compression technique using solar power and graphite block technology and the waste saline water is to be used by a local company for commercial salt so there is absolutely no pollution.

SA Water and the State Government are not co-operating on this and other similar projects. The company's letter to SA Water last March has still not been answered 11 months later despite the Minister for Water Security saying that it was still being considered. Federal grant funding opportunities for this project have been passing by. The need is becoming more urgent daily, particularly in the light of the problems with the basins and supply at Streaky Bay. This 'new' water could remove a community of more than 3000 people from the system and would quickly alleviate some of the pressures on the southern basins. (See Attachment 11: articles from the Sentinel 15th February 2007.) I am aware of three other desalination projects that are in a similar predicament regarding government approvals and accessing SA Water infrastructure.

SA Water appears to be using a process of ignoring such applications to prevent any competition.

3. Best practice water pricing.

SA Water maintains that all costs are 'Commercial in Confidence', even though at present they are a monopoly provider free from independent economic regulation. Stakeholders and alternative providers cannot determine the true cost of water.

For about 13 years I have tried to get the cost of water on Eyre Peninsula from SA Water however their response is simply that we are heavily subsidised. I find this difficult to believe as the water from the basins has been provided to them free of cost, the pipelines on the whole were put in place many years ago and have not had significant upgrading in recent times and I understand are fully depreciated. The water to Ceduna was originally reticulated from Port Lincoln all the way by gravity without any pumping and even now there is limited pumping required compared with most systems.

If the desalination plants were realised, the costs of piping and pumping will be minimised, as most of our communities are close to the sea water that is to be desalinated for use.

A penalty is being imposed by the Government and SA Water on over 30 country communities, called an augmentation fee, ostensibly to provide additional water in the future. This is in spite, in the case of Coffin Bay, the lens not having yet been fully assessed to see if this will be necessary in the future. This is putting up the cost of housing unreasonably by over \$7,000 in some cases, some \$15,000 on top of connection fees. The augmentation fee collected goes into the profit of SA Water, not into a specific account. It would be part of the \$217 million that was paid into State Government general revenue as a dividend of 95% of the after tax profit by SA Water in 2006. This dividend has been increased by the Government in the last few years from, I believe, 74% to 95%. It is in addition to the \$95 million, 30% income tax paid to the State Government under an agreement with the Federal Government. (See Attachment 12.)

The 'augmentation fee' has, therefore, been charged under false pretences as SA Water has reduced its capital expenditure over the past year. It should be either used for the benefit of the communities charged or refunded. Otherwise, is the augmentation fee a blatant tax that is illegal under our laws?

Alarmingly, because so much of the net profit taken as dividend SA Water has had to borrow money for capital expenditure! (SA Water is currently developing a new ecologically friendly office building for themselves at a cost of \$46 million).

4. Integrated management of water for environmental and other public benefit outcomes.

This objective states, '*..... and to develop and implement management practices and institutional arrangements that will achieve those outcomes.*'

Refer to my responses to the previous three objectives and I believe one could conclude that this objective has not been achieved either.

5. Water resource accounting.

This objective states that this, '*is to ensure that adequate measurement, monitoring and reporting systems are in place in all jurisdictions, to support public and investor confidence in the amount of water being traded, extracted for consumptive use, and recovered and managed for environmental and other public benefit outcomes.*'

The fact that the Government and SA Water have failed so dismally on Eyre Peninsula to properly monitor the underground basins as outlined previously shows the ineptitude of water resource management in South Australia.

As recently as 2003, SA Water spent \$7.8 million on a 65 kilometre pipeline to provide Streaky Bay with water from the Southern Basins with the expectation that this water would be supplemented by an equal amount from the Robinson Basin. However, the Robinson Basin is so severely overdrawn that in 2006 it was being recharged with de-chlorinated water from the overdrawn Southern Basins.

Despite these disasters they still will not facilitate private enterprise to put in desalination plants as outlined. These facts should convince the Commission that this objective is another negative.

6. Urban water reform.

Among other things, this objective states, *'will ensure healthy, safe and reliable water supplies,'* and *'encourage innovation in water supply sourcing, treatment, storage and discharge,'* From the evidence, to me, it appears that this has been deliberately frustrated by the State Government and SA Water on Eyre Peninsula and probably in other areas of the State.

7. Knowledge and capacity building.

I suggest that SA Water operations and future directions be investigated immediately. I believe it is abusing its effective monopoly position and is either not providing water to communities or where it does it does not do so at the cheapest cost. It uses its 'commercial in confidence' and monopoly position to disguise its poor performance. It has not implemented CoAG policy in either encouraging competitiveness or sustainability.

The supply of water by competing private enterprise businesses would achieve much more with much less than we are getting from this very expensive, ineffective publicly owned, supposedly corporatised, monopoly organisation. Its efficiency should be compared with the best private enterprise water suppliers, not the other state water monopolies.

8. Community partnerships and adjustment.

This objective deserves to be quoted in full.

'Government are to engage Water users and other stakeholders in achieving the objectives of the Initiative by improving certainty and building confidence in the reform processes; transparency in decision making; and ensuring sound information is available to all sectors at key decision points. New and improved measuring, monitoring, reporting and accounting procedures will be introduced, and improved public access to information will increase public acceptance of the Initiative.'

The SA Water 'business' in South Australia is the only one I know of that is spending millions of taxpayer's dollars to urge consumers NOT to use their product.

SA Water has been running down public infrastructure while currently building themselves an office complex that will add nothing to their bottom line or to state water resources.

SA Water has shown insignificant transparency in their decision making and restricted information to the maximum extent to any organizations that may potentially be competitive. There is no evidence that *'new and improved measuring, monitoring, reporting and accounting procedures will be introduced, and improved public access to information will increase public acceptance of the Initiative.'*

Conclusion

1. As South Australia's major population centres are mainly on the coast, the state could have all the water it needs for households and industry from existing supplies supplemented by desalinated sea water or re-use. On Eyre Peninsula, the energy for desalination could be almost fully supplied by existing wind power from Cathedral Rocks 66 MgW and Mt Millar 70 MgW. However the private mechanical vapour compression desalination plant proposed at Ceduna will use solar energy, backed up with graphite block technology and the saline waste will be used by Cheetam Salt and not returned to the environment.

2. If we genuinely wish to reduce global warming we should encourage the desalination of water using wind and solar power, so we can grow more green plants of all kinds to use up carbon dioxide. Trees have a carbon content of between 45% and 55% of their biomass.
3. Australia is a first-world country but the present Government proudly announces permanent water restrictions. Why? We have the technology to produce desalinated water with virtually no greenhouse gas emissions and the cost would not exceed \$2.00 per kl which is only 50cents more than we are currently paying per kl for the first 250kl.
4. In my view SA Water has not complied with its Charter and has abused its monopoly position. By constructing the new building and increasing the numbers of staff paid in excess of \$100,000 it also appears to be feathering its own nest at the expense of the community. There is no competition, which is essential to impose market controls, and no obvious attempt has been made by the Government to regulate or limit its excesses and wastefulness.

The SA Water Charter states:

‘In pursuing the strategic directions, and undertaking its functions and exercising its powers, the Corporation shall take account of the Government’s vision and direction’.

In other words the State Government Minister of the day is ultimately responsible. See http://www.sawater.com.au/NR/rdonlyres/86FFECA1-B177-4FCCBF86450FF1622FE0/0/SAWater_05_06_AR.pdf.