



Liz Penfold MP

MEMBER FOR FLINDERS

Suite 16, 60 Tasman Terrace

PO Box 1789

PORT LINCOLN 5606

flinders.portlincoln@parliament.sa.gov.au

www.lizpenfold.com

Phone: (08) 8683 0722

Fax: (08) 8682 5912

Ref: WA/ST/E2/G1/df09

Date: 4th September 2009

Attention Mr Christopher Neale
Parliament House
North Terrace
ADELAIDE SA 5000

Dear Mr Neale,

Submission to Select Committee on SA Water

a) The role of SA Water in supporting water conservation and water security in South Australia

This initial term of reference illustrates perfectly the conflicting roles within SA Water – **water conservation**, ensuring existing water is not wasted and **water security**, the provision of a secure/reliable water supply for South Australians. **Water conservation is incompatible with SA Water's business and should be undertaken by a different entity altogether, probably Natural Resource Management who are already undertaking some of this job.**

It is my contention that SA Water's core business is **water security**, to provide adequate secure/reliable potable water to all South Australians and it has effectively a government monopoly to do so. Ensuring that water is not wasted should just part of running a good business and no business would normally allow the product it sells to be wasted. **Water conservation** on the other hand results in less consumption of water, underutilisation of its infrastructure and less profit.

We are surrounded by water and when used it is 100% recycled naturally so there is no shortage of water, it just needs the salt removed. The technology is available to desalinate efficiently and effectively but the technology must be suited to the location

and the water source being used. The head of Spencer Gulf at Point Lowly is not a suitable location for a reverse osmosis desalination plant to fulfil the water requirements of communities and the mining industries in the North and West of the state, of which BHP is only one company. However Point Brown near Smoky Bay is suitable for a large desalination plant to service that area and also Eyre Peninsula.

If SA Water concentrated on supplying water, the utility would be more proactive in building appropriate desalination plants, harvesting storm water, reusing waste water, utilising existing water storages (reservoirs and tanks) in country areas as well as the Adelaide hills and exploring new methods of water capture and supply such as the Spragg water bags (see www.waterbag.com). Increased potable water supplies would allow SA Water to extend its pipeline infrastructure and encourage new connections thereby expanding its customer base and income. This in turn would help to expand the State's economy and jobs.

It is my observation that the opposite is the case. **Mining companies, potentially the biggest new customers the SA Water business could have, are being told that they have to provide their own water.** The Kaolin clay mine near Streaky Bay is expected to need 3 gegalitres of water, a third of Eyre Peninsula's current water use. Robinson Basin which used to service Streaky Bay township is now overdrawn and is being supplemented by SA Water with water piped from the overdrawn basins south of Port Lincoln.

Streaky Bay is a prime site for a small 5 gegalitre desalination plant. This alone would take the Eyre Peninsula off the level three restrictions they are facing this coming summer as the whole region only uses 9 gegalitres of water annually. It could also supply water for the kaolin mine that would be a long term customer for SA Water helping to make the project profitable.

However to provide the BHP mine, other companies and communities in the north of the state, a large 100 gegalitre desalination plant at Point Brown near Smoky Bay with a pipeline along the Wirrulla/Glendambo road corridor would be the most cost effective and environmentally friendly location. It would cost more than the Point Lowly site but have none of the risks to the environment unlike Spencer Gulf. It could provide water for other mining companies and communities including Eyre Peninsula and not just the BHP expansion at Roxby Downs.

A small desalination plant near Cathedral Rocks south of Port Lincoln could feed into the existing water supply system currently using the overdrawn underground basins.

Another small desalination plant near Penong could provide water for Iluka and other mines and communities north west of Ceduna.

A seawater desalination plant at Elliston or dewatering the coal mine at Lock and desalinating it would enable the water to be put into the existing Polda pumping station to feed into the current water supply system on Eyre Peninsula.

Desalination plants are modular and building them could be undertaken in stages, in different locations over a period of time. However this option is not even being considered as far as I can ascertain. New water would provide a significant number of regional jobs including those in mining and allow processing or value adding of products such as kaolin prior to export.

SA Water has been very reluctant to embrace new supplies of water and in the past has actively discouraged and prevented private enterprise access to the pipelines. Their focus on restricting competition and water conservation has skewed their vision to such an extent that quite recently they proposed to go into the plumbing business to fix leaks in direct competition with commercial plumbers until there was an outcry.

Some of their past practices have also been difficult to understand. I am aware of perfectly good large water tanks built in remote areas in years past being bulldozed by SA Water and others that only through the intervention of local farmers and local members of parliament were saved and are now providing an alternative and valuable source of water.

SA Water should ask the question: How do we secure South Australia's water supplies? Proposed action is quite different from the question: How do we conserve South Australia's water supplies? If SA Water's function is to secure (and hence supply) water, then it is contradictory for the utility to be responsible for water conservation as a priority. Water conservation should be undertaken by a different body and to some extent this is already the case with the Natural Resource Management Boards undertaking significant work already in this area. (A current investigation is being undertaken by them in collaboration with SA Water and Flinders University on the effect coastal mallee and sheoak have on recharge in Eyre Peninsula's underground basins.)

b) The impact of the Government's financial policies on the ability of SA Water to
i. maintain and develop infrastructure

SA Water is incorporated as a Company but it is not privatised. It should be acting as a commercial enterprise however instead it behaves as a government department with none of the efficiencies a profit motive brings. With no competition and external controls that apply in the private sector, they can waste water and charge as much as they like. There is no incentive therefore to maintain and develop their infrastructure or improve their service.

The previous Liberal government turned SA Water from a state liability running at a loss and being subsidised by tax payers to a state asset operating at a profit. However now with the dividend payout ratio being 95% (up to \$300 million per year of SA Water's 'profit' going in to State Governments general revenue,) plus the 30% Federal income tax on profits which is transferred to the State, the utility does not have the money of a normal

business to develop programs covering the maintenance and development of infrastructure. SA Water's ability to plan for the long term has been emasculated and is not helped as far as I can tell by the 'community obligation funding' (CSO) they have come to depend on. CSO funding is effectively recycled as it is part of the profit of SA Water from which 95% goes back into general revenue. This double dipping smacks of 'Yes Minister' and is absolutely ridiculous. There is a need for CSO funding but it must be transparent and used efficiently and effectively.

CSO funding as it is being used at present is providing the wrong incentives to SA Water. SA Water pad CSO contracts to cover ordinary costs and they justify work as being a community service requirement when many contracts should be commercial ones. CSO appears to be a sham.

SA Water gets three quotes for work to be done which is good business practice but then charges the customer a set fee, often three to four times more than it has cost them. They are not passing on the benefit of the competition. **I am told that the cost for a fire connection that requires the same amount of labour for a house and a small or a large commercial building costs SA Water about \$400. However this work is charged out to the customer at approximately \$1,200 for a house, \$4,000 for a small commercial building and \$8,000 for a large commercial building. If this was private enterprise this would be called fraud. It is what some insulation companies have been caught doing to little old ladies when insulating their houses under the current government insulation subsidy. Just because it is being done by SA Water makes it worse because the customers can't even go to the competition to get the lower price and possibly save themselves \$7,600.**

Sewer connection, meter connection or moving a meter face the same problem. If the customer lives in the country, the situation is even more expensive. For example the back flow prevention valve required at the water meter when tanks are plumbed is done by SA Water in the city but the customer has to pay for it in the country.

The Minister is responsible for the policies of SA Water and therefore its inefficiency and over charging is not fulfilling Ministerial responsibilities to taxpayers. Changes must be made.

ii. provide essential new supply capabilities

Providing new supply capabilities is beyond the current ability of SA water to finance from retained earnings and borrowing in a normal business manner. At the moment they have to be provided with funding directly from treasury through the budget process as has happened in the case of the Port Stanvac desalination plant and which the government has used to justify an increased price for water.

If SA Water were allowed to withhold profits to fund new infrastructure the government would not then be justified in putting up charges for water to pay for the desalination plant or double dip the CSO funding.

The government's current policies are a block to SA Water developing new supply capabilities. Despite being a government monopoly business, SA Water is unable to research and plan for the long term in the normal business manner.

iii. meet projected water demands

Thousands of dollars every year are being spent by SA Water on projecting future water demands and then ignoring them. The reality is that small requirements like housing developments and main extensions are brushed aside as being unviable for them to supply and big ones like mining are not there yet and are being asked to provide their own water, so nothing happens.

Providing water is not mining companies' core business, it is SA Water's. They have the monopoly and the control of about \$7 billion pipeline infrastructure that is owned by the taxpayer. SA Water's duty should be to optimise the use of this asset and therefore the profit generated.

The current government's policies give SA Water no incentive and no ability to plan for projected water demands. They don't even recognise it as their job!

iv. Provide network augmentation

The 'augmentation fee' requires that a fee is paid before a home is built just in case augmentation is required in the future. **There are 43 places where augmentation charges are applied. In Coffin Bay \$6,907 per block has to be paid. The capacity of Coffin Bay basin is still not publically known despite requests over many years. If this action was undertaken by a private business I believe it would be called fraud as being money taken under false pretences. Ardrossan's augmentation fee is a whopping \$16,608 per allotment and I can just imagine the screams if this were being charged on any city block. Appendix 1**

New SA Water connections outside township areas are now often only allowed a restricted flow and in many instances onsite storage tanks and pumps provided by the customer are required to ensure that a sufficient water supply is available at all times. Many properties have had joint usage connections because of the SA Water's high charges but if and when arrangements are changed users are subject to reduced flows and additional expense.

The Ceduna/Koonibba Water West Scheme to supply water west from Ceduna (1997) was provided by Ceduna Council because SA Water's quote was \$12m, more than double the \$5.1 m Council constructed the scheme for. The system Council built was longer than that quoted by SA Water Appendix 2

Many businesses that have a guaranteed future income provide infrastructure for free and this is what I think SA Water could be doing to encourage the use of their product - potable water. With more connections comes more income to provide more water and infrastructure.

Currently there is no encouragement for SA Water to expand its services. In fact, the utility deliberately refuses to provide services in some cases. The augmentation fees now paid by several country towns should be put into a dedicated account and used for the purpose for which they are collected or should be returned. I understand that augmentation fees go into general revenue and are lost in the system. These fees are just another unfair tax on people who can't defend themselves.

c) The role and effectiveness of SA Water in relation to water security and water conservation measures and including –

Water restrictions are an admission of failure to secure water supplies.

If SA Water was a private business open to competition by other private businesses there would be no water restrictions.

The plight of the River Murray, the Great Artesian Basin and the overdrawn underground basins, Poldia, Robinson and others on Eyre Peninsula are all a result of a lack of business sense in governments, State and Federal and SA Water. The water has been provided for nothing and the people of South Australia are now paying the price for it being poorly managed and wasted.

The \$48.6 million spent on a pipeline from Iron Knob to Kimba to provide a totally inadequate 1.4 gigalitres (.8 only actually being provided) of River Murray water to Eyre Peninsula illustrates the stupidity and ineffectiveness of measures taken. This water when installation, depreciation, pumping costs and interest on the debt are taken into account would be many millions of dollars more that the desalination of this small quantity of water for Eyre Peninsula would have cost.

i. the efficacy of water restrictions

Level 3 water restrictions have only just been implemented on Eyre Peninsula. The restrictions will result in trees and gardens dying and cause cracking of houses just as they have in metropolitan Adelaide.

The negative effect on people of the devastation and pressure caused by water restrictions is difficult to measure.

The value of green spaces and the positive affect our physical and mental health has been ignored and greatly under valued by the Government. SA Water is not set up, nor does it have the ability, to consider public health when making decisions but the government does and should.

The Cooperative Research Centre (CRC) for Irrigation Futures, in a review of the impact of water restrictions on public parks and gardens, found that green spaces positively affect the community's physical and mental health and reduces the risk of contracting lifestyle diseases. CRC is a partnership of universities, state and federal government agencies, water service providers, and industry. The report found that maintaining public parks, gardens and sporting ovals in the face of water restrictions is necessary for the physical, emotional and spiritual needs of the community.

As already stated, **water security** involves developing sufficient water supplies to meet demand while water restrictions are the opposite they come under the **water conservation** banner to reduce demand. It is a conflict of interest for the same body to have full responsibility for both matters. The core business of SA Water is to provide potable water to the community and it effectively has a government monopoly to do so. Either they must provide the water or get out of the way of private enterprise and let them do it.

If effective in one avenue, then the body is ineffective in the other, as we are now experiencing with SA Water concentrating on water conservation and spending huge amounts of money to prevent people using what they are in the business of selling.

ii. SA Water's response to the 2005 Waterproofing Adelaide strategy.

It is amazing that the government and SA Water are promoting one of the most expensive methods of storing water - home water tanks being installed in existing houses and requiring new housing to have 1000 litre tanks. This option shifts the cost of the provision of water supply and ongoing maintenance to ordinary householders. The requirement for 1000 litre tanks for new housing requires additional plumbing costs and the capacity is totally ineffective because this amount of water is not going to make a significant impact on water supply.

A 2007 report prepared for the Australian Conservation Foundation on 'The economics of rainwater tanks and alternative supply options' stated that the unit cost of rain water tanks plumbed into the house could range from \$2.15/kL to \$12.30kL, depending on the location, tank size and roof

collection area with Adelaide coming out as the most expensive. Appendix 3

Tanks were removed from many Housing Trust homes years ago because it was too expensive to maintain the tanks, gutters and pumps where required and also for the health risk of the water itself if tanks were not regularly cleaned. What has changed?

Since the 2005 Waterproofing Adelaide Strategy was announced the government has changed their stance of not building a desalination plant. They are still requiring rain water tanks and are now proposing to provide Adelaide with 100 gegalitres of water from the Port Stanvac reverse osmosis desalination plant. This desalination plant was not even mooted in this report which now 4 years later has been replaced by the 'Water for Good' Plan.

The Point Bonython desalination plant is not now going to provide potable water to the Spencer Gulf cities and take pressure off the River Murray. As already mentioned the \$48.6 million pipeline from Iron Knob to Kimba to bring 1.4 gegalitres (now only .8 gegalitre) of River Murray water to Eyre Peninsula has proven to be a stupid decision. That wasted money and associated on going costs could have provided the funding for small desalination plants that Eyre Peninsula really needed to improve the quantity and quality of the water for the region. **Just facilitating the small private desalination plant proposed near Ceduna would have taken the pressure of the underground resources and ensured that level three restrictions were not required on Eyre Peninsula.**

The cost of water from this pipeline would be over \$2 kilolitre just to cover interest. In addition is pumping from the Murray over \$4 per kilolitre plus depreciation and maintenance.

The management of the River Murray has been a disaster. Buying latent water licences and land has meant an outgoing of funds with no appreciable benefit. **Many who held these water licences had not used them. Owners were therefore willing sellers rejoicing in windfall profits however very little additional water was actually obtained for the system. The government owns some expensive pieces of paper and the farmers are still struggling.**

Whether the fault is the government's which has undertaken the discussions and decisions, or whether SA Water could have been more effectively involved, is irrelevant. The result is that the River Murray has become more stressed while South Australia has not received the extra water needed even though it is said to be available upstream.

The Waterproofing strategy had general wide-reaching aims, with four specific targets by which progress could be measured. SA Water's response can be

described as positive or negative or anywhere in between, depending on the writer's bias.

iii. Education of water users and advice on water conservation measures.

The millions of dollars spent on documents and television, radio and newspaper advertising has generally been effective but would have been more effective if it was actually used to provide new water. South Australians educated here - from children to the elderly - know from their schooling that we live in the driest state in the driest continent on earth and must take care of our water supplies. The advice and measures backed up by TV gardening shows and other unrelated events which strengthen the message do not excuse the government and SA Water for continuing their bad management of the resource that has caused this predicament in the first place.

d) Opportunities to reform SA Water governance to assist in water conservation and water security, and in particular –

i. a review of relevant state legislation with respect to SA Water's function, structure and accountability, including a review of SA Water's charter

SA Water's function needs to be streamlined and clarified and their focus should be working towards the removal of all water restrictions and seeking new water sources.

SA Water must be opened up to competition in the provision of water with their monopoly removed. Third party access to the pipelines is essential.

SA Water could tender for the supply of desalinated water through long term contracts along with other water providers.

If the utility's purpose is to provide the state's water supplies then it should be done on a statewide basis, including small and isolated settlements. Where SA Water refuses to undertake to provide water then private enterprise should be free to do so. The charter should facilitate cooperation and working together by SA Water and private enterprise, such as the use of reticulation infrastructure. Where SA Water infrastructure is not being used and the utility has no intention of using it (such as the Beetaloo reservoir) private enterprise should be given access to improve the state's water security.

Water conservation should not be part of SA Water business but removed probably to NRM. NRM can be funded from a charge to SA Water and all other users of water from public sources considered to be free instead of the current NRM and River Murray levies.

ii. a review of SA Water's performance statements from government

With SA Water's function clarified and its structure more aligned for today's needs, reporting and accountability will be easier for the utility and easier for the public to assess. SA Water and the government need to be held to greater

accountability, much improved transparency in costings and charges and a correction in the role of CSO funding.

e) Legislative and policy changes to address current impediments to water conservation and water recycling, including

i. Water pricing

Water should not be priced to limit consumption. Water is as important as food and taxing it to avoid appropriate investment cannot be justified as it will limit jobs and development of the State for example in mining and the value adding of minerals.

Private enterprise should be given easier and greater access to water provision, especially where SA Water is not active or refuses to act.

One example is the desalination plant to supply Ceduna/Koonibba Water West scheme users. The plant was to be a solar powered (renewable energy), mechanical vapour compression (no chemicals used in the process), with Cheetham Salt taking the discharge in its salt pans for the mining of salt (no negative environmental impacts). This was to be a totally environmentally sustainable project. The Minister for Water Security did not support the project nor did she give SA Water the go ahead to negotiate with private enterprise for the use of existing SA Water infrastructure and the opportunity may have been lost. The community are paying the price in foul and inadequate water supplies that ruin hot water systems, cisterns, taps, etc and blocking pipelines with calcium residue putting stock at risk. One private assessment of the water showed at times it isn't even fit for stock to drink. Appendix 4

Current statewide pricing should be maintained. It is arguable that Adelaide citizens have benefits such as a high cost transport system 1/3 paid by regional people. If there is a higher cost of supplying the country areas, this should be covered by the CSO.

ii. incentives for installation of water efficient technology devices.

The use of taxpayers' funds to provide incentives is an expensive short-term proposition, difficult and often expensive to administer. The criteria used by SA Water for providing rebates, particularly for country residents, is difficult because it is generally impossible and expensive to get a plumber to connect tanks. Subsidies are a wasteful, inefficient use of money that distort the water market and would be better spent put directly into better infrastructure.

f) Leakage of water from SA Water infrastructure especially

i. the accuracy of measurement and report of leakage.

It should be a priority for SA Water personnel to investigate reports of leakage promptly so that it becomes a part of the culture for repairs to be given priority over

other work. Personnel would then have a clear direction on dealing with several issues that arise at the same time. The public should be encouraged to report leaks (even given a cash incentive) so that small leaks can be repaired before becoming a major event.

Measurement of leakage is largely guesswork since, for example, the whereabouts of a ruptured pipe is not known until a major break occurs. Where a leak is suspected, it should be possible to measure how much water flows over a given point and compare it with the flow further along the pipe to detect leakage in the system. I believe there are systems for detecting leaks that could be used over the whole SA Water system as a regular part of maintenance.

i. A review of SA Water strategy to address wastage through leakage

Modern technology used in industries such as vineyards can detect even small leaks and I am sure could be used to great effect by SA Water to save their water and that already in the hands of their customers.

SA Water should adopt a policy to reduce the number of indirect or remote water connections. Indirect and remote water connections occur for a number of reasons and are often in a cluster. The private pipes beyond the SA Water meter are inefficient and subject to regular leakages resulting in excess water bills. The majority of households cannot afford to extend the main. However SA Water through their CSO could assist customers by offsetting or part funding the cost of providing a more efficient system, thereby reducing wastage. Appendix 5

I trust this submission adds to the understanding of the committee particularly about regional water issues and helps it to formulate changes that will improve the current disastrous water situation. Much of the grief caused by the lack of water could have been avoided by good water management.

Yours sincerely,



Mrs. Liz Penfold MP