

Mr Fran Logan; Mr Bill Marmion; Mrs Liza Harvey; Mr Murray Cowper; Mr Chris Tallentire; Dr Graham Jacobs

Water Corporation —

Ms L.L. Baker, Chairman.

Mr W.R. Marmion, Minister for Water.

Mrs S. Murphy, Chief Executive Officer.

Mr R. Hughes, Chief Financial Officer.

Mr P.D. Moore, Chief Operating Officer.

Mr L.G. Werner, Manager, Pricing and Evaluation.

The CHAIRMAN: This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the committee clerk by Friday, 8 June 2012. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office.

I now ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

The CHAIRMAN: Member for Cockburn.

Mr F.M. LOGAN: I refer to "Works in Progress" on page 860 of budget paper No 2. There are two amounts that relate to country water, waste water treatment and conveyance, and country water sources and distribution, which go to make up the tariff equalisation charges. In budget paper No 3, which contains other Water Corporation information in the form of Treasury announcements, \$462 million is accounted for in the operating subsidy for Water Corp. As the minister knows, the amount in budget paper No 3 relates to the total return that Water Corp gives back to government. The details of the operating subsidy indicate \$7.43 million is allocated from royalties for regions, \$112.8 million is pensioner concessions from Treasury, and \$8.9 million is allocated from the Department of State Development, but they are all recorded in the transactions in the consolidated account as a deduction. If we go back in budget paper No 3 to the transactions with the consolidated account, they are related as a deduction from Water Corp's dividends and tax equivalents. The minister cannot have it both ways. Either the money is coming from Water Corp and getting distributed by Treasury as a decision of government to those operating subsidies or it is being taken out of the royalty stream and given to Water Corp. But in those accounts, they are accounted for twice—once from the royalties for regions fund and once from Water Corp's funds. Can the minister explain that?

Mr W.R. MARMION: What is the specific question?

Mr F.M. LOGAN: Can the minister explain why that occurs; why are those operating subsidies accounted for twice?

Mr W.R. MARMION: I will refer that to Mr Werner.

Mr L.G. Werner: There was an error in table 7.1 on page 308 of budget paper No 3, at the operating subsidies for the Water Corporation, which are the funds that come directly from Treasury. In table 7.9 on page 321, the other subsidies, as the member says quite correctly, come from other departments and are double-counted. Normally, when we do net accruals to government, the other subsidies are not included. It was in table 7.1. The member's observation is correct.

Mr F.M. LOGAN: Basically, my assumption about the way in which those operating subsidies are accounted for is correct, because really at the end of the day the money comes in from Water Corp and goes to the consolidated account, and it is really up to government how it allocates that.

Mr W.R. MARMION: Mr Werner will just clarify a yes or no on that.

Mr L.G. Werner: Yes.

Mr C.J. TALLENTIRE: My first question relates to the water treatment plant works happening at Mundaring. I notice that the last paragraph on page 860 contains a reference to additional works going on; it states that

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\$69 million is allocated to areas from Mundaring Weir. I take it that the \$69 million would be connected to the public–private partnership for the water treatment facility at Mundaring Weir, and I would like know whether there is a desalination plant component to any of those works.

Mr W.R. MARMION: I will refer to Mr Moore to address this operational issue and associated funding.

Mr P.D. Moore: That \$69 million refers to a large number of small capital works between Mundaring and Kalgoorlie; it is not directly related to the Mundaring water treatment plant or any part thereof, and there are no desalination plants as part of that.

Mr C.J. TALLENTIRE: Given the extent and the scale of the Mundaring water treatment facility, what is its function? If it does not have some sort of water purification role, it would surely also have a desalination role or reverse osmosis capacity somewhere. Is it just a purification system over a very large area of hectares that is about purification involving desalination?

Mr W.R. MARMION: Mr Moore might be able to explain how the water treatment process works. Water treatment processing quite rarely has desalination. Mr Moore might be able to elaborate.

Mr P.D. Moore: In this instance, the process is owned by the company building the plant. As it is a privately owned company, I cannot explain the process to the member in detail because I do not have that process design. As the minister indicated, there are a number of water treatment processes. This is basically a plan to remove more organics from the water to enable better disinfection of the water as it goes up the goldfields pipeline. Basically, I cannot give the member of the full details of the actual treatment processes. I am not aware that there are membrane processes involved in it.

[9.10 pm]

Mr M.J. COWPER: My question relates to the line item for the infill sewerage program listed in the works in progress on page 860. I refer to the 2009 decision to delay 21 projects across Western Australia, including five projects in my electorate. When will any of those five projects be completed? I have had platitudes in recent years in relation to a couple of those projects. I understand that one of them in Australind has been delayed because the waste water treatment plant at Kemerton cannot get rid of enough water, notwithstanding the fact that the Binningup golf course has said that it would take the water. Instead, the plan is to pump that water into the ocean. I would like to know whether there has been any definitive decision making on how we are going to deal with some of these outstanding projects.

Mr W.R. MARMION: The infill sewerage program is a very popular program.

Mr M.J. COWPER: Not down my way it is not, because it does not get it.

Mr W.R. MARMION: It is very popular with all members of Parliament; they all want it. Mr Moore might be able to detail where the specific five projects in the member's area are in our program.

Mr P.D. Moore: Could I ask the member which projects he is referring to?

Mr M.J. COWPER: There was one at Murray Bend. There have been articles in the paper about sewage coming up from the ground right next to arguably one of the most important river systems in Western Australia, after the Swan River. There is the issue of a project in Pinjarra. There is one in Waroona and one in Harvey and one in Latour Street in Australind. They were all shelved in 2009.

Mr W.R. MARMION: The good news, member, is that Murray Bend 2A is in the 2012–13 budget for construction. Construction is starting in the next financial year. It does not look as though the other programs are immediately on the horizon. Perhaps Mr Moore might be able to provide more detail.

Mr P.D. Moore: Projects in Dawesville are underway.

Mr M.J. COWPER: That is not in my electorate. It was not one of the 21.

Mr P.D. Moore: I think Murray Bend is probably the only one out of the ones that the member has mentioned in the current program.

Mr M.J. COWPER: So there are still four outstanding. I am pretty disappointed to be honest, minister.

Mr F.M. LOGAN: I draw the minister's attention to the expenditure of the Water Corporation of \$3.6 billion over 2012–13 and the out years. I draw the minister's attention to references in budget paper No 3 to efficiency dividends that will come out of the amount that is allocated or that will be found from that allocated amount. As the minister knows, those efficiency dividends in the out years are 2.5 per cent in 2012–13, four per cent in 2013–14, 5.5 per cent in 2014–15, and six per cent in 2015–16. That is a massive cut of 18 per cent over those years. If the minister looks at the summary that Treasury has done, he will see that the Water Corporation has to find a total of \$129.7 million for efficiency dividends, which is 33.8 per cent of the total of all government

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trading enterprises. Talk about Water Corporation taking the big hit! Western Power is the only one that comes close to it, and that is \$55 million. Why is it that the Water Corporation has been hit with such massive dividend cuts? Obviously it has \$3.6 billion. Obviously those efficiency cuts at those percentages are going to add up, but why did the minister not go in and defend the corporation against those enormous cuts? Is this minister going to end up that like that former minister over there?

Mr W.R. MARMION: The Water Corporation is an efficient organisation. It is a very successful corporation. Interestingly enough, we noticed in the paper the other day that it actually runs at a profit, which is very good. Indeed, as with all organisations, there are opportunities to improve efficiency. The chief executive officer will be able to outline how we can do this.

Mr F.M. LOGAN: That will be a first for any organisation that has come in front of estimates.

Mr W.R. MARMION: Aren't you lucky?

Mrs S. Murphy: The Water Corporation is no stranger to operating efficiently, because the ERA pricing model under which we operate at the moment requires us—or we require of ourselves through that model—to reduce our real operating cost year-on-year by two per cent cumulative. That is two per cent in the year it started, then four, then six and then eight per cent. The corporation's efficiency has been embedded in our model. We are perpetually looking at re-engineering and using growth as ways of achieving those things. We will be continuing to do that to see what other efficiencies can be pulled out for costs. As the member is aware, the operating cost lines do not appear in the budget. The operating cost lines, because we are a corporate entity, are run separately. The aim of this process is to reduce state debt, and we will be working with the minister and the Treasurer to ensure that the state debt is reduced by the amount that is required.

Mr F.M. LOGAN: Further to that question—this is on behalf of the interjecting member for Murray–Wellington—can I get an assurance from the minister that the infill sewerage program will not be touched as part of those efficiency dividends so that my mate the member for Murray–Wellington might get his sewerage pipes down there in Murray?

Mr W.R. MARMION: I can assure the member that there are no plans to curtail the current infill sewerage program.

Mr F.M. LOGAN: Just further to that, I was expecting a little more information from the CEO about where those cuts are being made. Can she provide us with a few more bits of information about where those efficiencies can be gained?

Mr W.R. MARMION: We have not got that level of detail.

Mr C.J. TALLENTIRE: I refer to page 860 and the reference to investments in a broad suite of projects, and the issue of water efficiency and investment by the Water Corporation in water efficiency programs. I would like to know the total amount of effort that the corporation puts towards water efficiency programs. I would also like to know how much —

Mr W.R. MARMION: Total effort in terms of dollars?

Mr C.J. TALLENTIRE: Dollars; yes. I would like to know what the total amount spent on water efficiency programs is and how much of that effort is supplied by commonwealth funding.

Mr W.R. MARMION: I will defer to the chief executive officer, Ms Murphy.

Mrs S. Murphy: The reason there is no line item for water efficiency is that it is operating expenditure, not capital. The table on page 860 is a table of capital. I do not have the detailed numbers. This year it was of the order of \$8 million from the federal government, which we matched with \$8 million of our own, plus probably a bit more that is not accounted for under line items. As supplementary information, if the member would like, I could provide the exact number, but it is of that order. We see demand management as a critical tool. It is probably one of the key levers that we see for delivering the efficiency dividend, because the cheapest water we supply is the water we do not supply, and the cheapest capital we invest is the capital we can defer by reducing demand. Our focus is moving very strongly to in-house water efficiency programs, because we get a double whammy because we do not have to upgrade the sewerage schemes as well. In the country, where there is an operating subsidy paid to recover any of the extra costs of all of that, it becomes a triple whammy. We are perpetually looking at water efficiency. We see that is probably one of our levers that we have not been able to pull as hard as we would like to.

Mr C.J. TALLENTIRE: Thank you for that response. I have a further question. It is encouraging to hear that the Water Corporation values so highly demand management and water efficiency. Can the Water Corporation

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quantify what sort of saving it is getting on that return of \$16 million? It is \$8 million approximately plus \$8 million. How many kilolitres or perhaps gigalitres is that managing to save the corporation?

[9.20 pm]

Mr W.R. MARMION: I am happy for the chief executive officer to continue answering this question about what savings we might get from the investment of both Water Corporation and commonwealth money into water efficiency and demand management schemes.

Mrs S. Murphy: Our per capita water use this year is about 138 kilolitres a person per annum, which is down from 191 kilolitres a person per annum in 2001. It is hard to quantify. We have to go through scheme by scheme to work out the saving. Our focus in this last year has been rural schemes with a high cost of delivery or schemes that are close to needing augmentation. Our in-house focus has been on schemes in which we believe there could be leakage and we could recover quite a lot. The cost of saving the water is about half the cost of supplying the water. There is a law of diminishing returns in many schemes, so it is not a simple formula. As we see population growth and increased densification in our urban form, we believe that there is a lot more we can gain there. The Water Forever document sees us reducing per capita water consumption by a further 15 per cent over the next 15 years. Although that is the official target, we have some far more aggressive targets in-house that we would like to work towards.

Mrs L.M. HARVEY: I have a further question on water efficiency measures. How do sprinkler bans play into these efficiency measures? Can we expect to see further restrictions over the next summer period as part of the efficiency drive?

Mr W.R. MARMION: I do not see sprinkler bans being introduced in the coming years, but the CEO may be able to add further comments on the relationship to the efficiency of water management and demand management.

Mrs S. Murphy: We do not have sprinkler bans in this state, with the exception of a couple of towns in particularly dry areas—Grass Patch as such—

Mrs L.M. HARVEY: We do not call them sprinkler bans, but constituents do.

Mrs S. Murphy: They are permanent water efficiency measures, which is not just nomenclature. It has been proven through science and working with the garden industry that two days a week of sprinkler use through most of the year with a total sprinkler ban over the winter period will keep Perth green and gardens vibrant without wasting a lot of water in our very sandy soils. We see that water efficiency regulatory framework as continuing forever. We see that as the baseline for Perth. That has saved a lot of water for Perth and a lot of our country areas.

For the Perth metropolitan area as we move forward, we are putting a lot of effort into drought-proofing Perth. It is in our published document called “Water Forever: Whatever the weather: Drought-proofing Perth”, which is really about making sure we have long-term sustainable solutions so that if we get rainfall we are able to use that water in an efficient way, but if we have years when we do not have rainfall, we can still keep Perth and the associated environment around Perth operating well. Perth is growing too fast and is too valuable an economic hub for us to be praying for rain as a corporate strategy. Within the next five years that will not be the case; we will have Perth drought-proofed.

Mr D.A. TEMPLEMAN: I have a further question. Given that our population growth continues to be rapid and the Perth metro area in particular is expected to expand by some half a million people within the next decade and a half, from memory, surely the Water Corporation must have done some modelling for accommodating such an expansion of our population. Given the drying climate and the other pressures on the Gnangara mound et cetera, is the department saying that no other measures will need to be implemented, such as sprinkler bans, despite this growth?

Mr W.R. MARMION: I do not think the CEO said that, member. I think the member is asking whether there are measures; it is a different question. The member for Scarborough’s question was related to actual sprinkler bans. The member for Mandurah’s question is related to growth in the population of Western Australia and what we are doing to supply water to that growing population in conjunction with perhaps demand management. The CEO will elaborate in a minute, but it is a combination of plotting the graph of demand from the increased population and an education process of bringing in demand management efficiency measures to try to reduce the amount of water that each consumer uses. Then we come up with how much water we have to supply for each year plotted over 10 or 20 years. That is done. That is the answer, but maybe the CEO might be able to elaborate.

Mrs S. Murphy: We certainly do not see sprinkler bans as a demand management tool, but we see a real suite of options in demand management to reduce per capita water use, from working on water-efficient appliances

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within the house—which makes some difference because it is plumbed in, but has less effect now because a large percentage of our population has done that—right through to garden design, urban form and working with our councils and some of our Waterwise partners in finding a better way to deliver that. There are huge changes to be made. Perth is still the second highest water using city in Australia. There is a long way to go before we get any impingement on amenity.

Restricting water use is one tool as we move to a growing population. The other tool is to install and implement groundwater replenishment, which is to take treated waste water, put it through a reverse osmosis treatment and then further treatment so that it can be injected into an aquifer to be used as water storage and then a water source for the future. The good thing about reusing waste water is that it grows with the population so that we have a somewhat climate-independent source to augment population growth. We see a threefold approach involving reducing per capita demand; reusing more water largely through groundwater replenishment as a high level water source; and exploring future options. Future options include more sustainable groundwater take by taking water from only the very deep aquifers and almost nothing from the superficial and accessing lower quality groundwater as Perth grows in areas where at the moment it would be uneconomic and environmentally crazy to pump, but where it makes sense for local populations.

Mr M.J. COWPER: Minister, I touched upon it in my first question, but I would like to drill down further on what is happening with the waste water treatment plant at Kemerton. I refer to the waste water program mentioned on page 860 of the *Budget Statements*. I understand there are some problems with it that seem to have been lurking around for a couple years. It is a relatively new waste water treatment plant, having been built there in only 1995. It is only 15 years old, yet the population in that neck of the woods has outgrown it. I understand that they cannot complete the infill sewerage program because they cannot get rid of the waste water. There seems to be some sort of Mexican standoff between those who want to use the water and the Water Corporation. I am keen to see that situation resolved and I wonder whether the minister has any information to update me on what is happening there.

Mr W.R. MARMION: I will pass over to Mr Moore who is an expert on the Water Corporation's operations, particularly at Kemerton.

Mr P.D. Moore: The Kemerton waste water treatment plant was initially located to be feedstock into the Kemerton Industrial Park. There has not been a growth in that industrial area that would take the waste water from it. The plant has been growing, with a growing population in the Australind area. The current issue is the disposal of waste water, as the member quite rightly indicates. We have looked at options such as the Binningup golf course. That is at the top of the estuary, so we would have to do a lot more treatment of that water before it would be useful there. We are looking at other mechanisms for disposal of that water plus upgrading the treatment plan to take further volumes of inflow from the growing urban areas feeding it.

[9.30 pm]

Mr M.J. COWPER: That is not likely to happen any time soon. I understand the next move is to pump it into the ocean.

Mr P.D. Moore: Certainly one of the options we are considering is whether we will have to move it to the Bunbury ocean outfall.

Mr M.J. COWPER: When considering the location of Binningup golf course and its proximity to the market gardens, it is also drawing from the superficial mounds that Ms Murphy mentioned. To get out of the golf course the same demand that the market uses for its vegetables, why would the Water Corporation not make the water fit for use for the golf course, because that would not only use water wisely, but also reduce the impact on the groundwater in that location?

Mr P.D. Moore: Some of the early investigations looked into the water use on the golf course. As the member says, because of the nutrient loads and other things and the sensitivity of the top end of the estuary that we have —

Mr M.J. COWPER: It is five kilometres north of the estuary.

Mr P.D. Moore: I agree with the member totally when physically looking at it. However, when we start to consider the science of it, we are told by the Department of Environment and Conservation and others that that will feed directly into the estuary.

Mr M.J. COWPER: The golf course is putting fertiliser on it in any event and so is the market.

The CHAIRMAN: What is the question, member?

Mr M.J. COWPER: The question is: what is the difference between using fertilisers as opposed to matter from recycled water?

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Mr P.D. Moore: I do not disagree with the member that there might not be a difference. However, there is a difference between whether we can get a licence to supply water there and whether the golf course can get a licence to use manufactured fertiliser on the golf course.

Mr F.M. LOGAN: I refer to completed works on page 861 and the works in progress on page 860 and the expansion of the Binningup desalination plant. In answer to a question on notice the minister told Parliament that the expansion program that is underway —

Mr W.R. MARMION: Stage 2?

Mr F.M. LOGAN: Yes. The minister said that it was finalised with AJ Lucas in October last year. Given that that company was suspended from the Australian Stock Exchange in May last year, why was that not made public and why, nevertheless, did the Water Corporation and the minister agree to go ahead and enter into either that contract or an extension of the contract when the Water Corporation knew about the financial difficulties faced by AJ Lucas and that it had liabilities of over \$100 million and cash at hand of just \$13 million?

Mrs S. Murphy: Phases 1 and 2 of Southern Seawater Desalination Plant have been constructed in an alliance between the Water Corporation and a number of other entities, including two Spanish firms Tecnicas Reunidas and Valoriza Agua, AJ Lucas and WorleyParsons. The structure of the alliance is that everyone shares in the risk and reward and is jointly responsible for the outcome. In a contractual sense, if one of the private sector parties in the alliance were to fail, the others immediately have all the obligations thrust on them. Even if there are questions about one partner, and it is a minor partner in the arrangement, the Water Corporation is made whole. Our assessment, both financially and legally, is that the corporation was suffering no risk through that process, due to the contractual arrangement.

Mr F.M. LOGAN: That is one way of looking at it.

Mr W.R. MARMION: It is a good way to look at it.

Mr F.M. LOGAN: Another way of looking at it is that by not saying anything and not going public about the relationship between the Water Corporation on a massive project that is worth hundreds of millions of dollars and a company that had been suspended from the Stock Exchange, the Water Corporation would have been seen as a financial saviour to the creditors of AJ Lucas.

Mr W.R. MARMION: What is the question?

Mr F.M. LOGAN: Would that not be the case? That is the question.

Mr W.R. MARMION: What is the outcome? Is there a problem?

Mr F.M. LOGAN: There is a problem. A government organisation did a deal and continued to do a deal with a company that was suspended.

Mr M.J. COWPER: With no risk.

Mr F.M. LOGAN: Let him answer that.

Mr W.R. MARMION: I think the CEO answered that well. She might like to elaborate more. The answer is that there is no risk.

Mr F.M. LOGAN: There is a risk to the state. There is a risk to the state because the company had \$100 million worth of liabilities and \$13 million cash at hand. I would have thought that with due diligence, had it been a public company, the Stock Exchange would have had to be notified. In addition, given that a private company would be bound by the Corporations Act, it would have at least had to give the general public the courtesy of notifying it.

Mr W.R. MARMION: The minister does not get involved in the contract.

Mr F.M. LOGAN: But ultimately the minister is liable.

Mr W.R. MARMION: Madam Chair, can I answer the question? I am getting interjected on and I cannot concentrate on my answer, so I will have to start again. The member made the assertion that AJ Lucas had been suspended from the Stock Exchange.

Mr F.M. LOGAN: It was.

Mr W.R. MARMION: I am not an expert, I have not read the paper and I was not told, but the advice I have now received is that that the company voluntarily suspended itself. It was not suspended. There is a big difference between being suspended and voluntarily going into suspension. The company was not suspended. That would mean it was suspended by either a regulator or the Stock Exchange; that is what the member implied. I will let the CEO elaborate, but I think she gave a very good answer. If there are a lot of partners in an alliance

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and they are all responsible, the way I see it is that they would all have to fall over before the Water Corporation became liable. Maybe the CEO can provide another response.

Mrs S. Murphy: We also have guarantees in place from all the partners, so there is no risk. If any of the parties fall over, there is no financial risk to the Water Corporation, our customers or the state. We are meticulous in our contracting strategies to keep that being the case. AJ Lucas has been overtly part of the alliance on every sign and at every opening; it is part of the Southern SeaWater Alliance. There is certainly no intention to hide that, and I do not believe that there has been a risk to anyone at all.

Mr F.M. LOGAN: The point I am making, through the minister to Ms Murphy, is that the Water Corporation is a government corporation that in many cases, like tonight, hides behind the veil of commercial confidentiality. We, as the general public, do not know what is in the contract or what risks the corporation is exposed to. We know that one of the alliance partners suspended itself from the Stock Exchange because it looked like it would go bankrupt and we had no response either from the corporation or the minister. Had the Water Corporation been a private company it would have been required to inform the Stock Exchange about the relationship and the contract and would have had to go public. What is the difference here? Why can the taxpayers of Western Australia, who are forking out the money for the alliance project, not know what is going on? Why do we have to wait until the estimates hearing?

Mr W.R. MARMION: I still do not know where the member is coming from because there is no risk.

Mr M.J. COWPER: I was down at the desalination plant in my electorate with the minister's good self and I recall seeing some of AJ Lucas's vehicles on site. Is it still a partner in the program?

Mrs S. Murphy: Absolutely. The alliance that is building stage 2 is exactly the same alliance that built stage 1. The same individuals are there with all the knowledge and experience they have so that they can deliver it at the lowest possible cost in the quickest possible time. The project is going well and all bills are paid. I do not believe that anyone was exposed to any risk and I cannot imagine under a private sector relationship why anything we have done in the desalination plant or with any of our partners' arrangements would have triggered any release to the Stock Exchange because there has not been an event to do so.

Mr M.J. COWPER: Is it still fulfilling its contractual arrangements?

Mrs S. Murphy: Of course.

[9.40 am]

Mr C.J. TALLENTIRE: On the subject of the desalination plants—an excellent initiative of the Gallop and Carpenter governments to ensure that the plants' energy was met through renewable energy—I would like to know how much of a cost saving that will provide to the Water Corporation in view of the fact that black-power users will be paying more into the future. I guess, in comparison, the wisdom of that decision to have renewable energy will be providing the agency with an enormous dividend and I am interested to know how much it is.

Mr W.R. MARMION: Because of the carbon tax coming in, obviously, that is the question the member is asking. With the introduction of the carbon tax, is the member saying —

Mr C.J. TALLENTIRE: I am not asking if it will; I am asking how much is it going to save?

Mr W.R. MARMION: But the question is related to the introduction of the carbon tax because we have renewable energy for the desalination plant.

Mr C.J. TALLENTIRE: That is right—clean energy.

Mr W.R. MARMION: Is the impact of the carbon tax less than it would have been; is that the question?

Mr C.J. TALLENTIRE: No. I am asking how much will be saved?

Mr W.R. MARMION: Saving from what?

Mr C.J. TALLENTIRE: In comparison with the purchase of black power.

Mr W.R. MARMION: I will allow Mr Moore to provide the answer.

Mr P.D. Moore: I will attempt to. I think the issue is the carbon tax that is coming in—the Clean Energy Act implementation—is an amount of money that will not actually offset the difference between the two at this stage. The member's question is: are we going to save a lot of money because we have gone to green energy initially? The answer is: not in this first round. As it goes forward in future years, that may become the case.

Mr C.J. TALLENTIRE: I have a further question. I want to present the question in this way to the minister: had the decision been made to power both those desalination plants uniquely with black power, the Water Corporation would have received a bill from its energy supplier that would have been greater than the bill it will

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be getting now when it buys renewable energy; that is the amount. I am interested in how much that will be so we can actually quantify what the saving will be.

Mr W.R. MARMION: To try to clarify this point Mr Moore will provide more detail.

Mr P.D. Moore: At \$23 a tonne as a carbon price.

Mr C.J. TALLENTIRE: Yes.

Mr P.D. Moore: That will not bridge the gap between black power plus carbon offsets and the renewable energy costs that we have had to bear.

Mr M.J. COWPER: Further on this question, I understand that one of the conditions of the licence for the desalination plant was that 25 per cent of the power had to come from renewable energy.

Mr W.R. MARMION: It was 100 per cent.

Mr M.J. COWPER: Is it 100 per cent? Where is that actually coming from at this point?

Mr C.J. TALLENTIRE: A range of sources.

Mr W.R. MARMION: Kwinana, the desal at Binningup stages 1 and 2, wind power and other sources.

Mr M.J. COWPER: Wind and solar?

Mrs S. Murphy: Yes, wind and solar.

Mr W.R. MARMION: Yes, wind and solar.

Mr F.M. LOGAN: Where?

Mr W.R. MARMION: The member wants to know where and perhaps Mr Moore can explain exactly, even though it is not our responsibility where Verve puts them. Perhaps Mr Moore can explain. I know there are some in Geraldton.

Mr P.D. Moore: There is an existing wind farm in the Geraldton area that we have a contract with to supply energy for the Perth seawater desal plant at Kwinana, further creating two power sources: a wind farm again in the Geraldton area and a solar farm in the Geraldton area that will power the southern seawater desalination plant stage 1. And we are currently in negotiations for the power requirements for the second stage.

Mr M.J. COWPER: I have a further question. Does that include one at Lake Clifton? There is a proposal, I understand, and the member for Mandurah may be aware of it, for another wind farm that might be tapping into there.

Mr W.R. MARMION: I know the member has got a lot of stuff for his electorate during these estimates, but I will ask Mr Moore if there is anything in terms of renewable energy at Lake Clifton.

Mr P.D. Moore: We are not aware of that. We are not negotiating with that at this stage.

Mr F.M. LOGAN: On that very same question, the member for Murray–Wellington just asked about renewable energy and can I just clarify what I think the minister just said; that is, the expansion of desalination stage 2 will also be powered by renewable energy.

Mr W.R. MARMION: Yes.

Mr F.M. LOGAN: At 100 per cent?

Mr W.R. MARMION: Yes.

Mr F.M. LOGAN: Okay. I asked the minister that question in the house and he never answered it.

Dr G.G. JACOBS: I want to ask about a very small issue, and surprisingly I want to talk about infill sewerage again. I refer to “Works in Progress” on page 860, and I thank the minister for resuming the infill sewerage program in my town, areas 17A and 17B; we are very grateful for that. My question is about a little project to help a small regional town called Hyden with its septic problems. I wonder whether the minister can give us some information on this, because Hyden had a particular problem and it may in fact have been a model for other isolated sites with similar septic problems.

Mr W.R. MARMION: That is a very good little townsite.

Dr G.G. JACOBS: It is not in my electorate actually.

Mr W.R. MARMION: The cost of infill sewerage is, as members know, not cheap. Hyden has a specific problem with it being quite expensive in that area, and also for a small community we are trialling a different system.

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Mr F.M. LOGAN: With royalties for regions?

Mr W.R. MARMION: No.

Dr G.G. JACOBS: It is the infill sewerage program.

Mr W.R. MARMION: It is actually part of our infill sewerage program. A number of towns are queuing up to see whether this is successful; I am sure it will be. However, Mr Moore will be able to explain the engineering side of how the houses with septic tanks are connected to a system and where the effluent goes to.

The CHAIRMAN: Thank you. Off you go, Mr Moore!

Mr P.D. Moore: Thank you! The system that is being looked at in Hyden at the moment and in fact has a lot of community support in Hyden is one that we call a STED system—septic tank effluent drainage system. It is a system where we collect the effluent out of a septic tank before it goes to the leach drain. It is then piped basically as water rather than sewage to treatment ponds and will then infiltrate into the surrounding environment or be used locally in a re-use scheme through using it on ovals or wherever it might be. That is a significantly cheaper opportunity than conventional sewerage schemes.

Mr M.J. COWPER: Putting it on golf courses is a good application.

Mr P.D. Moore: Terrific! Certainly at Hyden it is a long way from other sensitive environments. We have been negotiating with the local community there. That has moved well along the way at the moment. We are in the process of getting environmental approvals and the land acquired for the ponds. The hotel in Hyden, for argument's sake, had its own system and it was a bit concerned about being part of this system and having to pay the rates. But we are overcoming that at the moment and we hope to be underway with that scheme later this calendar year.

Dr G.G. JACOBS: I have a supplementary question.

Mr W.R. MARMION: Mr Moore did not mention whether the whole system is gravity fed or whether there are pumps involved in this particular system.

Mr P.D. Moore: It is gravity fed out of the houses into relatively smaller mains and smaller pump stations, and that adds to the economies of it all.

Mr F.M. LOGAN: That is good to hear. I take the minister to the line item on page 860 under “Works in Progress” which is effectively the global allocated amount; that is, the money spent operating the services in metropolitan Perth. Could the minister outline with respect to that global allocated amount the cost savings he expects to achieve by the alliance contracts with Programmed and Transfield?

Mr W.R. MARMION: On page 860 these are all capital works programs; there is no operational expenditure there. Is this just a general question not related to the accounts?

Mr F.M. LOGAN: Yes, it is a general question related to the Water Corporation accounts.

Mr W.R. MARMION: I will defer to the CEO for an answer to that.

[9.50 pm]

Mr W.R. MARMION: I will refer the question to the CEO.

Mrs S. Murphy: All our operating costs, whether they are in-house or externally contracted, are required to meet the two per cent cumulative year-on-year operating efficiency. That is built into the Programmed contract. The contract with Programmed, which is the Perth region alliance, is the merger of two previous contracts that have been operating for about 15 years. The merging of the two of them has caused some reductions in the management team. We used to have two management teams from two different contract groups; we now have one. There will be savings from that this year and into next year, which will be a way of contributing to some of the operating efficiency required across the business. In the long term, we are seeking from all our operating contracts the two per cent year-on-year reduction.

Mr F.M. LOGAN: Does that relate also to the Transfield–Suez agreement?

Mrs S. Murphy: Yes.

Mr F.M. LOGAN: Over and above that two per cent, which is required anyway—obviously Water Corp will pass that onto its contractors as well—are there minimal savings apart from those?

The CHAIRMAN: Is that a question, member?

Mr F.M. LOGAN: It is a question. Are there any other significant —

Mr W.R. MARMION: What savings are predicted?

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Mr F.M. LOGAN: Yes. They have to be found anyway.

Mrs S. Murphy: They are two quite different alliances with two quite different work scopes. Both of them have a number of efficiencies; in fact, the tendering process was based on a number of ideas and from working together with a number of groups to find ways to reduce cost. The Perth region alliance, which is the one we have with Programmed, is about how efficiently we can schedule the work—more like a taxi company scheduling work—which is one of the reasons we have moved the Mandurah workforce into it as well, which is a Water Corporation workforce. It is a fully integrated alliance of Water Corporation and partner organisations. They have a list of some 100 efficiency ideas that we are working through. In the first instance, it is about maximising the savings from merging the two groups and then we will work through them and see how we go. I cannot give the member a specific number on that. Obviously, if something is going to be more efficient and it costs less money, we will do it; and if it is not, we will not.

The production and treatment alliance is a very different type of work scope and is about bringing in a previously outsourced mechanical and electrical maintenance workforce to work in partnership with the Water Corporation's own operators and civil maintenance workforce. It is also about optimising the output and production of each of our big water plants and the big waste water treatment plants. Again, we have a bottom-up set of ideas for how we can do that that has come from the workforce. We have a top-down set of ideas and we will work through all of them to deliver it.

To deliver two per cent cumulative year on year on year requires a lot of effort and efficiency. To get more efficiency out of a business requires even more effort. It is a matter of continually looking at that and always looking at new ideas and trying to bring in learnings that other organisations have in their businesses elsewhere to see whether we can think of different ways of doing things.

Mr F.M. LOGAN: I have one further question on this issue that relates to part of the answer Ms Murphy gave with respect to the relationship between the contractors and the existing Water Corp employees. It is an important question. Has there been and will there be—I seek an assurance from the minister—any Water Corp job losses as a result of these alliance contracts? By job losses, I do not mean job losses from just Water Corp; I mean non-replacement of existing Water Corp jobs that are currently held—that is, will Water Corp not fill Water Corp jobs but fill them with contractors rather than Water Corp personnel?

Mrs S. Murphy: To make savings over time, the intent is to keep the same size workforce as the number of services and connections grow in Perth and to use growth as a way to absorb numbers. The whole principle of the alliance is “best for project”. For many of the key roles in the project there were Water Corp people and alliance people or people from our partners both competing for the same roles. The team is selected by the alliance lead team and that team is in place. The rank and file workforce will transfer in as it is. It is very possible that we will see changes in that workforce in the next 20 years, but there are no job losses. No Water Corp people are being asked to leave Water Corp; no Water Corp people are being asked to change employers; and no Water Corp people are being made redundant.

Mr F.M. LOGAN: That is exactly what I expected the CEO to say, minister, but there is also the second part of that question. Will Water Corp jobs currently held not be filled or be filled by contractors? If someone leaves a job or someone takes a redundancy or whatever, will those jobs not be filled by Water Corp employees; instead, will they be filled by contractors?

Mrs S. Murphy: If the job is vacant, it will be filled by the most appropriate candidate. That could be a Water Corp person or a non-Water Corp person.

Mr F.M. LOGAN: Yes; that is exactly what I thought.

Mrs S. Murphy: At the end of the day, we want our customers to get the best service from the best people at the lowest cost. That is what the act requires us to do and we will do it.

Mr F.M. LOGAN: That is exactly what I thought you would say.

Mr C.J. TALLENTIRE: Page 860 refers to the groundwater replenishment trial at Beenyup. I notice that \$2.5 million has been allocated to get it to a point where it will be possible to start stage 1. How many gegalitres of water will be involved with stage 1, how quickly can we move into stage 1, and how quickly can we scale things up from that point?

Mr W.R. MARMION: Stage 1 will be seven gegalitres. In terms of actual gegalitres, stage 1 will be seven, then 14, then 21 and 28. That is the plan in the out years. I will let the CEO explain how the dollars will be matched to that.

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Mrs S. Murphy: The key is to finish the trial successfully and have a regulatory framework to enable us to do a proper scale project and also to make sure that the community is with us and we make an agreed decision. Because we need water sources for the future, we have allocated funds in the out years to do that work. If for some reason that decision were not made, we would need those funds to do some other form of water process. We are very, very hopeful that that will be the way to go because the trial so far is progressing very well. The intent with timing is to complete the trial at the end of this calendar year; work with our regulators and partners to get to a position to make a formal decision mid-next year. Then it will be about two and a half years to get the first seven gigalitres completed. Some of the works to build the first seven gigalitres are pre-empting the next stages so we can modularise and add the next bits quicker and at less unit cost. The figure of seven gigalitres is chosen because we can carry out all those works on our existing Beenyup site, so that there are no issues about pipelines over other people's land or clearing problems; it is already on a site we control. The aim is that all the plant and treatment will remain on that land. If we want to inject more than seven gigalitres, we will need to move further afield, so there will be needs for pipeline corridors. In the early works, the plan will be to start getting those pipeline corridors and getting the environmental approvals for them so that we can have a scheme that we do not have to augment until we need to, but that is ready to augment. As Perth grows and the waste water flows are growing, we have the capacity to grow it.

Mr W.R. MARMION: To clarify, the budget allocation of \$2.921 million on page 860 relates to completion of the trial in the next financial year.

Mr C.J. TALLENTIRE: Within the \$2.5 million —

Mr W.R. MARMION: Is it \$2.9 million or —

Mr C.J. TALLENTIRE: I am sticking with the same issue.

Mr W.R. MARMION: On page 861.

Mr C.J. TALLENTIRE: It is on page 860. How much of the \$2.5 million that has been allocated for the groundwater replenishment trial to get things ready for stage 1 is allocated towards community engagement-type programs?

Mrs S. Murphy: I cannot tell the member the exact amount, but if the member wants it, we can find it. The trial that is underway has a very significant proportion for community engagement at the visitor centre. This \$2.5 million is to complete the trial and do the preliminary engineering to be ready to go with the full scale. I am fairly positive the \$2.5 million does not include much for community engagement, but the existing project, over the whole life of the project, has a reasonable sum for building the visitor centre and bringing school groups through and engaging school groups in the open days and all those sorts of things.

Mr F.M. LOGAN: I refer to the fifth paragraph under the "Asset Investment Program" on page 860 of the *Budget Statements*. Can the minister provide by way of supplementary information a breakdown of what the money for the list of items will be spent on?

Mr W.R. MARMION: We will provide a breakdown by way of supplementary information of the money that will be spent on the projects in the areas mentioned on page 860 in the fifth paragraph.

[*Supplementary Information No A38.*]

Committee adjourned at 10.00 pm