

**STANDING COMMITTEE ON ESTIMATES AND  
FINANCIAL OPERATIONS**

**2013–14 AGENCY ANNUAL REPORT HEARINGS**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
WEDNESDAY, 5 NOVEMBER 2014**

**SESSION THREE  
WATER CORPORATION**

**Members**

**Hon Ken Travers (Chair)  
Hon Peter Katsambanis (Deputy Chair)  
Hon Martin Aldridge  
Hon Alanna Clohesy  
Hon Rick Mazza**

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**Hearing commenced at 2.00 pm****Mrs SUE MURPHY****Chief Executive Officer, examined:****Mr ROSS HUGHES****Chief Financial Officer, examined:****Mr PETER MOORE****Chief Operating Officer, examined:**

**The CHAIR:** On behalf of the Legislative Council Standing Committee on Estimates and Financial Operations, I welcome you to today's hearing. Has each witness read, understood and signed a document headed "Information for Witnesses"?

**The Witnesses:** Yes.

**The CHAIR:** Witnesses need to be aware of the severe penalties that apply to persons providing false or misleading testimony to a parliamentary committee. It is essential that all your testimony before the committee is complete and truthful to the best of your knowledge. This hearing is being recorded by Hansard and a transcript of your evidence will be provided to you. The hearing is being held in public, although there is discretion available to the committee to hear evidence in private either of its own motion or at the request of a witness. If for some reason you wish to make a confidential statement during today's proceedings you should request that the evidence be taken in closed session before answering the question. Government agencies and departments have an important role and duty in assisting Parliament to review agency outcomes on behalf of the people of Western Australia. The committee values your assistance with this.

Do any of the witnesses wish to make an opening statement? If not, we will go straight to questions.

**Hon ALANNA CLOHESY:** Yes, please. Recently, the minister tabled the strategic development plan in Parliament. As I understand, that is not usually tabled. But the version that was tabled did not have on it that it had been approved by the minister. I would like to know what the status of that document is now, and whether that strategic development plan that was tabled in August is now finalised and approved by the minister; and is it different from what was tabled in August?

**Mrs Murphy:** No. The process is that we table an SCI, which is for public consumption, and an SDP, which is normally only a document between us, the minister and the Treasurer. Those documents go to the minister's office, the minister seeks the concurrence of the Treasurer on both of them, and when she has the concurrence of the Treasurer, she then approves them all, or otherwise, and they are tabled in Parliament. Those things tend to happen roughly at about the same time. All of those documents—the SCI and the SDP—have been approved and have the concurrence of the Treasurer.

**Hon ALANNA CLOHESY:** Has the SDP changed since August or is it still the same version?

**Mrs Murphy:** No; it has not changed. They would not change. But there will be a new SDP. We prepare those documents towards the end of this year. Treasury needs the longer term numbers to start its planning process, so the financial assumptions for our SDP will go to the minister toward the latter part of this year—early next year, and then the text comes through the board later on.

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**Hon ALANNA CLOHESY:** The SDP states that the corporation wants to spend about \$5.4 billion but has only been allowed to spend \$4.5 billion. What is the implication of that and what is being lost in the difference of that \$900 million?

**Mrs Murphy:** In that particular example—it is not only what we have been allowed to spend; some of it is decisions that the board of the Water Corporation made themselves. A number of things have happened in the last financial year. One was that the rate of escalation and the rate of increase of costs for construction activities in Western Australia has lowered dramatically, so a percentage of the money that we have reduced our capital program by was a reduction in the cost of doing work in out years. There is an escalation figure built in—and it is not a CPI figure; it is the escalation of construction costs going forward. We have adjusted for that, because the rate of increase of those costs is lower—in fact, some of them have actually dropped, so there was a percentage. I do not have the SDP with me because we prepared on the annual report for today. I am sorry.

**Hon ALANNA CLOHESY:** It is just that it was mentioned in the annual report.

**Mrs Murphy:** From memory, it is \$170 million—look, I would be guessing. Anyway, there was a percentage of the reduction in the capital program that was getting exactly the same work but done for a lower price. There was a subsequent —

**Hon ALANNA CLOHESY:** So you think that is about \$170 million in that reduction? I am happy to take that on notice.

**Mrs Murphy:** It was about one-third of the amount that we reduced the capital program by. There was another component, which we have self-imposed in conversation with our board. We have set a challenge to reduce our capital program by five per cent, but deliver the same projects.

**Hon ALANNA CLOHESY:** Why is that?

**Mrs Murphy:** It is because we are doing a lot of work on efficiency within the corporation. We are looking at how we deliver our projects, we are looking at how we bundle projects together, we are looking at whether we can do like work in like areas in a better way, and how we engage with our private sector for our engineering design. Until about 12 months ago, the market for engineering design and construction in Perth was almost overheated, you could say, especially in the resource sector. Because of the changes in that, it is not just the cost of doing business, but the availability of people and the way we can package our work has come down, and we set ourselves the challenge of delivering those same projects for five per cent less. That was a big component of the reduction. So all of those were reductions that do not change the output in the slightest; they just change the price. The final piece we looked at was state growth. Most of the planning work that feeds into the capital program is done probably 12 to 24 months before we lock in the capital program. If you look at, for example, the Pilbara, the rate of growth of services in the Pilbara was being forecast to be very high. We had some exceptionally high growth stashed around the state. The growth figures that have been forecast at the moment are much lower, which means that some of the projects that we thought we needed to commence immediately can commence later. So all of the changes that were made between last year's original proposed capital budget and the one that went in the SDP were largely about—they were not about increasing risk. The commentary in the SDP and the annual report talks about the risks that we face as an organisation, and those risks remain out there. Some of those risks are about delivering services to very small communities where the cost effectiveness of those decisions is quite hard to juggle—you could never justify it on cost grounds alone, and we have to really look at social benefit or environmental benefit. We talked about the need to weigh those up going forward, and how in constrained economic times those discussion become more difficult.

**Hon ALANNA CLOHESY:** Are you talking about those projects in the Pilbara and in the Kimberley?

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**Mrs Murphy:** I am talking about all over the state. If you look at the growth rate that the Department of State Development and the Department of Planning put out for state growth two years ago and compare them with the growth rate at the moment, you will see a substantial reduction in the rate of growth being predicted across most of the state.

**The CHAIR:** Are you talking about economics?

**Mrs Murphy:** No, the number of services.

**The CHAIR:** So, population

**Mrs Murphy:** Population as it manifests as a number of services.

**Hon ALANNA CLOHESY:** So what proportion of that \$954 million would that account for?

**Mrs Murphy:** From memory, it was about a third, a third, a third—a third was growth deferral, a third was escalation, and roughly a third was our internal challenge to do better. I think it is incumbent on us as a monopoly to always have those challenges in our business.

**Hon ALANNA CLOHESY:** Can we take on notice the actual figures for that?

*[Supplementary Information No C1.]*

**Mrs Murphy:** Sure. They are in the public domain, but I do not think they add up to 900, because our SDP, just to be clear, is required to take us forward five years. The state budgeting process and the forward estimates process only go forward four years, so at any point in time, the fifth year, as outlined in our SDP, is never approved by anybody. It is not approved by the Treasurer. It is noted that that is what we think at the time, but it is never approved. The letter that we get every year approving it makes it very clear that the forward estimates component is approved, but the other bit is not, because the state has no ability to approve that because it is beyond the forward estimates period.

[2.10 pm]

**Hon ALANNA CLOHESY:** But as a corporation, that is the kind of direction you are heading in?

**Mrs Murphy:** Yes, so it is a heads-up of directional planning.

**The CHAIR:** It is a shame the government is not looking five years ahead, when their organisations are!

**Mrs Murphy:** I think it is incumbent on us to look 50 years ahead, which is what we are trying to do. But it is very difficult. The state cannot possibly do detailed estimates that far ahead.

**Mr Moore:** I was going to ask for clarification on what the question on notice was.

**Hon ALANNA CLOHESY:** The actual dollar figures of the three components that have been foregone or shelved.

**Mr Moore:** For the \$954 million?

**Hon ALANNA CLOHESY:** I have just heard that it is not going to actually add up to \$954 million.

**Mrs Murphy:** Can we clarify that to be for the forward estimates period?

**Hon ALANNA CLOHESY:** Well, what was mentioned in the SDP. That would then make it more relevant.

**The CHAIR:** If you can reconcile it to the SDP, though, in terms of the figures. Some of it is in the fifth year, so if you can point out that it is in the fifth year.

**Mrs Murphy:** Can I just add to that, if that is okay. The assumptions that go into to our forward capital programs are also contingent on per capita water demand; it is one of the biggest drivers. Every year we have been working very hard on reducing per capita demand, and we have had great

success in that. But every year we worry that it is not going to stay and that if we do not keep our messaging really strong, it will come off. In Perth, we have adopted that and we are using that to drive our capital program down and defer a lot of capital. In country schemes, we have not really done a lot of planning with lower per capita use, because the demand management work in the regional schemes had started later. So we are in the middle of a very large piece of work at the moment to look at that, and we are very confident that we can see further reductions in our capital program. It is not work that goes away; it just goes away for a while because of the per capita water use. There are some quite stark examples where our forecasting said we would need a new source in, say, 2016 or 2017, and if you take the current growth and the current per capita water use, that might go out a decade. So I think it is great that the water demand work we have done has been bipartisan across government, and I think we are getting to the point now where we can see real financial benefits for the state. We have always said, “Let us invest that money, and you will see the benefits”, and successive governments have said, “When?” The answer is now, I think.

**Hon ALANNA CLOHESY:** I will come back to the impact on regional areas in a minute, but it would be useful to get a list of those projects that are on hold or forgone that are the component of that \$954 million as a supplementary.

**Mrs Murphy:** We cannot. There are literally thousands of projects a year. We could certainly give you a list of the large projects; it is volumes and volumes and volumes otherwise. There are projects of \$10 000 and \$5 000, and I am making an assumption here, but I am assuming that you are talking about a material projects. So, if we said projects over —

**Mr Moore:** If we are talking about the difference to what we proposed and what the SDP figure is, we do not have that list.

**Mrs Murphy:** We will not have that list in that much detail, certainly not for the fifth year. It will be broad brush by scheme. But there is very little deferral in that \$900 million. There are probably a couple of big projects and we could probably list what those are, but it would not be much.

**Hon ALANNA CLOHESY:** Just to save time, you understand the kind of principle of what we are looking for, so if you could take that on notice.

**Mr Moore:** We will provide an explanation as to what we are talking about there.

**Hon LYNN MacLAREN:** I was seeking a bit more detail in answer to the questions that you have provided me with. On page 15 you talk about financial highlights. I asked a question about what you are doing to reduce the amount of money needed from government to subsidise non-profitable services in rural and remote areas, and you advised me that the Water Corporation has introduced business improvement initiatives across operating divisions, which are concentrated in regional areas and focused on increased productivity. I am really keen to know more about that and I am wondering whether you can identify what the business improvement initiatives are. You went on to say that you have commenced a review of the support in the capital areas of the business. So I was wondering if you could let us know what the terms of reference for that review are and just a bit more detail about that.

**Mrs Murphy:** To answer that question, we need to look at the components of the country loss operating subsidy. If you look at the operating subsidies that the government pays us, there is a component that is, like, seniors' discounts and pension discounts, so we will leave those to one side and look just at country loss. Country loss does not mean whether a scheme is profitable or not. It means whether it is commercially profitable. That means from our point of view that we have the operating cost of running the scheme, we have the depreciation of the capital that has been invested in that scheme, and, over and above that, under the way it is calculated, for assets that were invested in that country scheme pre-corporatisation, so pre 1996, we are required to make a four per cent return on those assets, and with assets that we have built subsequently, we are required to make a six per cent return on those assets. So to build up the cost of the scheme, we have the operating

costs—that is the people working there and the power and the chemicals—and part of that is also the overheads of the Water Corporation, so for us to have drinking water quality expertise that is applied over them, for us to have a billing system and those sorts of things. Then over and above that there is the depreciation of those assets, so the return of capital, and then the return on capital, which is either four or six per cent. The operating subsidy is reset every three years, which means that for any capital we spend, we do not get a return on that capital until the end of the three years, and then it is reset. So the numbers bounce around. Of our schemes—of the big ones; we just did this today—only two of our material size country schemes in water, for example, recover all of those components; about half of them recover depreciation and operating costs, but not return on capital; and about two-thirds recover the operating costs alone. So, there are various schemes in various ways. To address that issue, there are lots of different ways to skin a cat. Just to be clear, every dollar we save in a region—so the bloke with the spanner who lives in Moora, every dollar he saves, be it of his wages, less overtime, less people, less power, less chemicals, less fuel, or whatever it is—that dollar, assuming it is a loss-making scheme, will come almost straight away off the operating subsidy. If I look at my office in Perth, if I look at our billing system and our customer system and all of our shared overheads, for every dollar I save on them, about 35c comes off an operating subsidy, because they are spread over the whole business. The other way to reduce country loss is to spend less capital, so for every dollar of capital I do not spend, six per cent of it and some depreciation is going to come off the country loss.

[2.20 pm]

So it is not a simple one for one; it is quite a complicated thing. But the overwhelming message I give my staff is the lower our operating cost across the whole business, the better. That is inarguable. We have a number of different projects at different stages of review and implementation. The one that started first is one that we originally called the BBB, Building a Better Business, project. We have had a consultant called Newport to help us with this, and this has been focussed on the physical operations in our regional areas. It really starts in a series of “a day in the life” studies—this was about two and a half years ago that we started this—where we map out what the various people are actually doing and we look for waste and duplication.

The project really starts with maximising the efficient work of the man with the spanner, if you like, or the person with the spanner to be gender neutral, although I am sad to say that they are overwhelmingly men. I mean, I am pleased for them, but I am sorry we do not have more women in that space. Then we look at the support functions in that part of the business to facilitate that. If a support function is not contributing to the efficacy of the man with the spanner, then we have to tease it apart. Through that we identified approximately 30 per cent capacity that we could release in the business. We set ourselves a target of releasing a third of it to the bottom line, a third of it to doing work that we are not doing at the moment that we would like to be doing and, a third of it to deferring capital—perhaps doing a bit more maintenance to defer capital. A third to the bottom line we have released, and that was of the order of \$10 million per annum. We have released that now. The second third of doing more work—we had business cases for that work and we have done most of that and some of that is being also released as people leave our organisation. This has been through natural turnover and retirements. We do have an ageing workforce. The final third, which we have been investing to defer capital is continuing. We are looking hard at that now and we are looking at realising the last bit of that process as we go forward in the next year. We now call it operational excellence and it is embedded in how we schedule work and work across the regions. That work is well underway and that is the project that is referred to there—the BBB or the operational excellence project.

What we found from that was the changes that we made that we started off thinking would be process system changes, a large percentage of them were actually active management behaviour and leadership on the ground changes. So, we have taken those learnings and we are rolling that leadership learning and a lot of leadership work and about managing behaviours across the rest of

the business, and then we are going to be doing a similar process which will start pretty much in the new year to look at releasing that capacity across all of the support functions in head office and across our regional offices. That is the theory.

The leadership behaviours are really fascinating because—I found it fascinating—normally what happens in technical organisations is often that technically competent people get promoted to be managers, but they actually like to do technical jobs, and they do them very well. What we are trying to show is that by managing your people and doing less work as you judge it yourself, if you have got 10 people working for you and you can get 20 per cent more out of the 10 people, that is far more beneficial to the organisation than you doing 20 per cent more work yourself. It is a bit of a culture shift that we are working through to get that. We do not want to lose the technical excellence and it is something the organisation is proud of and we are very lucky to have, but we need to share it and have our managers and our leaders managing and leading and not necessarily doing technical work.

**Hon PETER KATSAMBANIS:** Have you implemented some form of training program that will allow these people to pick up these skills when they come into the position rather than, as you have done historically, and said, “Do they have the skills or not?” I understand at some point an organisation always has to do that, but what sort of program have you implemented to make sure that this gap does not exist in the future?

**Mrs Murphy:** The program is still in catch-up mode. I think I would be remiss if I said that we were tackling new people coming into new roles; we are still catching up with old people in old roles, although it does get mixed in together. We are partnering with Leadership WA who run a program that a number of our senior executives have been through and as a corporation—we do not support it financially, but we host them and take them through a lot of our issues. I think Leadership WA is an amazing program and we found it resonates really well. The traditional Leadership WA program is a third government, a third private sector and a third not-for-profit. That kind of picks up the ethos, because a lot of the decisions—although we try to run as a commercial business and our act requires us to act commercially, the fact is we have one shareholder and we are a monopoly across the state. The Leadership WA leadership model works quite well for us.

**Hon PETER KATSAMBANIS:** So you buy into that program?

**Mrs Murphy:** No, we pay Leadership WA as a consultant to deliver that program for us.

**Hon PETER KATSAMBANIS:** Sure. You do not support the organisation, but you —

**Mrs Murphy:** We pay for the skills that we use. We run it in-house. It is very much in-house with learning partners and projects in the works. It is very much in-house and focused —

**Hon PETER KATSAMBANIS:** Sure. It is very important for a lot of particularly government trading enterprise where you find that people with technical expertise come through—it might be useful for some other GTEs as well.

**Mrs Murphy:** I think it is not only government. I think you find in all technically strong organisations—resource companies, oil and gas. It is a very common issue. The love of the technical work—well, Peter and I are both frustrated project managers and it really kills us to not offer advice sometimes, and we fail sometimes to not offer advice.

**Hon LYNN MacLAREN:** It was just something that you mentioned and it has come up. One of the other questions I asked was about the gender diversity in your workforce. I did not pick on Water Corp; I have asked everybody this. You mentioned specifically about, you know, people with technical skills tend to rise to managerial positions and I have worked in those organisations with engineers and a lot of them are male. In your performance summary that you kindly provided in answer to one of my questions, I have learned that women in senior management, while you have a good target of 25 per cent, unfortunately, you are not tracking so well in that. I might also note that you are tracking very well with women in senior management, tier 3, with 23.8 per cent, so

congratulations with that mark. I wondered whether you wanted to shed any light on why the tier 2 senior management positions are so far down in gender equity. It looked like 2008 you had 28.6 per cent but now it has fallen in 2013 to 10 per cent, and your actual is 12.5 per cent. Do you want to just provide some comment on tier 2 management and why the women are falling off?

**Mrs Murphy:** The simple answer to that is it is nine people and Catherine Ferrari and I are two of them. We used to have eight people in that group and we had an extra general manager become in it, and when the group got one bigger with the same number of women and that extra person being a man, the statistics come down. It is an artificially small sample size.

**Hon LYNN MacLAREN:** Is that in all senior management, tier 2 and 3 —

**Mrs Murphy:** No, tier 2 and 3 is everybody; yes, that is right.

**Hon LYNN MacLAREN:** So in tier 2 there are only nine positions?

**Mrs Murphy:** I am tier 1, and tier 2 are my direct reports.

**Hon LYNN MacLAREN:** How many are tier 1?

[Indistinct exchange.]

**Mrs Murphy:** No, they are all merged in for that.

I can answer the more general question about gender equity, and I am passionate about making sure that the opportunities are there and I am very passionate about women being involved in maths and sciences to have the cohort through at school level to do any of this. We, as the Water Corporation, have quite an ageing demographic in our workforce. Eleven per cent of our staff are over 60. We are going through an organisational change anyway—nothing to do with trying to be more efficient or anything. The fact is that over the next five years we are going to see turnover in our organisation. That cohort of technical expertise is almost entirely male, and that is just a function of the times and the world where everybody grew up. The next tier down, which is traditionally a younger demographic, has a better gender mix, and I think that will flow through.

At the moment the worry with those senior people is getting the knowledge transfer, getting the knowledge across, mentoring programs and trying to get that in and making sure that we do that adequately. It is an issue. The field workforce is very male, especially across the country regions—and partly that is the nature of the work. Whilst there are a lot of women who are interested in the technical and engineering management of wastewater systems, the number of them who actually want to work unblocking blocked sewers seems to be reasonably low, so we do not actually have a great cohort coming through.

The other issue is we are not recruiting a lot of people at the moment. We have identified capacity in the business that we are releasing through natural turnover, so we are not out there recruiting a lot, which makes it slower to do some of those changes. We have been very pleased with our Indigenous recruiting. Our Aboriginal numbers whilst still lower than we would choose by a long shot, this calendar year we have gone up 40 per cent—40 per cent of a small number—but it is moving in the right direction despite our global recruitment levels being fairly low.

[2.30 pm]

**Mr Hughes:** About 50, I would estimate. This report says that our target is 2.8 per cent; the actual at June 2014 was 1.2.

**Mrs Murphy:** We are about 1.7, I think.

**Mr Hughes:** We are talking about 50 to 55 people.

**Hon RICK MAZZA:** Now?

**Mr Hughes:** Yes.

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**Mr Moore:** That number is often difficult to get because people have got to identify themselves. There has been a history of people not wishing to identify themselves as Aboriginal in the workplace. The number is those who have identified themselves.

**Mrs Murphy:** We deliver all our services in Perth through integrated alliances with the private sector. Our private sector partners, especially one of them—Aroona—is a joint venture between Degremont and Transfield Services. They are very proactive in the Aboriginal recruitment space. Some of our partners have had some real success in that space and are pushing us to do more, which I am very pleased about.

**Hon ALANNA CLOHESY:** Can I come back to the strategic development plan? It is also mentioned in the annual report about wastewater treatment plants. The SDP lists assets. It says it is one of the risks that has been identified in the plan. Let me go to the page number. I want to focus on where you refer to the tension between the private contractor and the corporation in delivering a return to the contractor.

**Mrs Murphy:** Sorry, I am not quite with you.

**Hon ALANNA CLOHESY:** I will read it out. The tension between you and contractors in being able to deliver a return to government as part of contracting out some of those services—just give me five seconds to find it.

**Mrs Murphy:** I do not think it is meant to say that, if it does. It depends on the context. I am not quite sure.

**Hon ALANNA CLOHESY:** Move on to another question.

**Hon RICK MAZZA:** With the rural and regional areas, are there still sewer infill programs going on?

**Mrs Murphy:** I will hand that to Mr Moore because that is his favourite subject.

**The CHAIR:** I thought you would have it finished by now, Mr Moore!

**Mr Moore:** No, not really, Chair. It is an ongoing exercise, obviously with a lot of focus and interest by many parties.

**Hon RICK MAZZA:** I did see that Denmark is having a new —

**Mr Moore:** When you talk about infill, I think we need to separate normal upgrades in wastewater treatment systems—and Denmark is one of those; we have a new wastewater treatment plant going in at Denmark—as opposed to what was known as the infill sewerage program. The infill sewerage program has had fits and starts in recent years. Most recently we have done a job in Hyden where we have put what is known as a STED scheme in. The minister of the day is still considering a number of other processes going forward. We are doing infill in Busselton at the moment. We are just about to start a very large infill program, basically the last area in Busselton down near the church properties, at the bottom end of Busselton going towards Dunsborough. In fact, construction work started this month on that. About December next year, or a bit after that, that area will be sewerred. Virtually everything in Busselton city itself will be sewerred. There are a number of other competing priorities in where infill is going to go. That is still being discussed with the minister as to where the next options will be.

**Hon RICK MAZZA:** What about smaller towns like Narrogin, Katanning and Wagin?

**Mr Moore:** They have all got sewerage in them. When I say “all”, many of them have. The infill sewerage program, when it originated back in 1994, was not designed to cover towns of less than 500 people. It was designed to cover large residential areas in sizeable towns. Many of those towns already had sewerage schemes. It was not designed to expand those schemes in those towns. Subsequent to that, when Minister Hames was the Minister for Water, he brought in what was called the small country towns sewerage scheme, which only lasted about two to three years. It was

about \$5 million a year. That was to actually look at sewerage some of those small towns. We did an initial two. I cannot remember the names, to be honest.

**Mrs Murphy:** Donnybrook?

**Mr Moore:** No. Tambellup and one other.

**Mrs Murphy:** Kulin?

**Mr Moore:** We did an evaluation of the cost of those. The costs were very, very large because we could not at that point in time convince the DER to review the standards for wastewater treatment in those towns. That ultimately led to the development of the STED scheme that we put in at Hyden. Subsequent discussions with the Department of Environment Regulation came to an agreement that in some of these communities it was better to get some sort of sewerage scheme in, to get the stuff out of town and dispose of it out of town rather than the full-scale sewerage —

**Hon RICK MAZZA:** So you were actually trucking it out?

**Mr Moore:** No. The STED scheme is a scheme where you keep your septic tank, but the leach drain is done away with. A pipe takes it from the septic tank out into a small pipe system in the street, out to a treatment plant outside of town. It is significantly cheaper because the treatment is still occurring in the septic tank.

**Hon RICK MAZZA:** Is it a jerry-rigged system?

**Mr Moore:** No. It is a commonly used system around Australia. We actually put one in, not part of the infill scheme, in Wiluna some years ago. You may remember the then Governor-General went to Wiluna and was appalled at the kids swimming in septic ponds in the middle of town. That was a scheme we put in there because it was an efficient way to do it.

**Hon RICK MAZZA:** With that scheme, does the owner still need to crop those tanks on occasion?

**Mr Moore:** The septic tanks, yes. It was a very different scheme to a standard sewerage scheme. The shire had to be on board because they still had to maintain a process for the pumping out of septic tanks if they were required. The shire still has responsibility in approving and managing the septic tanks with the home owner. The homeowner then pays the service to have the effluent, which would go to the leach drain, taken away and be treated off site. Most of the problems in these towns are the clay soils. In the case of Hyden, the subdivision is built with that much soil and rock that leach drains will not work.

**Hon RICK MAZZA:** While we are talking about wastewater, the groundwater replenishment scheme, you say in the report that you have a competitive alliance. What do you mean by a “competitive alliance”? Is there a tender scheme for this competitive alliance?

[2.40 pm]

**Mr Moore:** The groundwater replenishment scheme, and we have had exactly the same process with the desal plants, when we talk of competitive alliance, alliance contracting is done in several ways. You have what is called a pure alliance where you select the partner based on a number of criteria not being dollars and then you develop a cost with that partner. What we have done in some of our larger projects, and this is one of those, is we get to the stage of selecting two partners we believe we can work with, and then we have both parties work up a bid for the job based on the same scope of work. And part of that is they can do a presentation to the executive and others on what their bids are; their bids are put in, if you like, in separate envelopes. We look at the bids, the dollar bids, separately to their competency in doing the work, and ultimately choose the partner we want to do the work with. It is not necessarily the cheapest. As it turns out, most of them have been but we believe it has been a very successful process in getting a really competitive understanding of what it is going to cost; because there has been a lot of criticism with alliance contracting over the last 20 years that in selecting a partner without some sort of competitive tensions in the dollar value

is: how do you confirm that the dollar value you agreed to build the project for is one that has the right risk base to it?

**Hon RICK MAZZA:** So with the replenishment scheme, you currently have a test one at their Leederville aquifer; is that right?

**Mr Moore:** Yes.

**Mrs Murphy:** That is over. I mean, the test was completed December last year. We have awarded the contract and construction is underway of the 14-gigalitre per annum real thing.

**Hon RICK MAZZA:** And the test aquifer has actually gone into the water system, that powers the water system?

**Mr Moore:** Water has gone into the Leederville bore —

**Mrs Murphy:** Field; not into the bore.

**Mr Moore:** Through the Leederville bore into the bore field, into the Leederville formation. Now, that ultimately, in whatever number of years, is likely to move to a production bore. It is moving very slowly from the site, as we would have predicted. So, it is in the part of the scheme that is part of the drinking water scheme, yes.

**Hon RICK MAZZA:** Do the residents of that area know that there is this —

**Mr Moore:** Everybody that wishes to know knows. It has not been hidden. There is a webpage with all the information.

**The CHAIR:** I should say, just to move things along, that we have got a short hearing. I am sure the corporation would offer to take you up and give you a full tour. They have done it to all of the local members. I have had the indoctrination; I am sure they would do the same for you. So if there is anyone else —

**Mr Moore:** The trial plant is no longer operational; that is all.

**Hon RICK MAZZA:** What percentage of that replenishment scheme will actually be drinking water at the end of the day? What percentage or —

**Mrs Murphy:** What percentage of drinking water will be from that scheme?

**Mr Moore:** Ultimately 28 gigs; about 10 per cent.

**Mrs Murphy:** Ten per cent maybe, but at the moment Perth uses just under 300 gig per annum, and the scheme when it is completed will be producing 14 gig per annum.

**Mr Moore:** The current scheme is expandable up to 28, though.

**Mrs Murphy:** And then we will expand it. We would love to show you over the plant.

**Mr Moore:** We cannot now.

**Mrs Murphy:** No, we cannot show you the trial because we have shut it down, but we could take you to the visitor centre and take you through all of it; and it has been a 10-year process and I do not know how we could have communicated more, so I do not think —

**The CHAIR:** I am sick of frogs!

**Mrs Murphy:** Thank you!

**The CHAIR:** That is always a good sign!

**Mrs Murphy:** We love our frog!

**Hon RICK MAZZA:** Just one last thing. With the thousands of kilometres of pipe that we have, what is the estimated leakage out of those pipes per year?

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**Mrs Murphy:** It is very hard to answer that overall, because there is a pipe and a pipe and a pipe. It is very hard to measure what you lose. What we know is the difference between the amount of water we sell to our customers—so, the amount of water as measured by about a million customer meters—versus the amount of water as measured by the big master meters at our water treatment plants. The difference between those is about seven per cent.

**Mr Moore:** Yes, it is about 19.

**Mrs Murphy:** But that does not mean there is seven per cent leakage, because there is some water that is used that is not metered and sold: firefighting water and water that we use in our own treatment plant. So we would have to backwash, I think, so there is water that is used for that. Then you have got the difference between maybe 100, pretty accurate, very big meters at, say, a desal plant or a big water treatment plant compared to about a million customer meters. And the way our customer meters are designed, the way our act works, is that those meters have to read in favour of our customers as they age, not in our favour. At any point in time our aim is to have our meters replaced every 15 years, which would keep them reading within a reasonable range, but at various times there are meters that are probably older than that. So, it is very difficult to be exact as to the accuracy of over a million meters. We take a bit of a guess at that, but we still believe that the losses in our piping system are higher than we would like and we set out the bit that we think we control. We are aiming to halve that in the next few years. We have a couple of things underway to do it. One of the problems is that very small leaks are very hard to find in sandy soils. Leaks in a big pressure magnify, you know. But in retic systems around the place, you know yourself if you have got a little leak in your retic system, you will struggle to find it because it will just drift off into the sand. So, we are trying to put a bit more measurement in our system. But the other thing is that we do supply water well above the minimum pressure under our operating licence, so we are looking at expanding and doing some pressure management work to try to corral a section and try to keep the pressure down. That dramatically reduces leaks. It dramatically extends the life of your assets, because things under pressure fail, not surprisingly.

**Hon RICK MAZZA:** Will that affect the pressure at households, though?

**Mr Moore:** Well, that —

**Mrs Murphy:** Yes. It is still within our operating licence, well and truly. I mean we are supplying well above our operating licence in a lot of places. Most people do not really notice the difference except for your sprinkler systems, which can be a problem because they do not cover the same area. So, it requires a lot of one-on-one with customers and working in a community and explaining to people what is going on and advising to get that going. But some of these things that achieve one aim, take time and require another aim to be sorted through.

**Hon RICK MAZZA:** Yes, thank you for that.

**Hon PETER KATSAMBANIS:** I would like to follow-up on this particular issue, leakage and that sort of thing, because the Auditor General in his report of February this year found that you lose around 10 billion litres a year above your own benchmark, and you explained how some of that loss is probably not leakage but some of it is.

**Mrs Murphy:** Yes.

**Hon PETER KATSAMBANIS:** And you spoke about the reduction of pressure. Apart from that, what other strategies do you have in place to bring the loss down to your benchmark figure?

**Mrs Murphy:** In our asset management process, we have basically listening devices that are supposed to pick up sonically leaks; and we are targeting those on our older assets and older pipes. Interestingly, older pipes do not necessarily leak more than newer pipes, but statistically you would think that they would. We do have some sort of fragments of older pipes around the place and an asset replacement process to work through those. One of the limiting things for those is the traffic impacts of digging up pipes and replacing them. So, we have now got much closer MOUs with the

City of Perth and with Main Roads. In simple terms, if anyone is digging anything up, we will try to go in and opportunistically replace some of those sections of assets as well. The last thing we all want in the City of Perth is to dig up more roads, and if we do, I certainly do not want to put a Water Corp sign on it.

**Hon PETER KATSAMBANIS:** I hear you loud and clear. It is a frustration for a lot of people.

**Mrs Murphy:** So, in some of those things there is an opportunistic waiting for a number of projects to come together, and I think we are doing that a lot better. We are trying really hard to keep those communications going. The relationships are really strong between our City of Perth who do a lot of work in that space, and Main Roads as well. I mean, I think everyone's pet hate is seeing the road dug up and recovered and dug up again by somebody else and recovered. So, I hope we are doing better in that space. We are certainly working hard to do that. With the asset management, we are spending more on asset management every year, which is not really surprising, and working on a way to do that. It is a prioritisation of what you do that really matters. We may not have it perfect but I think it is getting better every year and we will work our way through those older assets.

**Hon PETER KATSAMBANIS:** You do offer a rebate scheme to householders who —

**Mrs Murphy:** Yes, if they have a leak.

**Hon PETER KATSAMBANIS:** — perhaps have a leak, if it is discovered that they have one. I know because I am one of those householders who, a while ago, was informed of that.

**Mrs Murphy:** You only get it once.

**Hon PETER KATSAMBANIS:** A man came out with one of those sonic pieces of equipment and found the leak et cetera.

[2.50 pm]

**The CHAIR:** So you are responsible for leaks, Peter?

**Hon PETER KATSAMBANIS:** Mate, only water leaks, I can tell you!

**Mrs Murphy:** This is why we need the media!

**Hon PETER KATSAMBANIS:** Yes.

Do you measure what the total cost to your revenue is of that system that you employ?

**Mrs Murphy:** Yes—of the leak rebates?

**Hon PETER KATSAMBANIS:** Yes.

**Mrs Murphy:** Or the leak allowances.

**Hon PETER KATSAMBANIS:** That is if you call them a rebate; I used the term “rebate”.

**Mrs Murphy:** Yes, they are actually, at the moment, covered by an operating subsidy, so it links into an earlier question. The state government reimburses us for that as part of an operating subsidy. It is in the same category loosely as pensioner discounts and such.

**Hon PETER KATSAMBANIS:** Sure; and what amount is that, or do you not know?

**Mrs Murphy:** Not a clue, sorry. I will take that as —

**Hon PETER KATSAMBANIS:** Would you be able to provide that?

**Mrs Murphy:** Sure.

**Mr Moore:** I would have to say, though, that going to bimonthly billing has started to reduce that a lot. Historically, in the metro area there were only two bills a year, so by the time you had your bill, if you had had a leak early after the previous bill, you could have quite a sizeable leak and a sizeable bill, and that induced a lot of people to, sort of, put their hand up and say they had an undiscovered leak and could we help them through this bill period. With two-monthly billing it is

less likely those bills are going to be a significant size, and we are actually getting people detecting their leaks earlier, smaller leaks, smaller bills, less need for the help. But, yes, we can provide the information on what last year's was.

**Hon PETER KATSAMBANIS:** So if you provide the information, say, as to the total subsidy for that, and the number of premises impacted?

**Mrs Murphy:** Maybe the customer centre could do that.

**Hon PETER KATSAMBANIS:** If you can. Obviously I am asking for data, and you can go away and see if it is available; I am not expecting you to create new datasets.

**Mrs Murphy:** We have a lot of datasets!

**Hon PETER KATSAMBANIS:** I am sure you do!

*[Supplementary Information No C2.]*

**Hon PETER KATSAMBANIS:** If I can follow on with a few questions that I have in this same area—the reference point I am using is page 22 of the annual report. You spoke about the recycled water scheme, and I note there on page 22, at about the middle of the second column—the middle column—it says that there is a target to achieve 30 per cent of recycled water by 2030. The figures you gave me about the current scheme will not get us to 30 per cent; what other plans do you have in place to get us to 30 per cent?

**Mrs Murphy:** It is 30 per cent of the wastewater being recycled, not 30 per cent of Perth's water supply coming from recycled water.

**Hon PETER KATSAMBANIS:** Okay.

**Mrs Murphy:** Let us just make sure we are all on the same actual KPI. The groundwater replenishment trial will almost get us there; at 28 it will get us there for Perth. In the regional areas at the moment already 40-something per cent of the wastewater is recycled, but the volumes of wastewater in the country areas are much smaller than in Perth. To hit the big targets we need to get Perth higher, and our aim is to do that largely through the groundwater replenishment work because it is a real beneficial use. In country WA, if you are inland especially, you would not have an oval or golf course with grass on it that was green, generally, without some form of recycling scheme, and that is driven —

**Mr Moore:** There are about 80 —

**Mrs Murphy:** We have 80-plus schemes. In the Pilbara it is virtually all recycled. In fact in the Pilbara, they are competing; there are more people who want treated wastewater than there is treated wastewater. It is about getting Perth up, and we have been putting our effort into getting the groundwater replenishment scheme up because it is a higher use recycling product to displace potable water. You can let more fit-for-purpose lower end recycling schemes, but to use those on public open space is not too bad because you can control how it is done. But to use it for people's gardens and things is problematic if they are not well run. If you get unsafe water on a child's toy and the child sucks on the toy, there are a whole lot of risks in that. We work closely with the health department on that, and the health department has very stringent rules and it is probably a good thing they do.

**Hon PETER KATSAMBANIS:** I understand that; there is a public health risk there. By completing the metropolitan plant to 28 gegalitres, you believe you can achieve that?

**Mrs Murphy:** We get close.

**Hon PETER KATSAMBANIS:** You get close enough?

**Mrs Murphy:** We have some other things. The wastewater treatment plant at Alkimos, which is our newest completed wastewater treatment plant, has space on site to also do some form of

groundwater replenishment. The wastewater flows have to be at a certain scale and volume to have some cost-effective recycling opportunities, so the plan will be to potentially do more groundwater replenishment there. In the southern wastewater treatment plant—so largely Woodman Point, which is the biggest one—we have a recycling scheme that hangs off the out pool of Woodman Point that treats water to a very high level for boiler feed-ins; it is almost higher than drinking water, but you would not drink it.

**The CHAIR:** The eggshells?

**Mrs Murphy:** Yes. That is sold to industry in Kwinana as a high-level feed, and that plant has capacity to expand. At the moment there is not a market for it, but as industry grows —

**Mr Moore:** East Rockingham is the same.

**Mrs Murphy:** And East Rockingham, and Sia Focé is the lead team delivering that. That is another of those alliances Peter spoke of. That plant will also have the capacity for recycling. We are increasingly building it in, partly through just footprint space, so you can actually physically do it, and then also through looking at the uses close by. But we add value at the big end of town; we add value at recycling billions of litres of water, not a litre here and a litre there.

**Hon PETER KATSAMBANIS:** My only other question in this batch was about per capita use, so should I ask that, and then you will come in? It all fits into that same category.

**The CHAIR:** Yes, all right.

**Hon PETER KATSAMBANIS:** You have a target of reducing per capita use from 131 000 to 125 000 litres per year by 2030: how do you think, in a place like Perth, you are going to achieve that?

**Mrs Murphy:** Okay; my pet subject.

**Hon PETER KATSAMBANIS:** Yes. You can confine the answer to dot points!

**Mrs Murphy:** This is the question my children roll their eyeballs back to when people ask me it at a social function.

**The CHAIR:** And the board is never brave enough to ask it anymore.

**Mrs Murphy:** Some of it will happen by itself with nothing to do with the Water Corporation because of the densification of Perth. It is inevitable that as Perth grows, Perth will move up in some areas—we will have more high-rise building—and we will have smaller block sizes across Perth than we have had historically. That is almost an inevitable function of a growing city, and that reduces per capita water demand. If you are on the top floor of a multistorey apartment block, you do use as much water per capita as a little old lady all by herself in a quarter-acre block and a big family home, living by herself. So that is the thing.

The second aspect is about the way we design our houses and the way we design our backyards. If you go back a generation, not only were yards bigger, but they were all lawn; increasingly, now, the way we are living, people have hardscape in their gardens and they do things differently. We also have moved towards covers on swimming pools. If you have a swimming pool, it usually has a bit of paving around it, and an uncovered swimming pool with paving uses about the same water as the lawn it displaces. If you cover the swimming pool, it uses way less water than the lawn that it displaces. Changes to our urban form will drive probably up to half of that saving.

The other half is in water-efficient products. We have worked very hard to get dual-flush toilets and water-efficient showerheads and water-efficient products to be the norm in Perth, but there is still a way to go. There are still non-dual flush toilets in about 15 to 20 per cent of households. As time goes on and houses are retrofitted and demolished or upgraded, if you upgrade your bathroom and put a new toilet in, it will be a dual-flush toilet. That aspect will happen.

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The other is in the behaviour change, and the behaviour change is embedding slowly across Perth. One of the most powerful things is our Waterwise Schools program, which nearly all schools run. The nag factor is measurable. We have measured per capita water use as best we can from families who have children at schools that are not a Waterwise school and families that are, and it does make a difference in the way people behave and the way they use their water. The savings now are about a big focus on removing leaks outside. If you have a tap just dripping in your backyard, you will never find a puddle in Perth, it will just drip away, but the water usage is huge. With My Water, people can go online and see their water use for their billing period, they can see it much more frequently and look for leaks themselves. But we have put smart meters on all of Kalgoorlie–Boulder and the Pilbara, and we are hoping to expand that in the future, which means that if someone has a smart water meter on their home and they sign up for My Water, they can look at their water use all the time and they can see whether, in the night, there is water coming through, which means there is a leak somewhere. It could be down the back, dripping in a toilet. Water dripping down the back of a toilet can use huge amounts. So it is about this ongoing push to make it socially unacceptable to waste water, and that is really what we are trying to say. It is not about austerity or sackcloths and ashes or living in a dustbowl, it is about social responsibility and about waste being unacceptable.

[3.00 pm]

**The CHAIR:** Following on from the replenishment trial—it is now a scheme, rather than a trial—and I do want to again make reference to the strategic development plan, under the area of wastewater, it makes mention that the most notable example currently under investigation is the possible sale of the southern metropolitan wastewater treatment plant. Then it goes on to state that whilst you support the policy of reducing long-term debt, the board is acutely aware of its obligations under the act to act commercially and hence to maximise the financial benefits, protect the long-term performance of the assets, including the environment receiving the treated water, and ensure that the future opportunity for wastewater recycling is not compromised. How would wastewater recycling be compromised by the sale of the southern metropolitan wastewater treatment plant?

**Mrs Murphy:** How would it or how could it?

**The CHAIR:** How could it; how would it?

**Mrs Murphy:** These are all hypothetical, because we are not selling anything. There is a cabinet process that will come to some point somewhere along the line on something. In the meantime it would only be if —

**The CHAIR:** There was a proposal to sell it.

**Mrs Murphy:** If the contract was poorly worded, it would be possible that whoever operated the plant could potentially have ownership of the treated effluent, and that would inhibit other people using it. We would not contract in that way; we are just raising that as a potential issue.

**The CHAIR:** Although we have seen cases in very recent times where assets of government have been contracted out and then the private sector have managed to get the government to agree to rewrite the contract, even when it is written the right way the first time. There is always that potential as well as they then seek to maximise their long-term financial gain.

**Mrs Murphy:** There is always a potential for both sides to do all kinds of things. The SDP document is a document to raise all kinds of possible risks to our owner. It was written in an open way to say that we believe we are doing a good job; we believe we have the right resources. But there are always risks, and it would be irresponsible of us not to share those risks with our shareholder, which is exactly what that is.

**The CHAIR:** If there was ever a proposal to put forward the sale of any of your assets, how do you do a public–private comparator and place a value on those risks?



**Mrs Murphy:** An economist will put a value on anything you want, and as many economists as we have got, that is how many values you get, in my experience.

**The CHAIR:** The danger is you can also employ the economist that will give you the answer you want. So if you want to sell the asset to pay down your debt, you will get an economist who tells you that the value of the risk is not as low, and you will never be allowed to tell us what the real risk is.

**Mrs Murphy:** No. We have a board. We are required to act commercially under our act, and we have a superb commercial board, and the board would always honour their obligations under the act. I believe our track record in the corporation of contracting is pretty strong. So I think we are pretty clearly charged with looking after our customers, and we would always point those out to anyone. No-one is looking to do any damage to the Water Corporation. Government is looking at all sorts of options, as it should, and there is a cabinet process that will come to a conclusion. The Premier has made his views on the privatisation of the Water Corporation known. In the meantime, it is up to us to do everything in our power to operate at the lowest possible cost to ensure our capital is efficient, and I think it is incumbent on us to push, push, push all of our people and all of our processes to keep doing that.

**The CHAIR:** In terms of all of the finances and forward estimates, and we do not get you in generally as part of the budget process, but in the budget, there is an allocation for dividends going forward from the Water Corporation, and from what I can gather that was based on the six per cent increase in water charges each year for the next three years, because we already have them for this year. With those other changes in terms of the spending less capital, does that reduce the need for those six per cent increases in charges?

**Mrs Murphy:** Pricing is a government call, so the government will make that call. That would reduce our operating costs.

**The CHAIR:** Which in theory could mean that to get the same dividend, you could actually afford to reduce your prices?

**Mrs Murphy:** Potentially. All kinds of things are possible. It depends. Remember, our dividend is used across government for other works anyway, so that becomes a decision of the Treasurer and our minister.

**The CHAIR:** Equally, if you do not get a six per cent increase in your fees, does that mean that the dividends that are currently written into the forward estimates of the budget are likely to be reduced? If you were to be kept to, say, inflation-only increases in your fees and charges, would that have an impact; and, if so, what sort of magnitude would the impact be on your dividend paid to government?

**Mrs Murphy:** If nothing else changed—if we did not save any money, if we did not lower our costs—if our price goes down, the dividend goes down, yes. There are a lot of variables in that.

**The CHAIR:** What would you need to save to be able to have CPI increases in water fees and still be able to pay the same level of dividend that is written into the budget papers?

**Mrs Murphy:** Well, that is —

**The CHAIR:** Because it is a serious issue for us.

**Mrs Murphy:** I know. It is not a simple answer, though, because what happens is that you have the operating subsidy component, which has to be balanced out, because it is not just about the dividend. The dividend is important, but remember that we pay to the state government a dividend, we pay tax equivalents, and we get back an operating subsidy. So the measure that is probably pertinent is what we call net accrual to government, which is dividend plus tax minus operating subsidy. Our aim is to keep that as high as possible. So if our dividend goes down but our tax goes up, who cares—I mean, we care, but —

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**The CHAIR:** Although in theory your income tax is unlikely to go up.

**Mr Hughes:** It probably will not work in that direction.

**The CHAIR:** There can be from year to year variations in that depending on decisions that are taken.

**Mrs Murphy:** It depends on what it is and whether it is the sale of an asset or where it has come from. There are all kinds of things.

**Mr Hughes:** But if prices fall and operating subsidies go up, all other things being equal, you end up with a completely different revenue profile.

**The CHAIR:** That is what I am trying to work out. That is the danger of having written into your budgets, (a), a revenue stream coming out of you as an organisation, and, (b), assuming that your operating subsidies stay the same, because you have already got a two per cent efficiency factored into your budget, and I am sure you worked pretty hard to get that. In doing that for a number of years, there must be a point where if you keep squeezing more water out of the sponge, it becomes dry. If you start factoring into your forward estimates an assumption that you are going to go up by six per cent, which is almost two to three times the rate of inflation, it starts to lead to a dangerous outcome for the overall budget of the state, because the revenue that is then factored in based on that is not going to materialise.

**Mr Moore:** As Ross said, our operating subsidy at the moment is \$450-odd million. If you reduce the revenue from six per cent down to inflation, that jumps by that quantum as well. There are many complexities in that model to work out that it is not a straight reflection of removing it from the top and then moving down.

**The CHAIR:** You are right about the net accrual of government because although you might still be paying the same dividend, they have got to pay you a greater subsidy to achieve it.

**Mr Moore:** That is why the end product, the net return to government, which is a combination of all those issues, is how much money does government actually get back that it can use for other things.

**Mr Hughes:** Another factor is the capital investment program that we have been talking about as well from your other questions. If that goes up or down, the price under the proper economic framework follows it as well. So a lot of the capital programs—the conversation we had earlier—naturally drive a lower price, and vice versa.

[3.10 pm]

**The CHAIR:** Although in terms of your overall operation, I would have thought—I know it sounds trite but \$1 billion is not going to make that big a difference, is it?

**Mr Hughes:** It makes a huge difference. It is similar to the operating subsidy in principle—operating expenditure, return of capital, depreciation, return on capital. It is a similar principle. A large proportion of our earnings are the result of earning a commercial return on our assets.

**Mrs Murphy:** In broad terms, the operating cost of the business is about 30 per cent of the bill we send to customers. So if we halved our operating cost, which is not going to happen, that is only going to be a 15 per cent reduction in price on that basis. Our price is calculated on our regulated asset value, which is \$15 billion, so a \$1 billion in \$15 billion is material.

**The CHAIR:** This is a broader question about budgeting for government, it strikes me that the safest thing for government to be doing, though, is to factor in CPI increases as the starting point when it is calculating its budget, and then if it wants to increase it or do things in future years, then increase it rather than starting with assumptions that are a six per cent increase, or over three years an 18 per cent increase.

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**Mrs Murphy:** That is a question for Treasury or the Treasurer. We would not dare have an opinion on such things.

**The CHAIR:** Even though you end up having to wear it!

**Hon ALANNA CLOHESY:** My question is about the inherent tension between you having to have a return to government and the contractor having to have a return, as well as having to provide an efficient service. That is the tension in the PPPs and also some of the kinds of things that you identified in the SDP.

**Mrs Murphy:** We have one large PPP for Mundaring, and from our point of view it is just so much a litre for the water. So that is not really embedded in that. The issue for us is with our two big operating alliances. In Perth, we deliver all the metropolitan services largely through two operating alliances. There is one that runs our big water and wastewater treatment plants, and that is the Aroona Alliance, which is with Degremont and Transfield Services, and that has got about two-thirds Water Corp people and one-third private sector people in partnership to deliver, and then we have the Programmed Alliance, which fixes all the leaks and bursts and pipes and pumps and things like that, and that is about one-third Water Corp and two-thirds private sector. Each of those alliances has a budget every year that is linked to our own efficiency requirement, which the chairman explained, which is that two per cent every year—so at escalation of growth, take off two per cent, and that goes in for them, so they are obligated to return that two per cent—and then, over and above that, if they find savings and can come in lower, we share those 50-50 with them and they get cash that year, but next year's budget is reduced by that, so it has got to be a sustainable saving. At the moment, the way our alliances are worded is they are incentivised to find savings, and in the first year we share the saving, and from then on we get the whole value of that saving. At the moment we have managed to line those up quite well. What we are talking about there is that the issue would be if you sell big chunks of the Water Corporation, you do not have flexibility with that. So if government wanted to play with price, there is not much else to flex. You know—you can only turn off things that you control; you cannot turn off fixed contracts.

**Hon ALANNA CLOHESY:** And that is what they are—fixed contracts.

**Mrs Murphy:** But at the moment, that is not case for our alliances. Our alliances are linked into our own budgeting processes, with the exception of the PPP for Helena Water at Mundaring, but as a percentage of our total turn out, that is not —

**Hon LYNN MacLAREN:** You mentioned your wastewater treatment plants. I want to ask you one question about the Jandakot water treatment plant. As you know it has been recently reported in the news that the Success fire station might have had a cancer cluster. I asked the minister some questions about this—hopefully you advised her on this. Has the Water Corporation commented on this, because the Success fire station has not been there for very long. When they were planning to locate that within the buffer zone of the water treatment plant, or close to it —

**Mrs Murphy:** It is not within the buffer zone.

**Hon LYNN MacLAREN:** The buffer zone I think is 200 metres?

**Mr Moore:** There were two buffer zones originally. Originally, there was an odour buffer zone, because we used aerators there because it is groundwater with iron and manganese in it. We had an aerator that basically threw the water up in the air, and it released iron which had a bit of an odour in the area, and there was a 300 or 400-metre buffer at that stage. We no longer use the aerator, so the 200-metre buffer now is purely a buffer for chlorine gas leaks. So we keep people out of that 200-metre zone in case there is a chlorine gas leak, as a protection zone. So the buffer is now 200 metres, and this fire station is outside that.

**Hon LYNN MacLAREN:** It is outside the 200 metres?

**Mr Moore:** yes.

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**Hon LYNN MacLAREN:** So when they decided to locate the fire station there, because I think it is the only thing near that water treatment plant —

**Mr Moore:** There are houses not too far away, but, yes.

**Hon LYNN MacLAREN:** I think they are outside that —

**Mr Moore:** They are all outside the buffer.

**Mrs Murphy:** There is nothing in the buffer.

**Hon LYNN MacLAREN:** So there is nothing within that 300-metre buffer—the original 300-metre buffer —

**Mr Moore:** You are probably right, yes.

**Hon LYNN MacLAREN:** The only thing that is within that, but outside the 200-metre buffer, is that fire station. So I am just wondering, when that buffer zone was under consideration for the amendment, if the Water Corporation commented on that, and at that time did it negotiate —

**Mr Moore:** With the fire station?

**Hon LYNN MacLAREN:** Yes, because that fire station had not been there that long.

**Mr Moore:** I do not have that information. I would be surprised if—I mean, the buffer was known as an odour buffer. I do not have the timing, but I suspect the change in buffer would have been about the time the fire station went in anyway. But being an odour buffer only, it is not even a noxious odour, because it is just iron; it is a bit of a swampy smell. It is my understanding that where the fire station is, if it was inside the 300, it is only just.

**Hon LYNN MacLAREN:** So that would be outside the chlorine gas buffer?

**Mr Moore:** It is outside the chlorine gas buffer, yes.

**Mrs Murphy:** But the chlorine gas buffer exists on all our—it is the same with major swimming pools. Chlorine gas is really bad; that is why we have the buffer. It would be catastrophic if that were to get —

**Mr Moore:** It is there for a failure in the chlorine system where you get a gas leak outside the building.

**Mrs Murphy:** We have got enormous controls on all of our buildings.

**Hon LYNN MacLAREN:** But if you do have a leak there, but it is within the building, it would be contained —

**Mr Moore:** If you have a leak there, the first containment is within the building. But if it gets outside the building, then that is the reason for the buffer—to make sure there are plenty of escape zones.

**Hon LYNN MacLAREN:** The minister has mentioned that there have been tests—monitoring.

**Mr Moore:** There were tests on the site prior to us taking over the site—that was 1977.

**Hon LYNN MacLAREN:** But is there still monitoring?

**Mr Moore:** No. There is monitoring currently for water quality coming out of the bores and water quality going into the system after the treatment plant. It is only the water; we are not doing air monitoring —

**Hon LYNN MacLAREN:** You are not monitoring the air shed for any leaks?

**Mr Moore:** No, and there was no reason for us to do that.

**Mrs Murphy:** It is the same process with virtually all of our plants.

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**Mr Moore:** Nor do we monitor any ground environment around it. We have indicated to the authorities that we will cooperate in any investigation they are now doing to that overall site.

**Hon LYNN MacLAREN:** It is a terrible thing to happen to those guys.

**Mr Moore:** Yes. As far as water quality is concerned, they would be drinking exactly the same quality as everybody else in Success and, I have to say, for most of the metropolitan area, because it is an integrated system. We would be absolutely shocked if there was anything in a drinking water environment that is causing that issue.

**Hon LYNN MacLAREN:** So there is no precedent of that occurring in any of your other wastewater treatments?

**Mr Moore:** There is a water treatment, but not wastewater. We have one at Mirrabooka and we have one at Gwelup. In the case of Mirrabooka, we are at the moment moving the chlorine plant because the local government wants to put an aged persons' home in what was the buffer. There is an agreement for that. In Gwelup, I think we have actually moved to sodium hypochlorite, so you do not need the chlorine buffer. But there are houses literally 20 metres away.

[3.20 pm]

**Hon LYNN MacLAREN:** I understand you are doing that at Jandakot too—sodium hypochlorite.

**Mr Moore:** It is a liquid chlorine; it is not a gas.

**Hon LYNN MacLAREN:** Say you are transitioning from chlorine to that?

**Mr Moore:** Chlorine gas—as a gas.

**Mrs Murphy:** It is still chlorine in the water.

**Hon LYNN MacLAREN:** When will that transition be completed?

**Mr Moore:** I think it is with the current upgrade. I do not know; we are currently doing an upgrade to accommodate a new Yarragadee bore on that site. We drilled the new Yarragadee bore about 18 months ago. We have to upgrade the treatment plant. That is in train now and should be completed by the end of this year roughly.

**Hon RICK MAZZA:** I just wanted to know how many country towns the corporation is still trucking water into.

**Mrs Murphy:** While Peter counts can I say that we are not trucking—

**Hon RICK MAZZA:** How many did you do on the weekend, Peter?

**Mrs Murphy:** We are not trucking water because we are running out of water; it is water quality. So three?

**Mr Moore:** I think it is about five, but look, I do not know.

**Hon RICK MAZZA:** About five? So some of those dams are not suitable anymore—places like Rocky Gully and those places?

**Mr Moore:** At Rocky Gully the local dam is not suitable and we cart from Mt Barker to there. There are several others. Quinninup is another one. Northcliffe is another that we cart from Pemberton. There is also a place out between Coolgardie and —

**Hon RICK MAZZA:** Is it the most cost-effective way to deliver water to those towns?

**Mr Moore:** Yes.

**Hon RICK MAZZA:** So, it will continue?

**Mr Moore:** Long term that is the most cost-effective way to provide water supply to those towns and it is equal to any other solution we have provided.

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**Hon RICK MAZZA:** In the report you spoke about the regional areas having a showerheads swap. There is an allocation of 3 000 showerheads available. In the report it said there are only 500 so far that have been taken up, so I am just wondering with the other 2 500 whether take-up is relatively slow.

**Mr Moore:** I think you could ask the community to be honest. We offer these things as we did around Perth. In Perth you could go to your local Bunnings store and take your old showerheads in and we would give them to you and you would put them up. We do not force fit them. They have been offered as a water-saving device to the community. Depending on the age of houses, many new houses will already have the latest showerheads in them. I cannot give you an answer as to why the take-up has been so slow. It is there and it is available.

**Hon RICK MAZZA:** Has there been an advertising program and some sort of direct —

**Mr Moore:** Yes.

**Hon RICK MAZZA:** That is very disappointing.

**Mrs Murphy:** We target towns that have either high per capita water use or where water supplies are constrained as it is a cost-effective way to help get water down.

**Mr Hughes:** I do not think that program is finished. If you look at the report it indicates that 500 were exchanged in a number of towns and we are currently underway in a number of other towns. So I do not think we should draw the conclusion that only 500 of 3 000 will be delivered; it is an ongoing program, I am sure.

**The CHAIR:** Just in terms of those regional schemes, are there projects you could put in place to fix the problems, but the project has been deferred?

**Mrs Murphy:** Fix those problems? No, they have never been there.

**The CHAIR:** You made the point that you have not run out of water; you just do not have the quality of water. I understand the issues of turbidity, but that still says, in my view, that you have run out of —

**Mr Moore:** No, if we take places like Northcliffe, Northcliffe's local water supply was the local soak. It is water quality, because of the farmlands, everything around it would require very significant treatment costs. If you take a long-term NPV view, it is cheaper to truck there from Pemberton on a daily basis because it is a small community and we have storage on-site. As far as firefighting and other things are concerned, the local soaks are available to the community for that and so it is just the cheapest long-term option for the community.

**Mrs Murphy:** You either build the treatment plant, build a pipeline or truck. It is a lay-down misère.

**The CHAIR:** Again, in your strategic development plan it is listed as extreme the delivery of unsafe water to regional areas, so what does that mean then? What is that referring to?

**Mr Moore:** The reason for that is that there are 100 and something schemes around Western Australia that we deal with. If you go outside of Perth, they go from the size of Albany and Geraldton down to towns with 50 to 100 people in them. They go from sizeable integrated schemes down to single bores, and trying to ensure that you have the same integrity in Perth as you have in all those towns leaves you with a risk circumstance where it is an extreme risk, because a failure in one of those towns could lead to contamination of water supply, as has happened around the world. We have very good systems and mitigation is in place, but these are towns that are very isolated. We have all sorts of systems in place, like if our chlorine fails now, the system shuts off.

**The CHAIR:** That does not matter whether it is that single bore system to the IWSS.

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**Mr Moore:** It does not matter; that is the rule. If our system there failed and did not shut off, then you may have a slight risk. The risks are still very low in a single sense, but cumulatively it is an extreme risk because of the number and diversity of systems you have.

**Mrs Murphy:** Remember, when you define risk, you have got consequence and likelihood and that defines where on the risk matrix you are. If the consequence is great and the consequence of drinking water quality value is death, that is great; no matter how low the likelihood gets, it is never going to drop below high. Our aim would be to try to get it below extreme, but realistically if you have got one bore and chlorinator and it has a fail-safe and has all the checks and balances on it, that is pretty safe, but it is still one thing. It is not impossible that it fails and if it is not impossible that fails and someone could die, it will remain extreme. The point of those risk matrices is not to scare everybody; it is to make sure we put our effort in where it should be. The effort, if it is extreme risk, means it has focus. That focus does not mean you go and spend hundreds and millions of dollars, but it means the operator knows—we do the testing right and the scheme is monitored well, so it puts a focus. If we just sit back and say, “It’s all right”, that is when problems happen. So it is about focusing management attention and operating attention on the right risks.

**Mr Moore:** In that particular circumstance, too, we have a relationship with the Department of Health who are the regulator for drinking water. They actually review our whole process every year or two and do a very thorough review of it and report back to the purity of water committee on how competent our processes are.

**Hon RICK MAZZA:** The last question I have is on page 31 where you have “Improving regional water services”. It says that Hon Mia Davies has endorsed improving regional water services projects with the regional development commissions. Is there royalties for regions funding involved with working with those development commissions?

**Mrs Murphy:** Not at this stage. At this stage what we have done is taken our corporate planning team and they are engaging with each of the development commissions on their blueprints looking at the things—it is really trying to better link in to what are the things the blueprints want to do that are already in our system and our scheme and our capacity; what are the things in that that are new; and how we can help them do that. So at this stage it is not about money; it is about getting the planning right and getting the planning optimised. So, no, in an answer.

**Hon PETER KATSAMBANIS:** You mentioned the Alkimos treatment plant. There is a fair buffer land around that plant. What is the attitude of the corporation to using some of that land for more passive recreation and freeing it up for use by the growing population in that area that will exponentially grow in the next two years, as you know.

**Mrs Murphy:** We are always interested in options to better utilise all of our land in the right way. We are mindful of short-term planning decisions, and we have seen those over decades, where you end up with the customer living way too close to an inlet or a wastewater treatment plant or something, with odour issues and all kinds of problems that that causes. It can force you into a lot of expenditure you may not have otherwise meant to do. The other thing is that as Perth grows, there is going to be a shortage of bush and the good thing about those buffers is that the only animal that does not like the smell is the only animal that seems to do much damage to the bush, and that is humans. We are happy to look at that, but we would probably be uncomfortable with long-term changes to it. So if somebody wanted to put in a fire station or something like that, that may not be ideal.

**The CHAIR:** So a bus depot is?

**Mrs Murphy:** A bus depot is okay because you can easily remove it, but there are no bus depots in Alkimos.

**Hon PETER KATSAMBANIS:** I was thinking more along the lines of possibly cycling tracks and things of that nature.

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**Mrs Murphy:** Maybe, yes.

**Mr Moore:** A lot of the land in that Alkimos buffer zone is actually zoned conservation, so we have to be very careful. Around some of the borders and, where you are talking about, the potential bus depot, there is a bit of urban deferred land in the buffer, but most of the other stuff is quite sensitive ecosystem and we have to be quite careful about how that might be utilised. But walk tracks, possibly. I am not sure about cycle tracks. Certainly not motorbike tracks, because of what the history has been. There have been talks about whether we can have boat bays and that sort of stuff, but it would have to be fairly passive stuff because we are very keen to preserve bushland.

**Hon PETER KATSAMBANIS:** Okay, perhaps we will start a conversation at some point.

**Mrs Murphy:** Any time.

**The CHAIR:** The committee will forward any additional questions it has to you via the minister in writing in the next couple of days, together with the transcript of evidence, which includes questions you have taken on notice. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met. If members have any unasked questions, I ask them to email them to the committee as soon as possible after the hearing. On behalf of the committee, thank you for your attendance today.

**Hearing concluded at 3.31 pm**

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