

Water Corporation —

Ms M.M. Quirk, Chair.

Mr D.J. Kelly, Minister for Water.

Mr R.M. Hughes, Chief Financial Officer.

Mr A. Vincent, General Manager, Assets Planning Group.

Mr M. Leathersich, General Manager, Operations.

Ms J. Sheppard, Principal Policy Adviser.

Ms P. Pedelty, Senior Policy Adviser.

Ms N. Arrowsmith, Chief of Staff, Minister for Water.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. 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 my intention 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 principal clerk by Friday, 1 June 2018. I caution members that if the minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system.

I give the call to the member for North West Central.

Mr V.A. CATANIA: I refer to "Operating Subsidy—Country Expenditure" under the heading "Water Corporation" on page 130 of the *Economic and Fiscal Outlook*. I note that there is \$47.1 million worth of savings in deferred capital works investments. Can the minister outline which ones have been deferred?

Mr D.J. KELLY: As the member will know, the Water Corporation has a range of projects over time across the forward estimates. At any one time, we cannot say that these 20 projects will be completed because the Water Corporation is constantly reassessing and re-evaluating the projects that will be completed. The costs vary up and down because of things like projected construction costs and the like. Although the operating subsidy has been revised down, that does not directly result in a reduction in any particular projects. I might ask Ross Hughes to add to that.

Mr R.M. Hughes: As the paragraph states, the cost of the operating subsidy is a combination of factors, including operating expenditure and capital expenditure. So it may be that one capital project came in at a lower cost and that the operating expenditure in a number of country locations is costing us less at the moment than had been forecast, and they all come together to comprise a lower country loss of \$47.1 million versus the prior budget. As the member said, the last sentence also indicates that some projects have been deferred. We can provide a list if the member wants us to, but it is likely to be anything down to as low as \$100 000. It will not be anything sizeable.

Mr V.A. CATANIA: I am happy to take the list as supplementary information.

Mr D.J. KELLY: I am happy if the minister wants to put that question on notice.

Mr V.A. CATANIA: Why can I not have supplementary information? The information was offered by the acting CEO.

Mr D.J. KELLY: It is up to me whether that information is provided and in what form. The member can put the question on notice.

Mr V.A. CATANIA: Why can the minister not put it in supplementary information? I think it is fair enough.

The CHAIR: Member! The minister has indicated that he is not prepared to do so.

Mr V.A. CATANIA: Also under the heading "Water Corporation" on page 130, reference is made to the revised Onslow water infrastructure upgrade project. Can the minister outline what the Water Corporation intends to do with the money that has been given to government by Chevron Australia to build a new water source for Onslow? Can the minister elaborate on whether that is the best use of taxpayers' money, or are there other alternatives that could supply water to the town site of Onslow at a lower cost?

The CHAIR: Member, that was two questions, but I am sure the minister will overlook that.

Mr D.J. KELLY: There were a lot of questions. The Water Corporation has not received the money that the member is talking about—that has gone to general government. My understanding is that there have been discussions about how best to deliver that project. In our view, the optimum infrastructure to deliver the service that is provided is different from what was originally anticipated. Ashley Vincent can go through what is now considered to be the best deal for the public in delivering that infrastructure.

[8.10 pm]

Mr A. Vincent: At this stage we have a couple of projects scheduled in the forward estimates. That includes the expansion of the existing Cane River bore field. Some work will be undertaken in the next financial year to improve the capacity out of the existing water supply for Onslow. In addition, we will commence work around a desalination solution for Onslow, which will expand the capacity in the town. At this stage that is early work and it reflects the agreements that have been struck between Chevron Australia Pty Ltd and the state historically. As that money comes through from the state to the Water Corporation, we will commence the design and planning work around a desalination solution.

Mr V.A. CATANIA: Would the minister look at alternatives other than a desalination unit for the town site of Onslow if a private provider could provide a solution for a cheaper water source?

Mr D.J. KELLY: Does the member want to privatise the water source up there? Is that what the member is talking about?

Mr V.A. CATANIA: No. There is an opportunity for Minderoo Station to supply water to the town site of Onslow, which could be a cheaper alternative for the state. Would the minister consider looking at that option?

Mr D.J. KELLY: I am not familiar with that proposal. At this point I am very confident with the decision-making processes that the Water Corporation has gone through and that what it will deliver is in the best interests of the state. Anyone is free to approach government, provided they go through the proper processes, and put a proposal to government. I remind the member that we always have to be operating with the public good in mind and not necessarily just advocating on behalf of private interests.

Mr V.A. CATANIA: Who is advocating on behalf of private interests? Is the minister saying that I am?

Mr D.J. KELLY: I am saying that members always have to be careful of that.

Mr V.A. CATANIA: I think the minister has to be careful what he says.

Dr D.J. HONEY: I refer to pages 248 and 249 of the *Economic and Fiscal Outlook*. If we compare the Water Corporation's general government revenue from public corporations with the overall revenue from 2017–18 to 2018–19, the Water Corporation's percentage of total government trading enterprise recovery goes from 53 per cent to 60 per cent. My first question about this is: why is the Water Corporation bearing so much of the total and the increase in the government enterprise dividends?

Mr D.J. KELLY: Obviously, I cannot comment on the performance of other public corporations. I am not going to make any comparisons between the Water Corporation and other corporations outside my portfolio. The member would not expect me to comment on other corporations. I remind the member that the previous government had a price path for the Water Corporation. The Liberal Party and the National Party went to the 2017 election with a price path for the Water Corporation of a six per cent across-the-board increase, then a six per cent increase and two more increases of two and a half per cent. That was the price path that the previous government went to the public with.

Dr D.J. HONEY: I have a point of order. I do not think this has any relevance to the question I asked.

Mr D.J. KELLY: The question is about the return to the state from the Water Corporation. One of the key components of the return to the state is the price at which the water is sold. The member has asked me why the Water Corporation is delivering the way it is. I am talking about the budget that we inherited when we came into office, which is crucial to delivering the outcomes that we currently have.

The CHAIR: Member, you can always ask a further question if you feel that you are not getting an answer.

Dr D.J. HONEY: Thank you, Madam Chair.

Mr D.J. KELLY: The member can look at the strategic development plans that were put in place by the previous government. At least one of them was made public because the Minister for Water tabled it in Parliament. Those plans have a dividend path—dividends and tax equivalents—that is much the same and, in some circumstances, may even be higher than the dividends that we are currently going to receive across the forward estimates. The significant difference is that instead of delivering two six per cent increases to the representative household, we have reduced the increase to the representative household this year to only five and a half per cent. I know that the member for Cottesloe has been excited by the dividends and tax equivalents that the Water Corporation is returning

to the state, but before he gets too excited, his party went to the last general election with a price path that was even higher, and dividends and a return to government that were very similar.

Dr D.J. HONEY: The minister will note that I have not tried to engage in political banter and, to be frank, what the previous government intended to do is immaterial.

Mr D.J. KELLY: Is this a question?

Dr D.J. HONEY: It is a question, and this is the preamble to the question.

Mr D.J. KELLY: Just ask the question then. If you do not want to engage in political banter —

Dr D.J. HONEY: Minister, I have not interjected on you at all.

Mr D.J. KELLY: I am not sure about that, but, anyway, ask your question.

Dr D.J. HONEY: It is true. The minister is choosing to make this increase and it is a substantial tax on water users above the cost of recovery. Why is the minister choosing to go above the cost of total recovery for his department with his increased water charges?

Mr D.J. KELLY: Nothing starts from zero. We inherited \$40 billion worth of debt from the previous government. No government starts with a clean slate. The member for Cottesloe needs to understand that we inherited a price path. The Liberal and National Parties went to the last election with a price path, which was in excess of what we have outlined in this budget. Finally, the member referred to cost recovery. He will see that the Water Corporation does not over-recover when he looks across its operations. There is a substantial under-recovery in the area of country water charges. When we look at country and metropolitan charges together, there is in fact no over-recovery. I have read the member's budget reply speech. I think he talked about *Mandrake the Magician*, a sleight of hand and all that sort of stuff. He made what I thought was a very unreasonable or misinformed comment that what this government is doing is different from what the previous Liberal–National government had done. He said that the previous government had no intention of over-recovering because that instigated —

Dr D.J. HONEY: Madam Chair, I cannot see what possible relevance this has to the question I asked. This is simply politics and I have not engaged in it.

The CHAIR: Member, if we excluded any conversation in here about politics, there would not be much to talk about. I counsel the minister that we have got a very short time on this particular item. The minister has woken them all up, so maybe we can proceed to the next question.

Mr D.J. KELLY: On the question of cost recovery, which was part of the member's question, he relied on cherry-picking from the recent report of the Economic Regulation Authority. I remind the member that the previous government had a similar report prepared in 2012. It made similar findings that the previous government never acted upon. When the member looks at the issue of cost recovery, he should not look at just the most recent ERA report, but also the 2012 report.

[8.20 pm]

Mr V.A. CATANIA: I notice that a dividend of \$510 million has been returned to government and that it is nearly \$100 million more than last financial year. Is the 5.5 per cent on water cost recovery or is it because of the debt situation —

The CHAIR: That is two questions again, member.

Mr V.A. CATANIA: I am trying to get a good handle on why the dividend increased by \$100 million in one financial year. Is it attributed to the 5.5 per cent through trying to have cost recovery or is it to contribute towards government coffers for the sake of contributing? Can the minister elaborate on how he came to take that extra \$100 million out of the Water Corporation to government coffers?

Mr D.J. KELLY: That is a very long question, but I will do my best. A lot of factors impact on what the ultimate dividend and return to government will be—cost of production, cost of assets, capital works programs, how much water is consumed and where we source our water. A whole range of things contribute to the Water Corporation's total profit, if you like. It is all those —

Mr V.A. CATANIA: That is a \$100 million increase.

Mr D.J. KELLY: There was a six per cent increase in the last budget, which was exactly the same as the increase that the former government promised at the last election.

Mr V.A. CATANIA: Who sets the rate?

Mr D.J. KELLY: The member asked a very long question and I am doing my best to answer it. The six per cent increase in the last budget is one factor that has contributed to the dividend the Water Corporation has paid. There are a whole bunch of others, as I have indicated. That is exactly the same as the increase that the former government pledged it would do if it was returned to government. I suppose when opposition members get excited about those increases, they should at least be honest with the public and tell them that it is exactly what they would do if they were in government. We have made decisions based on a whole range of issues and one of them is certainly that the former government left us with a mountain of debt—a \$40 billion mountain of debt.

Mr V.A. CATANIA: So that is why the government is increasing water charges.

The CHAIR: Is that a further question?

Mr V.A. CATANIA: My further question is: what role did the Economic Regulation Authority play in setting the water price at 5.5 per cent, which has increased the dividend to government by \$100 million? What role does the ERA play in setting any targets for the Water Corporation?

Mr D.J. KELLY: I would have thought that the member would understand that the ERA plays an advisory role. The ERA does reports to government on things like water tariffs —

Mr V.A. CATANIA: What did the ERA advise the government on?

The CHAIR: Member, just listen to the answer.

Mr D.J. KELLY: Hang on, the ERA only does reports on issues like water pricing at the request of the Treasurer from time to time. The member will remember that in 2012 the ERA did a review and made a report with a recommendation to get rid of the country water supply subsidy.

Mr V.A. CATANIA: Which the government is keen to get rid of.

Mr D.J. KELLY: Absolutely not, member. The subsidy for country water supply users will continue under this government. The ERA, which the members for North West Central and Cottesloe champion, previously recommended that we should do away with subsidising country water supplies.

Mr V.A. CATANIA: I am not asking about the subsidy; I am asking about what the ERA set —

The CHAIR: The member has asked a number of questions and I am mindful of the time.

Mr V.A. CATANIA: What water charges did the ERA set the government for this financial year?

The CHAIR: I think the minister has answered that.

Mr D.J. KELLY: The ERA did not set anything for this financial year. Previously —

Mr V.A. CATANIA: What advice did it provide?

Mr D.J. KELLY: The member can see the advice the ERA gave in those two reports. One of its very strong recommendations was that we stop subsidising country water customers. If the member wants me to implement the ERA's recommendations as far as water pricing goes, I am happy to go out and say that the Nationals want to do away —

Mr V.A. CATANIA: That's verballing.

Mr D.J. KELLY: The member keeps interrupting me. If the member wants me to go out and say that the Nationals want to do away with the subsidy for country water customers, I am very happy to.

Mr V.A. CATANIA: The ERA advised —

The CHAIR: Member!

Mr D.J. KELLY: The ERA advised us to get rid of the country water supply subsidy. Would the member like us to do that? Is that the Nationals' policy?

Mr V.A. CATANIA: I asked what the ERA advised the minister on. Was it 5.5 per cent or lower?

The CHAIR: That is another question, member.

Mr V.A. CATANIA: What was the ERA's advice?

Mr D.J. KELLY: The member can read the ERA's advice —

Mr V.A. CATANIA: I am asking you; you are the minister. This is estimates and I am asking you.

Mr D.J. KELLY: The ERA made a bundle of recommendations in its most recent report including, for example, a flat charge for wastewater—currently, wastewater is charged according to gross rental values—which would result in customers in low socioeconomic areas getting a substantial increase in their wastewater bills, whether that is in the metropolitan area or in the country. We do not believe that is something that should be recommended. If that is the Nationals’ policy, I am happy to tell people. A whole batch of recommendations were made and they are on the public record.

Mr V.A. CATANIA: What was the ERA’s recommendation on increasing water fees by 5.5 per cent for this financial year?

Mr D.J. KELLY: The ERA did not make specific recommendations on year-by-year water charges. It made general recommendations around things like the structure of sewerage pricing and subsidies for country water users. The ERA does not make specific recommendations.

Dr D.J. HONEY: The minister referred to the over-recovery as being required to cover country sewerage and drainage operations as a net loss; however, I note that table 1 on page 175 of budget paper No 3 shows that royalties for regions payments for 2019–20 will be \$191 million and will go up to \$320 million in the forward estimates. Is it true that it is not over-recovering to cover water sewerage costs, because that cost will be met by royalties for regions, and this is a net over-recovery? What is that net over-recovery by year in the forward estimates?

Mr D.J. KELLY: I think the member for Cottesloe is confusing himself. Whether the Water Corporation over-recovers or under-recovers is based on the Water Corporation’s own costs and what it charges. If the member looks at the Water Corporation’s operations in total across Western Australia, he will see that they do not overcharge and they do not over-recover. If the member wants to cherry-pick and look at specific groups of customers, he could find that in some areas there is an over-recovery and in some areas there is an under-recovery. The premise of the member’s question that the Water Corporation over-recovers is not correct. There is a policy that has been shared—I would have thought it was bipartisan—that we subsidise country water customers. In previous years, that subsidy has been paid for by consolidated revenue. Across the forward estimates, a contribution will be made through the royalties for regions scheme. As the member has heard in previous conversations, there are people out there who would like us to get rid of the country subsidy. I think even the Leader of the Opposition has said that the previous government considered paying for the country water subsidy out of royalties for regions. The previous government did not make that decision, but it is something that it considered. We have decided that the best way to secure financing for the country water subsidy is for there to be a contribution through royalties for regions. That will hopefully secure that subsidy for hardworking people in regional areas into the future.

[8.30 pm]

The CHAIR: Members, that completes the examination of the Water Corporation.

Dr D.J. HONEY: Madam Chair, can we please extend this session?

The CHAIR: I am afraid we cannot do so.

Dr D.J. HONEY: The reason I say that is that the next category is unlikely to extend into this time zone.

The CHAIR: It is an off-budget item and we are required to finish it by 8.30 pm.

Meeting suspended from 8.30 to 8.38 pm