

Source #1 - State water policy fails public interest

Adapted from the Editorial in the West Australian, 29-03-08

The State Government has dismissed proposals for serious reform of water supply management made recently in a Productivity Commission discussion paper for key changes in water management. Alan Carpenter's immediate response to the report's suggestions was to rule them out, regardless of how **economically inefficient** the present system seems to be.

The Premier would not go along with **privatising** water supplies or **deregulating** prices. He prefers to sustain the inefficient monopoly and price regulation which contributes to a continuing crisis in water supply, rather than open his mind to other, potentially more efficient, options. The Productivity Commission says the current centralised urban water system is not economically efficient and **does not effectively balance demand and supply**. Its paper says this can be remedied by breaking the Water Corporation monopoly over water supply and allowing private companies to supply water. Prices should also be deregulated.

With an apparent inexhaustible source of ocean water, the Government has decided to use **desalination plants** to help overcome water shortages. However, there is no valid reason desalinated water **could not be supplied by private companies** in competition with each other and the Water Corporation. The distribution infrastructure would be kept in public ownership because assets should not be privatised if they are not open to competition.

Water of course is an essential need and there would be **equity issues** to be resolved under a deregulated system. This could be done by allocating an allowance for everyone at a basic price, with people choosing to use more than that than paying increasingly more on a sliding scale. The extra money paid by the water guzzlers would in effect subsidise the costs of providing water to those that stayed within their allowances.

The government fails the public interest by maintaining an inflexible and outdated bureaucratic mind-set on water supply.



Source #2 – Desalination is suddenly a sweet solution

17% of Perth's drinking water comes from Australia's first desalination plant at Kwinana. This will rise to over 30% when a second plant, north of Perth, is opened in 2011. The 45 gigalitres of water the plant produces each year reaches about 1.6m people in the south of the State. West Australia's Water Corporation is a State-owned enterprise.

Desalination has now become the favoured way of dealing with the shortage of water linked with the long-term decline in rainfall because of improvements in technology has reduced production costs. However, it is still about ten times more expensive to produce water from desalination than from harvesting rainwater.

The biggest economic problem with desalination is its enormous thirst for electric power – it takes 24 megawatts of electricity per annum (enough for 30,000 households) to power the desalination plant at Kwinana. The Water Corporation claims to have offset this by purchasing the equivalent

amount of renewable energy from a purpose built wind farm at Emu Farms near Cervantes, north of Perth.



The water produced at Kwinana has meant that Perth households have not had to face the type of water restrictions imposed in the Eastern States and that water can be 'banked' in the Canning Dam for future use in times of heavy demand. Access to sufficient water is vital for the future viability of Perth as a major urban centre. The UWA Centre for Water Research is satisfied the plant is not doing any harm to the environment and to marine life.

An independent enquiry is to be set up to examine Western Australia's water supply policy. As expert Year 11 Economics students you have been invited to make a submission to the enquiry.

You need to prepare a short submission (between 150 to 200 words in length not including any diagrams) putting forward either **the case for reform** on the lines suggested by the Productivity Commission or the **case for maintaining the status quo** (maintaining the WA Government's water strategy).

The enquiry team will expect your submission to include the following economic terms (which should be highlighted in colour or in bold letters):

a) efficiency; b) equity; c) privatisation; d) deregulation; e) regulated market; f) market equilibrium; g) demand; h) supply; i) consumer surplus; j) producer surplus; k) community surplus; l) opportunity cost; m) free good; n) natural monopoly; o) monopoly power.

They also require at least one appropriate diagram to support your statement.

Some questions you might want to consider

1. What would be the signs or evidence that the present system of water supply is economically inefficient?
2. What is privatisation?
3. How are prices fixed in a deregulated market?
4. The Water Corporation is a publically controlled monopoly. What factors might contribute to its inefficiency?
5. Is it a good thing that demand and supply are brought into balance?
6. What changes are needed to bring demand and supply into balance?
7. Ocean water is not relatively scarce and so is a free good. What is the opportunity cost of using desalinated water to overcome water shortages?
8. What are the plus and minus points linked to private companies supplying water in competition with each other and the Water Corporation?

What could go wrong if the water supply network was privatised?

10. What is meant by saying there are 'equity issues' to be resolved under a deregulated system?
 11. How could the equity issues be resolved?
 12. What appears to be the view of the Editor of the West Australian about monopoly power? Is there any irony here?
 13. What measures can the government or Water Corporation take to ensure water is supplied efficiently and fairly in the south of Western Australia?
 14. Does the government have to be involved? What problems might arise if the government left the responsibility for water supply to private enterprise and the free-market?
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9. Do you agree that the distribution infrastructure has to be kept in public ownership?