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Ref: Desalination Plant – Pricing Investigation

Dear Minister Pearce, iPart,

Thank you for allowing members of the public to attend the public forum last week and to provide submissions to this important investigation.

1. Pricing

1a) Non-rainfall dependent water and

1b) The availability of the desalination plant to provide non-rainfall dependent drinking water.

I asked a question at the public forum about this point.

The asset in this case is metropolitan water which is regarded as worthless until billions of dollars have been spent cleansing it of impurities and imaginary pathogens. By contrast, rural water in which domesticated animals defecate at their leisure is worth billions of dollars. My understanding is that the water supply is free to SDP desalination.

I then asked if the consultant or the committee could comment on the Ethics or the Logic of this type of transaction.

The consultant was silent and the Committee replied that the objective was to provide a supply of non-rainfall dependent drinking water. Nobody addressed either the Ethics or the Logic of providing such a water supply to a city with a small population, virtually no industry and virtually no food-producing capacity when that city has an abundant supply of rainwater that is simply loaded with pesticides and flushed to sea in concrete channels.

Conclusion: Any price is too high for an inefficient and expensive desalination plant that causes environmental degradation in Sydney's economically important marine environment. Any rational people would use Sydney's copious rainfall instead.

Pricing Principles

P1) Maximum price: It appears that the main asset, Sydney's water, is provided free-of-charge and is then sold to the good citizens of Sydney.

P2.1) Rate of Return / Commercial Risks: One presenter in Sydney focused on Risk, using statistical terms that would have had little meaning for people who are not trained Statisticians but actual risks were not mentioned. I mentioned two possible risks in my first question and received the reply "Is that a question for me?" One of the two types of

risks I mentioned was discussed by the presenter about ten minutes later in response to another question from the floor, leaving the impression that actual risks had not been examined in detail.

P2.2) Opening Asset Value: “iPart should determine the appropriate opening value”. This is very unusual.

P3) Return of asset / Depreciation: This “is to reflect the economic lives of the assets”. In a rational society, the economic life of white elephants is zero. My understanding was that the desalination plant was to be closed, depending on the results of the recently held NSW State Election.

P4) The structure of the Prices: “SDP should be financially independent as to whether it supplies water or not”. One presenter appeared to be unaware of this clause. My question about Risk and fall-back arrangements with the NSW State Government received the reply “Is this a question for me?”

P5) Periodic Payments / Dam levels: Fixed costs are to include “Return on asset and Return of asset”. No benchmarks or KPI’s are provided and costs are not itemized.

P6) Periodic Payments / All efficient costs: Energy, labour and maintenance costs are specified but other costs, which apparently cannot be documented, may also be included. No benchmarks or KPI’s are provided and costs are not itemized.

P7) Any other matter:

P7.1) Advantages to the citizens of Sydney: These appear to be zero. My understanding is that Australian Water was a financial-target of multinational companies about a decade ago. They wanted to make a killing and make a killing they did.

P7.2) Ethics and Logic: It may be worth documenting the Ethics and Logic associated with this transaction, as similar transactions are pending. I quoted the words a senior US politician used in one of their inquiries “It’s a shitty deal” in my submission to NSW’s sale of the electrical generators and the same term applies here.

P7.3) Education: Such transactions should be studied in Australia’s Education System so we can do better next time. However there is not much left to sell, relatively speaking. The process of Privatization, Merger / Demerger and Bankruptcy has been well established in Australia over recent generations. People who work for Australia’s Financial Institutions such as the Reserve Bank need to be instructed in Australian Economics rather than the more theatrical European Economics with its periodic and highly orchestrated pseudo-disasters.

P7.4) Political support: There was little political support for this transaction. Several NSW Premiers declared they opposed it and then, time and again, the desalination project was forced back onto the agenda in order to preserve NSW’s commercially available

AAA Credit rating. NSW Premiers were dismissed by their own Party over privatizing issues in a way that would have been inappropriate for Industry or a major Sporting Team.

P7.5) Keynesian Economics: Federal Australian treasurers have been claiming for decades that Australia has a Keynesian Economy. Nothing could be further from the truth. Mr. Keynes was a European and his opinions applied mainly to a European Economy that was experiencing grave difficulties between two major wars. Australia was a colony that was providing (and still is providing) copious amounts of resources and wealth to European countries so our Economy is, by definition, radically opposed to many of the principles that are expressed in the various writings of Mr. Keynes.

As an example, selling our gold reserves a decade ago to bring down the prices of a major resource that we were producing was in direct contradiction of the written theories of Mr. Keynes. It may be worth noting that the beliefs of the Ancient Pharos that gold brought Infallibility and Immortality have been disproved over the millennia by grave robbers and by the Scriptures that we refer to each week. Water is more valuable on the Water Planet.

In a similar vein, selling our Water and Energy Utilities at rock bottom prices (minus subsidies) so they can generate “Returns for Multinational Investors” is a direct contradiction of the written theories of Mr. Keynes.

P7.6) Recommendation: Cancel all contracts associated with the desalination plant, whatever the costs, and start using Sydney’s copious rainfall instead. The Scientific American reported over a decade ago that America had spent more than a trillion dollars on their water systems which functioned better before the first dime was spent. Americans are now dismantling much of the infrastructure that Europeans had advised them to build. For example, Florida’s Everglades are being restored and steps are being taken to prevent the Mississippi’s valuable and fertile silt from being tipped over the edge of the Continental Shelf.

Let us follow America’s example and start restoring our natural Water Systems so they can be a productive Economic Asset rather than an Economic Liability. Productivity is the key word in Australia at the moment and it is time to stop Productivity Decline.

Congratulations to Federal and State treasurers on initiating a more Australia-oriented Economy in recent years. Good luck, especially with topics related to Water and Education.

PS: I am not a member of any Political Party or Environmental Group.

Yours Sincerely

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