

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into Budget Estimates 2017–18

Melbourne — 1 June 2017

Members

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Mr Steve Dimopoulos

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Ms Harriet Shing

Mr Tim Smith

Ms Louise Staley

Ms Vicki Ward

Witnesses

Ms Lisa Neville, Minister for Water,

Mr Adam Fennessy, Secretary,

Ms Carolyn Jackson, Executive Director, Finance and Planning,

Ms Kate Houghton, Deputy Secretary, Water and Catchments, and

Ms Jenny Carbery, Executive Director, Capital Projects, Department of Environment, Land, Water and Planning.

The CHAIR — I declare open the public hearings for the Public Accounts and Estimates Committee inquiry into the 2017–18 budget estimates. All mobile telephones should now be turned to silent.

I would like to welcome the Minister for Water, the Honourable Lisa Neville, MP; Mr Adam Fennessy, Secretary of the Department of Environment, Land, Water and Planning; Ms Carolyn Jackson, Executive Director, Finance and Planning; Ms Kate Houghton, Deputy Secretary, Water and Catchments; and Ms Jenny Carbery, Executive Director, Capital Projects.

All evidence is taken by the committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Comments made outside the hearing, including on social media, are not afforded such privilege.

Witnesses will not be sworn but are requested to answer all questions succinctly, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded by Hansard, and you will be provided with proof versions of the transcript for verification as soon as available. Verified transcripts, presentations and handouts will be placed on the committee's website as soon as possible.

All written communication to witnesses must be provided via officers of the PAEC secretariat. Members of the public gallery cannot participate in the committee's proceedings in any way and cannot photograph, audiorecord or videorecord any part of these proceedings.

Members of the media must remain focused only on the persons speaking. Any filming and recording must cease immediately at the completion of the hearing.

I invite the witness to make a very brief opening statement of no more than 5 minutes. This will be followed by questions from the committee. Minister?

Visual presentation.

Ms NEVILLE — Thank you, Chair. I know I have got a bit less time on water than police for the presentation, so I will move through it quickly and try and focus on the key things.

Last year when I came and presented on water we were talking about the water plan. At that point we had a draft. Since then we have released our final water plan. In fact the plan won an Institute of Public Administration Australia award for both its consultation and its policy development processes.

As you know, we put in place the water plan in order to deal with some real challenges. The reality being that we are going to have more people, less water because of climate change and greater demand for that water. So what did we need to do to be able to tackle that and position Victoria to continue to have a strong economy, strong agricultural industry and a healthy community. That is really the focus of the water plan.

We commenced the investment through that water plan in the last budget, and this budget continues that investment with an additional \$116 million invested in a range of things from securing sustainable water management systems for the state, including improvements to the statewide water planning process, which will be reflected in upcoming legislation; money to realise the potential of water grids and markets to improve, for example, the water register and the water trade sector, which is so critical to our irrigation industry; to droughtproof Melbourne and Cranbourne botanic gardens — so, again, how do you use non-potable water to be able to maintain green spaces and particularly really critical ones; how will you promote and build resilient and livable cities and suburbs — and that will be both through water efficiency measures and investments that way, but also around looking at new rules and particularly with new urban development; and how we apply climate science to better understand water planning and management in Victoria.

This next slide shows you this is funded out of environmental contributions. This shows you that with EC4, which I announced in the last budget, we said that we would fully expend that against the projects; it would not go into consolidated revenue. Unfortunately EC3 did. We have now fully expended EC3 into water projects, and we are back on track to make sure that the environment contribution levy is fully expended against water

projects. The water plan provides us with, I suppose, the policy and strategic settings to determine where that investment should be.

The next slide shows us, if people recall, last budget out of EC over the next four years we are spending \$222 million on improving the health of our waterways and catchments. This is the biggest ever environmental investment in our waterways in Victoria. That gives you a sense of where some of that investment and activity is happening. Whether it is the Gippsland Lakes or right across the state we have significant work from our riparian action plan, 36 priority rivers that are the focus of our catchment management authorities, and also money that puts our catchment management authorities onto a secure footing and responds to the issues that were raised out of the Auditor-General's report into CMAs.

The next page gives you a sense about the investment we are making in integrated water management projects. Again, this is all about how do you reduce the pressure on potable water? How do we ensure in the context of climate change with less water but a hotter climate that we continue to have green spaces? How do we continue to maximise opportunities out of potable water, out of waste — waste to energy, for example? These are some of the projects right across the state, again, where we are investing in improvements to integrated water management and in terms of greening our community and less reliance on potable water.

I have spoken a lot about the water grid, and this again is a visual picture of what that water grid looks like.

Ms PATTEN — Award-winning!

Ms NEVILLE — That is right, exactly. It is about both pipes and infrastructure, but it is also importantly about the modernisation of our system and about the rules that underpin our system, and that is the water grid. How do you utilise water right across the state in the most effective and efficient way to sustain our economy and to sustain our communities given it is so critical to our social wellbeing? So to remind people about some of those really critical infrastructure investments we are making: the 30 million to extend the water grid to Korumburra, so that is linking the desal plant to Korumburra, which continues to be on stage 1 restrictions right now; modernising Werribee and Bacchus Marsh irrigation districts; money to modernise the Macalister irrigation district; and the money to extend the pipeline for the south-west Loddon region, again to extend that into the water grid and ensure the agriculture industry in that area can continue to thrive.

I will touch now briefly on the desalination plant, because it always gets a bit of excitement going, but let us just remind people about where our water storages are up to. The desal plant is absolutely a critical component of our water grid, and it is one of the critical parts of providing that insurance policy against climate change and reducing water inflows into our system. I just remind people that we are currently sitting at 63.1 per cent in our water storages, and in fact we are sitting at that partly because it would be a lot lower if we did not have desal going into our water storages right now. We have got an order of 50 gigs that is rolling into the Cardinia reservoir right now, and we have made a decision in relation to ongoing minimum water orders of 15 gigs.

Desalination, this shows you exactly what it has done. The blue line shows you that since desal has come in it has started to stabilise the decline. We have, occasionally, rain events — January, February and March were well below the 30-year averages in terms of inflows and stream flows. Similarly May is also well below the averages. In April, even though it was above the average in terms of rainfall, actually stream flows were well below the average, so we still have a dry catchment out there. The Bureau of Meteorology is still suggesting that the three months ahead are more likely to be an El Niño and more likely to be below average rainfall. All up the 50 gigs represents about 2.8 per cent of Melbourne water storages. At the moment at the flow it is going in it has increased it by 1.8 per cent. It is a small contribution to the system but one that is critical for water security into the future.

I think I have also mentioned that through the renewable energy certificate arrangement — and I can go into details if the committee wants down the track — this enables us to offset the cost of the 50-gig order which would otherwise have been \$27 million. In the budget papers you will notice the cost in there if you take the 27 million off, because that will not be paid by water customers, and also the next three years of the trial of the 15 gigs as a minimum water order.

Just to give you a little bit of a sense of the last 24 hours in terms of Melbourne's water use, we saw water use of 1075 megalitres and desal contributed 468 megalitres to the storage. Our storage is still decreased by 615. We continue to still be on a downward spiral in terms of our water storages, so again a really important part of

avoiding a crisis. If we remember back to 2006 when our water storages fell by 20 per cent in one year, we do not want to be in that position again, and this helps contribute to that — but it is only one part of the overall water grid in achieving greater water security for Victoria.

The CHAIR — Thank you, Minister. The budget paper reference is budget paper 3, pages 66 and 74, and it relates to the investment for the water grid. Minister, can you outline to the committee — I know you touched on it briefly in your presentation, but can you flesh it out in a little bit more detail for the benefit of the committee — the investment and what this funding is going towards?

Ms NEVILLE — Yes. So as I said when I was talking about the water grid, the water grid consists of both those infrastructure projects, and I outlined a few of those — the Macalister irrigation district and the extension of the pipeline to Wedderburn in the member for Ripon's electorate, I think, so an extension of the water grid there — but importantly there are other critical parts of it. Modernising the system is one. The connections project in the north of the state, modernising a major irrigation district, is also about making sure that we are most efficiently and effectively using our water and reducing losses that are caused from evaporation. Old channels often use more water to deliver water for use by the irrigator than they actually need, so a lot of water is wasted.

But the other bit is also our water trade system. Victoria has been very successful and is probably the most transparent when it comes to our water trade system. This is particularly the case in the north of the state, and one of the measures that is contained in the water plan and is funded in this budget is a trial for a southern water market as well. The northern water market has seen Victoria benefit from the trade — yes, we trade water out of the system, but the net trade is into Victoria and into the Goulburn Murray region in particular. So being able to improve the transparency of the market is really critical for confidence in the market but also for making sure our irrigators get the best value out of that and make the most of every drop of water, wherever that is coming from.

Part of the investment in terms of improving that water grid is money that is about trialling the southern market, it is about improving the trade and the transparency of our water trade market and it is also to establish a grid oversight function. We looked at other places in the development of the water plan. How do you maximise the grid? Whether it is the desal plant, whether it is the Melbourne–Geelong pipeline, whether it is a connection to Ballarat or Bendigo, how do you maximise that water grid and our trade to again work for the benefit of our communities and our economy? So we are using a model that is similar to Queensland where we will have an oversight function to be able to get the best out of that grid and provide guidance and direction over the use of that grid.

Ms SHING — Minister, I might talk further about the grid as it applies to South Gippsland. The Korumburra announcement that you referred to around the \$30 million for water security in Loch, Nyora, Poowong and Korumburra has been sorely needed for a long time as part of what is a quick-fill, quick-drain area of the region. How is this anticipated through modelling to be able to provide better water security not just to agriculture operations but also to producers in often very water-intensive industries?

Ms NEVILLE — Thanks for that question.

Ms SHING — I just wanted to get Poowong onto the transcript, which I have now done twice. I will say it again if you would like.

Ms NEVILLE — And you did. I had the pleasure when we announced the money — the \$30 million — to go out and have a look around Burra Foods, which is obviously one of the important industries in that South Gippsland region and who are very reliant on not just a quantity of water but regular security of water. And as you rightly pointed out, Gippsland is an example where they do fill quickly and they do empty quickly. That is why, despite people talking about us having a lot of rain, Korumburra is on stage 1 restrictions, and Burra Foods can manage that, but it is when it starts to move up the chain in terms of restrictions that it really puts into jeopardy those jobs and those businesses. So this is about making sure that once we connect this into basically a direct connection into the desal there is an additional source of water to provide that water security for the industries that exist now but also to give a surety and certainty to potentially new industries in that region. It is an incredible region for dairy and has potential for other industries in the area.

We know that water security is one of the things that brings industry to Victoria now. We know that the more we can provide that, the more likelihood that we will be in a position to provide that security to drive further jobs and investment. What we also know, as I said before, is the climate change scenario suggests to us that inflows and stream flows will be significantly lower. We are already seeing it in certain parts of the state. But it will range from well below 30 per cent below 30-year averages anywhere up to 70 per cent below 30-year averages.

Ms SHING — Including with the population growth.

Ms NEVILLE — That is right. So you combine those two together and we cannot just sit around and hope that it rains, because we have already seen the impact of that.

Ms SHING — Minister, in relation to the other modernisation project which is occurring through the Goulburn-Murray Water connections project, I would like to get a better sense of how the project will achieve water savings and resolve a number of cases that, to my understanding, had been held up for some years around the future of the region and water security for this particular part of the state.

Ms NEVILLE — So I think I had an opportunity to provide some update to the committee last year on this project. This is Australia's biggest water project at the moment. It is a very significant investment in northern Victoria both now and into its future. The Brumby government first invested in stage 1 of it. The second stage is an investment that has come from the commonwealth via the Murray-Darling Basin plan, and it is about doing two things: one, providing water savings that go back to the environment under the Murray-Darling Basin plan; but also providing savings back to irrigators through modernising the system.

Ms SHING — That was abandoned under the former government.

Ms NEVILLE — The connections project basically had lost its way completely. The report that I had done on it after becoming water minister said to me that we were not going to meet the water savings target, we were not going to meet the budget and we were not going to deliver what was promised to the community. So through that I have undertaken a reset project. The project control group has been very successful. Firstly, we have had 106 legacy cases — these are often cases where people have waited six or seven years to have their matters dealt with — that have now been resolved. People now have an opportunity to get onto a portal to work out when their system is going to be dealt with. We have had 1065 unique visits to that portal. We have got guides to the community about how it is going to happen, and there is major progress.

Ms STALEY — Minister, my reference is the DELWP budget estimates questionnaire, page 18. Minister, so we can understand the impact of the 16–17 desal water order on the budget, can you please provide an update regarding the delivery of the 50-gigalitre water order, including whether it will be delivered in full by 30 June?

Ms NEVILLE — As I was saying before, the 50-gig order was put in place because we had received as part of the process advice from our water authorities and Bureau of Meteorology advice et cetera about whether we needed to place an order. That advice suggested we needed a 50-gig order to provide that buffer and security for Melbourne. That order was placed last year. The company Aquasure, who delivers the desalination plant as the private operator, has from 1 July of the year of the order, which was 1 July 2016, until 30 June 2017 to deliver the 50 gigs. Of course that is my expectation. That is what I have said every step of the way to them. And, yes, they have had some issues along the way, all of which they have had to fix as well. They are paid in order to ensure that plant is operational and ready when required.

They have to date delivered 32.25 gigalitres. That is as at 8.00 a.m. this morning, which, as I said, is about 1.8 per cent equivalent of Melbourne storages. They are delivering around 460 megalitres a day. It varies; sometimes it is a little bit higher than that. I think at this point I would say, if I calculate it out, it is unlikely to get to the 50 but I think they will be close. As I have also said publicly, there are provisions under the contract that deal with this and we will be using any option under that contract to protect the interests of Victorians if they do not deliver the 50 gigalitres as required under that contract.

Ms STALEY — To be clear: if they do not get to the 50, you will exercise the provisions in the contract around the penalties?

Ms NEVILLE — Absolutely. That is not to say that Aquasure would not try to dispute that; that is why I want to be careful about we want to protect our interests in all of this. But absolutely, all the advice I have had is pretty strongly written and we will exercise every opportunity under that contract to recover in the interests of Victorians.

Ms STALEY — A supplementary question. Will Melbourne water customers be billed for the full 50-gigalitre water order, and if so, how much?

Ms NEVILLE — In a normal situation there is a water security payment that is factored into people's bills now. Any orders above that, the ESC have calculated the cost of that. So a normal 50-gigalitre order would be around \$27 million, which is about \$12 per household per year. However, you pay only for what you get. You do not pay for what you do not get. Under the contract Aquasure are required, and they have a contractual arrangement with AGL, to purchase a number of renewable energy certificates to offset. Because there have been no orders placed, those renewable energy certificates have only been used to offset the day-to-day running of the power so there are excess RECs and because of the value of those RECS at the moment on the market, we will be utilising this opportunity to sell those RECs and there will be enough recovered to offset the cost of the 20-whatever million it is depending upon the amount of water that is delivered and any cost from the 15 gigalitres over the next three-year trials.

Ms STALEY — I do have some questions exactly about that. At the March PAEC hearings DELWP officials spoke extensively regarding the process for the development of desalinated water order advice for the minister, including the balance of principles used in the methodology. Minister, why have you decided that for the next three years you are going to order a minimum of 15 gigalitres regardless of what the department's water order advice is?

Ms NEVILLE — I suppose there are a number of reasons that I think that this is worthy of a trial. It is how other states deliver their water through desal, so you do not have a major piece of infrastructure that does not deliver some minimum each year.

Mr MORRIS — You pay \$600 million a year to keep it operational, surely.

Ms NEVILLE — I am giving you my rationale, David — my thinking behind it. I know that for some reason there is an, 'Oh, my God, imagine having a desal plant'. Perth has three and relies almost completely on those desal plants. We have never shied away from the fact that we needed this as an insurance policy for Victorians' water supply, and there are a number of ways you can come at this. The way that the contract has been structured is you have got to make a decision in April of each year for the next almost 18 months. It is designed in a way that says, 'This is not going to be a crisis management form of water security'. This is designed in a way to have a well-planned amount of water adding to our system to keep us from getting into a crisis.

In taking that to its logical conclusion in my view and when I talk to the other states about how they operate, it seemed to me that you are best off having small bits added into your system. You have got a major piece of infrastructure. Let us use it well to move away from crisis thinking to good water management thinking so that our water corporations can plan in that way, business can plan in that way, and that is what we are going to do. We are doing it as a trial. It costs about 9.8 million for that 15 gigalitres — if you are about to ask that. Again, during the trial, because of the way we are going to use the RECs, there will be no additional cost for water customers.

It gives us a chance to see if this is a good management style. This year we have the 15 gigalitres but the advice I have got from water authorities suggests that next year we may need 50 gigalitres based on the evidence. In that case, we would add to the 15 to make it up to the 50.

Ms STALEY — Exactly to that point, in March there was a lot of conversation around having these principles that drive when you order water. The view put forward then was these are the principles that drive when we order water. Not long after that we had, 'Well, we're not going to use those principles. We're going to move to a different view', which is the view you have just put forward, which is your view that you do not have a crisis management — and I will use your words — that you have an order each time. They are just different methodologies.

Ms NEVILLE — Well, they are not.

Ms STALEY — So my question is: why are you now ignoring the department's methodology?

Ms NEVILLE — It is actually not the department's methodology; it is the methodology used by our water authorities, who provide advice to me as per the contractual arrangements by 1 April each year. Under those there is absolutely no moving away. In the advice that they have given me, if you recall last year's order, they said 50 and then they said non-binding 50, 50, or 50, 100 it might have even been, at that time. So they have then come back to me and provided advice against the five factors, which are the risk of storage volume falling below the low zone, the risk of storage volume falling below the medium zone, the requirement for storages to exhibit a recovery trend in the medium term, the risk of desalination water orders resulting in foregone harvesting opportunities, and minimising customer bills. They did all of this — they looked at the Bureau of Meteorology, they looked at all the trends — and they said, 'We think this year 15 gegalitres is the right one. We are giving you advice, however, that we think you are going to need 50 gegalitres next year and 50 after that', non-binding of course, and that is reviewed each year. They are using the same methodology as they have used previously, but of course what they are now factoring in is that the next three years will also have as a minimum 15, so that will go to their thinking as well.

Ms STALEY — Okay. So my final question on this topic is: what were the total proceeds, or what are the total proceeds, of the sale of surplus renewable energy certificates?

Ms NEVILLE — Well, we have not sold those, and I am not about to say what we hope to get. All I can say is that we are absolutely confident of recovering at least enough to pay for the water order and the three lots of 15 gigs.

Ms STALEY — So when they are sold — and I take why you would not be disclosing that now because it is not done — will that number be broken out as a number that we can know?

Ms NEVILLE — Yes, there should be no issue. They may be sold over a period of time too. You do not want to flood the market, for example. But yes, we can provide that.

Ms STALEY — Thank you.

Ms PENNICUIK — Minister, could I take you to budget paper 3, pages 66 and 74, which refer to 'Water grid and markets', and there is a \$13.9 million allocation there. It says the water grid and market will be supported by building on current work to improve the water entitlement framework et cetera. And:

The improvements to water grid and markets will result in more productive regional industries, healthier rivers and waterways, and increase the capacity of regional communities to thrive in the face of variable water supplies.

So in the context of what you were saying in your presentation and also the map of the grid, I noted that map of the grid and the works that you were saying there, and it was a lot more than \$13.9 million. What I am going to is: what is that \$13.9 million actually for and how is that going to contribute to healthier rivers and waterways?

Ms NEVILLE — So this particular bit of money? I would say that the grid itself absolutely contributes to healthier waterways, because if you are modernising your system, you get less waste, you get less evaporation, you have got more opportunities for both environmental water and water for irrigators, and particularly in the context of overall less water, which we are all going to have to confront.

In particular this 13.9 million is in relation to the establishment of that grid oversight function. So that is what I said about, at the moment, what are the rules that should impact on that grid when you move water, whether it is through trade or infrastructure? How do you maximise that opportunity? When do you do it? All of that. So we will have an oversight and some better frameworks to do that. The other is to trial the south-central water market, so that is specifically from that 13.9 million. Do not forget this is a budget over four years of the EC money, of which I think all up 536 million has already been allocated, including to waterways.

Ms PENNICUIK — So what you are saying there is that is just an overarching statement?

Ms NEVILLE — Well, you have a look. So VEWH, the Victorian Environmental Water Holder, is a big player in the market, right?

Ms PENNICUIK — Yes.

Ms NEVILLE — And in fact it probably sells more water than it buys, but it buys strategic water. It overwhelmingly sells more than it buys, but in the last drought it was able to buy, using the market, water for some particular waterways that otherwise would have seen significant loss of local habitat. So VEWB is one of those parties that are in the market. They are part of the rules of the market, and rules around carryover — all of that — so having a good market, a strong market that is understood, works for all components in terms of water.

Ms PENNICUIK — So in terms of actual work on the waterways to make them healthier, that is more in the other part of the budget?

Ms NEVILLE — That is right. That is — —

Ms PENNICUIK — That is more like the riparian projects for 31 rivers et cetera.

Ms NEVILLE — That is right.

Ms PENNICUIK — So if you have got details on those that are over and above what is in the water plan — —

Ms NEVILLE — Yes, so that was all last budget. I did a little bit in the presentation on that graph.

Ms PENNICUIK — You did — a little bit.

Ms NEVILLE — And we can give you the list of those projects, but it is 222 million. It is significant — the biggest ever. Thirty-six priority waterways are listed in the water plan as well, so a place like Moorabool River et cetera. We can give you all of those as well. I can do that now, but I can also give you a full list of some of that. Some of this was also about sustaining CMAs, which was the 22 million for them.

Ms PENNICUIK — Can you just give me a bit more detail about that: how are you sustaining the CMAs with the 22 million? And you can give me the other projects on notice.

Ms NEVILLE — Okay, so firstly it provides an ongoing base of funding for CMAs over the next four years, and they have a four-year funding agreement so they have a sustainable base to work from, which is one of the things the Auditor-General raised. But as part of that, that money is also funding 10 strategic projects in each of the CMA areas, which again is something the Auditor-General identified. So there are 10 large strategic projects, some of which are in partnership with a whole lot of other agencies but are substantially environmental impact projects in their communities. And each of the CMAs — we can give you the list of what they are doing because they have all been identified.

Ms WARD — Hi, everyone. Minister, you are probably aware that in my beautiful neck of the woods we have got the Yarra River, and in the Yarra River we have got Wurundjeri eel traps, which are incredibly important not just to my own community but to Victoria as a state. Minister, in your presentation you referred to Aboriginal water. Can you please talk us through how the government is actually working to ensure that the cultural and environmental management skills of Aboriginal Victorians are utilised in water management?

Ms NEVILLE — I think one of the really significant reforms that is part of *Water for Victoria* is in fact Aboriginal water, and it has a number of components to it. Firstly, it is: how do you have Indigenous communities at the table? And for the first time we have got Indigenous representation on water boards. We have also got increasing CMA representation — so local Indigenous community representation around the quality and health of the waterways which they have thousands of years connection to, and it is important for cultural and heritage reasons.

As part of this we have also got a requirement around CMAs in all their watering decisions, so the decisions they are making around the release of water, environmental water — this includes VEWB as well — that they take account of cultural and heritage needs. So that could be that you hold off on watering a waterway, if it has no negative impact, for a certain time because there is a cultural celebration at a particular time around a waterway — so those sorts of decisions, or decisions around particular stocking of waterways. So having Indigenous communities as part of the decision-making is going to be critical to make sure we get those shared benefits out of our water.

In addition to that there is also specific funding that is being provided. Firstly, there is money to undertake training and opportunities to increase Aboriginal water management capacity — so to build the capacity of Indigenous communities to be employed and involved on the ground with waterway projects, working with our CMAs, working with our water authorities. There is also specific employment that is provided through that money.

The other is money that is specifically about providing a road map to economic outcomes. Water is a valuable asset. We know that water held in Victoria is worth about \$4 billion, right? So it is very valuable. Private industry do this a bit or superannuation funds are doing this a little bit: they will buy up land and might buy up water rights as part of that. They rehabilitate the land; they have made that land now productive; it is now making money. So are there opportunities where you provide resources to Indigenous communities to buy land or buy water rights, which they then use not just for the sale and buying of water but actually to provide long-term sustainable economic outcomes for their communities as well as for the region in which they operate. That money is to start that process. There probably will not be a one size fits all. There will be many opportunities out of that, and we have just started that process with Indigenous communities now to do that.

In addition to that what is interesting is that there are now some discussions at a federal level and with the National Farmers' Federation et cetera around whether we can get a similar arrangement or agreement in relation to Aboriginal water as part of the Murray-Darling Basin plan as well. So a lot of the learnings from what we are doing in Victoria is something that now looks like it could be a small but really significant component of that Murray-Darling Basin plan going forward.

Ms WARD — Terrific. Now, I will just bring you back to the Yarra. Earlier in the year the government announced that it would introduce a Yarra protection bill. What are the projects that are being undertaken to ensure that the Yarra is protected?

Ms NEVILLE — Very shortly we will be bringing into Parliament the Yarra protection act. This was an election commitment, and it comes at the protection of the Yarra in a number of ways. It is both about the planning rules and the relationship around how you protect the Yarra from shadows, overdevelopment, stormwater run-off, wastewater — so the quality of the water as well. The management of the Yarra protection and the strategic plan that will be part of that will be in partnership with Melbourne Water but also with the local Indigenous community, so they will form part of the governance structure as well. This will be a mix of projects. So some of the riparian work, for example, might go to how we provide perhaps wetlands along there to minimise stormwater run-off and minimise waste into the Yarra. We know that there are some opportunities to swap private-public land to provide greater corridors.

Ms WARD — Just quickly, would that also extend to smaller tributaries that run into the Yarra?

Ms NEVILLE — Yes.

Ms WARD — Excellent. Of which I have many.

Ms NEVILLE — That is right. You have got to look at responding to and dealing with those tributaries as much as the Yarra as a whole in order to improve the health of the Yarra.

Ms WARD — Thank you. I will come back to you on that another time, Minister.

Mr DIMOPOULOS — I might take over in the few remaining minutes in relation to the Murray-Darling Basin and the work of the ministerial council. You touched on it earlier. In fact before I do, sorry, I did mean to get something in: thank you for your evidence on the plant, on Wonthaggi — —

Ms NEVILLE — The desal plant.

Mr DIMOPOULOS — The desal plant, yes. Thank you. There must be a Greek word I am sure somewhere.

Mr DIMOPOULOS — Very genuinely, some of the things that I heard I had not been aware of, and it just reminds me of how comprehensive your investment in your plan is and how bereft of a plan the other side were. They were just hoping for rain. We have a far more significant plan, so well done. On the Murray-Darling

Basin, just the work of the interstate ministerial committee, can you just take us through in a bit more detail what you are working through on that committee right now?

Ms NEVILLE — I am trying to find a way to talk about the Murray-Darling Basin plan in 3 minutes, because for most people it could be a lifetime experience.

Mr DIMOPOULOS — I have got one more, so 2½ minutes actually.

Ms NEVILLE — We are at a pretty critical point in time in relation to the Murray-Darling Basin plan. This is an agreement that was formally signed up to in 2012 between South Australia, Victoria, New South Wales, Queensland and the commonwealth, and it is about delivering a certain amount of water back to the environment, back to the Murray basically. Each of the states has its first lot of water that we have got to deliver back and in a sense show we can deliver that by 30 June through works and measures.

Some of it has been through water purchase and unfortunately in Victoria we have done a lot of the heavy lifting, so a lot of the water that has been purchased towards our allocation has been the high reliability, the most secure water, which has had an impact in those regions. The remaining — what we have said is we do not want to see any more buybacks of water, because we think that will have an even more detrimental impact on our regions in the north right across the Murray, but we still have across the States 650 gigs of water to find.

We are hoping we are finding that through projects and investments through those projects. We are confident that we can do that. We have made it very clear that it cannot be through buybacks, and we are in the process of negotiating with the other states and the commonwealth about getting there. We think we can get an outcome that will see no more buybacks.

The next critical part of that is what is called up-water — 450 gigs — which is what South Australia is really relying on getting. They call it actual water that they want to see come down. That was always intended under the legislation to only be delivered if it has a neutral or better socioeconomic impact. We have done our own review of this. It shows that not only has the first lot of the water savings had an impact negatively in that region but any more water coming out would really severely impact not just on your traditional dairy, which is what people assume, but also on horticulture. That would put in jeopardy a lot of those regions.

Victoria has been pretty clear that we think that it cannot be delivered unless you can do it in a way without that negative socio-economic, and we have had an agreement from all the states and the commonwealth to do an independent socio-economic review, which will inform that.

Ms STALEY — Minister, very briefly, just a final comment arising from what we talked about before, the desal. Will you provide the committee with the advice you received from your department to order the 15 giga litres this year?

Ms NEVILLE — The advice is on the website, as far as I know. The technical advice is on the website. It is provided not by my department; it is provided by the Melbourne water authorities, and that is available publicly.

Mr MORRIS — Timing is everything. Minister, going back to the Murray Darling and the up-water, as you are aware the federal minister released the terms of reference for an independent analysis of the socio-economic impacts of efficiency measures under the MDBA. He went on to say that the additional 450 gig can only proceed if it will have no adverse socio-economic impacts on the basin, communities and industries. I assume you would agree with that.

Ms NEVILLE — Efficiency measures can be a little bit different. We have got issues with efficiency measures as part of our 650 that we have got to deliver, the on-farm stuff. We are actually looking at that because we have already shown through our socio-economic report that some of the efficiency measures that are being put on-farm are also having a really negative impact, so we are actually reviewing that component of it. The bit that the federal minister has announced is in relation to the 450.

Mr MORRIS — The 450, that is right. It appears, unfortunately, that the federal spokesman, Tony Burke, does not agree with either you or the Deputy Prime Minister. Given the concern about his apparent support for the 450 gig coming out of the system, that is obviously a concern for Victorians, and I am just wondering: have you put our state's position to Tony Burke?

Ms NEVILLE — No, because he is not in power. I have put my position to the South Australian minister, though, who you may have read got a bit colourful in some of his language when I did put that position, and I certainly have not shied away from that.

As I have said publicly to communities, ‘Look, talk to Tony Burke’, but you need to be talking, in my view, also to the Prime Minister. I have had a conversation with the Prime Minister, so do not assume that the Deputy Prime Minister and the Prime Minister are on the same page on this. My concern is more because there are some other politics happening around South Australia, because we have got some Independents. I have had a conversation with the Prime Minister about this. He has been attempting to ensure or guarantee to South Australia that 450. I think it is as critical, as I have said to communities, yes, lobby Tony Burke, but also lobby Malcolm Turnbull.

Barnaby Joyce is doing the right thing. I work with him on this, and he is doing the right thing on this on behalf of not just Victorians. But New South Wales and I are in alignment, and that is a conservative state, on this matter. I do think everyone needs to focus their attention on the current government whilst they are in power about the fact that —

Mr MORRIS — You are not saying that Tony Burke is irrelevant, are you?

Ms NEVILLE — We have got a deadline that happens to fall under this current federal government. I am focusing my attention on making sure that —

Mr MORRIS — I am sure his support would be welcome.

Ms NEVILLE — all the other states and the commonwealth are aligned on this in Victoria’s interests.

Mr MORRIS — The deadline for the sustainable diversion limit adjustment project is approaching, I understand. Can you indicate the total water savings expected to be achieved by Victoria’s nominated projects?

Ms NEVILLE — We have all got to achieve 650 gigs between the states. We have done a number of reviews on this — all the states — that showed we were in the vicinity of somewhere around 580, 550. New South Wales and we were very concerned that these are all rural-based projects. They are scientifically based, but they are all rural-based, and all the assumptions that underpin them determine what the outcomes are. So we commissioned some work, Victoria and New South Wales, to have a look at some of those assumptions that go back over this project. You have got to remember the Murray-Darling Basin plan is probably the biggest readjustment of any river system that we have seen. It is one of the first and one of the biggest, so this is a complex system that in our view cannot just be based around really tight rules. The Murray-Darling Basin Authority continues to try and put the same figures in and get the same figures out.

So we did a scientific review of it. We had a discussion with the other states about some of the assumptions that underpinned it and that could make a really big difference in terms of the flows, how you quantify that, flood events, et cetera, and some of those assumptions are incorrect. As a result of that, however, what that has meant is that we have all come back to the table to try and find a way to make sure that the projects and the investment do deliver the 650 without further buybacks.

There are about 19 capital projects in Victoria that would be part of our contribution, and they are equivalent to about \$300 million worth, and that is what we will deliver. We are confident that in the work that is happening between now and 30 June — and we have got a meeting in two weeks in Canberra to really lock this down — we will have reached an agreement that will have seen that we have delivered the water savings we need to with no further water buybacks. What everyone is now champing at the bit to do is to get the money out the door from the commonwealth to get the projects on the ground, because it is all in theory at the moment.

Mr MORRIS — But we do not yet have a number. Is that the —

Ms NEVILLE — No. We are confident we will meet our —

Mr MORRIS — You do not have a number you can disclose to us?

Ms NEVILLE — Six hundred and fifty gigalitres is what we have to meet, and what I said is the assessments that were done by the authority were suggesting we may only get to about 550. We think that is

wrong, and we have gone through a process and it is being relooked at now. We think on 30 June we will have met that agreement.

Mr MORRIS — Okay, got it. On an entirely different subject, BP5, page 20, which is about dividends. Based on the forecast dividend take, the forecast last year for the 17–18 year, the proposed dividend take for City West Water is up 15 million; for Melbourne Water, up 33 million; for South East Water, up 46 million; and for Yarra Valley Water, up 6 million. I am just wondering if you can indicate what changes in the corporation earnings and in their financial position since this time last year will support that increase in dividend payments?

Ms NEVILLE — Dividends, as you would be aware being on PAEC, are based on basically pre-tax revenue. So pre-tax revenue has increased in all our water corporations. They are suggesting somewhere from about a \$205 million increase in what was predicted, and a lot of that is being delivered because of development growth and the revenue that is required by that. This is by no means the highest amount of dividends taken from our water authorities, in fact the highest at all. In terms of ordinary dividends, basically if you have a look through the history, about 65 per cent of pre-tax revenue was taken in dividends, and that remains consistent now.

Mr MORRIS — A quick calculation: this appears to be 50 per cent of the additional revenue of 205 million. These increases are roughly 100, so it is about half the additional revenue.

Ms NEVILLE — For the ordinary dividends that are recovered, they are still sitting at 65 per cent, which if you look back the last six, seven years is exactly what everyone has done.

Mr MORRIS — Moving on to the environmental contribution levy, it will increase from 112 million to 157 million per year from this year to next year, so 2018–19 is the 157 number. I am just wondering why you chose to increase the environmental contribution levy revenue rather than reduce urban customers' water bills?

Ms NEVILLE — What we decided was to keep it as the same method as it has always been since 2004 when it was first introduced, including under every government since then. That method saw funding —

Mr MORRIS — The option would have been to take pressure off their bills.

Ms NEVILLE — No, no. I am just explaining. Our choice was to keep it the same.

Mr MORRIS — I am conscious that we have got 10 seconds.

Ms NEVILLE — Our choice, as it has been for previous governments, was to keep it at the same method, as has always been the case, which is 5 per cent for urban water revenue and 2 per cent for rural. Just like you did in government, we have done that, and we are now spending that against our strategic plan to deliver water security.

Ms PATTEN — The Essential Services Commission reviewed water prices and has looked at establishing the maximum prices that can be charged next year. Given that the sewerage and water is publicly owned, will you expect or will it be necessary for them to recover all their costs through those charges?

Ms NEVILLE — We have an independent process, which is the Essential Services Commission, that assesses all of that. That process includes assessing what capital works should or should not happen, what is a reasonable pass-on to customers. In their recent experiences with both Melbourne Water and Goulburn-Murray Water, the ESC has required a more downward pressure than the water authorities wanted. I expect that that will continue because I have also expressed in a statement of obligations an expectation on our water authorities to continue to have that downward pressure. But at the same time we need to acknowledge that we need to invest in that infrastructure, particularly in Melbourne where we have got that old sewerage system. You have got to do it in a way that is affordable for customers but also maintains that system. Through the processes, the community consultation that the ESC requires of our water authorities, I am confident that we can strike that right balance and that will continue to see a downward pressure around water prices.

You will see in the capital projects that are listed here, they have all been factored into water pricing already, so they are ones that will roll out but it will be the next lot of capital expenditure as you go.

Ms PATTEN — Yes, so up to date you do expect full cost recovery for that expansion.

Ms NEVILLE — That is right, yes. Somehow customers will pay for it, whether it is through taxes or through that.

Ms PATTEN — What about the Target 155? Is that something that you are planning to reinstate?

Ms NEVILLE — We have reinstated it, and you might have seen that on water bills and our water authorities running those programs. At the moment we are below the 155. Often when you get a little bit of rain people do not therefore need to water their gardens, and that helps a little bit. We ranged over summer anywhere from 180 to 166, and probably around that 166, 167. The water authorities will continue to really press this because 155 does save us. It is equivalent to around 20 gegalitres of water, so if you think 50 gegalitres from the desal, 20 gegalitres from just having a 155 target. But despite that, since we introduced 155 way back and during that drought Victorians have really significantly reduced their water use anyway. So the base is lower than it has ever been, but yes, we need to continue to do that.

Ms PATTEN — Is that a double-edged sword? Because we are having to put all this new infrastructure in, if we have got the customers reducing their water, so paying — so obviously —

Ms NEVILLE — Look, it is an interesting thing because I think price was always partly used as a mechanism to reduce water use, and I think it depends on how you see water, I suppose. In my view water is absolutely critical to everything — to your health, your wellbeing and your communities. In the context of climate change, discouraging people from having some green trees or gardens — now whether you use potable water, that is where we need to make sure, in new development and in our investment we are investing in —

Ms PATTEN — That we have greywater systems.

Ms NEVILLE — greywater systems, because we do need to have cooler communities, and we need to have greening.

Ms PATTEN — Is that standard now, greywater systems in the new developments?

Ms NEVILLE — That is part of the water plan. In fact we will go through a planning regulation process around that, and there are some great examples of some communities where you are seeing 70 per cent less use of potable water because apart from basically drinking water, everything else is recycled stormwater or greywater.

Ms PATTEN — Is that something that you might regulate on?

Ms NEVILLE — Yes, that is right.

The CHAIR — I would like to thank the witnesses for their attendance: the Minister for Water, Mr Fennessy, Ms Jackson, Ms Houghton and Ms Carbery. Mr Fennessy, I believe this is your last appearance before PAEC.

Mr FENNESSY — That is correct, Chair.

The CHAIR — I wish you good luck in your future endeavours.

Mr FENNESSY — Thank you. I am one of the few public servants that enjoys PAEC, along with Carolyn Jackson.

The CHAIR — We always knew you were an outlier, Mr Fennessy.

The committee will follow up on any questions taken on notice in writing. The response answering the questions in full should be provided in writing within 10 working days of the committee's request.

Committee adjourned.