PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2009–10

Melbourne — 15 May 2009

Members

Mr R. Dalla-Riva	Mr G. Rich-Phillips
Ms J. Huppert	Mr R. Scott
Ms J. Munt	Mr B. Stensholt
Mr W. Noonan	Dr W. Sykes
Ms S. Pennicuik	Mr K. Wells

Chair: Mr B. Stensholt
Deputy Chair: Mr K. Wells

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr T. Holding, Minister for Water,

Mr P. Harris, Secretary,

Mr D. Downie, General Manager, Office of Water, and

Mr D. Hill, Chief Finance Officer, Department of Sustainability and Environment.

The CHAIR — I now welcome the Minister for Water; Mr Peter Harris, Secretary of the Department of Sustainability and Environment, Mr David Downie, general manager, Office of Water, Department of Sustainability and Environment, Des Hill, chief finance officer, Department of Sustainability and Environment.

I call on the minister to give a brief presentation of no more than 10 minutes on the more complex financial and performance information and budget estimates related to the water portfolio.

Mr HOLDING — Thank you very much, Chair. Again I acknowledge Peter, David and Des have joined us to provide supporting information, if that is required.

Overheads shown.

Mr HOLDING — The first slide gives a summary of the different output elements of the Department of Sustainability and Environment. Obviously healthy and productive water systems are the particular part of the department's activities that relate to my responsibilities, but there is crossover obviously across other output areas as well. You can see there the year-on-year changes. They obviously fluctuate considerably, depending on the delivery of different programs.

Going to the next slide, how would I summarise the outlook going forward? It is very challenging. We have had one of the driest starts of the year for Melbourne ever, dry both in terms of the existing state of our storages but also dry in terms of the rainfall, the stream flows into our river systems and also the succession of extremely hot days that we had in the January–February period.

We saw that obviously manifesting itself most tragically on 7 February, on Black Saturday. The context of that was that there had been a number of days over 30 degrees and then 35 degrees in a row, and that puts particular pressure on our storages. You would have seen government ministers and water officials out making the point that whilst we wanted people to meet the target 155 for Melbourne, which I will say more about later, we also wanted people to be sensible. On those particularly hot days people should use the water that they needed to protect their health and wellbeing. The same story that exists for Melbourne is true across other parts of Victoria. We have seen below-average rainfalls and below-average stream flows, and that is reflected in turn in the state of our storages in different parts of Victoria.

The Our Water Our Future policy framework, which has been in place, and the announcements that we have made since the delivery of that policy framework to augment Victoria's water supplies with some substantial infrastructure projects, are as a consequence of that more urgent than ever.

I am pleased to be able to report to the committee that those projects are by and large on track and ready to deliver water when we said they would.

Just to draw particular infrastructure projects to the attention of the committee — not that I need to draw them to your attention, but just to remind you what some of those projects are — the Wonthaggi desalination project construction is due to start late this year.

Obviously I am limited in some of the comments I can make about the desal plant, subject as it is to a competitive tender process at the moment. All I can say is that the volume of water will be 150 gigalitres; the government has announced that. We expect water to start to become available at the end of calendar year 2011; the government has also stated that previously. We now have two consortia that are bidding for that project that have lodged proposals with the government, and the government is currently considering those proposals. I am not really sure what else I can say about that without undermining that probity process or that competitive process.

I could say a lot about the food bowl modernisation, but I will not because I am sure there will be questions about it. But the committee can see on the slide the planned expenditure for 2009–10 — that is, this coming budget year — on the expansion of Victoria's water grid. Most famously that includes obviously the north–south pipeline, but it also includes projects like the goldfields super-pipe, which is completed; the Hamilton–Grampians pipeline on which construction commenced recently — that is well under budget and ahead of schedule; the Geelong pipeline, which is on schedule; and other projects across the state, including the Wimmera–Mallee pipeline project, which, on my latest advice, I think, is now six years ahead of schedule and which is a vitally important project for north-west Victoria. The next slide shows the different projects.

The Tarago reconnection is in a sense the next of the augmentations that will come online. That is three months ahead of schedule. I would just say in relation to that project that that is an existing storage which has been reconnected to Melbourne storages. The Melbourne Water staff and the project delivery staff did a magnificent job on 7 February in protecting that asset from fire. I inspected it a couple of days after the fires, and the fire literally burnt to the wall of the treatment plant, which is the key part of facilitating that reconnection. They did an absolutely magnificent job, and I know I can extend to them the thanks and best wishes of this committee and indeed all members of Parliament in doing that.

The CHAIR — Absolutely.

Mr HOLDING — I will not say anything about the other projects; I commented on them just before.

Recycling continues to be a focus for the government. It is one of the five elements of our water plan. Not only are we seeing substantial volumes of water being recycled but we are doing far more recycling than some of our interstate friends in Sydney and Adelaide. That is something we are pleased about. Although we do not propose to drink recycled water, there are still a lot of productive uses we can put that water to, and it is pleasing to see that that is occurring.

I do want to say something about the Target 155 campaign. I know some have described that target as too onerous. I would simply say that Melburnians are now meeting the target. That is very encouraging. In fact we have had now nine weeks in a row — it might be more than that; I am sure there will be some questions in relation to that — where the target has been met and in some cases well and truly exceeded.

Already we have been able to save, when compared to water use over the same time last year, 8 billion litres of water. It is a very important figure because when we think this campaign was introduced in December last year, being able to achieve savings like that during a period of time when it has been hotter than it was at the same time last year is actually an incredible effort. It shows the value of that campaign, although there was a great deal of scepticism about it when it was launched. You can see there that the rebates are continuing with great strength — that is, rebates on water-efficient products, rainwater tanks et cetera.

The next slide shows some of the budget initiatives. You can see there that we have provided funding for the concessions. I will not say much about that — if people want to ask questions, they can. We have also provided a new program this year to provide low-income households with some support for accessing water-efficient fittings. Finally, there is a very small amount of money that is part of the new Murray-Darling Basin Authority arrangements.

In regard to sustainable water strategies, I will not say much about those other than to say they are progressing well. Having concluded the central regions sustainable water strategy, we are now well under way with the northern SWS and the western and Gippsland ones. The processes for each of those have now commenced. Our ongoing arrangements with the commonwealth and other states to implement the national water initiative continue. Smart meters are being introduced across the state, including with some of our largest water users, and that builds on the water savings the industry has already made.

The CHAIR — Thank you, Minister, for that quick introduction.

Ms HUPPERT — Minister, I refer you to the comprehensive operating statement, which appears at page 163 of budget paper 4, which I understand includes expenditure on the northern Victoria irrigation modernisation project in 2009–10. Can you outline how the irrigation modernisation will deliver broader rural and regional economic benefit in line with expectations in the water plan?

Mr HOLDING — I can. Thank you for the question. This is what we popularly call the food bowl modernisation, but in a technical sense it is more accurately called the northern Victorian irrigation renewal project is the single biggest water-saving project in Australian history, and as a consequence it is also therefore a project of great regional development importance. I am pleased to be able to inform the committee that it is generating jobs and economic activity in regional.

We see $249 million allocated for 2009–10 for NVIRP. You saw there on the slides $154 million of that coming from the Consolidated Fund, but also an additional $85 million from Melbourne Water. So while the

project is still at an early stage, I can report to the committee that significant downstream benefits for the local manufacturing sector are already being realised.

We have seen the project's regulated gate supplier, Rubicon Systems Australia, already manufacturing 1000 automated flume gates, which were installed during winter 2008. In manufacturing that number of flume gates, we saw an increased capacity at engineering firms, not only in-house at Rubicon but also at engineering firms in Euroa, Tatura and Shepparton.

We saw modernisation works during the winter of 2008 directly employing 125 people plus more than 300 contracted employees. We have seen 70 excavators and 50 trucks operating across approximately 300 worksites, and more than 80 per cent of the contractors are locally based — and locally based in the context of this project obviously extending across a pretty substantial area. We have seen materials sourced and contractors based in Shepparton, Echuca, Cohuna, Kerang, Rochester, Yarrawonga, Kyabram and Stanhope; and in 2009, 85 full-time-equivalent positions have been filled between NVIRP, the managing contractor for the project, and Goulburn-Murray Water and the catchment management authorities.

We expect during peak periods of work to see the continuation of something like 300-plus contractor staff employed on a daily basis. We have seen major contracts awarded to Ward Brothers/Underground Constructions and a number of other companies for regulated gates that are worth over $10 million; Sinclair Knight Merz and others for the lead design work; $1.5 million worth of work for Goulburn-Murray Water; and meter contract work, utilising the Goulburn-Murray Water meter supplier — over $4 million worth of work there.

There has been a huge amount of work and economic activity generated in the local area, and because of the nature of the project occurring across many different sites, not just in one location, and across a substantial area of northern Victoria which has been subjected to the pressures of extraordinarily dry conditions over a long period of time, this economic activity is welcomed.

Ms HUPPERT — Can I just follow up on that and ask you about the benefits for farmers in the area?

Mr HOLDING — I am happy to comment on some of the service delivery improvements. Not only is there the regional development impact of all that work and all that employment but we also see the benefit for irrigators with more uniform water flows to properties through modern, accurate meters, which drive, in turn, on-farm efficiencies through improved control on-farm of water flows and water volumes.

We see shorter response times between ordering and receiving water so that deliveries can better match crop requirements, which is really important for farmers, allowing on-farm watering systems to be integrated with supply systems. This in turn saves time for farmers and also reduces their labour costs. In the long-term will we see not only increased water allocations and increased water availability for farmers because of the water savings that the project will generate, but we will also see service delivery improvements by being able to better regulate the delivery of water, the flow on to farm, the watering times and, in turn, save time and labour for farmers, for irrigators.

Ms PENNICUIK — Minister, page 65 of budget paper 2 informs us that the PPPs for the desalination plant, or any other PPPs, will only proceed if it can be proven that it provides better value than an exclusively government-financed program. Can you inform the committee of any results, preliminary or otherwise, from any cost-benefit analysis that shows which option would save the most money over the long term, not only in terms of the impact on the state's finances but also on consumers who will be forced to reimburse the cost of the desalination plant construction and operation?

Mr HOLDING — The basis for government being able to acquit that statement that you have referred to is the preparation of public sector comparator. In relation to the desal plant, I can say that the public sector comparator has been prepared, as is required. Because it is the subject of a competitive process at the moment it would be inappropriate for me to say any more about that.

Ms PENNICUIK — How is the community meant to judge — —

Mr DALLA-RIVA — You never will; just ask about EaslLink.

Ms PENNICUIK — I'm just asking.

Mr HOLDING — I have answered the question; we are required to prepare a public sector comparator, and we have done exactly that. That is consistent with all of the Partnership Victoria projects that are undertaken.

Mr WELLS — Have you released that out for tender?

Ms PENNICUIK — Minister, what is the expected price of water from the desalination plant?

Mr HOLDING — I am not going to get drawn on speculation about things which are embedded in the competitive process that is currently under way.

Ms PENNICUIK — So the community is not even allowed to know what the expected price of water they will be paying for will be?

Mr HOLDING — Sue, you have asked the question — can I answer it? You know that I cannot answer questions that go to the competitive nature of the bids that I have received. If members want to go through the theatre of asking questions and then saying, 'Look, he won't answer' — —

The CHAIR — They won't actually, not while I am chairing this.

Ms PENNICUIK — It is not theatre, Minister.

Mr HOLDING — You know that I cannot those. Let us spare those who have come along to be entertained and informed today by the proceedings. Let us spare them the indignity of this.

Mr WELLS — What are you on about?

Ms PENNICUIK — This is a matter of great public importance, public interest.

The CHAIR — I think the minister has answered the question. Mr Scott?

Ms PENNICUIK — It was a non-answer.

Mr SCOTT — I refer the minister to the output measures in budget paper 3 starting on page 212, and I ask: how is the government assisting business and industry in Victoria to conserve water?

Mr HOLDING — The first thing I would say is that industry, despite some of the popular misconceptions, has actually been doing a fantastic job in reducing its water use. In fact in Melbourne we have seen industry water consumption reduced by about 35 per cent on a per capita basis when compared to the average for the 1990s. That is very encouraging. It is slightly more than the increase we have seen over the same period of time in households, which shows that industry is doing its fair share in terms of reducing its water use.

How has this been able to be achieved? It has been able to be achieved firstly because of the proactive efforts of industry itself but also because government has been providing support to businesses to enable this to occur. We have seen the implementation of water management action plans (water MAPs), which have become mandatory for all non-residential customers across Victoria consuming more than 10 million litres of water per annum.

Water MAPs apply to 1845 customers across the state, and we have supported the rollout of that program with $2.25 million worth of government funding over four years. I am pleased to be able to report to the committee that Victoria has the lowest threshold for mandatory industry water efficiency planning compared to other jurisdictions in New South Wales, South Australia and Western Australia, which means that over time we will end up targeting a greater range and a greater number of customers through that program.

We have seen a laundry program which targets commercial laundries and seeks to reduce their water use — $1 million has been put towards that best practice program, and it has targeted about 500 megalitres in savings. We have seen the shower head replacement program, not just available for households but available for industry where there are large numbers of shower heads on the site, such as at caravan parks, in hotels, sports clubs et cetera. They are able to access the program in the same way that households are for free on an exchange basis.

We have seen the recycling program, including initiatives in the 2007–08 budget; over $6 million worth of fit-for-purpose cycling activity. We have seen incentive funding provided not only through my department through the stormwater and urban recycling fund — $10 million for innovative water savings projects — but we have also seen funding for Regional Development Victoria's $10 million Water for Industry Fund. The installation of smart meters, which I mentioned in my presentation, for Melbourne's top 200 customers has provided real-time monitoring for those businesses that are high water users, so they can track their water use and identify opportunities for further savings.

There is the waterless woks program. This is of great interest not only to businesses in my electorate but in other areas where there are large concentrations of Asian eateries and for which water use is an issue. Commercial kitchens in Asian restaurants use a lot more water than non-Asian restaurants, and the introduction of waterless woks means that they can maintain their food quality and hygiene standards and the taste of the food whilst at the same time substantially reducing their water use.

I have a large number of projects here which I will not go through, but suffice to say there are some terrific examples here of projects that particular businesses have undertaken. Kraft Foods has had a 39 per cent reduction in their water use through the introduction of some savings there. There is also RMIT, Cadbury Schweppes, Amcor at Moorabbin, Esso Australia — all of these companies are looking at how they do business and what they can do to reduce their water use.

The CHAIR — Minister, if you are happy to table them for the use of the committee, we would appreciate that.

Mr HOLDING — I am happy to.

The CHAIR — I notice there is some change in the performance measures on page 214, which Mr Scott mentioned, in regard to a water conservation and alternative supply program, including industry recycling et cetera. Obviously we have an interest in any change in performance outputs.

Mr HOLDING — There is an explanation in relation to that changed performance measure so that we were more able to accurately measure the sorts of activities that we were seeking to capture. I am happy to provide that information.

The CHAIR — That would be very useful for us, thank you.

Mr WELLS — Minister, with respect to page 65 of budget paper 2 in regard to the desalination plant and the 2300 jobs that are going to be secured through water investment, I am wondering whether you could give us a list of the water projects that are going to be attached to that project that make up the 2300 jobs. I note the 1500 jobs for the desalination plant.

When will the contracts be finalised for the desalination plant — you mentioned in your introduction that you had $2 billion for it — and how long after the bidding process is finalised will you release the public sector comparator?

Mr HOLDING — When will the contracts be finalised?

Mr WELLS — When will the contracts be finalised — when will you make a decision — and how soon after the announcement of the winning bidder will you release the public sector comparator?

Mr HOLDING — We expect to finalise the contract in relation to the desalination project in this calendar year, and we would expect to release — —

Mr WELLS — You said you were going to commence construction at the end of this year.

Mr HOLDING — We expect to finalise the contract in relation to the desalination project in this calendar year, and we would expect to release the public sector comparator — the information that we make available through that, the normal release of the information — within the ordinary policy time frames that are contemplated in the Partnerships Victoria framework.

Mr WELLS — Which is what?

Mr HOLDING — I have said we will release it within the framework that exists.

The CHAIR — If you do not have that with you, you can take it on notice.

Mr WELLS — No, hang on. The first part of it, the main part of it, was the 2300 jobs.

Ms HUPPERT — That is a separate question.

Mr WELLS — No, that was the first part of my question; I was only clarifying the other parts — the jobs. You had the water projects and the publicity surrounding the 2300 jobs: 1500 jobs for the desalination plant, the other 800 jobs are made up of what projects?

Mr HOLDING — Obviously we have a large number of staff working as part of the project alliance on the delivery of the north–south pipeline. We have a large number of staff working on the Northern Victoria Irrigation Renewal Project, as I just outlined in the answer to Jennifer's question, and we have other projects around the state connected with the pipeline projects that we outlined in the presentation. The Tarago Reservoir project, which is almost finished; there have been a large number of people working on that project, so water projects around the state have already generated a huge amount of employment.

They will continue to generate huge amounts of employment, not just direct employment by the water authorities themselves but by the alliance teams and others, contractors et cetera, who are part of delivering those projects.

The CHAIR — If you have any more specific data on that, we would be pleased to receive it.

Mr WELLS — Could we get a breakdown of those?

The CHAIR — I was just asking for that. There has to be more specific data; could it be provided to us.

Mr WELLS — This is in relation to your press release on budget day about the 2300 jobs that have been secured.

Mr HOLDING — We are happy to provide some additional information.

Ms MUNT — Minister, could I please refer you to page 212 of budget paper 3 under the heading 'Sustainable water management and supply'. Can you please detail to the committee what measures are being undertaken to secure the Geelong region's long-term water supply?

Mr HOLDING — Yes, I can. The challenge in Geelong, which has been on stage 4 water restrictions with modifications and subject to some change, has been strong population growth.

Geelong and the surrounding region have experienced extraordinary population growth in recent times. The population in 2008 was 212 000, and by 2036 it is anticipated to increase to about 300 000. What that means is that more water is going to need to be made available to provide for that increasing population. Water use is forecast to increase from about 27 gigalitres — or 27 billion litres — to about 46 billion litres a year. That is according to Barwon Water's water supply demand management strategy.

So it is necessary to undertake some major projects to provide water security for the community of Geelong, and there are a number of projects that make up that. The first is the Anglesea borefield project. This is a project that will supply up to an additional 7 billion litres of water each year, commencing from the end of 2009. This is a project that has been funded entirely by Barwon Water. We expect the volume of water that it will supply to be enough to meet the needs of about 35 000 households. The second project is the northern water plant. This is expected to save about 2 billion litres of potable water each year through substitution. It will be completed in 2012. The cost of the project includes a $9.2 million contribution from the state government and a $20 million contribution from the federal government, again with large amounts of water — 2 gigalitres of potable water — savings through water substitution.

The third major project, the third major augmentation for Geelong, is the Melbourne–Geelong pipeline, which we expect to deliver up to 16 billion litres of water each year from Melbourne. In a sense, that enables Geelong to benefit from the substantial augmentations that are taking place in Melbourne. So Geelong, in a sense, gets

the benefit from the construction of the north–south pipeline, the desalination plant and the other augmentations — the Tarago reconnection and the other projects that are important for Melbourne.

There is an additional project which I will mention in passing — the Black Rock water reclamation plant. That is a plant that currently services Greater Geelong. It treats about 16 000 megalitres — 16 billion litres — of water, 16 gigs of sewage, and treats it to class C at the moment. The upgrade to that plant will enable it to produce class A recycled water, which can obviously then be applied to a greater variety of uses.

Geelong, a very important part of Victoria, with a growing population, needs access to water security in the future. The major augmentations, many of which are supported with financial contributions by the state government, are an important part of providing that water security into the future.

Dr SYKES — Minister, my question relates to the north–south pipeline and the commitment made by the government to deliver water to Melbourne. Can you clarify what the commitment is? Are you making a commitment of 75 gigalitres per year each year?

Mr HOLDING — The commitment to deliver water to Melbourne from the north–south pipeline is this: we said that in the first year of the pipe's operation, calendar year 2010, we would deliver 75 billion litres of water.

Dr SYKES — You can talk gigalitres if you like.

Mr HOLDING — Seventy-five gigalitres. It is the same thing, the same volume of water.

Dr SYKES — Let us talk the way country people talk.

The CHAIR — The minister, to answer in his own way please.

Mr HOLDING — We then said that we would deliver one-third of all the savings generated from stage 1 of the northern Victoria irrigation renewal project up to the volume of 75 billion litres — or 75 gigalitres. Obviously those savings will come on stream as the savings become available from the food bowl modernisation project. In saying that, we gave several undertakings, as a government, on behalf of Melbourne Water and the people of Melbourne.

The first thing that we said is that we would not take more than 75 gigalitres in any one year. And the construction of the pipeline, the physical constraints around the pipeline, as well as the upgrade to the Winneke treatment plant at Sugarloaf itself, are actually physical limitations on Melbourne being able to access more than 75 gigalitres in any given year.

We also gave an undertaking that Melbourne would not enter the water market to purchase water in addition to that water which Melbourne would already be receiving from the northern Victoria irrigation renewal project. So the formula is this: in the first year, calendar year 2010, Melbourne gets 75 gigalitres of water. Each year after that it gets one-third of the water savings generated from the project — up to but not more than 75 gigalitres of water.

Dr SYKES — This is a very important issue, and I have not quite got the answer I am looking for.

The CHAIR — A clarification please.

Dr SYKES — It is a clarification, because on 19 June 2007 Premier Bracks — —

The CHAIR — Not a speech, a clarification please.

Dr SYKES — It sets the background, with respect, Chair.

The CHAIR — No, with respect, Dr Sykes, you done this several times before, asking a question and then proceeding to give a speech. If you have a simple clarification that you wish to ask, rather than give a speech, ask it now please, or else I will go to the next speaker.

Dr SYKES — Thank you, Chair. My understanding of what you have said, Minister, is that there will be 75 gigalitres in the first year and then one-third of the savings in subsequent years, but no more than a maximum of 75 gigalitres to go in any one year to Melbourne. Is that correct?

Mr HOLDING — That is right.

Dr SYKES — In budget paper 2 page 64 the statement is:

> … to deliver water savings of an average of 225 gigalitres per year to be shared equally by irrigators, environment and Melbourne.

Given that that is an average — 225 — and one-third of that is 75, that statement says: on average it will be 75 gigalitres a year. Given that you have made a presentation highlighting how dry it has been this year and, as you know, for a decade or more, what volume of — —

The CHAIR — That is — —

Dr SYKES — Sorry, Chair, I am getting there. It is a complex — —

The CHAIR — No, I think you are getting into another question.

Dr SYKES — No, Chair, with due respect — —

Ms MUNT — Is this a second question, Chair?

The CHAIR — It is a second question, Dr Sykes. If you are asking the minister to clarify in terms of the volumes of water and the various things, that is fine by me.

Dr SYKES — He said 'maximum'.

The CHAIR — You have got plenty of opportunity to ask some more questions.

Dr SYKES — I'm sorry, Chair, I am seeking clarification of his answer. He has said 'maximum of 75 gigs a year', budget paper 2 says 'average'. I am now going to ask the minister how he achieves that average — the statement he has made there with a maximum 75 gigalitres a year — —

The CHAIR — That is fine. I have no problem with that part.

Dr SYKES — And related to that question is — —

The CHAIR — No, I will not allow the second part. The minister to clarify for Dr Sykes. You can ask that later.

Mr HOLDING — The statement stands, and I think the misunderstanding that Bill has, insofar as it relates to the volumes of water that Melbourne can take, is that the water can be stored in Eildon. There is the capacity to store water in Eildon, so that in particular years if Melbourne wants to regulate the volumes of water that it takes, it can do so; but it cannot exceed 75 000 billion litres of water because that is the amendment to the bulk entitlement, or the licence arrangement that will be entered into. It will restrict Melbourne to 75 000 billion litres any given year as a maximum.

Mr WELLS — So the budget paper is wrong then?

Mr HOLDING — There can be no greater clarity around the commitment that we have given than that. Kim jumps in, 'So the budget paper is wrong'. The budget paper is not in any way inconsistent with the answer that I have just given.

Members interjecting.

The CHAIR — Mr Noonan has the call. If you wish to ask further questions, do it in your turn.

Mr NOONAN — Minister, you referred to water conservation in your presentation and I noted in budget paper 3 page 212 that under 'Sustainable water management and supply' there are a range of outputs in this area. My question is: what action is the government taking to educate Victorians regarding water-saving measures?

Mr HOLDING — That is a good question. We have been using rebates in particular as a mechanism for encouraging Victorians to reduce their water use and to encourage Victorians to take up water-saving devices in

lots of different ways. The WaterSmart gardens and homes rebate scheme has been a highly successful scheme; $20 million has already been spent on providing rebates to Victorians since 2003. We have committed funding to the rebate scheme until 30 June 2011, and as the slideshow mentioned earlier, in total over 224 000 rebates have been provided.

Those rebates and the installation of the water-efficient devices and the other products that have been supported have saved something like 2.2 billion litres of water each year. We have seen 31 000 rainwater tank rebates; 9000 shower head rebates; and 2500 rebates for grey-water systems. We have also seen something like just over 300 000 showerheads swapped for more efficient units over the past three years. The strength of all of those water-efficiency devices is that the savings they generate are embedded in our water management practice now forever. As long as those devices are installed in households or in businesses across the state, they will be generating savings and reducing the call on potable water supplies forever, regardless of the level of water restrictions, regardless of permanent water-saving rules or whatever.

It is the installation of those devices which in turn has seen Melbourne's per capita water use decline and per capita water use in many regional locations declining also. We have seen that action, supported by water restrictions and water-efficiency improvements in homes, schools, industries and businesses — and I mentioned some of the activities industries and businesses have been undertaking.

I am also very pleased to be able to say that yesterday, with South East Water, I launched a program which is a Victorian first. This is a program which seeks to provide a complete water tank solution for households, not just access to a water tank rebate. What South East Water is going to do is to provide not just the services of a licensed plumber to come and provide families with advice as to what sort of water tank solution may be best for them in their household, but to also provide them with access to an interest-free loan so they can either purchase the water tank up-front, obtain the rebate and obtain a discount at the same time, or they can access the interest-free loan, a 12-month or 24-month loan, and make the repayments through direct debit arrangement with South East Water in the usual way.

They access the services of a licensed plumber. The licensed plumber returns to install the tank and to ensure that the Plumbing Industry Commission certification, which guarantees the workmanship for the installation of that rainwater tank, occurs. They will provide other advice to the family about whatever other water issues may exist in that household. It is a complete water tank solution for the family, not just a water tank rebate. We think it is fantastic that South East Water are trialling this, and I know other water retailers will look closely at the experience to see whether that is appropriate to replicate in their areas.

Mr RICH-PHILLIPS — Minister, I would like to ask you about the eastern treatment plant upgrade, which was first announced in the beginning of year 2002 by Sherryl Garbutt and re-announced by Steve Bracks in 2006. Given it is now more than seven years since the approval process started on that, why has that project not been fast-tracked? What is the current cost estimate? And is it still on track for completion in 2012?

Mr HOLDING — Thanks, Mr Rich-Phillips, for the question. Firstly, I can report to the committee that this is a very important project. Although I said in the presentation that we do not propose to drink the recycled water that will come from the eastern treatment plant when it is upgraded to produce class A recycled water, there are still productive uses that that water can be put to. So it is a very important project, and it is a very important project also in terms of being able to resolve some of the challenges around the outfall at Gunnamatta and the quality of the water and the nature of the outfall that exists at the moment.

We said, as part of the plan that we released in 2007, the next steps in the government's plan to provide water security for Victorians — we said in the next step planned that the upgrade of the eastern treatment plant would be completed in 2012, and it is still proposed. I can report to the committee that that project remains on track to be completed in 2012.

We have already commenced some substantial works and evaluation as part of that project. The most challenging issue in terms of the eastern treatment plant upgrade is resolving issues around the technology that is to be used for the treatment process. There are a number of different options which Melbourne Water has to consider, and they have undertaken some substantial scientific testing of the different sorts of water treatment processes that can be used and which ones work most effectively. That process was undertaken substantially in calendar year 2008. I can report to the committee that the Premier and I actually launched the commencement

of those technology trials with Cheryl Batagol and the team from Melbourne Water, and substantial work has now been completed on it.

That project is on track to be completed in 2012, which is when we said it would be completed when we launched the next stage of the government's water plan in 2007. At that time we estimated the project would cost, I think, about $300 million, and of course whilst you would expect those numbers to be adjusted — they were 2007 dollars when the figure was released in 2007 as part of the water plan. Beyond that we anticipate that that project will be delivered within that budget.

Mr RICH-PHILLIPS — What are the — —

The CHAIR — Quickly, in clarification.

Mr RICH-PHILLIPS — What are the adjusted 2009 dollars? Can you give us on notice the figure in 2009 dollars?

Mr HOLDING — I think the figure has actually been released in recent times because I saw one person, a member of Parliament, trying to pretend that the adjustment in dollar terms somehow reflected a cost blow-out before the construction project commenced, and I can reassure — —

Mr RICH-PHILLIPS — A shift from $170 million to $322?

The CHAIR — Thank you for that.

Ms HUPPERT — One of the key things running through this year's budget, as mentioned in the Treasurer's speech in budget paper 1, is obviously the tragic bushfires. Could you please outline how you will be maintaining a reliable and safe drinking water supply for fire-affected Victorians?

Mr HOLDING — This is a very important question. It goes without saying that the bushfires were tragic events, and they impacted on a large number of Victorians both directly in the communities where the fires occurred and also indirectly where communities had services that have been affected in different ways because of the impact of the fires.

I can report to the committee that the majority of water services to Victorian towns were unaffected, and reticulated services that were extensively damaged in the towns of Buxton and Marysville have since been restored. Water corporations have been providing immediate relief to communities that have had their bore or tank water impacted by fire. Communities such as Kinglake and Kinglake West that do not have reticulated water supplies are receiving drinking water. Bottled water was delivered initially, and then a number of community water tanks were installed at key locations, and I inspected those with the managing director of Yarra Valley Water, Tony Kelly, a couple of days after the fires occurred to check how they were operating.

There is a service being coordinated through the Victorian Bushfire Reconstruction and Recovery Authority for residents who have tank and bore water services so that they can contact their local council or the authority and arrange to have their tank cleaned and a delivery of up to 5000 litres of water. This arrangement for those affected communities is going to remain in place until the end of May. The affected communities are aware of that service and have been using it extensively. In fact I am advised that DSE has coordinated the cleaning of water tanks on over 950 properties and around 1100 one-off deliveries of 5000 litres of water in the Kinglake and Flowerdale areas.

Many other towns have also received the water or cleaning services including Flowerdale, which I mentioned, Glenburn, Chum Creek, Christmas Hills, Castella, Hazeldene, Humevale, Junction Hill, Kinglake, Kinglake Central, Kinglake West, Marysville, Murrindindi, Narbethong, Pheasant Creek, St Andrews, Strath Creek, Strathewen, Taggerty, Toolangi, Whittlesea and many, many towns where these services have been called upon.

On 10 February the water authorities activated the water industry mutual aid arrangement. Again this is very important. It enables small water authorities to access equipment that other water authorities might have. It may be generators, it may be small-scale treatment facilities or whatever, so that they can supplement their existing infrastructure during the period of peak demand that some communities experienced straight after the bushfires. So we have a system in place to share assets across water corporations when major events like this occur — when major catastrophes occur.

I also just want to comment on the state of Melbourne storages. There has been a lot of comment and understandable community anxiety about the status of Melbourne's catchments. I can say that we had substantial damage in the O'Shaughnessy and Maroondah catchments, as well as in the catchment in the Bunyip State Forest, which is the catchment for the Tarago storage which will shortly be reconnected to Melbourne's system. Overall 30 per cent of Melbourne's catchments were damaged by fire. Melbourne Water activated a very rapid response to decant water from fire-affected storages to storages that were not impacted by fire so that we had sufficient water to meet Melbourne's needs while those storages recover. That very active disaster planning by Melbourne Water enabled us to make sure that there was no threat to Melbourne's water supplies.

In the short term we expect to see a slight increase in yield because of the damage done by the fires. But with the corresponding threat of contamination in the medium to longer term, the impact on yields from the catchments is more problematic, and we would expect yields to reduce as bushfire-affected areas recover and regrowth occurs.

The CHAIR — Thank you very much for that extensive response.

Dr SYKES — Minister, I wish to explore further the previous discussion in relation to the commitment to have a maximum of 75 gigalitres of water going down the pipeline in any one year, and marry it up with budget paper 2 which infers an average of 75 gigalitres per year. I understand the logic of, if you have some wet years and if there are savings in excess of 225 gigalitres, they can be stored in the lake for piping down the pipe later on. There is an issue about whether those savings are there, but I am not going to go down that track.

In the current situation that we have, Minister, where we have had a number of dry years in a row, and the last three years with Goulburn-Murray Water, in 2006–07 the water losses, which obviously impact on the amount of water savings you can make, were 461 gigalitres; in 2007–08 there was 380 gigalitres of loss; and in 2008–09 the projected loss is to be 320 gigalitres. Unless there is a significant rainfall event, how is it going to be possible to deliver the 75 gigalitres of water to Melbourne in the year after 2010, and what is, on best projections, assuming continuation of the current dry weather, the projected amount of water that will flow down the pipeline in 2011 and subsequent years?

Mr HOLDING — Firstly, I just need to correct something that was in your question, Bill. You said that if the savings were greater than 225, Melbourne could store a greater share of savings, more than 75 gigalitres. The water-sharing arrangement is this: up to 225 gigalitres of water, they are shared one-third, one-third, one-third. Above 225 gigalitres worth of savings, Melbourne does not take more than 75 gigalitres.

Dr SYKES — So you could never have more than 75 gigalitres of savings from any one year?

Mr HOLDING — It is not possible. It is not permitted under the arrangements that have been put in place for Melbourne to take more than 75 gigalitres in a year.

Dr SYKES — Okay.

Mr HOLDING — I just want to make that clear, because that is consistent with what we have always said.

The next element of your question was about what the savings might be in the year after 2010. What we have always said is that Melbourne will be entitled to access one-third of the savings that the food bowl modernisation stage 1 project has achieved by that period of time. I am not going to sit here today and speculate about what that volume of water may be. I can say it will be one-third of what has been achieved, but I am not going to speculate.

The reason why is, as you have identified in your question, it depends on a lot of different elements in the scenario, including how dry the year is and what the long-term average savings are versus what the savings in any particular year are going to be. Given that it is not possible for us to know what the rainfall outlook will be in 2011, I am not going to make predictions about it here on the back of the nature of the question that you have asked.

But I will make this more broad point because I think this is very important: the proposition which has been advanced by some is that in dry years the volume of savings, and even the volume of losses, could potentially be less than the volume of average savings that the government anticipates achieving against the long-term

average. I would simply make this point: in dry years the volume of allocated water to farmers will decline. We have seen that in recent times.

As a consequence, the volume of losses in the system also will potentially decline in some years, but it needs to be said that the percentage of losses as a proportion of the total water supplied in the system actually increases. The percentage of losses as a proportion of the total water supplied in the system actually increases in drier years. In fact our systems have seen substantial losses as a percentage of the total volume of water supplied in drier years, and that is why the urgency of the food bowl modernisation is even greater. It is even more important in drier years that we modernise irrigation infrastructure and generate savings because the percentage of total losses as a proportion of the total system actually increases.

Dr SYKES — Okay. Finishing off on my point, you have got a commitment of no more than 75 gigalitres in any one year and you have got a commitment of an average of 225 gigalitres — that means 75 gigalitres a year going to Melbourne — but you have acknowledged that you cannot store water over and above 75 gigalitres per year: I would put it to you that if you have a year of less than 225 gigalitres of savings, you cannot in any way honour the commitment that you have made in the budget paper to maintain an average of 225 gigalitres a year. It is not possible according to the constraints that you have just outlined.

The CHAIR — That may well be a statement. Have you got anything to add, Minister?

Dr SYKES — Can you assure — —

Mr HOLDING — I have provided extensive information to the committee on this. What we have said all the time is that 225 gigalitres is the projected long-term average savings from stage 1 of the food bowl modernisation. From stage 2, we access another 200 gigalitres of savings. That takes the total projected long-term average savings from the food bowl modernisation project to 425 gigalitres of water. From that we have always said that Melbourne will share one-third of the savings from the stage 1 component up to the point where Melbourne reaches 75 gigalitres of water. That is what we have said publicly.

Mr SCOTT — My question is regarding recycling and stormwater projects. I again refer the minister to budget paper 3 and the output measures starting on page 212, and I ask: what action is the government taking to encourage recycling and stormwater harvesting?

Mr HOLDING — Robin, thanks very much for that question. I made the point in the presentation that Melbourne currently recycles more of its wastewater than any other major city in Australia. I think this is a very important point for us to make. In fact a recent report by the Australian government's National Water Commission and the Water Services Association of Australia highlighted that Melbourne's supplies of recycled water were over 65 billion litres in 2007–08, and this level of recycling is more than double that of Sydney or Adelaide. Each of those cities supplied around 25 billion litres of water in the same year. That is why recycling water is such an important part of the water plan that the government released in June 2007.

We have discussed already the eastern treatment plant and the project to produce class A recycled water at that plant from 2012. We also have the Werribee irrigation district water recycling scheme, which provided about 12.5 billion litres of recycled water to irrigators in 2007–08.

We have also, as a subset of the eastern treatment plant's activities, the eastern irrigation scheme in Melbourne's south-east, which provided about 6.5 billion litres of recycled water for agriculture in 2007–08, and other projects by South East Water, which have supplied over 1 billion litres of recycled water to agricultural customers on the Mornington Peninsula in 2007–08. So we are seeing an increase in the use of recycled water. The use in Melbourne is up from 2 per cent in 1999 to 23.2 per cent in 2007–08; that exceeds the targets that we set ourselves of recycling more than 20 per cent of Melbourne's wastewater by 2010. We have exceeded the target ahead of schedule.

Regional Victoria is doing its bit. The Ballarat North reclamation plant is producing recycled water, which is very important for the restoration of Lake Wendouree. The Epsom to Spring Gully recycling water project in Bendigo means that that town is now capable of recycling all of its wastewater for the first time in Bendigo's history. I have seen projects in Hamilton where they have teamed up with a mineral sands project there to supply treated wastewater from Hamilton to that community.

We are also seeing other projects and stormwater harvesting projects as well, including the Wades Creek project at Traralgon, which collects 30 million litres per year in its wetlands for watering ovals and open space at schools. The Mansfield nursery is using 47 million litres every year of alternative water; it is captured stormwater, which is collected and reused on site, as well as wastewater. The Queen Victoria Market is also collecting stormwater for reuse and saving 10 million litres of drinking water per annum. So we are seeing many, many good localised stormwater projects which support construction of wetlands and small off-stream collection processes for putting stormwater to more productive use and, of course, rainwater tanks themselves, which collect water that would otherwise have run into the stormwater system and take pressure off that system. There are many, many projects, and it is encouraging to see them using water more efficiently in this way.

Ms PENNICUIK — On all that, on page 212 of budget paper 3 it states that the cumulative water savings realised through water recovery projects target was 429 000 megalitres and the expected outcome was 369 000 megalitres. The expected water savings through water recovery projects currently being implemented is 210 000 and the expected outcome is a lot less — 160 000 — and the target has been reduced to 153 000. I note that there is a note that says they were due to minor revisions to the timing of works. Can you outline what those are and what is going on there?

Mr HOLDING — Sure. Thank you very much for the question. What I can assure the committee is that the major water recovery projects that Victoria is implementing are on time and on budget, and that the difference between the 2008–09 published budget and the 2008–09 revised budget is essentially due to the timing of expected contributions to Victorian water saving projects and additional one-off funding for water rate rebates to irrigators announced as part of the 2008 drought package. The water savings projects, including NVIRP and the Shepparton irrigation modernisation projects, got under way in earnest in 2008–09, so they are the projects that the water savings there are attributable to. Again I would draw your attention to the timing issue, which is reflected in DSE's financial statements, budget paper 4 at page 161. You can go to that particular part of the document, or I can just quote it directly to you if you like.

Ms PENNICUIK — Please do.

Mr HOLDING — It says:

> The Department of Sustainability and Environment … forecasts a negative $14.9 million net result from transactions for the 2009–10 financial year, with a $13.0 million surplus forecast for 2008–09.
>
> The expected negative result forecast for 2009–10 is attributable to the planned use of prior year accumulated surpluses for several projects, including the Shepparton Irrigation Area Modernisation project.

So it is really a question of when you report the revenues from some of those different projects and over which years you split the expenditure in 2008–09 and 2009–10, and that is why that appears as a deficit in the way that it does.

The variations from one year to the next also reflect that the timing for receiving funding contributions and other entities needs to reflect the actual time when those contributions will be received. I can give you some examples from some of the different funding contributions that make up NVIRP, Lake Mokoan and Shepparton irrigation, where there is Melbourne Water funding streams as well as funding streams from the general government sector and Water For Rivers funding streams also as part of those projects, as well as funding streams that are generated from the Living Murray initiative. I can provide further information, but I think that goes to the essential element of the question that you were asking.

The CHAIR — Minister, I just want to once again put you on notice and ask for the portfolio federal government grants.

Dr SYKES — Chair, we started 15 minutes late on water, and it is a very important topic. Have we got a chance for two more questions?

The CHAIR — They will have to be very, very quick questions. I am happy to take another two, but they will have to be extraordinarily quick. Ms Munt, if you could ask a very quick question, and then Dr Sykes can ask one. But they will have to be 30 seconds each.

Ms MUNT — Thank you, Chair. Can I refer you, Minister, to page 213 of budget paper 3, and in particular under major outputs-deliverables to 'Rebates approved to households for improved water efficiency in the house and garden'. I note that the expected outcome for this year will be 32 800 rebates and the target for 2009–10 is 34 000 rebates. My question is: do you think that these water-saving devices have been effective in reducing our water usage, and have they delivered value for money?

The CHAIR — Quickly, Minister.

Mr HOLDING — Thank you very much for the question. In a sense I have provided extensive information to the committee already on rebates, so I will not repeat all of that. The essence of Janice's question is are they delivering value for money and are they saving water.

Ms MUNT — Yes.

Mr HOLDING — I think the best demonstration of that is if we point to the figures that I provided in the slide presentation at the start. Some 8 billion litres of water has been saved by the implementation of Target 155.

This water has been saved during one of the hottest starts to a year that we have had in Melbourne's history, and I think there is no better way of saying, 'How is it possible that we are saving this volume of water when we had such a hot start to the year?'. We have not done it through the blunt instrument of just going to stage 4 water restrictions. We have done it by giving Melburnians discretion or giving them the capacity to choose whether they prioritise their indoor water use or their external water use — the watering of their gardens.

What we have seen is that people have responded fantastically. The only reason people have been able to reduce their indoor water use is that they have been more cautious and conservative about how they have managed water around the house and they have installed water-efficient devices. The rebates program has been very important to that because it has provided a financial incentive for families to be able to access these devices. That 8 billion litre figure is an extremely important development because what it shows is that we are saving water at the rate that we would have been saving water if Melbourne had gone to stage 4 water restrictions. It is a very important point. I know there are people out there who say we should go to stage 4 water restrictions. I point them to the success of the Target 155 campaign, which Melburnians are now achieving, and because of that and the huge volumes of water that have been saved we have been able to save water as if we had gone to stage 4 water restrictions. We have been to do that at the same time as we have retained the discretion around outdoor water use for Melbourne households.

The CHAIR — Dr Sykes, another quick question.

Dr SYKES — A very quick question. Minister, can you please advise the committee of the cost of piping water down the north–south pipeline, and the cost components I am referring to take into account the capital cost of the pipe and the operating costs but exclude the costs of the food bowl modernisation project. How many dollars per megalitre to pipe the water down the pipeline?

The CHAIR — Minister, you might have to take that one on notice if you cannot do these calculations.

Dr SYKES — Get the envelope out again.

Mr HOLDING — I can provide some generic information, and then we will provide some more specific information to the committee. Long-distance pipelines range in cost — and I am quoting from a study, *Securing Australia's Urban Water Supplies*, undertaken by Marsden Jacob Associates for the commonwealth government in 2006. This was a study that looked at the costs of different sorts of projects and augmentations for comparative purposes. That study found that long-distance pipelines range in cost from about $1.30 per kilolitre to $9.30 per kilolitre, depending on the nature of the project. We expect the project itself to cost about $750 million. That is the figure that we announced at the time that we released the next stage of the government's water plan, and Melbourne Water and the alliance have been working within that footprint. We expect the annual operating costs for the Sugarloaf interconnector to make up around 1 per cent of Melbourne Water's costs.

Dr SYKES — My question was cost — —

The CHAIR — If you wish to add anything to it, just give it to me and I will put it on notice.

Dr SYKES — I am sorry, Chair, but I asked this question 12 months ago, and I did not get an answer. It is reasonable to ask the question: what is the cost per megalitre of water delivered?

The CHAIR — You have asked the question. The minister has said he will provide some additional things on notice. It has been recorded by Hansard. Obviously if he has further information this year or if he has anything to offer, he will do so, and he will also take on notice my question regarding federal grants. I thank Mr Harris, Mr Downie and Mr Hill for their attendance.