

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2010–11

Melbourne — 14 May 2010

Members

Mr R. Dalla-Riva

Ms J. Graley

Ms J. Huppert

Mr W. Noonan

Ms S. Pennicuik

Mr G. Rich-Phillips

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Witnesses

Mr T. Holding, Minister for Water,

Mr G. Wilson, Secretary, and

Mr M. Clancy, Acting Chief Financial Officer, Department of Sustainability and Environment.

The CHAIR — I now welcome Tim Holding, the Minister for Water, and from the Department of Sustainability and Environment Mr Greg Wilson, secretary, and Matthew Clancy, acting chief financial officer. I call on the minister to give a brief presentation of not more than 10 minutes on the more complex financial and performance information relating to the budget estimates for the water portfolio.

Overheads shown.

Mr HOLDING — Thank you, Chair. Again, this is a slide I use each year just to give you a sense of the different components of the Department of Sustainability and Environment: those bits which are the responsibility of Minister Jennings and those which are my responsibility. Obviously particularly healthy and productive water systems are the areas where most of the water activity is focused.

This slide really takes us back to the underpinnings of Victoria's water reform process over the course of this decade. This really gives a sense of the projects that were being implemented in the lead-up to and just after Our Water Our Future, the 2004 white paper process. You can see there that there were projects right across Victoria, and they reflected the seriousness of the drought that we were experiencing at the time, but they were not informed by the incredibly low inflows that we experienced in 2006–07, when the Murray River and Melbourne's water storages also had by far the lowest inflows in any year in our recorded history.

As well as those projects we had rebate programs for water savings products in homes as well as a number of localised stormwater projects that looked at delivering water savings and improving environmental outcomes in local areas as well.

That was the framework that existed in 2004. Also we had our program of sustainable water strategies. These are sustainable water strategies that are mandated by regulation — by statute, if you like. We looked at, firstly, one in the central region, which was the first of the sustainable water strategies that we completed; one in northern Victoria, which we completed last year; and then two further sustainable water strategies, which are under way: one in western region and one in the Gippsland region.

These are strategies that look at the long-term: 50-year strategies. They do not so much look at individual projects as look at water management practices and what we can do as a community to improve our management of water and what the outlook of water availability might be over a protracted period of time. In northern Victoria, where issues around climate change are being acutely felt at the moment by irrigators as well as by regional towns, those discussions around the resource outlook are particularly important.

It is also a process which is informed by community consultation and input. It is not just government delivering the strategy to local communities — there is an extensive process of public consultation; there are community engagements and steering committees, which invite public submissions; and there are draft strategies and discussion papers, which people can comment on.

In 2007, as I intimated before, the incredibly low inflows that we experienced into all of our storages across the state necessitated quite a dramatic response. We saw a series of projects which are identified on this slide as well as other projects that were already under way but which will dramatically change the way in which we manage water in our community.

The desalination plant, the food bowl modernisation project, the Northern Victoria Irrigation Renewal Project, but also the establishment of a statewide grid with the completion of the goldfields super-pipe, the Wimmera–Mallee pipeline, the north–south pipeline, the Melbourne–Geelong pipeline, also the pipeline that will connect the desalination plant to Melbourne's storages which, in turn, provides opportunities for local communities in that area, the eastern treatment plant upgrade, the Tarago Reservoir reconnection project — a large number of projects across the state looking at providing additional water resources, improving the management of existing water resources or connecting communities that have not been connected in the past.

The water recycling rate has increased dramatically over the last decade, from 2 per cent to 23 per cent, and of course we have seen a huge uptake of our water rebates and showerhead exchange programs which have, in turn, saved great amounts of water.

The water plan that we announced in 2007 built on the things that we had already been doing out of the white paper: conservation and water recycling; irrigation upgrades, where there had been significant projects but

nothing on the scale of the food bowl modernisation project; the water grid — there had been some projects already approved but there were new elements of that; and of course the desalination plant was a new project.

Progress to date: we have seen great progress on water conservation, and I give not as the only example but as one example the T155 campaign in Melbourne. People have responded very well to that campaign and, even with the easing of water restrictions that the government announced a few months ago, people have continued to keep to Target 155. Recycling I have mentioned already. The construction of the desalination plant has now commenced, and with the NVIRP we have seen significant expenditures to date and water savings now being achieved. You can see there the cumulative savings contained in the business case. I would just simply say there that in 2008–09 the business case anticipated 8 gegalitres of cumulative long-term cap equivalent savings being made; the independent auditors found that it was actually 28.173 gegalitres. That is a good achievement against what we said we would achieve, what the business case anticipated and what has actually been achieved.

These are just some testimonials. I will not read them out. They are from farmers talking about the impact that the food bowl modernisation has had on service delivery to their properties. I invite committee members to perhaps read those in their own time. On the water grid, you can see the different elements of the projects there. I guess the point I would make there is that of the projects in the water grid that have been announced so far, we have consistently seen them being completed ahead of schedule, and given particularly the urgency of the situation that we faced post-2007, that is very encouraging.

With Lake Mokoan, again great water savings to be made from there. I simply mention that because I know that —

Members interjecting.

The CHAIR — Without assistance.

Mr HOLDING — I apologise for mentioning that. Restrictions eased. Again here I just make the point that not only have we seen restrictions eased in Melbourne, but we have very substantial easing of restrictions in towns across regional Victoria as well. I just give by way of example there the Wimmera-Mallee pipeline towns, where we saw 40 towns go from stages 4 and 3 water restrictions in some cases onto permanent water-saving rules. For those communities to have been there as that project was rolled out and seeing the difference that is making to community life in that part of the state, it really is quite dramatic.

Environmental water. We have seen environmental water being returned to stressed river systems as part of the Wimmera-Mallee pipeline project, we have seen additional water made available to the Moorabool River following Ballarat's easing of water restrictions, and the returning of water to Melbourne's systems, if you like, following the easing of water restrictions there.

I guess the point I would make is that the only one of those that is a restrictions easing as a result of a trigger in our water restrictions regime is the Tarago River water; with the other two, the Thomson and the Yarra rivers, that water has been returned, even though there was no legal requirement to do so out of the qualifications that led to that water being taken in the first place. I know there are many people who want to see more water returned to the environment quicker, and the government supports that and we want to do everything we can to see water being returned to stressed river systems as communities also get the benefit from the easing of water restrictions.

This budget contains a number of specific initiatives: the Hume Dam works, which are part of the Murray-Darling Basin Authority activities; and the green plumbing package, which I think was announced as part of the Jobs for the Future Economy statement. You can see there a sense of the key projects that are being looked at in relation to that. I am happy to take any questions.

The CHAIR — We have until 4.30 p.m. for questions.

Minister, the budget aims to allocate funds in 2010–11 and subsequent years for state government priorities and outcomes to be achieved. Could you advise the committee of the medium to long-term plans or strategies on which the budget for the water portfolio is based and outline any changes from last year?

Mr HOLDING — Again, *Growing Victoria Together — Innovative State. Caring Communities* is the overriding document. In that, protecting the environment and the efficient use of natural resources are two of the key goals that are relevant for the water portfolio.

Sitting beneath that is a series of documents. Firstly, there is the white paper which I referenced in my presentation — that is *Our Water Our Future*. Also sitting beneath the white paper process is the next stage of the government's water plan that we released in 2007. They were critically important infrastructure projects that if we had not actioned and the low inflow scenario had continued, the state would have been at real risk of running out of water. They were urgently needed projects that arose out of that traumatic year of very low inflows.

We have also got the sustainable water strategies that I referenced in my presentation. There are four of those across the state — central and northern, which have been completed, and western and Gippsland which are underway at the moment. Again, they are very comprehensive processes with discussion papers, draft strategies and final strategies, and there is a great level of community consultation.

We really see, as well as the corporate plans of our water authorities themselves, the overriding government policy framework is that white paper process followed by the next stage of the government's water plan, the 2007 document and the four sustainable water strategies which give the community of great deal of information and clarity around the management of our water resources.

The CHAIR — Is there any change from last year or is it a continuation of the current plans and strategies?

Mr HOLDING — Other than specific decisions around easing water restrictions and those sorts of things, the actual planning framework itself has not changed.

The CHAIR — Ms Pennicuik?

Ms PENNICUIK — My question is regarding contingent liabilities and the desalination plant. Budget paper 4 on page 259 talks about contingent liabilities and over the page on page 260 it has table 7.2. There is an increase in guarantees, indemnities, warranties and contingent liabilities. Does that include the financial warranty that was offered to private investors of the desalination project? Does it cover both the equity of borrowings in the contract, what proportion of the guarantees are in Australian dollars and who carries the risk for any foreign borrowings?

The CHAIR — I am not sure. It might have been the question for the last portfolio.

Ms PENNICUIK — Yes, seeing as I get around on the long rotation, it is still water related.

Mr HOLDING — Sorry, there was a series of questions. What were they concerning?

Ms PENNICUIK — You want me to read them again?

Mr HOLDING — Yes.

Ms PENNICUIK — If you would look at the table, you have got the guarantees, indemnities and warranties there. It is an increase of \$35 million. I am just wondering if that includes the financial guarantee that is offered to private investors for the desalination project as a contingent. Should it be in there as a contingent liability? Does that guarantee cover both the equity and borrowings in the contract, and is it all in Australian dollars? If not, who carries the risk of foreign borrowings?

The CHAIR — Minister, do you want to take that one on notice?

Mr HOLDING — I might take it on notice, but I will endeavour to get back to Sue before we conclude the hearing today, if that is okay. I will just get some advice.

The CHAIR — I think it relates to some other tables in the budget.

Mr HOLDING — Why do we not keep going on, and I will access the answer?

Sorry, I can answer it now: I thought that would be the answer. The guarantee that the government made expired when the syndicate was able to raise the finance it required to deliver the project. It does not include that.

The CHAIR — The answer is no.

Mr SCOTT — I refer the minister to page 61 in budget paper 2, which references a number of the government's water projects. Given the importance of delivering major projects to achieving water security, can you provide the committee with some information on how this performance compares with independent assessments, specifically the Victorian Auditor-General's audit of Lake Mokoan and the Tarago reconnection project, which was tabled in Parliament on 10 March 2010, and how these independent assessments will inform the delivery of these projects over the estimates period?

Mr HOLDING — Thanks very much for that question. It is fortuitous, because I am able to provide the committee with information about the Lake Mokoan project. What I am able to say is that the Auditor-General assessed both the Lake Mokoan decommissioning process but he also assessed the Tarago reconnection project. He really gave both projects a big tick. He said, for example, in relation to the Lake Mokoan project, his main findings included the following statement:

The decision to decommission Lake Mokoan was based on sound technical advice and comprehensive community consultation. The investigation of alternatives to full decommissioning and flooding risks included consultation with stakeholders, consistent methodology, relevant data and appropriate technical advice.

I guess from our perspective these are very important findings, because the decision to decommission Lake Mokoan was not an easy one but it was a necessary one. The losses that were emanating from Lake Mokoan as an irrigation storage were unsustainable — 50 gigalitres of water in evaporative losses; it was a system that operated at around 25 per cent efficiency, so for every 100 litres of water you released into the system, 25 litres found their way to a user who could put them to some productive consumptive use, and 75 litres of water was lost getting it there. We took the view that there were better ways of using this volume of water. In fact the communities of northern Victoria will see the benefit of that, or are seeing the benefit of that, through the return of water that was otherwise being lost through Lake Mokoan, as part of the Living Murray initiative.

What we are also seeing, though, is the Winton wetlands project that will be implemented, which will leave the community around Benalla with a fantastic tourism and community asset. It will see a rehabilitated wetlands which will be one of the most impressive wetlands anywhere in Australia. That will generate tourism. It will be a great asset for local communities to be able to utilise, and that is underpinned by a \$20 million investment by the state government to support that rehabilitation and that return to wetlands process. There were a lot of claims made about the decommissioning of Lake Mokoan over the course of the project. Some said that it would increase the flooding risk to Benalla. The Auditor-General assessed that claim. He found that:

The risk of flooding to Benalla as a result of decommissioning Lake Mokoan was also an area of community concern, based largely on the belief in the community that Lake Mokoan was part of a flood mitigation strategy. Decommissioning Lake Mokoan will not raise the flooding risk for Benalla and its region, as Lake Mokoan was not used for flood mitigation.

The Auditor-General also looked at the cost-benefit analysis of the Lake Mokoan decommissioning. He found that:

Cost-benefit analysis against alternatives still demonstrates that full decommissioning is the preferred option in regard to water savings, cost and the environment.

The Auditor-General made a number of other findings. Some of the ones that I frankly found most encouraging were the findings that he made around the question of community consultation, because claims are often made that decisions are made in a hasty way without engagement with the local community. One of the first things I did when I became water minister was I travelled to the region and met with a representative cross-section of irrigators. I also met with people who had been involved in the future land-use strategy for the Lake Mokoan wetlands to hear their views. I met with them on subsequent occasions as well, with the irrigators themselves. While the meetings were not easy meetings, I have to say that it was encouraging to see the Auditor-General acknowledging the consultation process. In fact he found, quoting from his report, page 19:

Although some of the public were concerned that the department as project owner and —

as project director were ignoring their concerns, audit found no evidence to support this position. To the contrary, the department devoted considerable time and resources listening, investigating and responding to public concerns. The comprehensive and appropriate communication and consultation during the feasibility phase continued after government announced its decision in 2004 to decommission Lake Mokoan. Despite this, some community groups strongly objected and resisted full decommissioning, leading to an atmosphere of dissatisfaction and mistrust. This atmosphere persisted during the project despite the constant engagement using a variety of strategies.

I think this is a good example. There are always things you can learn from any project, but I think this is a good example of government making a difficult but necessary decision and then implementing it in a way which was sensitive to community needs and putting in place something which we think will be sustainable and important for many years to come.

Dr SYKES — Can I seek clarification on — —

The CHAIR — A very quick one, because you will have an opportunity to ask questions later.

Dr SYKES — Yes, but the minister has made a statement. Can I just seek clarification, Minister? In relation to the 50 000 megalitres of water lost by evaporation each year from Lake Mokoan — which was one of your statements — how much will be evaporating under the new Winton wetlands arrangement per year?

Mr HOLDING — It will be a naturally filling wetland.

Dr SYKES — So? What will be the evaporation from the wetlands?

Mr HOLDING — It is not consumptive water; it is a wetland.

Dr SYKES — Okay. That is an interesting — —

The CHAIR — All right.

Dr SYKES — No. A second clarification.

The CHAIR — No, you have had your clarification. If you wish to ask some questions later on, you can do it. I want to move on to Mr Dalla-Riva. Mr Dalla-Riva has the call.

Dr SYKES — Does lost include — —

The CHAIR — Sorry, Mr Dalla-Riva has got the call, Dr Sykes. You can ask that question later. You have had a fair go in terms of clarification, so Mr Dalla-Riva?

Dr SYKES — I have had one clarification. Thanks very much.

Mr DALLA-RIVA — I refer the minister to budget information paper 1, page 6. This relates to the desalination plant, which is also reported up in one of your presentations. I want to get some clarification about the expenditure in the forward estimates about continuing to spy on protesters in your government.

Ms GRALEY — It — —

Mr DALLA-RIVA — All right. It is about how much money this government is going to spend, because I have here a whole book of secret spying reports and dossiers that your department compiled on just one person, Jan Beer, because she dared to protest against your government. When you go through here, Minister, as you would be aware, it is pretty outrageous, some of the things that occurred. As a former policeman, I think it was just an outrageous amount of time and effort, where you have got somebody who has an issue and she is reported here as a suspect loiterer, and there are other things here — following her car, putting her car rego — —

The CHAIR — And your question?

Mr DALLA-RIVA — Her husband and everything else. No doubt you have followed her, you have spied on her, and the question I have — —

Ms GRALEY — Is this — —

Mr DALLA-RIVA — You can huff and puff all you like. Have a look at the dossier.

Ms GRALEY — This is a budget — —

Members interjecting.

The CHAIR — All right! Without assistance, Ms Graley! Mr Dalla-Riva, your question, please?

Mr DALLA-RIVA — I am asking the minister: how much money are you expecting to spend for the forward estimates continuing to spy on Victorians who have a democratic right to maybe oppose a project? Do you anticipate to spend millions of dollars more on this? Where is it in the forward estimates that you are going to continue to spend and waste taxpayers money treating ordinary citizens of Victoria like you have done with Jan Beer?

The CHAIR — Minister, insofar as it relates to the estimates?

Mr HOLDING — What is the name of the folder that you were quoting from?

Mr DALLA-RIVA — You are unaware?

Mr HOLDING — No, I am just interested if you could read off the name of the folder.

The CHAIR — At the front of the folder?

Mr DALLA-RIVA — We have got 'Sugarloaf Pipeline Alliance'.

Mr HOLDING — In relation to the Sugarloaf Pipeline Alliance, this was a project which as we know is controversial. There were a variety of views in the community about its desirability, and there were people who were strongly opposed, as they have a democratic right to be, to the delivery of the project. At the time that the project was announced one representative of Plug the Pipe had to apologise for circulating a document which made threats which, if they had been carried out, would have constituted illegal and dangerous activity.

To give an example of the flavour of the threats that were made to the project at the time it was announced, they amounted to blockading the Hume Highway, interfering with Melbourne's water supply, targeting companies that were contracted to provide product for the pipeline and also trying to short out — that was the phrase they used — the train service that operates in that part of regional Victoria.

Mr DALLA-RIVA — Yes, but you have made these — —

The CHAIR — The minister is answering.

Mr DALLA-RIVA — You have made these comments in Parliament about a protester who used a Molotov cocktail, and there is no evidence of that. You made that statement in Parliament without — —

The CHAIR — Mr Dalla-Riva, the minister is answering. Allow the minister to answer, please.

Mr DALLA-RIVA — Where is the report? Table the report if that occurred.

Mr HOLDING — When the project was being delivered there were instances where pipeline protesters drove at pipeline workers and struck them with their cars. Charges were laid and, in at least one instance, upheld. There were other instances where a pipeline protester threatened pipeline workers with a metal bar. In another instance a pipeline protester invaded — —

Mr WELLS — So why did you spy on Jan Beer?

The CHAIR — Without assistance, Mr Wells.

Mr WELLS — This is about Jan Beer.

Mr HOLDING — Actually that is not what the question was about. The question was about why the government would spend money securing Victoria's projects. What I am providing is the context to the security threat which existed and has existed in the delivery of the Sugarloaf Pipeline Alliance project, which is the project from which Mr Dalla-Riva is making his quotations. In addition there was an instance when a pipeline manager was locked in their office and confronted by a pipeline protester at the pipeline alliance headquarters. There was an instance where — —

Mr DALLA-RIVA — Was that person charged with false imprisonment?

The CHAIR — Without assistance.

Mr DALLA-RIVA — That would be the standard offence.

The CHAIR — Mr Dalla-Riva, allow the minister to answer, please.

Mr DALLA-RIVA — I am a former policeman, and that is an obvious offence. You are making these statements — —

The CHAIR — I would like you to respect the process that we have here. The minister is answering the question.

Mr HOLDING — I have indicated there were instances where charges were laid and upheld as a consequence of conduct by pipeline protesters. There was another instance when an unidentified person threatened — racially vilified, frankly — an Indian security worker by calling him a 'nigger' and threatening to throw him into the river if he was still there when the pipeline protester returned to the site. There was an instance when a Molotov cocktail was thrown at the Toolangi Forest site in the height of the bushfire season.

Mr DALLA-RIVA — Were any charges laid? No; Molotov cocktail, any persons charged?

The CHAIR — Without assistance.

Mr DALLA-RIVA — The statements that are made — —

The CHAIR — Mr Dalla-Riva, the minister is answering your quite extensive question. I would ask you to listen, please.

Mr DALLA-RIVA — He is making assertions about things that we have got no foundation — —

The CHAIR — The minister is able to answer the question. You asked it.

Mr HOLDING — In that instance a report was filed, but the perpetrator who threw the Molotov cocktail has not been identified. If that means that if the person is not identified, then no offence is deemed to have taken place, that is a very unusual interpretation of the commission of a crime. I do not think the opposition would necessarily support that view.

I would go on to make the point that there are a large number of instances where breaches of the peace occurred, and in at least one instance a pipeline protester entered the 200-metre exclusion zone when explosives were being used in the pipeline corridor. If police and pipeline authorities cannot collect intelligence information so they can protect their own workforce, so they can protect the broader public or in some instances so they can protect the protesters themselves from the inevitable consequences of their own unlawful conduct, then it is not clear to me how we can safely deliver major projects in Victoria when they are controversial or contentious in nature.

In each instance any agency which has access to law enforcement data or which collects intelligence which will be used to protect workers, the public and protesters when projects are being delivered — any agency that collects that information — is required to do so lawfully. I have been assured by all of the agencies that have been involved in delivering our water projects that the information they have collected has been collected lawfully.

The CHAIR — Ms Graley?

Mr DALLA-RIVA — You intend to do the same for the desal plant, I gather.

Ms GRALEY — Minister, I would like to refer you to budget information paper 1, page 15, where you talk about the Victorian desalination plant, which I understand will have an 84-kilometre pipeline to connect the plant to Melbourne's water supply system and provide an additional 150 billion litres of water a year to Melbourne, Geelong, Western Port and South Gippsland. I would like to ask you what progress has been made to date on the construction of the desalination plant, how many jobs have been created and how will the project benefit local companies now and in the future?

Mr DALLA-RIVA — Lots of spying jobs have been created.

The CHAIR — Without assistance, thank you, Mr Dalla-Riva.

Ms GRALEY — Lots of workers got good jobs.

Mr HOLDING — I am pleased to report to the committee that construction is progressing at a very rapid pace and the project is on schedule to deliver water by the end of 2011. The project itself is predicted to generate \$1 billion worth of economic activity during its construction and in fact to boost the Victorian economy by \$1 billion during its construction. We have seen hundreds of job-starts on construction and millions of dollars in contracts awarded to local companies already.

There are currently over 1700 people working on the project, with 642 at the plant site and 402 working on the pipeline and power supply route. The balance includes designers, managers and many other staff delivering important components of the project. Direct construction jobs are expected to peak at 1700 later this year, but we have also seen many Victorian contractors securing work as part of the project.

That includes the manufacturing of pipe, which has been awarded to the Tyco Water company at Somerton, a \$150 million project and the subcontract for BlueScope Steel in Hastings, supplying the steel for the pipe which is being used by Tyco Water. The power cable manufacturing will be done by Olex, at Tottenham, a \$43 million contract and the structural steel will be provided by Page Steel at Derrimut. The Premier and I were very pleased to go out to Derrimut to celebrate with their workforce the successful awarding of that contract, as I think the then Minister for Industry and Trade, Martin Pakula, was with Olex in Tottenham when their contract was announced. OneSteel in Altona North is also supplying about \$17 million worth of work as part of their part of the project. They are just some of the larger contracts.

There are many local contractors who are providing earthmoving and other support at the local level. They include the provision of protective clothing, surveying work, fencing work, geotechnical investigations, modelling, and environmental consulting, as well as a range of equipment and tools. We have seen structural steel being erected at the plant site following the excavation of over 1 million of cubic metres of earth. Over 55 kilometres of the pipeline and power supply easement has been fenced, 7.5 kilometres of pipeline has been laid, and power cable installation is due to begin soon.

It is a project that is going to dramatically alter the provision of urban water for Melbourne, for Geelong and also for towns in the South Gippsland and Western Port areas. It is a very important part, too, of the Victorian water grid that I described earlier, with communities along the pipeline corridor able to tap in to the pipe, in some instances, to obtain a more secure water supply. Particularly for those towns in the South Gippsland area, that is a great opportunity that flows from this project. In the corridor itself, high-speed fibre-optic cable is being laid. That will be a great boon to the Wonthaggi region when the project is finally commissioned.

Mr WELLS — Minister, I also would like to ask you about the desalination plant. Can you advise the community of the cost of water per whichever measure you like from the desalination plant in year 1, and then in the out years? And in regard to increase in energy costs, is the risk borne by the state in any way or is it borne by the company, and what assumptions have been made that the company going to bear those increased costs?

Mr HOLDING — The cost of desalinated water is, I think, about \$1.37 a kilolitre. That is the published cost of the water for the desalination project. You asked about who bears the risk of increases in water price. The risk is —

Mr WELLS — No, in electricity.

Mr HOLDING — Sorry, electricity price. The risk is borne by the private consortium.

Mr WELLS — On what assumptions are those costs going to be borne? For example, it is \$1.37 I guess in the first year, so what is the increase in the out years of the water costs?

Mr HOLDING — I did not say that that was in the first year.

Mr WELLS — The published cost you said was \$1.37. So what is it in the second, third and fourth year?

Mr HOLDING — Well, you are asking me to guess what the increase, the inflationary impact, will be. I could not possibly guess what the inflation rate will be over the life of the project.

Mr WELLS — In the first year, do we assume that it is \$1.37, the published price, for the cost of the water? Then is it plus the inflation rate in years 2, 3, 4?

Mr HOLDING — It is the net present cost.

Mr WELLS — The net present cost is \$1.37?

Mr HOLDING — For 27³/₄ years, for the life of the project.

Mr WELLS — The net present cost, that is fine. Is the minister aware of the assumptions underpinning the increase in power costs? If you do not know them, can we have that on notice, please?

Mr HOLDING — That is actually AquaSure's issue. It is AquaSure that has to make a prediction about costs for their inputs to produce the water. What we require of AquaSure is that they have an operating plant that is capable of providing water of a certain quality and of a certain quantity on an annual basis into Melbourne's water supply — and Geelong's and all the other communities that are tapped in — so that we, the Victorian government, can order the water in the volumes that we require. The costs of the inputs required to produce that water are a risk borne exclusively by AquaSure.

Mr NOONAN — Minister, I refer to budget paper 1, page 6, which details expenditure on the Northern Victoria Irrigation Renewal Project, and I ask whether you can provide the committee some greater detail about how the project is achieving its forecast savings, and some greater detail about the independent audit which you refer to in your handouts?

Mr HOLDING — Thank you. As I indicated in the presentation, the stage 1 business case expected the Northern Victoria Irrigation Renewal Project to have achieved 8 gegalitres in long-term, cap-equivalent water savings by the end of 2008–09. Those water savings are required to be independently audited in accordance with the government's water-savings protocol for the quantification of water savings from irrigation modernisation projects. The protocol includes a technical manual for the quantification of water savings.

The first independent audit was completed in October 2009 and it confirmed that the NVIRP had in fact achieved 28.173 gegalitres in long-term, cap-equivalent water savings by the end of 2008–09. I know there are some people who do not like the food bowl modernisation project at all, there are some who like the project but are dubious about the volume of water that can be saved, and there are many people in northern Victoria who are strong supporters of the project, and frankly, that number is growing all the time. I think what the independent audit showed is that for those who make the claim that either you cannot make substantial water savings from investing in irrigation upgrades, or for those who claimed that the government was dramatically exaggerating how much water could be saved — I think that independent audit, using a robust methodology, shows quite convincingly that the government's claims about the volume of water savings that can be made by investing in irrigation upgrades is substantial, and we were very encouraged to see that.

As of December 2009, NVIRP's work program has been on track to meet the savings that need to be made for the next year of water savings. You saw from the slide that I presented earlier that there is an annual requirement to meet the cumulative savings required to get us up to 225 gegalitres, which is the volume of water that we said would come from stage 1. I can report that two-thirds of the automated water-control gates from stage 1 have now been installed, 2021 automated water-control gates. A meter installation program commenced during the 2009 winter works period; its target is to install 1200 meters by the end of this month.

Eight hundred business cases have been developed under the connections program, with an acceptance rate of 89.6 per cent. This is very important; this is the way farmers interface with NVIRP. A lot of the savings come from being able to rationalise the number of service points and being able to decommission channels that are no longer required as part of the reconfigured irrigation system. So to be able to settle those issues with farmers and with land-holders so that that rationalisation of service points and channels can take place is very important, and you saw the testimonials in the presentation earlier from farmers who consider very praiseworthy the improvements in service delivery that have taken place as well as the successful interface with NVIRP to be able to get a financially satisfactory outcome for them, so that they know what their future farming service delivery will look like.

The preconstruction procurement for the winter 2010 works program is on schedule, and the planning and environmental activities required for discrete site approvals are also on schedule. This is a major project. It is not just over \$1 billion worth of expenditure on stage 1, but, unlike lots of other projects which might take place in a very defined physical location, the works are spread over a number of different irrigation districts, so the project delivery challenge is quite significant. NVIRP has done a fantastic job at engaging with local contractors to give local people an opportunity to provide work and obtain employment through the project, but also an incredible community engagement program to sit down with farmers and work through those issues so that that process of delivering this project can continue on schedule.

The CHAIR — Thank you, Minister.

Dr SYKES — Minister, my question relates to the Northern Victoria Irrigation Renewal Project. The modernisation of northern Victoria irrigation district infrastructure includes contraction of the district by closing down large areas, including most of the Campaspe irrigation district, much of the Broken Valley irrigation district and many of the irrigated properties more than a couple of kilometres from the backbone channels. My question is: what work has the government done in determining the socioeconomic impact of closing down up to 60 per cent of the northern Victoria irrigation district?

Mr HOLDING — In responding to the question, I do not want it to be implied that I am accepting the percentages that Dr Sykes has just advanced then in his question. But what I would say is this: it has been a difficult process but a necessary one to engage with communities in northern Victoria on the question of the future of irrigated agriculture in this state. That process would have been necessary, even if there had not been a Northern Victoria Irrigation Renewal Project. In fact, I would go so far as to say it would have been more necessary and far more destructive without the injection of funds that are underpinned by the food bowl modernisation project.

Following that, communities have been actually saying to the government as well as saying to the communities themselves — their own water authorities, their own irrigator groups — that they want to know which areas are going to be the focus of investment through the food bowl modernisation project and which areas are not. Through that process, we have been able to identify those areas that are more compatible for the commonwealth government to be able to invest in its water buyback process. It is very important. We have two processes occurring simultaneously: the commonwealth purchasing water for environmental purposes, and the state government modernising irrigation infrastructure to generate water savings.

What we did not want to have are two areas of public policy working in opposition to each other. So we have identified a process of, if you like, green and yellow districts — those areas that can be the focus of commonwealth purchasing because they are not the centrepiece of the food bowl modernisation, and those areas that are receiving modernisation focus and activity.

That was an exhaustive process. It involved engagement with local communities, and in many cases we have had very positive interactions with those communities where there are farmers who want to sell water to the commonwealth or to other buyers as part of the activities that those governments are undertaking. But what we have always said is that our preference was not the wholesale purchase of water entitlement; it was the investment in upgraded irrigation infrastructure to underpin the future of irrigated agriculture in Victoria.

In terms of what other engagement there has been with Victorians to determine the socioeconomic impact of these changes, which is what your question related to, the Northern Region Sustainable Water Strategy in fact canvassed many of those issues quite directly. One of the motivating factors of organisations and groups and

individuals making submissions as part of the northern region SWS process was a concern to understand what the resource outlook would be for them in the future and what the likely impact would be for those farmers potentially making a transition from irrigated farming to dryland farming or to some other use of their property or their land. While it has been a difficult process — and you referenced the Campaspe irrigators amongst others as those for whom this has been quite challenging — it has been an absolutely necessary process to engage the community in an honest conversation about what the future outlook would be.

Having said that, NVIRP has gone to great lengths and Goulburn-Murray Water as well to make it clear that there would be no compulsory acquisitions of people's property or activities as part of this. It would be a process of community engagement, and no punitive or penalising processes to force people to make decisions other than those that they need to work through and make anyway as a consequence of a resource which is under great stress.

Dr SYKES — Chair, can I seek a clarification, because the minister — —

The CHAIR — Very quickly.

Dr SYKES — At my pace, thank you. The minister answered the question in relation to the affected farmers, but of course, as you appreciate, Minister, it is not only farmers who exist in country Victoria. We have a lot of communities that are dependent on the farming community income. To help you explain that, we had one situation where there was an evaluation done of the closing down of a large part of the Torrumbarry area irrigation system, where — —

The CHAIR — I think we are getting to a new question rather than a clarification.

Dr SYKES — I am sorry, Chair. My question was: what work has the government done?

The CHAIR — You did do that.

Dr SYKES — And the minister answered in relation to farmers.

The CHAIR — The minister has answered it extensively. You are now going on to — —

Dr SYKES — In relation to farmers, not communities.

The CHAIR — You are now going on to new material. If you wish to make a quick clarification and ask the minister, 'Can you, Minister, explain further in terms of impact on communities rather than farmers?', that is fine by me, but to start giving long explanations and cases is not appropriate, and it would be more appropriate for another question.

Dr SYKES — If I could just finish my explanation, because it will take me 30 seconds. The evaluation done in the Torrumbarry area was reducing that irrigation area by 40 per cent is going to halve the agricultural income, halve the jobs in the area and reduce the community populations by 15 per cent. That is a significant impact. What has the government done in relation to the social and economic impact beyond the individual farmers?

Mr HOLDING — There is no bigger contribution that the government can make, that the people of Victoria can make, to supporting communities in regional Victoria, particularly those in the irrigation districts, beyond the farmers — the communities themselves, which is what your question references, Bill — and there is no better investment we can make than investing in upgrading the viability of that system. Right now we are going through a process — and I do not know if you are aware of it, Bill; I certainly hope you are — of thrashing out the sustainable diversion limits that will be part of the work plan of the Murray-Darling Basin Authority. This will have a profound impact on communities not just in northern Victoria but every community in the Murray-Darling Basin.

We can either stand back and say, 'There is going to be less water available, because in the past the resource was over-allocated and we now need to address that'. We can either just make that bold statement and do nothing about it, or we can invest in upgrading irrigation infrastructure, make substantial water savings and through those water savings, return some of that water to irrigators so that irrigated agriculture and horticulture can continue in a sustainable form in northern Victoria.

That is what those jobs that you are referring to depend on. If we were not making this a \$2 billion investment in partnership with the commonwealth to underpin the future viability of that irrigation infrastructure, the impact of the sustainable diversion limits on the Murray-Darling Basin and on northern Victoria in particular, without any other interventions, would be, frankly, extraordinarily concerning.

I think in the decades to come the people of northern Victoria — those townships, those regional centres as well as the farmers themselves — will be extremely pleased that they were part of the food bowl modernisation process, and we did not just stand back as a community as the sustainable diversion limits were introduced and do nothing.

Ms HUPPERT — Minister, in your presentation you referred to a number of infrastructure projects which have been added to the water grid. I particularly wanted to ask you about the Sugarloaf pipeline, which I understand has now been completed ahead of schedule, and the impact that this pipeline will have on water moving forward, and in particular whether or not the water that comes through the Sugarloaf pipeline can be used for firefighting purposes and what impact this will have, if any, on water pricing for households?

Mr HOLDING — That is a very good question, and I appreciate it being asked. The Sugarloaf pipeline was completed ahead of schedule — in fact it was completed about five months ahead of schedule. That has been a feature of many of the projects that are part of our water grid — the Wimmera-Mallee pipeline was five or six years ahead of schedule, and many of the other pipeline projects have also been either completed ahead of schedule or are well and truly on schedule at the moment.

In relation to the CFA off-takes on the Sugarloaf pipeline itself, I can report to the committee that there are six off-takes: one in Murrindindi Road reserve, south of Yea; one at Devlin Bridge on the Melba Highway and Murrindindi Road intersection; one at the Glenburn CFA station; one at Castella Road; one at the Dixons Creek recreational reserve; and one at the Henderson Road reserve in Yarra Glen.

The Deputy Premier and I were very pleased to be in the region in, I think, January this year to announce the six CFA off-takes. They arose from a request that was made to the government by the CFA themselves. Why this is so important is we saw from Black Saturday that this is a bushfire prone part of the state — there is no question about that.

But from a service delivery perspective, for firefighters to be able to access these off-take points it means that they can fill their tankers far faster than they could have from alternative supplies. In fact once connected to the off-take, it will take only 2 minutes to fill a 3000 litre CFA tanker. It would have taken much longer than that, according to the CFA personnel that I spoke to when we launched this program, to have filled a tanker. What they can also do is they can fill two tankers at the same time from each off-take. Really it doubles the effectiveness and the value of the off-takes.

We have made sure that the cabinets themselves are secured; they are securely locked. The CFA have access to them, but the general community does not, for good reason. Obviously we would not want to see people inappropriately accessing that water. We want to make sure that those off-takes are only used to access water for CFA, for firefighting purposes. This is a good legacy from this project. It is something that the CFA and local communities will appreciate, we know, for many years to come. We have appreciated the engagement and input from the CFA brigades that are in the region to make sure that we could facilitate this project.

Obviously, the cost of taking water from these off-takes is so infinitesimal that it will have no impact on water prices for Melburnians at all, and I think the people of Melbourne will be very pleased to see that amongst the broad cross-section of the community who are beneficiaries of the north-south pipeline, the local CFA brigades are included.

The final point I make is that there was one commentator who claimed when the pipeline was being constructed, that any CFA volunteer or person who tried to access these off-takes would be cut in half by the pressure of the water coming out of them. Melbourne Water engineers at the time said that was nonsense. I am very pleased to say that the Deputy Premier and I saw first hand the off-takes being utilised and nobody was cut in half.

The CHAIR — You survived?

Mr HOLDING — It would be very reassuring to the community to know that hundreds of years of advanced engineering have enabled us to master the intricacies of pressure.

Mr NOONAN — Did you say that, Bill?

Mr HOLDING — No. Let me assure people that it was not a member of Parliament; it was a columnist with the *Age*. Need I say any more?

Mr DALLA-RIVA — Can we ask for the dossier on that person as well, please?

The CHAIR — I think that was an irrelevant comment.

Dr SYKES — I refer to page 6 of budget information paper 1 and the first item there: the Eastern Treatment Plant upgrade with a TEI of \$380 million. As I understand it, the project was announced in 2002, re-announced in 2006, and is to be completed in 2012. Last year, at the Public Accounts and Estimates Committee hearings, the figure of \$322 million was stated and the minister said at that time:

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 the project will be delivered within budget.

Given the minister's comments last year, why has the figure now blown out to \$380 million, and when will Victorians actually start receiving class A recycled water?

The CHAIR — Thank you, Minister. Also refer to footnote (l) on page 7.

Mr HOLDING — This is a project that has a long history, and I think it is worth reflecting on where we have come from. In the 1950s and 1960s the south-eastern suburbs of Melbourne expanded quickly. In 1975 we opened the Eastern Treatment Plant. The plant was designed to deal with about a third of Melbourne's waste water that was generated, and that is in the order of, I think, 300 million litres to 350 million litres, or thereabouts. I will correct the record if the numbers are dramatically — —

Ms PENNICUIK — It is 350.

Mr HOLDING — Ms Pennicuik says it is 350, so 330 to 340 is not a bad guess.

In the 1990s the EPA became increasingly concerned about some of the issues around the quality of the water that was being discharged from the Eastern Treatment Plant at Boags Rocks at Gunnamatta, so in discussions with Melbourne Water they commissioned the CSIRO to do some work on improving our understanding of the qualities and the characteristics of that water.

The CSIRO came back and it had made some findings which said there were concerns. I think the concerns related particularly but not only to ammonia levels in the water. The decision was taken to upgrade the Eastern Treatment Plant to produce a better quality of recycled water and potentially to extend the out-fall at Gunnamatta to further offshore — 1 kilometre or 2 kilometres offshore.

Both projects together would have been prohibitively expensive, and it is arguable that the extension of the out-take would have added little to the quality of the environmental treatment that was being sought by the EPA, so even though in the early 2000s Melbourne Water sought a works approval for both the out-take and the upgrade, the view was taken that with more work on the upgrade you could actually get to a point where the upgraded water was of suitable quality that the extension of the outfall would not be required and you could save, potentially, hundreds of millions of dollars on the total cost of the final project.

Melbourne Water submitted a works approval for an upgrade of the plant, but without the outfall. My recollection is that they submitted that works approval in July 2009 and, I think, in January this year the EPA gave the works approval for the works to occur without the outfall.

The upgrading of this water to class A is cutting-edge stuff. In fact, in some cases it is better than class A — they call it 'fit for purpose' now; fit-for-purpose water from this treatment plant — and in much greater quantities than was ever contemplated when the plant was originally built back in 1975. It is a big project but it is a project that avoids the need for construction of the expensive outfall. It is a project that will improve the

quality of the water that is discharged at Boags Rocks but it is also water of a sufficient quality that it can be used for a broader range of recycled water purposes.

The science and technology that underpins the treatment of this water has not been used in Victoria before; in fact, I do not think it has been used in Australia before. A great deal of work has gone into getting that treatment right, and refining those treatment processes has added to the cost of the project over time, but avoided the outfall. Satisfying the requirements of the Environment Protection Authority and avoiding the outfall meant that that additional investment is more than offset by the avoidance of the expensive, and frankly unnecessary, outfall that would have been the second part of the project if we had proceeded back in — —

The CHAIR — The second part. It was not in the first part?

Mr HOLDING — It is not going to go ahead. We have not sought a works approval for it. The EPA has not required it so we have been able to save a large amount of money by not having to do that outfall. In fact, the figures I saw quoted for the outfall were in the order of \$300 million to \$400 million for the outfall itself. I think in years to come people will look back and say, ‘Thank goodness they focused on better treatment for the water itself and not simply constructing a longer outfall’, because there are more uses this water can be put to as a consequence of the higher quality to which it will be treated’.

The CHAIR — Thank you very much for that. Dr Sykes, would you like a clarification?

Dr SYKES — I would.

The CHAIR — Once again, a quick one as it relates to the original question.

Dr SYKES — I asked two questions.

The CHAIR — You are only supposed to ask one.

Dr SYKES — Sorry — parts (a) and (b). The minister answered it in relation to the increased cost. I asked: will the minister guarantee that that cost will not increase as he guaranteed last year that the cost would not increase?

The other part of my original question was: when will Victorians actually start receiving the class-A recycled water?

The CHAIR — And fit-for-purpose water too.

Mr HOLDING — The project is due for completion in 2012. I was out at the plant yesterday inspecting the works that are under way, and I can report that there will be, at its height, I think, 200 people working on site. It is progressing well.

The CHAIR — You must have been expecting questions today.

Mr SCOTT — I refer the minister to page 207 of budget paper 3, where there is an output regarding rebates to households, and I ask: what is the government doing to assist Victorians to conserve water?

Mr HOLDING — I am very pleased to be asked that question. There are a number of initiatives in this year’s budget that go to that very question. In fact, the last slide that I referred to in the presentation looked at that. Just in terms of Melburnians and Melbourne’s per capita water use, I can report that it is 38.1 per cent lower than it was in the mid-1990s. Residential use is 35.8 per cent lower and non-residential use is 41.1 per cent lower. It is very encouraging to see that whatever we have been doing, it is meeting with some considerable success.

The Jobs for the Future Economy statement that was released a couple of weeks ago included \$10 million in this year’s budget for the green plumbing initiative. This funding is provided to further encourage households and businesses to implement water-efficient systems, including rebates for rainwater tanks, low-flow showerheads and dual-flush toilets. Funding is also provided to appoint water advisers for industry water savings programs and to expand programs to reduce leaks and wastage of fire water in buildings.

There is also a large number of existing programs which have helped households, businesses and schools to use water more efficiently both now and in the longer term. Those programs include the WaterSmart Gardens and Homes Rebate scheme, and I gave some statistics during the presentation about the number of householders that have accessed rebates under that scheme. That has saved about 2.8 billion litres of water every year. The showerhead exchange program has seen 400 000 showerheads exchanged. Members of Parliament have in fact been involved in many of the showerhead exchanges; they have been very successful.

The CHAIR — That is true.

Mr HOLDING — The dual-flush toilet replacement program has seen 12 000 toilets being expected to be replaced by the end of this calendar year. There is the WaterSmart behaviour change program, the waterMAP program, which is targeted at industry, and the Support 155 Business Program.

The important thing I would note about all of these programs that are installing water-efficient devices in households or programs that are improving businesses' management of their water use is that even as we ease water restrictions, the savings that are made by embedding this technology or these devices in houses continue to be made regardless of the level of water restrictions.

That is the real strength in the retrofit program, and it is the real strength in the building rating arrangements that are in place that are seeing more water and energy efficient houses being constructed in Victoria. These things are embedding water savings that are there for all time, not just savings that are made temporarily while water restrictions are in place and then lost as soon as we ease restrictions. I think these are things that we are going to benefit from as a community for a long time.

The CHAIR — Thank you, Minister. I admit a constituent asked about a water recirculating device, which is not very common, but it is something which is quite valuable.

Mr HOLDING — It preserves the cold water that flows out while you wait for it to heat up. It is a great device.

Ms PENNICUIK — I have a clarification question on Dr Sykes's question, which is about the use of water from the Eastern Treatment Plant. Is the government planning to reuse that rather than let it go out to Gunnamatta? That is not my question. My question is about — —

Mr HOLDING — Sorry; whose question is it?

The CHAIR — Ms Pennicuik, your question, please.

Ms PENNICUIK — If you choose to answer that, that would be great. My question is regarding a recent VCAT decision in *Alanvale Pty Ltd v Southern Rural Water* on 22 April, which held that unless the water authority has sufficient knowledge on the behaviour of sustainable recharge levels of groundwater aquifers, no groundwater licences should be issued. I am wondering, Minister, whether you would be planning to undertake any analysis of groundwater systems across the state as a result of that decision?

Mr HOLDING — In relation to the question about the Eastern Treatment Plant, there will still be a large volume of water discharged from Gunnamatta. We would prefer to be able to find a use for all of the recycled water, but that is just not possible.

What we can say is that far more recycled water will be able to be used because it is of a higher quality. For example, we will see more water used by third-pipe estates in the south-eastern suburbs of Melbourne as more and more of those estates are completed with purple pipe systems installed. We will see more water being used as part of the Frankston water recycling project, which is a subproject, if you like, of the Eastern Treatment Plant upgrade that is seeing recycled water being used on public open space in Frankston.

There is a very large volume of water that can potentially be used as part of the Bunyip food bowl project. That is recycled water being used for irrigation purposes as part of that food bowl, as well as a smaller quantity of water that can be used by the turf industry in the south-eastern suburbs of Melbourne. Those volumes of recycled water that can be used over time will increase as more and more projects that can access that volume become available.

In relation to the second question about groundwater, I have not read that individual decision but I will get a copy of it from my department. What I can say about groundwater management is that we recognise that our groundwater systems have been under great pressure during the drought. One of the challenges has been that we know less about our groundwater resource than we should know, and that is why we have been expanding the statewide bore observation network, which is the network of bores that is maintained by the state government not for extractive purposes but to monitor the health of our groundwater assets.

We have groundwater management plans in place for groundwater systems across Victoria. For those systems that are under particular stress we have water supply protection areas, which I as minister can declare and have declared in many places, so that we can prevent any more licences being issued in those areas and instead reflect on what the sustainable extraction volume for that area should be, and then put in place a management plan to get us to that position. If there are any learnings from the VCAT decision — I think you said it was a VCAT judgement — I am happy to reflect on those and incorporate them in our future groundwater management planning and development processes.

Ms PENNICUIK — If you come to any further decisions or reflections, would you be able to share them with me, Minister? That would be really good of you.

Mr HOLDING — I am happy to let the committee know.

Ms PENNICUIK — Just a clarification on the issue — —

The CHAIR — I think we have finished.

Ms PENNICUIK — Those things you just mentioned, out of the 350 million litres that goes out every day, how much of it is taken up in those — —

Mr HOLDING — Now I get your original figure. Mine was a yearly figure in megalitres; yours was a daily figure, was it?

Ms PENNICUIK — Yes.

Mr HOLDING — That would explain the difference between the two, even though the difference was very small. The total volume that will be released at Gunnamatta following the completion of the Eastern Treatment Plant will be much, much more than is currently treated. It depends on the volume of water flowing in, obviously, but it could be in excess of 100 billion litres of water every year. That is the volume that will be treated by the plant.

In the years ahead we will be able to find a use for probably a little over one-third of that, but that will take some time, and some of those projects I mentioned, for example the Bunyip food bowl project, are really in their formative stages, and there has been no definitive decision reached about how much water they need, at what cost, and what the arrangements and infrastructure to support them will be.

The CHAIR — Thank you, Minister. Dr Sykes is providing on notice several questions about stormwater, the funding for the northern sewerage project and the decommissioning of Lake Mokoan, including the wellbeing of turtles and legless snakes. I will place them on notice and provide them to you. I thank Mr Wilson and Mr Clancy for their attendance.

Witnesses withdrew.