

# **GENERAL PURPOSE STANDING COMMITTEE No. 5**

**Friday 17 October 2008**

**Examination of proposed expenditure for the portfolio areas**

## **WATER, RURAL AFFAIRS, REGIONAL DEVELOPMENT**

**The Committee met at 2.00 p.m.**

### **MEMBERS**

Mr I. Cohen (Chair)

The Hon. R. L. Brown  
The Hon. A. Catanzariti  
The Hon. D. J. Clarke  
The Hon. R. H. Colless

Dr J. Kaye  
The Hon. E. M. Obeid  
The Hon. M. Veitch

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### **PRESENT**

**The Hon. P. J. Costa**, *Minister for Water, Minister for Rural Affairs, and Minister for Regional Development*

**Department of Water and Energy**

**Mr M. Duffy**, *Director General*

**Mr D. Hariss**, *Deputy Director General*

**Ms L. Baumgartner**, *Deputy Director General*

**Hunter Water Corporation**

**Mr K. Young**, *Managing Director*

**Department of State and Regional Development**

**Mr B. Buffier**, *Director General*

**Mr M. Cullen**, *Executive Director, Regional Development*

**Sydney Water Corporation**

**Dr K. Schott**, *Managing Director*

**State Water Corporation**

**Mr G. Warne**, *Chief Executive Officer*

**Sydney Catchment Authority**

**Mr M. Bullen**, *Chief Executive Officer*

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## **CORRECTIONS TO TRANSCRIPT OF COMMITTEE PROCEEDINGS**

**Corrections should be marked on a photocopy of the proof and forwarded to:**

**Budget Estimates secretariat  
Room 812  
Parliament House  
Macquarie Street  
SYDNEY NSW 2000**



**CHAIR:** Thank you, Minister, for your attendance this afternoon. I will go through a few formalities before we commence. I ask everyone to turn off their mobile phones. That would be very much appreciated because it impacts in particular on Hansard's recording equipment. We will start on Rural Affairs and Regional Development for 45 minutes and then move on to Water.

**BARRY BUFFIER**, Director General, Department of State and Regional Development, and

**MICHAEL CULLEN**, Executive Director, Regional Development, Department of State and Regional Development, affirmed and examined:

**The Hon. RICK COLLESS:** In March the Rural and Regional Taskforce submitted a report to the Premier on the concerns of New South Wales rural and regional communities regarding the delivery of Government services and made a number of recommendations. I am sure, Minister, you are aware of them. With so much focus on the State Plan, why have you refused to fund or implement any of the recommendations in the report?

**Mr PHILLIP COSTA:** The Rural and Regional Taskforce report made recommendations in relation to the establishment of regional infrastructure funds and adjustments to the payroll tax incentive scheme. These recommendations will need to be closely looked at in light of the upcoming Government mini-budget. Inquiries about the broader Rural and Regional Taskforce report will be referred to the Premier.

**The Hon. RICK COLLESS:** What has been done to advance the introduction of the Regional Infrastructure Fund? What progress has been made?

**Mr PHILLIP COSTA:** That will be referred to the Premier for process.

**The Hon. RICK COLLESS:** What is being done to enhance the financial capacity of local councils?

**Mr PHILLIP COSTA:** That will be part of the mini-budget and processed through Cabinet.

**The Hon. RICK COLLESS:** This report has been in place since March, so nothing has happened since then?

**Mr PHILLIP COSTA:** My understanding of what I have read, and what I believe, is that it will be reporting to the Premier and not directly to me.

**The Hon. RICK COLLESS:** One of the recommendations was that we replace dangerous timber bridges throughout the State, including upgrading and general maintenance. Has anything been done in that regard?

**Mr PHILLIP COSTA:** As members may know, my portfolio is Water.

**The Hon. RICK COLLESS:** Regional Development is also your portfolio and this is very much a regional development matter.

**Mr PHILLIP COSTA:** I am getting to that.

**The Hon. EDDIE OBEID:** The Minister for Roads has responsibility for that.

**Mr PHILLIP COSTA:** I was about to say that that is a different portfolio and it is a matter for the Minister for Roads. I am sure you can approach him.

**The Hon. RICK COLLESS:** What is being done to support the regional transport coordinators in the important work they do?

**Mr PHILLIP COSTA:** That is also a different portfolio. I will not respond because I do not have that in my head. I have been very busy picking up—



**The Hon. RICK COLLESS:** I am sure you have but I am sure you can understand the importance of regional development to the likes of the two rural representatives from your side of politics as well as those on our side. All the members of my party are extremely concerned about regional development and the lack of action that has occurred.

**Mr PHILLIP COSTA:** Can I respond to that by saying that I have just spent the last couple of weeks visiting regional New South Wales. In the last couple of weeks I have been to Deniliquin and the Murray area and last night I returned from a trip to Moree, Dubbo and Narrabri. In the next couple of weeks I will be on my way to Wagga Wagga, Griffith and the Tamworth region to do exactly that—to get a feel for the real issues on the ground and to talk to people. As I travel I am talking to organisations that are impacted by my portfolio and regional development.

**The Hon. RICK COLLESS:** When you were in the Riverina did you come across an issue relating to the potential sale of irrigation water to the Federal Government from the Wakool area?

**Mr PHILLIP COSTA:** I was given some general information about concerns about the sale of the irrigation licences to the Federal Government and its impact on the social and economic base in that region.

**The Hon. RICK COLLESS:** What is your view of that? Do you think that those sorts of things should proceed, given the impact it will have on regional areas?

**Mr PHILLIP COSTA:** That is a good question. I believe a balance needs to be looked at and considered. There is a way in which the buyback of licences can be done to a degree where it does not have a significant impact on other issues, but the environment also deserves to get support. The balance needs to be found at both government levels and I am particularly interested in pursuing and addressing that point.

**The Hon. RICK COLLESS:** As Minister for Water, Minister for Rural Affairs, and Minister for Regional Development what action will you take to ensure that the water resources of irrigation areas such as Wakool are made more secure to enable the regional development to occur in those areas that we are all looking for?

**Mr PHILLIP COSTA:** Through my government departments—and that is why we have our government departments and our state-owned corporations, [SOCs], such as State Water, et cetera—we manage a precious and scarce resource.

**The Hon. RICK COLLESS:** Absolutely, we are all aware of that.

**Mr PHILLIP COSTA:** That is right. With the resources we have we ensure, as best we can, that human critical needs are met. Through government departments and through State Water we also ensure that the water allocation is distributed in the best possible way across the entire catchment. In particular, the way in which members of staff administer the water sharing plans that are in place is of paramount importance, especially during the dry period.

**The Hon. RICK COLLESS:** How will you find the right balance between the needs of the environment—the human critical needs as you call them—and the regional development needs to enable these communities to survive?

**Mr PHILLIP COSTA:** Could you repeat your question? I thought we are talking about regional development. We are now moving across to water.

**The Hon. RICK COLLESS:** This is a regional development issue. It is obvious that irrigation areas are reliant on water.

**Mr PHILLIP COSTA:** Absolutely.

**The Hon. RICK COLLESS:** I see a nexus between your two responsibilities. You have to ensure that you find the right balance between the needs of the environment—the human critical needs as you have described them—and the need for local communities to have access to their water to allow their regional development programs to proceed.



**Mr PHILLIP COSTA:** Without a doubt. It was a good move to bring rural affairs, regional development and water into one ministry. As I travel around New South Wales I am discovering that communities that have impacted by the drought and by a lack of water supply have been impacted economically and socially. I had an inspiring and enlightening discussion with people at Deniliquin, for example. The drought has had a significant impact on places like that. It has not just an economic impact; it has also had a significant social impact. The demographics of the town have changed, the workforce has changed and people are finding it difficult to obtain employment.

I have been informed that in places like Deniliquin some people are flying to Western Australia to work, leaving their families behind for six to eight weeks. The drought has impacted significantly on the economy of that rice-growing area and values have been depleted to such an extent that whole operations have ceased. We need a whole-of-government approach to solve those problems. As the Minister for Water, Minister for Rural Affairs, and Minister for Regional Development I will see what I can do to support communities that are suffering as a result of the drought.

My concern is linked to the concern raised by you earlier relating to licence buy-backs. I am concerned about the continuance of the drought as I cannot make water, but I wish I could. However, in my current portfolio I can manage the resources that we have to ensure as best I can that those communities are sustainable. When the rain comes—and it will—those communities will grow again. If we have changes in the demographics, the skill base and the operations in those regions, as a nation and as a State we have a big task ahead of us. I am mindful of that and I am working towards addressing those issues.

**The Hon. RICK COLLESS:** Have you had discussions with the Federal Minister for Climate Change and Water with respect to buy-backs at Wakool and Toorale Station, given that, as you rightly said, in Toorale you can buy back all the water you like, but if there is water in the river there is no water to return to it until such time as it runs again.

**Mr PHILLIP COSTA:** You have asked another question about water, but I will answer it.

**The Hon. RICK COLLESS:** It is, but it is also a question about regional development.

**Mr PHILLIP COSTA:** I have not as yet. I understand that we will be meeting shortly with the ministerial council. I am looking forward to doing so and I am keen to speak to the Federal Minister as soon as I can. In the last 39 days—it felt more like 100—my job was to get a handle on all the key issues. I had a broad knowledge of both regional development and water, but my purpose was to obtain a deep knowledge of both. I have focused on that. Just as an aside, since I have been the Minister I have presented two bills to Parliament and three minutes to Cabinet and I have had four budget sessions. In the meantime I have been working towards obtaining a deep knowledge of all those portfolios. I have already met with my colleagues in Queensland and Victoria but I have not yet had an opportunity in the short time available to me to have a meeting with the Federal Minister.

**The Hon. RICK COLLESS:** Minister, can you give us an undertaking that when you meet with the Federal Minister for Climate Change and Water you will also put forward regional development concerns about the impacts on communities of these water buy-backs? We all understand the environmental requirements but I think in some of these cases the regional development needs and the needs of the local communities have been put on the backburner, which concerns my colleagues and me.

**Mr PHILLIP COSTA:** I do not know what the Federal Minister has on his agenda.

**The Hon. RICK COLLESS:** I am asking you whether you will take forward our concerns.

**Mr PHILLIP COSTA:** However, as the New South Wales Minister for Water I will be strongly defending issues relating to buy-back and the systems that are implemented in New South Wales. That is my responsibility. I have never attended a ministerial council meeting and I am looking forward to doing so. However, I will not pre-empt the protocols and processes. Earlier you asked a question about Department of State and Regional Development programs in the region. If you want more detail on that issue I am happy to ask one of my colleagues to provide it to you. They have a depth of knowledge.

**The Hon. RICK COLLESS:** That is fine with me. I know these gentlemen quite well. I am sure I can ring them at any time to get that information, should I require it. Thank you for the offer. I refer now to the



problems many of our communities experience with regional air services. Most mid-sized communities, if I can use that expression, with towns of between 3,000 and 10,000 people, have lost their regional daily air services to and from Sydney. That has a huge impact on getting things like medical services, business banking, accounting and all sorts of professional services into and out of those communities. As a result, the communities are suffering. What is being done to examine the challenging dynamics of regional air services concerning the balance between the need for servicing those centres and the need for air operators to be able to make a profit? I suspect this probably would need to be done in consultation with the Commonwealth?

**Mr PHILLIP COSTA:** The depth of knowledge of that issue is with the Ministry of Transport, but I will respond to your question. In my short time as Minister another task I had was to chair a committee across the State examining the impact of telecommunications and broadband. I am intimately aware that removing certain resources from a community, or a community's access to them, such as air transport, has a significant impact on that community's long-term viability and in attracting professional people. Again a whole-of-government solution is needed, which includes input from the Feds and the State. It cannot be fixed by one particular project. The problem with providing air services not only is the viability of running the service, but also the chronic shortage of pilots. Some work is being done with training pilots and I have referred already to the fact that the Department of State and Regional Development [DSRD] supports pilot training proposals.

The boom in the west has swallowed quite a few pilots; they are over there to transport people to and from the mine. My department is intimately aware of that issue and its impact on regional communities. One solution, of course, is to assist in training pilots say that we have people. The decision by a company such as Rex Airlines to restore services into a community will be based on its business plan and viability. All we can do in government is to create an environment to attract that company. If I could refer again to IT example, if a town has a system to enable a professional from an urban centre to obtain access to city-equal resources such as IT, then more professionals will be attracted back to those communities. The Government needs to work as hard as it can to ensure that the best possible opportunity is provided for that to happen. Once you get to a point where critical mass is retained, particularly with professionals, then the air service system will have some kind of advantage in being there.

I refer to my earlier example of the rice processing plant. When it mothballed a number of professional people left the town. The demographic was changed, which then changed the economic advantage of the town and the number of its professionals, such as teachers. Therefore, there is an impact on the economy and it has a significant impact on how we manage changing demographics. That change is something that we in Regional Development can try to address through some of the programs I have mentioned, such as the pilot training program.

**The Hon. RICK COLLESS:** From a regional development perspective, and you probably will tell me that this is a transport issue as well—ultimately it is but it has a great impact on regional development.

**Mr PHILLIP COSTA:** Transport has an enormous impact.

**The Hon. RICK COLLESS:** Absolutely. So we agree on that. The regional air transport subsidy to smaller communities that exists in Queensland essentially allows Dash-8 planes to fly into communities of 3,000 or 4,000 people. Given the remote nature of some Queensland towns and some similar-sized towns in New South Wales that could benefit from that service, do you think it has merit from a regional development point of view? Are you prepared to propose that?

**Mr PHILLIP COSTA:** I would expect it is something from within another budget, not mine. I will not go into the detail of how the ministry might even entertain that proposal. The concept in Queensland—I know a bit about that one—has made probably a lot of difference. Again, at the end of the day it is a business decision of the company to fly in and out: risks are involved. The real challenge is to make the market attractive for the air company. I believe the way to make the market attractive is to work towards substituting the loss of one professional service in the town with another type of professional service, or increase the population. It is not a simple fix-it in trying to keep our communities in tact, especially when the main cause at the moment is lack of water. Lack of water is beginning to reduce interest in investment in communities because it is high risk. We need to work as a government to protect, ring fence and shield our communities whilst we go through these difficult times. Putting resources into a subsidy needs to be matched against that particular process. I guess what I am trying to say in a long way is that at the end of the day it is the best bang for the buck. I am not prepared to make a commitment because I do not know what will be the best bang for the buck for that particular type of program.



**The Hon. RICK COLLESS:** One thing that got me thinking about this issue was that the Sydney transport system in its entirety I think is subsidised to the tune of something like 75 cents per head of population per day. Suggestions have been made that perhaps a similar subsidy should be applied to regional areas. The most pressing need for transport in regional areas is a daily service to and from Sydney. If a subsidy of that nature were to apply to a town of 10,000 people, it would virtually underpin a daily air service.

**Mr PHILLIP COSTA:** I cannot comment on the numbers.

**The Hon. RICK COLLESS:** It might give you some food for thought in the future when you are discussing this with your colleagues.

**Mr PHILLIP COSTA:** My mind is open to a whole stack of things and a lot of opportunities. Some great ideas have come to me, which at this point have not moved forward, and they were presented not only by my staff. In this consultation exercise across the State people have raised some good ideas. I am open to whatever we think is a good idea in a bipartisan manner. We have to help the people in the bush.

**The Hon. RICK COLLESS:** I am pleased to hear you say that.

**Mr PHILLIP COSTA:** We have to help them not necessarily with handouts. We need to give them hope and support to stay and to grow where they are so that when the good times come we still have a presence in the bush. Some towns and villages are under extreme stress. I am focusing on my portfolios, especially water. If they run out of water, there is no town. That is the highest priority. In tandem with that is that the people need incentives and support to stay in that community. That is where my Department of State and Regional Development and the Office of Rural Affairs come in. I received a briefing the other day about what we do in rural affairs across the State: they are small but important projects to the people in those towns and they give them pride and encouragement. They are only small and you do not hear about them in the newspaper. Basically they are one to one, small community groups working with the Government and they are so powerful in keeping an interest or empathy for the community.

I come from a small community. People think I am from the city, but I love Picton. It is my little town. It is not big. It has 3,000 people so it is little, and we just know each other and we support each other if there is any help out our way, and that happens across the State. In government—and I hope it is bipartisan—we need to think about what we can do to help those small communities to prosper and to continue to be there for when the good times come. I was up in Narrabri yesterday, and they have had some rain. They are going to have a harvest. Things are looking better than they were last year. They are still in dire straits, but I had a busload of locals with whom I went travelling. Their speech and language was about the future; it was not about gloom and doom. They also talked about the pressure they are under. They talked about how governments might help, but they really were focused on the future. They certainly have not lost hope, and that is a good thing.

**CHAIR:** Minister, could you indicate this year's budget for the Office of Biofuels?

**Mr PHILLIP COSTA:** Yes. I was Minister for a day—

**CHAIR:** Feel free to take the question on notice.

**Mr PHILLIP COSTA:** I will take it on notice because what I am about to say about biofuels is that I have a little bit of detail, but I am not the spokesperson for biofuels. That responsibility was handed back to my colleague Minister Kelly.

**CHAIR:** So you are not covering biofuels at all?

**Mr PHILLIP COSTA:** No.

**CHAIR:** That shortens my questions.

**Mr PHILLIP COSTA:** That does not mean I do not have an interest in biofuels.

**CHAIR:** Sure, but you are saying that Minister Kelly is covering that now. I understood it was your portfolio.



**Mr PHILLIP COSTA:** That transfer has been gazetted today. My colleague Minister Kelly has had a long and deep interest in it.

**CHAIR:** He has.

**Mr PHILLIP COSTA:** We thought that at this time, halfway through our term, it was such an important matter that he might continue with that.

**CHAIR:** That shortens my questions. I am wondering with rural and regional development if there has been any systematic approach taken by your department to identify suitable sites in New South Wales for expansion of renewable energy, such as wind, wave, tidal, geothermal, et cetera. Is your department playing a role in this?

**Mr PHILLIP COSTA:** Not that I am aware of. I will defer to Mr Cullen. I have seen some of the facilities personally and some of the work that we have done, but I will pass to my officer to go into the details.

**Mr CULLEN:** Mr Cohen, there are probably a few things. One is that we actually have for each region now a business growth plan under the State Plan. In appropriate regions, some of the environmental industries are identified. On top of that, although it is not strictly the Regional Development portfolio, there is also an environmental industries focus within our Australian Technology Showcase, which is the statewide program, and that lists a whole string of different types of businesses that are in environmentally sensitive fields and deal with environmental opportunities.

In terms of whether it is systematic, location by location, it is not strictly in that sense; but it is picked up, in graph plans, in clearly renewable energy in some locations in terms of, for instance, the Epuron development that is being proposed out west. It is clearly an opportunity for those locations. You would be aware too that at the energy centre at Newcastle the CSIRO is a really important hub for some of that development, not only in that region but in the border region as well.

**CHAIR:** Has your department made any application to the national infrastructure fund offered by the Prime Minister? Have you made applications relating to specific projects? Perhaps you could detail some of those.

**Mr PHILLIP COSTA:** My understanding, which is confirmed by my Director General, is that that was a whole-of-government submission. I did not do something specifically at this department's level, but it went at a whole-of-government level. In terms of specifics, I will have to take that on notice.

**CHAIR:** So often we hear that a lot of it is city centric. Obviously there is a lot of opportunity in the bush.

**Mr PHILLIP COSTA:** I will take that on notice and I will find out for you. On a personal note, I am a very strong advocate. I attended a demonstration in my area of recycling fish and chip oil, which is the best way to describe it. I witnessed what was happening—putting it through the filters and all the things that were done—and it is now in my tractor. It is a good mix and it works, and the more we use, the better.

**The Hon. MICHAEL VEITCH:** Do you have a tractor?

**Mr PHILLIP COSTA:** Of course I have a tractor; I run a farm. But you have to watch the mix.

**CHAIR:** Indeed you do. I have been running biodiesel for a couple of years.

**Mr PHILLIP COSTA:** The person who showed me runs his car 95 per cent on biodiesel. He starts it in diesel, because you cannot get the temperature up on oil, and he has a system in the engine that heats the oil, and then he switches it over to 100 per cent oil and reverses that process. He runs 95 per cent of the time on biofuel.

**CHAIR:** I appreciate that Transport is not your portfolio, but has your department had a look at some of the transport issues? I refer now to the Casino to Murwillumbah rail link that was axed by your former



colleague and namesake. I wonder how much that affects you as you travel across the State. Is your department interested in that, not so much in terms of transport—

**Mr PHILLIP COSTA:** I understand that.

**CHAIR:** —but as a regional development opportunity? Given that we had a facility there only a matter of a few short years ago that not only provided local transport for people without cars, the young, the very young and the elderly, but also was a very effective local transport system before it was shut down, and given that there are no other transport opportunities in the area, has your department looked at that from a Regional Development point of view?

**Mr PHILLIP COSTA:** In a very simple answer, no, we have not done any work on that. To expand on the general principle of what you have just said, in terms of regional development, there is no doubt that transport has an important impact—air, rail or road. The decisions made by others in other places impact on the opportunities and the difficulties we have had to deal with. The Department of State and Regional Development in certain places will come in, and has come in, to try to find solutions that are caused by those decisions. I am intimately aware of how important a rail, road and air transport node is to the capacity of a particular community's economic and social development. You are right, and we have the same problem in our part of the State. A service was discontinued and the social impact was big because young people were unable to get to certain places. You need to form partnerships among groups—council, State or Federal—to find solutions as a result of those decisions.

**CHAIR:** I think you would find there is a lot of enthusiasm at local government level in that part of the world.

**Mr PHILLIP COSTA:** Anywhere.

**CHAIR:** I put it to you that perhaps you could take the question on notice.

**Mr PHILLIP COSTA:** We will take it on notice.

**CHAIR:** I ask you to look at the situation of stage one being a light rail rejuvenation of that rail corridor as a light rail that services both the local and tourism industries. That could be a start.

**Mr PHILLIP COSTA:** I am an advocate of what you say.

**CHAIR:** Good.

**Mr PHILLIP COSTA:** However, it is a Transport issue. I must maintain my focus otherwise I will be running the entire State, and I cannot do that.

**CHAIR:** Rick Colless mentioned flights as well as issues around getting flights to smaller towns. Quite a few years ago I was part of inquiry into the patterns of flights in New South Wales. The tendency has been very much towards hubbing to the Kingsford Smith Airport, Sydney. Has your department given any attention to looking at what the set-up was previously? You could go region to region in the country and there was more of a network rather than hubbing in the city. Has that been given attention in recent times?

**Mr PHILLIP COSTA:** I would not think so, no. The answer is no.

**CHAIR:** That answer is pretty clear.

**The Hon. RICK COLLESS:** I have a couple of questions about rural affairs, if you will take those?

**Mr PHILLIP COSTA:** Yes.

**The Hon. RICK COLLESS:** You mentioned that a few minutes ago. What is your understanding of the Rural Affairs portfolio?

**Mr PHILLIP COSTA:** The Rural Affairs portfolio looks at being proactive in a community by, for example, information and communication technology centres across the State where they set up a place in small



communities to provide a computer network, and the community has access to that. From memory, there are more than 100 of them across the State. They give a particular community the kind of access and support that they may get in more regional or city centres.

There is a program running at the moment that helps with restaurant food; there is a stack of protocols in place. Rural Affairs has set up a program whereby food that is not needed for one reason or another—it is not bad food; it is excess food—goes to charitable groups or places across the town. That program has been very successful. It does small but important little impact programs in communities. It gives a community support, hope and prosperity. One project I am currently looking at relates to information technology—what Rural Affairs can do to drive an improved broadband communications system in more remote communities across the State. So it does many small but well-received and important projects in rural communities.

**The Hon. RICK COLLESS:** Can you tell the Committee what the budget is for this financial year? When I looked at the budget papers Rural Affairs was listed under Minister Kelly's previous portfolio, the Department of Lands, Rural Affairs and Regional Development, but there was no discussion in the budget papers about the role of Rural Affairs or any apparent budget allocation. Is that a concern for you? What action are you taking to lift the profile of Rural Affairs?

**Mr PHILLIP COSTA:** I accept that. When I started to look into what Rural Affairs does I was quite pleased with its work. I was given the budget, but I do not have it with me so I will have to take that on notice. When I looked at the detail, it appeared to be a good return for the dollars being put in. That is the way I interpreted the information. Being new, at the beginning of this process I was not aware of what Rural Affairs did in terms of specifics. I requested a list of projects and I have tried to commit all of them to memory but there is about half a page of individual projects listed. Rural Affairs staff meet with Department of Regional Development staff and work together so that they do not duplicate, and they value add as they go. I do not think it is an issue in terms of Rural Affairs projects. I think that is a public opinion. I am more than happy to take that on notice.

**CHAIR:** Considering the Rural and Regional Task Force report of March 2008 and its assessment of regional economic development and investment, how much funding from the current budget will be given to the Regional Business Development Program?

**Mr PHILLIP COSTA:** With the mini-budget process that we are going through at present—

**CHAIR:** It is like a magical light that goes on with every Minister at the moment. It is the great unknown.

**Mr PHILLIP COSTA:** Everything is in and everything is out. I am mindful of, and understand, the question. At the moment that is the position, and the Premier is sincere about that. However, we have total budget expenses of \$44.9 million. My understanding is that they are in advance.

**CHAIR:** Will it be a similar situation with regard to the Regional Business Development Scheme? How does the department respond to the strong opinion that this scheme is insufficient? Are plans being made to address the perceived problems with the scheme? Are there any plans to create a more effective, beneficial scheme to help develop businesses?

**Mr PHILLIP COSTA:** You have mentioned an overarching program. I need to take that on notice; it is not something that comes specifically to me. You will need to direct that probably to Minister Macdonald.

**CHAIR:** Considering your experience in the Water portfolio, do you think that the Environmental Planning and Assessment Act is an appropriate and adequate forum to address sustainability issues such as water interception and usage relating to an ethanol project, or would a more tailored sustainability assessment under the biofuels Act be more appropriate? I appreciate that that is biofuels, so are you saying that it is out of your area?

**Mr PHILLIP COSTA:** I will give you some comment on that. In terms of using the planning regime—the Planning portfolio—it has its limitations. It is an objective process. Having experience of just on 20 years in local government and working with planning instruments, et cetera, I am intimately aware of the rigid parameters. Some people try to nick the edges of all the planning instruments they work with, but the instruments are fairly rigid and precise in what they can and cannot do. That gives a certain amount of



protection, which is a good thing. But sometimes it may not, and I think that is what your question is broadly about. All of that would need to be passed on to Minister Kelly.

**CHAIR:** The Committee will now deal with the Water portfolio.

**(The witnesses withdrew)**

**KERRY SCHOTT**, Managing Director, Sydney Water Corporation,

**KEVIN YOUNG**, Managing Director, Hunter Water Corporation,

**MICHAEL BULLEN**, Chief Executive Officer, Sydney Catchment Authority,

**DAVID HARISS**, Deputy Director General, Department of Water and Energy, and

**GEORGE WARNE**, Chief Executive Officer, State Water Corporation, affirmed and examined:

**MICHAEL CULLEN**, Executive Director, Regional Development, Department of State and Regional Development, and

**MARK DUFFY**, Director General, Department of Water and Energy, on former oath:

**Dr JOHN KAYE:** Is it correct to say that once the Sydney desalination plant is completed there will be a two-year running-in period when it will be flat out for 300 days a years and after that it will be dispatched on the basis of least incremental cost of water?

**Mr PHILLIP COSTA:** I will begin by saying that I have visited and walked through the desalination plant and had an in-depth briefing on it. It is a project that is going to significantly assist Sydney in the future. The plant will be run for two years, yes, as a normal process of shaking down a new facility to ensure everything is working. It will also be run to gather quality data. It is very important that we know, when the plant is operating, the exact parameters of its operational footprint. It will be run for two years, as you have said. My understanding is that after the two years the level of operation of the plant will depend on storage levels in the dam.

There has been a lot of discussion about the need for a desalination plant, which will have a number of benefits to the city in the long term. Yes, it will produce 250 megalitres of potable water per day. In the long term it has the capacity to produce 500 megalitres of water per day. At the moment the energy source is being developed through the Alternative Energy Scheme. I have flown over the location of the wind turbines. The plant has more than just a drought-proofing advantage to the city. I have also visited all of the infrastructure facilities of Sydney Water. As I said, I have gone to the desalination plant and to Prospect and I have been asking questions about water security—a most important part of the supply of water. What the desalination plant does over and above supplying drinking water is it will give a sense of security, for example, to all of Sydney's supply over time.

Just to give you one scenario, at the moment Sydney is using about 1,400 megalitres of water per day on a level three water restriction system. The desalination plant will be producing 250 megalitres per day—it has the capacity to go to 500 megalitres if and when people decide to extend the plant. But let us take it to its maximum scenario because the infrastructure being put in place is designed to take the 500 megalitres—we just have to add another big section to it. It has the capacity to supply, under level three water restrictions under current conditions, one-third of the city's supply. If we have a problem with the open canal between Cataract and Prospect, which also sends about 500 megalitres to the city supply, it can be turned on and augment that. I see that as a very good insurance policy over and above the supply of drinking water when we are in dire straits.

**Dr JOHN KAYE:** The question I asked was: How will it be dispatched after the two-year running-in period? I asked about the decision making around when to run it and when not to run it, and how many annual megalitres or gegalitres you will get out of it.

**Mr PHILLIP COSTA:** It is dependant upon the storage levels. If we get to a critical storage level, and it is turned on, it will dispatch 250 megalitres a day but if the following day you have a significant rain event in



my backyard—my house is in the Warragamba catchment—you then have a run-off and an increase in the storage of the dam, then you can turn it off.

**Dr JOHN KAYE:** There clearly needs to be a decision made about what that critical level is. I suspect there will be a number of critical levels, depending on if you can run the plant for a variety of number of hours and days. How are those decisions to be made? When and how will decisions be made about where those critical storage levels will be? On what criteria will they be made?

**Mr PHILLIP COSTA:** My understanding is that there is a trigger point in terms of percentage of the total storage. I cannot give you that number off the top of my head.

**Dr JOHN KAYE:** Does that number exist?

**Mr PHILLIP COSTA:** The decision to build the plant was triggered by a certain number.

**Dr JOHN KAYE:** That would have been 30 per cent.

**Mr PHILLIP COSTA:** That is correct.

**Dr JOHN KAYE:** If that were true—

**Mr PHILLIP COSTA:** No, I am making the assumption that that is the number. In terms of storage levels, the desalination plant is designed to turn on when storage levels get to a certain level. That certain level has not, in my understanding, been viewed—

**Dr JOHN KAYE:** It has not been calculated? I am sorry I did not hear that.

**Mr PHILLIP COSTA:** I am not aware, but I will ask my Director General to discuss that.

**Dr SCHOTT:** The level of dam storage at which the desalination plant will be turned on and off after the two-year commissioning period will be determined as part of the review of the 2010 Metropolitan Water Plan. In the two years of commissioning we will not necessarily see the plant running at 250 megalitres a day because, like any sort of commissioning, you are doing it to check your plant and it will a bit off and on. But if they can run it at 250 megalitres for two years that is a fine thing. But the level of dam storage at which the plant will turn off has not yet been decided. It is my expectation that we will be able to let people know where those studies have got to before the release of the full Metropolitan Water Plan. The reason why it is a decision as part of the Metropolitan Water Plan is that it is also linked with the volumes of environmental flows and other configurations within the bulk water catchments.

**Dr JOHN KAYE:** Is it fair to say that the incremental cost of producing water from the desalination plant and from the Sydney Catchment Authority—that is, your incremental purchase cost as Sydney Water—will play a key role in determining where those threshold turn-off and turn-on levels are?

**Dr SCHOTT:** No.

**Dr JOHN KAYE:** They will not?

**Dr SCHOTT:** No. The important issue here is sufficient water for the people of Sydney.

**Dr JOHN KAYE:** The decision is based purely on maintaining Sydney's catchments storage levels at a level at which you are comfortable?

**Dr SCHOTT:** It is about having sufficient water for Sydney overall at which everybody is comfortable.

**Dr JOHN KAYE:** Why did the former Minister for Water Utilities during the last budget estimates talk about Sydney Water purchasing water from the Sydney Catchment Authority at a cost of 56¢ a kilolitre? That water purchased in the desalination plant will be 60¢ a kilolitre—he said a tonne; he meant a kilolitre—so there is a difference of 4¢. Basically he was saying that it is an economic decision, not a security decision.



**Dr SCHOTT:** No, I do not think he said that. We certainly do not want to waste water that is in dams because we all know that it is more cost effective. Therefore, we do not want to be running the desalination plant when the dams are very full and likely to spill. But having said that, the additional cost of a kilolitre of water from desalination is not a deciding factor as to whether you put enough water in the system for the city of Sydney.

**Mr PHILLIP COSTA:** Could I step in there and say that I cannot comment on what the previous Minister said—I will have to ask the Premier—but, as the current Minister for Water, what will be driving my priority decisions is the availability of water for the people of Sydney. In response to the comments made, it is all about ensuring that a good quality supply of water is available to the entire population. That is what will be driving my decision making.

**Dr JOHN KAYE:** We are currently at about 66 per cent, or thereabouts, of storage in Sydney?

**Mr PHILLIP COSTA:** We are.

**Dr JOHN KAYE:** At that level you would not feel the need to run the desalination plant?

**Mr PHILLIP COSTA:** I will not apologise for having too much water.

**Dr JOHN KAYE:** No, I am not asking you to do that. All I am asking is whether at 66 per cent—

**Mr PHILLIP COSTA:** I will not be drawn into specific numbers because we all know, and I am sure you also know, that water distribution—water demand and water supply—is a very complex creature. There is a combination of things that we are doing across the city that is designed to ensure that we have available water for the needs of the city. When we talk about numbers we also need to consider what long-term trends or changes might occur. We are doing some work with recycling water, which will help. We are also doing some work with the desalination plant, which will help. We are doing, and have already done, some work in improving the capacity of dams by accessing the 10 per cent at the bottom.

When we put it all together—and it is all recent science—we need to be very careful how we manage that resource in the future. We are also approaching growth in this city and, if the predictions are right, that growth is going to be significant. It is a very complex question in terms of when you will or will not do certain things with those assets when there is almost a moving feast. We are going to make decisions based on the best information we have at the time, so I am not going to make a prediction about what I am going to do or what might happen in two years time.

**The Hon. ROBERT BROWN:** You may or may not be aware that there were some deep concerns expressed to your predecessor, who is now the Premier, regarding the community health issue of nematode infestations in fish in the vicinity of the hyper-saline outlet off the coast of the desalination plant. I understand your predecessor took that on board and the government scientists, whilst agreeing that there was concern, felt that there was no necessity to do anything with the program at this point in time. Firstly, are you aware of that concern; and, secondly, what is the department going to do to ensure ongoing monitoring of the area around that hyper-saline outlet?

**Mr PHILLIP COSTA:** I am aware. I have picked up quite a bit of detail in 39 days and I am working on it—I have a long way to go. I do not have all the information; it is still not committed to memory, as it should be. I am aware of the complaints that were raised. The matter was also raised in discussions I had at the desalination plant, and information was given to me. The companies or organisations that are working with the desalination plant at Kurnell have informed me that, first of all, water access is one of the best, if not the best, in the world in terms of desalination plants, which operate around the world. The impact of this will be at the discharge point, but that impact is diffused within a 50-metre radius of the outlet. That is what I have been informed and I take that as read, but in the marine environment where water will be drawn what I call roundworms—because then I understood what they were talking about—

**The Hon. ROBERT BROWN:** Same thing.

**Mr PHILLIP COSTA:** They occur naturally, as we know, and as part of Sydney Water's marine monitoring Sydney Water has commissioned a scientific review by marine and freshwater scientific consultants of the potential impact of nematodes on public health in relation to the desalination plant and discharge. The



independent review concluded that given that parasitic nematodes are likely to occur naturally over an area much wider than the desalination plant dilution zone, the chances of fish acquiring parasitic nematodes from the desalination plant seawater concentrate zone is exceedingly small. However, Sydney Water has established an environmental monitoring program to measure any impacts from the discharge on smaller invertebrates and some species of fish living in or near reeds and sediments.

**The Hon. ROBERT BROWN:** I assume you are aware that there has been new technology breakthroughs in membrane science—I believe they call it low-pressure membrane—which reportedly gives a lot better energy consumption figures. With the possibility that the desalination plant will at some stage go to stage two—that is, double its size—are we locked into the current technology there or is there an opportunity, if the desalination plant increases its size, to go to new technology?

**Mr PHILLIP COSTA:** The decision about what the second stage might look like will be a decision of a future group. From what I have seen on the ground, these appear to be modular, separate—it is really worth a visit to have a look when it is open.

**The Hon. ROBERT BROWN:** Is that an invitation?

**Mr PHILLIP COSTA:** I would be delighted to show you when it is open because—and I am not a scientist—it appears to be modular. The common infrastructure is the tunnels, the intakes and outlets, and that sort of stuff, but I would think—

**The Hon. ROBERT BROWN:** I understand what you are saying. Could I move on to a question on rainwater? In relation to a question asked in the Federal Senate on 9 August, the then Minister for the Environment and Water Resources answered a question on notice in which he claimed:

State and territory governments could establish entitlement regimes in order to regulate the use of water that falls on a person's roof.

Is the New South Wales Government prepared to rule out a regime being applied to rainfall that falls on roofs in New South Wales?

**Mr PHILLIP COSTA:** Absolutely. What a ludicrous proposition.

**The Hon. ROBERT BROWN:** I am glad to hear you say that.

**Mr PHILLIP COSTA:** I live on rainwater, and I am not declaring an interest; I am saying what happens with people who live with rainwater tanks. The rainwater that we collect is for essential health and personal use. To regulate and manage that would be a catastrophic task. There are times when we need to ensure that people have certain basic rights and liberties. I chose to invest in a rainwater tank. I am sure all people who have tanks are doing what they do to minimise their impact on the wider community. For example, I could connect to town water, but I choose not to. Now people are, thank heavens, putting tanks on properties even though they are connected to town water. The removal of regulations allowed that to happen. One of the reasons why I did not connect to town water is that some years ago you had to make sure that you did not have connectivity between the systems, and therefore I could not use the water where I needed it. Those barriers have gone. I am pleased that we are now encouraging people to put water tanks in their places so that we can save water and impacts on the environment.

**The Hon. ROBERT BROWN:** That was a very clear and concise answer, and I thank you for that.

**Mr PHILLIP COSTA:** I am sorry, I should have said "No", but I am passionate about this.

**The Hon. ROBERT BROWN:** It is reported that the Greens have produced some modelling that calls into question the cost of water provided by the Tillegra dam. Could you tell the Committee, firstly, if the projected cost of the Tillegra dam has blown out to \$1 billion and, secondly, are you confident that the dam is in the right place?

**Mr PHILLIP COSTA:** Thank you for the question. I have had in-depth briefings on the Tillegra Dam. In fact that is one of the next areas I intend to go to, but the sittings of Parliament will slow down my visits in the next few weeks. I am hoping to fit that in. The Tillegra Dam project has been around for some time, as we all know. The cost of \$1 billion is not the information I have been given. I will give an explanation in a moment,



but the cost now is \$400 million. The reason it has gone up a little is that other elements have come forward. To claim that it is going to cost \$1 billion is not in line with the information given to me. I believe the science has been done and the work has been done and it is a \$400 million project. I do not know if the people making this claim have got it mixed up. A desalination plant will cost about \$1 billion.

**The Hon. ROBERT BROWN:** It is clearly Tillegra Dam.

**Mr PHILLIP COSTA:** No, that is an alternative.

**Dr JOHN KAYE:** How big a desalination plant would cost \$1 billion?

**Mr PHILLIP COSTA:** I was told it was \$900 million. I do not want to go down that path because that is an alternative. The information I have on Tillegra Dam is that over time we will need to supply the Hunter with water. Tillegra Dam is one of those solutions and that is being looked at at the moment. The good people of the Hunter do many things. They are looking after their own patch and managing their water supply very well. We pat them on the back for the great work they do.

**The Hon. ROBERT BROWN:** Like the people of Port Macquarie.

**Mr PHILLIP COSTA:** Absolutely, and we commend them, as we do the people in Lakesland where I live. People now manage their water supply generally quite well. The Tillegra Dam is a way of ensuring the long-term water supply to the Hunter. I have heard commentary in the past in relation to the Central Coast. The Central Coast is not part of this process at the moment. Tillegra Dam is there to drought-proof, for want of a better word, the Hunter Valley. I know they have had excellent rainfall and I know they have had good times. I also know that the people in the Hunter have done their best to minimise their water use.

**CHAIR:** The efforts of people both in Sydney and the Hunter have been quite fantastic, would you not agree, in relation to when restrictions were brought in. The response of the community to the education campaigns has been nothing short of outstanding.

**Mr PHILLIP COSTA:** Absolutely.

**CHAIR:** Do you not feel some degree of frustration? You have embarked on your self-sufficient water supply, but with the way these projects are developing, being very much centralised projects, whether it be the desalination plant or in this case Tillegra Dam, are you not denying people the opportunity to get creative and realistic and understand water flows? You are talking about \$400 million for Tillegra Dam, but would you not agree that that is a hell of a lot of water tanks?

**Mr PHILLIP COSTA:** Without doubt.

**CHAIR:** It would provide a hell of a lot of stimulation of local economies through people working on decentralised projects. Are decentralised projects not something that your Government has been very shy of promoting? It has always been about big projects, whether ocean outfalls—

**Mr PHILLIP COSTA:** Chair, it is an excellent question. I do not see one solution being the solution for the future. Even in my situation if I run out of water I have to go somewhere to buy it. I have run out of water. My 5,000-gallon tank ran out of water.

**CHAIR:** I must show you my composting toilet. That would sort you out.

**Mr PHILLIP COSTA:** We sold the dishwasher and a few other things and the kids moved out. That was good! We cannot do that to anybody in the city. I believe there is a combination of solutions. Yes, there are opportunities for people to do just what you have said. Sadly, when you get communities as diverse and as large as the cities of Newcastle, Sydney and Wollongong you run the risk that people will not engage in that type of philosophy. We cannot afford to put their water at risk. We also have to supply to fairly large users such as industry. The bulk industries would definitely use more than they can actually collect and store on site. As a consequence we have to ensure there is a supply. This is where the inaccuracy of the science comes in because now we are talking about community attitude. As good as that attitude is and as good as the things are that people are doing, we put water integrity at risk when we base decisions on community attitudes. The Government has a responsibility to guarantee supply. We have a mandate to ensure people have water and



therefore we need to centralise its distribution. That does not mean you do not encourage people to put in water tanks and minimise their use and install recycled systems in their premises. It just means that the resource goes further.

**Mr DUFFY:** I will get the Hunter to validate this number but our understanding is it would take 450 rainwater tanks in the backyard of every house in the Hunter to match the storage capacity of the Tillegra. You need to start working out the economics of building—

**CHAIR:** Sorry, it may be your calculation but it is such a ridiculous statement.

**Mr DUFFY:** That is why we are happy to validate it.

**CHAIR:** People live sustainably on 20,000 or 30,000 gallon tanks, or less than that. I am being generous.

**Mr PHILLIP COSTA:** I am living on 20,000 gallons now.

**CHAIR:** I appreciate that. To me that is not really a relevant statement.

**Mr DUFFY:** It is a measure of Tillegra's capacity—

**CHAIR:** It is a measure of Tillegra's capacity but I constantly find that the big bang solution of infrastructure projects like that also misses the fact that people can live very successfully on 20,000 or 30,000 water gallon tanks in times of significant drought, particularly if it is intelligently run with other water re-use strategies in a household. I appreciate the comment made but I think a lot of people feel extremely frustrated. Will the costs of the Tillegra Dam be forced on the Hunter residents alone or will they be shared among Central Coast residents or across the entire State?

**Mr PHILLIP COSTA:** That is a good question. The cost of the Tillegra Dam through the Independent Pricing and Regulatory Tribunal [IPART] process will be moved to the people of the Hunter, not the people of the Central Coast.

**CHAIR:** So it is purely the people of the Hunter?

**Mr PHILLIP COSTA:** The people of the Hunter. If in the future there is a need to transfer water from the Tillegra Dam—we are still in the process and cannot pre-empt what the decision will be—to the Central Coast as a water supply for that area it will require a new financial arrangement between Hunter Water and the organisations of the Central Coast. At the moment through the IPART process it is being funnelled through to the community of the Hunter. I thought I had made that clear in the press but obviously my language was not clear enough. If there is a need to do that in future, be it two years, five years or whatever, we will have to review the financial arrangements and then factor those in with the Central Coast. They will simply become a customer, albeit a big customer.

**CHAIR:** I will move on to the Central Coast now, with your prompting. On page 21 of the Department of Water and Energy annual report for 2006-07 one of the environmental outcomes and achievements of the department is stated as " Identification and protection of high-value groundwater dependent ecosystems in the Kulnura-Mangrove Mountain aquifer on the New South Wales Central Coast". Considering this departmental statement, could you outline why the South Coast Department of Infrastructure, Planning and Natural Resources office increased the water licence allocation for Peat Ridge, which is the Coca-Cola Amatil site, in contradiction of the 1997 licensing policy for groundwater resources of the Hawkesbury sandstone Kulnura-Mangrove Mountain that was in effect until the commencement on 1 July 2004 of the water sharing plan for the Kulnura-Mangrove Mountain groundwater sources 2003? Sorry, that is a long question.

**Mr PHILLIP COSTA:** That was a very long question. I will ask the director general to answer it. I am aware of the issue that you have raised, as I have relatives on the Central Coast who spoke to me about it. I am aware of it and I am aware of the extraction at Peats Ridge. However, I do not have the same deep knowledge that the director general can give you. In July 2003 Coca-Cola purchased a property at Euloo Road with a groundwater licence to extract up to a maximum of 25 megalitres of water a year for bottling. Soon after, Coca-Cola applied to Gosford City Council to increase production, including water extraction up to a maximum of 66 megalitres a year.



**CHAIR:** Minister, my understanding of the formula is that a 50-hectare property will get an allocation of some 25 megalitres a year. Did you refer to 56 megalitres or 66 megalitres?

**Mr PHILLIP COSTA:** Sixty-six megalitres.

**CHAIR:** I agree with you on that, but why has that property been given such a large allocation when under the formula of the 1977 policy there is a clear reference to 25 megalitres a year for a 50-hectare property?

**Mr PHILLIP COSTA:** I will ask my director general to answer that question.

**Mr HARISS:** As the Minister pointed out, based on that originally the groundwater licence was given to extract up to 25 megalitres a year for bottling. Soon after, Coca-Cola applied to Gosford City Council to increase production, including water extraction up to a maximum of 66 megalitres a year. We then undertook an assessment, as we normally do, to work out the sustainability of that. The department assessed the hydro-geological studies before having them independently peer reviewed for accuracy. We revealed that, from a resource management perspective, the proposal to extract up to a maximum of 66 megalitres a year could be approved, subject to some specific conditions.

The department then submitted the general terms of approval to council for consideration under the Environmental Planning and Assessment Act. Despite the department's views, the council refused the development consent. Coca-Cola subsequently challenged the decision in the Land and Environment Court and the court ruled that a development consent could be issued to Coca-Cola allowing it to extract up to maximum of 66 megalitres a year for a trial two-year period. Following the court's decision the department issued a groundwater licence to Coca-Cola to enable maximum extraction for that period.

Coca-Cola subsequently returned to the Land and Environment Court to seek modification of the conditions. The modification application sought to remove a condition requiring Coca-Cola to cease pumping when groundwater levels reached 10 metres. The Land and Environment Court appointed an expert to assess the hydro-geological implications of the proposed licence modification and it was agreed that a modified condition could be imposed without additional risk to the aquifer or unacceptable limits. Effectively, the court subsequently decided to extend the initial trial period for a period of two years until 2011. That is a decision of the Land and Environment Court and not of the department. That means that Coca-Cola can continue to extract up to a maximum of 66 megalitres a year until 2011. That was a long answer to a long question.

**Mr PHILLIP COSTA:** I was going to give that answer but it was better for the director general to do so.

**The Hon. DAVID CLARKE:** Minister, I seek clarification on Tillegra Dam. Did you say that the cost was now \$400 million?

**Mr PHILLIP COSTA:** Yes, \$406 to be precise.

**The Hon. DAVID CLARKE:** But only a few weeks ago the budget papers specified a total cost of \$379 million.

**Mr PHILLIP COSTA:** Yes.

**The Hon. DAVID CLARKE:** So it has blown out another \$27 million, or about 6 per cent or 7 per cent in a few weeks?

**Mr PHILLIP COSTA:** Yes. After some discussion, in particular with community groups, the cost increase is attributed to some road works and to some other issues. I will ask the chief executive officer to answer your question. I have been briefed on that and I asked the same question.

**The Hon. DAVID CLARKE:** Were those costs factored in, in the first place? If not, why were they not factored in?

**Mr YOUNG:** In November 2006 the budget allowance for Tillegra Dam was \$300 million, in 2006 dollars—I think \$344 million including inflation. Since the work was undertaken in 2006 we have spent over



\$1.5 million in geotechnical work throughout the area. We have done the detailed concept design for all the road works through that area and a complete concept design of Tillegra Dam. With the geotechnical concept and road work, construction companies are involved to give us up-to-date estimates of construction costs. That is why we have absolute confidence in the estimates.

The geotechnical aspects turned out to be excellent for constructing a dam. The major change that has occurred since November 2006 and today is the increase from \$344 million in 2006 to \$406 million now. Those are just higher construction cost estimates. When we first commenced construction costs and inflation were more than the consumer price index. When we did the detailed concept design for the road relocation that was significantly more expensive because about 30 per cent or 40 per cent more roads were involved. We went through a complete community consultation phase to establish where the road should be relocated. That was done in conjunction with the community, so it was a combination of increased costs on the roads and increased inflation.

While there has been an increase from \$344 million in 2006 to \$406 million, our current figure of \$406 million still includes \$50 million for contingencies—for things that could come up during the construction phase of which we are unaware at the moment. It is not certain whether we will need that money; we just need to use good practice to allow for contingencies during the construction phase, or for unknowns that could come. But it is fully factored in.

**The Hon. DAVID CLARKE:** In a matter of a few weeks there has been a blow-out in the 2008-09 budget papers from \$379 million to \$406 million—a blow-out of \$27 million in a matter of a few weeks. Minister, do you agree that that is a fairly major blow-out in such a short time?

**Mr PHILLIP COSTA:** I cannot support that. My information is that it is not over a few weeks.

**Mr YOUNG:** That information was put into the State budget papers some time ago.

**The Hon. DAVID CLARKE:** I think it was in April.

**Mr YOUNG:** That is right. We decided that there is an appropriate time when you review budgets for major construction projects such as this. The appropriate time for that is when you have all the detailed information and geotechnical information for things such as roads and dams. It is not something that we did lightly. But with all the extra information and our detailed knowledge of the project we decided it was time for revision. That is why it went to \$406 million and that is why we had extreme confidence in the construction cost estimate of Tillegra Dam.

**The Hon. DAVID CLARKE:** Of that figure of \$378 million in the 2008-09 budget papers I think there was an allocation of roughly \$100 million and the balance was going to be loaded onto Hunter residents. Will that \$27 million blow-out be borne by the Government, or will it be apportioned or loaded onto the shoulders of Hunter residents?

**Mr PHILLIP COSTA:** My understanding is that it is part of the Independent Pricing and Regulatory Tribunal [IPART] process. The IPART will decide it.

**Mr YOUNG:** Tillegra Dam is critical for the Hunter and for water security in that area. I pick up on a point that was made earlier. As part of our H250 plan, looking 50 years ahead, we will do as much as we can to drive water efficiency further.

**The Hon. DAVID CLARKE:** I do not want to be rude but that is a different issue that can be dealt with later. I am talking about costing.

**Mr YOUNG:** The cost allocation will be split as part of the IPART process. That is something at which the IPART will be looking. It will be split between existing customers and growth. Tillegra will give us the capacity to allow for growth for that area for 50 to 60 years. Existing customers will get unprecedented drought security, given the current position and the fact that we plummet in hot weather. So that will be an IPART matter. The IPART submission is out there and public submissions also.



**Mr PHILLIP COSTA:** My understanding is that it is a decision of IPART. I have been informed that in reference to the cost of the dam through that process to the Hunter community the existing community will be resourcing about 50 per cent of it.

**The Hon. DAVID CLARKE:** At a continually increasing amount, it appears?

**Mr PHILLIP COSTA:** The longer we take to build the dam, if we build the dam.

**The Hon. DAVID CLARKE:** Twenty-seven million dollars over four months. How many claims have been received by Sydney Water alleging damage to property as a consequence of the construction of the desalination plant at Kurnell?

**Mr PHILLIP COSTA:** I will pass that question to my director general. I have been to Kurnell and spoken to some members of the community. I am aware of their concern, but for the detail I will ask the director general to respond.

**Dr SCHOTT:** We have not had any specific claims in writing yet, but the reason for that is that we have not finished the work. Let me explain the process that we go through. Before we commence construction, we get a detailed survey done on those properties that we think may suffer some damage from the work we are doing. When we finish we go back and get another survey done and we pick up the expenses for any repair work that is required. At this stage in Kurnell because it involves concrete slabs built on sand there will be some superficial cracking to a number of houses—a relatively small number. I would say fewer than the fingers on one hand. We will go back and fix up that superficial damage. It is part and parcel of the approach to mending things when we finish and we would always do that.

**The Hon. DAVID CLARKE:** So the answer is that, in effect, you have received no claims, but from your answer you are anticipating that there will be claims?

**Dr SCHOTT:** I am anticipating that there will be some claims to have superficial damage to a very small number of homes fixed up when we are completed.

**The Hon. DAVID CLARKE:** Do you have an estimated cost of that?

**Dr SCHOTT:** It would be relatively minor. I cannot estimate the cost until we finish because we do not know the end result until we finish.

**The Hon. DAVID CLARKE:** What sort of cost range do you regard as minor?

**Dr SCHOTT:** Something probably less than \$250,000.

**The Hon. DAVID CLARKE:** Total?

**Dr SCHOTT:** Yes.

**The Hon. DAVID CLARKE:** So you think as a general figure no more than \$250,000?

**Dr SCHOTT:** That would be my sense, yes.

**The Hon. DAVID CLARKE:** In total?

**Dr SCHOTT:** Yes.

**The Hon. DAVID CLARKE:** How many claims have been received by Sydney Water relating to the adverse effect on health and quality of life as a consequence of the construction of the desalination plant?

**Mr PHILLIP COSTA:** Again I will pass that question to my director general, but I have not received any.

**Dr SCHOTT:** I do not want to go into particular cases but, again, as to process, when we are putting a major pipeline in a street we offer to relocate people for the day or two that we are working. In a way that is



noisy for them, particularly shift workers who might have difficulty sleeping at night. We have relocated a couple of people for several nights. That is it.

**The Hon. DAVID CLARKE:** Apart from the inconvenience of a couple of nights in a couple of situations are you saying that you have received no claims that all for adverse effects on health or quality of life?

**Dr SCHOTT:** No, I have not had any claims.

**The Hon. DAVID CLARKE:** What was the cost of the unsuccessful piling and tunnelling methods at Kurnell village for construction of the pipeline?

**Mr PHILLIP COSTA:** Did you say unsuccessful?

**The Hon. DAVID CLARKE:** Yes, unsuccessful?

**Mr PHILLIP COSTA:** I cannot comment on unsuccessful tunnelling and piling. My understanding is that the tunnelling and piling at Kurnell is going on as we speak.

**The Hon. DAVID CLARKE:** So you can assure us that there have been no unsuccessful piling and tunnelling methods?

**Mr PHILLIP COSTA:** Could you describe "unsuccessful"?

**The Hon. DAVID CLARKE:** I am using it in the broad sense.

**Mr PHILLIP COSTA:** As in putting a hole in the wrong spot?

**The Hon. DAVID CLARKE:** I am leaving it wide enough for you to be able to respond?

**Mr PHILLIP COSTA:** I like the question. What I would determine as unsuccessful is that you have put a hole in the wrong spot—that is unsuccessful; or you have drilled a hole and it caved in—that is unsuccessful. I will pass that question to my director general because I am not aware of any of those sorts of issues. Maybe there is a formal response we can give you.

**Dr SCHOTT:** If I can explain, we are putting and, indeed, have put pits in from which tunnel boring machines are launched and retrieved. In putting those pits in—not just in Kurnell but in other places—various construction methods are tried to see which ones are successful and work best. In relation to the two particular pits in Kurnell, we did try sheet piling, which is the most quick and usually most cost-effective method. Because of the sand and, in particular, wet sand in Kurnell, it was found that sheet piling down for about the last four metres was very difficult. As a consequence, those pits have been built with what is called secant piling which, in effect, is rather more traditional drilling of holes and putting in a pile after you have drilled a hole, and then the pit is excavated. The fact that different construction methods are tried is part of ordinary construction of pits in ground where the conditions are dissimilar from one pit to the next.

**The Hon. DAVID CLARKE:** This has all been factored into the cost, has it?

**Dr SCHOTT:** It has.

**Mr PHILLIP COSTA:** And as Minister I would not call that unsuccessful because the hole was dug and the pit went down.

**The Hon. DAVID CLARKE:** But you will take my question on notice and come back to me with an answer?

**Mr PHILLIP COSTA:** I understand what you are saying. Yes.

**The Hon. DAVID CLARKE:** Have the contractors for the construction of the desalination plant been financially penalised for polluting Botany Bay at Silver Beach?

**Mr PHILLIP COSTA:** That is a legal matter.



**Dr SCHOTT:** They have not polluted Botany Bay at Silver Beach. There have been a number of severe weather events and those of you who are sailors would know that the sea conditions in recent months have been pretty torrid. We have had a couple of silk curtains blown off their bearings because of that, but the silt that was caused by that was no different from one side of the silt curtain to the other. There has been no problem.

**The Hon. DAVID CLARKE:** So there has been no pollution of any reasonable proportion anywhere in the region as a result of this program?

**Mr PHILLIP COSTA:** No.

**Dr SCHOTT:** No.

**The Hon. DAVID CLARKE:** Have the contractors for the construction of the desalination plant been financially penalised for failure to meet technical operation, safety, community and environmental requirements during the construction of the pipeline through Kurnell village?

**Mr PHILLIP COSTA:** Again, that is an operational question. I will ask my director general to answer it.

**Dr SCHOTT:** No.

**The Hon. DAVID CLARKE:** Are you sure of that?

**Dr SCHOTT:** Positive.

**The Hon. DAVID CLARKE:** Have any financial amounts been paid to Sydney Water by contractors for failure to complete a portion of works required by 14 days after the relevant required date?

**Mr PHILLIP COSTA:** Again I will ask the director general to answer that.

**Dr SCHOTT:** No.

**The Hon. DAVID CLARKE:** Are you sure of that?

**Dr SCHOTT:** Yes.

**The Hon. DAVID CLARKE:** Has Sydney Water paid any contractors for the early completion of any portion of the desalination plant works?

**Dr SCHOTT:** No. We have paid bills as they have been submitted. Both the plant and the pipeline are running to original time schedules and there is nothing untoward occurring.

**The Hon. DAVID CLARKE:** Minister, it has been alleged that a Sydney Water contractor dumped, either by accident or deliberately, 7,000 metres by 300 millimetres thick of mortar or cement on the ocean floor at Kurnell, and because it is under water and cannot be seen, and divers are not permitted to dive in that area, it has been ignored? Are you aware of any incident like that?

**Mr PHILLIP COSTA:** I am aware of an incident. I do not know the detail. I will pass the question through, but I will just make comment in relation to the construction. It is being monitored. There is a monitoring system there under the Marine and Estuarine Monitoring Program. It is there to monitor the impact of construction. I am aware of that one. The construction work has involved significant operations to place the intake and outlets structures on the sea floor. I have gone out and had a look at where the inlet and outlet units are and I can give you some background there. The construction work included moving rocks to clear the area, and that has happened. Water jets have been used, grouting has been used, and structures have been bolted to the sea floor. There has been installation of buoys and anchor points for the various vessels, such as the jack-up barge. There is a facility there, and there is a lot of activity going on.



These works were considered in the environmental assessment. The works have been underway subject to the conditions contained in the planning approval. Preliminary advice indicates that large areas of the construction site, which is equivalent to the size of about 15 football fields, still contain characteristically diverse marine life; less than 5 per cent of the area sampled has been impacted by barge anchors, and even the impacted areas are typically less than 1 square metre in size; areas impacted by anchors are likely to be quickly recolonised by flora and fauna; there are few signs of increased sedimentation due to construction, and few signs of construction debris.

Some grouting concrete, which might be what you were mentioning, has escaped and spread over parts of the construction area, equivalent to about the size of a football field. The grouting is generally of a powdery consistency and it is anticipated that most of this material, with time, will disperse with the currents and tides. A full assessment is being undertaken by an independent expert and a report will be available shortly. Following up of the studies will be undertaken in 2008. Sydney Water will ensure that the environment is protected during the construction and operation of the desalination plant. Construction of the desalination plant, including the offshore works, is being done in accordance with strict environmental management plans and approvals. In respect of the specific question, I think I have answered that by saying that some grouting has escaped, and that that is being monitored.

**The Hon. DAVID CLARKE:** Yes, equal to the size of a football field.

**Mr PHILLIP COSTA:** Yes.

**The Hon. DAVID CLARKE:** Do you have any estimate of the amount involved, apart from that? A figure of 7,000 square metres has been suggested to me.

**Mr PHILLIP COSTA:** Seven thousand square meters is a big patch.

**The Hon. DAVID CLARKE:** I am sorry—7,000 metres by 300 millimetres thick.

**Mr PHILLIP COSTA:** I cannot answer that question.

**The Hon. DAVID CLARKE:** When will the investigation of this incident be completed?

**Dr SCHOTT:** We are monitoring out there on a regular basis and that will continue for at least three years after the plant is finished. The monitoring is ongoing. As the Minister mentioned, the grout is gradually dissipating. Some of it was quite soft and cloudy and has gone, and some of it was hard but quite soft and crumbly and that is quickly going as well. By thinking measuring how much is there, I question the number you have been given. I think the way that it happened was that the constructors were putting the grouting into a circular ring. In the movement of the sea, it was washed backwards and forwards before it set. What escaped was really from the top of the ring, if I can describe it like that. It is very difficult to measure the amount that escaped, apart from it being visible in certain parts of the sea floor.

**The Hon. DAVID CLARKE:** Have you received any written reports on this incident?

**Dr SCHOTT:** I have received reports from the construction crew who have been down there.

**The Hon. DAVID CLARKE:** And from the contractors? Have you had an independent assessment made of this?

**Dr SCHOTT:** There is routine marine assessment that happens, as I have mentioned.

**The Hon. DAVID CLARKE:** Can you make copies of those reports available to this Committee, Minister?

**Dr SCHOTT:** I will take that on notice.

**Mr PHILLIP COSTA:** I need to take that on notice as well. I do not know the integrity of the reporting that goes back to the authority.

**CHAIR:** We will take a break now for 10 minutes.



[Short adjournment]

**The Hon. ROBERT BROWN:** With regard to the use of currently available but better technologies for further stages of the desalination plant, can you take on notice and come back to the Committee with confirmation that there are no contractual or technical constraints to better technology, whatever may be used—I understand your statement about modular construction—in any further expansion?

**Mr PHILLIP COSTA:** I will take that on notice and get back to you because, as I said, it was a view I had.

**CHAIR:** If a groundwater source is identified as high value in terms of the ecosystem it supports, do you agree that the most stringent of scientific investigations should be undertaken before increases in allocations are made to ensure sustainability?

**Mr PHILLIP COSTA:** Are you referring to groundwater generally or is there somewhere specific?

**CHAIR:** In general, I guess.

**Mr PHILLIP COSTA:** As you would be aware, the groundwater out west is one issue. Groundwater in the Southern Highlands is another one, as is the one on the Central Coast. But I will get my Director General or my Director to comment on groundwater generally. We have a good system in the department in that we have experts in particular fields, and I hope you appreciate the number of experts I have brought with me today.

**Mr HARISS:** Certainly in the development and water sharing plans the groundwater needs of groundwater dependent ecosystems are factored into the determination of water availability for consumptive use and water being reserved for the environment. An example there is water has been set aside in the Lachlan groundwater sharing plan for any particular groundwater dependent ecosystem as a precautionary principle, but that is certainly factored into the way we calculate water availability for consumptive use. Similarly, the calculation of water availability for consumptive use is now based on a rigorous assessment of recharge, and that was not the way it was previously 10 or 20 years ago. Subsequently we have gone through a \$135 million process in the Murray Darling Basin in the six major alluvial aquifers of returning the entitlements to sustainable yield. So in answer to your question, yes, groundwater dependent ecosystems are factored in to the determination of how much water is available for consumptive use, and that is also relative to the sustainable yield of the aquifer.

**CHAIR:** Would it make sense that licensing policy is undertaken prior to commencement of a water sharing plan and that after its gazettal it should have applied the same principle of equity and sustainability contained in the water sharing plan?

**Mr HARISS:** In most cases with water sharing plans there are no new entitlements given after the development of the water-sharing plan. In fact, on 3 July 2008 an embargo on the issue of any new entitlements for groundwater extraction for irrigation use throughout the Murray Darling Basin, for example, was implemented. So any further applications for groundwater extraction, the entitlement would have to come from existing entitlement and the actual location of that extraction point will be assessed about its impact on groundwater dependent ecosystem and its impact on neighbouring groundwater users.

**Mr PHILLIP COSTA:** In terms of the very serious drought we have, particularly out west—that is why I needed to clarify what the question is aimed at—some communities out there are starting to become more and more dependent upon groundwater. The team is doing the best they can to carefully manage that very precious resource on behalf of the community.

**CHAIR:** Considering that the former Minister understood the sensitivity of ecosystem dependence on high-value aquifers and scrapped the development of the Kangaloon aquifer project in the Southern Highlands, why is the Sydney Catchment Authority developing a preferred project from the environmental assessment?

**Mr PHILLIP COSTA:** I have some background knowledge of that. My understanding is those particular bores are now switched off but I will have someone answer that question.



**Mr BULLEN:** The Government's decision was that the Kangaloon bore field would be taken to a position where it was available to be taken off the shelf at some future stage if it was ever needed. The Sydney Catchment Authority is concluding any environmental assessments associated with that project so that all approvals are in place to allow that bore to be activated, if required, in the future.

**CHAIR:** How much has been spent on the preparation of the environmental assessment for this groundwater project?

**Mr BULLEN:** I will take that question on notice.

**CHAIR:** Will the Sydney Catchment Authority refer this matter to the Commonwealth Minister under the Environmental Protection and Biodiversity Conservation Act 1999 as I understand it to be a controlled action?

**Mr BULLEN:** Yes.

**CHAIR:** What is the estimated cost of the Kangaloon aquifer project? Has the department weighed the cost of accessing groundwater for emergency Sydney water supplies against other measures? What are the alternatives?

**Mr BULLEN:** I will have to take that question on notice and get back to you later on.

**CHAIR:** Apart from one instance of controlled allocation on the lower Darling in south-west New South Wales, there have been no controlled allocations declared in New South Wales. Would you outline why controlled allocations have not been made?

**Mr PHILLIP COSTA:** In relation to the controlled allocations I will pass that onto to the Assistant Director-General.

**Mr HARISS:** I think we have 108 aquifers throughout New South Wales, many of which have been embargoed from any further development. Where an aquifer is determined to have additional water available for consumptive use there is a potential for allocating new entitlements but, quite frankly, we have not yet developed a controlled allocation policy to apply in those areas. We assess every application now site by site and on its own merit.

**CHAIR:** Has the Government considered the inequity and loss of governmental revenue stemming from a strict interpretation of clause 38 of schedule 10 to the Water Management Act 2000?

**Mr PHILLIP COSTA:** I do not remember that part off the top of my head. I will take it on notice.

**CHAIR:** I understand in 2006-07, 34 per cent of licences were metered. Will the Minister indicate what percentage of licences for 2007-08 are being metered?

**Mr PHILLIP COSTA:** I cannot give you an exact percentage.

**Mr HARISS:** If I can give you a general answer, and take the rest on notice, depending if you want more detail?

**CHAIR:** Will you provide the Committee with the volume of water that that percentage might represent?

**Mr HARISS:** All consumptive licences are for regulated service water use meter. Some sort of assessment of their use is required other than for stock and domestic bores and for riparian rights which are a common law right. The high-end users of groundwater, particularly those with a greater than 20 megalitres entitlement, are required to be metered and we are slowly but surely moving to require metering for entitlements under 20 megalitres. There has not been a lot of metering of water use in unregulated streams because prior to the introduction of volumetric entitlements it was based on an area licence. So you could use as much water as you liked over a certain area. In recent years we have moved that to a volumetric entitlement, and associated with that volumetric entitlement we are slowly but surely moving to requiring those users to be metered. We have also been successful in the inter government agreement on Murray Darling Basin reforms, subject to



meeting certain water reforms, getting \$221 million from the Commonwealth Government to progress metering right through unregulated groundwater and regulated river systems throughout the Murray Darling Basin.

**CHAIR:** How will the \$220 million, which is to be spent on installing or upgrading over 9,500 metres in New South Wales groundwater and unregulated water sources, change those percentages? What is the current percentage for unregulated and groundwater systems?

**Mr HARISS:** As I said, I do not know the percentage but certainly in terms of groundwater, the high-end users of over 20 megalitres a day entitlements are required to be metered. Less than that they have not been required to be metered but we are moving to that. As I said in terms of the area based licences versus the volumetric entitlements in regulated rivers, now we have moved to making them volumetric entitlements, we will move to have all of those over time, other than stock and domestic entitlements, metered.

**The Hon. RICK COLLESS:** Were any stainless steel casings put in any of the bores when drilling was done in the Kangaloon and Leonay areas sometime ago?

**Mr PHILLIP COSTA:** I am aware of the drillings. I have had representations in that area over time. In respect to the specifics of what went in that was referred to me in my other life, but I will have to get back to you. I know there was some casings going in but I will have a closer look at it. I have had a close association with the Sydney Catchment Authority over many years but to be able to say it was stainless steel I will have to provide that answer on notice.

**Mr BULLEN:** I will take that on notice.

**The Hon. RICK COLLESS:** If stainless steel casings were put in will you justify why that expense? In my understanding of virtually all other bores that have been put down for the past 30-odd years have had PVC casings. Why were the drillers instructed to put down stainless steel casings? Would you provide the itemised costs of those casings if they were stainless steel?

**Mr BULLEN:** Yes.

**The Hon. RICK COLLESS:** I turn now to maintenance of water pipes in the Sydney metropolitan area. What is the cost this year for all water pipe maintenance work to be done in the metropolitan water?

**Mr PHILLIP COSTA:** That is one that I do not have a handle on. I will pass that to the chief executive officer.

**Dr SCHOTT:** I prefer to get back to you on that, but as a rough measure, it would be about \$300 million a year on maintenance.

**The Hon. RICK COLLESS:** What percentage of water is now being lost due to the leaking pipes problem?

**Dr SCHOTT:** It is 8.2 per cent. That is a measure that comes from working out how much of the water we cannot trace down. So it is water that is effectively not metered anywhere and we cannot account for it. That 8.2 per cent sounds like a lot, but by international standards it is extremely good.

**The Hon. RICK COLLESS:** From figures that I have seen, that is a lot higher than it is in either of our two competing capital cities, Melbourne and Brisbane.

**Dr SCHOTT:** I will take that on notice. I think the measurement is slightly different.

**The Hon. RICK COLLESS:** The desalination plant, of course, at 250 megalitres a day, is about 15 per cent of Sydney's water needs?

**Dr SCHOTT:** Yes.

**The Hon. RICK COLLESS:** So I guess we could say that 8 per cent of that will go towards providing water that is lost through leaks. So the net result will be only a 7 per cent gain?



**Mr PHILLIP COSTA:** That is a broad brush, but—

**The Hon. RICK COLLESS:** It is a fact.

**Mr PHILLIP COSTA:** With the whole new system going into Erskineville, it is then plugged directly into a system that I suspect is very different from some of the older systems across the city, but in generalising—

**The Hon. RICK COLLESS:** No. Would it not have been good sense to spend a lot more money fixing up the leading pipes than constructing the desalination plant? Minister, you being a farmer, would well know the importance of patching a leaking pipe?

**Mr PHILLIP COSTA:** Absolutely. We should fix the leaking pipes anyway.

**The Hon. RICK COLLESS:** Yes, indeed. I wonder why more emphasis was not placed on fixing leaks before the Government went to the enormous capital cost of the desalination plant?

**Mr PHILLIP COSTA:** I agree with you that the last thing we want is a leaking pipe, because water is a precious commodity. With a system as large as that in the Sydney Basin, the sheer probability is that there will be a problem with the ageing of the infrastructure. As I mentioned, money is going towards an approach to address that. I would like to bring it down to zero, if we could. However, we have to be realistic in terms of the enormous cost over the whole system.

**The Hon. RICK COLLESS:** I turn now to regional water issues. Minister, are you aware that in the last few days the Victorian Government has announced a package to assist Victorian farmers to pay for their fixed water charged?

**Mr PHILLIP COSTA:** I am.

**The Hon. RICK COLLESS:** Are you aware of the contents of that package?

**Mr PHILLIP COSTA:** I am aware of the broad detail. I cannot give you specifics. I understand there was a 50 per cent rebate for the licences; from memory, a figure of \$118 million. The systems in New South Wales and Victoria are different. The New South Wales system has a two-tier rating system. One is a fixed charge and the other is a water use charge. Our fixed charges are based on a range of factors including maintenance and operation of the system in the scheme. Then, the water users pay for the additional water they use. Sadly, there is not any water for many of them, so they are not paying that second amount.

**The Hon. RICK COLLESS:** But they are still paying their fixed water charges. Many of them have no income as a result of having no water, yet they still get billed for the fixed water charges.

**Mr PHILLIP COSTA:** Yes, I am mindful of that. It has been a main topic of conversation as I travel through the bush. I am very much aware of the impact it has and very much aware of the concerns raised by the water users. I have been asked to waive the fixed fees. I cannot do that. The reason for that is that the fixed fees are there to ensure that the people who are managing the entire system—the people who look after the dams and the people who look after the distribution, the people who do the planning to ensure the development of management plans across the catchments, the people who manage compliance—with their whole range of costs, receive the fixed fees. If I were to remove the fixed fees those processes would be at risk, unless I could find additional funds.

**The Hon. RICK COLLESS:** Minister, I assume that you are telling me that you do not support a similar proposal to the Victorian system being implemented in New South Wales?

**Mr PHILLIP COSTA:** I cannot afford to do that. We have fixed fees and they are already designed to run the system that is here.

**The Hon. RICK COLLESS:** Have you, or your department, done any assessment on what a similar plan would cost New South Wales?



**Mr PHILLIP COSTA:** I have been given some numbers. I can have then qualified in a moment for you. To add to something I mentioned earlier, the Victorian Government system is all fixed fees. They do not have a two-tier system. Because people are not paying for water, and yet the costs could be higher from us, there is a built-in subsidy. I know the graziers and the irrigators do not see it that way, but that is how our system works. I have been given some figures and I prefer to pass that over. I believe it is \$29 million, but I will pass it on.

**Mr HARISS:** I will take that on notice, I cannot remember the figures off the top of my head. We could certainly find them out for you.

**Mr PHILLIP COSTA:** I have asked that question myself, that is why I have that figure in my head.

**The Hon. RICK COLLESS:** Have you had any discussions with the Treasurer about making funds available, at least until the completion of the drought?

**Mr PHILLIP COSTA:** I have made representation at budget talks, that we need to try to find some funds for the bush to offset their costs, not strictly to the Treasurer.

**The Hon. RICK COLLESS:** What was the response from the official?

**Mr PHILLIP COSTA:** Very calm, cool and collected. They do not give a response.

**The Hon. RICK COLLESS:** They just say nothing.

**Mr PHILLIP COSTA:** They do not say yes or no. I think I will be like everyone, and wait until 11 November, but I am wishing.

**The Hon. RICK COLLESS:** I return to the water buy-back program of the Federal Government. We talked about regional development. Does your department advise the Commonwealth on where the best areas are to buy water from? Do you advise on price and conditions and so forth?

**Mr PHILLIP COSTA:** I will pass that on. I do not know whether work is being done at the officer level; certainly not at my level yet.

**Mr HARISS:** The Commonwealth has instituted a \$3.1 billion buy-back program where they are developing their own criteria for purchase. We, of course, have a relationship with Commonwealth officers but they can choose to ignore or advice or otherwise. In terms of water recovery in New South Wales, the water purchase program includes the RiverBank and the River Murray program, and the agreement is being undertaken by the Department of Environment and Climate Change rather than the Department of Water and Energy.

**The Hon. RICK COLLESS:** Minister, do you support the buy-back program in principle?

**Mr PHILLIP COSTA:** Yes.

**The Hon. RICK COLLESS:** Despite its ramifications on recent—

**Mr PHILLIP COSTA:** No, do not add another part to it. In principle, yes. I may have mentioned it in this forum, and I know I have mentioned it in the last few trips. It is all about balance. The acquisition of licences is a good move in certain places. You have to be very careful where you buy them. They have to be effective in terms of delivering water back to the environment. Generally, it is understood that there is an overallocation. I think what is happening in the buy-back is good. I believe there needs to be a very careful consideration in relation to the location of those buy-backs.

**The Hon. RICK COLLESS:** How much water has been purchased out of New South Wales by both the Commonwealth and the State agencies in the last 12 months?

**Mr PHILLIP COSTA:** I do not know. I need to pass that on.



**Mr HARISS:** I am happy to take that on notice. We will have to go to companies like Water Forever, which is buying back water for the Snowy; go to the Department of Environment and Climate Change to find what has been purchased for the Living Murray Program. Certainly with respect to the Commonwealth, we are not aware of what water has been negotiated for purchase by the Commonwealth with existing users. If I could revert to your earlier question about purchases into a cool river valley, as part of the intergovernmental agreement on the Murray-Darling Basin reforms, negotiations between the Commonwealth and irrigation companies are bilateral and do not necessarily involve the Government. The criteria for that has not been developed by the Commonwealth, but we are aware that companies such as Murray Irrigation Limited and Murrumbidgee Irrigation are putting together proposals and having discussions with the Commonwealth Government, but they are commercial in confidence.

**The Hon. RICK COLLESS:** Has your department done any assessment on the impact that these buybacks are going to have on irrigated agriculture in New South Wales?

**Mr PHILLIP COSTA:** In terms of social and economic impacts?

**The Hon. RICK COLLESS:** Yes, social and economic impacts.

**Mr PHILLIP COSTA:** Those purchases are happening through the Department of Environment and Climate Change [DECC]. I do not believe our department has; you would have to refer that to DECC.

**The Hon. RICK COLLESS:** Did you or your department have any input into the joint purchase of Toorale Station at Bourke?

**Mr PHILLIP COSTA:** I did not; maybe the department did.

**Mr HARISS:** The arrangements were between the Department of Environment and Climate Change and the Commonwealth Government. We did provide advice to both organisations about the nature of the licences that exist on the Toorale property.

**Mr PHILLIP COSTA:** Does that answer your question?

**The Hon. RICK COLLESS:** Yes. I have a lot of questions about Toorale and the way some assumptions have been made, one of which was that you buy an amount of water and all of a sudden that water is flowing back into the river.

**Mr PHILLIP COSTA:** And it is not.

**The Hon. RICK COLLESS:** Knowing that area reasonably well, it is very unusual for water from the Warrego River to ever reach the Darling River, and to say that simply buying an irrigation licence on the Warrego River is going to put so many gegalitres of water back into the Darling is a fallacy. More often than not it never reaches the river.

**Mr PHILLIP COSTA:** I will not express any personal view, but the 91,000 hectare property was acquired by the Federal Government in terms of water entitlements and the Department of Environment and Climate Change acquired the land for its conservation value, so they will be managing that. The property does have substantial water entitlements and, as you have said, they do not actually turn on a tap. It is about entitlements; it is about the future. I have been advised that the land has high areas of conservation—that is not part of my portfolio, but I am advised in that direction—and the Commonwealth has acquired the water entitlement. I am aware that there are a number of other properties around the Bourke area that are also on the market and there is no doubt that the purchase of such properties could provide useful flows for the environment in time, particularly to water nearby environmental assets during low flows, and more extensive environmental benefits will be gained when the water is not diverted in high flows.

We also need to consider the wider social and economic impacts, and I think that is where you are coming from, on regional communities when properties are taken out of agriculture production. The income generated from agricultural production is often the mainstay of nearby small towns and their shopkeepers, as well as providing important employment for local communities, including many Aboriginal workers. The New South Wales Government is prepared to work with the Commonwealth—I am prepared to work with the Commonwealth—to determine if water purchases should be targeted and the implications for regional



communities. I share your concern. It is important that we get into dialogue with the Federal Government through my department, in my portfolio of Regional Development, and with DECC.

**The Hon. RICK COLLESS:** What is your understanding of what is going to happen to the storages on Toorale? Are they going to be breached to allow the water to flow through to the river or are they going to be maintained to distribute water in times of low flow? The point I am getting to is if there is an assumption that, as the 20 gigalitres that Toorale has as a licence allocation is no longer going to be used for irrigation, it will provide environmental flows in times of low flow, I can assure you and everybody else that there is no low flow coming out of the Warrego in times when the Darling is not running.

**Mr PHILLIP COSTA:** I understand what you are saying. It is a matter for DECC. There are assessments being done. I am not privy to what they intend to do. The assessments will be obviously done by them. The issue of acquisition of licences and the improvement of flow in the river is a major concern. I anticipate that in the process of review my department will have some input.

**CHAIR:** Thank you, Minister, for your cooperation today.

**Mr PHILLIP COSTA:** Can I thank the Committee because this was my baptism of fire. The portfolios that I am responsible for as Minister are extremely important and, as time goes on, the importance of those areas that I am responsible for is the reason why I have brought the front-line team with me because you need to know the detail.

**(The witnesses withdrew)**

**The Committee proceeded to deliberate.**

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