

GENERAL PURPOSE STANDING COMMITTEE No. 4

Tuesday 2 September 2003

Examination of proposed expenditure for the portfolio areas

ENERGY AND UTILITIES, SCIENCE AND MEDICAL RESEARCH

The Committee met at 8.00 p.m.

MEMBERS

The Hon. J. A. Gardiner (Chair)

Ms S. P. Hale
The Hon. J. C. Burnswoods
The Hon. R. M. Parker

The Hon. A. Catanzariti
The Hon. D. E. Oldfield
The Hon. A. S. Burke

PRESENT

The Hon. F. E. Sartor, *Minister for Energy and Utilities, Minister for Science and Medical Research, and Minister Assisting the Minister for Health (Cancer), and Minister Assisting the Premier on the Arts.*

Sydney Water Corporation
Mr G. Robinson, *Managing Director*

Ministry for Energy and Utilities
Mr B. Steffen, *Director-General*
Mr B. Morcombe, *Finance Manager*

Department of Health
Ms R. Kruk, *Director-General*

Cabinet Office
Mr J. Schmidt, *Assistant Director-General*
Ms K. Doyle, *Director of the Bio-unit*

Energy Australia
Mr P. Broad, *Managing Director*

CHAIR: I welcome everyone to the public hearing of General Purpose Standing Committee No. 4. Thanks to the Minister, Mr Sartor, and the departmental officers for attending. At this meeting the Committee will examine the proposed expenditure for the portfolio areas of Energy and Utilities and Science and Medical Research. There are some procedural matters that I will go through. The Committee has determined that the allocation of questions will be left in the hands of the Chair. Sylvia, for your benefit, I intend to do what we did last night; go round and try to be as fair as possible, and for the Minister's benefit the Committee has agreed to your request that we deal with the Science and Medical Research ones first so the Director-General can leave.

Broadcast of proceedings: part 4 of the resolution referring the budget estimates to the Committee requires evidence to be heard in public. The Committee has previously resolved to authorise the media to broadcast sound and video excerpts of its public proceedings. Copies of the guidelines for broadcasting are available from the attendants. I point out that in accordance with the Legislative Council's guidelines for the broadcast of proceedings only members of the Committee and witnesses may be filmed or recorded. People in the public gallery should not be the primary focus of any filming or photos. In reporting the proceedings of this Committee you must take responsibility for what you publish or what interpretation you place on anything that is said before the Committee. There is no provision for members to refer directly to their own staff while at the table. Witnesses, members and their staff are advised that any messages should be delivered through the attendant on duty or the Committee Clerk.

For the benefit of members and Hansard, could departmental officers identify themselves by name, position and department or agency before answering any question referred to them, and also there is a contractor being used for Hansard purposes this evening, so we really would appreciate it if you could remember to press the on red button before you speak so that the public record is accurate. For the benefit of members, where you are seeking information in relation to a particular aspect of a program or a subprogram, it would be helpful if the program or subprogram is identified.

I declare the proposed expenditure open for examination and, as I said, starting with Medical Research. Are there any questions? No. Minister, could you advise what component of the ministerial budget relates to Science and Medical Research, and can you break it down into—

The Hon. FRANK SARTOR: There are a number of components. We have in the Cabinet Office vote in volume 3—I think it is—an amount of \$2.2 million which is within the Cabinet Office vote, page 2.4, which is for the Office of Science and Medical Research within the Cabinet Office, which has included an additional \$750,000, and that is for staff and consulting expenses for the Ministry in terms of science and medical research.

CHAIR: Do you want to run through that and then I will perhaps follow from there?

The Hon. FRANK SARTOR: I can run through that, yes. That is basically to fund the unit within the Cabinet Office, and there is some funds in there for example for new programs initiatives, and the main one that we are expending funds on is the inquiry into medical research which was announced a few months ago. That is that item there. There are other programs that come under my jurisdiction which include the BioFirst Strategy which is a \$68 million program over five years. It is a five-year program. There is the infrastructure research grants which are \$50 million, \$50.6 million. It is a triennium which were announced a few months ago, and I think they commence on 1 July this coming year. Is that right, Robyn? There is also a spinal fund program which is \$10.9 million over four years. So there are those three program grants and the Ministry costs which are within the Cabinet Office vote. They are the four areas within Science and Medical Research that I think I have jurisdiction over.

CHAIR: How many staff are involved in the unit?

The Hon. FRANK SARTOR: In the bio-unit at the moment there are six. There will be more, but at the moment there are six officers. That is in that area, and only if you are talking about my ministerial office. We are talking about this aspect of it. There are six staff.

CHAIR: In the Cabinet Office unit?

The Hon. FRANK SARTOR: Yes.

Ms KRUK: In addition the Minister is supported by a number of staff within the Health administration. That is in relation to the management of the grants program. A number of those staff come from various other sections so I will not specify an exact number.

CHAIR: They are seconded on a needs basis?

The Hon. FRANK SARTOR: No. The Director-General and her staff provide a support to the program. They ran the Infrastructure Grants Program. For example, they provide support for some of the BioFirst elements and also general support for my officers as well as my capacity as Minister assisting the Minister for Health in Cancer.

CHAIR: In the ministerial office in relation to Science and Medical Research, what is the allocation there?

The Hon. FRANK SARTOR: We have 11 staff employed in the ministerial office, and I think it turns out to be there is one full-time person, one and a half people plus another; basically about two FTEs I think. There is some shared responsibilities.

CHAIR: I think you mentioned in the Cabinet Office, staff and consultancies. How does that work?

The Hon. FRANK SARTOR: We do not have consultants per se, but we have established inquiry, and we have a line item which is called New Programs Initiatives for \$500,000, and that basically funds this inquiry which will not use all that money, but it will take a substantial portion of that money. We have a panel of three conducting a major review of Science and Medical Research. I have released the terms of reference. I have released the details of that. It has been going for about a month. It is chaired by Mr Greg Wood who is a former diplomat and former Deputy Head of the Department of Prime Minister and Cabinet. It has Dr George Morstyn who is former Head of Clinical Research at the Loblack Institute, and also former Senior Vice-President of Development and Chief Medical Officer of the US biotechnology company AmGen, and Professor Judith Witworth AC, Director of the John Curtin School of Medical Research. They are conducting this review and they are being supported by others who are being enlisted for the purposes of this review, including the Chief Health Officer who I think is overseeing the support to this inquiry.

CHAIR: It is a bit like a Parliamentary Secretary for Health being backed up by the Cabinet Office?

The Hon. FRANK SARTOR: In part. It is a bit of a hybrid.

Ms KRUK: If I could assist in that basis. Minister Sartor is the minister to whom I report to in relation to medical research as it affects the Health portfolio. He is also obviously the Minister assisting the Minister for Health specifically focusing on cancer, so I have a dual accountability in that regard, and subsequently a number of my staff have dual accountabilities in relation to their roles. That follows on from the Minister's earlier statement about the fact that the specialist committee that he has set up to review this area is supported by the Chief Health Officer, amongst other specialists.

CHAIR: Given that co-ordinated or integrated care is so important as a theme in cancer treatment, how will that all come together?

The Hon. FRANK SARTOR: It is coming together through the Cancer Institute. We went to great length with the Health Department to come up with a brief for the Cancer Institute that did not create something that duplicated, or was in any way contrary to the Health Department and the Area Health Services. The institute is a leadership agency in cancer research, enhanced treatment and a range of other cancer control initiatives, and that was established quite carefully and deliberately to not cut across the seamless program of health care. In fact, part of the clinical framework that had been developed prior to the establishment of the institute talks about the creation of area cancer directors with appropriate responsibilities so this becomes a natural contact point for the institute in terms of its program. Some issues have to be referred back to me, some to the Minister for Health, and

anything to do with directing changes through Area Health Services would have to go to the Director-General. We will not be interfering in the accountability line for the health system.

Ms KRUK: Chair, if I may add to that, obviously support of the establishment of the Cancer Institute I think will give the health system, and arguably the community, one of the best chances to see the impact of various initiatives such as the integrated care programs. As members are aware, the institute has an obligation to report to Parliament on a regular basis on its outcomes. Obviously patient care is one component of that. The members of the newly formed board that Minister Sartor announced in the last few weeks obviously have a very strong consumer focus which I am sure will ensure that goal is met.

CHAIR: Ms Parker.

The Hon. ROBYN PARKER: Minister, could you outline that report into Parliament, on what basis will that be?

The Hon. FRANK SARTOR: It has to be annual. It has to be I think before October every year, by the end of October. It is a report I think that I have to table in Parliament by the end of October every year. They have to prepare a State Cancer Plan which again, Madam Chair, indicates how integrated it is. That State Cancer Plan has to be signed off by the Minister for Health; not just myself, the Minister for Health, because at the end of the day it is about delivering health services. That has to be prepared by 30 June, and it has to report annually by 31 October to Parliament in how effective it has been in achieving the outcomes that are specified in the aims in the bill.

CHAIR: I do not have any further questions on that.

The Hon. FRANK SARTOR: Do you want to hear any more about the BioFirst program, or not? We are volunteering.

CHAIR: We have the overall cost.

The Hon. FRANK SARTOR: Maybe Kerry could say a bit about that.

Ms DOYLE: Basically, as Minister Sartor indicated, it is a \$68 million program over five years. Its components are bio-platform which is the research aspect by a business, basically run out of the Department of State and Regional Development in terms of roll-out and administration of the programs. There is also a bio-ethics program which is looking at legislative and policy underpinnings, and also raising community awareness of biotechnology. The other component is the establishment of the bio-unit itself and the staffing of that. We basically co-ordinate the strategy, make sure that it achieves its outcomes and look after legislation and policy that underpins it.

CHAIR: What is the accountability process there?

Ms DOYLE: We now have dual accountability to the Premier and to Minister Sartor.

CHAIR: Thank you very much for that.

The Hon. FRANK SARTOR: Can I let them go home?

CHAIR: Yes. Thank you very much, Ms Kruk and Ms Doyle.

The Hon. FRANK SARTOR: What would you like to do next; Water or Electricity?

CHAIR: Water. Minister, with respect to water re-use projects, in the 2002-03 Budget Paper No. 4, it was stated that \$2.4 million would be spent on water re-use projects. The Budget Paper No. 4, on page 105 discloses that sum has been slashed down to \$500,000. Do you condone Sydney Water's apparent lack of interest in water re-use projects and its apparent disinterest in decreasing the amount of water it sells?

The Hon. FRANK SARTOR: As to the details of that specific line, I will ask the Chief

Executive to answer that in a moment, but in fact the re-use volumes of Sydney Water are going up and it is part of the commitment of Sydney Water. Since 1995 we have more than doubled the supply of recycled water from sewage treatment plants from 17 to 35 million litres per day. By 2005 it is expected to exceed 50 million litres per day. It has quite a number of major recycling projects on its agenda at the moment, including a 20 million litre per day recycled water scheme, to service BHP at Port Kembla, which is on track for commissioning next year.

It is a supply equivalent to the whole of Wollongong's water supply and also, as part of the Georges River program, we have a trunk water recycling main that will substantially expand water re-use. Water recycle schemes since 1995 include the Kiama Golf Course; the Dunheved Golf Course at St Marys; agricultural applications at Richmond, Picton and Gerringong; the Rouse Hill development where recycled water is supplied to 12,000 homes, and so on. In relation to the specific line item, I suspect that is a timing difference issue, and I will ask the Chief Executive to respond.

Mr ROBINSON: The majority of our program on re-use comes into programs such as the Georges River re-use program, where the organisation is committed to developing a major pipeline re-use scheme that will pick up effluent from treatment plants in Western Sydney and provide for the opportunity for re-use along that line as it tracks back to Malabar.

CHAIR: But how does that square with the difference in the figures from \$2.4 million down to \$500,000?

The Hon. FRANK SARTOR: Because all that talks about are general schemes. You would have to then go to the other project which is called—this is a major project involving substantial capital investment—Georges River Water Strategy, where the total commitment for this coming year is in the order of \$49 million—the allocation for the coming year, which comprises different components but that project itself when completed will have cost about \$275 million.

CHAIR: The 2002-03 budget allocated \$37 million to be spent on the Georges River Waste Water Strategy, but the 2003-04 Budget Paper shows that only \$27.6 million was spent. How do you explain that?

The Hon. FRANK SARTOR: Just give me those two figures again; what was the first one?

CHAIR: \$37 million.

The Hon. FRANK SARTOR: We spent how much?

CHAIR: \$27.6 million.

The Hon. FRANK SARTOR: That would be a timing difference. The project is committed and well under way and with large capital projects over \$200 million, it is not unusual to have substantial shifts in when the costs are incurred.

CHAIR: Could it be that Sydney Water is going slow on its capital works so that there is a bigger dividend to Mr Egan and Treasury?

The Hon. FRANK SARTOR: No. In fact, Madam Chair, Sydney Water's dividend for this last year is frozen at what it was the year before; \$115 million. The capital works program is not affected by the dividend. The capital works program is still \$515 million, which is very comparable to what we had the previous year, and the dividends, of course, come out of profits. I think the dividend level for Sydney Water is about 70 per cent of profits; after tax profits. They do not affect the investment in capital works. That has been strong at about \$0.5 billion per annum, and will continue for the next four years on the four-year program and dividend policy, of course, as Madam Chair would be aware, was something that has had bipartisan support.

In fact, in the seven years of the Coalition Government, \$509 million was extracted from Sydney Water by way of dividend, starting from a base of very close to zero and that has continued, and I note that it was supported at the time by relevant Ministers—who, of course, I could quote—but it is coming out of after-tax profits; it is not affecting the capital works program. In fact,

Madam Chair, if I could perhaps quote a former Minister, on 9 March 1993, who said:

Everyone must realise that the Government's ability to employ people in health, education and law enforcement requires dividends from Government trading enterprises. The Government makes no apology for its dividend policy.

I think that was the Minister for Finance at the time, now the Member for the Upper Hunter, and that has been supported in the context of other decisions by the coalition as well as the Government.

CHAIR: With respect to stage 2 of the program, the large pipe to transport grey water for re-use from Liverpool to Malabar, can you tell us how much is the re-use component costing?

The Hon. FRANK SARTOR: I will refer that to the Chief Executive. Just see if we have some figures on the Georges River breakdown. In the absence of being able to find the correct piece of paper, Madam Chair, we might take that one on notice.

CHAIR: Do you know how many customers have signed legally binding agreements to use the recycled sewage?

Mr ROBINSON: At this stage we have not signed any agreements with people for re-use. We have identified customers that have the potential to sign up, including a range of industrial users and golf courses, but as yet we do not have any signed binding agreements.

CHAIR: You cannot tell us exactly how many agreements—but you do not have any customers signed.

The Hon. FRANK SARTOR: Madam Chair, my recollection is that the market surveys had shown something like 20-30 megalitres per annum.

Mr ROBINSON: We have identified that there are 76 customers who collectively have a potential recycled water demand of approximately 51 megalitres per day. That has been the justification for the project, and of that we believe that there is another 36 megalitres per day that will be potable water replacement.

CHAIR: Could this be shaping up as a southern Sydney version of the north-side storage tunnel debacle?

The Hon. FRANK SARTOR: A completely different issue and, with the greatest respect, Madam Chair, that is a very prejudicial comment. You say "debacle"; there are many that would argue that it has achieved its purpose. It has prevented billions of litres of diluted effluent going into the harbour, so you may choose to call it as you wish, but I contest that statement. That, of course, was simply about stopping the volumes that occur when you get infiltration of water during rain, and then bypass the sewage treatment plants because the sewage treatment plants cannot take volumes of three to four times their capacity.

This is a completely different sort of project; this is not a storage tunnel. This is about building about five or six new sewage treatment plants or, at least, enhanced sewage treatment plants which are at least secondary treated, and then being able to create grey water and piping it back through and, on the way through, being able to access grey water users. This project is a completely different issue to the north-side storage tunnel, which is nothing more than a storage tunnel.

CHAIR: But you would agree, would you not, that the Auditor-General's report released a few weeks back was extremely critical of the north-side sewerage tunnel?

The Hon. FRANK SARTOR: No, I would not.

CHAIR: You do not agree with that?

The Hon. FRANK SARTOR: No. He was not extremely critical; he made some observations. I do not have them with me at the moment—or, do I? I will check. He has acknowledged the report of the performance of the north-side sewerage done by the New South Wales—he has acknowledged the

benefits of innovative alliance contracting arrangements. He found that it has prevented more than 11 billion litres from entering the harbour, which is now healthier than it has been in many decades. I remember reading the report at the time, Madam Chair. He made some comments that it was too early to be finally definitive about whether it had achieved everything that it said it would. It was comments of that order, but I do not accept that he was highly critical of it at all. In fact, his comments at the time, I seem to recall, were very qualified.

Does anyone have anything more to add on that? He has asked for a post-implementation report to be conducted and that has been agreed to.

CHAIR: Some Sydney Water employees describe the so-called re-use pipe, with respect to the Liverpool to Malabar project, as the third barrel of the South-Western Suburbs Ocean Outfall Scheme. They seem to be disparaging of the project.

The Hon. FRANK SARTOR: These are Sydney Water employees?

CHAIR: Yes.

The Hon. FRANK SARTOR: Have their submissions been made public?

CHAIR: Not yet.

The Hon. FRANK SARTOR: With the greatest respect, I cannot deal with supposition, rumour and individuals here and there who might have an opinion. The re-use scheme involves, firstly, meeting the capacity of the sluice, which is the big southern ocean outfall that feeds Malabar, which is the biggest of our sewage treatment facilities. I think it is substantially bigger than Bondi and North Head, and it also involves enhancing capacity of a whole range of sewage treatment plants in that Liverpool region. It has significant benefits for the Hawkesbury and Nepean system and provides, as we have already said, potential for—I think it was up to 100 megalitres per day of sewer mining. If someone has a contrary opinion they are entitled to that, but I would like to think that in this democracy people should express their opinions publicly so we can see the basis of what they are saying.

CHAIR: The Auditor-General said publicly that the north-side storage tunnel had a negative value after it was constructed. That is a fairly critical comment, is it not?

The Hon. FRANK SARTOR: I am sorry, but I am not quite sure how you value preventing billions of litres of effluent going into Sydney Harbour. I am not quite sure what the Auditor-General's algorithm is. I do not have his report in front of me but I would question the methodology.

CHAIR: Of the Auditor-General.

The Hon. FRANK SARTOR: He has made that statement. Without seeing the basis of his statement, I cannot agree with it. If what you say is correct—but I do not have that part of the report with me. I could take that on notice and send you a more detailed answer if you wish, Madam Chair.

CHAIR: Yes, we would appreciate that.

The Hon. FRANK SARTOR: All right, we will do that.

CHAIR: Sylvia Hale.

Ms SYLVIA HALE: Minister, Sydney's current annual water consumption is 630 gigalitres and yet environment groups consider that 500 gigalitres per year is the sustainable level to allow for environmental flows. What is the Government doing to achieve this target and how long do you expect it to take to achieve such a target?

The Hon. FRANK SARTOR: I am glad you asked that question. There are different views about what the appropriate yield is. There are other people saying that the safe yield for our dam system is 600 gigalitres a year and so on. What is not at issue is the fact that we have to take more

measures to reduce consumption of dam water, and that is not at issue. In fact, the Government has established and fostered a number of expert panels including the Hawkesbury-Nepean forum. The Government and a number of my ministerial colleagues are very cognisant of the importance of addressing not just the water volume issues, but also other environmental effects of the Hawkesbury-Nepean system and so on and, as you would be aware, there are also upstream pure water issues also related in their environmental effect with downstream sewage type issues.

Yes, we accept that more has to be done to deal with water consumption. This issue has been very openly and candidly debated in the media over the last couple of months, and I think that is a very good thing. I think this is a community problem. We are consuming more water than we need to. Twenty per cent of households consume 40 per cent of the water. There is a great disparity in water consumption. Our measures, which Sydney Water has undertaken and include the fitting of water-efficient shower nozzles and so forth, we have fitted 180,000 of those at a subsidised rate. We have also had a rainwater tank scheme.

Those measures to date have yielded some gains, but not sufficient gains. Therefore, there has to be other measures. That is the subject of a lot of discussion at the moment through our expert water panels. Our CEO's water group, they have various forums and, indeed, even with the environmental movement, and we are deliberating on those matters and I am hopeful that it will not be too long before a package of measures is able to be put forward and implemented, but we accept that there is an issue. The quantum is still up to some degree of discussion but, nevertheless, in terms of the principle, you are correct.

Ms SYLVIA HALE: When you say it will not be too long, or you hope it will not be too long, can you give me some indication as to how long?

The Hon. FRANK SARTOR: We are a very democratic Government. We talk about things and we consider them carefully. We are a very responsible Government.

Ms SYLVIA HALE: Does that mean never-never?

The Hon. FRANK SARTOR: No, absolutely not. In fact, I would be very surprised if you have to ask me any such questions next year and possibly even by the end of this year.

Ms SYLVIA HALE: Good. We wait with bated breath. Minister, may I ask you how many staff you have?

The Hon. FRANK SARTOR: I have 11 employed staff in the office of the Minister.

Ms SYLVIA HALE: Now may I ask you some questions about an area with which you should be very familiar, namely, the Sydney Water land at Cooks Cove. Does Kogarah Golf Course currently rent part of its land from Sydney Water? If so, what are the terms of the lease between Sydney Water and the Kogarah Golf Course?

The Hon. FRANK SARTOR: The Managing Director says he does not believe it does, but we will take that on notice to be precise. Within my electorate, in my knowledge of Cooks Cove, I was not aware that Sydney Water was a player, in terms of the land title, but we will check it and be absolutely sure.

Ms SYLVIA HALE: But it is my understanding, therefore, that even if there is no lease arrangement or no rent paid that in fact the golf course has free use of—or use of Sydney Water land. Is that correct?

The Hon. FRANK SARTOR: I know there is a bit of land at the end of the precinct which I have—Greg Robinson had better take over.

Mr ROBINSON: From my previous experience as the Chief Executive of the Sydney Harbour Foreshore Authority that has been working on the Cooks Cove project, Sydney Water is a land-holder in that area. I do not believe that the land that Sydney Water owns has any relationship with the golf course. The land that is considered for the project is to do with a land swap. We will take the question

on notice and will respond to whether there specifically is land that the golf club cuts across, but I do not believe there is. The majority of their land is in two parcels, which is leased primarily from Rockdale Council, and is in freehold ownership for the other portion that it owns, as it currently stands.

Ms HALE: Where did you say the Sydney Water land was?

Mr ROBINSON: The Sydney Water land is located adjacent to where the sluice is.

The Hon. FRANK SARTOR: It is at one edge of that whole precinct.

Ms HALE: Right.

Mr ROBINSON: It is an easement for the sluice and there are some wetlands through there which are not owned by Sydney Water.

Ms HALE: Does Sydney Water have any major works planned for that land over the next three years?

Mr ROBINSON: Yes. There are some works on the sluice that need to be undertaken through that area over the next three years.

Ms HALE: The reference to the sluice is the aqueduct?

Mr ROBINSON: The sluice is the south-west ocean outfall.

Ms HALE: Are there any plans to put the aqueduct that runs parallel to the M5 East tunnel completely underground?

Mr ROBINSON: No. Part of the project plan, as I understand it, which is a question that should be directed to the Foreshore Authority that is responsible for Cooks Cove, has to do with how they get across the sluice, and that may well be that they need to bury the sluice but it would not change in terms of its level or its construction.

Ms HALE: For the land that Sydney Water does have, does it have a flora or fauna management plan for its land?

Mr ROBINSON: That particular piece of land?

Ms HALE: Yes.

Mr ROBINSON: The answer is no. The Sydney Water land there has control and maintenance arrangements, which is that we need to go through there and make sure that it is kept tidy and it is weeded and other activities that we do along all of our pipelines routes, and it is regularly inspected to make sure that it is maintained. There is a maintenance arrangement, but no, there is not a fauna plan or a flora plan.

Ms HALE: Is it correct that the land adjoins a threatened-species habitat wetland, and if so, should there be a plan in place for the Sydney Water land to prevent the wetland site being injured in any way?

Mr ROBINSON: As I currently understand it, there is not a wetland plan in that area. However, again I would refer you to the Foreshore Authority, that they have plans to put in place a management plan for the wetlands. In terms of endangered species, I do not believe that there is an endangered species that has been identified as that project, but again, you should refer that question to the Foreshore Authority.

CHAIR: Minister, we mentioned dividends earlier. Can you advise whether Sydney Water has had to borrow any funds to pay for capital asset improvement or for the payment of dividends?

The Hon. FRANK SARTOR: Definitely not out of payment of dividends, because they come out of profits and they have been, I think, in about 70 per cent of profits. Sydney Water does have borrowings. In fact, it is a discipline that is imposed on our SOCs, our State-owned corporations. I understand that the total borrowings of Sydney Water is about \$2.3 billion. According to the draft Statement of Corporate Intent, Sydney Water will undertake new borrowings of \$250 million in 2002-04 and will be geared at 23 per cent. It is an important discipline and ironically, when you borrow, you have to service that debt and that comes out of profits and therefore reduces dividends. In fact, it has the opposite effect on dividends.

As I said earlier, dividends were used extensively by the previous Government in New South Wales. They relate to dividends and tax equivalents, and borrowings are all about corporate neutrality and trying to get our State-owned corporations to act with the same disciplines as in the private sector. Borrowings is another vehicle that makes good corporate sense, a certain amount of gearing and imposes discipline. One of the types of discipline it imposes, of course, is that it makes the State-owned corporations consider carefully the cost of capital that they face when they invest in capital. That is a sound and good discipline.

The Hon. ROBYN PARKER: Minister, I would like to ask you some questions about sewage treatment plants and bio-solids residual management. Minister has Project North Head been cancelled?

The Hon. FRANK SARTOR: No. Whatever makes you think that? You have been listening to Hazzard.

The Hon. ROBYN PARKER: It definitely has not been cancelled?

The Hon. FRANK SARTOR: Has what not been cancelled?

The Hon. ROBYN PARKER: It definitely has not been cancelled.

The Hon. FRANK SARTOR: No, it has not. The position with North Head is really very simple. The Board of Directors, as an independent State-owned corporation, has reconsidered the project in the context of, I guess you would say, advice from the EPA, relevant agencies, about the priority of investing to the extent that it was planning to invest in North Head vis-a-vis other priorities. It is reviewing its position and it has a number of options. One is to go ahead with the project as previously scoped, which was about \$200 million, I think. The second priority is to go ahead with the efficiency improvements and occupational health innovations and so on to make the plant more reliable and safer, which would be probably half that amount or less, more in keeping with the upgrading of Bondi. There are obviously other options around that. It is currently considering that matter. I think it is a sensible review. In fact, the Mayor of Manly came in to see me about that only about two weeks ago.

The Hon. ROBYN PARKER: Minister, in relation to that review then, why have you slashed \$50 million out of the budget for bio-solids residual management?

The Hon. FRANK SARTOR: Because of the review the project has been delayed, and therefore even if you went ahead with the full scope, you would not spend that same amount of money this year. It is a timing difference issue, but it may be that the project continues at a lower scope, a different scope, to make sense in the context of our strategies. This is a whole of Government approach.

The Hon. ROBYN PARKER: Minister, we all know from the Legislative Council Standing Committee No. 5, Inquiry into Sydney Water's Bio-solid Strategy, that Project North Head was partially about upgrading the bio-solids treatment facilities at the North Head Sewage Treatment Plant.

The Hon. FRANK SARTOR: It was going to lift the solids removal from, I think, 35 per cent to 60 per cent. In environmental terms for the amount of money spent, it is arguable whether you are not better off investing that money, particularly in relation to some of the sewage treatment and other facilities in land in the Sydney basin, rather than at the sewage outfall. That would therefore, if you do

not proceed with the original scope suggested, reduce the total volume of bio-solids and keep it more comparable to what it is now.

The Hon. ROBYN PARKER: Do you think it is acceptable, then, that North Head still pumps largely untreated sewage into the ocean?

The Hon. FRANK SARTOR: It pumps primary treated sewage into the ocean, like Bondi does, like Malabar does. They are the three main sewage treatment plants of Sydney. It pumps primary treated sewage which removes about 30 to 35 per cent of solids. It was a sewage outfall strategy in fact introduced, I think, and adopted by the former Government. In economic terms, compared to other priorities of our rivers and streams, it still makes sense in terms of current priorities. There are two-kilometre long outfalls. There is no evidence, and the EPA has been consistent on this, from the EPA that there is any significant or any environmental harm. In fact, priorities are—environmental priorities with the sewerage system are elsewhere.

The Hon. ROBYN PARKER: Minister, how can you justify that in a modern city such as this big Sydney?

The Hon. FRANK SARTOR: Very easily. There is only so much money that Sydney Water has, unless you start increasing water charges astronomically, remembering we are also wanting to conserve the total volume of water, which will also have an affect on revenue and you have to set priorities without those amounts of money. Maybe in 10 or 15 years time, if our inland sewage treatment plants are all very high quality and we have wonderful re-use schemes, then you might turn around and say we will reduce the load of solids through the sewage outfalls, but at the moment the advice of the EPA is that the environmental benefits are greater elsewhere, and you go where you get the greatest environmental gain if we are genuinely concerned about the environment.

The Hon. ROBYN PARKER: Minister, I put it to you that if Cronulla Sewage Treatment Plant has been upgraded to tertiary treatment, and that seemed to be a sensible idea, then why is not sensible for other outfalls?

The Hon. FRANK SARTOR: You have a very short cliff outfall there. It is tertiary treated. It is a much lower volume and it was built well after all the other sewage treatment plants had been built. To convert those three sewage treatment plants to tertiary treatment, and to be able to take the volumes of overflows during rain when the volumes can be three to four times what they normally are, makes it very difficult. With tertiary treatment plants, usually you cannot fund the unit operations. Tertiary treatment plants involve three or four or five unit operations—I am sorry to go back to my chemical engineering days—but unit operations are distinct processes in terms of separation of different materials in a chemical plant, or in this case, a sewage treatment plant.

You might have four or five different unit operations. They cannot all be geared for the large rainfall events because the cost would be ridiculous and you would have a whole lot of idle plants sitting there. No-one would do that. Primary treatments, however, are capable of having much higher capacity. If you take Cronulla, when it rains significantly it will bypass secondary and tertiary treatment for the simple reason that the volumes cannot be coped with. Whilst we can upgrade these smaller ones to tertiary, upgrading these three major sewage treatment plants to tertiary, firstly, it would be astronomical, secondly, it cannot cope with wet weather overflows anyway, unless you spend ridiculous sums of money and so really they are not warranted.

Can I say this: the beaches in the Sutherland Shire used to be the most polluted, and I quote from the EPA's report of 2001-02. It says:

In recent years the beaches of Sutherland Shire have been the most polluted in Sydney but all that has changed. During the 2001-02 season all but one of Sutherland Shire's beaches have rated equal first amongst all the beaches monitored in Sydney, the Hunter and Illawarra. The reason for the marked improvement in the water quality has been the upgrade of the Cronulla Sewage Treatment Plant.

It has gone on to say:

The upgrade has also changed the way Beachwatch reports water quality in the area. No longer do daily Beachwatch bulletins carry a specific warning of pollution from the Cronulla Sewage Treatment Plant cliff-face outfall.

Remember it is a cliff-face outfall, not a deep-ocean outfall.

Instead, the beaches are considered amongst the cleanest in Sydney.

I think that has been a successful project but you cannot just translate that to the high volume Malabar, for example.

The Hon. ROBYN PARKER: Minister, you referred to your former career— bearing in mind your most recent career. I am surprised then that you support your Government's view that it is not committed to tertiary treatment for Sydney outfalls for at least 15 years.

The Hon. FRANK SARTOR: I have not said 15 years at all. What I have said is this: at the moment priorities for the three major outfalls, in terms of the net environmental benefit on EPA advice, would be elsewhere. If further down the track—and I said notionally 10 to 15 years sooner we would hope, whatever—those issues are adequately addressed. It may be that the highest environmental dividend shifts back to the sewage outfalls, but it is not there at the moment. The highest environmental dividend is to do works elsewhere at the moment.

The Hon. ROBYN PARKER: Just to clarify that for me, you absolutely support your Government's view on that time line then?

The Hon. FRANK SARTOR: The time line is not an exact time line. I am saying at the moment, for certainly the next five years, that is not where the environmental advice is putting our priorities.

The Hon. ROBYN PARKER: Looking at priority sewage programs, Minister, the 2003-04 Budget Paper No. 4, page 105, notes that \$34.6 million is allocated but it gives no detail of expenditure to 30 June.

The Hon. FRANK SARTOR: Which item?

The Hon. ROBYN PARKER: It is the allocation of priority sewage programs. It notes \$34.6 million allocated.

The Hon. FRANK SARTOR: That is right, yes.

The Hon. ROBYN PARKER: It does not give details of expenditure to 30 June. Last year's Budget Paper No. 4, in page 105, said that the Government would be spending \$29.5 million. I am wondering what might have happened to that proposed expenditure.

The Hon. FRANK SARTOR: We have been spending money. I do not have the figure, unless the Managing Director does. This year's \$34.6 million includes \$5.8 million for the Oakdale Scheme, \$25 million for the Northern Towns Illawarra, \$1.1 million for Mulgoa Wallacia Silverdale, and \$2.7 million for general planning and assessment works. The figure for the past financial year I would ask the Managing Director to deal with.

Mr ROBINSON: I believe it is in the order of \$28 million, but we will take the question on notice and provide the exact figures.

The Hon. ROBYN PARKER: Thank you. Looking at that same budget paper, the same page, it cites the priority sewage program which elsewhere is described as a core project of Sydney Water's capital program. Can you explain why this core program has been cut by deletion of re-use of water at Jamberoo and no apparent intention to undertake the sewage work at Menangle, Menangle Park, Mount Kuring-gai industrial area and Mulgoa? And at Silverdale, did you and do you authorise the go slow or non-completion of the so-called priority sewage programs?

The Hon. FRANK SARTOR: Not at all, but if I can take you to Jamberoo. The unit cost of that scheme per lot, 350 lots that we are servicing, is \$51,000 per person, which is very high. That is going ahead. To have added the re-use schemes—I went down there. I met the farmers. To add

another \$7 million to provide what was effectively an agricultural subsidy scheme for seven farms—in other words, we are piping it to the Bombo Sewage Treatment Plant and then we are going to have to pipe it back to the farms—would have cost another \$7 million, increasing that lot rate from something like \$51,000 to—proportionately go up there. If that is \$18 million, the scheme as it stands, add \$7 million to that, that is \$25 million, so you are talking about another—effectively costing \$65,000 to \$70,000 per lot.

We have never spent that sort of money per lot for a sewerage scheme. In fact, \$51,000 is extremely high. Normally in country areas the costs are even shared with individual customers and they are much lower cost schemes as they indeed are on the Hunter. We are committed to Jamberoo. It is happening, but to add another 30 per cent to the costs of Jamberoo would be financially irresponsible when in fact it adds very little environmental impact to the quality of the effluent going out into the ocean at the Bombo Sewage Treatment Plant; very little. It is basically repiping it back in to assist some farmers for those times of the year on the South Coast, which is not necessarily a dry area anyway.

It would be lovely to do but it is \$7 million of public money and I would sooner have that spent in priority sewerage schemes and other schemes elsewhere. What was the rest of your question because it was a very long question?

The Hon. ROBYN PARKER: Did you and do you authorise the go slow or non-completion of the priority sewage programs?

The Hon. FRANK SARTOR: No, not only did I not authorise it, nor did I ever suggest it, nor am I aware that there is any go slow whatsoever. As far as I am concerned, it is going according to what was intended all along. Do you want to add to that? There is certainly no intention to go slow. It is a difficult issue. We are experimenting, as we have with the northern Illawarra towns. I think they are using a high-pressure non-gravity system which reduces costs and has certain flexibilities. We have to be innovative, as in fact we have been in country towns with the Country Town Water Scheme. We have been quite innovative in trying to find more cost-effective ways of providing these schemes. We are certainly trying to improve cost effectiveness and so we should.

The Hon. ROBYN PARKER: Minister, how many consultants do you have for the Sydney Water Corporation?

The Hon. FRANK SARTOR: I am not aware of any myself, but I will ask the Managing Director if he knows of some. I will take the question on notice, if I can. How many consultants; is that the question, or how much spent?

The Hon. ROBYN PARKER: Yes, how many? If you are going to take it on notice, who are they?

The Hon. FRANK SARTOR: Their names, addresses and phone numbers?

The Hon. ROBYN PARKER: I do not need their addresses. I need to know how many and who they are, what their qualifications might be, perhaps.

The Hon. FRANK SARTOR: The general question is about consultancies and consultancy expenditure from Sydney Water.

The Hon. ROBYN PARKER: Minister, what happened to the Sydney Water Corporation billing system that lost \$60 million last year and can you tell me how much more has been spent to get the billing system right?

The Hon. FRANK SARTOR: I will start answering that question, but basically I think the write-down was \$51 million in the current accounts. Instead of this very comprehensive billing system which had been attempted, Sydney Water is dealing with IT issues in an incremental manner. I will ask the Managing Director if he wishes to elaborate.

Mr ROBINSON: At the moment, I think I have to be careful with the comments that we make

on this because it is the subject of litigation. Sydney Water has commenced litigation against PricewaterhouseCoopers to recover the costs of the project. However, Sydney Water is currently using its existing billing system and is not spending any additional moneys on billing systems at this point in time.

The Hon. ROBYN PARKER: Further to my previous question you were taking on notice regarding consultants, could you also provide information on the costs and the exact consultant contract values, please, unless you have that information now.

The Hon. FRANK SARTOR: I have some information here. Between 1 July 2002 and 30 June 2003, Sydney Water spent \$1.6 million on 94 consultancies. Is that all you wanted to know?

CHAIR: No, we wanted to know which consultancies they are.

The Hon. ROBYN PARKER: Exactly.

CHAIR: If you could provide the list, that is on notice.

The Hon. FRANK SARTOR: Yes, whatever. Do you want all the significant ones or—

CHAIR: No, we want the lot, thank you.

The Hon. FRANK SARTOR: Yes. I do not know what they are, by the way. I have no idea. There are financial, legal, scientific, environmental, risk, computing, real estate, strategic planning and human resources issues. That is what they have been obtaining in consultancy advice. There is no problem.

CHAIR: Thank you.

Ms SYLVIA HALE: Yes, one further question: I neglected to ask earlier in relation to the land at Cooks Cove, has Sydney Water entered into or is it intending to enter into any agreement for the use or sale or lease of that land with any other party?

The Hon. FRANK SARTOR: I am not aware of that.

Mr ROBINSON: It has been approached, along with the other Government landholders in that area, as part of the Cooks Cove scheme that has been put together by the Foreshore Authority. At this stage, it has not entered into any agreements in terms of the disposal of any lands.

Ms SYLVIA HALE: From whom was the approach?

Mr ROBINSON: The Sydney Harbour Foreshore Authority.

Ms SYLVIA HALE: When would the Sydney Water be making a decision in that regard, as to whether to dispose of the land?

Mr ROBINSON: At this stage, I believe it is a matter for valuations that are being prepared by Valuer-General, and depending on the outcome of those and being formally approached by the Foreshore Authority, Sydney Water Board would consider that, probably within the next 12 months.

Ms SYLVIA HALE: Thank you.

CHAIR: Minister, in relation to last weekend, you were quoted as saying that some suburbs of Sydney were on notice for their apparent high water usage per household and we may well be looking at having a higher price for the top-end households. Can you explain whether a large family of, say, six or seven people living in Penrith or Ku-ring-gai, for example, would be penalised for using more water than an inner city household of, say, one or two people, who may use far less in total but proportionally more per person residing at a particular property.

The Hon. FRANK SARTOR: It is a simple fact that people do not use water equally

responsibly. In fact, one of the reasons why the Government has been considering these matters carefully, in response to the previous question, is that in looking at some way of charging for excess water consumption, you have to be mindful of vertical equities use, because the user-pay schemes, like the GST, sponsored by the Liberal-National Party, are good horizontal equity schemes where you pay more for what you use. One of the sensitivities that the Government has had, it has been careful in moving to horizontal equity schemes, which would charge more for more use of water and possibly even a second-tier price, is the risk of vertical equity distortions or disadvantages to people who cannot afford it, who happen to have large families.

So far, the bulk of the evidence certainly seems to be that it does not seem to correlate with the size of the family particularly. It seems to have more to do with lifestyle and size of gardens and other factors. Nevertheless, if we do come to the view that we can either increase the user-pay component or the horizontal equity, there may need to be some safety net. They are the sorts of issues that the Government would consider. In fact, pricing of water, I might remind the Committee, is a matter in terms of the statutory brief of IPART, the Independent and Regulatory Tribunal. Any increase in water prices, if that was the Government's intention to discourage excess use—and it is one option being considered—would have to go through a public process, through the IPART process and would take some time to be implemented.

Yes, we are mindful of that but I have to say that the greatest explanation is not size of family. Nevertheless, whatever we do through a public process, we would have to be mindful of vertical equity issues.

CHAIR: Do you acknowledge that IPART, in its report on 1 July of this year, Report on Prices of Water Supply, Waste Water and Stormwater Services, commented that demand management does not work in the context of water usage.

The Hon. FRANK SARTOR: That has to do with the general idea that, if you increase prices—that has to do with the demand elasticity of water for the average user in terms of average water use. There is some debate about what the elasticity of water demand would be at the high-end use if, for example, there were an excess water charge. That is one of the reasons, as I said earlier, why the Government is considering this matter carefully, but there certainly were substantial reductions in water consumption in the Hunter when those usage charges were substantially increased 15 years ago. We are highly unlikely to mirror what happened in the Hunter, in the way that was done, in any event. But that is not to say there are not price signals that could be given that would greatly assist water conservation.

CHAIR: Have you any timetable for the careful consideration of that issue or—

The Hon. FRANK SARTOR: All I can say is, it is under current and active consideration and I am hopeful that it will not be too far down the track that the Government can announce a position. But as I said, water pricing issues will then go through a public process anyway.

The Hon. ROBYN PARKER: Minister, in regard to consultancies, in view of this Committee asking about consultancy fees for the last nine years, are you saying that you have no—

The Hon. FRANK SARTOR: Did you ask them for nine years?

The Hon. ROBYN PARKER: No, sorry. You have no information with you about the total, \$1.6 million for consultants?

The Hon. FRANK SARTOR: I have said \$1.6 million in the just-ended financial year on 94 consultancies, is all I have in front of me at the moment, unless staff have other information. It is all I have at the moment.

The Hon. ROBYN PARKER: \$60 million was paid to consultants for the failed building system. Why have you come without that basic information?

The Hon. FRANK SARTOR: No. You have to understand the distinction between consultants and contractors. My understanding—because the Chief Executive will get back to you

anyway—is that there was a contract to provide a billing system and that is in fact the very basis, or one of the issues around which the legal case is pursuing—about which I want to be very careful—but there is a big difference between a contractor that is providing services, like implementing a billing system, and a consultant providing advice. I think we are talking about a definitional issue.

CHAIR: Minister, if I could turn to human resource issues. Can you tell the Committee what provision has been made in the Sydney Water budget for redundancies.

The Hon. FRANK SARTOR: In relation to the current budget I would have to ask the Chief Executive Officer. I have, however, some statistics here somewhere—if my staff might help me find them—which talk about staff numbers and overtime. There have been a number of redundancies. In fact, Sydney Water's staff reduced from full-time equivalence of 10,966 in 1986-87 down to 3,518 as at the end of 2002-03. In the last year there were 103 redundancies. So there has been a 64 to 66 per cent reduction in 15 years in staff numbers, and over that time every year there has been some redundancies. In relation to the current year I will ask the Managing Director to explain.

Mr ROBINSON: In the financial year just completed there were 103 redundancies which were accepted by Sydney Water. We currently still have a voluntary redundancy program which is in operation. We have operating budgets to allow for that voluntary redundancy program. There is no specific line item within the current Sydney Water budgets that itemise an amount for that.

CHAIR: What is the operating figure for it?

Mr ROBINSON: There is not one single operating figure. The redundancies are factored out of efficiencies that are going from the operating budgets.

CHAIR: It has been said that up to 1,000 staff, another 1,000 staff, will be made redundant in the upcoming period. Is that correct?

Mr ROBINSON: There is no figure that has been set in terms of staff reductions at Sydney Water. There has been no approved program in terms of numbers by either the Board or by myself. That 1,000 which appeared in the paper is a mystical number and I am not sure of its source, but it has no bearing on the current status in terms of Sydney Water's plans for redundancies.

The Hon. FRANK SARTOR: In the light of the figures I just gave you about the fact that we have gone from 10,966 down to 3,500, I think that we cannot just keep reducing staff at that rate.

The Hon. ROBYN PARKER: Minister, your Managing Director of Sydney Water Corporation, Mr Greg Robinson, has been telling staff they are either on the change bus or off it. Would you, perhaps, explain what he means by that and how many staff are currently sitting in the departure lounge?

The Hon. FRANK SARTOR: Let me start by saying—and I will ask the Managing Director to answer the specific question in a minute—we are going through policy reviews that have already been canvassed by this Committee tonight in relation to demand management and pricing; all these issues. It is at the end of that process. Whilst he is under a permanent obligation to gain efficiencies, as are all CEOs of SOCs in the State, all departments, all SOCs need to review their performance from time to time and find efficiencies, but from my perspective and the Government's perspective, we are looking at the brief of Sydney Water, you might say, in terms of these issues that are being raised. When the review of the brief has been settled then obviously he can settle the degree to which he needs to adjust his organisation to meet any new challenges, and it is the wrong way around.

Whilst he is pursuing efficiencies, it is the wrong way around to start talking about staff numbers and structure first and then the brief and the vision second. You have to deal with the brief first and the rest of the things flow on. Do you want to answer the specifics?

Mr ROBINSON: Yes. Again, a mystery comment to me. We have made comments to the organisation about getting ready for change and the fact that we are requiring people to start thinking about what they might want to do in the longer term as Sydney Water goes through a formal process. Certainly we have a number of changes which will happen in the organisation in terms of our focus,

and some of those changes will probably suit some people in the organisation, others it may not, and we are just forewarning people, as you would do in any organisation, that change is coming and that they personally need to think about what that change may do in terms of their decision-making.

The Hon. ROBYN PARKER: Very unnerving, no doubt, for those people. How many staff then do you predict are likely to be made redundant within the next 12 months?

The Hon. FRANK SARTOR: It is too premature to predict that because we have not yet settled Sydney Water's new brief.

Mr ROBINSON: Being open and honest with staff is probably not a crime.

The Hon. ROBYN PARKER: If there is no target for redundancies, what number do you expect?

Mr ROBINSON: As the Minister pointed out, the process that we are following, which has been clearly communicated with staff in Sydney Water, is that we are negotiating currently with the Minister in terms of what will be the reform package that Sydney Water will undertake and in terms of getting a clear direction for the organisation. Looking at our vision, from that we will then look at what are the objectives that the organisation needs to follow. We will then craft a business plan. That business plan will clearly identify the resource levelling that we need and from that we will establish numbers of people.

The Hon. ROBYN PARKER: Can you explain to me what the change in focus is?

Mr ROBINSON: No, I cannot. The Minister has already been very clear; that is something that is currently under negotiation and that is an issue that I would suggest is Cabinet-in-confidence currently.

The Hon. ROBYN PARKER: When do you expect to know that or be able to tell us that?

The Hon. FRANK SARTOR: All these questions are related. At the moment we are looking at a whole range of issues in relation to how we better conserve water, how we deal with the limitations on water supply, issues on the downstream side, issues in relation to pricing, issues in relation to a whole range of measures and, when they are settled—and some of them will take some time to settle because some of them will be IPART processes—then we will know. For example, how do you manage stormwater? Does stormwater stay with Sydney Water? If it goes, does that have resource implications? It may or may not.

It is a complex and large organisation. Its brief is very complex and we are trying to simplify its brief and achieve better outcomes in terms of water and especially environmental outcomes. I am not trying to be coy. I am not trying to be difficult, but simply we are going through a process of examining different reforms and when they are settled by way of Government policy then from that things will happen. Change may not necessarily mean losing jobs.

The Hon. ROBYN PARKER: Minister, you have staff on stand-by; bags packed ready to go. If you can tell them and be frank and open with them, why can you not tell this Committee what your estimate might be on likely staff redundancies?

The Hon. FRANK SARTOR: With the greatest respect, I think you are using very emotive language and you are trying to use all sorts of metaphors there, but I do not think anyone's bags are packed. There are ongoing efficiency reviews that any organisation should be doing, and I would expect the CEO to be doing that, but there are some decisions, some threshold decisions, that have to be made by Government first before the CEO can deal with them one way or the other. For example, do we take stormwater out of Sydney Water? How many staff does that involve? Are there some environmental aspects that should be best dealt with by someone other than Sydney Water, or not? To what extent are re-use schemes and alternative water supply schemes to be considered and who runs those? They all have implications for the organisation but they need to be settled first.

CHAIR: What is the expected timetable for it to settle?

The Hon. FRANK SARTOR: As I said, some of them we settle in the near future and some will take part of the IPART process. A couple will go to next year but if there are, say, five or six areas of reform then I would say that we could probably settle half of them this year and the other three would probably happen either through Government or through IPART next year. They are statutory processes, Madam Chair. We are not trying to be funny about it, but if we are changing price regimes, I will have to go through a public process.

CHAIR: Minister, I would like to ask you some questions about security, Sydney Water, and safety and property upgrades. In the 2002-03 budget papers, Sydney Water was scheduled to spend \$11.8 million on security, safety and property upgrades, but this year's budget paper at 105 shows no detail of any expenditure for the year up to 30 June. If anything was spent, can you please tell the Committee how much was spent on each of security, safety and property upgrades.

The Hon. FRANK SARTOR: Last year?

CHAIR: Yes.

The Hon. FRANK SARTOR: We would have to take that on notice. This year we were planning to spend \$15 million. I do not know what we spent last year, but I know that the CEO and his staff are very active in this area, I know because he was briefing me about it the other day. Perhaps you might want to say a bit more about those things you feel you can talk about.

Mr ROBINSON: Again, we need to be careful about comments that we make, Madam Chair, in regard to our preparation for protecting our assets. We, however, have been through a very comprehensive program at Sydney Water looking at the security on all of our assets, identifying what assets we may have that are considered to be vulnerable for different types of threats. We are currently going through a program of upgrading around those assets with different levels of security, be they actual physical patrols to fencing to CCTV camera surveillance, in a program that over the next 12 months will see \$15 million being spent on putting in place things like business continuity programs and putting security audits of critical sites into place, upgrading some of our physical and IT security programs and developing systems of staff security checks on our most vulnerable assets.

CHAIR: Can I ask you again, what was expended last year on security—and separate heading—safety and separately property upgrades?

Mr ROBINSON: Madam Chair, can I take that on notice? I do not have the figures with me.

CHAIR: The Minister said you had some discussions the other day about security. Surely you must have a—

The Hon. FRANK SARTOR: No, about the current year's program.

Mr ROBINSON: About the current year's program and the range of initiatives that we have put in place and what the expenditure is mainly centred around on the \$15 million.

CHAIR: We will take that on notice. I think that is amazing that, given the focus on security in the past 12 months, you cannot tell the Committee how much was spent on security.

The Hon. FRANK SARTOR: There also is a State Security Committee that oversees the security of care assets to the State. What we talk about here is specific initiatives Sydney Water is doing. That is another layer in addition to what the State Security Committee is doing, which I think is convened by the police, as I recall.

CHAIR: Yes, but we are here to talk about what you are doing.

The Hon. FRANK SARTOR: Yes, but some of that security relates to all public infrastructure.

CHAIR: Minister, the budget papers do talk about, on page 105, anticipated security

expenditure. Can you advise how much money was paid to Australian Operational Security Service and confirm that that company's range of duties included the protection of Warragamba Dam.

The Hon. FRANK SARTOR: Which budget item are you talking about; page 105?

CHAIR: The budget for security expenditure.

The Hon. FRANK SARTOR: What page?

Mr ROBINSON: Just on that, Madam Chair, we would need to take that on notice. However, the responsibility for the security at Warragamba Dam rests with the Sydney Catchment Authority. I do not believe that that would be expenditure which is related to Sydney Water. However, we will check it.

CHAIR: Can you tell us what level of qualifications of any employees of any contracted security company would have to have for Sydney Water to hire them to engage in security work?

Mr ROBINSON: Again, that is part of a review which Sydney Water is undertaking at the moment where we are looking at what the level of qualification is required by us for security at particular assets. Again it comes down to the process that we have been going through with the counter-terrorism group looking at our risk strategies for our major assets. We have identified that we have several critical assets that we need to ensure that we have different standards for both our staff and for the security officers that may be patrolling in those areas. We have not as yet gone through the process of screening security and requiring those additional requirements of them. That is something which is being currently implemented and reviewed as we speak.

CHAIR: That has not happened to date?

Mr ROBINSON: That has not happened to date.

CHAIR: I guess that would also apply to subcontractors of security companies. What sort of screening do you have in place for them?

Mr ROBINSON: At the moment we have a requirement for the security companies to provide us with individuals of particular qualifications. I am happy to come back to you with exactly the qualifications that we are requesting of them. However, as I say, we are upgrading our requirements, and we are in the process at the moment of re-looking at both our requirements and also the contractors we are currently using and whether or not they meet our new criteria.

CHAIR: Is there any possibility that a person say here in New South Wales on a student visa could become a subcontractor to a security company hired by Sydney Water to protect our waterways; that is, our drinking water?

Mr ROBINSON: It is possible.

CHAIR: You are now only getting around to reviewing those sorts of screening issues?

Mr ROBINSON: We are in the process of reviewing the screening issues at Sydney Water.

The Hon. FRANK SARTOR: Can I say in fairness to the CEO, I think he started work with Sydney Water in May. With the greatest respect, I do not think you can expect him to be absolutely on top of all the issues that might have been addressed to you earlier. I think the question is a bit unfair of him.

CHAIR: Sure, but given the profile of security issues and utilities and overseas evidence in relation to water supply being a possible target for terrorism, it could have been—

The Hon. FRANK SARTOR: But it does not mean that the work was not done.

CHAIR: No, I am saying I guess that would have been a pretty high priority for a new CEO to

get briefed on, would it not?

The Hon. FRANK SARTOR: He is doing it.

Mr ROBINSON: It has been a high priority, and it is one of the first things I have been briefed on. In fact, I have stepped in very actively on the reviewing of our current plans in terms of the way that we deal with our assets. It is as a result of that review that many changes are currently being made.

CHAIR: Perhaps if I could come back to that in a sec. I will perhaps word a question for you on notice so that you can perhaps provide us with some further information. But it would have to be said, would it not, that two years after Bali, you are saying that Sydney Water has possibly had security staff allegedly protecting Sydney's major water supply who have not been through what I think most citizens would think would be appropriate screening. I think the fundamental question has to be asked, how has that been allowed to happen?

The Hon. FRANK SARTOR: Can I make the comment that the dams are the Sydney Catchment Authority's dams, all the dams are. The actual water reservoirs are not Sydney Water's responsibility. It probably starts at the treatment plants like the Prospect Reservoir for example. Sure, there are other very important assets, but the dams—the key assets—are not Sydney Water's.

CHAIR: The Prospect facility would obviously be a security question, would it not?

Mr ROBINSON: The filtration plants are under separate contracts with the private sector, and those filtrations plants have very strenuous security requirements on the contractors. They are responsible for the protection of the assets, not Sydney Water.

CHAIR: Obviously, we will come back to that. Could I ask you a question about some environmental protection projects. In relation to Budget Paper No. 4 at page 105, can you tell us why Sydney Water only spent \$2.8 million in the last financial year of the \$10 million that was allocated in the last budget? Does that not indicate a lowering of sewerage service as a priority area?

The Hon. FRANK SARTOR: Which item?

CHAIR: It was Budget Paper No. 4 at page 105.

The Hon. FRANK SARTOR: Yes, which item?

CHAIR: The Blue Mountains; environmental project, the protection projects: \$2.8 million was the previous year.

The Hon. FRANK SARTOR: I am trying to find the item. I cannot see any \$2.8 million there.

CHAIR: Ten million dollars is allocated for this year; the coming year.

The Hon. FRANK SARTOR: They are talking about \$46 million. Sorry, I cannot see the item to which you refer.

CHAIR: I will put that on notice for you and spell it out more clearly. Minister, I will move quickly. We will go on to electricity in a second and I will ask you a question in relation to the Country Town Water and Sewerage Scheme. Can you provide the Committee with the number of projects which are currently on the Country Towns Water Supply and Sewerage Scheme waiting lists? You may have to provide that on notice, but on the other hand you might have some stuff with you.

The Hon. FRANK SARTOR: There are a lot of projects, Madam Chair, not so much on the waiting list. They are in, actually being funded. In the last financial year, 15 projects were completed; 94 projects were under construction. In this current financial year, 35 projects will be completed and 89 projects will be under construction during the year. It ranges from about 15 to 25 projects per year, and the total number of projects under construction tends to be about 70 to 80. The 2003-04 output targets of 35 projects being completed and the 89 under construction are higher than average due to

the Government's recent response to improve drought security for many country towns.

Since coming to office, the Government has started 134 significant water and sewerage projects, comprising new schemes and augmentations. In this year's budget I think we are spending \$68 million. To give you an idea of how many projects have either had some form of assistance—not all of these are construction—in the far North Coast—

CHAIR: Can I ask you to put the detail on notice to table that. That will be great. I will ask you one general question: are you still committed to a total expenditure of \$850 million on that program before 2005?

The Hon. FRANK SARTOR: No, not necessarily before 2005, but yes, that amount of money remains. We have committed for this year \$557 million. The nature of many of these projects, I have to tell you, take a long time to optimise, consider, review, study and so on. We are dealing with aquifers; we are dealing with bypassing towns; we are dealing with a lot of complex and difficult arrangements, and it is all very well to say "accelerate the project", but the nature of some of these thorny questions do take a long time to resolve. The total amount of money is still committed. I am not expecting that that will be completed by 2005. I do not know that we even promised that it would be, but there is no project that qualifies under the scheme that has ever been knocked back. We have been dealing with all the projects that were eligible, and there is quite a list of projects. The average allocation for the last few years for example have been about \$71 million per year.

I have here summarised the projects in the far North Coast, where we have had 88 projects, \$71 million spent; mid North Coast, we have had 104, 73 projects with \$4 million spent; the South Coast, 49 projects with \$2 million spent; Riverina, 57 projects with \$4 million spent; the Snowy, 71 projects, \$47 million spent; Northern Tablelands, 67 projects, \$24 million spent; Central West, 63 projects, \$52 million spent and Far West, 71 projects, \$24 million spent. I will table those two pages.

CHAIR: Thank you.

The Hon. FRANK SARTOR: Have you finished with Water?

CHAIR: Yes, we are on to Energy.

The Hon. FRANK SARTOR: I have to change the team. So the CEO can go home now?

CHAIR: Thank you. The Hon. Robyn Parker is moving that the document that was provided by the Minister be tabled. Those in favour say aye. Carried.

Ms SYLVIA HALE: Minister, does Energy Australia have a greenhouse gas reduction strategy?

The Hon. FRANK SARTOR: That is a very good question. I happen to have the Chief Executive of Energy Australia sitting right next to me.

Mr STEFFEN: Thank you very much. Energy Australia is the biggest supplier of innumerable products in the market in New South Wales today. We do so through a variety of forms. We subsidise solar hot water systems to a point now where solar hot water can be competitive with standard electric hot water systems. We run the biggest solar farm in the southern hemisphere at Singleton. We are the largest purchasers of green products in Australia today, given the licence conditions we have to meet within the New South Wales licence arrangements. So Energy Australia has an extensive greenhouse strategy; greenhouse targets that have to be met and we are leading the way, both in New South Wales and dare I say nationally.

Ms SYLVIA HALE: Energy Australia purchases and distributes energy through the electricity grid. Would the approval of a new coal-fired power station at Redbank be consistent with Energy Australia's greenhouse gas reduction strategy?

Mr STEFFEN: Can I comment on the Redbank. The Redbank is a matter which we purchased

the off-takes of Redbank. The Redbank mining project went through the Land and Environment Court. While there were certainly question marks raised on the NOCs and SOCs, the gases that were produced, they were certainly given the environmental credit for the fact that they were using tailings. I can say Redbank 1, the project now is running about 90 to 95 per cent tailings. To that extent it is meeting environmental requirements, but has negatives on the gas side.

The Hon. FRANK SARTOR: You are talking about Redbank 1, are you?

Ms SYLVIA HALE: Yes. You mentioned earlier that you subsidise solar hot water systems. Do you also subsidise airconditioners?

Mr BROAD: No.

Ms SYLVIA HALE: Do you consider the cause for billions of dollars of investment in new electricity generation capacity to be an exaggeration, and based on overblown demand projections?

Mr BROAD: No.

The Hon. FRANK SARTOR: Can I say something: the 5 per cent growth in peak demand is not a mirage. It has been happening.

Ms SYLVIA HALE: What are your plans to make demand management an accepted alternative to new generating capacity?

The Hon. FRANK SARTOR: Is that to me, or to the CEO?

Ms SYLVIA HALE: The Minister.

The Hon. FRANK SARTOR: Give me the question again.

Ms SYLVIA HALE: What are your plans to make demand management an accepted alternative to new generating capacity?

The Hon. FRANK SARTOR: It is an important policy that we have already, and in fact there was a \$10 million fund established to investigate demand management opportunities for the Sydney region. I note that the energy distributors through their block pricing schemes are moving to discourage peak pricing. I will ask the CEO to talk more about that.

Mr BROAD: Thank you, Minister. Can I just go on three accounts here. One is that we are trialling a subsidised program for low-income earners. We are installing energy efficient devices in their homes to help them manage their demand. We think that the concept of demand management is about empowering consumers to make choices. The second aspect we are doing, is we are building into our pricing mechanisms the incentive to reduce demand. Australia is the second-lowest energy cost country in the world. New South Wales has the lowest energy cost in all the States. Energy Australia is the lowest in New South Wales. The relative cost of energy in New South Wales is such that the incentives are not there.

The third aspect on demand that we are doing now is trialling the control of airconditioning loads in buildings in the city. The idea there is to turn airconditioning off at peak times during the day on a rotating basis, say, for half an hour, with the thermal inertia in buildings such as this, which are incredibly inefficient designs, is such that you will not notice the change in temperature. You start to take the peaks out of your demand by changing the supply pattern and we already have a number of large customers who have agreed, based on incentives, to turn off their energy at key times when we demand it. The combined aspects of that will have significant impacts, but at the end of the day, if consumers demand electricity, we will supply it.

The Hon. FRANK SARTOR: Could I also that say that the Government has also established a Demand Management and Planning Project, which looks at demand management strategies for all classes of consumers. There is a project manager appointed. There is a stakeholder reference group, which includes the Total Environment Centre, the New South Wales State Building Advisory Council,

the EPA, CEDA, IPART, PIAC and the Property Council. This is a matter under active consideration by the Government and one where there are other policy issues being considered as we speak.

Ms SYLVIA HALE: Minister, many of these programs, such as the low-income household program, could best be described as boutique management programs, and yet the IPART has proposed the need to move beyond promotion of boutique demand management programs for the electricity industry. What are you doing to mainstream demand management?

The Hon. FRANK SARTOR: I think that the pricing signals that the Chief Executive has spoken about is a pretty universal and mainstream way of dealing with it. He has already made progress introducing that pricing regime. Can I also say that you cannot just look at demand management per se. The issue has to do with the whole system. At the one end, demand management is important, but at the other end, improving the national network is also very important. This Government in the last period, for a long time has led energy reform, electricity reform, in this country. We have had agreement from all the other states in the Commonwealth to set up a new Australian energy regulator. We have had agreement to set up an Australian Energy Market Commission. We have had agreement to deal with it through the Australian Ministers Council on Energy and to include gas as well, the year after the electricity reforms come through.

We are negotiating whether there is a transfer of regulation of retail distribution and price in 2006 or not. That is still not resolved. We are trying to create a seamless system which, I might say, is a lot more seamless than the system we saw in North American. We have a National Energy Market Company [NEMCO] which is the operator of the system. It has two control centres. We have one system, one operator, running the entire eastern coast and being able to coordinate and deal with issues as they arise. We are working very hard to improve the interstate connection, because that has to do with sharing power. Because when you talk about managing peaks, the more you can flow power across State borders and between different generators, the more you can manage peaks, in theory, which is not, of course, practised due to geography. In theory you could have a system where you could have countercyclical peaks in different parts and the system would be at even keel. That is another very important issue. It is about flexibility of supply.

Related to that is greenhouse. If we increase generation but we are improving our greenhouse outcomes, then the downside of increasing demand is not as great. The New South Wales Government set up a very innovative greenhouse benchmark scheme based on outcomes, which was enacted through amendments to the Electricity Supply Act 1995, which went through last year. That mandatory greenhouse benchmark scheme involves reducing greenhouse CO₂ emissions by 2007, by 5 per cent below what they were in 1989-90. Five per cent below; this is a very substantial reduction. We are the only jurisdiction in Australia to have done that. If we are reducing greenhouse outcomes, we are improving network flexibility and crossflows so that you can manage peaks in different sections, at the same time working on demand management through price signals and other means, both by intervention in terms of empowering consumers to make their own choices and also helping them along with some price signals, then I think you have to look at the electricity system as a whole. Demand management alone is not the answer, but that is an important arm of policy.

Ms SYLVIA HALE: You would agree that, per capita, electricity demand is not reducing. Is that correct?

The Hon. FRANK SARTOR: No, it is not, because the penetration of airconditioners in the last, is it five years or 20 years, has gone up from 29 per cent to 42 per cent. That is enormous. People have lifestyles, with respect, where they want the comforts that others have enjoyed. It is a very powerful incentive. Again, the question that was asked of me earlier, I assume that the wealthy would have had their airconditioners in already. The people not so wealthy are probably still wanting to put their airconditioners in. The question was asked earlier of the family of six using a lot of water. The same issues apply with electricity. It is a difficult area to penalise people with the least capacity to deal with it. Nevertheless it is being addressed. There is block pricing there. The levels are being set so as to not cause significant changes—any change, really—to vertical equity. With the greatest respect, if you have any magic solutions for people's wish to live more comfortably, we are happy to hear them.

Ms SYLVIA HALE: Minister, have Energy Australia and Integral Energy been consulted

about the energy requirements of new Greenfield subdivisions, such as at Bringelly or the ADI site at St Marys?

The Hon. FRANK SARTOR: There is, as I said, this Committee that has been looking at sustainability. The Ministry of Energy and Utilities I think has also had a role in this area. There are matters under consideration in relation to sustainability which transcend energy, water. It involves all the issues to do with sustainability.

Ms SYLVIA HALE: Obviously these subdivisions will add considerably to the burden of electricity requirements, given that many of these houses will need to be airconditioned.

The Hon. FRANK SARTOR: We are looking at measures to deal with development in the future and to improve their sustainability, which will include their contribution to CO2 emissions.

Ms SYLVIA HALE: Yesterday, Minister, I heard from your colleague, the Minister for Transport, that the new Millenium train requires up to 30 per cent more power than the existing fleet. Was Energy Australia consulted at any stage about the energy requirements of the new fleet, given that Energy Australia is a major user, along with the RTA, of the energy supplier?

Mr BROAD: No we are not. No, we were not.

Ms SYLVIA HALE: Do you think it appropriate that you should have been?

Mr BROAD: No, I do not.

Ms SYLVIA HALE: I understand one of the reasons the Millenium train is not used in the inner city is because of their excessive demands for power.

Mr BROAD: The Rail Authority runs its own electricity network.

Ms SYLVIA HALE: In complete disregard of the rest of the community.

Mr BROAD: I cannot comment on how they run it.

Ms SYLVIA HALE: Thank you. Minister, I understand the energy demands of the Sydney Cricket Ground during night-time matches are considerable. Can the Minister give me some idea of the scale of the energy required for these events.

The Hon. FRANK SARTOR: No, I cannot, but I can get back to you. I hope you are not suggesting that we should outlaw evening football matches.

Ms SYLVIA HALE: No, but I understand that in fact the drain is very substantial.

The Hon. FRANK SARTOR: That is your assertion. I will get the facts and I will report back, but I am not sure what you propose the solution to be.

Ms SYLVIA HALE: No. It is my understanding that apparently workers at the Sydney Cricket Ground need to check with Energy Australia that there is sufficient electricity available before they can turn the lights on.

The Hon. FRANK SARTOR: I would be very surprised. Do you know anything about that?

Mr BROAD: No, I do not know anything about that. That is probably speculation.

Ms SYLVIA HALE: Can you take that on notice? Has Energy Australia ever refused the Sydney Cricket Group energy supply?

Mr BROAD: Not that I am aware.

Ms SYLVIA HALE: Do you think it is possible that poor energy planning could lead to the

cancellation of major sporting events?

Mr BROAD: No.

Ms SYLVIA HALE: Minister, can you outline what steps Energy Australia has taken to help the Sydney Cricket Ground reduce its energy consumption.

The Hon. FRANK SARTOR: It is a matter for Energy Australia.

Mr BROAD: I am not aware of any particular ones. There is an issue with the upgrade of some of the mains around that area and we are doing that. As you appreciate, we are spending an awful amount of money on upgrading the city's infrastructure, and a lot of that is in the east of the city including the Sydney Cricket Ground, but we do not at this point have to turn off the other lights around that area to turn the city cricket ground lights on.

Ms SYLVIA HALE: Minister, given the Premier's concern in an article that was written in *The Sydney Morning Herald* in the last fortnight calling for major cuts in greenhouse gas emissions, can you suggest that what the Government should be doing, or what you should be doing, to curb the energy demands for large infrastructure projects like the Millennium Train and the Sydney Cricket Ground.

The Hon. FRANK SARTOR: I think your general point is that large uses of electricity should be energy efficient. I hope your point was not that we should turn off night-time football matches. If that is your point—

Ms SYLVIA HALE: That was not my point.

The Hon. FRANK SARTOR: I will take that on board. We are interested as a Government and we have in fact through Government agencies—I saw some notes—over the last decade made significant improvements in terms of our energy efficiency. If you take me to that I will give you some of the stuff we have done.

CHAIR: Ms Hale would be happy if you could table that. That would be appreciated.

The Hon. FRANK SARTOR: I have some notes that relate to a whole lot of matters, and I will not table that if you would not mind. They are just notes that I want to refer to. I do not have anything that I could give you specifically at the moment, I am sorry.

CHAIR: Minister, I would like to ask you about some infrastructure questions. Last month you said that \$3 billion would be spent over five years upgrading electricity infrastructure, but later on after your media adviser apparently pointed out that that might have been an error, you had a press release which said that \$3 billion would be spent over 10 years.

The Hon. FRANK SARTOR: What did I say?

CHAIR: \$3 billion would be spent over five years upgrading electricity infrastructure, but then you corrected that apparently and said \$3 billion over 10 years. But after today's Sydney blackout you first of all denied it was an infrastructure problem, and then by lunchtime on radio you said, "We are investing another \$6.5 billion." Can you point the Committee to the budget papers which tell us exactly what you are planning to spend.

The Hon. FRANK SARTOR: Madam Chair, with the greatest respect a couple of times tonight you have made comments and asked questions in a very prejudicial manner. I would have thought that you were simply trying to elicit the facts for the benefit of the public and this Parliament. The tone of that particular question again suggested this prejudice. The comments I made some time ago when we were talking about Energy Australia and Integral Energy as I recall, we were talking about those two entities. It depends on what you aggregate what the figure is. That is what it depends on. The total figure—which I have here somewhere which my staff will help me find—we spent \$4 billion. If you take the four energy distributors and Transgrid, we had spent \$4 billion over the last five years, and will be spending \$6,500,000,000 over the next five years, and that is a fact.

When I was talking in the past, I was talking about Energy Australia and Integral Energy. There are different aggregations you could do which give you different numbers, but if you take all five, all five including Transgrid, it is \$6,500,000,000 over the next five years, and it was \$4 billion over the last five years, which is \$10.5 billion over a decade which is very significant. They are the figures. There is no inconsistency. What else do you want to know?

CHAIR: On the news this evening it was reported that five buildings are still blacked out 26 hours after the blackout occurred. You told the media that you would have a report on your desk tomorrow morning about it. Can you update the Committee as to whether you are any the wiser as to the cause of the blackout.

The Hon. FRANK SARTOR: That is right, because I spoke to the man sitting next to me and he can answer it more himself in the minute. It is a complex issue, and they are analysing the circumstances, the materials, to work out what the cause was. But what we have here, the facts as I know them, and Paul Broad can expand on these, what we have here is a brand new substation, which I think cost about \$58 million to build, which is now taking 95 per cent of the load. It is almost fully commissioned. Out of the substation nearby there is a junction pit which has something like 40 cables running through it. One of those cables caught fire and took 17 to 18 other cables out with it, which had new cables coming in and old cables coming in and out. It is a highly unusual occurrence. It is an area that had been worked on because it is part of the construction of the new substation. It is not as if we are talking about an ignored piece of infrastructure. It has had a pretty dramatic effect over the last period.

I am advised that as of now all the buildings are back on. That is still 24 hours or more, which is not ideal of course. We are not very happy about that. In the near future I expect a report from Energy Australia on the cause, but I want the report to be accurate and rigorous. I do not think it is going to help at all by trying to accelerate the report and have a half-baked report. Would you like to answer that?

Mr BROAD: Yes, thanks, Minister. The problem emerged at 5.30 yesterday afternoon when we had a side of one cable that had caught fire on a joint, and progressively it took out 18 cables over the next hour and 10 minutes. As we do in all systems when we have a fault like that, we shut off. We go for safety and when the fire brigade arrived, we shut down the whole pit to ensure that (1) protection of the fire fighters, and (2) to ensure the fire did not spread. When we got into the pit it became obvious that the damage was far more extensive to all 18 cables to the point where we had to cut each of the cables and install a new piece of cable, and the jointing requirement is extensive and complex. Of the 50 properties we got half of them back on by 7.00 in the morning. Most then were back on by lunchtime, about 1 o'clock this afternoon, and there were two lots of cable which we had difficulty installing. We originally thought we would have them back on line by mid afternoon, and did not get them on till about 7 o'clock this evening.

The cause of it? Forensics is on the cable. We have the cables out. We will pull it apart and look at it pretty closely, but the basic cause of a fire at a cable joint is not that unusual in itself. Our issue is why that spread to the other cables. That is the issue, and we will not be comfortable until we know why that happened.

CHAIR: Minister, what do you say about Mr Bernie Reardon's comments on radio this afternoon indicating that the problem probably related to aged infrastructure, and it also mentioned that Transgrid's feeder into Sydney was running behind schedule.

The Hon. FRANK SARTOR: I love Bernie dearly but he does go a bit far pushing his own barrow sometimes. The infrastructure is not aged. We have spent \$4 billion in the last five years. In the Sydney centre alone we have got this one almost fully commissioned, city central. The one in Campbell Street will be commissioned by the end of the year. We have the Transgrid substation at the Haymarket to be commissioned by early next year. We have the Transgrid connection. The main Transgrid line into the city coming from the southern suburbs is costing close to \$250 million. This work has been invested. Most of the money has been spent. The investment is very substantial. There are only about seven substations in central Sydney. This is three new ones; three brand new ones. The last substation that was built was probably 30 years ago. I did not see the Coalition building any new

substation. There has been a massive amount of work with cabling and a whole lot of other ancillary work around the city.

With the greatest respect to my dear friend Bernie, that is not true. That is if what you say is accurate. Can I say this? I part found that the network, the distribution network, was 99.9 per cent reliable. We had 189 malfunctions in New South Wales in the last full year for which I have statistics, out of 167,000 substations, which is a little bit more than 1 in 1,000 and that is pretty good. We can never guarantee that there will not be some outages and some malfunctions. We cannot, and because of growth and demand the SOCs, the relevant State-owned corporations have moved to accelerate their programs, which is why we are looking at the \$6.5 billion in investment. It is simply untrue. We are very well placed, certainly by interstate standards very well placed, as indeed is the Australian system vis-a-vis the North American system. That is not to say there cannot be a catastrophe. Things can happen anywhere but we believe we are in pretty good shape and with the national reforms and the local investment, both by Transgrid and the distributors, the prognosis is good.

CHAIR: Mr Broad, perhaps you could answer this then: is it possible that it was a lack of maintenance which led to a fire at the joint of the cables?

Mr BROAD: No, it is not.

CHAIR: You are ruling that out categorically.

Mr BROAD: Absolutely.

CHAIR: Minister, can I point you to the Energy Australia web site which commits to about \$360 million in improving the network over five years, but on 28 July you told the media that Energy Australia has a \$2 billion capital expenditure program planned for the next five years. Can you tell us which is the correct figure?

The Hon. FRANK SARTOR: Its proposals for the next five years are \$2 billion.

Mr BROAD: Yes, in the IFR proposal, which I have before me now, we have \$2 billion. I am not sure of the component on the web site. I will double-check the web site.

CHAIR: Minister, earlier you mentioned NEMCO, which on 31 July of this year warned that New South Wales will be unable to meet its electricity obligations and predicted blackouts within two years.

The Hon. FRANK SARTOR: That is not true. There were a few times tonight where you said things that were patently wrong.

CHAIR: A week earlier, CEDA warned that up to \$8.7 billion is needed to maintain electricity infrastructure or New South Wales will have rolling blackouts within five years.

The Hon. FRANK SARTOR: Let me firstly talk about NEMCO. NEMCO talked about reserve demand, reserve capacity. The way electricity systems work is that they work on the presumption that if there is a failure of a whole unit, you can do with a failure of a whole unit and still meet peak demand. It is called reserve capacity. What is currently being debated between the Ministry of Energy and Utilities—sitting on my left—and NEMCO, is what the reserve capacity ought to be. NEMCO have one figure and Ministry have another. It is somewhere between 600 megawatts and 1,000 megawatts. I think the peak demand in New South Wales is 12,500 megawatts per year, roughly.

The issue has to do with whether there would be a reserve deficit of 74 megawatts or thereabouts—some small number—in the event that several things happened at the same time. New South Wales had a summer peak which happened to coincide with summer peaks in other states at the same time so we could not float power here, and thirdly, which happened to coincide with a major failure of a major generation capacity. Firstly, the probability is very low, and secondly, there is some debate about the degree to which it is a safety margin argument. It is nothing to do with whether there is capacity for maximum demand. It is a safety margin in the event of some catastrophic failure. That

is what the debate is over.

It was a possibility of a demand deficit of 94 megawatts in summer 2005-06, if all those things happened at the same time. That is to do with generation. Generation is driven by the market, it is a market-led thing, unlike distribution which is regulated prices. It is driven by generation and there are something like a dozen different generation proposals currently in the pipeline which, if they were all built, would add up to 2,467 megawatts. Obviously, they will not all be built. Nevertheless, there are a substantial number of proposals in the pipeline. This had to do with a reserve deficit theoretical possibility and, in any event, it will be addressed by investment over time, but that was the nature of it. They did not predict blackouts; they just talked about the safety margin for the reserve capacity, reserve above demand peak, not reserve above base load.

CHAIR: We have now had fires in substations and other dangerous incidents at St Peters, Chatswood, Paddington, Milperra, Newcastle and now in Sydney's CBD. Do you agree with the proposition that it is probably time to have an independent auditor of the electricity network to guarantee workers' safety and electricity supply?

The Hon. FRANK SARTOR: Let me talk about workers' safety. The trends with workers' safety have improved dramatically; worker and public safety. The incidents have diminished quite substantially. I do not have the figures in front of me, but to give you an idea, there has been one worker fatality in the last four years, compared to an average of two per year before 1996, and serious electrical accidents involving the public have declined by more than 50 per cent in the last six years. When IPART tells me that the network reliability is 99.9 per cent, and I see all of the investment we are doing, this notion of "let's go and audit everything"—we are auditing things to death.

We have IPART, we have the Auditor-General, we have so many forums of accountability, there is no compelling argument whatsoever for further interference in the operation of the SOCs.

CHAIR: Minister, thank you very much. It being 10 o'clock, we need to conclude. Thank you to the Minister and thank you to all of the advisers. One matter I need to resolve is to publish the document that the Minister tendered, if somebody could do that. All those in favour say aye, against say no. Thank you, members. Thank you, witnesses. Minister, I need to advise you that because there is quite a lot of material on notice, the Committee may need to ask some further questions at a later hearing.

The Hon. FRANK SARTOR: Whatever. I thought there were four or five items. Is that roughly right? Could you give us a list of the items?

CHAIR: Yes, we will flag them for you.

The Hon. FRANK SARTOR: We will send them to you, no problem.

CHAIR: Thank you.

The Committee proceeded to deliberate.
