

Desalination just got even harder to pay for

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WHEN Planning Minister Justin Madden announced approval for Victoria's \$3.1 billion desalination plant in January, this newspaper said the successful bidder for a role in the public-private partnership would surely require guaranteed revenue in return for its investment. That has always been an obvious aspect of the deal, though the State Government has been vague about the details. As former premier Steve Bracks said in November 2006, before the Government reversed its opposition to desalination as a solution to Victoria's water problems: "The energy consumption (by a desalination plant) is enormous, the intrusion on the community is enormous and, of course, it's extraordinarily expensive."

It was a pithy summary of the issues raised by desalination, but Mr Bracks' successor, John Brumby, is pressing ahead regardless with the plan for a plant at Williamsons Beach near Wonthaggi that, together with water drawn from the Murray-Darling Basin via the Goulburn Valley pipeline, is intended to drought-proof Melbourne. Now, however, the issue of just what might lure private investors to the project has acquired renewed force. As *The Age* revealed yesterday, the global financial crisis has dried up funding for the desalination plant, leaving it at least \$1 billion and perhaps as much as \$2 billion short.

Under the public-private partnership, the private investor would be required to have full funding, but the two contenders for the project, Bass Water (led by the French water company Veolia) and Aquasure (led by Degremont, another French company) confirmed that they have been unable to secure funds, although their final bids are due this month and the Government is supposed to announce the successful bidder by mid-year.

So not only does it remain unclear just what might have been held out to the prospective bidders by way of a guaranteed return for their investment, it now seems that they will be unable to do their part by contributing the investment. And since it is the global recession that is causing the credit shortfall, there is no reason to think there will be a remedy for their difficulty any time soon.

It is a problem that reportedly affects an increasing number of major infrastructure projects in Australia and elsewhere. At a time when investing in infrastructure is vital in mitigating the effects of the recession and positioning the economy to take best advantage of a recovery when it comes, private investors are less and less able to take the primary responsibility for providing infrastructure.

That could be a cue for the Commonwealth to come to Victoria's assistance on the desalination plant, and, if it were any other project, that would be a good thing. *The Age* believes that the infrastructure spending included in the Federal Government's second stimulus package was too narrowly targeted, and that major new projects in transport, water and power supply should also be beneficiaries. In the case of the desalination plant, however, the investors' financial problems are an opportunity to reconsider a project that was of dubious merit in the first place.

The questions that were not answered when Mr Madden gave the go-ahead for the desalination plant are still unanswered. As *The Age* argued then, it is only possible to claim that the plant offers "a broadly environmentally acceptable approach" because the environmental inquiry that reported to the minister was restricted in its scope to local

effects. Much has been made of the fact that the plant will be powered by new renewable energy sources; this does not, however, change the fact that the desalination plant will create a huge new demand for electricity. Moreover, it has always been mysterious why desalination should be preferred to recycling on cost grounds. Former Melbourne Water managing director John Morgan has described recycling as "cost effective, safe and environmentally correct", yet it is a message the Brumby Government does not want to hear. If plans to upgrade purification and return water to dams had gone ahead, Melbourne's supply would have increased by a quarter — sooner than the desalination plant, at more than twice the energy efficiency and about a third of the cost.

The costs of building the desalination plant have now hit a further obstacle because of the global financial crisis. The Government should look to cheaper, environmentally safer options for resolving Melbourne's water shortage instead.

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