

CORRECTED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2004–05 budget estimates

Melbourne – 23 June 2004

Members

Mr W. R. Baxter

Ms C. M. Campbell

Mr R. W. Clark

Mr L. A. Donnellan

Mr B. Forwood

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Staff

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Witnesses

Mr T. Theophanous, Minister for Energy Industries;

Mr H. Ronaldson, secretary;

Mr R. Bolt, executive director, energy and security; and

Mr B. McDonald, chief financial officer, Department of Infrastructure.

The CHAIR — Before we move to the second portfolio, I want to place on the record my appreciation to the staff from the Department of Primary Industries, whom I neglected to thank prior to the conclusion of the last session. I place that on record not only for those who were in attendance as witnesses but also the staff who prepared documentation.

Mr FORWOOD — You guys have something to live up to.

The CHAIR — It is with great enthusiasm that we now welcome the second part of the team: Mr Howard Ronaldson, the Secretary of the Department of Infrastructure; Mr Richard Bolt, executive director, energy and security; Mr Bob McDonald, chief financial officer; and departmental officers.

For people who have just joined us, if you have a mobile phone could you please turn it off and put pagers to silent.

The CHAIR — We have an hour allocated to the energy portfolio, so over to you for a 5-minute presentation.

Mr THEOPHANOUS — Thank you, Chair. I will begin by talking about the actual and expected outcomes for this portfolio in terms of the output levels. You will see from the numbers on the screen that we budgeted \$6.8 million in 2003–04 but the expected outcome is \$9.4 million; there is an increase in the base budget for 2003–04 to \$7.6 million, so there is an increase in the budget for 2004–05 even though the \$9.4 million was as a result of some unexpected additional requests that went in for expenditure, and that was essentially \$700 000 to complete work on a review of supply security and a strategy for sustainable domestic energy and energy market reform. The sum of \$500 000 was provided to the continued implementation of the network tariff rebate scheme, of which members are aware, and \$500 000 was put towards security and emergency management for critical infrastructure as part of the government's anti-terrorism approach as well. In addition to that there has been \$600 000 of unplanned expenditure in relation to the Energy Bricks factory in Morwell, and the balance of \$300 000 is as a result of indexation and a redistribution of departmental non-direct costs.

Full retail competition is something we have been able to develop in this industry. It has resulted in much higher churn rates, much higher transfer rates, as well as a number of new retailers entering into the market. To a great degree that has been encouraged by the four-year landmark electricity and gas pricing agreement which was reached with the retailers. It will deliver significant benefits in the form of a real reduction in the price of electricity of up to 5 per cent or 6 per cent over the four years. So we have a four-year price path to beat, and competition occurs under that, so consumers can get even better deals than what is available as the government's fall-back position.

We have extended the network tariff rebate until 1 April 2005, and I am sure I will be asked questions about that, so I will not go into the detail, but it is a \$34 million program to try and mitigate the differential in prices between country Victoria and the city. The ESC's competition review is considering the need for the safety net going forward after 2004, and obviously we will be making some decisions about that in the not-too-distant future.

We have taken a leading role in energy market reform. It has been one of my priorities and one of the department's priorities to get a national approach to energy market reform, so we were pleased to get agreement at the MCE for the national package. It was as a result of Victoria's direct intervention in a number of ways.

The work program is on track. The Australian Energy Regulator is in the process of being established, both legislatively and in a practical sense, with advertisements for the senior positions having gone out already; and of course importantly, after significant tussles and competition, the Australian Energy Regulator will be established in Melbourne. I am very pleased to indicate that to the committee.

The other thing that has been a significant challenge for us and will continue to be going forward is the Greenhouse Challenge for Energy project. There is the Allen's report, which I have yet to receive in its final version.

Mr FORWOOD — I have been giving it to everybody!

The CHAIR — On with the overhead presentation, thank you, Minister.

Mr THEOPHANOUS — There are drafts around, but the final version is to be received soon. A position paper from the government as a response to the Allen's report will be made available in the second half of this year. I turn to security of supply.

The CHAIR — You have about 30 seconds.

Mr THEOPHANOUS — I will try to summarise. A lot of energy investment is being encouraged, and I will talk about that in response to questions. There is the critical infrastructure project in relation to terrorism, which I have mentioned, and there is a high level of electricity and gas safety, with the reviews of the Office of the Chief Electrical Inspector and the Office of Gas Safety which have taken place.

I will put the final couple of slides up on the screen, Chair, with your permission. Coal is very important to us, but renewables and energy efficiency are just as important, and we focus on both in my department. Finally, in relation to natural gas, which is a big part of what we do, we have the \$70 million program which I am helping to deliver with the Minister for State and Regional Development, and that is hugely important for the people of Victoria and of country Victoria in particular. The program is on track, and I am happy to answer questions about it.

The CHAIR — I turn firstly to greenhouse obligations, particularly in relation to investment certainty. Reference is made at page 114 of budget paper 3 to a secure and cost-effective energy supply. Could you advise us what issues are confronting potential investors in the Victorian energy sector, and could you particularly refer to the need for investor certainty to provide for a secure and cost-effective supply?

Mr THEOPHANOUS — Yes. Investment is the name of the game in this sector. It is very important to get new investment. Our goal is to provide low-cost and environmentally responsible energy, and this is fundamental to Victoria's — and I dare say Australia's — economic future. The manufacturing base of Australia is in Victoria, and it relies on a cheap, available source of energy. It was built on the back of that cheap supply of energy, and that continues to be the case. Huge numbers of jobs arise both directly and indirectly out of our energy industry, and so we are very keen to ensure that that investment continues.

The central issue here is that we live in a world where there are increasing pressures about emission reductions and about greenhouse gas reductions. What industry members mention every time I speak to them — we speak to them very often, including those in the financial part of the industry and also the current owners of our energy infrastructure and others — is a single word, and that word is certainty. Investment certainty is what will drive this industry going forward. Obviously, if investors do not know what their obligations will be in the future in relation to emissions, then that creates a source of uncertainty. The Howard government's energy statement, by not addressing this issue but just leaving it in abeyance and saying, 'We are not going to try to address either the question of whether Australia is going to be part of the Kyoto protocol or whether Australia is going to have some kind of an emissions abatement scheme', is creating massive uncertainty in the industry.

What the industry does not want to have is a circumstance where they know that sooner or later there will be emission obligations put on them but what they do not know is how, when or how much, and that is as a result of a complete lack of leadership at the national level. It has become such a difficult problem that the states have decided to establish an interjurisdictional group arising out of the Ministerial Council on Energy, which every state is on, to try to address this issue. Every single state has decided that this is a question that has to be addressed and that we have to have some kind of scheme of emission trading. There is a kind of abatement scheme that applies in New South Wales which creates a lopsided situation where one state is doing something and none of the other states are. We are trying to address this at a national level to provide the long-term leadership and the long-term certainty for all these industries about what their obligations are going to be. That is what they require. Every state is involved in this interjurisdictional group — except the commonwealth. The commonwealth refuses to even partake in the group in trying to develop up a model.

We are not going to allow this to sway us in what is becoming a primary and important objective in maintaining the momentum of investment in this area in this state. That is why we have set up the Greenhouse Challenge for Energy project. I know there will be questions from the committee in relation to the Allen's report and other issues of this sort, but the reason Victoria has taken the lead, put these things out in the public domain and tried to address the question is that there is no leadership at a national level in relation to this issue.

The Prime Minister can talk all he likes about a \$500 million program — incidentally, only \$100 million of that will be available over the next four years — but the fact is there is no certainty in the investment community. Even yesterday, when I was talking to a group of people at a lunch sponsored by the Macquarie Bank, investors were saying the same thing to me: they do not know what their obligations are going to be in the future, and they require that certainty. They would rather know there is a certain obligation on them going forward than be in the position

they are in at the moment of a fools paradise, where there is no current obligation but they do not know what the obligation will be going forward.

The CHAIR — Thank you. That is very clear. Mr Forwood has a supplementary.

Mr FORWOOD — Just to follow up: given the work that is being done by the states on coming up with some sort of emission trading or intensity reduction scheme, when is that likely to resolve into some certainty?

Mr THEOPHANOUS — Mr Forwood, I would have thought what you ought to do is pick up the telephone and start talking to your federal colleagues. The analytical work that has been done in the Allen's report is analytical work that has been commissioned by us — it has been commissioned by Victoria — because we cannot get the federal government to do anything about it. This analytical work is happening, and it will be provided to us, and then we are going to approach all of the states. I can tell you that an emergency meeting has been called of all the states to be held on Saturday.

Mr FORWOOD — On Sunday in Tasmania?

Mr THEOPHANOUS — No. I do not know where you get your information from, but I am happy to correct you. There is to be a meeting of all state energy ministers which will take place in Sydney on Saturday. That meeting is being held to discuss two issues: one is the lack of certainty in relation to investment in traditional sources of energy supply in coal, in gas and in all the other traditional sources, because of the lack of a national emission trading scheme; and the second is the absolute and complete nobbling by the federal government of the renewable energy sector by its failure to expand the mandatory renewable energy target (MRET) scheme. These are two important national issues.

When I leave here I will be going to a meeting at 1 o'clock of the Municipal Association of Victoria, where a number of country Victorian councils — principally the Ararat council and the Glenelg council — are coming down and are going to be very, very vocal about the fact that a renewable energy industry for their constituents has just been nobbled by the federal government by its approach in the national energy statement. That ought to be something that all Victorians stand up against.

Mr FORWOOD — I am sure we will get to MRETs later.

The CHAIR — Is this on greenhouse obligations?

Mr FORWOOD — Yes, absolutely.

The CHAIR — If not — —

Mr FORWOOD — We will get to the MRET scheme in a moment, but the minister's contribution to date has suggested that we need certainty. The states are working on an emission trading or intensity reduction scheme, and therefore I take it that what you are saying is that the way to provide certainty is to develop such a scheme?

Mr THEOPHANOUS — Yes, that is what I am saying, and I think the most certain way to do it is for a change of federal government at the coming elections, and then we will get a national scheme in place and will provide that service.

The CHAIR — That is not within the responsibility of this committee.

Mr DONNELLAN — We would like to assist.

Mr FORWOOD — Let me go to the Allen Consulting Group's report, of which I have a copy.

The CHAIR — The draft Allen's report.

Mr FORWOOD — Let us talk about whether it is a draft or not. We have talked about these documents before in the Parliament. They are GC4E working papers, modelling policies for the electricity market and modelling policies for the authoritative results. Neither of the documents that have been provided to the

government have the word 'draft' anywhere on them. I understand the government is now saying that these are draft documents. Is that correct?

Mr THEOPHANOUS — Mr Forwood, I am happy to inform you that the documents that I believe you have there — and I have not got your documents — but I believe they are preliminary drafts — —

Mr FORWOOD — Preliminary drafts.

Mr THEOPHANOUS — I can assure you that the final document has not been delivered to the minister, and when it is I will give it due consideration. I will also consult with my colleagues in other states about how we move forward the agenda for an appropriate emission trading scheme which protects the industry as well as providing for our obligations to reduce greenhouse emissions.

Mr FORWOOD — So when do you believe that whatever extra work Allen's has been asked to do will become available?

Mr THEOPHANOUS — As I said, the report has not been provided to me in its final state as yet. I expect that to happen over the next week or so, and I will consider it at that point.

Mr FORWOOD — Is your expectation that the mathematics contained in the reports to date will be significantly different?

The CHAIR — That is hypothetical.

Mr THEOPHANOUS — I do not know how many times I need to tell you this Mr Forwood. I have not received the report. It is a bit hard to ask me about what is in a report that I have not as yet received.

Mr FORWOOD — I will be interested in whether the Allen Consulting Group, which has been paid substantial funds by this government to produce some modelling, moves away from the positions that have been articulated in the documents that are available.

The CHAIR — That can be your bedtime reading.

Ms GREEN — Minister, towards the end of your presentation you briefly referred to natural gas extensions, which are detailed in the output group on page 146 of budget paper 3. My constituents certainly understand the necessity for this program, particularly in Hurstbridge, where they are suffering under great difficulty with the price of bottled gas going through the roof. Could you outline what benefits will flow for Victorians, in both regional areas and, from my point of view importantly, in the rural and suburban interface?

Mr THEOPHANOUS — I thank the member for her question. She talks to me on an ongoing basis about natural gas in her area, as do a number of other government members as well.

This is a very important program, and let us get it into some context. This is a \$70 million program designed to bring natural gas, which is a fraction of the price of LP gas let alone oil or diesel, to about 80 000 Victorian consumers, businesses and households. It is a massive infrastructure program for rural and regional Victoria. I can inform you that it is on track and the timetable that was announced by the Minister for State and Regional Development and myself in June last year is being abided by. The state government and gas distribution company Envestra Ltd has agreed to connect natural gas to Bairnsdale and Paynesville as part of the fast track proposals that we had agreed to, subject to an Essential Services Commission review which is taking place.

So Bairnsdale and Paynesville are being fast tracked, and that is because Envestra took advantage of the fast track process allowing early application of program funds. But as I have said repeatedly, and also in the Parliament, we are trying to get the maximum amount for the dollar in this. We want to make sure that we are not paying for gas extensions which would otherwise be commercially viable. We want to make sure that the money is going to what are non-commercially viable extensions and that the amount we are paying for those extensions for the benefit of regional Victoria is not an exorbitant price.

That is why we have established the bidding process which commenced on 31 March. We have a total of eight bidders, and I can inform the committee, through you Chair, of who they are. The eight bidders are Multinet Gas, Wesfarmers Kleenheat Gas Pty Ltd, TXU Networks Pty Ltd, Westernport Region Water Authority, Powerco

Tasmania Pty Ltd, GasNet Australia (Operations) Pty Ltd, Elgas Ltd and Envestra Ltd. They have all qualified to participate in the bidding stage, which closed on 15 June.

Regional Development will select successful bidders as a result of that process after it has assessed the tender submissions and reached agreement with the various parties, and funding will be disbursed on the basis of the net public benefit of reticulation programs with regard being given to the impact of each project in reducing household and business energy costs, creating opportunities for economic development in regional Victoria and the number of households reticulated for the level of subsidy that is being provided. It is anticipated that RDV will complete the assessment stage by August or September and announcements will be made at that stage.

Ms GREEN — Minister, would you say that this program has provided extra stimulus for projects such as Whittlesea, where rollout started well ahead of this process?

Mr THEOPHANOUS — The Whittlesea program is an important extension to the gas network. There is almost nothing more that you could do for country Victoria than providing natural gas. The price of LPG is high and is rising; it is a very significant cost on local businesses and on households to have to use LPG or electricity, both of which are high-cost energy items. It is one of the disadvantages of living in regional Victoria. One can reasonably ask the question: why should the people in regional Victoria not have the same benefits as we have in Melbourne and in the metropolitan area, where we can simply have gas connected to our homes and run the cheapest form of energy? I might say that environmentally gas is one of the best forms of energy available as well, for those homes. We are very excited about this project. It is one which should have occurred years ago, and we are very happy to have it now.

Ms ROMANES — I just seek a clarification. Will the successful tenderer roll out the gas extensions across the whole of the state or will it be a mix and match?

Mr THEOPHANOUS — No, it will be a mix.

The CHAIR — Before moving to Mr Clark's question, I formally welcome members of the Queensland Public Accounts Committee. I hope they enjoy the estimates hearing. They have the benefit of having a minister in attendance who, I understand, has the honour of having been the longest serving member of the Public Accounts and Estimates Committee.

Mr FORWOOD — I think we have an argument about that.

Mr THEOPHANOUS — Mr Forwood is rapidly overtaking me.

The CHAIR — In any event, we have before us a minister who has been schooled in the role of the Public Accounts and Estimates Committee.

Mr CLARK — I refer to your previous answer when trying to shift the blame for delays in base load power station construction in Victoria to the federal government. I well remember parties associated with base load power in Victoria complaining about lack of regulatory certainty from the state government back in early 2002. Do you go along with the policies of your federal and interstate Labor Party counterparts on energy that would have the effect of costing jobs and investment to the Victorian power industry? If you do not support their policies, what are you doing to defend the Victorian power industry and to provide the sort of regulatory certainty that potential base load investors in Victoria have been seeking for many years?

Mr THEOPHANOUS — I do not know which policies of my federal Labor colleagues you are referring to, because I do not know of any policies of the federal Labor opposition that will have an adverse effect in relation to investment in base load power in this state. Indeed, I would have thought its policy of providing some certainty through an emission trading scheme would have the opposite effect.

Mr CLARK — So are you saying its policy on emission trading will not cost jobs and investment in the Victorian power industry?

Mr THEOPHANOUS — Absolutely not. If you think about it from the following point of view, Mr Clark — and I know your experience in these matters is such that you would understand and appreciate it. If we did have a national approach to the emission trading scheme, let us say we want to make an investment in a new base load power station in the Latrobe Valley, perhaps in a position where bench 3 and 4 are in what was going to

be Loy Yang C, and we are trying to attract substantial investment in the order of \$2 billion. What are the obstacles to that? The first is that no-one will put \$2 billion into a power station when they do not know what their emission obligations will be going forward. The federal coalition does not provide any certainty in relation to those obligations. The federal Labor opposition is prepared to provide that certainty. You may say there is a cost associated with an emission trading scheme, but I can tell you that potential investors, including banks, would rather know exactly what that cost will be going forward through a definitive scheme than have the uncertainty of not knowing whether — —

Mr CLARK — The uncertainty is only because your side of politics is threatening to impose restrictions.

Mr THEOPHANOUS — What sorts of restrictions are you talking about? A national emission trading scheme is not a restriction. It is a way of being able to get credits when you do reduce your emissions and being able to trade those in circumstances where you are more successful than competitors. It is a very successful scheme which has been applied in many other countries around the world, and it has not resulted in the collapse of their energy supply systems. What it has done is provide certainty for those energy supply systems around the world. What we now have is this fool's paradise, where the bury-your-head-in-the-sand approach of your federal counterparts will not allow for that large-scale investment in the Latrobe Valley, whereas the certainty of emission trading in the future will allow for that.

Mr CLARK — That is not what the draft Allen's report says.

Mr THEOPHANOUS — It is not a draft report.

Mr CLARK — I think you are trying to ignore it.

Mr DONNELLAN — As mentioned on page 114 of budget paper 3, a secure and cost-effective energy supply is a priority of the Bracks government. Can you advise the committee about the impact of the four-year price path agreed in December last year?

Mr THEOPHANOUS — I am sure the four-year price path is something which the opposition does in fact support. I am fairly certain that Mr Forwood supports it. I remember when we announced it that Mr Forwood made some negative comment about it publicly, but I think he has been convinced since that it is not a bad idea.

Mr FORWOOD — It was my idea in the first place.

Mr THEOPHANOUS — It was Mr Forwood's idea, according to Mr Forwood.

But in any case, this agreement is an Australian first. It is a first for Victoria, but it is also a first for Australia, and it is the envy of many other states. Just to put it into some context for the committee, we have recently seen electricity price increases in South Australia in the order of 25 per cent. While this was going on, in Victoria we were able to negotiate a four-year price path which will result in electricity price reductions in real terms to Victorian consumers of up to 5.6 per cent over the next four years. If you think about this, it means that in 2003 you paid a certain amount for electricity; and we can say with certainty that in 2007 consumers will be paying up to 5.6 per cent less in real terms for their electricity. That is an achievement which has been locked in.

The way we did this was that we were aware there were relatively low wholesale prices of electricity at the time and we used that fact to lock in long-term reductions in electricity prices going forward for Victorians. I dare say that even our Queensland colleagues who are here with us today do not have a four-year certainty in prices on electricity going forward, and to do this in the context of a privately owned system is a real achievement in Victoria.

We did not stop at electricity. We also did it for gas. Gas has some special problems in relation to margins. There will be a slight increase in gas in this first year, but then the prices are locked in at or near CPI for the remaining three years as well. More importantly from the point of view of the committee, what this does is allow competition to occur under that level. So it is almost like having a maximum uniform price and then being able to compete under that maximum price. When they are approached by various firms to switch their provider of energy, I would encourage all consumers to ensure the first question they ask is, 'How does this package that you are offering to me compare with the government's four-year negotiated price path?'. If it does not beat the government's four-year negotiated price path, it is not worth taking up.

The CHAIR — You might like to circulate that via the email system to all members of Parliament and electorate officers.

Mr THEOPHANOUS — I would be happy to do that, and I would also be very happy to make it available to the committee, Chair.

Mr FORWOOD — I want to briefly touch on wind farms. You would be aware that the federal member for McMillan, Christian Zahra, has introduced a private member's bill in the federal Parliament designed to say that unless a wind farm project has local council approval it should not have access to renewable energy certificates (RECs). An easier way would be for the government to say that it would not proceed with wind farms over 30 megawatts unless there was local council support. Do you accept Mr Zahra's proposal that no wind farm should proceed except if it has local council support?

Mr THEOPHANOUS — I am aware of Mr Zahra's opinion on this. I am also aware that the federal opposition has a view about an expansion of such certificates and their availability, because it supports an expansion of the MRET scheme, and that would make more of these certificates available for wind development in this state. That is the official position of the federal opposition in relation to this question. So far as the planning issue is concerned, yes, Mr Zahra is a strong advocate for his local community. He has certainly lobbied me in relation to this matter on a couple of occasions.

Mr FORWOOD — But you did not listen to him.

Mr THEOPHANOUS — I went down and spoke to the local community and the local council in East Gippsland and explained the government's position on this, which remains that we want to get wind development up in this state. We have introduced a range of measures to ensure that that wind development occurs in appropriate locations through new planning guidelines and processes, and we are confident we will be able to protect the landscape and other aspects of the environment by choosing suitable locations for the development of new wind farms. But, Mr Forwood, the problem we are going to have with wind farms is again a creation of your federal colleagues, because your federal colleagues have essentially said to the wind farm industry that they are not interested in providing new RECs, as you have called them, renewable energy certificates, beyond the current MRET scheme. What that means is that whilst there are a number of projects around the state which will go ahead as a result of existing arrangements, it is going to be very difficult to develop new wind farms going forward, or other sources of renewable energy, unless there is a change of government at the federal level or a change of heart in your own government.

Mr FORWOOD — Sorry, just to finalise that topic, I take it you are aware that Mr Zahra's bill was seconded by Mark Latham, and the fact that you are disregarding it, I suppose, speaks volumes for that. Do you believe the Portland wind farm will now proceed and with it the blade manufacturing plant?

The CHAIR — The original question was in relation to accepting Mr Zahra's proposal. That is Portland, which is not Mr Zahra's proposal.

Mr THEOPHANOUS — It is on the other side of the state.

Mr FORWOOD — I know where it is. We were just dealing with wind. He is happy to answer the question.

The CHAIR — We are sticking with supplementaries relating to the original question.

Mr FORWOOD — You are just trying to cut my questions out because you know he has only got 5 minutes more to filibuster.

Ms ROMANES — My question goes to the Workplace Relations Act and the electricity industry dispute. On page 148 of budget paper 3 it states that a key policy goal in industrial relations is to advocate for improvements to commonwealth government industrial relations policy. Could you advise the committee about the ongoing industrial relations dispute in the electricity industry and the government's efforts to resolve it within the current industrial relations setting?

Mr THEOPHANOUS — Thank you, Ms Romanes. I must say that I think this is an area in which the federal government has let Victoria down yet again, because as you know, there was a transfer of power over

industrial relations to the federal government by the previous government, so all industrial relations and industrial disputes in Victoria are handled under the federal industrial relations act — the Workplace Relations Act. So when it came to this particular dispute, you would be aware that they were in the protected bargaining period under the Workplace Relations Act, which allows them to go on strike without any recourse to anything else under that act because they are protected under that act to be able to legitimately go on strike. That is what it does.

We were faced with a circumstance where there were serious problems arising as a result of the Australian Services Union bans that had taken place with some of the shopping centres and so forth. We tried to get the federal government to intervene with the industrial relations commission, and it was not prepared to take any action whatsoever in relation to this dispute.

We eventually brought in the three unions involved, and I at that point had advice from my department that I could use the emergency powers available to me. I made it clear to those unions in no uncertain terms that I would go down to see the Governor if they did not stop their bans immediately and I would use powers under that act. As a result of that meeting the unions agreed to change their position. One of these unions has been able to negotiate settlement of some of its dispute, but all of the bans from the ASU were lifted, which were the most serious of the bans that were affecting consumers at that time.

Since then there have been some bans on new connections by the Electrical Trades Union, and those have had an effect on essentially new premises that are coming on stream, not on existing ones, which we are concerned about. We were so concerned about it that we pushed the legal limits a bit on this, and I wrote to the industrial relations commission and asked it whether it would be prepared to grant a special intervention, as it were, even though we do not have that power under the Workplace Relations Act, and whether it was prepared to call compulsory conferences following a request from the Victorian government and allow us to be involved in it. It granted that request. Those compulsory conferences took place. As a result of those conferences Commissioner Mansfield suspended the bargaining period for six weeks, and that is resulting in the backlog of new connections being gradually brought back on stream.

The dispute is not over. I do not know what will happen at the end of the six-week period, but it is an example of where we took decisive action, if you like, beyond what is our responsibility under the Workplace Relations Act. We have protected the community, and I can assure the committee I will continue to take whatever action I legally can to ensure that the community is protected under this legislation. But I do think it is a bit much that the federal government has this power — and it has been made available to it over a long period of time — but it refuses to use that power.

Mr FORWOOD — Minister, the Essential Services Commission recommended that late fees come on for late payment of electricity and gas bills, and you advised in the Parliament that the government was considering that recommendation, I think, not long ago. Have you made your mind up about what you are going to do?

Mr THEOPHANOUS — Mr Forwood, as you have indicated — and you have asked me about this in Parliament — there has been a recommendation from the Essential Services Commission. It believes the introduction of these fees will act as an incentive for certain customers to pay on time. Its argument is that there are some customers who can pay on time but do not pay on time, and as a result that adds additional cost, which is then borne by all consumers.

I understand the logic of that argument, and I need to make two points to you about this. First of all, it is not within my gift to actually direct the companies not to take advantage of this ruling by the Essential Services Commissioner and bring in late-payment fees. However, as you pointed out to me, I think in the Parliament, when we negotiated the four-year pricing agreement with the companies, it was based on the notion that these costs were embedded costs that they had going forward over the next four years. Of course, were they to introduce such a scheme, then they would have those savings which consumers would then not gain the benefit of because the price has already been set over the next four years. I am of the view that, were they to do this without government support to do it, it would be a breach of that four-year pricing path agreement, and that would allow me to use other powers in order to ensure that consumers did gain the benefit of any such introduction.

There are considerable powers that I can use to persuade them in this regard. My view is that I would far rather see an incentive scheme in place in Victoria than a penalty scheme. What I mean by that is an incentive scheme where, if you pay on time, you get a reduction in your bill for paying early rather than getting a penalty for paying late. I

think that is a far better type of scheme and would achieve a similar outcome financially from the point of view of the companies.

Mr FORWOOD — What powers are you referring to that you would use against them if they take up the independent regulator's ruling?

Mr THEOPHANOUS — I have powers under the safety net to set prices, Mr Forwood.

Mr FORWOOD — So what you are in fact saying is, despite the fact that the independent regulator has determined that the retailers be allowed to charge fees for late payment, you will use the big stick approach to ensure that they do not?

Mr THEOPHANOUS — I tell you what, I am happy to see that you, Mr Forwood, on behalf of the opposition, are advocating late-payment fees for consumers of electricity in this state without any benefit going to the broad group of consumers, and for the benefit to be simply something which the retailers — —

Mr FORWOOD — You know that you cannot misrepresent my position, and that is not my position. The issue is — —

The CHAIR — You also know that you are not to misrepresent what the minister has said, so can we clear the air? I think the matter has been attended to.

Mr FORWOOD — No, it has not.

The CHAIR — You want a supplementary on this, and you are not to put words into the minister's mouth.

Mr FORWOOD — He was putting words in my mouth. I want to finish the issue.

The CHAIR — Right, grow up both of you.

Mr FORWOOD — Don't you tell the minister to grow up!

The CHAIR — I am telling you to stick to the original point, which was late fee payment and the Essential Services Commission, and if you have a supplementary in that regard it can be a supplementary and not an interpretation of what the minister has said.

Mr FORWOOD — Right. Do I take it from your answer, Minister — perhaps you could clarify your answer to the extent necessary to enable me to understand — that you are saying you will take no action at all unless the retailers decide to implement the Essential Services Commissioner's recommendation?

Mr THEOPHANOUS — Mr Forwood, let me explain to you, first of all, that at least some of the retailers are actually not even wanting to bring in late-payment fees. But in the case where — and without specifying which one or ones — a retailer did want to do something like this, I can assure you that we would enter into significant and fruitful discussions with them, as we always do, in order to ensure that the interests of the community are upheld, as you would expect me to do.

The CHAIR — On another very interesting topic, Basslink, could you outline to the committee progress on Basslink and where we are up to with time lines on that?

Mr THEOPHANOUS — The Basslink project is of crucial importance to this state. It is a massive piece of infrastructure with a huge investment profile associated with it of something in the order of \$700 million, so it is a very large project. It will create 550 jobs during the construction phase, and most of those jobs will be in regional Victoria. It involves the laying of, I think, the longest undersea cable in the world, and the *Giulio Verne* in Italian — in English, the Jules Vern — is currently laying that cable across Bass Strait. It has to do three trips in order to bring sufficient cable to be able to bridge the strait.

We really need to have this project completed by November 2005, ready for the peak load that we get over the summer period of that particular summer, because unfortunately, despite the best efforts of everyone to reduce energy consumption, and certainly of the government, peak energy consumption continues to increase at an

exponential rate, mainly because people are buying more and more airconditioners. Basslink will partly be able to assist during that peak period during the summer months. We need to have it on stream by November 2005. I understand it is on track for that delivery then. It will be able to deliver 600 megawatts of power into Victoria, but importantly it also allows us to send back to Tasmania 300 megawatts of electricity as well. So when we have our base load stations running and there is an excess of supply — and as you know you cannot turn off a big base load coal-fired station — then we are able to send back to Tasmania that excess capacity during those critical times, and thereby it can save the use of water out of its hydro reserves so that they can be used at critical times in Victoria. It is a very significant balancing project.

Ms GREEN — Just on that point of increasing demand in relation to airconditioners — —

The CHAIR — That is not on Basslink.

Ms GREEN — The minister did refer to it, and I was going to ask: in terms of the 5-star energy rating coming in with new housing, do you anticipate as energy minister that that will curtail demand?

The CHAIR — A quick yes or no answer.

Mr THEOPHANOUS — Obviously the 5-star program is a hugely important program, as are a range of other measures we are introducing to reduce energy consumption, and that will have an effect but not enough so that we do not need Basslink.

Mr FORWOOD — Minister, you are aware, of course, that SPI has been successful in its approaches to purchase TXU. Do you have a view about the private re-aggregation of the electricity system?

Mr THEOPHANOUS — Yes, I obviously do have some views about this, Mr Forwood. I am not sure that this is the best forum to express those views fully. What I can say to you is that we are reviewing this question, and not just because of the issue in relation to SPI and its purchase of TXU, but also as a result of the AGL purchase of Loy Yang. We have a set of cross-ownership rules within our own legislation under the Electricity Industry Act. They are very prescriptive rules which specify percentages of what can be owned horizontally and vertically in the system. In 2000 we changed that legislation so that, instead of it being just based on a prescriptive approach, you could vary from that prescriptive approach depending on the ACCC finding that there was not a significant reduction in competition as a result of that merger. The problem that emerged with AGL and will emerge in this purchase is that a decision by the ACCC which then triggers our legislation is not appealable to the Supreme Court, whereas a decision made by the ACCC under its own legislation is appealable to the Supreme Court. Making the regulatory change we did in relation to the AGL purchase forced the ACCC to use its own legislation. As you can see, there are a range of issues in relation to whether this particular structure is the appropriate structure for us going forward to deal with these ongoing integrations of the industry. I would say it is probably not, and we need to have a look at it a bit more closely. We are doing that at the moment, and I would be very happy to keep you informed about it.

Mr FORWOOD — I think the policy aspect of this is of vital importance to everyone. We disaggregated the electricity market, are we now going to see it re-aggregated in a different guise?

Mr THEOPHANOUS — There are two fundamental pressures. One is the understandable view of some of the retailers that they want to be able to hedge at least a part of their load in some ownership in generation. Against that is the community need that they do not capture their entire generation needs and therefore become completely vertically integrated and not subject to the same competitive pressures as would otherwise be the case. They are the two pressures that are playing themselves out in the market. As I said, we are looking at this very closely at the moment, and I would be happy to talk to you about it privately.

The CHAIR — Thank you very much, Minister. We appreciate your attendance and that of your departmental officials, who unfortunately did not get the chance to present their extensive knowledge. I thank the departmental officers in attendance and those who prepared the documentation used this morning. There will be a couple of follow-up questions which you have taken on notice, together with the questions from the Public Accounts and Estimates Committee secretariat. Thank you and good morning.

Witnesses withdrew.