

**PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

**Inquiry into budget estimates 2009–10**

Melbourne — 19 May 2009

Members

Mr R. Dalla-Riva

Mr G. Rich-Phillips

Ms J. Huppert

Mr R. Scott

Ms J. Munt

Mr B. Stensholt

Mr W. Noonan

Dr W. Sykes

Ms S. Pennicuik

Mr K. Wells

Chair: Mr B. Stensholt

Deputy Chair: Mr K. Wells

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr P. Batchelor, Minister for Energy and Resources,

Mr R. Aldous, Acting Deputy Secretary, Energy Resources and Major Projects,

Ms M. Lourey, Executive Director, Energy Sector Development, and

Mr C. O'Farrell, Chief Financial Officer, Department of Primary Industries.

**The CHAIR** — I welcome the Minister for Energy and Resources; Mr Richard Aldous, acting deputy secretary, energy resources and major projects; Ms Marianne Lourey, executive director, energy sector development; and Mr Chris O'Farrell, chief financial officer, energy sector development, Department of Primary Industries.

I now call on the minister to give a brief presentation of no more than 10 minutes — and if you can make it 5 it would be even better — on the more complex financial performance information relating to the budget estimates for the portfolio of energy and resources.

**Overheads shown.**

**Mr BATCHELOR** — As with community development, it is a great pleasure to be here, Chair, presenting the energy and resources portfolio.

We have a number of really significant and powerful challenges that are facing energy and resources, but particularly energy, in the year ahead. I suppose they have been exacerbated by the global financial crisis. The Victorian government has been a strong advocate for putting a price on carbon through a national emissions trading scheme. We need to do that to bring about the abatement objectives of the government at a state and national level.

We also need to meet the challenge of really transitioning our energy sector into a low carbon future, and to do that while sustaining substantial new investment in cleaner forms of energy. To be able to do that investors need certainty and they need the final design of the emissions trading scheme, which will all point to what that future price of carbon will be. We have to have a good design and we have to have certainty. To put it off or to have a design that will not work will place at jeopardy the stationary energy sector here in Victoria.

The other challenge that I wanted to mention is that clearly climate change is already here and happening. We have had more extreme weather events over the last couple of years — wind, high temperature, drought — and all of these have had an impact on the energy sector. We have a portfolio approach to tackling this greenhouse challenge but our biggest challenge is really to get the least cost abatement because in delivering the abatement that is required, we want to get the biggest bang for our buck for the Victorian community. We want to only really travel down that least cost abatement path. So we put a lot of effort into promoting renewable investment and energy efficiency. I suspect that will be an area that will be canvassed during the course of the discussions.

We also want to develop the potential for clean coal and for the new jobs that that will bring. The clean coal initiatives will help us use our coal resources. We have very large deposits of brown coal and we want to continue to use those but they all need to be done in a much more environmentally friendly way. With the application of carbon capture and storage, we have a strategy for near-zero emissions for using our coal deposits in the Latrobe Valley. This is not an inconsequential requirement and there is a lot of work going into supporting that abatement activity, ranging from the establishment of Clean Coal Victoria to the Otway storage trial through to developing and understanding what the regional infrastructure requirements will be in Gippsland to support a CCS network.

The climatic challenge I mentioned earlier on is managing and planning for extreme events. We have seen the windstorm, the heatwave, the bushfires and the collapse of a mine wall at Yallourn. All of these are significant new extreme weather events and they have had a big impact on the way we view the future. I guess they will be the subject of some discussion likewise.

Part of our policy strategy is to improve the outcome for Victorian consumers and we have done that by supporting a national framework for the operation of the energy market. The last phase of that is the transferring of a national consumer framework which is being developed, and we want to try to maintain the safeguards that have been developed here in Victoria. As you know, economic regulation was transferred to the Australian Energy Regulator from 1 January 2009 and we will see the establishment of AEMO later on this year. We hope to introduce the bill in the lower house in the next parliamentary week.

We are also concerned to make sure that Victorians are able to take advantage of an important feature of our energy market here and that is the really competitive energy retail market. We have the most competitive market in the world and we use this feature to drive down prices, to widen and broaden choice and to protect

consumers. This year we have started a Your Choice website and community information campaign to highlight that.

**Mr WELLS** — That is something you did oppose.

**Mr BATCHELOR** — Pardon?

**Mr WELLS** — Something that you did initially oppose.

**Mr BATCHELOR** — When?

**Mr WELLS** — In opposition, you opposed it.

**The CHAIR** — The minister, to continue without assistance.

**Mr BATCHELOR** — No, we have always supported helping consumers, always.

**Mr WELLS** — You hated the idea of competition.

**Mr BATCHELOR** — We have always — —

**Mr WELLS** — You absolutely hated the idea of competition in the power market.

**Mr BATCHELOR** — I will deal with you later!

**The CHAIR** — I can see you are trying to fire up people, but the Minister to continue, without assistance and without baiting people.

**Mr BATCHELOR** — Unlike the member for Scoresby, we think that Victoria's energy sector requires a clean future. We are working to bring about that transformation, to change the energy mix. We are doing this through strong leadership on energy policy. We have supported the formation of a national market; we have led the reform process. We have done this within the context of the strong Victorian economy. We have got plans to try to grow the number of green jobs that should be available for the Victorian workforce.

The sorts of proposals that are now being considered in the energy and resources sector here in Victoria are many; they are diverse; they are spread out over the length and breadth of the state; they involve large amounts of private investment plus a significant government contribution to some demonstration projects. But it really shows that there is a higher level of activity already under way to meet the challenges that I outlined earlier on and to make sure we have a high level of activity in both our resources and our energy sectors here in Victoria, notwithstanding the global financial crisis, and notwithstanding the uncertainty created at the national level by the delays or the failure to pass legislation in the federal Parliament establishing the emissions trading scheme.

The budget initiatives this year are important. They go towards the cost of establishing and operating the national energy market — the operator — continuing those energy reforms. There is money to better regulate mine safety following the review of the independent mining warden into the Yallourn mine collapse. There is money to facilitate the process to bring on our second large-scale solar power station in Victoria. Of course that project has been boosted by the announcements in the commonwealth budget of recent times. And there is money to undertake a study of the infrastructure needs in regional Victoria, in Gippsland in particular, to identify what the infrastructure gaps and shortages required to meet the continued use of our brown coal in a carbon-constrained future.

**The CHAIR** — I would like to begin by asking about the solar investment program that you mentioned in your overhead, but it is also mentioned on page 350 of budget paper 3. You have also given us some details on page 4 of the departmental response to our questionnaire. I would like to ask you how this new project fits into the overall strategy for solar power that your government has got going forward.

**Mr BATCHELOR** — I think it is worth saying at the outset that one of the biggest myths around is that solar energy is free. It is not the case: sunshine is free but solar energy is very expensive. What we are trying to do is to find the best way of delivering solar energy as one of the renewable power sources that is available to

the Victorian community to use. We are already participating in the trial of new technology through the Solar System project.

In March of this year the government announced that we were prepared to provide up to \$100 million, subject to matching funding from the commonwealth, in an effort to bring forward a second large-scale power station to be fuelled from the sun. In this year's budget we committed a million dollars to facilitate the tender process to making this new large-scale solar generator a reality here in Victoria. The federal budget last week committed a billion dollars for solar energy. Once again Victoria has led the way and we are well placed to participate with the commonwealth through its grant program to bring further funding to Victorian initiatives.

We are doing this because we want to change the energy mix. We see a role for large-scale solar. The solar power stations we are talking about in our initiative, and what the commonwealth is talking about, are some of the largest in the world. We believe that this is the best way to bring forward demonstration programs that will achieve a number of objectives.

The first is to show that these sort of power stations are viable at the large-scale. We want to take them out of the laboratory and the small-scale pilot level to very large-scale, industrial-scale demonstration projects to give others the confidence to follow with further investment here and indeed in other places around the world. This initiative we have put in place will attract international interest — it already has. The public servants who are responsible for administering this have already embarked on a promotional campaign to take the details of our program — that will now be topped up with the details of what the commonwealth is offering — to other places around the world.

On top of that we are also doing other things in this solar space. We have already committed \$50 million to the photovoltaic solar power station that has been developed for the north-west of the state. That is the first of the power stations. We are developing a solar atlas that will help those companies that want to follow on from the first power station, that want to develop or want to participate in the tender.

We have provided some \$6 million for research into organic solar cells. This is a really interesting piece of technology that will hopefully in the years ahead develop a step-change in solar technology to go to a new form of technology that enables the generation of solar power from material that is effectively embedded within a sheet of plastic.

**The CHAIR** — Is it like banknote printing?

**Mr BATCHELOR** — It actually uses the note printing facility out at Craigieburn to print the material. There are trials being undertaken — not of printing, because they have demonstrated they can do that, but what its effectiveness is in various circumstances. The long-term application looks to provide it as a film that you would provide over the top of building materials for roofs and walls or other large areas. It can be produced at a fraction of the cost of PV panels. Hopefully this will provide the breakthrough to bring down the establishment costs of solar generation.

**The CHAIR** — I just wanted you to take on notice perhaps a clarification, as mentioned on page 4 of the questionnaire, in regard to this program you have just talked about. You have given the committee the approximate cost for renewable technology for wind generation, geothermal and large-scale solar. You did not give us the cost per megawatt hour for small-scale domestic solar. Can you provide that to us?

**Mr BATCHELOR** — I can. I will do that formally, but it is in the order of about \$400 a megawatt hour. It is the most expensive form of energy that is available here in Victoria. That is one of its disadvantages. That is why we have put money into this research and development to try to produce this step-change in the technology.

**Mr WELLS** — I would like to refer you to budget paper 3, page 203, bushfire mitigation cutbacks and the government's goal of encouraging best practice behaviours in the energy industry and your slides about future challenges. I also refer you to recent media reports that the government in 2005–06 rejected proposals by Powercor and SP AusNet to underground powerlines in fire-prone areas and increase vegetation clearance around powerlines. I also refer you to a media release issued by your predecessor on 20 February 2006 in which he disclosed that he had written to the ESC appeals panel opposing the funding that the power companies had sought in order to carry out this work and claimed credit for the rejection of this funding.

Why did the government decide to intervene to put pressure on the independent appeals tribunal? Was the Treasurer involved in deciding to oppose this funding? Was this decision made because the government gave a higher priority to being able to boast about power price reductions than it did to protecting Victorian lives? What are you doing during the estimates period to find out and make public what went wrong and to make sure that government interference like this which puts Victorian lives at risk never happens again?

**Ms MUNT** — Chair, I cannot find the relevant reference on page 203.

**The CHAIR** — I just want to make a comment on the question. I thank Mr Wells for his question. It does not seem to be related to the budget estimates, particularly in terms of past programs and what is dealt with in terms of annual reports and looking at those. Insofar as any of that relates to the budget estimates going forward in relation to the minister's portfolio in dealing with power companies, I am happy for him to answer it, but I myself really cannot see how he could possibly answer it in terms of his portfolio.

**Mr WELLS** — Through the Chair — —

**Mr BATCHELOR** — I am happy to answer. This might short-circuit some squabbling over there amongst yourselves.

**The CHAIR** — I think you need to talk to me.

**Mr WELLS** — I just said, 'Through the Chair'.

**The CHAIR** — But it is not, 'Through the Chair'. It is, 'To the Chair', because you have to address me in terms of what you were trying to clarify.

**Mr WELLS** (to The Chair) — There are two points to be made. I have to say we are getting sick and tired that every time there is an issue there is a deliberate attempt to shut down opposition questioning. It just seems to be a deliberate strategy that you and the Labor MPs have during this process. In answer to your question, the minister spoke about climate change and extreme weather events.

**Ms MUNT** — I apologise for speaking!

**The CHAIR** (to Mr Wells) — That comment I think is totally gratuitous.

**Mr BATCHELOR** — Ridiculous.

**Ms MUNT** — And offensive.

**The CHAIR** (to Mr Wells) — I do not seek to close down anything. I only seek to make sure that this is a budget estimates hearing. Insofar as questions are asked about government programs in the past or government decisions in the past or about personalities in the past which I judge of little relevance to the budget estimates then I will so judge. I am not particularly interested in whether it is to do with the government or the opposition or whatever. I am only interested in making sure that this committee keeps to its mandate in regard to the budget estimates. You have given your comments. The minister to answer insofar as it relates to the forward estimates and his portfolio.

**Mr BATCHELOR** — Can I just say at the outset that I absolutely reject the comments made by Mr Wells. They are factually wrong, they are politically motivated and they are seeking to make political mileage out of a very difficult set of circumstances that Victoria faced. He should be ashamed of himself for trying to politically exploit the bushfires.

**Mr DALLA-RIVA** — You are trying to cover it up.

**Mr BATCHELOR** — That is the first time that I am aware that anyone has tried to do it. It is a rather grubby tactic.

**Mr WELLS** — Hang on a minute. Did your government intervene with an independent process? Did you intervene with the independent process?

**The CHAIR** — The minister to answer. Mr Wells, you are out of order. The minister to answer, without necessarily making any commentary or trying to provoke the members of the committee.

**Mr BATCHELOR** — I am not trying to provoke them; I am just trying to set the record straight. There was some comment — —

**Mr WELLS** — So are you going to answer my question, then?

**The CHAIR** — Thank you, Mr Wells!

**Mr BATCHELOR** (to Mr Wells) — If you could just be quiet, you will hear.

**Mr WELLS** — Answer the question.

**Mr BATCHELOR** — I am about to, but you keep interjecting. There have been some recent media reports, on 17 and 18 May — in the *Sunday Age* and followed up in *Monday's Age* — claiming, as is being parroted here by the shadow Treasurer — —

**Mr WELLS** — Paraphrased.

**The CHAIR** — Without help, thank you.

**Mr BATCHELOR** — — that the government knocked back requests for expenditure by the electricity distribution companies to reduce bushfire risk. There are two issues that were actually described in the report. The first relates to the need to comply with electric line clearance safety regulations, and the second relates to a proposal by Powercor to spend some \$26 million in the five years from 2006 to commence undergrounding in unspecified areas of Victoria, but presumably in the areas of highest fire danger. The Leader of the Opposition jumped in here; he clearly demonstrates he does not know what it is about. He said — —

**The CHAIR** — On the question, Minister.

**Mr WELLS** — What about sticking to the facts rather than getting into — —

**Mr BATCHELOR** — I am.

#### **Members interjecting.**

**Mr BATCHELOR** — The government had no involvement in any of the funding decisions. The Essential Services Commission is an independent economic regulator. It is answerable to Parliament. Mr Baillieu and Mr Wells should know that. They supported the establishment of the Essential Services Commission in 2001. They probably voted for it; they supported it.

**Mr WELLS** — Your point being?

**Mr BATCHELOR** — Just a minute. I have not interrupted you.

**Mr WELLS** — Yes, you have.

**Mr BATCHELOR** — I have tried to answer this question.

**The CHAIR** — The minister to continue, without assistance.

**Mr BATCHELOR** — The Essential Services Commission is an independent economic regulator. The second aspect is the ESC in these determinations did not make any specific determination rejecting any claim at asset category level; they did not make any rejection. What this means is that the Essential Services Commission allowed the distributors a reasonable amount of expenditure to meet all of their requirements.

**Mr WELLS** — Which was how much?

**The CHAIR** — Without assistance, Mr Wells.

**Mr BATCHELOR** — Capital expenditure was increased by some 30 per cent on what they had actually spent in the previous pricing period between 2001 and 2005. The operating expenditure was 21 per cent more than they had actually spent in the preceding price determination period.

Complying with bushfires and safety regulations is unambiguously the responsibility of the distributors, and there is no evidence that they have got insufficient funds to undertake all the necessary tasks in this area. In fact the distributors' actual expenditure in 2006 and 2007 was lower than what they were allowed by the Essential Services Commission.

In 2007 alone Powercor underspent its capital allowance by \$28.8 million. That means they could have spent the entire \$26 million that they were asking for to commence undergrounding in the highest bushfire areas in that one year alone. They asked for \$26 million over five years. In 2007 they underspent what they were allowed, given that it was an increase, by more than what they asked for. I think this needs to be set on the record and understood by all, even understood by Mr Wells — —

**The CHAIR** — Thank you, Minister.

**Mr BATCHELOR** — The bushfire royal commission will be looking at all aspects of the bushfires including the causes of fires, and no doubt this is going to include issues such as vegetation management and the bushfire mitigation strategies of the energy businesses. But for the opposition and Mr Wells in particular to suggest that distributors have not got enough money to spend on bushfire mitigation or that the state government has blocked the funding is simply wrong. It's wrong, it is wrong, it is wrong, and it once again demonstrates their lack of understanding of the electricity — —

**Mr WELLS** — No, you have got that terribly wrong. What about the question whether the minister intervened with the process and actually wrote to the appeals board to knock back the \$100 million, if you could answer that part of the question? Are you going to answer that part of the question?

**The CHAIR** — No, I regard that one as something which can be asked in the house. Ms Huppert?

**Ms HUPPERT** — I would like to ask a question which relates to the forward estimates period. On page 198 of budget paper 3 under 'Departmental mission statement', it says:

DPI's role is primarily economic, ensuring that human needs are met from the state's natural resources ...

Could the minister outline to the committee plans to facilitate investment in energy during the forward estimates period so that Victoria can achieve a sustainable long-term energy future?

**Mr BATCHELOR** — As you would have seen in the penultimate slide on the sort of investments that we are trying to facilitate right across the board, we are particularly trying to facilitate sustainable investment in our energy supplies that will ensure we have got security of supply going forward and sufficient supply to meet the needs of a growing population and a growing economy.

It is really important to note what is the role of the government here. There has been, here and at other places, criticism that we have neglected capital investment in energy. People should understand that the energy system is a private utility provider. It was privatised by the Liberals and it was done in a way to make sure that the government's role was to facilitate investment but not to build power stations or powerlines.

You can see from the graph there that the way this government administers that regime that we have has been very successful in facilitating private investment here, and we will continue to do that. Since 1999 electricity capacity has been increased by over 2000 megawatts through the construction of new generation, transmission infrastructure upgrade, and the recommissioning and upgrading of existing generation. Whether it is new, transmission or improving the efficiency from the existing, we have been able to increase by 2000 megawatts. That is a very substantial increase in capacity.

NEMMCO, the national electricity market operator — soon to be replaced by AEMO (Australian Energy Market Operator) — and VENCORP, who operate Victoria's gas market, both predict it will need more investment both in gas and electricity if we are to meet our future demand. But projects are already under way.

We have seen Origin Energy's gas-fired power station at Mortlake. On completion in 2010, which is only stage 1 of this project at a cost of some \$640 million, it will deliver some 550 megawatts of new low-carbon electricity supply.

In the Otway gas project the private sector is delivering the new gas processing plant at Port Campbell, and that will supply Mortlake.

Other proposals have been around for gas-fired power stations down in the south-west. Santos has considered a gas-fired power station at Orford in western Victoria that they say will have an initial capacity of 500 megawatts, expandable well in excess of that — perhaps as much as 1500 megawatts.

We see HRL's \$750 million integrated drying and gasification combined cycle demonstration plant — IDGCC — which has been supported by a \$50 million grant from this government is to provide a 400 megawatt plant that through the use of new technology will reduce greenhouse gas emissions and be CCS-ready upon its construction.

We have got a new \$230 million Bogong hydro power station. We expect that that will commence operation in 2009. That will have a capacity of an extra 140 megawatts. We have seen the recently completed Brooklyn–Lara pipeline, which provides greater capacity for gas in Melbourne to meet the winter peak demand from new gas fields in the south-west, diversifying our supply of gas. The South Gippsland pipeline, a \$50 million project which received some Victorian government funding, is now providing gas to homes and businesses in Lang Lang and Korumburra, and will soon be providing gas to Leongatha, Wonthaggi and Inverloch. These are just some of the things that are under way.

We have got the renewable energy industry investment. There is the potential for geothermal through the very widespread level of exploration that is currently under way, and we currently have some 236 megawatts of wind generation already installed because of our government's policies and the introduction of VRET. But there is also over 1600 megawatts of wind energy in the planning stage. The Waubra project, for example, is nearly completed. It is going through its final commissioning stages and will add to the total of renewable power very substantially.

When the large scale photovoltaic demonstration plant gets under way, the second large-scale solar plant, we will have extra capacity provided of renewable energy. You can see that as the population grows and the demand grows our system, through private investment and government facilitation, is providing the capacity to meet that growing demand, but it is also transitioning us to a cleaner energy future. We acknowledge that to maintain this momentum there is more work for the government to do, and that is the job of my department in delivering that.

**Ms PENNICUIK** — Minister, I follow up from all those projects you were mentioning in answer to the previous question. I think you mentioned 236 megawatts of wind power in place already and 1600 coming on stream. A report by the National Institute of Economic and Industry Research suggests that wind power is expected to increase fivefold over the next 20 years because of the MRET 20 per cent target, and 40 per cent of that is expected to be located in Victoria.

This megawattage that you announced, how far towards that 40 per cent target would that be? You also mentioned the HRL clean coal plant that was announced in 2006. According to the department's website, it was going to start in 2007-08. What is the status of that proposed facility?

**Mr BATCHELOR** — The figures I quoted relate to what we have done to date in the wind area, and result and flow from the Victorian renewable energy target (VRET). Its target is to achieve 10 per cent by 2016. The new expanded renewable energy target at a national level will increase the target and the time frame over which it is to be achieved quite considerably.

Our position has always been to avoid duplication, especially given that the commonwealth target in the long run will be greater than VRET, and that we should fold our VRET scheme into the commonwealth scheme. You will see that the predictions and the schemes that are already in place that have been brought on by VRET will considerably increase over time under the expanded renewable energy scheme. We think for that reason it is better to fold our VRET scheme into the expanded renewable energy target at the national level.



That can be achieved either by way of initiating legislation in our Parliament or having the commonwealth cover the field in its legislation, and I am not quite sure how that will occur at this stage. In doing that we need to ensure that the certificates that have been generated under VRET can be accommodated within the commonwealth scheme. We want to make sure that renewable energy investment continues to take place in Victoria.

Most of it is wind, although there is the new hydro facility at Bogong. It has also been brought on by VRET, and I think over time we would be able to see more wind and renewable energy coming here, obviously because in a lot of places we have very good wind resources.

The other question you asked was about HRL and where it is at really, or where it is up to, wasn't it?

**Ms PENNICUIK** — Yes.

**Mr BATCHELOR** — There obviously have been some delays. That earlier prediction was based on advice from HRL. It has had some delays that have been brought about by the final site selection and some issues about where it will get its coal from. It has contractual milestones; in any event, these matters have to be resolved by the end of this year. The advice we are getting from HRL is that it is almost close to resolving both those issues, and we expect that it will have prepared a draft engineering, procurement and construction (EPC) document, which really is the vehicle to trigger the next stage.

It is its project: it has to go out to the market and get it built. This EPC stage is about to commence, and it has employed various environmental consultants to prepare all the environmental checks so the station can be allowed to proceed. I suspect preliminary site works might commence by the end of this year. But, again, it has milestone dates to meet at the end of this year. Its earlier predictions have not proved to be precise. It says the reason for that has been site selection and coal acquisition. It says it is in the process of finalising its finances and, notwithstanding the current state of the global financial crisis, it is still confident that it will get finance.

**Ms PENNICUIK** — So it has not applied for any permits or anything yet?

**Mr BATCHELOR** — No, because they have been related to sites, and they have not resolved that issue.

**The CHAIR** — Just before we go to the next one, how many megawatts will Bogong generate?

**Mr BATCHELOR** — One hundred and forty, I think.

**Mr SCOTT** — On page 198 of budget paper 3 there is a statement that climate change is a significant challenge for the department. It is widely believed that the increase in frequency of extreme weather events, such as the windstorms of 2008 and Black Saturday, has resulted from climate change. Can you explain how the government has managed these extreme weather events, and what actions are being taken to minimise the damage from such events occurring into the future?

**Mr WELLS** — Chair, he can ask that?

**The CHAIR** — Minister, as far as it relates to your portfolio?

### **Members interjecting.**

**The CHAIR** — Thank you, without assistance. I am just very conscious of the royal commission. It is not our prerogative here to make judgements about what happened in the past as far as that is concerned. Minister, you may reply so far as it relates to your portfolio, in regard to the estimates going forward, without trying to adopt the role of the royal commissioner.

**Mr BATCHELOR** — The question did relate to the wind event rather than the bushfire event.

**Mr DALLA-RIVA** — Don't go down that path — another minister went down there and he got knifed — but if you want to go down that path, please.

**The CHAIR** — Thank you very much. The minister will reply, without assistance.

### **Members interjecting.**

**Mr BATCHELOR** — The windstorm occurred on 2 April 2008.

**Mr WELLS** — That is right, and a report was done on it, but because it was in the past and not relevant to the forward estimates, we were ruled out of order.

**Members interjecting.**

**The CHAIR** — The minister, on the question, please.

**Mr BATCHELOR** — The relevance to the forward estimates is in the context of what we did in response to the windstorm event and the report and the inquiry that we instigated following it. People would be aware that the events of 2 April 2008 had the most disruptive impact on our electricity distribution network, probably in the state's history.

We commissioned a report. We asked the emergency services commissioner to review the response and to identify how we might deal with similar events if they were to take place in the future and how we might manage those more effectively.

**The CHAIR** — That is what we are interested in.

**Mr BATCHELOR** — That's right. A report was provided that made recommendations with respect to the Department of Primary Industries and also with respect to a number of other agencies. There were some 35 recommendations to improve the response of electricity distribution companies, emergency service organisations and state and local government authorities, to make sure that this integrated response going forward was better able to deal with an incident such as this, were it to happen, and to the extent that you can mitigate the impact of these types of events going forward, what steps we might take.

In terms of how it relates to the energy area, I can go through, if you have time, and report on each one of those recommendations and how we have — —

**The CHAIR** — We are happy to take some of the detail on notice, Minister.

**Mr BATCHELOR** — All right, I will do that. Essentially the most important area was how we might improve communications between the electricity distribution companies and the government for any major emergency events and how the energy distribution companies might improve the information that they make available to their customers and the wider public about power outages.

This is important because the climate scientists tell us that extreme weather events are more likely to occur with increasing frequency and increasing intensity. I think if you reflect over the last couple of years, that is hard to disagree with. We need to recognise that we have got to work with communities and relevant organisations to ensure that we are all prepared and that in doing our community development work we build community resilience so if or when these events occur in the future we are able to respond and the distribution companies are able to respond.

I take the point that you made earlier about the bushfire royal commission. We have responded to the wind events on all the recommendations, but we have also said that a number of them may well be influenced by decisions of the royal commission. The Esplin report has been made available to the commission, and many of the issues are parallel to issues that occurred in the bushfires, or it may be that the royal commission in examining what happened in the bushfires will have recommendations that will be pertinent in wind or other extreme weather events that confront the electricity supply. I am confident that the royal commission is going to deliver a set of recommendations that will enable us to minimise our risk of the impact of these events, and we look forward to its advice and will be happy to consider that when it arrives.

**Mr DALLA-RIVA** — Whilst we are on the issue of the particular matters that were raised, I refer to budget paper 3, page 199, which sets out the department's goal of managing emergencies promptly and effectively. Last year I raised this issue with you, and you acknowledged its importance. In part you said — this is from PAEC of 22 May 2008 on page 13:

What we are keen to do where there is the potential for naturally occurring events, natural disasters, to impact on the reliability and security of supply is learn lessons from those impacts. We have asked the emergency services commissioner, Bruce Esplin, to undertake a review of the circumstances of the more recent interruptions to power because of the wind event —

as you have just outlined.

As we know, Bruce Esplin completed his report in August last year but it was not made public until April this year. I understand, according to the government's published response to the report, and you have indicated, there are 35 recommendations — none have been fully implemented, with 19 recommendations in the process of being implemented, while the government intends to implement the remaining 16. I would like you to tell the committee: why did you not make the Esplin report public until April this year even though it was completed in August last year?

Do you agree that if the report had been released earlier and acted on earlier, some of the tragic loss of life that occurred in this summer's bushfires could have been avoided? What responsibility do you accept for acting or failing to act on this report, and what are the responsibilities of other ministers? What do you intend to do in 2009–10 to improve the safety of Victoria's energy supply system and its ability to cope with extreme weather events, as you have pointed out in your overheads, without plunging thousands of Victorians into darkness?

**The CHAIR** — Minister, so far as any elements of those questions relate to the forward estimates. I think the last part of the question certainly does; I have severe doubts about the earlier ones.

**Mr DALLA-RIVA** — He has held on to the report.

**Mr BATCHELOR** — We cannot prevent extreme weather events occurring; what we can do is try to mitigate the impact that they have on electricity assets and through the impact they have on communities as a result. In terms of the wind event of April 2008 which you are referring to, you made a statement that we had not implemented recommendations. That is not correct. We have implemented a number of them, and I offered to go through those that are relevant to us before. But I did say there are some that we have implemented and others that we are in the process of implementing because they take time to work through, and there are other responses that we think may be influenced by the outcome of the royal commission, and we are waiting to take those on board.

We were working with our department on the report from Mr Esplin and other departments as well, because it was not only a report that made recommendations that were pertinent to the Department of Primary Industries; there were other departments as well. A whole-of-government response was being worked up. In the energy area, I can say we have taken the recommendations and the importance of this matter very seriously, and we will continue to work through those. You say the report was delayed.

As I say, we were working across government to try to get a coordinated response from all of the agencies that were concerned, but in the energy sector we were very strong in accepting the recommendations and moving forward, to the extent that you could solve them. Others, however, we needed to work through over time, and we are still working through some. For example, there is the idea of providing information to customers with an estimation of how long they are likely to be without power supply.

The feature of the April 2008 wind event itself was different from other outages that might have occurred in recent times in that the wind impacted on local wires and poles — the distribution network — as opposed to impacting on a transmission line or there being a problem at the generation end. This resulted in, I think, in excess of 600 000 people being without power, with most of those situations being related to individual incidents.

The bulk of those related to local causes — to trees falling on local powerlines or local insulators having problems and being damaged — and it required quite an intensive response. I have just been provided with some information that there were over 665 000 customers who lost supply, but 65 per cent of those were restored to power within 5 hours and 90 per cent were restored within 24 hours. Largely, each one of those disconnections had to have an individual response applied to it, and so it was the most intensive response from the distribution companies in our state's history.

The workforce did a fantastic job responding. They worked around the clock in very dangerous and difficult circumstances to restore power. Those customers whose electricity connections were severely damaged had to

wait a little bit longer than a day for those repairs to be undertaken because of damage to bits of localised equipment. Although we have not had, and are not able to get because of the nature of emergency responses, a very detailed statistical analysis of what caused such widespread but very localised damage, the anecdotal observation is that a lot of damage was caused by a drought-affected trees falling across powerlines and on to other local assets.

**Mr DALLA-RIVA** — Just to follow up, Chair — —

**The CHAIR** (to Mr Dalla-Riva) — Just a very quick clarification. I am not interested in going back through the past. Go on.

**Mr DALLA-RIVA** — The minister indicated he is going to provide the Esplin report to the royal commission.

**The CHAIR** — He is actually going to give us a commentary against each of the recommendations.

**Mr BATCHELOR** — That is right.

**Mr DALLA-RIVA** — To the royal commission?

**Mr BATCHELOR** — No. I understand the Esplin report has been made available to the royal commission.

**Mr DALLA-RIVA** — And you are going to make available to the royal commission — —

**Mr BATCHELOR** — I am going to make available to you what the Department of Primary Industries' response has been to the Esplin committee recommendations as they relate to energy.

**Mr DALLA-RIVA** — In terms of Mr Wells' earlier question, are you going to provide the committee and the bushfires royal commission with all the documentation related to the issue that Mr Wells raised?

**Mr BATCHELOR** — Sorry?

**Mr DALLA-RIVA** — The issue that Mr Wells raised.

**Mr BATCHELOR** — To the royal commission?

**Mr DALLA-RIVA** — Yes, to the royal commission.

**Mr BATCHELOR** — We will provide whatever the royal commission wants.

**Ms MUNT** — Can I please refer you to page 350 of budget paper 3. I notice a range of funding there running from 2008–09 through to 2012–13 for national energy market reform. You have spoken about a range of energy investments — solar, gas, coal. Could you outline for the committee the current situation regarding nuclear power in Victoria? In particular, do these national reforms mean that if there was a pro-nuclear federal government such a government could set up nuclear power plants in Victoria?

**The CHAIR** — Minister, that seems to be a little — —

**Mr WELLS** — What? Where is that in the budget paper?

**Ms MUNT** — Page 350, budget paper 3, in the forward estimates for national energy market reform output.

**The CHAIR** — I am happy for the minister to answer insofar as it relates to the national energy market and the sorts of programs it might have. Leave aside the fanciful notions regarding the federal government.

**Mr BATCHELOR** — The member quite rightly points out the budget this year provides funding from Victoria as its share of establishing the new national energy market reform process. All of the states and territories which participate in the national electricity market and the attendant reform program have to provide funding to support the institutions that underpin and support the operation of the market. In a sense, part of the decision-making process is — and has been for quite sometime now; I think for the last 10 years — a systematic and conscious transference from state-based regulation and operation of the electricity and gas

markets to a national market. We have to provide that. The question related to what is the impact of that in relation to the possibilities of nuclear energy, and there are a number of issues that flow from that.

**Mr DALLA-RIVA** — What? Where is that in the budget?

**Mr BATCHELOR** — I just explained. Weren't you listening? The issue at a national — —

**Members interjecting.**

**The CHAIR** — Thank you — without assistance, please. It makes it impossible for Hansard for a commentary to go on in the background. The minister to answer in regard to the program you are talking about.

**Mr BATCHELOR** — At the national level at the moment, the emphasis is on expanding the renewable policy, as was mentioned earlier. It was also mentioned by me in cleaning up coal, but there is a reawakening and a push coming from certain quarters in relation to nuclear energy. We tried in our Parliament here to entrench the provisions of the — —

**Ms PENNICUIK** — Put it in the constitution; we will support that.

**The CHAIR** — Without assistance.

**Mr BATCHELOR** — — prohibition on nuclear activity here in Victoria.

**Ms PENNICUIK** — Make it illegal in the constitution.

**Mr BATCHELOR** — The member is right; she voted against allowing a plebiscite — —

**Ms PENNICUIK** — Non-binding; it made no difference.

**Mr WELLS** — We are going to have wide-ranging questions from here on.

**The CHAIR** — Mr Wells, thank you very much; I do not need your help.

**Mr WELLS** — He is going to keep going down this path.

**The CHAIR** — Thank you, Mr Wells.

**Mr BATCHELOR** — He interjects and raises these matters. I am at liberty to respond.

**The CHAIR** — Ignore the interjections, Minister.

**Mr WELLS** — It is the core question that should have been ruled out of order.

**Mr BATCHELOR** — We are opposed to nuclear power. We are opposed to it being a source of energy here in Victoria, but we are alone in that, in that there are others who would seek to bring it here. What I am seeking is a commitment from the member for Scoresby that — —

**The CHAIR** — I do not think that is particularly relevant, Minister.

**Mr BATCHELOR** — That he is going to vote against nuclear power sites here in Victoria.

**Mr WELLS** — I am telling you, Chair, from here on in, for the next three days, we are going to have wide-ranging questions right across the board because you have lost control of this hearing.

**The CHAIR** — Thanks you, Mr Wells.

**Mr WELLS** — You have lost control of this hearing. You have allowed him to dictate whatever — —

**The CHAIR** — Thank you. We will move to Dr Sykes.

**Dr SYKES** — Minister, I wish to have an informed discussion — —

**The CHAIR** — A question and answer, thank you, without any discussion.

**Dr SYKES** — I was going to follow the format of how the afternoon has proceeded, Chair. Minister, I wish to ask a question in relation to the issue of solar energy and net feed-in tariff versus gross feed-in tariff. I refer you to costings of what you say is Environment Victoria's policy of a 60 cents per kilowatt hour gross feed-in tariff with a maximum scheme capacity of 250 megawatts, as incorporated in *Hansard* of 2 April.

**Mr BATCHELOR** — Yes.

**Dr SYKES** — You said that your assessment of that model concluded that the cost subsidy would be \$99 per household. I also refer to Environment Victoria's response to your costing, which said your calculation of \$99 per household was wrong because you had failed to count the value of the power generated at 17 cents a kilowatt hour. You have overestimated the PV capacity factor; you had estimated 18 and it should be 13.5; and you had charged the cross-subsidy cost as a flat amount to households only instead of across all electricity customers as a percentage of their electricity use. What is your response to Environment Victoria's response to your response to its proposition?

**The CHAIR** — If you followed all that, Minister, you are a genius.

**Mr BATCHELOR** — There's no need to be insulting!

**Dr SYKES** — I will help you, Minister; trust me.

**Mr BATCHELOR** — Environment Victoria is irresponsible in putting forward propositions that fail to take into account the cost impact of their proposals. They have been caught out over the acknowledgement that their proposals, and even their amended proposals, are much more expensive for the ordinary electricity consumer than other proposals based around a net structure.

Basically what we are seeking to do is to acknowledge that, while sunshine is free, solar power is very expensive. If it is being put in place to approach abatement — and a lot of reasons are put forward as to why we should have a feed-in tariff, and the argument slips around and changes from one aspect to another — our fundamental premise is that a feed-in tariff should be both environmentally responsive but also be fair and reasonable, and that it should not create a burden on all those who do not have a solar rooftop panel because they have to subsidise the use of electricity by people who do.

The Environment Victoria proposal is a gross proposal where people are paid at a premium rate to use electricity in their households, and they are paid by other electricity users, so everybody else's bill is going to go up so that these people can get not only free electricity but be paid at a premium rate to consume electricity three to four times for what other people can buy it for, and we do not see the logic or sense in that.

**Dr SYKES** — Can I just interrupt you there: I asked three questions about some of the number-crunching rather than a philosophical argument.

**Mr BATCHELOR** — I understand that, and I am answering those questions.

**Dr SYKES** — Good.

**Mr BATCHELOR** — The issue for us is that the Environment Victoria scheme, as I was saying, created a cost burden on everybody else, but it also enabled people to make a profit out of having their PV systems installed, because it enabled people to earn more income, if you like, from a feed-in tariff than it cost to install it. Our scheme is designed to allow people to get a fair return to cover their costs of the average PV installation over a 10 year period, but it is not designed so people can put it on their holiday homes or elsewhere —

**Dr SYKES** — Or community buildings or small businesses?

**Mr BATCHELOR** — And make a profit out of it. What we are trying to do — and this is the fundamental difference between Environment Victoria's position and the government's — is we want a scheme that will encourage the uptake of PV panels, will help the household get a return over about a 10-year period and not at the same time create a huge burden on everybody else.

The figures that we have provided demonstrate that there is a very large difference between what the costs will be. If you take our net scheme, it will cost about \$10 a year at 60 cents net — that is, with the other design features that are there. If you convert that to gross, it costs about four times greater than that. If you adopt the Environment Victoria model, it would cost about \$100 — \$99. I stand by our figures.

We obtained the capacity factor from the retailers of solar panels at the moment. They claimed that that was the capacity factor of the solar panels that they were selling. If Environment Victoria is saying that is untrue, they should take that to the ACCC, because we just took it off their websites. And if they are misleading consumers by claiming — —

**Dr SYKES** — And you would never be guilty of doing that, Minister — never be guilty of misleading consumers, Minister.

**The CHAIR** — Thank you, Dr Sykes.

**Mr BATCHELOR** — — a higher capacity factor than what occurs in reality, and just for the moment, if you accept the figure of 13.5 as being the figure, it would make the cost of abatement even more expensive.

The fundamental problem is that rooftop PVs are the most expensive form of electricity generation in Victoria and they are the most inefficient. Somebody has got to pay for it, and why should those people who cannot afford it have to carry the burden and pay other people so they get free electricity use? We think if you generate electricity and you feed it back into the grid, that is the amount you should get paid for.

In trying to deliver this scheme there is a constitutional requirement that you cannot pay cash, so we have designed it so you get funded through a credit scheme — —

**Dr SYKES** — Is that true? Do you stand by that statement that you cannot pay cash?

**Mr BATCHELOR** — That is right.

**Dr SYKES** — Absolutely?

**Mr BATCHELOR** — I do.

**Dr SYKES** — Does it occur in other states at the moment, Minister?

**Mr BATCHELOR** — And we have provided — —

**Dr SYKES** — Do other states have cash rebates paid, Minister?

**The CHAIR** — The minister, to respond, please. We need to finalise this.

**Dr SYKES** — Does it occur in Victoria at the moment, Minister?

**Mr BATCHELOR** — What I am saying to you is that under a premium feed-in tariff, if you pay cash either under a net or a gross scheme, then it raises constitutional issues — —

**Dr SYKES** — Even though it applies in other states at the moment?

**The CHAIR** (to Dr Sykes) — Thank you!

**Mr BATCHELOR** — And we have provided the people who gave us that legal advice to brief the opposition, to brief the Greens and to brief other parties in the upper house so they understand what the issues are.

**The CHAIR** — I think we might leave that there — —

**Dr SYKES** — I asked a question, Chair. Can I just get one last clarification — —

**The CHAIR** — We are over time by 5 minutes, so — —

**Dr SYKES** — It is a very enthralling discussion, Chair.

**The CHAIR** — I am actually quite interested in it too personally but — —

**Dr SYKES** — Can we just go back to a very simple question?

**The CHAIR** — We will take it as an extra question on notice. You have already said what it is. If there is anything to be answered further, then the minister will take that one on notice.

That concludes consideration of the budget estimates for the portfolio of energy and resources. I thank the minister and departmental officers for their attendance today. Where questions were taken on notice, the committee will follow up with you in writing at a later date. The committee requests that written responses to those matters be provided within 30 days.