

CORRECTED VERSION ONLY

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2011–12

Melbourne — 18 May 2011

Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

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Witnesses

Mr M. O'Brien, Minister for Energy and Resources,

Mr R. Bolt, Secretary,

Mr R. Aldous, Deputy Secretary, Energy and Earth Resources,

Mr C. O'Farrell, Chief Financial Officer,

Mr P. Naughton, Executive Director, Energy Sector Development, Department of Primary Industries.

The CHAIR — I now welcome Mr Richard Bolt, Secretary of the Department of Primary Industries; Mr Richard Aldous, deputy secretary, energy and earth resources, Department of Primary Industries; Mr Chris O'Farrell, chief financial officer, Department of Primary Industries; and Mr Peter Naughton, executive director, energy sector development, Department of Primary Industries; as well as Ms Kate Lonsdale, senior business analyst, budget strategy, Department of Primary Industries, who will be operating the presentation only.

Before I proceed, I regrettably need to make some remarks about the failure of the Department of Primary Industries to provide the response to the questionnaire survey which is requested of all departments in relation to the estimates process. This questionnaire part B was due to be returned Wednesday fortnight ago. The secretariat followed up with the department and was, I think the polite term is, 'dismissed'. I wrote to all departmental secretaries who had surveys outstanding immediately after that occasion and reminded them, and most departments courteously responded as best they could.

If it is the intention of DPI to invite this committee to take a closer look at the performance of DPI in terms of its functional management, then the approach of being dismissive and discourteous to this committee is the right way to go. The committee is here to represent the Parliament and to undertake an examination of the budget estimates of each portfolio and the relevant departments. If the departments do not disclose information to the committee which it reasonably requests accurately and in a timely fashion, then we can only assume the department is seeking to frustrate the work of this committee. I just need to make it clear that this is an abject failure in performance in relation to the accountability mechanism of the Parliament in regard to estimates.

I now call on the minister to give a brief presentation of no more than 10 minutes on the more complex financial and performance information relating to the budget estimates for the energy and resources portfolio. I call on the minister to proceed now, followed by questions for the remainder of the hearing.

Mr M. O'BRIEN — Thank you, Chair. As minister, can I say that obviously I accept responsibility for actions of the department of which I am in charge of the administration. I apologise to the committee. I assure the committee there was no intent in my, or I am sure the department's, eyes to be dismissive of the committee. We appreciate the very important role that this committee has. I apologise for that oversight, and I will undertake actions to ensure that that oversight is not repeated.

The CHAIR — Thank you, Minister.

Overheads shown.

Mr M. O'BRIEN — The portfolio objectives of the energy and earth resources area are we want to make sure we have an affordable, reliable and sustainable energy supply for Victorians and want to foster the efficient and responsible operation of our earth resources.

This budget just recently handed down provides the directions to deliver on important election commitments of the government. So the government's approach in these areas, which are often technical and sometimes difficult, is that it is extremely important to do your homework. If you fail to do that, you risk spending money in a manner which does not deliver the best possible outcomes for the community — taxpayers will be asked to spend money on projects that may not deliver positive outcomes, the economy suffers and the environment suffers. We do not think that is the way to go. We want to make sure we do our homework in relation to these matters.

Turning to the state budget, you see a total budget of \$99.4 million in terms of the energy and resources part of the department. A large amount of that is for ETIS and the CarbonNet project. You can also see that a lot of the funding is fixed term rather than recurrent. There has been a significant increase in the budget this year. It was \$77.3 million in 2010–11, and that is increasing to \$99.4 million in the forthcoming financial year. In the main that is due to phasing of funding for existing programs as well as new initiatives.

Turning to the next slide and some of the budget initiatives that the government has implemented through this next financial year: the Safer Electricity Assets Fund. The Victorian Bushfires Royal Commission made recommendations in relation to the need to undertake programs to improve the safety of electrical assets in the highest bushfire-prone areas. I should make the point that it was not that it be done today or tomorrow; it was a 10-year period in the most high bushfire-prone areas and then otherwise at the end of assets' useful lives. This is not something that we can deliver on immediately, but we can make a start immediately, and that is what we

have done: \$50 million contained in this budget in forward estimates, \$50 million to improve the safety of electrical assets in the highest areas of bushfire risk. I will say a bit more, I am sure, about that issue and the processes we have in place to deal with that.

I do note that the Powerline Bushfire Safety Taskforce, which was established under the previous government, had its terms of reference changed by this government. We changed the terms of reference because the previous government did not have a \$50 million fund to improve the safety of electrical assets. This government is creating one, so we have asked the PBST to provide advice to the government on the best way in which those funds can be used to deliver the best safety outcomes, consistent with the community interest. I think it is a very positive initiative in this budget, delivering on an election commitment of the government.

We have also delivered on our election commitment to double the funding for the ETIS low-emission grants program. The former government had \$41 million in it, but nothing was in their program beyond forward estimates. We thought that was actually a good program. We are happy to acknowledge when occasionally even our predecessors did get things right from time to time. Despite the Auditor-General attacking many of the former government's renewable energy programs for failure to plan, failure to do cost-benefit analysis et cetera, ETIS was actually one of the programs that the Auditor-General essentially did give a tick to, so this was identified by us in opposition. We think it is a very important program. It is about driving renewable and lower emission energy technology, getting that seed funding in there and driving it down the cost curve so it can be commercial. That is the intent of ETIS, and we believe our budget commitment to increase that fund, to double it by increasing it by \$41 million, is a very important step both economically, in terms of our security of energy supply, and also environmentally.

We have also delivered on our commitment to support investment in geoscience. We wanted to support and facilitate investment and development in the Victorian minerals and resources sector, and \$625 000 will be allocated in 2011–12 to fund pre-competitive data acquisition, to seek expert technical advice and to employ supporting staff. I should also note, Chair, that a review of Victoria's prospectivity is being undertaken by the Economic Development and Infrastructure Committee of this Parliament. That is a reference that was provided by the government. We believe there is some important policy work that needs to be done to try to improve the opportunities to develop Victoria's prospectivity. We are very much looking forward to working with and engaging with the EDIC in terms of that particular reference they have been given.

In terms of other policies and initiatives that we are undertaking, the government has intervened in the appeal by some distribution businesses against a decision of the Australian Energy Regulator. Last year the Australian Energy Regulator handed down its findings in relation to charges that distribution businesses could levy for 2012 and beyond. A number of distribution businesses sought to challenge that decision on the basis they felt it was not generous enough to them. The government, on advice, took a contrary view and actually believed that the Australian Energy Regulator had been too generous to the distribution businesses. We saw there was an opportunity for the voice of Victorian consumers, the voice of Victorian families and businesses, that will be affected by these charges to be heard, so the government determined to intervene in the appeal against the AER's decision. That will be going forward before the Australian Competition Tribunal. I assure the committee that Victoria will be well represented at that appeal.

We are also undertaking a program review of the smart meter program, which includes a cost-benefit analysis. Obviously that has been a program that has raised considerable community concern. I suspect I will be saying a bit more about it in the course of my presentation, but it is a matter on which I think the former government made some decisions which have made things difficult for the incoming government to manage. To some extent our hands have been tied by decisions that have been made in the past. But we will be looking to see how this program can be improved. I should also say that the program review will be undertaken by the Department of Treasury and Finance. We believe it is important, given my department, DPI, had been very involved with the smart meter program, that the review of the program be undertaken externally from my department. That is being done as we speak.

We will also be engaging with the Victorian Competition and Efficiency Commission to undertake an inquiry into a number of matters which we think will be very important for the future directions of energy in Victoria. We may well combine these two inquiries in one; a decision has not been made on it yet. But we will be reviewing feed-in tariffs and how they operate. Feed-in tariffs are money that people — for example, with solar panels on their roof — get paid for the energy they put back into the grid. There are different types of feed-in

tariffs in different parts of the country. There are gross feed-in tariffs where you get paid an amount of money for every kilowatt hour you put into the grid, and there are net feed-in tariffs, as currently operate in Victoria, where you get paid for the difference between what you put into the grid and what you have taken out of the grid.

Some of these schemes in other states have proven to be financially disastrous. We have seen the New South Wales scheme, which was a gross feed-in tariff — and quite a generous gross feed-in tariff — has essentially collapsed under its own weight. The incoming energy minister in New South Wales, Chris Hartcher, has had to essentially retrospectively change entitlements that people who have been in the scheme are able to access. I do not want to make any comments about that, but I think you would probably agree that it is unfortunate if people enter into a scheme on the basis of certain terms and then those terms are subsequently changed. I am sure that that uncertainty is something that is preferable to avoid if at all possible. Of course compelling financial circumstances sometimes make that necessary.

We think that having VCEC look at the structure of feed-in tariffs — how they operate and how they can be economically sustainable — is very important. We do want to encourage people to engage in investments which help the environment, but we need to make sure that the greenhouse gas abatement that reflects is at a reasonable price. There are also equity issues that have been raised: should people have access to capital to be able to afford significant up-front investments on rooftop solar? Should they essentially have their power bills subsidised by people who cannot afford that up-front investment of capital? There are equity issues, there are economic issues, there are environmental issues, and we think that VCEC is a very well-placed body to undertake this sort of inquiry.

We are also looking to have VCEC examine regulatory barriers that may exist in Victoria to the promotion of lower emission and renewable generation. Forms of generation like trigeneration and cogeneration have been taken up in other states more so than in Victoria, and we keep hearing that there are concerns about regulatory barriers which are inhibiting the uptake of these forms of low emission generation here. We would like to have an examination of what those regulatory barriers are and can we remove them or improve them so that we can have greater incentive and encouragement for companies and individuals to invest in trigeneration and cogeneration? We are very much looking forward to that VCEC inquiry, which we expect to commence sometime in the second half of this year.

We are also looking to make Victoria a carbon capture and storage hub. Victoria has terrific brown coal assets, but I think there is a general agreement that the old way of accessing the coal to create electricity is not going to be sustainable into the future. So to ensure that that resource remains usable and viable in Victoria, carbon capture and storage is one way in which we can ensure that coal has a future, the valley has got a future but the environment is also protected. We are actually are picking up where, to some extent, the former government left off. We are great supporters of CCS. We think that it should be explored fully. We have some terrific opportunities here in Victoria, because we have not only the coal reserves but also the prospect of first-class geological storage facilities for the capture of carbon are tremendous. So when you look at what Victoria has to offer in terms of its natural resources, in terms of the proximity of the coal to where you would be looking to store it, we really have some fantastic opportunities, and the government has committed to fully exploring those opportunities.

The government also made a commitment to expand the energy saver incentive, otherwise known as the Victorian energy efficiency target. To date the VEET scheme, or the ESI scheme, has been limited to households. We think that it is very important that businesses also have an opportunity to participate, particularly small to medium enterprises. That was an election commitment we made, and we will be moving ahead with expanding the scheme to allow SMEs to participate.

I have mentioned the Powerline Bushfire Safety Taskforce, I just flag that that is scheduled to report in September this year. Another commitment of the government is to maintain the independence of the mining warden. The former mining warden was summarily dismissed by the former government. We believe that an independent mining warden is important to ensure the confidence of Victoria's minerals and resources sector, and we have reappointed the mining warden and will maintain his independence.

The CHAIR — Thank you very much, Minister. Clearly population growth, by way of demand for additional energy resources, is a significant factor in the energy portfolio, and therefore I ask: how have

predictions concerning population growth shaped the budget for 2011–12 and the out years in relation to the portfolio of energy and resources?

Mr M. O'BRIEN — Western Melbourne is now the fastest growing region in Australia. We have a lot of population growth in this state, which obviously has impacts for energy demand, which is increasing. It has impacts on peak energy demand. To digress briefly, a lot of the network infrastructure that we have here in Victoria is only used on a very small number of hours over the course of the year. We have to build transmission and distribution lines which can take those peaks — those 43 and 44-degree summer days when everyone wants to have the air conditioner on; we have got more energy-intensive devices, such as flat-panel TV screens et cetera. So we are seeing that those peaks are getting sharper, and that means that there are some significant costs involved to try to cater for energy usage at those peaks. To the extent that we are able to try to modify those peaks, not only are there benefits for the energy user, because they will not be using as much power and therefore it will be costing them less, but there are also benefits for the broader community, because if we are able to ensure that there is moderation in the peaking, it will mean that there is less pressure on network infrastructure, which of course is very expensive. Population growth is certainly very important, as is identifying that and forecasting how that might impact on power prices, the infrastructure network et cetera.

Population growth also drives growth in the extracting industries. If you have more homes built, you need more basalt, you need more gravel and you need the quarries operating more to be able to produce the raw materials which we use to build our roads and houses. Wearing the resources part of my portfolio as a hat, there are some significant impacts of population growth on the resources and extractive industries as well.

Can I say that the uncertainty that is surrounding the proposed carbon tax is an impediment to investment in new electricity generation. That is a real issue because generation generally has long time frames — 20, 30, 40 years — and where there is uncertainty about policy, it essentially scares investors from investing — —

Mr PAKULA — Stop generating uncertainty, then — how about that?

Ms HENNESSY — That's right!

Mr M. O'BRIEN — They do not know what they are going to be dealing with.

Mr SCOTT — Have a talk to Tony Abbott.

Mr PAKULA — Give Tony a call.

Mr M. O'BRIEN — I say the uncertainty which is being created out of federal policy debates is something which is having an impact on Victoria. We would like to see more generation here. We would like to see, for example, more natural gas generation, but until some of these uncertainties are resolved, it is going to be very difficult to actually have a situation where industry is sufficiently certain about what they face to be able to make those multibillion-dollar commitments that we are talking about.

Just to provide some context, Victoria relies heavily on brown coal for our electricity generation. Approximately 93 per cent of Victoria's electricity comes from brown coal, so getting this transition right is going to be absolutely essential, Chair, and we do have some concerns at the current policy direction.

Mr PAKULA — Before I ask my question, just as a point of clarification, there are some questions that the opposition would seek to ask of the coordinating minister in this department. Can I just ask if this minister is or is not?

Mr M. O'BRIEN — I'm not.

Mr PAKULA — Right. Who is it?

Mr M. O'BRIEN — Minister Walsh.

Mr PAKULA — Minister, in budget paper 3, page 73, you have an output there, the 'Low-emission energy technology program'. On page 297 there is an output 'Strategic policy briefings on energy matters to a portfolio minister', so I would assume through that process you will be implementing your election commitment to identify suitable sites for the new wind farms. I have a couple of maps here that I am happy to table, Chair, but I

will just refer to them before I table them. The yellow map, which I am happy to give you, outlines where wind farms would be no-go zones when you consider the 2-kilometre buffer zones and the property owner veto that your party has promised, and national parks. The other map shows, in red and orange, the best wind sites in the state. You can see that some of those best sites in the state hit the fence when you consider your 2-kilometre property owner veto. Given that Minister Guy has been playing politics with the locations of wind farms, can you deliver on the 20 per cent target of renewable energy coming from wind energy by 2020, which you have supported in the past?

Mr M. O'BRIEN — The government's planning policies, I would have thought, are probably matters that are probably better put to the Minister for Planning rather than the Minister for Energy.

Ms HENNESSY — You are the energy minister.

Mr PAKULA — They kind of directly impact on your portfolio though.

Mr M. O'BRIEN — The point that I would make is that the government's policy was pretty clear. We do not support wind farms in inappropriate areas. We mentioned some particular areas of state heritage such as the Great Ocean Road.

Mr PAKULA — A 2-kilometre buffer zone and property owners.

Mr M. O'BRIEN — Some members of this Parliament may believe that having wind turbines dotting the Great Ocean Road is a terrific outcome —

Mr SCOTT — No, that is a reduction to the absurd; it is a ridiculous form of argument. That is nonsense. That is not what was said.

Mr M. O'BRIEN — but the government takes a different view.

Mr PAKULA — You will not be able to put them anywhere.

Mr D. O'BRIEN — On a point of order, does that map include all the negotiations that will be taking place between any wind farm operator and an individual within the 2-kilometre buffer zone? Have you charted that on that map, or is it inaccurate?

Mr PAKULA — I do not think the member is actually allowed to ask me a question on a point of order.

The CHAIR — Mr O'Brien, thank you for your intervention.

Mr PAKULA — Valuable as it was.

Mr D. O'BRIEN — It was very valuable, because that map is misleading.

The CHAIR — I draw members' attention to the fact that a question has been asked, the minister is responding to the question and members, including the member who asked the question, are constantly interjecting. I would like the minister to complete his answer without interruption.

Mr M. O'BRIEN — Thank you, Chair. I make the point that Victoria has six operating wind farms with a total capacity of 428 megawatts. A further 28 wind farms have already got planning approval. Those 28 wind farms represent approximately 3192 megawatts of capacity — —

Ms HENNESSY — From Labor government leadership.

The CHAIR — Ms Hennessy, enough!

Mr M. O'BRIEN — It is clearly a nonsense to suggest that the current government's planning policies are reasons why that 3192 megawatts of wind capacity is not being constructed — it has already received planning approval. The reasons why those wind farms are not being constructed essentially relate to federal issues regarding the renewable electricity certificate price. I can refer to articles, one from Friday, 18 March 2011 in the *Australian Financial Review*, page 13, 'Wind farms becalmed by pricing hitch'. I will read the first paragraph:

A price on carbon will probably not be high enough to revitalise the \$4.4 billion of wind projects shelved due to the depressed price of renewable energy certificates.

It is quite clearly a case that we have got a lot of wind farms that have already gone through the planning stage. The only reason it is not being rolled out is nothing to do with the current government's planning policies, it is do with the federal government's failure to properly deal with the renewable energy certificate policies.

Mr PAKULA — Is that a yes then, Minister — you will get to 20 per cent renewable wind energy by 2020?

Mr M. O'BRIEN — Thank you, Speaker — Mr Chairman.

The CHAIR — I am not moving to the lower house.

Mr M. O'BRIEN — I almost got through the 3 hours without making that mistake. I appreciate the question. The Premier has quite clearly said that the target of 20 per cent by 2020 in the Climate Change Act is aspirational. This was the position of the former government.

Ms HENNESSY — It was your election promise.

Mr M. O'BRIEN — It was a matter where, at the time the legislation was introduced, the then opposition asked whether this was a legally binding target.

Mr SCOTT — Perhaps they had been seeking advice from the scam artists we were referring to in the last presentation.

Mr M. O'BRIEN — The answer, clear as a bell, from the government was no, it is not a legally binding target.

Mr PAKULA — The first time I have heard you quote the Premier with approval.

Members interjecting.

The CHAIR — Minister O'Brien, I had a very loud series of interjections on my right and I could not hear your concluding remarks. Would you like to repeat them?

Mr M. O'BRIEN — Thank you, Mr Chairman. I said, to the extent that the legal position of that target is that it is not binding, it is aspirational, that is exactly the same position as our predecessors took.

Mr MORRIS — Minister, page 294 of budget paper 3 indicates that a strategic priority for this portfolio is — down the bottom of the page there — 'competitively priced and secure energy sources' for Victoria. Can you indicate to the committee how the forward estimates have been affected by the government's decision not to pay the owners of Hazelwood power station to close two units?

Mr M. O'BRIEN — When the former government announced a policy proposal to bring forward the closure of two units of Hazelwood power station, the then opposition, now the government, asked a number of questions. We asked: how much was that going to cost; where would the money come from; what was going to be the impact of it on electricity prices; what was going to be the impact of it on regional jobs; and where was the replacement power going to be coming from? None of those questions were satisfactorily answered by the former government. When I became minister I made it my task to try and find out the answers to those questions.

I should say at the outset that I am limited in my ability to discuss the details of negotiations that had taken place between the former government and the owners of Hazelwood power station, and I will respect those confidences, but what I can say is the quantum of money that would have been required to bring forward that closure was not millions or tens of millions, it was hundreds of millions of dollars, and it was hundreds of millions of dollars that the budget did not have. There had been no appropriation of anything like that sort of quantum to be able to deliver that sort of outcome. In terms of the cost, it was enormous and there was no funding for it. It would have increased power prices if it had proceeded. It would have cost jobs in the Latrobe Valley. I would have thought that this Parliament should be very conscious of the potential loss of jobs in areas such as the Latrobe Valley.

Moreover, because there has been no strategy put in place to replace the baseload power capacity that would have been lost had we brought forward the closure of Hazelwood, you would not have replaced Hazelwood with wind or solar because you need baseload to replace baseload. What would have happened is you would have replaced Victorian brown coal with New South Wales and Queensland black coal. You would have cost hundreds of millions of dollars, cost jobs, driven up prices and the environmental benefits would have been minimal, because you are simply replacing one form of coal generation with another. There was a compelling argument that led to the government taking the decision that we did to discontinue negotiations. It would have been economically and environmentally irresponsible to continue.

Mr SCOTT — Just as an aside, I am not usually a pendant, but quantum actually means the smallest measurable unit in its literal meaning. I just want to ask you a question about your plan for brown coal allocation. The Treasurer has been fighting tooth and nail for the expansion of that industry; he said you were going to do more. However, in budget paper 5 on page 158 you have not forecast any real increase to royalties; in fact I think the increase is below the rate of inflation. Why not?

Mr M. O'BRIEN — I am not aware that the government has any proposals before it in relation to the expansion of brown coal mining in this state. I understand the preamble that the honourable member for Preston made in relation to the Treasurer's comments; I am not sure that that was an accurate quote or an accurate précis of what the Treasurer has said. I think we have acknowledged that when 93 per cent of your electricity comes from brown coal, any moves to precipitously cut that out would cause massive economic, employment and disruption to our security of supply of electricity.

If I am right in reading the honourable member's mind, there was an article in the *Age* newspaper to which he may be referring. My reading of that was that the Treasurer was saying that brown coal and cheap electricity have been a competitive advantage for this state for many years. I do not know that that is a remarkable proposition. It is certainly one that I would support, and I think the facts support it as well.

Mr SCOTT — I do have a follow-up, but I also draw the minister's attention to the reference to a parliamentary committee for greenfields mineral exploration and development in Victoria. I will also ask about royalties. To provide certainty to an uncertain industry can you pledge that you will not increase the level of royalties in your first term, which was what the Brumby government pledged?

Mr M. O'BRIEN — I understand that there was a significant increase in brown coal royalties that the former government implemented — —

Mr SCOTT — Not the quantum, to use your — —

Mr D. O'BRIEN — Let the minister answer. He has got about three words out.

Mr M. O'BRIEN — So I am not quite sure what the member is suggesting — —

Mr PAKULA — We are asking about this term.

Mr SCOTT — The basis.

Mr M. O'BRIEN — Whether he is suggesting it is a case of do as I say, not as I do.

Ms HENNESSY — Can you rule it out?

Mr SCOTT — You are avoiding the question.

Ms HENNESSY — Can you rule it out?

The CHAIR — The minister has been asked a question; the minister has responded to the question.
Mr Angus.

Mr SCOTT — No, he has not; he avoided answering the question.

Mr ANGUS — I refer the minister to budget paper 3, page 294, where there are a number of key strategic priorities identified, one of which notes that a strategic priority for the portfolio is to enable the energy sector to

adjust to carbon constraints. Minister, can you please advise the committee what is the government's plan to ensure that programs to support energy efficiency and renewable energy are not simply driving up costs to the budget and the costs of electricity with no abatement effect?

Mr M. O'BRIEN — I appreciate the question. Ensuring that we get bang for our buck in terms of the renewable and low-emission energy efficiency policies that we implement is absolutely crucial to this government. As a point of contrast the Auditor-General's report, which was tabled in this Parliament earlier this year, pointing out that there were some significant problems with the previous government's renewable and low-emission energy policies, provides a cautionary warning. You do not benefit the environment by throwing money at poorly planned, badly executed policies. Setting targets that you have no plan to reach does not help the environment. That is the lesson that we have had to learn from our predecessors. For that reason — —

Mr PAKULA — You have got no plan to help it whatsoever — no plans, no targets, no nothing.

Mr D. O'BRIEN — Smart meters, desal, myki.

Ms HENNESSY — Renewable energy, not a job, not a future for the Valley — —

The CHAIR — Thank you for your assistance. The minister, without interruption.

Mr M. O'BRIEN — I am happy to quote the Auditor-General, who said:

Limited planning, especially a lack of clarity about how the targets would be achieved, contributed significantly to the targets not being met. Similar limitations are evident with the 2010 solar energy targets. There was no business case or cost-benefit analysis to support the planning process.

Mr PAKULA — Your solution is just forget about it altogether; just give up.

Ms HENNESSY — Head in the sand.

Mr M. O'BRIEN — Also there are other issues that we have encountered which are a significant cause for concern. The VEET program, the Victorian Energy Efficiency Target scheme, also known as the energy saver initiative, was a program of the former government which involved companies being able to obtain credits or certificates for certain activities which would lead to improved energy efficiency, and electricity retailers were required to undertake these activities themselves or purchase certificates that had been created in order to be able to deliver an overall level of improved energy efficiency.

The concept behind the scheme is actually quite a positive one; it is one we support. In fact we will be expanding it, as I indicated earlier, to increase the participation by small and medium enterprises. It was previously just households; it will now be SMEs as well. But one real concern is that aspects of that scheme were rorted. There have been a number of suspensions of companies from participating in that program because they had engaged in activity which essentially amounts to fraud: claiming they had undertaken activities which they had never undertaken, claiming they had changed light bulbs in a residence when all they have done is give somebody a box; and coaching customers in terms of what to say if they get called up for an audit.

There was rorting of this scheme going on, driving up power prices and not helping the environment. It is another classic example of where good intentions are not enough when it comes to energy policy. So we will be tightening up — —

Mr PAKULA — Good intentions are a good start, though.

Mr M. O'BRIEN — We will be not only expanding the scheme; we will be tightening it up significantly.

Mr D. O'BRIEN — It is not where you start; it is where you finish.

Mr M. O'BRIEN — We really believe that compliance with these schemes is important because the environment does not benefit, the economy does not benefit, families and households do not benefit if there is rorting going on. We are very keen to make sure that the VEET scheme does have a bigger role to play in terms of promoting energy efficiency, but we want to crack down on the rorts.

Ms HENNESSY — Minister, I refer to your presentation and budget paper 3, pages 73 to 74. We have an output initiative called Safer Electricity Assets Fund of \$50 million. Your government has repeatedly said it will implement every recommendation of the Victorian bushfire royal commission, including undergrounding of all SWER and 22kV electricity lines in Victoria. But recently, on 2 May, the Powerline Bushfire Safety Taskforce reported that the cost of undergrounding all of these lines would result in each and every Victorian household paying an extra \$1180 a year for the next 10 years — that is on top of their existing electricity bills. That is at least more than \$11 000 extra per household over the next 10 years. So, Minister, will you now rule out undergrounding of powerlines?

Mr M. O'BRIEN — I am not sure how the royal commission would feel about being verbally by members of this committee, because let me read out what the recommendation of the bushfires royal commission actually was. No. 27 reads:

The state amend the regulations under Victoria's Electricity Safety Act 1998 and otherwise take such steps as may be required to give effect to the following:

the progressive replacement of all SWER ... powerlines in Victoria with aerial bundled cable, underground cabling or other technology that delivers greatly reduced bushfire risk. The replacement program should be completed in the areas of highest bushfire risk within 10 years and should continue in areas of lower bushfire risk as the lines reach the end of their engineering lives

So putting that recommendation not in context but actually accurately reflecting what it says, I can say this government is committed to implementing that recommendation. We have put \$50 million in this budget into the Safer Electricity Assets Fund — \$50 million that no other government has put in. We are determined to work with the Powerline Bushfire Safety Taskforce and with the community to improve the safety of electricity assets in the areas of higher bushfire risk.

Ms HENNESSY — Just on a point of clarification, Minister, can you confirm whether the associated costs will be passed on to consumers in their electricity bills?

Mr M. O'BRIEN — The government will be considering the Powerline Bushfire Safety Taskforce's report once it is received. The costs of networks are always part of electricity bills, but the government has also created the Safer Electricity Assets Fund with \$50 million to ensure that there is money there to start undertaking this very important work where people's lives are at risk. Chair, I can say the only reference to undergrounding that I have been hearing from members of the opposition relates to Brunswick. There seems to be more of an interest from members of the opposition in undergrounding powerlines in Brunswick than there does in undergrounding powerlines in areas where it actually saves lives.

Mr PAKULA — You are the one that said you want everyone to be able to live in Malvern. That was in your maiden speech.

Members interjecting.

Mr D. O'BRIEN — They do not like it when they get the full, accurate picture put on the table, just like that misleading plan.

Ms HENNESSY — If only we could all live in Malvern. Every Victorian family — \$11 000.

The CHAIR — Just wait for a moment until Ms Hennessy has settled down.

Mr D. O'BRIEN — Minister, sticking with the issue of cost-of-living pressures and particularly budget paper 3, page 294, which refers to moderating the cost-of-living pressures as a priority — and I refer to your presentation this morning as well — I ask: what has the government done with smart meters since being elected?

Mr M. O'BRIEN — I thank the member for his question. The government was elected on a platform to undertake a full and independent cost-benefit analysis of the smart meter program. That is what the Auditor-General recommended when he handed down his report on this bedevilled program in November 2009. The former government did not implement the recommendations. This government is committed to keeping faith with the recommendations of the Auditor-General and implementing those recommendations, particularly in relation to having an independent cost-benefit analysis. This is already under way. As I have previously

indicated, it is being led by the Department of Treasury and Finance, and I can advise the committee that treasury and finance will be releasing a consultation paper and commencing public and industry consultation during the course of the next few weeks.

This is an issue where the public has been out of the loop, and as a result of that there is significant public disquiet and a lack of confidence in this program. As a result of that the government is determined to ensure that the public is not cut out any more. We actually do want to hear what the public and the industry believe about this program and what can be done to try to improve it. We already know the costs have blown out. We already know there have been significant issues with it. We know a number of people are very concerned about the program.

There was a terrible incident earlier this year where a person who was having a meter installed ultimately suffered an electric shock as a result of an incorrect installation. I commissioned Energy Safe Victoria, which is Victoria's electricity safety regulator, to undertake an inquiry into this matter to look at the work practices in relation to the rollouts of these meters. That report has concluded that there are improvements that can and should be made, and this government will be making them. We think people's safety is absolutely critical when it comes to electricity, and as energy minister I think it would be irresponsible not to investigate these issues where they occur, listen to the regulators and implement the appropriate corrective action. We will be undertaking that.

The reviews are currently under way. We were asked whether there was any prospect of suspending the rollout while the review had currency, while it was ongoing. Because of the arrangements that have been entered into by our predecessors, the distribution businesses are entitled to charge households a smart meter surcharge, essentially, throughout the course of this year. So even if the program rollout had been suspended, people would still be paying for it.

The other issue is that of course under the system set up by our predecessors, every Victorian is paying for a smart meter on their bill, whether or not they have one installed, so the physical act of installing a smart meter actually makes no difference to your bill, because you are paying for it whether or not it is physically installed. For all those reasons, we were not in a position to be able to suspend the rollout, and that is continuing, but we have undertaken activity to try to improve the safety of that rollout to try to restore some public confidence in the meantime. But we will be informed by the Department of Treasury and Finance program review to work out what the future of the program holds.

Mr PAKULA — Recently the Western Australian Premier, Mr Barnett, negotiated an outcome for WA to give it rights outside the 3-nautical-mile line so that WA would get royalties in commonwealth waters. Have you negotiated any kind of similar outcome for Victoria?

Mr M. O'BRIEN — There have been no such negotiations at this time. Victoria is actually very keen to work with industry and with the federal government. There is already some crossover in relation to regulation, in relation to that 3-nautical-mile limit. We have new operators and safety entities. That has been the subject of discussion and debate at the ministerial council of energy and resources. There is ongoing discussion between the commonwealth, the state and industry operators, but at this stage there are no specific negotiations regarding extending our territorial franchise.

Mr PAKULA — Are you anticipating any?

Mr M. O'BRIEN — It is not a matter that is currently before me. I think the Western Australian position is somewhat different to Victoria's, because a lot of their activities seem to cross the threshold of the 3-nautical-mile limit. For example, there is a lot of infrastructure which is actually maintained in the Western Australian part of the territory even though the extraction point may be beyond the 3 nautical miles. I think in those cases there may be arguments that Western Australia has been able to mount whereby, because a lot of infrastructure lies within Western Australian territory, they might be entitled to some royalties. Certainly if similar circumstances applied in Victoria, it would be the sort of issue we would be willing to have a look at.

The CHAIR — Thank you, Minister. At BP 3, page 294, there is a note in relation to strategic priority for the portfolio in relation to greater energy efficiency, and I ask, Minister: can you outline for the committee recent efforts to help households and energy retailers to improve energy efficiency and to maintain public confidence in such programs?

Mr M. O'BRIEN — Thank you, Chair. The Victorian energy efficiency target scheme aims to help households and energy retailers to improve energy efficiency and reduce their greenhouse gas emissions. Energy efficiency is one of those few areas in the energy portfolio where there is real potential for a win-win outcome. Where households are able to improve their energy efficiency, they use less power and that has benefits not only for them in terms of the direct cost to them but also if we can reduce or moderate the peaks of demand, it takes pressure off the whole network, so there can be a wider community and economic benefit to sound energy efficiency policies.

As we flagged as part of our election policy we are going to ensure that the VEET scheme will be extended to small and medium sized enterprises. A lot of work has gone on in relation to households in the past, because they were the only entities that were eligible to participate essentially. We think that by extending the scope of the VEET scheme to small and medium enterprises there is a lot of opportunity to improve the energy efficiency of its businesses. If they can reduce their overhead costs, it reduces electricity demand and reduces greenhouse gas emissions. But, as I have flagged previously, we need to get the scheme right; we cannot afford to have rorting. We cannot afford to have the sort of activities that we saw under the federal schemes where unqualified people were brought in to undertake activities which ultimately and tragically led to some deaths.

In expanding the scheme to small and medium sized enterprises we are also going to be toughening up the powers of the Essential Services Commission. The ESC is the body charged with regulating the scheme. They have already taken action in relation to some rorting in the past. The most recent suspension was the suspension of the accreditation of a business operating under the name of Green Alliance for 12 months for breaches of the scheme's rules. That is the fourth and longest suspension since the commencement of the VEET scheme. The concern is that there may be other instances of rorting that are happening that we just do not know about, so by improving the regulation of the scheme and ensuring there are appropriate powers for the regulator and penalties for those who cross the line, we think we will be able to make the scheme far more effective.

We want to make sure that the environment and the economy do not miss out as a result of fraud and rorting. It is not acceptable to this government, and while in a scheme of this size where people are going out to households and businesses, there is always going to be the potential for things to not be done as well as they should, we think that a lot more can be done to try to make sure that the regulations are tightened so the Victorian community gets a better outcome.

Mr SCOTT — Minister, I refer you to budget paper 3, page 73, where you have the low emission energy technology program. I also refer you to your support, though I note in today's hearing it has been aspirational, for a 20 per cent target for emissions reductions from 2012 levels by 2020, which you voted for in Parliament. Can you tell us by 2020 what proportion of Victoria's energy consumption will be derived from each of wind and solar generation in Victoria?

Mr M. O'BRIEN — If my crystal ball was working and I knew what sort of policy we would get coming out of the honourable member's friends in Canberra, we might be able to have a bit of a better idea.

Members interjecting.

Mr PAKULA — What's your plan? Stop worrying about what the commonwealth is doing. What is your plan?

Mr ANGUS — It impacts upon us.

Mr PAKULA — As does the attitude of Mr Abbott.

Mr ANGUS — Come on!

The CHAIR — Are you happy? Minister.

Mr PAKULA — I am wondering what his job is.

Ms HENNESSY — Pontificating.

Mr M. O'BRIEN — Thank you, Chair. I think I have previously flagged that the ability of Victorian industry to plan with any certainty to create new baseload generation has been severely compromised and

hampered by the uncertainty we currently have in the federal sphere. For example, TRUenergy had previously proposed to build a 1000-megawatt gas-fired plant next door to its current plant in Yallourn. That would obviously add significantly to Victoria's baseload capacity, and because it was going to be gas fired, it was going to have a significant environmental benefit compared to traditional brown coal generation.

Uncertainty has led to that scheme, that proposal, that plant, being put on hold. It is quite clear that we need to have some certainty before people are prepared to make investment decisions involving billions of dollars over 20, 30 and 40-year time frames. As much as some people may want to wish that away, the reality is that people will not invest unless there is certainty. At the moment, there is anything but.

Mr PAKULA — We would have had a CPRS two years ago if it was not for Tony Abbott.

The CHAIR — Thank you, Minister, for your reply. I think Mr Scott will, as usual, wish to drill into the response a little further.

Mr SCOTT — I note your attempt to claim credit for the 3000 megawatts of wind farm generation which is the product of Labor policies, but I wish to drill down to what actual outcomes you will get for renewable energy from your low emission energy technology program, which is clearly your responsibility and not the federal government's.

Mr M. O'BRIEN — Over the course of 2011–12 there will be a sum of some \$10.2 million that will be spent in relation to the sustainable energy research and development program, the sustainable energy pilot demonstration program, the sustainable energy Latrobe Valley Advantage Fund, the sustainable energy large-scale demonstration program and operating expenses. Work is being undertaken and a number of proposals have already succeeded.

For example, we have some at the moment in relation to bioenergy and the conversion of algal biomass to sustainable aviation fuel. That is being led by Monash University. We have an energy efficiency project known as the Controlscope Project which is being run by Daintree Networks Pty Ltd; a geothermal project, the Maryvale power project, small-scale geothermal power for the Latrobe Valley, which is being led by Hot Dry Rocks Pty Ltd; a solar photovoltaic project, printing solar cells, which is a manufacturing proposition for Victoria and is being led by the University of Melbourne Bio21 Institute; another solar PV project, development of low-cost, light-weight building integrated PV roofing materials by Specialty Coatings (Australia) Pty Ltd; a solar PV inverter with reactive power control by MIL Systems Pty Ltd; and a solar thermal project to validate, optimise and demonstrate the performance of a building integrated solar space heating and cooling system that converts a house into a solar appliance, which is being led by MACH System Pty Ltd.

Ms HENNESSY — Yes, all done under a Labor government. That is true, isn't it, Minister?

Mr M. O'BRIEN — That I think gives an indication of the nature of the projects that have been funded under the ETIS scheme.

Mr SCOTT — By a Labor policy.

Ms HENNESSY — Yes. Not this minister's work.

Mr M. O'BRIEN — Obviously the ability of those schemes to deliver on what is put forward will be one of the ways in which we will assess how successful they are.

Mr PAKULA — And your program has no funding in 11–12 at all.

Ms HENNESSY — What are you going to do? You are hanging off the coat-tails of the previous government. What are you going to do?

Mr PAKULA — Not a dollar in 11–12. Not a dollar.

Mr MORRIS — Minister, I would like to return to the Safer Electricity Assets Fund. There has been some discussion on this earlier, but can you expand on the government's plan over the forward estimates period to address the recommendations of the bushfires royal commission, and in particular can you indicate whether that will involve public consultation?

Mr M. O'BRIEN — I thank the member for his question. It would be a dreadful shame if the devastation of those bushfires was forgotten or downplayed by the community. I think we need to recall exactly what sort of hell Victorians went through with those Black Saturday bushfires. They were so devastating that a royal commission was established and took voluminous evidence from many witnesses over many weeks and months. As a result of those hearings, the royal commission came forward with a package of 67 recommendations to, amongst other things, improve the safety of the way in which we deal with bushfires in this state. I think it is absolutely essential that we bear that in mind. None of the solutions that have been proposed by the bushfires royal commission will necessarily be easy, but they are necessary.

When the former government established the Powerline Bushfire Safety Taskforce it said it wanted it to report on various ways in which aspects of those recommendations that the former government chose to adopt could be implemented. We came to office and we had a different approach. We said we are implementing the 67 recommendations. I, as minister, changed the terms of reference to reflect that. I also changed the terms of reference to reflect the fact that we had \$50 million on the table. There was no \$50 million before 27 November last year, but there is now and in this budget. As a result of that we need advice in terms of how that money can best be spent to deliver the sort of safety outcomes the Victorian community wants and is entitled to expect.

As I said, these decisions are not easy. There are always pros and cons to any particular proposal, there are various costs that deliver different outcomes. The government is determined to ensure that the Victorian community, particularly those who live in bushfire-affected areas, are given the opportunity to have their say. They live with this every day, and they deserve to be heard. The government and the Powerline Bushfire Safety Taskforce is undertaking community consultations starting next week, on Monday. They will be going through Colac, Ararat, Macedon, Whittlesea, Healesville, Bairnsdale and Benalla. I encourage members of those communities to take the time, read the PBST's papers, to understand the sort of issues that government — and not just government, but the community — is going to have to grapple with in the way in which we implement these recommendations, and let us know what you think. That is essential to ensure that the outcomes we get from this process are ones which will have the broad support of the Victorian community.

Ms HENNESSY — Minister, in reference to budget paper 3 on resources exploration in national parks and marine national parks, what is your policy on resources exploration in national parks and in marine national parks?

The CHAIR — What is the reference?

Ms HENNESSY — Budget paper 3, resources exploration.

The CHAIR — Have you got a page reference? I think we are struggling to find the reference, so I invite the minister to make a general comment if he wishes.

Ms HENNESSY — Refer to output initiatives.

Mr M. O'BRIEN — I think the best way in which I can answer the question is to note that the government's policy in relation to the matters raised by the member for Altona is the same as the previous government's policy. There has been no change.

Mr ANGUS — Minister, I refer you to budget paper 3, pages 94 to 95, the 'Government-wide initiatives'. I ask you to advise the committee: is there anything in these initiatives in the budget to get the necessary work done to allow the Princes Highway at Morwell to reopen?

Mr M. O'BRIEN — I thank the member for his question. Can I say that this is — —

Mr PAKULA — Hopefully he will be more forthcoming than the roads minister was.

Ms HENNESSY — That is right. The roads minister could not tell us when it was going to be open.

The CHAIR — I do get a little frustrated that we invite witnesses in to give evidence and then we have this constant jabbering from my right. Ms Hennessy, allow the minister to respond to a question uninterrupted for a change.

Mr M. O'BRIEN — The Princes Freeway outside of Morwell was closed in early February. Just to give the committee some background, there were some very heavy rain events at the time. Some movement had been detected and some cracking had been detected in the face of the Hazelwood mine, which abuts the Princes Freeway at Morwell, and there had been some cracking detected on the road. The decision about closing the freeway as a public safety measure was taken by VicRoads and Victoria Police as the appropriate authorities but with the advice of the Department of Primary Industries, my department. It is obviously an issue that I understand and the government understands is causing significant disruption to the Morwell community and the broader Gippsland community. That is understood.

It is a source of regret that that is happening, but I think that it is important to state what is happening and what has been done and what is being done to try to remedy that situation. We have a technical review board which consists of geotechnical experts led by Professor Tim Sullivan, who is renowned in the field. Professor Sullivan and the TRB essentially provide advice to the department and to government agencies in relation to these geotechnical issues. It will be with the advice of the technical experts that government will make decisions. It would be absolutely irresponsible to do otherwise. We understand the level of frustration, and that is why we are working to try to resolve it as quickly as we possibly can, but ultimately decisions about community safety and the strength and structure of the road need to be based on advice from our experts.

Since the original closure of the freeway a number of remedial works have already been undertaken. There has been horizontal drilling to reduce water pressure in the mine's slope. Over 30 bores have already been drilled; more are under way. These go to a depth of up to 500 metres. I suppose the positive news is that we have had some significant rain events since those bores have been delivered or put in place and there have been positive outcomes in terms of non-observance of further movement. It is one of those areas where we think that work that has been done to date is already having a positive impact on the stability of the slope and the stability of the roadway. There has also been short-term repair of holes and cracks in the Morwell main drain; that is already under way.

My department has commissioned a design study on longer term remediation of the Morwell main drain and has made it available to International Power to use it to repair the drain. Technical studies to understand the ground movement in the mine have been completed. There has been monitoring put in place in the roadway and also in the mine batters so that there can be 24/7 monitoring of movement or lack thereof in those areas. It means that we will get some very early advice if there is going to be any further issue.

An independent geotechnical review is under way. A quantitative risk assessment has commenced. One workshop has already been held; a second is scheduled for 26 May. The first stage of feasibility studies of major potential earthworks to buttress the face of the mine is complete, and I can say that relevant parties, including the Department of Primary Industries, Latrobe City Council and International Power, are actually in mediation today in terms of working out how these works can progress.

There is absolute understanding at the government level of the disruption and the frustration this is causing in Morwell, particularly also the broader Gippsland community. I want to be able to assure people that we are not letting the grass grow under our feet. Already works are in place, and we are determined to do the works that are recommended by the experts to be in a position to be able to make a decision about the fix to the road as quickly as possible.

The CHAIR — Thank you. I have a particular interest in that matter —

Mr SCOTT — Would it take as long if it were in Malvern? If everyone could live in Malvern!

The CHAIR — and I am pleased that you have been able to illuminate for the committee actually what action has been taken. We have barely time for one last question.

Mr PAKULA — I will make it quick. Minister, you have already made reference to the solar premium feed-in tariff. You committed in your election policy to introduce a market-based gross feed-in tariff scheme to replace the current solar premium net feed-in tariff scheme. Given that the current scheme is almost fully subscribed, when will your market-based gross feed-in tariff scheme be available to Victorians, and will the premium solar scheme be extended until the alternative scheme is in place?

Mr M. O'BRIEN — I am afraid the Deputy Chair has not read our election policy as closely as others. The commitment was to have the issue of market-based gross feed-in tariffs reviewed by the Victorian Competition and Efficiency Commission. That was the commitment. That will be done.

Mr PAKULA — And the second part of the question?

Mr M. O'BRIEN — In relation to the suggestion that the current premium feed-in tariff is almost fully subscribed, that is not the case.

Mr PAKULA — So it will be extended until something replaces it?

Mr ANGUS — He has answered.

Mr D. O'BRIEN — He has answered the question.

Mr MORRIS — How many goes do you want?

The CHAIR — My recollection is that the minister in his opening presentation actually addressed that issue about the VCEC review. Thank you, Deputy. Thank you, Minister. We are out of time. This therefore concludes the consideration of the budget estimates for the portfolios of gaming, consumer affairs and energy and resources. I thank the minister and departmental officers for their attendance today. It has been a useful session. Where questions were taken on notice and where there were unasked questions, 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 21 days.

Witnesses withdrew.