

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2013–14

Melbourne — 22 May 2013

Members

Mr N. Angus
Ms J. Hennessy
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Mr D. O'Brien

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Witnesses

Mr N. Kotsiras, Minister for Energy and Resources,
Mr H. Ronaldson, Secretary,
Ms S. Denis, Deputy Secretary, Energy and Earth Resources,
Mr C. Brooks, Executive Director, Earth Resources and Development,
Mr M. Feather, Executive Director, Energy Sector Development Division, Department of State
Development, Business and Innovation.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the 2013–14 budget estimates for the portfolios of Energy and Resources and Multicultural Affairs and Citizenship.

On behalf of the committee I welcome the Honourable Nicholas Kotsiras, MP, minister for these portfolios, and from the Department of State Development, Business and Innovation Mr Howard Ronaldson, Secretary; Ms Sandra Denis, Deputy Secretary, Energy and Earth Resources; Mr Chris Brooks, Executive Director, Earth Resources and Development; and Mr Mark Feather, Executive Director, Energy Sector Development Division. Members of Parliament, departmental officers, members of the public and the media are also welcome.

In accordance with the guidelines for public hearings I remind members of the public gallery that they cannot participate in any way in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the minister or his chief of staff, can approach the table during the hearing to provide information to the minister by leave of myself as Chair. Written communication to witnesses can only be provided via officers of the PAEC secretariat.

Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room. Cameras must remain focused only on the persons speaking. Panning of the public gallery, committee members and witnesses is strictly prohibited. Filming and recording must cease at the completion of this hearing and at any break during the hearing.

All evidence is taken by this committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Any comments made outside the precincts of the hearing are not protected by parliamentary privilege, including any comments made on social media from the hearing itself.

This committee has determined that there is no need for evidence to be sworn; however, witnesses are reminded that all questions must be answered in full and with accuracy and truthfulness. Any persons found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript for fact verification within two working days of the hearing. Unverified transcripts and PowerPoint presentations will be placed on the committee's website immediately following receipt, to be replaced by verified transcripts within five days of their receipt.

Following a presentation by the minister, committee members will ask questions relating to the inquiry. Generally, the procedure to be followed will be that relating to questions in the Legislative Assembly. Sessional orders provide a time limit for answers to questions without notice of 4 minutes, while standing orders do not permit supplementary questions. It is my intention to exercise discretion in both matters; however, I do request that the minister answer each question as succinctly as is reasonable, recognising that many responses may include a degree of complexity. I ask that all mobile telephones be turned off or turned to silent. I now call on the minister to give a brief presentation of no more than 10 minutes on the more complex information that relates to the energy and resources portfolio. Welcome, Minister.

Overheads shown.

Mr KOTSIRAS — Thank you, Chair. I will start off with the first slide. The energy and earth resources sectors make an important contribution to Victorians and to Victoria. In 2011–12 the earth resources sector contributed \$7.45 billion to Victoria's gross state product. That is around 2.2 per cent. This includes the production value of minerals and extractives of approximately \$2 billion, excluding brown coal, and \$58.6 million on exploration.

Victoria's earth resources include brown coal, petroleum and mineral sands. They are used in electricity generation, petroleum refining, industrial processing and manufacturing and of course in construction materials.

The sector employs over 7700 people across Victoria, many in regional Victoria. In addition to those numbers there is downstream employment, both directly, in industries that use minerals such as manufacturing, and indirectly, in service industries such as catering and cleaning. The energy sector employs approximately 14 000 people, according to the ABS figures in 2011.

In 2012 Victorian generators produced around 54 500 gigawatt hours of electricity; this is approximately 28 per cent of NEM generation. Of this around 93 per cent was generated from brown coal, 1.5 per cent from gas and just over 5 per cent from renewables — hydro, wind, biomass and solar. The Victorian energy sector provided electricity to 2.33 million residential customers and 330 000 business customers.

Victoria consumed around 265 petajoules of natural gas in 11–12, which is equivalent to nearly 25 per cent of Australia's total natural gas consumption. In Victoria about 1.82 million residential customers and 52 000 business customers benefit from connection to gas.

Turning to slide 2, the objectives of the energy and resource portfolios are: safe, secure and sustainable energy for Victorians and to foster the efficient and responsible development of Victoria's earth resources — in other words, a common-sense approach for competing land use.

Turning to slide 3, the major achievements in the energy and resources portfolio during 2012–13 have included bringing forward the benefits to consumers from the smart meter program, including working to bring consumers the option of flexible pricing, which will come into effect in the latter half of 2013. This will enable many consumers to minimise their electricity bills. The Switch On campaign was launched to help Victorian households take charge of their electricity bills and to ease the cost of living pressures. This campaign has initially featured energy-saving tips and tools and of course in the future will also include flexible pricing. The government introduced the energy legislation amendment bill to close a legal loophole that would have cost Victorian consumers up to about \$94 million in additional electricity supply charges. The amendment stops network operators avoiding revenue cuts for failing to meet their performance targets.

The powerline bushfire safety program has successfully rolled out three backup generators and there are another two which will be installed by the end of this financial year, to be followed by phase 2, which will be another 20 in regional Victoria. The generators will ensure that vulnerable people are protected from unexpected power outages.

Victoria has also committed \$45 million — and the commonwealth has come on board and also committed \$45 million, so a total of \$90 million — for the advanced lignite demonstration program. Victoria is managing the program, which intends to fund the development of technologies to reduce emissions from coal-fired generations and to ensure the future of brown coal.

A new, fairer solar feed-in tariff scheme, which commenced this year, is also in legislation which is before the house. The government has committed to stage 2, a \$10 million commitment to the Solar Systems project in Mildura, which was launched by the former Minister for Energy and Resources last year.

Turning to the next slide, the pie chart on the left shows the budget breakup between the divisions comprising the group: ESD, ERD, ERR and ETI, which make up the department, then we have the CarbonNet project, and the last group is the office of the deputy secretary and corporate support services. The pie chart on the right shows the relationship of recurrent to fixed-term funding for the group as a whole. The 2013–14 budget shows an increase of \$55.5 million compared to the 12–13 budget, which had a total of 132.9 million. This increase is driven by the impact of cash flow changes to existing programs, including 13 million for the powerline bushfire safety program, 2 million for the advanced lignite demonstration program, 33 million for the CarbonNet project and 9 million for the national partnership agreement with the commonwealth in regard to coal seam gas.

The next slide is the budget: \$31.7 million to strengthen Victoria's mining industry over four years on programs to build a strong, safe and sustainable mining industry in Victoria. Of this, 19.2 million will be directed to driving exploration and reducing barriers to investment. A strong mining industry, as you all know, does contribute royalties that benefit all Victorians, and mining does make a significant contribution to our economy. The biggest and most important contribution mining makes is in regional Victoria, where it has the potential to deliver jobs and investment.

Next week I will also be responding to the parliamentary inquiry into greenfields mineral exploration. That will be tabled in Parliament next week and that will further outline what some of this money will go towards. This program is all about cutting red tape and encouraging investment while maintaining the state's strong environmental protection. There will also be a raft of measures to boost investment attraction and to improve the flow of information about mining to the community. I think it is important that you take the community with

you before you try to implement a policy. The funding will deliver on our vision for a strong and prosperous mining industry that creates jobs and investment in regional Victoria and makes a significant contribution to our economy while respecting, as I said, the land-holders and protecting the environment.

The next slide is mining stability. Just quickly, 4.2 million over two years will go towards addressing mine stability risks in major coalmines in the Latrobe Valley. The \$4.2 million will continue to build on recent work to improve mine stability. It will address the highest risk mine stability issues as identified by the TRB — the technical review board. The government will also be stepping up on-ground oversight of mine stability and mine risk assessment. This initiative focuses on three broad areas: the first one is assessing and understanding the risks, the second is development of technical response and preparedness for incidents and the third is long-term planning.

Turning to the next slide — Clean Coal Victoria. We have announced 8.3 million in the budget to extend the funding for Clean Coal Victoria to continue its valuable work for the next four years. Victoria is host to one of the world's great brown coal resources. It has been so much a part of our history and it will continue to play an important part in our future. It is important that the government, through Clean Coal Victoria, both facilitates access to and manages the development of this strategic resource to make sure that it delivers the greatest possible benefit to all Victorians. This funding will allow Clean Coal Victoria to continue to provide strategic advice and technical advice to government.

The final slide — priorities going forward. Looking to the future the key priorities for the energy and resources portfolio remain the same: to drive responsible investment in the earth resources sector and to deliver safe and reliable power for Victorian households and businesses. In the mining sector we will be delivering on the new action plan to strengthen the earth resources industry by cutting red tape and boosting investment attraction to drive a new wave of investment and jobs in the sector.

I cannot go without mentioning the smart meters. We have to ensure that the benefits of smart meters continue to flow to consumers, and we are in the process of introducing flexible pricing in the second half of 2013. Finally, in terms of the 10-year plan for the \$750 million powerline bushfire safety program, we will continue to deliver on the recommendations of the Victorian Bushfires Royal Commission. We will work with the commonwealth in regard to the projects I have already announced, including the advanced lignite demonstration program and the carbon capture and storage facility, of which we are through the first phase now. Thank you.

The CHAIR — Thank you, Minister. We have just on an hour for questions, and I will kick off. Minister, in the context of the 2013–14 budget, can you outline to the committee examples of capital infrastructure projects in this portfolio which will be either commenced or completed in the coming budget year?

Mr KOTSIRAS — The energy and earth resources sector, or portfolio, is overseeing a variety of infrastructure projects that will deliver immediate and long-term — which provide benefits to Victorians. In some cases this is through publicly funded projects; in other cases it is through privately funded initiatives that the government is overseeing. I will give you some examples: the smart meters, where the electricity distributors are investing a significant amount of money in the rollout of new electricity meters across Victoria but also investing a huge amount of money in supporting ICT infrastructure; the powerline bushfire safety program — there is investing in backup power generators to those in need under the LIAF — the Local Infrastructure Assistance Fund; and also the upgrade of electricity infrastructure to reduce the risk of bushfires caused by electrical assets in response to the bushfires royal commission recommendations. This program also includes \$500 million of works by distribution businesses to upgrade their networks under this program.

We also have the ETIS program, which was established by the previous government in 2005, and this is encouraging the development of low-emission energy technologies that would lead to long-term benefits to the state in private sector investment and new energy developments — as I said earlier, the 15-million solar plant in Mildura. So we are providing incentives to the private sector. New resources and new energy infrastructure will come on board, and this will benefit not just Victoria but every single household.

Mr PAKULA — Minister, I want you to have a look at budget paper 3, page 234, which is the energy and resources outputs. Under the Energy and Resources heading it states that the principal requirement is to:

Develop policy frameworks and deliver programs to: ensure that consumers benefit from competitive, efficient, reliable and safe energy services; facilitate investment in coal, gas, renewable energy —

et cetera. In that context I just want to ask you about wind energy. You have a number of existing wind energy projects which received planning approval under the old VC82, and they are reaching the end of their approval period. I am just trying to understand, in that context, what the government's policy preference is moving forward. Is it for fewer, more efficient wind turbines or a larger number of less efficient wind turbines?

Mr KOTSIRAS — Through you, Chair, I say from the outset that this government supports the development of wind farms in appropriate locations. We believe the local community must be consulted; they must be taken on board. So I support the current position of the 2-kilometre zone.

Victoria, as you know, has currently 10 operating wind farms. There are 7 wind farms under construction, and there are 14 wind farms that had received approval by the previous government which have not commenced. So it is about economics; if they are viable, then they will commence them. If one were to say that this government is not supportive of new wind farms, I say, what about the ones that have approval and are just sitting there simply because the federal government — and I will not get into detail — but the federal government made a mistake with flooding the market with RECs. It is also how much electricity and what long-term contracts they can make with retailers.

So in response, there are two sources of income for wind farms: as I said, the RECs, and the sale of actual electricity. If it is not viable and if the economics is not there, then the wind farms will not be built. I will say what I said at the start: we support the development of wind farms, provided the community is consulted and they work with the local community to make sure that the wind farms are placed in appropriate places.

Mr PAKULA — So my follow-up, Minister, is — I want to focus on those that have been approved but not commenced, and you talked about the economic viability of them. In the last few years there have obviously been enormous advances in technology whereby these wind energy companies can build more efficient but fewer wind turbines, but that might not be entirely consistent with the planning approval they have already received. If we are talking about making them economically viable and getting them to commence, can those companies alter their current approval — in other words, to build fewer, more efficient turbines — without running the gauntlet of the planning process again? In other words, can their initial, current approval be amended to allow them to build fewer and more efficient turbines but under the old regime?

Mr ONDARCHIE — Point of order: I thought Mr Pakula would have availed himself of the opportunity to ask the planning minister that question, given that it is a planning matter he is asking about this morning, Chair.

Mr O'BRIEN — Further to the point of order.

Mr KOTSIRAS — In the interest of fairness, I am happy to respond to Mr Pakula.

Mr O'BRIEN — The minister is happy to respond, but I would have said it was seeking an opinion rather than factual information.

Mr PAKULA — I did not ask for an opinion at all.

The CHAIR — Order!

Mr O'BRIEN — You are asking a hypothetical question.

Mr PAKULA — No, I asked him: can they be — —

Mr ONDARCHIE — It is a planning matter.

The CHAIR — Order! It is only 9.20; let us all just cool down. I doubt the link to the portfolio, but given the minister has indicated his willingness to respond, I will invite him to respond.

Mr KOTSIRAS — It is right; it is the Minister for Planning, but I am happy to respond to Mr Pakula. I have the permits currently. If they wish to change, they would have to go through the process again. Currently if they have a permit they wish to change, they have to go through the whole process, and, from what I understand, the 2-kilometre rule will come into effect. But, again, it is up to the Minister for Planning.

Mr ANGUS — I refer the minister to budget paper 3, page 235, under the performance measure, ‘Exercise strategies for maintaining security of electricity and gas supply’. Minister, I am wondering if you can advise the committee what action you or your department have taken to respond to increasing levels of industrial action in the Latrobe Valley that may threaten Victoria’s security of supply?

Mr KOTSIRAS — Members of the committee will be aware that in recent times the level of industrial action in the Latrobe Valley has escalated. Industrial action has occurred this year at the Loy Yang B and Yallourn power stations. These disputes are led by the CFMEU, which I believe are now trying to flex their muscle, and they are clearly looking to spread their industrial thuggery from the building industry into the power sector. As Minister for Energy and Resources, I have powers should there be a threat to supply, but only if there is a threat to supply. If there is a potential threat to supply, I do not believe I have got the power to take action. That is why I have asked my department to look at legislation to ensure that Victorians are protected and are not held hostage by the unions. I support members joining a union and I support the right of the union to strike, but not if it impacts on every single Victorian.

I have to say that the former federal Minister for Resources and Energy, Martin Ferguson, supports my view. He came out, I think it was a week ago, where he criticised the CFMEU for the industrial action they have taken. According to ABC News online:

Mr Ferguson says the industrial action could threaten the future of the state’s power industry.

‘These people are exceptionally well off and they want to be very careful that they don’t endanger the future of their own employer, with a knock-on effect on the whole valley’, he said.

One has to say: why are they taking such industrial action when they are putting jobs at risk — the jobs of their members, the people who they claim to represent? They are putting those jobs at risk, and also they are telling investors from outside not to come to invest in Victoria. That is a big issue. If a former federal Labor minister can come out and criticise the union — and I have done so — it is important for all Victorians to stand up and say what is good for Victoria, what is good for the economy, and ask the union to get back and negotiate in good faith to ensure that the jobs are kept, but more so, to ensure security of our electricity supply, which is my concern.

I am hoping the department does come back to me, because I want to avert blackouts, not act after there are any blackouts; I want to try to stop them before they occur. Once I get that review or recommendation I will take the appropriate action. Again, I call on the CFMEU to negotiate in good faith, go back to the table and think about the future of Victoria.

Mr SCOTT — I would like to ask the minister a question relating to coal seam gas, and in this context I mean in a broad sense of the term, including anything like tight gas, but what I am really talking about is gas that requires hydraulic fracturing, or fracking as it is commonly referred to, to extract it. In your presentation you made reference to \$19.2 million over four years for the mining industry, and I think it relates to budget paper 3 on page 41, where there is an output, ‘Strengthening our earth resources sector’, which has \$19 million listed there — the third item after ‘Energy and resources’. What I would like to know is will any of this money fund the development of the coal seam gas industry in Victoria, including any preparatory or planning works prior to the end of the existing coal seam gas moratorium?

Mr KOTSIRAS — There has been much debate recently about coal seam gas. We have seen it at AGMs. Recently Santos held its AGM and there were many people who got up and spoke about the consequences of supporting coal seam gas. Even though there are three types of unconventional gas — shale and tight gas as well — the one that appears in newspapers is coal seam gas. Exploration of coal seam gas in Victoria is at a very early stage. There is currently no coal seam gas production and no new fracking works are taking place. The government has taken a very cautious approach because we understand the concerns of the community when it comes to coal seam gas, and it is understandable because of the likely impact it might have on the environment, on themselves, on their land and the future of their children.

Last year, in August 2012, as Mr Scott said, the former minister placed a moratorium on fracking, which is a process, and also on the issuing of any new exploration licences for coal seam gas. We should keep in mind that we currently have about 19 exploration licences: 58 per cent were issued under the former government and the rest were issued under this government. We have also banned the use of BTEX — that is, benzene and

ethylbenzene — and we made that decision because all the other states are coming together to come up with a national framework which lists best practice. We have said the moratorium will stay until the national framework is agreed to, and that will take place at the end of this month in Brisbane when all the ministers get together. We will decide whether to support the national framework, which will have best practice, and if we support that framework, then the government will decide whether to go down the track of coal seam gas exploration.

No decision has been made at the present moment. There has been a consultation period with the commonwealth over three months — from December until the end of February. There were 70 submissions, and as a result of those submissions there have been changes to the framework. That framework will be discussed at the end of this month. If we support that framework, then we will decide as a government what action to take, should we want to go down that path. At the present moment no new exploration licences have been issued, and no fracking is taking place at the moment.

Mr SCOTT — I have a supplementary. The information I was seeking, though, related to the expenditure of the funds that are referred to on page 41 that will be expended over the estimates period. If I understand your answer correctly, you were stating what the government's position is about whether fracking would proceed or not, but can you give information to the committee about whether that particular line item that I referred to — the money contained in the \$19 million, which was referred to also in your presentation — could be used to support companies or an industry that is conducting hydraulic fracturing?

Mr KOTSIRAS — Most of that \$19 million will go to the response to the EDIC report, which will be tabled in Parliament next week. I am not aware of any of that money going to coal seam gas. There is a moratorium on at this stage. That money, as I said, is to strengthen the mining industry and the mining sector. As we do year by year, there will be some times when a project does not go ahead and the money is redirected. If you are asking me where the money will go in the future, I cannot give you that answer, but most of the 19.2 million is going towards the response to the EDIC report to the Parliament.

Mr O'BRIEN — That is a matter I wish to ask you about as well, further to Mr Scott's question. I refer you to a different part of the budget papers — budget paper 3, page 235, under 'Major strategic policy briefings to the government' — and it has an expected outcome of six in relation to major strategic policy briefings. Can you update us further, given the importance of the development of a national harmonised framework on coal seam gas, on the government's policy position on coal seam gas in Victoria?

Mr KOTSIRAS — As I said, currently there is a moratorium on coal seam gas, there is a moratorium on fracking and there is a moratorium on the use of BTEX until the national framework is agreed to, and that will be decided at the end of this month. Once that is decided, the government will make a decision about whether to go ahead with coal seam gas. The national framework outlines 18 best practices. What it is saying is, 'If you go down this path, you will adhere to those 18 best practices'. States and territories have the ability to include further restrictions, but they are the minimum that you have to adhere to. As I said, ministers will discuss that framework at the end of this month. We will make a decision closer to that meeting, and then we will make a decision as a government as to what path to take with regard to coal seam gas.

It is a very emotional area, which is understandable. A number of emails I have received recently as a result were about Lakes Oil, which has nothing to do with coal seam gas, but the misinformation out there is important, and we have to ensure that the community understands what is happening. Whatever path we take, we have to ensure that the community understands and comes with us.

Ms HENNESSY — Minister, I refer you to budget paper 3, page 296, under 'Economic regulatory services' there is an item, 'New or revised regulatory instruments issued', which talks about the Essential Services Commission, legislative changes and energy regulation. My question is a more general one related to that as a policy issue. You would be aware that consumer groups have been reporting a rise in complaints around energy retailers that have signed them up to unfair contracts that purport to offer fixed-term conditions but end up hitting them with unexpected price rises during the life of the contract. You might also be aware that the Consumer Action Law Centre wrote to the chairperson of the Essential Services Commission, Dr Ron Ben-David, late in 2012 seeking a revision of the energy retail code to better protect consumers. Essentially there are terms in these contracts that allow for unilateral price variation. More generally under the Australian Consumer Law they are considered to be unfair contracts, yet they are still legally allowed in Victoria. My

question is this: will you support calls by those consumer groups and others to remove the ability of retailers to increase tariffs for consumers during the term of a fixed-term contract, to unilaterally vary prices?

The CHAIR — Before I call the minister, by my reading of the budget paper you referred to budget paper 3, page 296 — —

Ms HENNESSY — Yes, and more generally to the reference in the minister's presentation around energy price regulation.

The CHAIR — Okay, but page 296 actually refers to a Department of Treasury and Finance output.

Ms HENNESSY — Does it? My apologies. Minister, I refer then to your presentation and also make the point that the energy retail code does indeed sit within the minister's set of responsibilities.

The CHAIR — I am just making sure we are not trying to link it to the regulatory services section under DTF.

Ms HENNESSY — Certainly. I am happy just to make reference to the minister's presentation.

The CHAIR — Thank you, Ms Hennessy.

Mr KOTSIRAS — I recently met with the Consumer Utilities Advocacy Centre, which had concerns about fixed contracts. There are a number of fixed contracts. The issue is not a problem with the fixed contract, because if you sign a fixed contract, you know and understand that you are signing a tariff, an amount. It is the ones that are referred to as fixed contracts where there is a footnote down the bottom that says that the retailer might increase the tariff at a particular time. Their concern was not so much the change or the increase; their concern was that people misunderstood the term 'fixed contract', because they felt that 'fixed' means fixed.

They said, 'Is it possible to look at ways to overcome that problem?'. We have to define the word 'fixed' or to have a little box next to the footnote which outlines that there might be an increase in the tariff should something occur. I understand the concern, but I also have to say that when you sign a fixed contract, or you sign a contract, there are also other things you get as well as signing up to a contract. It is the competitive nature of the business, so some people might get tickets to the movies. They might get some steak knives, and so it is an option, and competition has worked well in this state.

Ms HENNESSY — When they get stung with a massive increase in their bill, though.

The CHAIR — Order!

Mr ANGUS — Let the minister answer.

Mr KOTSIRAS — It also comes to exit fees, which has been another issue. Members will understand that exit fees were introduced in 2000 and the \$20 pro rata exit fee was introduced in 2006. So this has been around for a while, but people need to understand what they are signing. I agree with the Consumer Utilities Advocacy Centre about the word 'fixed' — it could be misinterpreted; but I support the ability of people signing contracts depending on what their needs are and depending on what they are happy with. I am not opposed to contracts and I am not opposed to exit fees if the consumer understands that that is likely to occur, so I have asked the department to look at the term 'fixed-term contracts'.

If it is not fixed, then perhaps they should be using another term, or the consumer has to tick a box, sign, or initial the point which states that the tariff could increase at any time depending on these events. But I think, yes, consumers should have every right to get what they sign up for, and, yes, currently a lot of people misread the contract or are not aware of the contract. I have no problem with exit fees for contracts because it is choice, but I have got an issue with the term 'fixed'. To me it means fixed for two or three years.

Ms HENNESSY — Yes, I do have a follow-up.

The CHAIR — Despite the earlier situation. Okay.

Ms HENNESSY — Message received, Chair.

Given that unilateral variation of fixed-term contracts is considered to be unfair under Australian Consumer Law, but not considered at this point in time to be unlawful under your retail code, why would you just not ban unilateral price variations under a fixed-term contract?

The CHAIR — I thought the minister had covered that point, but I will allow it.

Mr KOTSIRAS — Because that would mean less discounting and less range of products on offer for consumers. The losers would be the consumers.

Ms HENNESSY — Not if they are signing a fixed-term contract. I mean, sometimes there is a price hike.

The CHAIR — Order!

Mr ANGUS — Let the minister answer. Don't keep talking over the minister.

Mr KOTSIRAS — It is important the consumers understand what they are signing. That is what is important here. You have to give options, and consumers have got the right to choose the contract that suits them. I am not going to force them to choose a particular contract because I believe it is in their best interest.

Mr ONDARCHIE — Minister, kalimera. It is good to see you this morning. Can I ask you about smart meters? You touched on it briefly in your presentation, and I refer you to budget paper 3, page 235, where you talk about 'Delivery of Advanced Metering Infrastructure program in line with planned project milestones'. I wonder if you could tell us what measures you have taken in the 2013–14 budget to improve the smart meter rollout.

Mr KOTSIRAS — This is one of the issues apart from coal seam gas that I am constantly getting emails about both as a local member in my electorate and in my ministerial office. This is not having a go at any of my colleagues here, but this was a mess. This was an absolute mess and something had to be done. Talking to other states, I think they have learnt a valuable lesson on how to compulsorily roll out smart meters in any state. I doubt very much if other states will follow Victoria in doing it the same way we have done it. There are many problems, but I need to agree with the former minister, Minister O'Brien, when he said that if we had decided not to continue with the rollout, it would have been a greater cost to the consumers. So we had to do the best we could to deliver the best possible outcomes for Victorians, and we have already committed \$19.8 million to address additional failings that were identified by the Auditor-General in 2011. We also asked Energy Safe Victoria to review the smart meter, and they found that these meters pose no greater risk than the older meters that they replaced. The Chief Health Officer also advised that the overall risk of exposure to smart meters is very small, so smart meters are therefore safe and are being installed by qualified and trained people.

In the rollout it is interesting to note that we found 40 000 faulty meter boards, which have now been replaced, and also 17 000 cases of faulty wiring, which have now been rectified. Smart meters also have a number of controls in place that mitigate security risks, so there should be no fear in terms of someone else reading your smart meter; and the customers now are not paying more due to the possible overruns by distributors because of their choice of ICT. So smart meters are moving ahead. They enable Victorians to move house more quickly and change retailer more quickly. They will not get any more estimated bills, and of course we are providing a subsidy through VEET for the in-house display which shows in real time what you are using. So far, about 1.99 million meters have been installed, which is about 78 per cent.

The second half is the part that is exciting, because we will be introducing flexible pricing in the second half of 2013. Victorians will have the option of opting in, and if they do not like it, they can opt out without paying a fee. So Victorians can trial it, and if they do not like flexible pricing, they can go back to their standard pricing. But this has to be done with the community, so there will be an advertising campaign to show people the benefits that come with smart meters before flexible pricing comes into operation. It will also reduce network infrastructure costs and, hopefully, lower network costs, which is one of the biggest costs on your bill.

It is important that we get this right, because smart meters have been a problem in the past. Unless we get this right people will completely switch off smart meters, so it is important. At the end, if people are not happy with the service they are getting, they can always go to the energy and water ombudsman of Victoria who will be able to investigate any complaints. But we are moving ahead with smart meters. As I said, there are 1.99 million

installed — about 78 per cent. It is now about trying to communicate to Victorians the benefits of having a smart meter and what they can gain from using a smart meter, and that will occur in the second half of 2013.

Mr PAKULA — You are right, Minister, there was a problem with smart meters. You guys ran a scare campaign and then you won; that was the problem.

Mr ANGUS — You did not know what you were doing.

Mr PAKULA — You ran a scare campaign — —

Mr ANGUS — It was another Labor stuff-up — another Labor mess.

The CHAIR — Order!

Mr ONDARCHIE — One day you will admit failure — one day.

Mr PAKULA — Chair?

The CHAIR — Do you have a question?

Mr PAKULA — I do.

The CHAIR — Thank you. I suggest you ask it.

Mr ONDARCHIE — And apologise too.

Mr O'BRIEN — It is another Labor mess. Just like myki under your government.

The CHAIR — Order!

Mr ONDARCHIE — Say sorry; that will fix it all.

Mr PAKULA — They are very unruly, Chair.

Ms HENNESSY — Settle down.

Mr ANGUS — You started it.

The CHAIR — They are excited.

Mr O'BRIEN — As were the people of Victoria when they voted you out for all the messes.

Mr PAKULA — It is like throwing a steak to a cage of dogs. In BP3, page 237, there are three outputs — —

Mr O'BRIEN — A point of order, Chair.

Mr PAKULA — I withdraw.

Mr O'BRIEN — Thank you.

The CHAIR — Thank you. I think that is appropriate.

Mr PAKULA — Minister, there are three outputs on page 237 of BP3 which relate to mining licence applications and work plans. On all of them the expected outcome of applications not determined after three months, not processed after one month, not determined after four months is less than 5 per cent — in other words, a less than 5 per cent delay rate. But in all of them the actual outcome for 11–12 is quite a bit higher than that — 9, 11 and 9 — so you have not been hitting your targets. I am just wondering — and it might be for one of your departmental officers to have the detail of this — what are the number and VPS grades of the departmental officers assigned to implementing those output measures over the last budget year? That is, who is responsible and how many people are responsible for processing applications and work plans, and how many are going to be assigned to this task in the next 12 months?

Mr KOTSIRAS — Before I hand it to Sandra can I say that our response to the EDIC inquiry next week will also assist in cutting the time it takes for the issue of licences. There will be a way forward. There are processes in place to ensure that this time we stay within the less than 5 per cent. But I will pass you over to Sandra.

Ms DENIS — I do not have details on the actual staff involved in that process, but I do have numbers of staff in the earth resources regulation division within the group. The current number of FTEs was 43.3 as at April 2013. I understand that in the DPI annual report from last year we actually reported against each of those performance measures and gave comments as to why they were above the departmental benchmark that is set in the budget papers. I can repeat what is in there or just refer you to the DPI annual report.

The CHAIR — If you have the information, it might be useful.

Ms DENIS — Yes. With respect to minerals and petroleum exploration licence applications not determined after three months, the full year actual was 9, and the comments were that the target time frame was not achieved due to delays in processing five approvals as a result of the need to secure additional information from clients and in the resolution of complaints raised. For the mining industry work plans not processed in one month, the actual number reported was 11. The comment reads that 9 work plans out of the 76 processed for the period were determined outside the one-month target. All of these were as a result of requests for additional information from the licensees. For the third one, mining licence applications not determined after four months, the actual number was 9 and the comment was that 2 out of 22 mining licence applications were processed outside the target time frame due to delays in resolving a competing application and due to delays in resolving complex regulatory issues.

Mr PAKULA — Just a brief follow-up. If you could come back to the committee with the actual numbers of staff engaged in those outputs, please do. But also, in terms of the savings that your department — I will just say your department because I am acronymed out — is required to find under the output measures in this year's budget, which are on page 41, have those efficiencies, savings, cuts or whatever you want to call them, going to lead to any fewer people being engaged in those output measures over the 2013–14 year?

Mr KOTSIRAS — Which page?

Mr PAKULA — Page 41 of budget paper 3. You are state development, business and information are you not? Right. Under 'Existing resources' you see efficiency measures of 11.3, 12.6, 5.6 and 4.8 going into the out years, near the bottom of the table. Are those efficiencies going to require you to have any fewer people engaged in these outputs over the 13–14 year?

Mr KOTSIRAS — Chair, if I can refer to Howard, please?

Mr RONALDSON — No, we will not be cutting FTEs in that area as a result of savings.

Mr PAKULA — Okay. Thank you.

Mr ANGUS — Minister, I refer you to budget paper 3, page 235, under 'Major outputs', and I ask: can you advise the committee what measures the Victorian government has taken to reduce cost of living pressures due to electricity bills?

Mr KOTSIRAS — There has been a lot of misinformation out in the public arena in terms of electricity prices or bills. A customer bill that a customer pays is made up of four components. The first one is wholesale charges, network charges, retail charges and other costs, such as environmental schemes. According to the Australian Energy Market Commission, in a report of 2012 it found that the main cause — and I am just reading what they said — of price increases in Victoria were distribution charges and the impact of environmental schemes.

Network charges relate to the costs of delivering power to households over the distribution and transmission network, and they make up about 30 to 40 per cent of your household bill and are set by the Australian Energy Regulator, and we have tried to ease the pressure in this respect. We have sought changes to the regulatory rules to get the better price outcomes for consumers. So we have asked AER not just to look at the distribution companies but also to look at the impact it has on the consumer. At the end of this month at the ministerial

conference we will also be discussing the limited merits review, because currently distribution companies, if they do not like a price determination, can cherry pick the parts they do not want and go back for a review. We have said that is unfair. If they want to review, then the whole matter should be back on the table, not just the parts that they disagree with. So that will be discussed at the end of this month.

In 2012 we also legislated to close a loophole in the National Electricity Rules that would have allowed distribution businesses to avoid revenue losses associated with not meeting the targets. But I am also advised that in 2011–12 to 2013–14 network prices are expected to account for around 19 per cent of the increase in Victoria, but in Western Australia it is going to be 75 per cent, in Queensland 60 per cent and in New South Wales 44 per cent, so we are better than any other state.

In relation to the third component of your bill, the retail charges, Victoria has got one of the most competitive retail electricity markets in the world. The decision to deregulate pricing was made in 2009 under the previous government, which I support — I think it was a good thing — and that is why I think Victoria is so far ahead of the other states. South Australia followed suit at the start of this year, and I understand the other states will also follow Victoria's lead.

So this brings me to the last part, which is the environmental levies. Again, when we took office we brought in a fairer feed-in tariff, because we believed that people who could not afford to subsidise others should not be forced to subsidise others. So there is legislation before the house which will be debated soon, and that will bring in a fairer feed-in tariff. And briefly — and I will not go into detail again — the carbon tax has been a factor.

Ms HENNESSY — Change the consumer laws, Minister.

Mr KOTSIRAS — Whether you like it or not — —

Members interjecting.

The CHAIR — Order!

Mr KOTSIRAS — Whether you like it or not, it is a factor in your bill. But apart from those, we have also taken further action to help reduce the cost of living pressures. We have extended the concessions to 12 months of the year. We have also introduced — as I said, or are about to introduce — flexible pricing. We have launched the Switch On website, which provides some advice on how to save money; we will also be launching our own price comparator website to provide a tool for customers to compare electricity offers; and of course the YourChoice website, which has been running for a while, also helps to compare retail offers. Lastly, of course, we increased the VEET target from 2.7 million to 5.4 million, which means more savings for the consumer, and I am advised that households could save up to \$308 in electricity costs in the first five years of this scheme.

So we have put in a number of mechanisms to help reduce the cost of living pressures. As a former minister said — I do not have the quote here — in 2010, I think it was Minister Lenders, any person who goes out and says that a politician or a person can control prices is lying. We can help and try to reduce the cost of living pressures, but the market is deregulated, it is competitive and it has worked well.

Mr SCOTT — Minister, I refer you to budget paper 3, page 234, and under the heading 'Energy and resources' there is reference in the first sentence to policy and programs that relate to efficient energy services. I want to ask you about that particular issue and, in that context, the Victorian energy efficiency target scheme. I would just like to ask you a fairly simple question, Minister. Will you rule out winding back or abolishing the Victorian energy efficiency target scheme?

Mr KOTSIRAS — As with your last question, I cannot give that undertaking. I need to review it. I have only been in the job for two months. I need to make sure it is doing what it is meant to do, but I need to get some evidence. I will decide on the future of VEET once I have the evidence base in front of me.

Mr O'BRIEN — I would also like to ask you about budget paper 3, but page 235, under 'Delivery of key milestones for the Powerline Bushfire Safety work program', which I note from the footnote was a renaming of the 2012–13 performance measure 'Delivery of milestones for the Safer Electricity Asset Fund work program'.

It says that the new measure reports on the same activity as the previous measure, however it has been amended to better reflect the broader work program for this initiative. I would ask you, Minister, could you please give the committee an update on the status of the powerline bushfire safety program, and specifically on work carried out under the Local Infrastructure Assistance Fund to improve the reliability of supply for affected vulnerable Victorians?

Mr KOTSIRAS — As you all know, the 2009 Victorian Bushfires Royal Commission made 67 recommendations. Eight of those recommendations, which we supported, related to electricity-caused fire. Two of those recommendations needed further work, so a taskforce was established in September 2011 for those two recommendations, which are recommendation 27 and recommendation 32. The taskforce itself made six sub-recommendations to those two recommendations, which we accepted as well.

In December 2011 we established a Safer Electricity Asset Fund to fund a safety program over 10 years: \$250 million was put in by the government and \$500 million was put in by electricity businesses. The powerline bushfire safety program was established in December 2011, and it had five parts. The first part was research and development, with \$10 million dedicated to it; the second part was LIAF (Local Infrastructure Assistance Fund), which received \$40 million, including for backup generators; the third one was the powerline replacement fund, receiving \$200 million; the fourth was the network assets, receiving \$500 million, and; finally, there was network operations. This program, we said, is going to be delivered over 10 years.

The first thing that we had to do was research, and so the research had to identify high-risk areas and determine which wires should be placed underground or what other technology can be used to reduce bushfire risk as per recommendation 27. It is important that I read recommendation 27, because again there is a lot of misinformation out there, and people are using different terminology because they have a political point to make. Recommendation 27 states:

the progressive replacement of all SWER (single-wire earth return) powerline in Victoria with aerial bundled cable, underground cabling or other technology that delivers greatly reduced bushfire risk.

We had to do the research, we had to do the mapping, and these are currently under way. The second part was LIAF and the \$40 million we have provided for the generators; so far we have installed three, and two will be installed by the end of this financial year. Phase 2 will include another 20, which will be installed in regional Victoria. The third part was the powerline fund — \$200 million — and this will commence in July 2013.

You have to do the work first: you have to map first, and then you have to decide which lines will be underground or insulated or use some other technology to reduce the fire risk. The fourth was the network operations and assets, and I am advised through Energy Safe Victoria that it is working very closely with the businesses to implement measures in line with its responsibilities. So far, inspection cycles have been shortened and the qualifications of inspectors have been tightened. There has been a significant asset replacement by the distribution companies, and they are being monitored by ESV. The distribution companies have already installed about 300 new circuit-breakers in areas of high bushfire risk.

The work is continuing, but I emphasise again, you have to do the work first — you have to plan, you have to map, you have to know where you are going — before you start implementing. I can reassure the committee that in 10 years this project will be completed.

Ms HENNESSY — Minister, if I could just refer you to budget paper 3, page 236, I wanted to ask a question around mine stability funding. I note that the Technical Review Board has got a target of three stability reports for Latrobe Valley coalmines, and that you say that the measure is a new initiative. Why three? And what are the stability reports required for?

Mr KOTSIRAS — The TRB was established in 2009, I think. Is that right?

Ms DENIS — Yes.

Mr KOTSIRAS — It was established in 2009, and it is continuing to manage mines in terms of risk assessment. It makes recommendations, and it puts out its annual report. Government looks at the report and tries to assist it and to achieve what it says should be done in its recommendations. These reports are constant,

ongoing, and they will continue to be made by the TRB. That is why it was established: to review the mines, their stability and any risks that come from the mines in the Latrobe Valley.

Ms HENNESSY — Minister, in 2010–11 the target was six; why is it three now? Does that represent a reduction in monitoring or a different risk profile?

Mr KOTSIRAS — That is up to the TRB. It meets, it decides, and it makes reports to government, as well as providing its annual report.

Ms HENNESSY — So, you have no input?

The CHAIR — Order!

Mr ANGUS — No, listen.

Mr KOTSIRAS — We have put in an extra \$4.2 million to implement some of its recommendations. But the TRB meets, and it makes recommendations.

Mr ONDARCHIE — Minister, in relation to budget paper 3, page 235, and the area where it says ‘Strategic policy briefings on energy matters to portfolio minister’, can you tell the committee what changes the government has made to the solar feed-in tariff schemes since coming to power and also give us an update on where these feed-in tariffs are right now?

Mr KOTSIRAS — From 1 January 2013, Victoria has four feed-in tariffs. It has the premium solar feed-in tariff, which is 60 cents a kilowatt hour. That was stopped on 29/12/2011, but that will go through until 31/10/2024. Then we have the transitional feed-in tariff of 25 cents a kilowatt hour. That stopped on 31/12/2012 but that will continue until 31/12/2016. Standard — that is, one for one — that stopped on 31/12/2012 and will continue until 31/12/2016. Now we have the 8 cents a kilowatt hour feed-in tariff, which is before the house. That is for solar, hydro, wind and biomass, so that is for all renewables.

All the changes that have been made, despite the commentary of some, have been communicated to the public in a number of ways: through the DPI website, Consumer Affairs Victoria, Energy Safe Victoria, the Clean Energy Council, the customer service centre, a range of stakeholder meetings, and an e-update reminder sent out on 28/12/2012.

You have to also remember that at the 2010 election the coalition made a commitment that we will have VCEC, the Victorian Competition and Efficiency Commission, inquire into feed-in tariffs. VCEC suggested a range of 6 to 8 cents. We chose the end part of that range, at 8 cents, and the new 8 cents feed-in tariff came in on 1 January 2013, through an existing administrative process. VCEC also recommended that we should extend it beyond solar, and we have done so, with hydro, wind and biomass.

It is also important to remember that the reason that we did it was to make it fairer, to make sure that people who cannot afford it should not subsidise those who can afford to put in solar panels. We believe this is a fairer way of doing it, figuring that solar panels in the last four years have dropped by two-thirds, so it is cheaper now to install a solar panel. So we believe it is fairer. You might ask me: so what has that meant in terms of the numbers? Based on initial informal reporting from distribution businesses, the uptake for solar for the first three months of 2013, under the 8 cents a kilowatt hour, is very similar to the uptake in January 2012. In January 2013, which saw 3580 solar connections across the five distribution businesses, 3461 for February, and 2783 in March. People were saying, ‘You’ve dropped it down to 8 cents. People are not going to invest in solar’. It is simply not true. The numbers are there; they continue to invest.

I just want to give you some other numbers. The number of people who are locked in to the 60 cents a kilowatt hour totals now 89 000. Those who are locked in to the 25 cents a kilowatt hour total 59 000. So there are a substantial number of Victorians who are getting paid over-generous tariffs. We believe what we are doing is right, we believe it is fairer and we believe this will benefit all Victorians.

Mr PAKULA — Last but a quick one. Minister, I assume you are familiar with that article that ran about two weeks ago

Mr ANGUS — Hang on a minute. Point of order.

Mr PAKULA — Point of order already?

Mr O'BRIEN — Well, it is a prop. You know that, Martin.

Mr PAKULA — I am just showing the minister the article, David.

Mr O'BRIEN — Then describe it, without the actual — —

Mr PAKULA — I am happy to put it down now. You have spoken today — —

Mr ONDARCHIE — Not an ALP newsletter, is it?

Mr PAKULA — The first time the *Herald Sun* has been called an ALP newsletter, Craig.

Members interjecting.

The CHAIR — Thank you, members.

Mr PAKULA — You have spoken today on a number of occasions about consumers having to have information, consumers being brought along et cetera. This was an article which outlined ruses such as energy sales reps illegally transferring hundreds of customers to new contracts without their consent; fraudulently setting up contracts, posing as customers; customers being swapped from quarterly to monthly billing without permission; failing to alert customers about a price rise; and the like.

In response to that, Gerard Brody, from the Consumer Action Law Centre, has said that the ESC should regularly name and shame those energy companies or energy retailers that are engaging in that behaviour to ensure that the public are aware of which companies have widespread failings and to encourage retailers to improve their practices.

Do you have any plans to bring in legislation to ensure that those companies which do this sort of stuff are under the public spotlight, their practices are revealed and consumers have the opportunity to know what they are getting into?

Mr KOTSIRAS — A quick answer to your question is no. I believe that the ESC does the job because they have to report once a year and if there is a systemic failure then they are named in terms of their performance during the year. What you are suggesting is that if something happens one day that company should be named, and I have no plans at this stage to do that. Door-to-door marketing is regulated by the Australian Consumer Law and the ESC's code of conduct, the energy retail code. So customers who are dissatisfied or not happy should contact the retailer in the first instance, but also the Ombudsman. If the Ombudsman believes it is a systemic problem, then of course he will refer it to the ESC. The Essential Services Commission can take matters into its own hands. Of course we saw on page 7 of the *Herald Sun* '\$1.5 million knock for AGL' because of what they did. The system seems to be working, it is working and I do not think there is a need to change it.

Mr PAKULA — Minister, so you do not think that in terms of consumer information consumers would be better armed if there was some record of individual breaches that had to be resolved by the ESC or the Ombudsman?

Mr KOTSIRAS — As I said, the ESC releases a report on retailer performance on a yearly basis, and I think that is sufficient.

The CHAIR — Thank you, Minister. That concludes the consideration of the hearings for the energy and resources portfolio. I do thank Mr Ronaldson and his departmental officers for their attendance this morning. We will have a very quick break to allow people to change. All recording and broadcasting equipment should be turned off now.

Witnesses withdrew.