

# CORRECTED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into 2002–03 budget estimates

Melbourne – 21 June 2002

#### Members

Ms A. P. Barker

Mr R. W. Clark

Ms S. M. Davies

Mr D. McL. Davis

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#### Witnesses

Ms C. Broad, Minister for Energy and Resources;

Ms C. Munro, Chief Administrator;

Mr A. Young, Chief Finance Officer;

Mr R. McLoughlin, Executive Director, Fisheries Division; and

Mr I. Porter, Manager Greenhouse Policy, Department of Natural Resources and Environment.

**The CHAIRMAN** — We will resume with the portfolio area of energy and resources, and I invite you, Minister, if you wish to do so, to make a presentation on the key financial information in relation to your responsibilities in energy and resources.

**Ms BROAD** — I would, thank you, and thank you for giving me the opportunity to make a presentation on the progress and future directions in the energy and resources portfolio.

It is a diverse portfolio. Included in my portfolio of energy and resources are fisheries, energy and minerals, greenhouse and matters relating to restoring the health of the Snowy River. I should point out that the portfolio is now consolidated within the Department of Natural Resources and Environment. The other portfolios are environment and conservation, agriculture and Aboriginal affairs. The three portfolios within the department are closely interrelated, and of course the three portfolio ministers work closely together to achieve a whole-of-government outcome for the state's natural resources and environment.

Firstly, I would like to talk about the fisheries output group within the fisheries area. Key recent achievements include comprehensive management plans for Victorian fisheries that the Department of Natural Resources and Environment has been developing. I approved four plans earlier this year. They include abalone, eel, the Goulburn-Eildon area and the Bendigo area. These plans provide for directions for future management of these fisheries as well as the detail necessary to enable ecologically sustainable development to be achieved. Good results have been achieved in the fisheries enforcement area. A number of planned major operations have been successfully completed, one of which resulted in imprisonment for two long-term abalone offenders.

Most recently ministers from the natural resources management ministerial council have agreed to my request for the preparation of a paper on the standardisation of fisheries compliance data collection as well as management between jurisdictions.

Rock lobster quota management was successfully introduced in November 2001, and compliance monitoring has picked up only a small number of reports of quota avoidance. A workshop with industry to review the regulatory arrangements has occurred as part of this major change for that part of the industry.

There have been good reports of growth in the aquaculture area, with major increases — approximately \$1 million — occurring in warm-water, fin-fish production using recirculation technology. Major growth in abalone aquaculture is expected during this year.

Stocking for recreational fishing is expected to reach \$1.7 million by the end of June, with greatly increased numbers of native fish being released across the state. More than \$540 000 has been allocated to a total of 34 projects this year from the recreational fishing licence trust account.

Development of an integrated seafood safety system is well under way. A legislative proposal is being developed for through-chain management of seafood safety following extensive work by a joint industry-government working group.

There is continuing progress in relation to indigenous communities as part of the government's policy in reconciliation and respect. Recent legislation has created the ability to issue permits for indigenous cultural activities.

The division of fisheries has lodged reports with Environment Australia for assessment of whether the abalone and giant crab fisheries are being sustainably managed. Final assessment by the commonwealth is expected in the near future, and assessment reports for the rock lobster and eel fisheries are to be developed over the next year. It is important to note that these assessments are necessary to ensure that these fisheries maintain their export accreditation under new and stricter commonwealth guidelines and legislation.

Management plans have been developed for rock lobster and giant crab, for bay and inlet fisheries and for the Wimmera area as part of the department's commitment to developing plans for all major fisheries in this state. In addition, in the forthcoming year the fisheries division will also be working with the parks, flora and fauna and Parks Victoria areas of the department to implement the marine parks legislation and increase fisheries enforcement activity along the coast, with the appointment of some 24 new regional officers.

Another important focus is the implementation of the Environment Conservation Council's aquaculture recommendations.

In terms of the fisheries output areas, they are sustainable fisheries utilisation, industry and community compliance, and aquaculture and fishing industry development. The budget for that group has increased from \$37.2 million to \$40.5 million in 2002–03, reflecting additional funding provided for the aquaculture initiative, public service wage increases and some carryover of funds provided for the establishment of marine parks in 2001–02.

Moving to minerals and petroleum, the merger of minerals and petroleum and energy policy groups has now been successfully implemented. The brown coal tender commenced during 2002, and that tender is intended to attract industry to develop means of using this massive resource in environmentally acceptable ways, particularly in ways that reduce greenhouse emissions.

This tender panel will shortly make recommendations to me for granting of exploration licences. These will provide the successful tenderer with the security of the resource while it develops proposals to a stage where a full environmental impact assessment can be made.

The minerals and petroleum initiative is providing \$7.5 million over four years to continue to support the expanding exploration for minerals and petroleum in Victoria. During 2001–02 I made an agreement with my colleague the Minister for Workcover to ensure that all workplaces including those covered by the mining legislation are subject to the same occupational health and safety laws.

As a result the occupational health and safety regulations under the Mineral Resources Development Act are being allowed to sunset in October of this year and in their place regulations have been drafted under the Occupational Health and Safety Act. A regulatory impact statement is being prepared and will shortly be released for public comment. The other regulations under the Mineral Resources Development Act sunset in October, and an RIS has been prepared for these regulations.

In addition to those, in my ministerial statement in June 2000 I committed to replace the current and somewhat outdated Pipelines Act 1967. A review of this act has commenced with the release of an issues paper. The department is now reviewing the comments in response to that and consulting with key stakeholders in preparation for a proposals paper later this year.

Greenhouse issues are of course important to this government, and that has to be balanced with the need to continue to provide affordable electric energy. In line with those objectives the government has continued to fund the cooperative research centre for clean power from lignite and to support the development of technologies to reduce greenhouse emissions from brown coal.

The outputs for minerals and petroleum are the minerals and petroleum regulations services, and minerals and petroleum industry development and information groups. The budget for this group of outputs increased from \$15.6 million to \$17.3 million in 2002–03, and that reflected additional funding for wage increases for the minerals and petroleum policy development initiative and some changes to accrual provisions.

Moving to energy policy, full retail competition in electricity was introduced from 13 January this year. As expected, market activity has been modest for a range of reasons, but is growing. Significant progress has been made towards the introduction of full retail competition in gas from 1 October this year, and it is anticipated that this will widen the scope for dual fuel retailing and that that will increase further the level of market activity.

Retail price caps were introduced covering the supply of electricity to residential and small business customers and gas to TXU customers to protect consumers until competition becomes effective. The special power payment was introduced to ensure consistency between metropolitan and regional electricity prices for small consumers.

The reform of the national electricity market continues. The government has developed proposals which are under consideration by the national electricity market ministers forum. The government has facilitated the construction of new generators at Somerton and the Latrobe Valley, and has developed guidelines for electricity — —

**Mr DAVIS** — Despite the frog?

**Ms BROAD** — I will leave the frog to others — and developed guidelines for electricity demand management, including by government departments and agencies. The augmentation of the Snovic, so-called, electricity transmission link is being undertaken by Vencorp. On the direction of the government it has received all its regulatory and planning approvals and it is on schedule for completion in December of this year.

Victoria's security of electricity and gas supply was sound over the 2001–02 financial year. I should also note that this year there is continued disbursement of powerline relocation grants, which assist councils and others to achieve environmental improvements, principally through undergrounding of powerlines.

Looking ahead in the energy policy area, as I have noted, full retail competition in gas will be introduced from 1 October this year as well as a consumer protection safety net for electricity customers; structural measures will be developed to resolve the metropolitan regional gap in electricity prices for small customers, which includes small businesses and farmers; completion of the Snovic upgrade; implementing demand management facilitation programs and facilitating other proposed new supplies; further development and seeking agreement from the other jurisdictions in the national electricity market to reforms; releasing an integrated ministerial statement on energy later this year; and continuing the emphasis on the administration of the powerline relocation grants scheme.

I refer to the outputs in the energy policy area. The relevant one here is energy policy services. The budget in this area has decreased slightly from \$7.4 million to \$6.9 million in 2002–03, which reflects some corporative and administrative adjustments relating to CPI, GST and some identified savings.

In relation to greenhouse policy, the release of the Victorian greenhouse strategy this month was a very significant landmark for the government. The VGS will facilitate the establishment of partnerships as well as building capacity throughout the community for action on greenhouse. It has benefited from extensive public consultation and is a significant first step on what is a long road to addressing the threat of climate change.

This follows a number of major initiatives launched by the government earlier in the year in order to demonstrate leadership by the government in greenhouse gas abatement, and those initiatives included the 15 per cent government energy consumption reduction target and the 5 per cent government purchase of green power. Other actions by the government include the requirement to disclose greenhouse information on electricity bills following legislation to achieve that result; a centre for energy and greenhouse technologies to be established to provide an enhanced capacity for identifying and adopting best practice technologies in the generation and use of energy; as well as the abatement of greenhouse gas emissions. The rollout of the many initiatives under the Victorian greenhouse strategy will provide a strategic framework and the further development of Victoria's greenhouse response.

The budget for this output group has increased from \$26.8 million to \$32.3 million in 2002–03. That reflects some additional funding provided from a transfer of greenhouse initiative funding from the Department of State and Regional Development — that was \$1 million — and a \$4.1 million carryover from the Victorian greenhouse strategy funding provisions.

Finally, in relation to the Snowy River and my responsibilities in this area, as committee members may be aware the Victorian, New South Wales, South Australian and commonwealth governments have now signed the more than 35 agreements necessary to finalise the corporatisation of the former Snowy Mountains Hydro-Electric Authority which will enable the future release of increased environmental flows to the Snowy River. Following the signing of all of those agreements the date set down for corporatisation is 28 June, and that will then provide for the many actions which will flow in relation to the implementation of the agreement.

**The CHAIRMAN** — During your presentation you referred to contestability and gas markets. You indicated that on 1 October there will be an extension of contestability in gas markets. Can you provide some further detail to the committee on the progress towards full contestability in the domestic and small business sectors in gas? What initiatives have you taken to bring about full retail competition in those areas?

**Ms BROAD** — The date has been set following advice from the retail and distribution businesses that systems development is on track for a 1 October market start. Retail competition in the gas industry was first introduced in October 1999, and as a result of that medium to large industrial and business customers who consume in excess of 5000 gigajoules per year — and that is businesses such as paper mills, manufacturing plants and restaurants — are able to purchase gas from the retailer of their choice. Around 15 per cent of contestable customers have switched retailers based on competitive price and service offers to date. The introduction of consumer choice here was a massive undertaking, and the indications from our experience with the electricity market and looking to overseas experience were that teething problems could be encountered. As a result the government is working cooperatively with the businesses to address any initial problems and to ensure as far as possible that any inconvenience for consumers is minimised.

Gas prices are set by retailers and the government's consumer protection framework provides that retailers in the gas area are similar to those in the electricity area and the prices must be published in the Victorian *Government*

*Gazette* where there are any proposals for price increases for households and small businesses 60 days before they take effect. So the government has the capacity to override new prices if they are found to be unreasonable or unjustified.

Competition is expected to discipline prices under full retail competition, but realistically we must expect that competition will take some time to take effect after 1 October this year. As a result the government will be overseeing prices and using the investigative powers of the Essential Services Commission until it is clear that competition is fully effective.

The government acted to constrain gas price increases for 2002 to the consumer price index on the grounds that there was no basis for a change in gas tariffs for residential and small business customers of more than the Australian Bureau of Statistics published consumer price index. The arrangements are part of the Bracks government's commitment to providing a balanced and equitable environment in Victoria for the operation of the gas market as well as supporting ongoing and secure supplies of gas at reasonable prices for all Victorians.

Importantly, accompanying this major change the government and the Essential Services Commission will commence a public information campaign in September which will include delivery of a brochure to gas customers as well as television, radio and newspaper advertising to ensure that customers are fully informed about their forthcoming choice in the gas market. Like electricity full competition, which was introduced in January this year, small business and residential gas customers do not have to make any decisions right away. Customers will continue to be protected by the government's comprehensive safety net and will be encouraged to gather as much information as possible so that they can make an informed choice about the best possible option for them when this change takes place on 1 October.

**The CHAIRMAN** — Before calling Mr Davis, I indicate for the benefit of Hansard that Mr Powell and Mr McDonald have left us for this session on energy and resources and welcome to the hearing Ms Chloe Munroe, Secretary of the Department of Natural Resources and Environment, and Mr Alan Young, the chief finance officer.

**Mr DAVIS** — Minister, I want to take you to page 201 of budget paper 2 and the \$3.2 million that is allocated there over three years for marine national parks. Further, I want to draw your attention to the general reduction in fisheries' officers over the last two years, including the reduction of officers in Yarram from four down to two, as well as the current unfilled positions in Mallacoota, Lakes Entrance and Yarram.

Given that the industry has been calling for an increase in the number of Yarram officers from 2 to 6 and as I understand it your department is only prepared to accept an increase to 3; the industry is calling for an increase in Mornington officers from 4 to 8 and I am informed your department is only prepared to consider 5; and the industry in Mallacoota is also calling for an increase from 3 to 6, and again your department is only prepared to accept an increase from 3 to 5, on what basis does the department calculate the proposed increases and what increases in numbers of officers will be adequate?

In understanding this issue I am also informed that a number of people, for example in the abalone industry, have made comments such as:

In other words the industry will be required to pay for the enforcement initiatives which were purported by the government to represent compensation. This to our mind is an incongruous and inequitable situation.

As I understand it during some informal discussions with Fisheries Victoria a number of people in the industry have been advised that the government intends to introduce a cost recovery arrangement in the abalone sector to commence in April 2003, and I wonder if you can give us an assurance in the light of the marine national parks that there will be no extra costs associated with the fisheries officers and that the government's enforcement regime will not be recovered at the expense of the industry.

**Ms BROAD** — In relation to the last points that you raised, I think you will recall that I was asked about those matters towards the end of the parliamentary sitting.

**Mr DAVIS** — I do.

**Ms BROAD** — I indicated to the Parliament that the marine parks package and the enforcement component of that package are quite separately provided for on an ongoing basis and are quite separate to any discussions in relation to other aspects of enforcement.

They are clearly identified and provided for on an ongoing basis. In relation to the whole series of matters you have raised, which really go to the implementation of what is getting down to operational level matters and the discussions which Fisheries Victoria has been involved in, I might ask the chairman if the committee would agree to invite the director of the fisheries division of the Department of Natural Resources and Environment, Richard McLoughlin, to join us at the table and deal particularly with the operational level implementation matters that have been raised by Mr Davis in terms of the location of fisheries officers.

**Mr DAVIS** — Perhaps we might want to deal with it office by office.

**Mr McLOUGHLIN** — I wish to start by saying that in terms of the structural arrangements within the department for the delivery of fishery compliance services, we have policy divisions such as fisheries, which I head up, and a regional services division which provides regional services, including the fisheries officers, as part of a diversified approach to delivering a wide range of services in regions.

The day-to-day management of fisheries officers in the field is undertaken by regional services. Notwithstanding that and my key role in developing policy approaches to fisheries compliance and achieving acceptable compliance outcomes along the coast, there is a range of service agreements that I put into place with regional managers each year. They specify a series of output targets for the amount of work that is to be done. Regional managers essentially undertake to deliver that work with the resources that we negotiate as part of those regional service agreements. Within that the regional managers must manage their staff such that as staff are promoted, transferred, leave the job or are appointed to new positions as part of normal departmental management each year they deliver those outputs. The compliance outputs for places such as Gippsland as a region, as opposed to individual locations, are by and large met every year, usually with some variation as priorities change through the year for particular compliance operations.

Can I say that the key outcome that we are looking for always is an acceptable level of compliance; but compliance is a function of a number of things, including enforcement — the number of officers in the field — effective deterrents and community education. Allied with that is the role I play within fisheries — for example, the organisation of planned operations along with police that involve regional offices. There is a combination of approaches here which does not necessarily reflect what industry believes should be the level of manning at a particular location. We will move resources around as we see fit from time to time, particularly as part of planned operations to achieve major compliance outcomes such as the outcomes the minister raised in her introductory speech.

**Mr DAVIS** — There seems to be a very big disparity between what the industry believes is necessary and what you have provided there. Notwithstanding that and the enforcement side of it, it seems that the industry will be clobbered with the costs of enforcement, even though the enforcement appears on their reckoning, and certainly on the information put to me, to be inadequate.

**Mr McLOUGHLIN** — I think the minister has already indicated that the additional funds provided for fisheries compliance as part of the marine parks package are not to be collected as part of a cost-recovery scheme.

**Mr DAVIS** — The people in the industry certainly believe that and are of that view. They see that this is what will occur.

**Ms BROAD** — If I can just step in here, I think that what is occurring here is the running together of a number of issues. Following a review of the Fisheries Act under the national competition policy, the government has indicated its acceptance in principle of that review's recommendations. They include a number of things such as the allocation of new licences and quotas, the phased introduction of cost recovery, and matters going to the implementation of royalties for resource access over time. The government has clearly indicated in relation to its acceptance in principle of that national competition policy review that this will be a phased process. The government will certainly not be acting until there has been extensive consultation and work with all stakeholders.

It is to be expected that in the light of that in-principle acceptance by the government there will be some views in the industry about how that in-principle decision might now be implemented and some concern in relation to the marine parks package. I believe that the government has very clearly indicated, as I have to the Parliament and I believe the director of Fisheries Victoria has in his communication with industry, that the enforcement funding under the marine parks package is separate from the implementation of the national competition policy review recommendations and will remain so. That indication has been clearly given. I do not know how much more clearly the government could make it, but the industry has other issues going to other matters which will be the subject of the implementation of the national competition review in the future.



**Mr DAVIS** — To clarify that, essentially what is happening here is that the government giveth with one hand and taketh away with the other. The industry is saying that there is a compensation package but that almost concurrently with that there is a package where they are being required to pay more for enforcement, some of it in areas very similar to the areas where marine parks will operate, and not too distant. The industry is obviously quite concerned. You have to concede that there is a strong appearance of a handout with one hand but a taking away with the other.

**Ms BROAD** — I would not think that in relation to the main industry which is in contention here — the abalone industry — there is anyone in need of the handout, given the value of the industry. I would not accept that these things are happening concurrently. The national competition policy review process certainly predated the government's marine parks package very clearly.

**Mr DAVIS** — The marine process has been going for a number of years.

**Ms BROAD** — The Environment Conservation Council/Land Conservation Council process has, but in terms of the government's implementation package, that has been developed quite separately by the government. The government has always indicated, and I indicate it again, that it is being dealt with quite separately from the other matters which predate that package.

**Ms BARKER** — In your presentation you gave us some brief information with regard to greenhouse policy. As per the commitments made under the Victorian greenhouse strategy on page 255 of budget paper 3, could you give us some more information about the commitments made under that strategy and its likely impact on Victoria?

**Ms BROAD** — The government believes that the Victorian greenhouse strategy is the first comprehensive and fully funded greenhouse response by any Australian state. It provides the most comprehensive and effective greenhouse response to date in this state. It comprises some 59 actions across 10 areas of activity. The goals of the strategy are to build an awareness and understanding of greenhouse issues throughout the community, to limit Victoria's greenhouse emissions and enhance its greenhouse sinks, to position Victoria to continue to prosper in what will be a carbon-constrained economy, to develop a greater understanding of climate change impacts, and where appropriate to initiate adaptation actions which are particularly relevant to Victoria.

It has been initially funded to the amount of \$100 million over the three years from 2001–02 through to 2003–04. To outline some of the initiatives which have been introduced through the Victorian greenhouse strategy — time will not allow me to outline all of them — most significantly the government will amend the Victorian building regulations to require all new dwellings constructed in Victoria to meet a minimum five star energy efficiency rating. That means that new homes built in Victoria, which currently have an average energy efficiency rating of just 2.2 stars, will need to now have a five star rating, and that will deliver significant savings in greenhouse gas emissions as well as in household energy bills.

Almost \$2 million will be provided for pilot programs to improve the energy efficiency of public and low-income housing to ensure that the government's social objectives are met in this area. There is a strong commitment to the development of renewable energy as part of this strategy. An amount of \$8.45 million over three years has been provided for a renewable energy support fund to support that objective. The strategy also provides a further \$2.25 million over three years to support a new centre for energy and greenhouse technologies. That is in addition to the \$12 million in funding for the centre which was announced in the earlier business statement.

An amount of \$2.65 million is being provided for support services to assist businesses to meet the new energy and greenhouse requirements under the EPA's works approval and licensing requirements. An amount of \$1.3 million has been allocated under the strategy to assist Victorian enterprises who are trialling and demonstrating leading-edge greenhouse gas abatement technologies.

As part of the government's strong commitment to working in partnership with business, we will establish a government industry greenhouse round table, which will provide a forum for the discussion of strategic greenhouse issues as they relate particularly to Victorian business.

A regional partnerships program will be established, with funding of \$1 million. That will help build regional partnerships for greenhouse action and involve a variety of stakeholders, including local government, industry, tertiary education institutions and catchment management authorities, as well as regional waste management groups.

We recognise that transport activities are important in Victoria's total greenhouse gas emissions. The government is setting an example in the transport area by setting a target to reduce greenhouse gas emissions from the operation of the government's motor vehicle fleet by 10 per cent. To complement that initiative we are committing some \$400 000 to subscribe vehicles in the government's motor vehicle fleet to the green fleet program.

Tree planting under this program will not only meet greenhouse reduction target objectives but also assist in achieving biodiversity targets so that it has multiple benefits. The government has already allocated some \$1 billion under its Linking Victoria program to improving Victoria's public transport system, and some \$15 million is being committed towards bicycle network improvements to further enhance that transport action area.

An amount of \$7.75 million has been provided over three years to expand Victoria's greenhouse sinks. Those will again deliver multiple benefits, including salinity mitigation and the creation of habitat corridors. Here we are not only seeking to achieve carbon sequestration but also looking to achieve benefits in other areas as well. Importantly we have funding of \$3.5 million, as part of the strategy, to develop a specific strategy for the agriculture sector, which is another significant source of greenhouse gas emissions.

There are a great many more examples I could give, but perhaps I could sum up by saying that the strategy is expected to deliver reductions in greenhouse gas emissions of between 5 million and 8.3 million tonnes per year over the first commitment period of the Kyoto protocol. To put that in context, if we were to see other states and the commonwealth match on a per capita basis the actions outlined by the Victorian government in its greenhouse strategy, that would make a very significant contribution towards meeting the Kyoto targets.

The Victorian greenhouse strategy is a major first step in ensuring that Victoria contributes to international efforts to address the threat of climate change. We recognise that it will have to evolve and be strengthened over time. Certainly the Bracks government is committed to responding to this important issue by taking those actions on an ongoing basis.

**Mr RICH-PHILLIPS** — I would like to ask you about the aquaculture and fishing industry development output group, which is referred to on pages 264 and 265 of budget paper 3. In your introductory remarks I recall you commenting on the importance of the aquaculture industry, and in its marine parks report the ECC spoke about the potential importance and significance of aquaculture to the Victorian economy. Given that importance, can you explain to the committee why with respect to the aquaculture industry development output group there was such a significant underspend against last year's budget?

**Ms BROAD** — In relation to that matter I again seek the agreement of the committee to invite the director of Fisheries Victoria to talk about the aquaculture output area.

**Mr McLOUGHLIN** — I am Richard McLoughlin, executive director of fisheries. In the 2001–02 year — is that what you are referring to — —

**Mr RICH-PHILLIPS** — Yes.

**Mr McLOUGHLIN** — It is my understanding, and I will certainly take it on notice to check, that the \$500 000 that was provided for aquaculture was indeed spent for the financial year. But in terms of the detail of that expenditure for the year, I am going to have to take that on notice on the basis that I will need the details in front of me to work through it, unless Alan Young can assist. My apologies for that.

**Mr RICH-PHILLIPS** — The output group had a budget last year of \$3.7 million, and the reported actual spend is only \$2.6 million, so there is an underspend of \$1.1 million. You mentioned a figure of \$500 000.

**Mr McLOUGHLIN** — Yes, which was provided as redirected funds. My apologies, I cannot give you the answer as I sit here at the moment.

**Ms BROAD** — That is one we are going to take on notice, unless Alan Young can assist.

**Mr YOUNG** — I can only answer part of it. The original budget papers included a budget allocation of \$1 million for aquaculture initiatives, and the actual applied was \$500 000.

**Mr RICH-PHILLIPS** — Why was that?



**Mr YOUNG** — It was just an adjustment to the budget. During the budget bill process, with the estimates that went into the budget and were published, we were \$500 000 higher than the actual budget allocated. It happens occasionally.

**Mr RICH-PHILLIPS** — What about the rest of that output group — the other \$2.7 million? You referred to \$1 million as being aquaculture development. What is the balance of that output group — that is, the other \$2.7 million that was shown for last year?

**Mr McLOUGHLIN** — The output group is aquaculture and fishing industry development. There is a range of services that we provide in relation to seafood industry development and promotion and assistance for industry, for example, for trade promotions and for displays. There is also the provision of staff in regional areas for extension services in relation to both fisheries officers and aquaculture extension officers, and also through research and development projects with a focus on economic development through MAFRI, our research institute. The output is as it is. The activities are spread against a range of areas, including research and development, management and extension services and the like.

**Mr RICH-PHILLIPS** — Would you be able to provide the committee with a breakdown of that, if you have it in hard copy? We can take it on notice.

**Mr McLOUGHLIN** — I will take it on notice.

**Mr RICH-PHILLIPS** — Also with the reduction from last year's budget to this year's budget, which is down from \$3.7 million to a target of \$3.4 million, can you just say where that variation has occurred?

**Mr McLOUGHLIN** — I will take that on notice.

**The CHAIRMAN** — At pages 87 and 88 of budget paper 2 the Treasurer, under the heading 'Promoting sustainable development and protecting the environment', refers to the Snowy River and indicates that:

The Victorian government has committed \$244 million to restore the Snowy River, including \$150 million to fund the tripartite ... agreement ... to restore the Snowy River flows et cetera.

He finishes by saying that:

It is expected that the first increase in environmental flows in the Snowy River will commence this year.

I think there was recently some publicity regarding that. Can you indicate to the committee any details of the progress on the implementation of the return of environmental flows to the Snowy?

**Ms BROAD** — Following the agreement which occurred in December 2000, the government agreed to a whole series of things which were part of the agreement. Since then those things have been secured in a whole series of agreements between what ended up being the New South Wales, South Australian and Victorian governments and the commonwealth. Most importantly, as I referred to earlier today, with the corporatisation of the Snowy Mountains Hydro Electric Authority being expected to officially take place on 28 June, it will then allow, following the proclamation of the Snowy corporatisation legislation, those agreements to be implemented.

Most significantly, it will allow the early release from the scheme via the Mowamba River of up to 38 000 megalitres per year for a period of three years following corporatisation. That will provide an immediate benefit to the Snowy River while construction of a new outlet at Jindabyne dam takes place. That, of course, is necessary in order to allow increased flows into the future.

The 38 000 megalitres per year is the estimated level of flow required to prevent further deterioration of the upper reaches of the river, so the benefits of these early flows are significant. The agreed date for the commencement of those environmental flows will be set as soon as possible following corporatisation. It is the intention to establish a joint government enterprise within six months of the completion of corporatisation, and all of the governments will provide \$37.5 million per year for 10 years to fund the joint government enterprise to find and fund the savings to provide for flows to the Snowy River.

The key performance targets which are being set for the joint government enterprise are to meet the 21 per cent flow target within 10 years for the Snowy and to meet a 70-gigalitre target for the River Murray over the same period. There will be more specific performance targets established for the joint government enterprise as the business plans are put in place for the enterprise and those rollout on an annual basis. Initial discussions have

occurred between New South Wales and Victoria, and we expect to be able to demonstrate significant progress following the completion of corporatisation.

In terms of the water savings projects, in February 2001 the Victorian government announced a \$25 million package for water savings projects in northern Victoria, to be implemented over three years as part of the government's commitment to the Snowy River. When completed the Normanville pipeline, the Tungamah pipeline and domestic and stock metering projects are expected to generate up to 25 000 megalitres per year of water savings and to provide substantially improved water supply infrastructure for domestic and stock customers in these irrigation districts.

The Department of Natural Resources and Environment has been working with Goulburn-Murray Water to finalise the detailed design and community consultation for these projects over the 2001–02 year. It is expected that the construction and implementation of these three projects will commence in the 2003 year. Construction is well under way on the Woorinen pipeline project. I understand that the delays in the intermediate stages were due in part to the need to identify environmental flow requirements for the Woorinen drainage lakes. That project is expected to be completed on schedule in December of 2003.

The Department of Natural Resources and Environment has also been working with Goulburn-Murray Water to initiate and undertake a number of studies to identify further opportunities for water savings in northern Victoria, and these studies and investigations will mean that the joint government enterprise, once it is established, will be able to take full advantage of that work which has already been put in place to identify and commission water savings projects as soon as it is up and running.

I should point out that while I have been the lead minister in terms of the negotiations to secure corporatisation, the step which was required to enable the agreement to put in place environmental flows for the Snowy River, of course a number of other ministers are involved in the implementation of the agreement.

First and foremost my colleague the minister responsible for water resources, Sherryl Garbutt, has responsibility for the ongoing implementation of these water savings projects through the Department of Natural Resources and Environment. So I am in the very satisfying position of being able to conclude my efforts in relation to the agreement and, in a sense, to hand over to the minister responsible for water resources in terms of the implementation of the agreement.

I think the government can point to significant progress to date in meeting its commitment to restore the Snowy River flows, notwithstanding the delays which have occurred as a result of a number of elections intervening — for the federal government and the South Australian government — which had the effect of delaying putting in place the many agreements necessary for corporatisation to proceed. We have now overcome those hurdles, and the work which has been undertaken in Victoria in the meantime will be able to be handed over to the joint government enterprise to take full advantage of following corporatisation.

**Mr DAVIS** — I have a follow-up question on that. I am not an expert in this area at all, but as I understand it some future entitlement for Victoria was provided from the Snowy Mountains arrangements, or some advance entitlements were provided as part of the negotiations on our water entitlement. Is that correct?

**Ms BROAD** — I am not entirely certain what you mean by that.

**Mr DAVIS** — I understand that in coming to the negotiations — in coming to the agreement — some advance on Victoria's water entitlements in the next two or three years was part of the agreement. Is that correct?

**Ms BROAD** — I take that to be a reference to a matter I referred to in my remarks.

**Mr DAVIS** — Yes, I am just trying to get an understanding of this.

**Ms BROAD** — That is the 38 000 megalitres per year, which is to be provided through the release with the decommissioning of the Mowamba River aqueducts. There is provision under the agreement for those early releases to occur over a period of three years, and they are to be paid back, in a sense, through water savings projects which will be put in place through the agreement.

So there is a limitation on these early releases in terms of their being able to proceed for a period of three years, and there is a very clear requirement under the agreement that they are to be replaced through water savings projects as part of the agreement.

**Mr DAVIS** — Given that we have those advances, is there any risk that if Victoria and southern New South Wales and so forth were to head into a drought period over the next two to three years there would be a difficulty in either repaying those water entitlements or some other subsequent shortage that would compromise flows down our other river systems?

**Ms BROAD** — The agreement recognises that governments are not in a position to be able to guarantee — —

**Mr DAVIS** — Predict weather?

**Ms BROAD** — The weather and precipitation. The agreement makes allowance for the fact that because of that uncertainty there needs to be flexibility under the agreement, so that in years where we would expect all or part of the state to be affected by drought, for example, that flexibility would need to be provided for. Given that what we are aiming to achieve here is the restoration of some part of the natural flow to the Snowy River, you would expect that under those conditions the natural flow would be affected in any case. So we would expect in those circumstances that the agreement provided that environmental flows would have to be adjusted in those years if those constraints came into play.

**Mr DAVIS** — Thank you. I refer to an entirely different matter — electricity generation. I note in the budget that \$2 million was allocated in 2001–02 for energy market reform and that, according to the DNRE submission, the initiative is apparently progressing satisfactorily and meeting targets.

Given that the Electricity Supply Association of Australia said in mid-January this year that Victoria's power consumption was expected to rise from 38 400 megawatt hours per year to 46 000 megawatt hours per year by 2010, can you tell me what allocation there is in this budget to encourage additional investment in base-load generation, and, if there isn't any, how Victoria will survive the increased demand?

**Ms BROAD** — At this point the priority for the Victorian government has been to secure electricity supplies for the state in relation to what was an immediate need — and that was in relation to meeting peak demand requirements. The government believes that as a result of our efforts in facilitating investment, particularly in gas-fired generation, the state can now expect that those requirements will be met. Certainly the forecasts that are available indicate that, together with the investment in the upgrade of the link between New South Wales's and Victoria's systems via the Snowy interconnect, those needs will certainly be made.

In relation to forecasts of future growth in energy demand and the need for the provision of further base load in the future, there are a variety of views about how that might be met and how the market might respond. Given that we now have in this state an entirely privately owned electricity industry and a national electricity market which that industry has to participate in, it is important to look to how the market might provide suitable signals for that investment in the future.

There are a range of views as to what extent in the future gas-fired generation will meet demand requirements beyond purely peak load requirements, for example. The Victorian government is also concerned to ensure that there is strong growth in renewable energy generation, given environmental objectives and the issue of reducing growth in greenhouse gas emissions.

Most recently, the Victorian government has been working through a process in relation to exploration licences for future access to the state's considerable coal resources. It has made it very clear that in making decisions about granting access to those resources it is requiring that technology must be developed which addresses the greenhouse emissions issue, that existing technology is not acceptable and that we cannot permit coal-fired generation in terms of the technology which currently exists to be developed to meet that base load requirement.

So we are seeking through the current tender process for the state's coal resources to drive further investment in the research and development of technologies which will allow that resource to be utilised in a way which is environmentally responsible by meeting much higher greenhouse gas reduction targets. Those are some of the ways in which the Victorian government is seeking to ensure that future market responses to meet that anticipated growth in base-load requirements might be met.

However, given that the Victorian government is not in the business of investing in electricity generation these days, we are seeking to influence the way that that base load might be met in future in relation to providing access to resources through government facilitation of investment in renewable generation and by seeking to pursue these issues at a national level as well as within Victoria. I understand that a large number of the submissions that have

been put to the Parer review to date have raised the issue of how growth in energy requirements in the future might be met in a way which also addresses the greenhouse challenge, so this is an issue not only for the Victorian government but for the industry as a whole.

**Mr DAVIS** — In terms of the long-term future of the industry, how was your regulator proposal received at the ministerial council? I think there was a ministerial council in March this year.

**Ms BROAD** — Yes. I think it is fair to say that there was a pretty robust debate about that proposal at that stage. I am pleased to say that since that meeting all the jurisdictions in the national electricity market have been working on refining that proposal and other proposals which have been put forward from the other jurisdictions to meet our objective of providing for the more efficient regulation of the national electricity market and ensuring that the objectives which were set when the market was initially established are met on an ongoing basis, given that all the jurisdictions can point to issues that we have in terms of problems with the current regulatory arrangements.

We are planning at this stage to have a meeting in July, when that work will be put before ministers. The Victorian government's objective here is not to say that the proposal I have advanced must be adopted; the only way that we can progress in the national electricity market is by agreement between all the jurisdictions. I am very pleased that since I put forward the proposal there has been a lot of discussion about it, and I believe that it is assisting in our moving towards an improved regulatory model. We will have further discussions about that at the July meeting of the forum.

**Mr DAVIS** — As to the future of the industry, on Wednesday of this week I think Nemmco relaxed some of the prudential requirements surrounding investment. Are you relaxed about those changes in the prudential requirements for entry into the industry?

**Ms BROAD** — I might ask the committee if I can ask the director of energy policy, Richard Bolt, to tell us if we have made any response on those prudential matters.

**Mr BOLT** — No, Nemmco has been considering how it can relax the prudential requirements in the pool in order to make those requirements less of a burden than they have been. In the course of doing so an agreement has been reached on the timing by which certain prudential payments need to be made. It is a relatively technical matter and one which simply reduces the extent of surety that needs to be provided to the pool without compromising the financial position of the generators that depend on those requirements for their income.

**Mr DAVIS** — So the government supports those changes?

**Ms BROAD** — As I understand it, it has not been a major issue.

**Ms BARKER** — Minister, I refer you to page 201 of budget paper 2. Under 'Special power payment' there is an allocation of \$118 million to provide assistance to householders, small businesses and farmers in the outer suburban and regional and rural areas. I was wondering if you could provide us with a report on the progress of implementing that \$118 million special power payment.

**Ms BROAD** — Yes, I would be very pleased to do that. The \$118 million special power payment scheme is a very significant commitment by the government. Payments are being made to ensure consistency between the average power bills paid by non-metropolitan customers and those paid by metropolitan consumers in the same categories consuming similar volumes of electricity.

The need for the special power payment in non-metropolitan areas is largely a result of industry restructuring decisions made back in the mid-1990s, which have resulted in different overall cost structures being faced by retailers operating particularly in the local Origin and TXU areas compared to metropolitan areas.

Government industry and consumer representatives discussed in detail what was needed for the timely commencement of the special power payment schemes. That meant that in order to ensure that the rebate was implemented effectively and successfully a commencement date was set for 1 April. As it turned out, significant changes to what are already very complex retail billing systems needed to be undertaken to ensure that the rebate came straight off customers' electricity bills.

Work has also been undertaken, as you might expect, to ensure that the \$118 million is spent responsibly and targeted to those facing the biggest increases in their bills. So it was important for the government to ensure that adequate accountability mechanisms were put in place to ensure that its money was spent in the way it was intended. That meant that retrospectivity was not possible because of the very complex changes that would have

been required for the retailers. Retailers in both metropolitan and non-metropolitan areas were given a certain flexibility to rebalance the prices for 2002, provided they met the government's overall pricing guidelines. As a result of the government's actions Origin's average 2002 prices were constrained by government to a 13.5 per cent increase compared to 2001, and they were constrained to 15.5 per cent for TXU prior to the provision of the special power payment rebates.

They are being paid on non-metropolitan consumers' electricity bills regardless of who the actual retailer is, and they will average approximately \$89 for residential consumers and \$173 for small business consumers. Individual payments, of course, will vary according to electricity consumption, and payments are expected to be higher for those consumers with off-peak services. The average percentage increase is based on the average user, so bills will be adjusted up or down depending on the variance from the average.

TXU and Origin have published different standard tariffs, and as a result different rebate amounts have been needed to reduce the gap between the average metropolitan and non-metropolitan bills. Given the wide range of electricity tariffs, different customer usage patterns and the period in which electricity is consumed, which goes to the question of peak and off-peak usage, the impacts on individual consumers will vary considerably. I think a lot of effort has been put into making sure that consumers are aware of those complexities, and in particular consumers who are most affected by these changes.

A special power payment will apply to the electricity consumed by eligible customers through to 31 March 2003. All tariff classes will not be eligible for a special power payment, because retailers were given certain flexibility to rebalance their tariffs for 2002 within the government's pricing guidelines. As a result some tariffs are less in non-metropolitan areas compared to those in metropolitan areas.

Those are probably the key points in terms of the implementation of the special power payments. Information on the rebates is available through the Department of Natural Resources and Environment as well as from retailers. Retailers have ensured that all the customers have been provided with that information so that they are able to understand the adjustments to their bills.

**Mr RICH-PHILLIPS** — Minister, do you have any responsibility for the Wimmera–Mallee pipeline at all in association with your water responsibilities?

**Ms BROAD** — I am not the minister for water resources. Implementation for that is through the minister responsible for water resources — —

**Mr RICH-PHILLIPS** — So it is nothing to do with your portfolio?

**Ms BROAD** — Who I do not think has appeared before the committee yet.

**The CHAIRMAN** — No.

**Ms BROAD** — So you will have the opportunity to ask — —

**Mr RICH-PHILLIPS** — What I would like to ask you about, and again this might not be yours, is the centre for energy and greenhouse technologies.

**Ms BROAD** — Yes, that is.

**Mr RICH-PHILLIPS** — The first question is how come it is in the Department of Innovation, Industry and Regional Development's budget?

**Ms BROAD** — There was funding provided through the government's business statement, and then additional funding was provided through the Victorian greenhouse strategy. There are a number of amounts which you will find in different places in the budget papers as a result of support for this government initiative through the Department of Innovation, Industry and Regional Development and through the Department of Natural Resources and Environment. But it is one initiative, and that funding is combined under the Victorian greenhouse strategy.

**Mr RICH-PHILLIPS** — That project is dependent upon commonwealth funding?

**Ms BROAD** — No, it is not. That issue has been raised with me. The government has indicated that we will certainly be seeking to attract funding from the private sector, and we will be seeking to attract funding if the commonwealth government is willing to provide it. We think this is a sufficiently important initiative to warrant



seeking commonwealth government support for the research and development of renewable energy technologies. However, we have made it clear that it is not dependent on that funding coming forward, so the Victorian government will proceed regardless of commonwealth funding.

**Mr RICH-PHILLIPS** — The budget papers say it is dependent. It says it is subject to obtaining matching commonwealth funds.

**Ms BROAD** — Can I call up the director of the greenhouse policy unit, because that is not the understanding I have? I will just introduce Ian Porter and ask him to say what his title is.

**Mr PORTER** — I am the manager, greenhouse policy, Department of Natural Resources and Environment.

I think we might want to take part of that question on notice, Minister, inasmuch as the budget papers still contain that line about commonwealth funding; but as you have indicated, we are searching through two or three separate avenues for commonwealth funding for this exercise, both in terms of the commonwealth running a number of grants programs of its own, which it has already indicated will very likely match work that is under way through the centre, and through direct investment itself.

**Ms BROAD** — So we are seeking funding from a number of commonwealth sources, but the Victorian government is proceeding with the initiative. I will have to take on notice that line in the budget papers, but I think you can take it from my response that the initiative is one that the Victorian government is committed to, even if it is not possible to attract commonwealth funding.

**Mr RICH-PHILLIPS** — Could you outline how it differs from the cooperative research centre for clean power from lignite.

**Ms BROAD** — The CRC for cleaner energy from lignite or brown coal is a completely separate initiative and is one which has been in place for some time. It is supported not only by the Victorian government but by a number of other sources, so the brown coal generators, for example, contribute funding to the CRC.

It is my recollection that at the recent federal election the commonwealth government made a significant commitment to provide funding to the CRC, and I understand that protocols are being worked out as to at what time and in what terms that funding will flow from the commonwealth government. So the CRC is not owned by the Victorian government but is something which the Victorian government supports and contributes funding to, and it receives funding from a range of other sources.

I might just ask if Mr Porter wants to add anything to that.

**Mr PORTER** — I think the relationship is that the centre for energy and greenhouse technologies will have a much broader ambit than the CRC for clean power from lignite, which is focused entirely on more efficient uses of brown coal and particularly on mechanical thermal expression technology, among others, whereas it is envisaged that the centre will have a much broader range of technologies and systems that it will look at.

**Mr RICH-PHILLIPS** — Will there not be a fair degree of doubling up, particularly between the lignite centre and the new proposal? Won't there be a lot of duplication in what they are doing?

**Ms BROAD** — I think you can confidently expect that, given that the centre is being established by the Victorian government, we will ensure that that does not happen. As has been indicated, the work of the CRC has been very specific in pursuing the development of a particular way of utilising brown coal and reducing greenhouse gas emissions. We would certainly not be duplicating that work through the centre for greenhouse technology.

**The CHAIRMAN** — I assume that things such as ceramic fuel cell technology could be looked at by the action group and would not necessarily relate to clean coal technology research, so that type of thing would be in the wider ambit?

**Ms BROAD** — Yes.

**Mr DAVIS** — On the centre for energy and greenhouse technology, it is not entirely clear exactly how it all bolts together. Can you put down the different funding sources in some systematic way? Obviously you do not have that with you now, but it would be helpful if you could forward that to the committee. It has a board, as I understand it?



**Ms BROAD** — It has not been established as yet.

**Mr DAVIS** — Is that envisaged?

**Ms BROAD** — Those matters are currently being worked through in relation to the final form that the centre will take in terms of its structure and precise location, noting that the government has made a commitment to locating the centre in the Latrobe Valley. Those details are still being worked through. To the extent that we are able to detail the matters you have requested, we will be happy to provide that to the committee.

**The CHAIRMAN** — Minister, that concludes the time allocated for your appearance at this year's estimates hearings. I thank you for your attendance today, and I also thank your various departmental officers for their attendance. There are a couple of issues that the committee will follow up with you at a later time, and there may be some further questions that will be forwarded to you in writing at a later date.

**Committee adjourned.**