

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2003–04 budget estimates

Melbourne – 28 May 2003

Members

Mr W. R. Baxter

Ms C. M. Campbell

Mr R. W. Clark

Mr L. A. Donnellan

Mr B. Forwood

Ms D. L. Green

Mr J. Merlino

Mr G. K. Rich-Phillips

Ms G. D. Romanes

Chair: Ms C. M. Campbell

Deputy Chair: Mr B. Forwood

Staff

Executive Officer: Ms M. Cornwell

Witnesses

Mr T. Theophanous, Minister for Energy Industries;

Mr R. Bolt, Executive Director, Energy and Security; and

Mr B. McDonald, Chief Finance Officer, Department of Infrastructure.

The CHAIR — Thank you, Minister. Thanks to our previous witnesses. I now welcome Mr Richard Bolt, executive director, energy and security, and Mr Bob McDonald, chief finance officer, Department of Infrastructure, and departmental officers. One hour has been allocated for questions on the energy industries portfolio. I understand you have a brief presentation and then we will move on to questions until a bit after 4 o'clock.

Overheads shown.

Mr THEOPHANOUS — Just to start with some of the issues the department is involved in: an important one is full retail competition. This was brought into play in January 2002 for electricity and October 2002 for gas. It has resulted in significant movement, with individuals changing their retailers. In the electricity area there has been an 8.4 per cent shift — what we call the churn rate — in the market in terms of provider since January 2002. In gas, the rate is 5.5 per cent. We do not consider that that is adequate to say that we have a mature competitive market yet, but it is encouraging nonetheless.

There are now 14 electricity and 8 gas retailers licensed to compete in Victoria, and we expect that number to increase. The Essential Services Commission is looking at a price comparison service to assist consumers; that is important to all of this. Finally, the Essential Services Commission is also considering an interval meter roll-out, which again is a way of empowering consumers while also allowing retailers to offer different tailored packages for those consumers who have interval meters.

Consumer protection is a very important part of what we do. As members would be aware, we have decided to extend the safety net through to 2004, and we will be passing legislation in relation to that. That will be extended for that period for both electricity and gas. The outlook for 2004 is that we will be able to maintain standard pricing of electricity and gas at reasonable levels, but we will be investigating — as we did in the previous year — what we think should be reasonable standard prices for those commodities and making decisions in late 2003, as we did late last year in relation to this year.

The network tariff rebate (NTR) is the successor of the special power payment. Payments of the network tariff rebate commenced on 1 April, and we are looking at further options of how to maintain this parity between rural Victoria and metropolitan Melbourne into the future. You will be aware that decisions were made which involved in 2003 electricity price increasing on average by no more than the consumer price index (CPI) or 3.1 per cent.

In relation to gas, a range of decisions were made. TXU had a significant increase of 9 per cent, but that was after an examination by the Essential Services Commission. It was a significant reduction on what TXU had requested, which was 14.3 per cent. In relation to electricity, retailers were allowed to rebalance average bills on individual tariffs to plus or minus 5 per cent — actually plus 5 per cent; they could come down as far as they wanted in the other direction, but they could not go above 5 per cent. The maximum average increase was CPI plus 5 per cent for any individual tariff. I think that has been accepted relatively well. The combination of the price controls and the NTR has allowed stability in pricing between rural and regional Victoria and across tariff categories.

The CHAIR — If I could interrupt, given where you are up to on your slide presentation and the fact that you have 5 or 6 minutes. Some 4½ minutes has already gone, so you might like to skip a few slides.

Mr THEOPHANOUS — I will be very quick. I will mention natural gas extensions. I am sure I will get questions on natural gas extensions —

Mr FORWOOD — You certainly will.

Mr THEOPHANOUS — I will not labour that.

Victoria has a strong position on energy market reform, which I think protects what we have in Victoria, which is a competitive industry. Hopefully, we will be able to get some outcomes out of that in the various national forums.

Gas market reform is also important to us. We are looking at a number of things, including whether the significant producer legislation should continue in place given that there is now significant wholesale competition in gas. We are examining that at the moment. There is also a review taking place on the question of the gas spot market.

Base-load generation is another issue, which certainly the shadow Minister for Energy Industries has raised with me on a number of occasions, and I am sure he will continue to raise it again, including here today.

I have mentioned greenhouse emissions in relation to my other portfolio area. This is an important part of what we do. As part of that we are trying to not only reduce greenhouse emissions but also facilitate renewable energies, particularly wind energy in Victoria, and I would be happy to elaborate on that as I take questions.

Two more quick slides. The first one is about the counter-terrorism measures, which is part of my responsibility. We are involved in examining the infrastructure at the moment to determine what risks there are.

Finally, in relation to safety initiatives, I am responsible for the Office of the Chief Electrical Inspector and the Office of Gas Safety. That involves ensuring that we have the safe use of electricity and of gas both in the industry, and of course by consumers.

The CHAIR — Thank you, Minister. Given Mr Merlino is so keen to ask about natural gas and you are keen to talk about it, perhaps he would like the first question?

Mr MERLINO — I note in budget paper 2 at page 83 the allocation of \$70 million over the next four years has been made by the government to extend the natural gas network to the communities of rural and regional Victoria and, Danielle and I are very happy to say, the interface council areas. Can you outline the nature of the program, which towns have a commitment to being connected and when these towns and others will be connected? If I can also refer you to the slide presentation and the information forum that is referred to on 11 June, can you tell me a bit about that as well?

Mr THEOPHANOUS — The budget provides \$70 million within the Regional Infrastructure Development Fund to extend the reticulation of natural gas to regional communities. The government is finalising the guidelines for the distribution of that \$70 million. The first funds are expected to flow in the next financial year — that is, 2003–04.

You might have noticed that yesterday the Minister for State and Regional Development announced that a major statewide briefing was going to take place in Bendigo. At that forum there will be up to 180 representatives from councils right across Victoria, and it will be held in Bendigo on 11 June. This is a very important part of the announcement that will be made. The forum will provide councils with details on how to take part in the extension program. Invitations are being sent to mayors and chief executives over the next few days. Representatives from gas distribution companies will also be in attendance.

The gas extension program has the potential to deliver natural gas to between 70 000 and 100 000 households and businesses outside of suburban Melbourne. The funding is going to be targeted at areas that can demonstrate that the reticulation of natural gas will provide clear net benefits to the community. The speed with which towns are connected will depend on how quickly local communities and councils can develop stronger cases for reticulation. Empowering the communities is an important part of this in helping them to make their cases.

Consistent with our announced commitments the natural gas network will be extended to Barwon Heads, Bairnsdale, Creswick, Woodend, Gisborne and Romsey within the program's overall time frame. I say that because these places are not exempt from developing the case and they are not exempt from the process of working out with the commercial provider how much the government should be paying for these extensions.

The budget estimate of extending reticulation to four towns is a reasonable estimation of the number of towns for which there would be actual financial commitments agreed to with suppliers of natural gas within the context of the current budget.

As you can see, this is an important project. We have not tried to overemphasise what is achievable in the first 12 months. The people of Victoria can be certain that \$70 million is allocated. They know there will be a process where towns can work up a case and that they will be assisted in working up that case, and that has to be examined in the overall context of the gas reticulation system throughout Victoria. Obviously there has to be a process to determine whether the amount being paid to the contractor in each case is for what might be called the non-commercial aspect of that reticulation so we are not paying for reticulation of gas to areas that are commercial. Determining that is an important part of this project.

The opposition, more so the National Party and the Liberal Party, has been vocal in relation to this matter, but it does not exactly have many runs on the board on this issue. When the gas industry was privatised there were no funds set aside by the previous government for the extension of natural gas. It certainly provided some legislative change, and that was designed to get natural gas into some areas of country Victoria where those towns were prepared to pay the additional cost of how much they paid for the gas to make up the cost of that reticulation. The

contribution of the previous government was essentially to say to country Victorians, 'You can have natural gas if you pay for it in terms of higher gas prices for your specific town than anybody else'. We have allocated \$70 million to pay for reticulation of gas to as many as up to 100 000 households throughout Victoria.

Mr FORWOOD — A supplementary question on the same issue, Minister — and you would know that we support this project and voted for it in the Parliament the other day — I am most concerned that six towns have been promised gas in the budget, but only four are listed as the target in the next financial year. The four will come from those six?

Mr THEOPHANOUS — Mr Forwood, you have attempted to talk to the Treasurer about this, and he explained it to you, and I am happy to explain it to you again, but you are not exactly endearing yourself in your ability to understand.

The CHAIR — We do not need to work out who is endearing each other, all right?

Mr FORWOOD — I had a simple question.

The CHAIR — Do you want to leave it with the Treasurer, or would you like to say the same thing or something different?

Mr THEOPHANOUS — No, no, I am happy to reinforce what the Treasurer has said.

Mr FORWOOD — Right.

Mr THEOPHANOUS — And to help Mr Forwood to understand, there are six towns which are part of the commitments of the government.

Mr FORWOOD — Right.

Mr THEOPHANOUS — There is not a time frame around that. I mentioned earlier that those towns will have to build the case in the same way that other towns do, but we are committed to gas in those towns. The four that —

Mr FORWOOD — Will they make the case or not?

Mr THEOPHANOUS — We will help them to make the case. That was a gratuitous comment, to be frank. The fact is that we have a commitment to these towns. We will assist them to make sure that the commercial price is the appropriate commercial price, and they will be delivered gas as a result of this program. What will happen though is that in the next financial year there will be a minimum of four that will be delivered to, and we have not identified any in relation to that. That depends on which ones are ready and which ones are the most appropriate and efficient for us to do over the next 12 months.

It is not rocket science, it is not a big secret; it is something that we have determined to do. I have to say that the Labor Party has once again come to the rescue of regional Victoria in relation to this matter.

Ms GREEN — And interface —

The CHAIR — Would you like a question, Mr Forwood, or will I move to Mr Clark?

Mr THEOPHANOUS — And interface councils; I do not want to forget the interface councils.

Mr CLARK — My question relates to pricing for electricity and gas. In your presentation you described the extension of the price capping arrangements. In broad terms my question is: what is your exit strategy for this price capping in the sense that presumably at the moment you are continuing it because if you do not you expect that market prices will rise significantly, and you do not want that to happen. If you are going to end price capping you have to have some strategy to bring down the market prices that would prevail if you lift capping. The question is: how will you bring that about? Or will you just extend year by year indefinitely and hope that something turns up to resolve the problem?

Mr THEOPHANOUS — Thank you for the question. This is a complicated issue, and it is one which we are certainly giving a lot of consideration to. Let me just take you through a number of issues. Firstly, I am told by the experts that to talk about a mature competitive market you really have to be talking about churn rates in the order of 15 per cent. We are not at 15 per cent; we are at about 8 per cent, so we are running at about half. There is,

however, an argument about those consumers who have taken offers from their existing provider, which does not show up in the churn rate. Whether or not you count them in determining whether there is a competitive environment, that is an issue.

The second thing is the number of retailers. That is expanding. There are more and more retailers coming onto the market and making offers which are being taken up. Another aspect, however, is how you can empower consumers more. That is about the Essential Services Commission providing comparative information, which it is seeking to do at the moment, so that consumers are able to make an informed choice. In addition to that, the ESC will have to look at things like to what extent consumers ought to be able to be locked in over long or shorter periods of time by individual retailers and therefore have the capacity to shift retailers in the event that they are not getting the service that they had hoped they would get from the retailer they have chosen.

All of these issues of competition are a part of what we are talking about. Then you have an overlay on that; well, at least two overlays. One is the low-level consumer, or what might be called the pensioners and others, who use a very small amount of electricity and are not really the ones the retailers will rush to try to make offers to. Protecting them is an issue. On top of that you have the question of what we do with the rural-city question, because of the structured-in network differentials between rural Victoria and metropolitan Melbourne, which was a feature of the system established by the previous government. All of those issues somehow have to be examined by the government to come to a decision about how we on the one hand protect consumers and on the other hand empower them in a competitive market.

Finally, and I suppose importantly, there is the question of such things as the rollout of interval meters, which the Essential Services Commission is looking at. Interval meters, as you would know, are meters which measure electricity consumption on a half-hourly basis. They allow you to build a profile of consumption for a particular household or small business, and that then allows that small business or household to go to a retailer and say, 'Well this is my profile of consumption; what kind of deal can you do for me based on this profile of consumption; and more importantly, if I change this profile of consumption to a different profile of consumption can I get a better price for electricity?'.

The question of how we get interval meters out into the community is an important one and is another one which is being investigated by the Essential Services Commission. So as to the question you asked me of how we make the decision ultimately for this transition, I guess my answer to that is that we have to take into consideration all of those issues that I have just outlined to you, and we will come to a balanced position, which will be in the interests of consumers, at the appropriate time.

Mr CLARK — There is one particular aspect of that that you did not touch on — and I appreciate the range you have covered — and that is particularly the electricity wholesale prices. Clearly if wholesale prices are not low enough you will face a big increase if you lift price caps. How do you propose to address that aspect?

Mr THEOPHANOUS — Again, this is not a simple thing, but it is a matter of supply and demand. Currently with wholesale prices I do not think if you asked the generators about wholesale prices that they would say that the wholesale prices are high — in fact, they would tell you the opposite. When I was down in the Latrobe Valley recently I was looking at one of the screens in the generators and they had a price up of \$18 for a megawatt of electricity, which is a very low price considering that the average price is, I suppose, around \$35 to \$40.

What happens is that the big generators hedge most of their output against contractual arrangements. So probably 95 per cent of the power is actually hedged out and structured into contracts at around \$35 or \$40 from out of the base-load power stations. The rest is sold on the spot market. It fluctuates, but at the moment it is being kept down fairly low because there is a significant oversupply of electricity, except in certain specific times, particularly during the summer peak period, when you can get a very high increase.

But I guess the answer to keeping wholesale prices down is to ensure that there is a diverse way in which we can get power from all sorts of different sources, which might include wind and gas and base-load power, and transmission lines. So all of that adds up to keeping the wholesale price relatively low.

The CHAIR — On a supplementary question on pricing, I am particularly interested in not the high-volume end but the low-volume end, and particularly the low-income consumer. What proposals do you have in place to ensure that they are protected in this grand pricing debate?

Mr THEOPHANOUS — I guess there are two sides to that. One is that there is another department which does give relief to low-income people in relation to their electricity and gas bills. That is not administered by

my department but it is there as a safety net if you like. The other side of it, and it is a legitimate question, is when we move to full retail competition how do you protect the real bottom end of the market? I do not want to pre-empt decisions. We are able to do that at the moment because we are protecting the whole lot. How we go to a position of ensuring that even when we do go to a completely free market we protect the very low end is an important question. It is one on which I do not want to pre-empt our decisions but obviously there would be a significant argument for retaining some level of capacity to ensure that the low end is not adversely affected as you lift all of the constraints on competition.

The CHAIR — Thank you. My question relates to Australian Gas Technology Services Pty Ltd (AGTS). As you know, on page 112 of budget paper 3 and also page 124, one of the objectives is to:

... improve the energy sector safety and reduce incidence, severity and cost of accidents and incidents.

One of the functions of the Office of Gas Safety is to set and enforce safety measures and standards. Could you outline to the committee a little of the fallout of the collapse of the Australian Gas Technology Services?

Mr THEOPHANOUS — This is in some respects a bit of a sorry story. AGTS provided appliance testing, gas quality and library services to the gas industry of Victoria. The shareholders of AGTS were all big companies. They included Envestra, Energex, Country Energy and AGL, all multibillion dollar companies that owned a quarter of AGTS. When it went into administration on 17 February, AGTS had a paid up capital of only \$12. It had no capital backing to speak of in the event that the company was wound up. I informed Parliament on 10 April 2003 that I was concerned about AGTS going into liquidation, both in relation to gas safety and in relation to the employees of the business. But before I informed Parliament I had taken a number of steps in relation to this issue. I met with Ken Gardner, who is the chief executive officer of the Office of Gas Safety, on the implications of the company's failure for gas safety issues. Mr Gardner has advised me that gas safety issues are under control and that interim arrangements have been put in place to ensure that the functions previously carried out by AGTS can be accessed by the gas industry. He will continue to update me on safety issues.

I have also met with the four shareholders of AGTS to discuss both the safety issues and the question of workers' entitlements. In relation to the entitlements I indicated to them my strongest view that they had a moral obligation to act as good corporate citizens and that they should consider covering the entitlements of the workers in the event that there was a shortfall. I also wrote to the shareholders asking for that to occur. I believe there are about 35 employees involved. This might not seem a large number but to their families I can assure you it is an important issue.

I informed Parliament that both AGL and Country Energy have committed to meeting their share of employee entitlements once they are satisfied that all other avenues open to the liquidator have been exhausted. I thanked those companies and put it on public record, and I want to put it on public record again.

I am pleased to tell the committee that Energex has now also agreed to meet its share of employee entitlements on the same terms as AGL and Country Energy, and I would like to place on record my thanks to Energex. I think it is a sign of being a good corporate citizen in this industry.

However I have to report to the committee that I am yet to receive a satisfactory response from Envestra. Given its attitude to date I do not believe that response will materialise so I want to inform the committee of my disappointment with that company when contrasted to the attitude of the three other major companies that were part of the ownership structure of AGTS.

The worst thing about this is that if you think about how AGTS came about, originally its functions were carried out by the Gas and Fuel Corporation. When the Gas and Fuel Corporation was sold these functions went to AGA, the Australian Gas Association. It sat there for a while and then set up AGTS. AGTS went from AGA to these four businesses. The idea was that if you had four big businesses controlling the body providing these gas services to the whole gas industry that was a good model. The chair of the Australian Gas Association at that time was Ollie Clark. He was also the chair of AGTS when it was set up. When AGTS went from being owned by AGA to the four businesses, there was no proper set-up for the entitlements of the employees.

I am sorry to take up time on this, but I think it is an important issue. When those four businesses took over you had Ollie Clark, who was the chair of AGA, he was the chair of AGTS and he was the managing director of Envestra. So Envestra and Ollie Clark were intimately involved in the whole establishment of this structure. Therefore if anyone has responsibility for the entitlements of these employees it is Envestra more so than the other three. In fact Ollie Clark was the chair of the AGA and AGTS; he was wearing more hats than Lillian Frank. Some people might

have a few questions to ask of Ollie Clark. Anyone who cares to dig a little into this might find that it is a bit inappropriate for this company to now walk away from its responsibility given that the other companies have agreed to that responsibility and are taking what I consider to be the appropriate course.

The CHAIR — Thank you, Minister.

Mr FORWOOD — Minister, in the base-load generation investment slide, page 3 in our handout, you talked about possible new base-load users which would impact on investment. You said there was a substantial interest in base-load evident already. Can you inform the committee as to the level of assistance provided by the government to Alcoa last financial year, this financial year, and where we are up to with discussions with Alcoa which will obviously have a huge impact on base load? They are talking about 350 megawatts.

The CHAIR — If I could step in there, we were advised in an earlier hearing that this could be commercial in confidence and I alert the minister of that. That is what we were told last time. I do not know whether it is or not, but that is what we were advised in a previous hearing. The minister is free to make any comments he cares to, but I do not want this committee to in any way draw into disrepute and undermine any commercial work that the government is doing with business in this state.

Mr THEOPHANOUS — Let me partially answer the member's question. First of all, the question of how much Alcoa is paid under present arrangements is not part of my portfolio area. It is an arrangement directly with the Treasurer, so I do not have those figures to make available to you.

Secondly, whatever discussions are happening with Alcoa are, of course, commercial in confidence, that part is true. But in relation to your question about the effect of this on base load, I am happy to talk about that aspect. Obviously if there was a third potline that came on stream, or even a fourth one, then it would require a significant amount of extra power generation in the state. You have mentioned probably around 300 megawatts for each potline, or maybe a bit more, but we are not in that position at the moment.

I am certainly not able to talk to you about the discussions that are taking place with Alcoa, but I can say that the issue of base-load power is an important question for us and we have a number of strategies in place to increase the amount of power for Victoria. We have brought on stream quite a lot; about 1000 extra megawatts are coming on stream as a result of this government's actions. Just to point to a few of those: SNOVIC has allowed an extra 400 megawatts to come down from New South Wales; the AGL's plant in Somerton has given 150 megawatts of peaking power; Valley Power's gas-fired plant in the Latrobe Valley has brought on stream 300 megawatts; Duke Energy's plant in Bairnsdale has brought 80 megawatts on stream; and there is a range of other wind-type energy and so forth that has come on stream.

Mr FORWOOD — But they are not base load; wind is not base load.

Mr THEOPHANOUS — I know, but obviously the more you are able to deal with the peaks, the more availability you have of other sources of power for base-load consumption. It is not the entire solution. We recognise that were there to be a major source of power required such as through Alcoa off the base load that would accelerate the process of trying to bring on base load. We are aware of that and there are a number of possible base-load projects that will come on stream, or that can come on stream. APEL is one — for instance, there is 500 megawatts of base-load power if APEL is able to bring that on stream. HRL is the other one that is also in the planning stages. It is not as if there is nothing being done. I am confident we will be able to have enough base-load power if Alcoa does come on with a third potline.

Mr MERLINO — Minister, I note in budget paper 2 at page 5 one of the government's long-term priorities is to protect the environment and to promote sustainable development. Can you outline for the committee what is being done to ensure that Victoria's energy supplies and the way we use them is environmentally sustainable?

Mr THEOPHANOUS — I mentioned before the importance of the Latrobe Valley, the importance of power generation down at the Latrobe Valley and how it provides 85 per cent of our power, but to put this into the overall Victorian context, Victoria's greenhouse gas emissions through electricity generation accounted for around 70 per cent of emissions in 2000, so it is a very significant source of greenhouse gases. However, as I also said, electricity generation based on brown coal will continue into the foreseeable future, so we need to find ways of reducing those greenhouse issues.

We are looking at less energy intensive forms of energy as well as supporting greenhouse gas abatement technologies for Victoria's brown coal, and I have mentioned some of those through the CRC program. We have committed \$3.5 million over four years to increase our own purchase, that is the government's purchase, of green power from 5 per cent to 10 per cent, and that obviously creates a stimulant in the industry. It means that our providers at least have to go and find green power and that stimulates production of more green power in the system.

In addition the 2003–04 budget includes a range of measures to encourage renewable energy across the community. These include \$3 million over four years to establish a solar energy retrofit scheme for schools, kindergartens, child-care and community centres; \$3 million over four years to assist low-income Victorians to pay for energy efficient products and minor maintenance; \$3.5 million over four years to extend the solar hot water rebate scheme. These are some of the measures we have taken.

The government has taken a range of other actions to address greenhouse emissions, in particular — and I think these things are important — we have set a range of targets. We have set a target of 10 per cent of Victoria's electricity consumption to be provided from renewable energy sources by 2010, which is a significant target. We have proposed that the commonwealth government double its mandatory renewable energy target from the current 9500 gigawatt hours to 19 000 gigawatt hours. We have released policy and planning guidelines for wind farm developments to facilitate appropriate development of Victoria's wind resources. We have supported energy efficiency initiatives, including the development of a national framework for energy efficiency that will deliver major improvements in Australia's energy efficiency practices. We have encouraged new greenhouse abatement technologies, which I have mentioned. We have licensed companies in the brown coal tender which are prepared to undertake challenges, including in the latest technology to increase efficiencies in developing geosequestration as a technology.

The CHAIR — Would you like to expand on that?

Mr THEOPHANOUS — I am happy to describe what that is. This is a technology which, if it is successful, may potentially lead to the capacity to build coal-powered stations in the Latrobe Valley which would have zero emissions. If the committee thinks this is next century stuff, it should think again because I have a letter — I am not sure if I have brought it with me — sent to me by Rio Tinto in which it outlines that it and a group of the five biggest generator companies in the United States have got together with the Bush administration and the government has allocated in excess of US\$1 billion with the industry, but \$1 billion coming from the government in order to build America's first fully functioning, fully sized, coal-fired power station with zero emissions. So there is serious money going into this, and the technology involves capturing all of the emissions and essentially finding a method of putting them back into chambers underneath the sea bed. Over the course of time the carbon crystallises and becomes harmless. So it is an interesting technology. It has huge challenges associated with it, but I understand that the preliminary studies in Victoria have indicated there are very good possibilities for geosequestration — pumping under the ocean, filling some of the chambers that we are emptying with gases from the emissions of brown-coal stations and therefore creating zero emissions. It is exciting, futuristic stuff, but it is here with us now.

Mr FORWOOD — I have a supplementary. On your slide on greenhouse emissions you say investors require certainty on greenhouse obligations. Are you talking about investors in power stations or just investors in general?

Mr THEOPHANOUS — No, I am talking about investors in relation to wind because what has happened is that as a result — —

Mr FORWOOD — That is the mandatory renewable energy target stuff?

Mr THEOPHANOUS — This is the MRET stuff.

Mr FORWOOD — So the policy to be developed in 2003–04, what does that mean? That is the MRET policy from the federal government — the Tamberlain review?

Mr THEOPHANOUS — Yes. Do you want to help me with that?

Mr BOLT — Yes. That policy is to do with options for providing some certainty for greenhouse abatement across the energy sector, across generators.

Mr FORWOOD — Everyone?

Mr BOLT — That is right.

Mr THEOPHANOUS — But I do want to make the point — you have raised it — that the fact that Parer came out with a policy which said that MRET should go created huge uncertainty in terms of investment in wind, and I hope and believe the federal government will end that uncertainty with the review of MRET that is taking place at the moment and that MRET can not only be retained but also expanded.

Mr CLARK — I refer you to articles you may have come across in the *Herald Sun* and *Weekly Times* newspapers of 9 April relating to power cables connected to farms, businesses, homes et cetera and a report that up to 75 000 of them might not now meet Victorian government minimum height regulations. I understand that there has been a committee established — the cable heights clearance committee — to look at the issue. Can you tell this committee what the government proposes to do about this during the course of the forthcoming year? Can you give this committee the terms of reference of your cable heights clearance committee and has the government applied any funds to this issue for the forthcoming year?

Mr THEOPHANOUS — Yes, this is an important issue and, I suppose, the history really is that during the course of an industry safety audit which was conducted in 2002 a number of network businesses approached the Office of the Chief Electrical Inspector indicating that the clearance height of some electricity lines did not comply with regulations governing their height. The issue was immediately addressed by a committee involving senior representatives of the Office of the Chief Electrical Inspector and network businesses.

I understand that a number of non-compliant overhead lines across main roads and near schools, for example, were rectified as a matter of priority. The network businesses have agreed to identify other non-compliant electricity lines and prepare programs to rectify those as well. The cost to industry of the whole program is expected to be in the order of \$120 million, so it is a significant cost to the industry. But this will be spread over a number of years and will not be directly charged to electricity customers.

We are happy to resolve any compliance issues with the regulations; the office is happy to do that. I can say that we are working with the industry to ensure electrical safety while this is being rectified. Although the audit report is still to be finalised, the basic conclusion is that the businesses are complying with the Electricity Act and its regulations. So it is an issue which has been identified; it is an issue which we have attempted to address. There is a cost associated with it obviously. However, we are not prepared to compromise on safety and we are addressing it in terms of those which are most important are being handled as a priority.

Ms GREEN — Minister, I note that in budget paper 3 on page 127 one of the output measures of the Department of Infrastructure's energy policy services area is the number of powerline relocation grants approved and compliance of these grants with approval criteria. Can you outline the purpose of the grants and how the program will benefit Victorians?

Mr THEOPHANOUS — Thank you for your question. The powerline relocation scheme is a very popular scheme, I have got to tell you. It is a scheme which since 1999 we have invested \$10 million in. I am not sure whether the Watsonia area — —

Mr FORWOOD — Just outside.

Mr THEOPHANOUS — Is just outside the electorate of Mr Forwood, but it was one where the Premier and I recently attended the opening of part of the undergrounding of lines there. I can tell you that where this has been done it just changes the streetscape to an amazing extent.

Ms GREEN — I drove up there last week.

Mr THEOPHANOUS — You would know the area there. You go across the railway line and suddenly, without the powerlines being there, there is such a difference to the way it is presented. These grants are made available to local communities. They are usually a partnership with the council and the government in order to facilitate that relocation of overhead distribution powerlines.

I remember that junction there in Watsonia used to be called the spaghetti junction because of all the overhead lines that you could see. I should add that, whilst it is not a separately recorded amount in the budget papers, about half of the funding allocated to the energy policy services output has been budgeted by the department for the operation of the powerline relocation scheme in 2003–04.

Mr FORWOOD — Half the output?

Mr THEOPHANOUS — Yes. The department advises that around \$3.2 million, covering around 20 projects, will have been expended under the scheme in 2002–03. So it is a significant boost. This scheme is a partnership which involves the government, the electricity industry and municipal councils. There is a committee chaired by the department and comprising government, planning and electricity industry experts, which assesses funding applications submitted by municipal councils. Funding is normally granted on a dollar-for-dollar basis with local councils, and assistance is provided where community benefits are clearly demonstrated by the councils concerned.

Transmission lines are not covered by the scheme because these are very high cost to put underground. Those big transmission lines that you see around the state and also — some of them — in the metropolitan area are not covered under this scheme because obviously they are very expensive to put underground. But this is more about shopping centres, main roads, where people can actually see the real benefits that it gives.

This is a targeted scheme and I should say, when we talk about spending dollars on undergrounding wires, I know that there has been a significant debate in relation to Basslink and the undergrounding of power from Gippsland.

There is a significant cost associated were that to occur and in an ideal world you would have to balance the question of whether you would be better off. I do not know how many main streets throughout Victoria, how many country towns, how many suburban shopping centres and whatever you would be able to put underground with the sort of money that you would need to spend in order to put those lines underground through Gippsland. Sometimes as a government we need to make decisions which indicate our priorities, and in this case we have a targeted project. We are spending \$3.2 million and it is a project which is having real results and is of real benefit for local communities.

The CHAIR — Mr Forwood, with the last question.

Mr FORWOOD — The federal minister, Ian Macfarlane, suggested that Australia's power consumption is likely to go up 30 per cent by 2010 and this was going to put pressure on base-load power, particularly on the eastern seaboard. You and I know that the lead time for construction of large amounts of base-load power, even if we do not get Alcoa or magnesium plants, will take some time. As another complicating factor the government has issued the instruction that any new brown coal power stations must meet 30 per cent higher-than-current best practice from the valley in its emissions. Are you confident that Victoria will not suffer the Macfarlane fate, and if so what strategies have you got in place to deal with the problem?

Mr THEOPHANOUS — Can I first of all say that I am not sure what the Macfarlane fate is, but I can say —

Mr FORWOOD — He said the lights would go out. You were there. It was at the conference.

Mr THEOPHANOUS — Yes, I went to that. I must say that he has given this speech on a number of occasions, and he has been heavily criticised by some other states for the projections that he has used which I think are a bit fanciful in some respects. I am not going to get into the business of tit for tat with the federal minister on this question. I can certainly inform you that we will need new base-load power in Victoria in the next 10 years or so. Of course that time frame can vary depending on what other measures we put in place and what sort of transmission line upgrades are available from interstate and so forth. It can also vary in relation to projects like Alcoa and so on.

This is about providing the triggers for new base-load power. We have done some of that through the brown coal tender process and we have two projects which have taken that up. Hopefully they will come on stream by the time frames that we are talking about. But I have to say to you that when you go out and sell the industry — and you are talking about a privatised industry — then to a large extent you have to rely on the market. We are not going to go out and build a government-owned power station. That is not a luxury which we have any longer in Victoria. We have to find different and smarter ways of doing this. A smarter way of doing it is to ensure that we put in place the sort of investment environment, the kind of information that is required by industry and assistance to the major players to come in and use the resources which we have and build a new base-load power, but to do so — whether it be base-load gas or base-load coal — in a more environmentally friendly way. We have a series of objectives and I am confident that we can meet those objectives.

The CHAIR — Thank you, Minister. That concludes consideration of the budget estimates for the portfolio of resources and energy. I thank the minister and his departmental officers for their attendance today. I also thank Hansard. It has been a very useful session, Minister, and I will be communicating with you in relation to any matters that you have taken on notice and follow-up questions from the committee. Good afternoon.

Mr THEOPHANOUS — Thank you, Chair.

Committee adjourned.