

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2003–04 budget estimates

Melbourne – 28 May 2003

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Witnesses

Mr T. Theophanous, Minister for Resources;
Ms C. Munro, Secretary;
Mr A. Young, Chief Finance Officer; and
Dr R. Aldous, Executive Director, Minerals and Petroleum, Department of Primary Industries.

The CHAIR — Good afternoon. Welcome. I declare open the Public Accounts and Estimates Committee hearings on the 2003–04 budget estimates for the portfolios of resources and energy industries. I welcome the Honourable Theo Theophanous, Minister for Resources and Minister for Energy Industries; Ms Chloe Munro, Secretary of the Department of Primary Industries; Mr Alan Young, chief finance officer; Dr Richard Aldous, executive director, minerals and petroleum; departmental officers, members of the public, Hansard and the media.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript early next week.

Before I call on the minister to give a brief presentation on the more complex financial and performance information that relates to the budget estimates for the resources portfolio, I ask that all mobile telephones be turned off and pagers be turned to silent.

Minister, after your presentation 55 minutes will be allocated for questions on the resources portfolio. Over to you; thank you.

Mr THEOPHANOUS — Thank you. May I begin by saying that I am very pleased to be here as a minister and on the other side of the Committee table.

Ms GREEN — You are the second one today who has swapped sides of the table.

Mr THEOPHANOUS — Yes, but given my long history of association with the Public Accounts and Estimates Committee, I know what it is like on the other side.

The CHAIR — You will be helpful.

Mr THEOPHANOUS — I will be as helpful as I can be. I am sure you will go easy on me, given that I was previously a member of the committee. Perhaps I could start; I will be as brief as I can.

Overheads shown.

Mr THEOPHANOUS — The portfolio of resources involves both minerals and petroleum, and it rests within the Department of Primary Industries. The minerals and petroleum division is responsible for regulation, administration, facilitation and policy development for the minerals, petroleum and extractive industries.

The aims we have — or some of the aims, I suppose — include promoting sustainable development; protecting the environment for future generations; more jobs; and building cohesive communities and reducing inequalities. Minerals and petroleum industries provide opportunities for employment in rural Victoria and make a significant contribution to the state's economy. The division has created a new sustainability unit to both regulate and assist industry to manage its activities to minimise the impact on the environment. Industries are also encouraged to develop good relations with their local communities. This department is very much about managing a range of stakeholders and a range of interests to get a positive outcome for the economy and for the community.

The priorities include attracting exploration and sustainable development investment. There is some \$4 billion worth of planned investment in the minerals, petroleum and extractive industries in Victoria over the next six years. This is a massive contribution to the state's economy. It is essential to keep this investment coming. The portfolio is doing this by providing world-class pre-competitive data for investors, making a comprehensive marketing effort and encouraging investment in new commodities — for example, clean brown coal, new gas supplies, mineral sands et cetera.

Community acceptance is important, and we try to encourage sustainable practices through community and stakeholder engagements as well as ensuring environmental and OHS performance is in line with community expectations. We conscientiously apply and seek to improve the legislative and regulatory framework in the area. We have a very sound and good legislative and regulatory framework, and it is applied conscientiously by the department.

The resources portfolio achievements include the ones listed on the slide. I am pleased to report that there have been a number of key achievements which include outstanding results in the Victorian area offshore acreage tender, with a large number of bidders — winning bids totalled in excess of \$150 million — and the development of new safety regulations for the mining industry, which came into force on 28 October 2002 and were accompanied by a

significant facilitation and industry awareness program. The department hosted the national Australian Petroleum Production and Exploration Association conference in Melbourne, with a successful release of 2003 petroleum acreage presentations and three publications.

Staff from the minerals and petroleum area have played a crucial role in the delivery of major emergency response and recovery programs relating to fire, and I am pleased to say that those in the department who had mapping and air photographic interpretation skills were in very high demand during the 2002-03 summer fire season, for very obvious reasons.

We have done the 15th Victorian initiative for minerals and petroleum (VIMP) data release, and I might talk about that later, but it is a very important part of our being able to have a map of Victoria that goes below the surface, as it were. We have completed the Latrobe Valley digital coal model, which gives us a digital map of the Latrobe Valley as well.

On industry facilitation and achievements, the brown coal tender has led to the granting of two exploration licences, to Australian Power and Energy Ltd (APEL) and to HRL Developments Pty Ltd. The third licence is expected to be granted soon, and that one is to Loy Yang Power Management. Other mineral projects which suggest that the industry is emerging as a hot spot of activity include the mineral sands operations in the Murray Basin and the re-emergence of two significant gold producers with new projects in the pipeline.

The portfolio has played a major role in attracting new oil and gas explorers through interpretation of technical data and promotion of opportunities. The slide shows a number of the gas and associated pipeline developments that have been active during the year.

The outputs for the mineral and petroleum output group are shown under 'Minerals and petroleum regulations services'. This output is concerned with managing mining tenements and ensuring that licensees meet their obligations in relation to exploration and other operations, including occupational health and safety and environmental and public safety controls. The slide in relation to minerals and petroleum industry development and information is about promoting the development of industries by facilitating projects and by updating, maintaining and distributing geological and other data that is required.

The output budget for 2003-04 is \$17.3 million, and it is worth noting with an output at that level that the revenue collected by the portfolio in 2003-04 is expected to be just over \$28.1 million. This is made up of royalties of \$24.3 million, leases of about \$3.6 million and some fees and infringement notices and so forth of \$0.2 million. This portfolio is a net contributor to the budget.

The CHAIR — You are the only one who has come in and said that.

Mr THEOPHANOUS — It makes John Brumby very happy.

Moving on to the resources portfolio future directions, I have mentioned VIMP and I will not go into it again now, but it is important to note that Victoria now has the most up-to-date and complete coverage of airborne geophysical survey data, ground gravity data and geographic information systems of any state in Australia. It is about staying ahead of the game in relation to that information if you want to get exploration done in the state.

We are continuing to promote the Co-operative Research Centre (CRC) to develop greenhouse technologies, and a number of projects are being attempted by the CRC. Mechanical thermal expression is one of those, but there are also others. Gasification from coal is another project being attempted by the CRC.

We are reviewing the Pipelines Act to reflect improved consultative mechanisms and expedite approval processes. We need to get more industry development in pipelines, although some very important developments have taken place, including the new hub that I launched in the Gippsland region in the presence of the shadow minister, no less. This is a very important part of having Victoria as the hub of gas activity in Australia. The Extractive Industries Development Act was assessed against the national competition policy principles and will be made to reflect the outcomes of that review.

Following regulatory amendments to the mineral resources development regulations, administrative procedures are now being updated. Finally, following a safety case regime review of all offshore petroleum activities, the commonwealth has proposed that the National Offshore Petroleum Safety Authority (NOPSA) be set up to cover commonwealth and state coastal waters with a view to delivering better safety outcomes. I am happy to talk about

that if members of the committee are interested. It is a shift from the current position where Victoria looks after all the offshore, even those that are not in Victorian waters, in terms of safety.

In conclusion, there is a lot of activity happening in the resource portfolio. It is an exciting portfolio, and it is helping to deliver what I think is a second gold rush for Victoria. A new mineral sands industry is emerging in Victoria as a result of these activities, as well as a new coal industry based on greener coal activities in the Latrobe Valley as a result of the brown coal tender.

The CHAIR — Thank you very much, Minister. Could I take you to a point made in your overheads and also in budget paper 3, page 292, and reliable and affordable gas. How do you propose to ensure that Victorians will have access to reliable and affordable gas?

Mr THEOPHANOUS — This is an important area. As you know, for a long time in Victoria the only gas available was from Esso-BHP through the Longford plant. When the Longford tragedy took place all of the gas in Victoria was shut down because it was the only source of available gas for the Victorian market at that time.

Since then there have been some very important developments with new pipelines: one coming down from New South Wales which has linked New South Wales to Victoria, the eastern gas pipeline; one which goes under the ocean to Tasmania and has linked Tasmania to the mainland; and also the new SEA Gas pipeline that links South Australia to Victoria.

But it is not just those, the construction of the new hub down in Gippsland has meant that these three pipelines will ultimately be linked. Gas will be able to go in both directions, and we will be able to either draw on gas from New South Wales, for example, or give gas back to New South Wales, depending on the prevailing circumstances.

But it is not just about providing the infrastructure, it is also about providing new gas sources. That has taken place. There have been a number of gas discoveries, and as a result we have been able to have more than just simply the gas that was available through Bass Strait.

There have been discoveries in the *Otway Basin which are coming on stream; there is the new *Patricia Baleen site. There is now more than simply Esso BHP. We have been trying to create the conditions to encourage new investors in gas and oil exploration, which is a key part of what the department is about. We have been exposing potential new investors to available acreage through direct presentations and preparation of acreage reports and other publications, mainly as part of the *VIMP report series, and they are showcased on the departmental web site and at major industry forums.

The department is undertaking a number of these activities to expand the available sources of gas for Victoria. We have involved ourselves in acquiring and interpreting regional geophysical data. We are recovering, cataloguing and digitally converting what is called the legacy data, which has been acquired by the industry over the last three decades, to enable its access and use by industry and government, and increasing the exposure to new gas markets through the facilitation of what I term the new intra and interstate gas transmission pipeline. This is a very exciting time for gas in this state. Victoria is becoming the centre of gas activity.

Mr FORWOOD — Tell that to the guys from the North West Shelf.

Mr THEOPHANOUS — It will be a long time before we need the gas from the North West Shelf, given all the new discoveries that have taken place in Victoria.

Mr CLARK — Can you tell the committee whether mining and exploration licence and application fees will be increased in line with the government's policy of linking fees to the CPI, and if so, how much will the increases be and how much extra revenue will that raise?

Mr THEOPHANOUS — As I said at the outset, this department is in the unique position of being a net contributor to the budget. A whole-of-government decision has been made about indexing fees and charges. I am unable to tell you the exact impact of those decisions in the way you have requested. I am not sure whether *Alan Young is able to shed some light on that.

Mr YOUNG — I am not. Richard Aldous may be able to.

Dr ALDOUS — At this stage there is an assessment going on but there has been no firm decision as to whether it would be applicable in this sector or not.

Mr FORWOOD — When are we likely to hear the result of that?

Dr ALDOUS — It is a process that is in play. I cannot give you a specific deadline at the moment.

Mr THEOPHANOUS — This is one of the announcements that the government is progressively working through. Announcements will be made as they are worked through in each of the departments that are affected by that government decision. We do not walk away from that decision. Both government and opposition ultimately out into the future would probably support a process where you get CPI increases, and there is certain stability and certainty involved in that for the industry and for consumers as well, rather than having the ad hoc approach that has occurred in the past.

Mr MERLINO — Minister, I refer you to page 293 of budget paper 3 which identifies the output measures for the Victorian initiative for minerals and petroleum, otherwise known as VIMP and which you referred to in your presentation. Can you tell the committee what the VIMP program is, how the funds are to be spent, and what achievements have resulted from previous expenditure on the VIMP program?

Mr THEOPHANOUS — The VIMP program is an important and exciting program.

Mr FORWOOD — Started by the previous government.

Mr THEOPHANOUS — I recently launched the 15th VIMP data release. I do not know if you can count, Mr Forwood, but 15 does not actually put you back into the previous government. The 15th annual release was well accepted in the community and it is very exciting. More than 200 people came to look at the release because this data is very much sought after within the mining industry. The government allocated \$4 million in the 2001–02 budget for VIMP, so it was \$4 million over four years, and therefore there is \$1 million which is included in the 2003–04 budget as part of that budget back in 2001–02.

VIMP is a program of regional geoscientific data acquisition and management and is aimed at facilitating exploration for minerals and petroleum in this state. The type of data includes airborne and ground-based surveys of the geophysical signatures of the earth, seismic, gravity, magnetic intensity and radiometrics, latest generation surface geology maps, and GIS, or geographical information systems, which is a compilation of a range of data in easy-to-use digital format. The next four years of the VIMP program will fund interpretation of geophysical data, surface geological mapping and new GIS packages.

As I said, VIMP is a key factor in attracting mineral and petroleum exploration in this state. It has been very successful in achieving this and there are a range of activities which one can point to which show how successful the VIMP program has been. Quite frankly, it is only with strong growth in investment in exploration that we are going to have a viable minerals and petroleum industry and the continued growth of those industries.

The outcomes which I think are largely attributable to the VIMP program include the following: there has been a long-term increase in mineral exploration expenditure, and in 2002 this was \$39.2 million; over 4 million ounces of gold has been added to the state's resource base as a result of these activities; there have been new and important mineral sands finds in the Wimmera and the Mallee; and there is a doubling of petroleum exploration drilling expenditure. In 2001 expenditure was \$75 million, and this has now increased to \$190 million in 2001–02. This exploration for gas has led to new discoveries onshore and three major offshore discoveries adding significantly to the state's gas base and medium to long-term security, not to mention diversity of supply in relation to gas.

It is interesting to note that there has been a worldwide decline in mineral exploration activity over the past four years. But this downturn, while it has occurred all over the world, in Victoria it has been far less the case than in the rest of Australia. In fact, Victoria had an increase in mineral expenditure in 2001–02. The VIMP data will place Victoria in a very favourable position when mineral prices and exploration activity start to revive in the state.

Our goal, I suppose, is to have all existing and future data sets available, and also ultimately available online. In this regard the first steps have already been taken. On 26 May 2003 I launched the Mapshare system which allows on screen data interrogation by Internet users, anywhere in the world, of data produced by the department.

Mr FORWOOD — Did I hear you say 'over the next four years'? My understanding was that funding finished at the end of next year, and my question was going to be, 'Will you be continuing it after that?'.

Mr THEOPHANOUS — This is an ongoing program.

Mr FORWOOD — So you will keep it — —

Mr THEOPHANOUS — It is funded at the moment as a four-year program, commencing in 2001-02 for four years. Obviously it is something which will be a matter for the next budget, and it will be something which we are very keen to pursue.

Mr FORWOOD — Okay. My question relates also to the output group on page 293. The target and expected outcome figures for 2002-03 are of course half-yearly because of the machinery-of-government changes. Could you advise the committee what the total expenditure in the output groups for the full year was if you had not split it, so I can compare like with like?

Mr THEOPHANOUS — This is page 293, you reckon.

Mr FORWOOD — Yes. You see 5.5, 5.1 and 9.3 in the minerals and petroleum industry development one, and 4.2, 4.4 and 8.0 in the minerals and petroleum regulation services one. The reason the targets and expected outcomes are about half of the targets — —

Mr THEOPHANOUS — Because it is for six months.

Mr FORWOOD — Yes. So my first question is: what were the total anticipated amounts for those if you had not split them?

Mr THEOPHANOUS — My understanding is that these output groups have not changed. The \$17.3 million is what it was the previous year.

Mr FORWOOD — Last year?

Mr THEOPHANOUS — Last year, and it remains at \$17.3 million this year.

Mr FORWOOD — Okay. So, was the target of \$17.3 million for last year met or was it exceeded or was it less?

Mr THEOPHANOUS — The financial year is not complete yet, so we do not have those figures to be able to give you in detail, but I expect that we can certainly make them available as soon as the financial year is complete.

Mr FORWOOD — Thank you. If you look at that first output group at the top, 'Strategic areas of the state in which semi-regional gravity surveys have been completed', the note in the return to — —

Mr MERLINO — Is this another question?

Mr FORWOOD — No, it is the same question.

Mr FORWOOD — On page 44 of the department's response it says you have discontinued this measure — 'As 98 per cent of the strategic areas have been surveyed the program is considered to be complete'.

Mr THEOPHANOUS — That is correct, yes.

Mr FORWOOD — I guess my question is: you are spending the same amount of money this year as you spent last year, but you are no longer doing that particular task. How much money was spent on that last year, and what are you going to spend it on this year?

Mr THEOPHANOUS — Well, this is a — —

The CHAIR — It has not been completed. Have you read it?

Mr THEOPHANOUS — This is a matter of detail which I am happy for the department to try to provide you the answer to. But, look, the issue here is that rather than just keep putting 100 per cent in these numbers, we have said, 'Well, this has now been completed so the program is finished', and obviously the funding that would have been used for this would be used within the department. If it is not being used for this, it would be used for other purposes.

Mr FORWOOD — Can you take it on notice and let us know?

Mr THEOPHANOUS — I will take that on notice.

Dr ALDOUS — I am happy to give something on that.

Mr THEOPHANOUS — Yes.

Dr ALDOUS — Basically this program — the collection of geophysical data and gravity data — was something that went on for quite a number of years. It is something that has been progressively building. And the outcome of that work has now been collected, but there is still quite a lot of internal work that goes on analysing that data. So one thing is the collection of the data; the other thing is the continued interpretation of it.

That is not to say that the costs associated with that do not change, but we also then start on the next generation of maps. For example, we are doing a lot of work with regolith maps, as we call them — which is looking at the surface top 1 or 2 metres where soil has developed. There is a lot of information in there for explorers. So this is really moving to the next generation of data that can be used to help explorers. Although that program has come to a conclusion, we continue to analyse the data and represent it in different ways. It is an ongoing science, just the interpretation of that. And, equally, we direct funds into new programs.

Mr FORWOOD — Thank you. That is terrific, and I would like the figures if I could.

Ms GREEN — Minister, in your presentation you mentioned cooperative research centres, and in particular the CRC on the last slide, the CRC for clean power from lignite — lignite being brown coal. Could you elaborate for the committee on how the funds for the CRC for clean power from lignite are being used?

Mr THEOPHANOUS — Yes. The CRC is a very important initiative, and I see my colleague Bill Forwood smiling — he is probably smiling because he thinks it is such a great initiative. Let me just try to put it into context for you. What we have got down at the Latrobe Valley is about 500 years worth of supply of brown coal — enough to power this state for the next 500 years. And it has been the backbone of the manufacturing industry in Victoria. It has been cheap, and it has been available, and it has allowed Victoria to become the manufacturing centre of Australia, because without that cheap source of power it would never have occurred.

To keep that cheap source of power running in the modern context where we have Kyoto on the one hand and a lot of pressure on nations to reduce their greenhouse emissions, for us to be able to use brown coal when brown coal emits a significant amount of greenhouse gases is a challenge. The CRC is an initiative which includes the commonwealth government, the state government, industry and academia, and it is a research project to try to find a way of using brown coal which reduces its impact on the environment.

Currently somewhere between 85 and 90 per cent of our power is coming from the Latrobe Valley and brown coal. So it the backbone of energy supply in Victoria. Lignite is in fact a very good source of power in one sense — it is actually quite a clean source of fuel. It has low levels of ash, sulphur and trace elements. Some of the other forms of coal, such as black coal, are not as good in those areas. However, it does have a very significant amount of water — somewhere between 60 and 70 per cent of it is made up of water. So obviously that results in a lot of greenhouse gases being created in the burning stages.

The government will support the CRC by providing \$700 000 per annum for the next three years, and we are also represented on the board by Dr Richard Aldous, who is executive director of the minerals and petroleum division of the department.

One of the technologies which is being looked at by the CRC is mechanical-thermal expression. If we could find a way to use mechanical-thermal expression for the production of electricity in the Latrobe Valley we could reduce the level of greenhouse emissions by up to 30 per cent just through that technology alone. There have been some recent laboratory tests of the process, including a continuous test which went for 5 hours and was able to continuously supply dried coal for use in a model for a total of 5 hours.

The cooperative research centre is currently modifying its 1-tonne-per-hour pilot plant to trial the process. Should that be successful, which we think is highly likely, then the CRC will work towards the development of a 15-tonne-per-hour pilot plant as the next stage. Following that there will be a 120-tonne-per-hour commercial plant which will be put into operation. It is very exciting technology. The importance of it is that it has application both for existing power stations and of course for new ones. The gain is not as great for the existing ones, nevertheless there is a significant gain for both.

The other technology that is being examined by the CRC is gasification, which is the process of converting coal into gas. There are significant gains in efficiency by doing that. The processes are complicated. It is a process

known as integrated gasification combined cycle (IGCC) and it is being investigated by the CRC. That process significantly increases the overall efficiency of combustion and therefore reduces the level of greenhouse gases. An IGCC plant using lignite could achieve efficiencies we estimate approaching 50 per cent compared to the current efficiencies of less than 30 per cent.

Mr FORWOOD — A supplementary, given the importance of this research: what is the cost of the 15-tonne pilot plant and where will the funds come from?

Mr THEOPHANOUS — The cost of the 15-tonne plant is significant. It is not a small amount of money. It is certainly greater than has been expended in the past. I believe it to be in the vicinity of \$4 million or thereabouts. I think you have been given the same brief as others have, so I am sure you are aware of these figures. I think it is in that vicinity.

The source of the funds — this is a joint project which includes the industry and the Victorian and commonwealth governments, but let me say this: it is a multibillion dollar industry and, as such, when we are talking about billions of dollars, it is very important for the industry to take up its responsibilities in relation to these matters. We have done our bit, and we continue to do our bit, but I think the industry really needs to grab hold of the nettle in relation to it and help to move this forward, because it is to the benefit of the entire industry.

Mr CLARK — Can I raise the issue of oil and gas extraction in Bass Strait and whether that is having an effect on the watertable in Gippsland? I am told that irrigators are having to lower their bores each year because of the fall in the watertable. Is that correct, and if so what action is the government taking to protect the Gippsland coast from subsidence as a result of declining levels and pressures in the Latrobe aquifer as a result of oil and gas production from Bass Strait?

Mr THEOPHANOUS — This is an important issue. I recognise it is something that there is some concern about down in the Latrobe Valley. There are a number of possible causes that have been identified for it which might include — and I emphasise the word ‘might’ — petroleum extraction, coal mine dewatering and irrigation. All of these factors or a combination and perhaps even other factors may be contributing to this phenomenon. It is not even clear yet the extent to which this is occurring. There was a moratorium placed on the Latrobe group aquifer in 1997. Before that moratorium can be lifted a ground water management plan is required to quantify how much water can be allocated for irrigation.

The previous Minister for Environment and Conservation approved declaration of a water supply protection area for the Yarram region on 4 November 2002. A consultative committee is currently being established, and that will have the responsibility of developing a draft ground water management plan. A subsidence risk study undertaken by the former Department of Natural Resources and the Environment indicated that the risks of subsidence in the Golden Beach area are less than originally believed. It is in the order of centimetres rather than metres per annum.

The government has allocated \$200 000 this year to establish a surveying network to measure any changes in elevation over time, and a detailed tender is being finalised in relation to that. To date I must say that commonwealth support has been limited, and the Department of Primary Industries is currently working with the commonwealth to see if this limited technical support can be translated into more practical action from the commonwealth.

Offshore acreage in commonwealth waters is released for exploration under the commonwealth Petroleum (Submerged Lands) Act following an extended period of consultation with the state and commonwealth agencies. Prior to any production a commercial discovery would have to occur followed by a feasibility study. These are all necessary under the commonwealth and state approvals combined. The environment plan is a state and commonwealth responsibility, and we are hopeful that the commonwealth will assist us in at least trying to measure the extent of this problem, if it exists, and then to address it.

The CHAIR — Minister, I go back to budget paper 3, page 292, where under ‘Minerals and petroleum’ it states that we are looking for safe and environmentally responsible operations. That is a fairly all-encompassing term. Could you tell us something of the measures that have been set in place to ensure that that actually occurs, so that we are able to assess whether community expectations and your requirements are met?

Mr THEOPHANOUS — Perhaps I should start by indicating that the government has created a sustainability unit within the minerals and petroleum regulation branch. Through this sustainability unit it is developing a statewide sustainability strategy for the mining and extractive sectors, and this strategy will draw

together the key actions that will be undertaken by the government to support community expectations of safe and environmentally responsible behaviour.

The strategy also adopts a partnership approach with key stakeholders and communities to develop standards and guidelines for safe and environmentally responsible behaviour. Where these community expectations are not being met the strategy will also include the taking of necessary and appropriate enforcement actions in accordance with the department's graded enforcement strategy. We have this strategy where you apply the carrot on the one hand, but there is a stick in the event that the appropriate actions are not being taken. That strategy includes in the first instance developing guidance materials for health, safety, planning and environmental issues related to the mining and extractive industries, and then engaging proactively with the stakeholders through environmental review committees and development of specifically targeted education programs.

Mining is taking place in a number of areas, whether it be for gold or mineral sands. These environmental review committees have been established and include community representation, industry representation and usually local councils. They are part of the management of what are complex issues for these communities in this mining that is taking place.

The departmental officers attend industry forums to consult with the community, industry and stakeholders on a range of sustainability issues, including health, safety, environmental management and planning issues. We investigate community concerns and issues, which are monitored through an electronic database by the department. We have a coordinating program of targeted compliance audits that include health, safety and environmental legislation, licence conditions and standards. As you can see, it is a very complicated process, and a lot happens behind the scenes that I suppose the public is not aware of, but it is all part of managing this very complicated area.

We adopt a graded enforcement strategy to deal with sites that are not meeting their legislative requirements in relation to health, safety, environmental planning or any other issues; we implement reporting frameworks by industry to monitor and measure compliance with community expectations; and we encourage the mining and extractive sectors to meet these community expectations through an appropriate recognition of their achievements.

This is a complicated management process, and I have seen it put in place in a number of areas around the state — some of which you might call hot spots — where there are significant environmental or other issues associated with the mining. This is the framework that we use in order to manage our way through this to get the outcome for the community, because if we are going to have world-class mining and extractive industries in this state, then taking the community with us and getting the environmental outcomes at the same time is a very important part of it.

The CHAIR — In your answer you referred to the fact that these are very complex issues, and it really is extremely complicated for, I imagine, people who spend their working lives trying to understand legislation, environmental overlays and so on. When you look at the citizen out there in the general community who wants to become involved in this process, you see that it really can become quite a difficult and scary experience for them. One organisation that I am personally familiar with, the Environmental Defender's Office, offers assistance to community groups who require a level of expertise that they think is beyond their personal resources and expertise. Have you considered how the local community can meet the industry on more of a level playing field when it comes to consultation? The Environmental Defender's Office, for example, is just one that I happen to know could be involved, and its funding could allow this to occur.

Mr THEOPHANOUS — Can I answer that in this way: this is a balance. It is a difficult balance sometimes to achieve, but this government has traditionally not necessarily always come down on the side of industry. Just as one example, when the proposed Big Hill project was being considered, there was an EES process, an environmental committee was established and ultimately the government decided not to accept that project, so it is not as though we do not ever listen to the community.

The CHAIR — I was not suggesting that.

Mr THEOPHANOUS — I know that.

The CHAIR — I was talking about the David and Goliath information bank.

Mr THEOPHANOUS — I guess the reason for bringing up that example was to suggest that the fact that that particular community was able to get assistance from the department and was able to get information that there was a structured EES process that we went through empowered that community in a way which allowed it to put its case, and then the case ultimately was accepted by the government.

The environmental committees are an important part. Remember that they are made up of community members, they have access to the department and they can ask for information from the department on an ongoing basis, so the department is not just in the business of being there to assist the industry. It is also there to provide information to community groups and help empower them in order to maybe balance off that David and Goliath thing that you were talking about.

Mr FORWOOD — You would be aware, I know, that Hazelwood is going to run out of coal by the year 2008 or 2009, and I wondered what steps the state government was taking to ensure that this power station, which delivers about a quarter of Victoria's base-load power, is provided with the necessary resource so that it can continue to keep the lights on for us.

Mr THEOPHANOUS — This is a complex issue. Perhaps just in terms of a bit of background, Hazelwood, as you know, is a 40-year-old power station. It is the power station that produces more greenhouse gases than any other power station in the system per megawatt of electricity. At the moment it is producing about 1.55 tonnes of CO₂ for every 1 megawatt of power that it produces. I do not know what a tonne and a half of CO₂ looks like in physical form, but I imagine it is a very significant amount in volume, and that is for 1 megawatt. The station produces 1600 megawatts every hour, so it is a lot of CO₂ going into the atmosphere. It should be compared perhaps to Loy Yang B, which is a much more modern station and is producing at the rate of 1.2 tonnes of CO₂.

Hazelwood, in order to continue its operations well out into the future, will require access to additional sources of coal, and that is currently under commercial discussion with the government, so I am not going to go into those issues at the moment. But I can say this: we are keen to allow Hazelwood to continue its operation. We know that it is an important part of the base-load power of this state. It has the capacity to continue for probably at least another 20 years subject to being able to make some modifications to its physical environment and also getting access to some additional coal.

The policy of the government, which has been fairly strictly adhered to to date in relation to this, is that when we have given coal out in the brown coal tenders we have asked for a significant reduction in greenhouse gas emissions in relation to that brown coal. Hazelwood does have a request in for additional coal. Obviously Hazelwood is an existing facility; it is not a new facility. We are currently talking to the Hazelwood people about how they can help contribute to a reduction in greenhouse gases in their operation.

Mr FORWOOD — Is Defence giving Hazelwood major project facilitation status?

Mr THEOPHANOUS — It has; that is correct.

Mr FORWOOD — What effect has that had?

Mr THEOPHANOUS — It just means, as I mentioned to you, there are some physical changes that they have to do in order to access additional coal. Those physical changes are subject to an EES. I have agreed for that EES to go ahead as well, in anticipation of the negotiations that are occurring in relation to the new coal, and so the EES is proceeding and at the same time the commonwealth has also come to the party in the way that you have suggested, and hopefully all of those things will be concluded and the station will be able to continue in a more environmentally friendly way over the next number of years.

Mr MERLINO — Minister, as the Minister for Resources you are responsible for occupational health and safety within the mining and resources sector and you touched on occupational health and safety enforcement in an earlier question. I note that on page 292 of budget paper 3 there is an outline of enforcement targets and actual achievements for the minerals and petroleum branch of the department. Can you outline for the committee the measures that have been put in place or are currently being undertaken to ensure that these goals are achieved?

Mr THEOPHANOUS — Yes. On an annual basis the department assesses each current mining and extractive site to determine its overall health and safety, environment performance and risk profile. From this assessment all current sites are allocated an inspection audit frequency from 1, which is high priority, through to 5, which is low priority. For 2003–04 a total of 107 sites were designated as either priority 1 or priority 2, which represents 8.8 per cent of all the current extractive and mining sites the department administers. This means that 107 sites will be subject to programmed audits by officers of the department. All mining and extractive sites are allocated to inspectors as part of their overall annual work performance, and all sites, including those priority 1 and priority 2 ones, are entered into a data management system, which is called the MIMIS, which stands for mines inspectorate management information system and is part of our management of occupational health and safety.

I do not want to go on too long about this, but I do want to say this about occupational health and safety: I think we have, without taking away from the Worksafe system of inspectorates, a world-class system here in Victoria in relation to occupational health and safety in the extractive industries area. Our inspectors are very well trained and they are proactive. They do not wait for accidents to occur before they proactively seek to prevent accidents through safety audits and a whole range of activities — and prioritising each of the sites is part of ensuring that that occurs. If you look at the number of accidents that occur — remembering that this industry is not an industry that would not be susceptible to accidents — if you look at the safety record in this industry, you will find it has a very good record when compared to industries anywhere else in the world.

Mr CLARK — My question relates to mineral sands. Can you tell the committee what effect the government's decision to defer rail standardisation will have on development and investment in the mineral sands industry?

Mr THEOPHANOUS — Rail standardisation is not part of my portfolio area — I suppose firstly I should say that. But mineral sands is part of my portfolio area, and rail standardisation is an important part of the development of that industry. We accept that. What I can say is that it is somewhat disappointing for us that the federal government has not been prepared to come to the party in assisting with the funding of rail standardisation. It has been left to us. Let us be fair about this, the fact is that if there was ever going to be a project which was of national significance, surely rail standardisation would have to be that project. You cannot imagine almost any other project that would fit into the category of a national project more than rail standardisation. That is what it is: it is about a national standard on rail. It is a bit unfortunate that the commonwealth government has not been prepared to take up its responsibility in relation to these matters — —

Mr FORWOOD — From Mildura to Melbourne?

Mr THEOPHANOUS — It might be from Mildura to Melbourne.

Mr FORWOOD — Or Portland or Geelong?

Mr THEOPHANOUS — It is about having a standard — the standardisation of the track. It is about having the same standard as applies in other states. That is what it is about. Therefore, it is a national project. If you are happy to go around, Mr Forwood, and say that you do not want the federal government to contribute to this project, and you do not — — —

Mr FORWOOD — Why not take responsibility for the things you should take responsibility for?

The CHAIR — In relation to mineral sands — I would appreciate attention to that.

Mr THEOPHANOUS — In relation to mineral sands — —

Mr FORWOOD — The minister is being rude to me.

The CHAIR — You can always go out and have a cry outside. Minister, would you please get back to mineral sands?

Mr THEOPHANOUS — The important thing to say about mineral sands is that it is an emerging industry. It is one which was not there a number of years ago. It is a new industry for Victoria, and it is one that we are certainly wanting to promote — and it is being promoted. It is moving ahead in a range of areas around the state. There are a number of areas where we now have mineral sands — the Murray Basin mineral sands is one of them, and I had a look at the Douglas project, which is another one that is taking place.

These are important new sources of revenue for the state that were not there before. They are being promoted by this government and I think they are being promoted very successfully. Of course, there is infrastructure associated with them. That infrastructure is part of what my colleague in another portfolio has planned and, I am sure, will be delivered at the appropriate time.

The CHAIR — And this is an appropriate time to adjourn.

Witnesses withdrew.