

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into Budget Estimates 2017–18

Melbourne — 19 May 2017

#### Members

Mr Danny Pearson — Chair

Mr David Morris — Deputy Chair

Mr Steve Dimopoulos

Mr Danny O'Brien

Ms Fiona Patten

Ms Sue Pennicuik

Ms Harriet Shing

Mr Tim Smith

Ms Vicki Ward

#### Witnesses

Mr Wade Noonan, Minister for Resources,

Mr Richard Bolt, Secretary,

Mr Justin Hanney, Head of Employment, Investment and Trade, and

Ms Natalia Southern, Deputy Secretary, Resources, Department of Economic Development, Jobs, Transport and Resources.

**The CHAIR** — I declare open the public hearings for the Public Accounts and Estimates Committee inquiry into the 2017–18 Budget Estimates.

All mobile telephones should now be turned to silent.

I would like to welcome the Minister for Resources, the Honourable Wade Noonan, MP; Mr Richard Bolt, Secretary of the Department of Economic Development, Jobs, Transport and Resources; Mr Justin Hanney, Head of Employment, Investment and Trade; and Ms Natalia Southern, Deputy Secretary, Resources.

All evidence is taken by the committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Comments made outside the hearing, including on social media, are not afforded such privilege.

Witnesses will not be sworn but are requested to answer all questions succinctly, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded by Hansard, and you will be provided with proof versions of the transcript for verification as soon as available. Verified transcripts, presentations and handouts will be placed on the committee's website as soon as possible.

All written communication to witnesses must be provided via officers of the PAEC secretariat. Members of the public gallery cannot participate in the committee's proceedings in any way and cannot photograph, audiorecord or videorecord any part of these proceedings.

Members of the media must remain focused only on the persons speaking. Any filming and recording must cease immediately at the completion of the hearing.

I invite the witness to make a very brief opening statement of no more than 5 minutes, and this will be followed by questions from the committee.

**Mr NOONAN** — Thank you, Chair, and again I am pleased to be joined by the secretary of the department, Richard Bolt; Justin Hanney, head of employment, investment and trade; and Natalia Southern, deputy secretary of resources. I am pleased to provide you and the committee with an overview of the main features of the 17–18 state budget for the resources portfolio.

### **Visual presentation.**

**Mr NOONAN** — In August last year the government did make a very clear commitment to ban onshore unconventional gas in Victoria. We also committed to undertake the most extensive geoscientific and environmental studies into the risks, benefits and impacts of onshore conventional gas during a moratorium period until 2020. The Resources Legislation Amendment (Fracking Ban) Act 2017 of course is now law, and the state budget 2017–18 delivers on our commitment through an investment of \$42.452 million into the Victorian gas program. These studies will be overseen by our lead scientist, Amanda Caples, as well as a stakeholder panel with industry, local governments, community groups and farmers. They will also provide us with evidence on any proved or probable onshore gas resources rather than desktop estimates which governments and industry are currently relying upon.

The Victorian gas program also includes funding to promote investment in offshore gas and onshore gas storage. We will be investing in a series of geoscientific investigations to help identify new resources in the offshore part of the Otway geological basin in order to promote further exploration and development. Similar studies will also be undertaken into known depleted gas wells and surrounding areas to identify whether there are new opportunities for commercial gas storage. Further storage will help mitigate short-term price peaks and secure supply during periods of high demand. This work will be done side by side with industry so that they can be provided with the precommercial information they need in order to invest.

The 2017–18 budget also continues to implement the recommendations of the reopened Hazelwood mine fire inquiry, including strengthening of mine regulation and the development of a regional rehabilitation strategy. We now have a dedicated mine fire and emergency unit in our Earth Resources Regulator, and there is currently legislation before the Victorian Parliament to establish a Latrobe Valley mine rehabilitation commissioner. The

bill also provides the foundation for a regional rehabilitation strategy, which will be reviewed every five years and will bring certainty to the community. We have also established the Latrobe Valley Mine Rehabilitation Advisory Committee this year.

Along with the delivery of the Victorian gas program and the Hazelwood mine fire inquiry, we will also be supporting the development of a resources strategy and a specific strategy for our extractive resources. We will also be releasing our statement on future uses of coal in order to provide investor and community certainty. Major companies have already announced that they are divesting from coal-related assets, specifically in energy, and following the closure of Hazelwood it is important we get that policy right.

The budget also continues to provide funding for investment attraction through the TARGET initiative and the Stavely Project. The Stavely Project encourages new minerals exploration projects by providing precompetitive geoscience resource and related land use and planning, and stakeholder and community engagement. We then provide this to industry through the TARGET grants to support further exploration activity and create jobs for Victorians. This has already resulted in an initial gold discovery earlier this year, and I am pleased to announce that five applications have now been approved for the second round of TARGET grants, totalling 1.2 million. This round focuses on the Bendigo geological province known as the golden triangle. Chair, that concludes my presentation for the 17–18 resources budget.

**The CHAIR** — Thank you, Minister.

**Ms SHING** — Thanks, Minister, for your presentation and for outlining a number of the issues as they relate to setting policy parameters and making the best use of funding to implement major change across your portfolio. I would like to talk to you, Minister, about Hazelwood and the Hazelwood mine fire inquiry implementation plan. You referred to that in your presentation and referred to a Latrobe Valley regional rehabilitation strategy and a mine fire and emergency unit. How can the community that was so affected by the mine fire whilst it was on foot in 2014 and in the years that followed with the two inquiries have confidence that this will in fact deliver a strengthened mining regulation and better mine rehabilitation, planning and safety?

**Mr NOONAN** — Thank you, Ms Shing. There is a lot in that question. I think importantly we have got to go back to the origins of the work that we now see in the budget. There was an initial mine fire inquiry; we made a commitment to reopen that inquiry when we came to government because there were some shortcomings or some gaps in relation to evidence and understanding in a range of areas, not least in the area of mine rehabilitation, which went to the mines across the Latrobe Valley. As a result of that reopened inquiry there were a range of recommendations made, and the government obviously is now acting on those recommendations with the release of an implementation plan. We have also invested \$80 million to implement all of the recommendations of the Hazelwood mine fire inquiry.

Very importantly for my area is an allocation of 12.6 million for the development of a Latrobe Valley regional rehabilitation strategy and, I think as you mentioned, 6.9 million for a dedicated mine fire and emergency unit in our Earth Resources Regulator — obviously a very key area in terms of interest coming out of that mine fire. We also recently established the Latrobe Valley Mine Rehabilitation Advisory Committee. That committee is chaired independently by former Latrobe City councillor Susan Lloyd. I think you probably know her.

**Ms SHING** — Everybody in Gippsland knows Susan Lloyd, Minister.

**Mr NOONAN** — I did not realise that she was that famous. Importantly that has strong community representation, but it also includes local government and a variety of groups, including those with interest, for example, in the Aboriginal community in the Latrobe Valley. They will be a very important committee in relation to this very important work that needs to go on in relation to a regional rehabilitation strategy.

The Parliament would be aware — at least in the lower house, or the Assembly — that we have put legislation before the Parliament that passed in the last sitting week to establish the Latrobe Valley mine rehabilitation commissioner, again an important role that will provide advice to government and also be given powers in relation to auditing functions in relation to rehabilitation work.

Ms Shing, it is also worth noting that we have been in the process of reviewing the rehabilitation bond policy following increases that have already happened across the three Latrobe Valley mines to get them to a level of 100 per cent of their self-assessed liability, which occurred in December last year. There is more work

happening in that space, and we are expecting to make some more announcements in the not-too-distant future about the future of bonds in the region. So a lot happening, a lot of funding there, but very important work over a long period of time, which is really an acknowledgement of the fact that there was not a long-term strategy and there were lots of gaps in evidence in relation to the future of those mine voids.

**Ms SHING** — Thank you, Minister. I might also continue with the issue of coal management and in fact the coal statement and the release and implementation of that statement. You have talked about that in relation to the forward estimates process and that it is a priority. What is the process whereby we can continue to stay abreast of technological and other developments in the extraction, processing and distribution of coal for the purposes of energy generation?

**Mr NOONAN** — There is strong interest in this area, and of course there is strong interest because our brown coal deposits do remain a significant public asset — and we have a lot of coal here in Victoria. I think it is important to recognise that brown coal will continue to serve Victoria for some years to come in relation to a reliable and low-cost source of power generation. However, what we are seeing now are major companies, such as AGL and obviously such as Engie, indicating that they would divest, if you like, or will not continue, essentially, to use brown coal for energy purposes —

**Ms SHING** — As part of a global trend, Minister?

**Mr NOONAN** — Absolutely. It is worth pointing out that since 2010, 10 coal-fired power stations have closed across the nation in the national electricity market, which now includes Hazelwood. Yes, the government is developing a new statement on the future of coal. It is in the final stages of development — I did provide that information to the Assembly last week. It will be released shortly. But given the interest in coal, in particular around potential other uses of coal, and given the overlay, if you like, of the Hazelwood mine fire inquiry work in relation to future energy mix and the environment, it is a complex piece of work that we want to get right. Of course during the time that we have been doing this work Hazelwood has closed, which just shows how quickly the coal industry can move. We want to get this piece of work right. We are determined to do that when we release our statement shortly.

**Ms SHING** — Thanks, Minister. I would like to touch on unconventional gas and the legislation in place now to ban onshore unconventional gas into the future. There is an allocation of funding to do further research in the Victorian gas program. How will that distinction between desktop reviews and undertaking that on-ground research enable us to better oversee the capacity for an industry to be developed, and how do we work that in with meeting supply challenges and demands into the future?

**Mr NOONAN** — It is a very big program, and it is a recognition that there is strong interest in gas obviously nationally, but there is also a lot of information out there that is not necessarily correct. I have probed pretty deeply within my own department and specialists in relation to this particular issue, and I have been advised time and time again that despite commentary from various corners, there are currently no proved or probable reserves of onshore gas available in Victoria. That might be difficult for people to come to terms with, but these are technical terms used in relation to gas which are important in relation to the work that we will do.

The work that we will do will be extensive. The most extensive component of this work in terms of its cost base is the geoscience and environmental studies. The program will deliver in a way that has not been done before — very extensive scientific technical and environmental studies on those risks, benefits and impacts. The work will initially focus on the area considered by the Geological Survey of Victoria to be the most prospective for conventional gas in the Otway geological basin between Port Campbell and Warnambool. The onshore Gippsland geological basin is considered to be less prospective for conventional gas. That will probably interest you, as a local member in that region.

But to give you a bit of a sense of some of the areas that will be dealt with as part of this or the component parts. There will be rock characteristic studies, three-dimensional geological models, which will give us a sense of the gas prospectivity and resource estimates in there. There will be environmental benchmarking, if you like, around this work, so it is a very comprehensive piece of work.

Again, it will be overseen by the Victorian government's lead scientist and the stakeholder panel. Why? Because if we want to make informed decisions in the lead-up to the sunset of the moratorium in 2020, we need to make them based on evidence. Yes, there is a lot of emotion, and there was a lot of emotion in relation

to the issue of unconventional gas, and there was a rolling level of moratoriums in relation to that, but the community will look for certainty. I am pretty sure that by the time we get somewhere close to 2020, with the work that will be done in this area, we will actually have an informed evidence base to make decisions about the future of conventional onshore gas.

**Ms SHING** — Thank you, Minister. In relation to any decision that may be taken into the future, I assume that this evidence-based approach will be a key part of that consideration. How will communities be engaged in the course of the delivery of the Victorian gas program to make sure that we do not end up in the same position that occurred with the onshore unconventional gas issue in the debate?

**Mr NOONAN** — There have been a number of different types of studies and criticisms in the past of the lack of engagement. I think you were a member of that parliamentary inquiry, and I think perhaps other members on this committee may have been members of the inquiry into unconventional gas. It did generate a very significant response by way of submissions and contributions. I think in order to provide confidence under this program we are very clear that there needs to be significant stakeholder engagement on the ground in the community that will be the target of this body of work.

We will do that through our advisory panel, but we will also do it by essentially ensuring that farmers, industry representatives, local governments and community groups will be able to nominate for this panel. Of course we would expect as part of our work to be out there in those communities sharing information in relation to the work program, but also, as any consultation process goes, receiving feedback in relation to the work that will be done.

**Ms SHING** — Thanks, Minister. I look forward to welcoming you and departmental representatives back for the purposes of that work.

**Mr MORRIS** — On the same subject, Minister, given that there have already been a series of reports, inquiries, stakeholder engagement programs and, of course, most recently, a parliamentary committee looking into the issue of onshore gas in Victoria, we have got a very brief bullet-point discussion of what this \$42.5 million program is intended to achieve. Can you flesh that out a bit for us beyond the dot points that you have got here?

**Mr NOONAN** — There are various component parts, and I actually might get one of my departmental officials to just go into some of the technical aspects of this. The gas program has essentially four components. First is delivering a series of those comprehensive geoscientific environmental studies into the risks, benefits and impacts. Part of that is to establish the advisory panel. As I indicated, there are currently no proved or probable onshore gas reserves in Victoria, so this component will provide us with the evidence base to create a resource estimate as well as give some certainty to communities about potential risks.

The second component is really to support commercial exploration with further discoveries of offshore gas in the Otway Basin within Victorian waters. It is not commonly understood that Victorian waters are 3 nautical miles from the coastline, and there are reserves coming from Victorian waters using extended drilling techniques, so there are some opportunities in relation to extending that work.

The third component is investigating opportunities for further underground gas storage in the onshore Otway Basin to ensure gas supply during peak periods and to mitigate short-term price rises, potentially. That is not a body of work that has necessarily been done in the past.

The last component is supporting work programs for onshore conventional gas and offshore gas, including resource planning, regulatory improvements and a comprehensive engagement program through the farmers industry, local government and regional communities. Deputy Chair, if you are okay with it, I might ask Ms Southern to provide a more technical piece of advice in relation to the geological work that will happen.

**Mr MORRIS** — And just before Ms Southern does speak, I was remiss in not acknowledging her presence and welcoming her to this room in a very different capacity.

**Ms SOUTHERN** — Thank you, Mr Morris. I think the minister has covered some of this detail, but, in terms of a breakdown of 42.454 million, the onshore conventional gas geoscience environmental studies that the minister mentioned comprise around 21.1 million, and that includes the technical studies that the minister

referred to — the rock characterisation studies, building a 3D geological model, which will inform the gas prospectivity and resource, estimates targeted drilling and the environmental benchmarking, which is very critical in terms of us having a baseline moving forward to assess what the impacts are.

The gas geoscience program, as the minister mentioned, is around \$6.9 million and that is focused on that near-shore, within 3 nautical miles, area. Underground gas storage comprises around \$7.9 million. The supporting program components are really critical. There is \$6.6 million, but it includes community engagement, including having some of our staff based down in Warrnambool to inform the community about the progress with these studies, and also resource planning and starting to do the work around the regulatory improvement program to again position the government to make a decision by 2020.

**Mr MORRIS** — Thank you for that. Minister, if the review verifies that conventional onshore gas is indeed safe to extract and it does so earlier than the moratorium expiry date of 2020, will you move to repeal the moratorium earlier?

**Mr NOONAN** — I understand where that question is coming from, but the advice that I have been given by my department is that it will actually take a number of years to form up an understanding about the real prospectivity, if you like. It is not the intention of this program to pre-empt any decision around the future of that moratorium, so I suppose the simple answer to your question, Deputy Chair, is no.

**Mr MORRIS** — Okay, thanks for that. As you would know, AEMO in March warned that if we did not get new gas supplies online, we would be likely seeing shortfalls in gas and we are going to see problems with electricity. Given that the shortage of gas will threaten Victoria's energy security, are you open to investing more of these funds in the next 12 months to move things along a little bit?

**Mr NOONAN** — There is a fair bit in your question. I could deal extensively with the issue of supply, but what I should say is: when we talk about proved or probable reserves of gas in Victoria, what I can inform the committee of is that there are currently about 4000 petajoules that are proved or probable, but they are offshore and mainly in commonwealth waters. But based on Victoria's consumption of gas, that demand is approximately 200 petajoules per annum, which is currently obviously being met by those offshore reserves. So if you look at that overall, you can see that there is some significant gas there, but — —

**Mr MORRIS** — Given that the energy market operator says we are going to be in trouble very, very soon, is there any intention to bring some of this work forward?

**Mr NOONAN** — Again the issue will be that we have really some considerable period of reserves available to us here in Victoria and will continue to be — —

**Mr MORRIS** — Why is AEMO saying we are likely to have widespread gas shortages in 2021?

**Mr NOONAN** — The simple answer is because we are destined to become the biggest exporter of gas from Australia, from the eastern Australian grid, and this is a structural problem. This is essentially a failure of the market — if you like, the market operator — in relation to maintaining supply here in Australia. It is a collective challenge for us all, but what I say to you, Deputy Chair, is that the game changer for gas here in Australia and particularly on the eastern side of Australia is that we are now exporting significant amounts of gas from our market here — —

**Mr MORRIS** — I accept that, but we have also now got until 2020 for the moratorium. It is going to take a number of years for any resources that might be established. It is going to take many years to prove those up. Surely the contribution that you can make as a government is to try and fix things from the supply side.

**Mr NOONAN** — Yes, and that is the work that we will do as part of this gas program. I should say we have invited the commonwealth government to co-invest in this particular program because, 'If you want to work together genuinely, here is an opportunity'. I think on the — —

**Ms WARD** — It would nice to be able to work together.

**The CHAIR** — Order, Ms Ward!

**Mr NOONAN** — I think I — —

**Mr MORRIS** — Sorry for cutting across you, but I am very much aware of time. Could I ask Mr Bolt or Ms Southern, given the prediction from AEMO that there will be widespread gas shortages across the state in 2021, has the government done any work in terms of perhaps capping or limiting supply of gas to industry or heavy users as a method of managing that supply?

**Mr NOONAN** — I am happy for the secretary to take that question. I would like to come back and talk about the Australian domestic gas market security mechanism if I can, but I am happy for Mr Bolt to take that question.

**Mr BOLT** — The idea of curtailing gas as a way to balance supply and demand is not the priority of the government. It is based upon meeting the supply-demand imbalance that you mentioned that AEMO has forecast. AEMO's own advice is that to get near-term relief from that supply-demand imbalance involves a number of possible measures, none of which involves curtailment. They involve, for example, redirecting a small proportion of LNG supply to the domestic market and increasing production from existing fields. They do include some new fields being brought to the market, such as the Narrabri gas project in New South Wales, bearing in mind we are part of a national grid, and potentially also some pipeline investments. Of course as the minister indicated earlier and will speak to in a minute, the commonwealth's mechanism is perhaps the best way of ensuring that gas which is available in large quantities could potentially be redirected to solve a national or a domestic supply imbalance.

**Mr MORRIS** — So the department has not done any work in terms of constraints?

**Mr BOLT** — No; that is what I said at the outset. We are not in the business of seeking to curtail gas to consumers as a means of meeting this shortfall.

**Mr MORRIS** — Minister, isn't this whole process simply a tactic to kick the can down the road and avoid making a decision on onshore gas production?

**Mr NOONAN** — Absolutely not. Unless you are prepared to invest to actually understand what might be there, I do not know how that can be — —

**Mr MORRIS** — We have done pretty well over the last century in terms of our natural gas supplies without this assessment. Now all of a sudden we need this assessment.

**Mr NOONAN** — Again, Victoria will continue to be a net exporter of gas through this period — —

**The CHAIR** — Order! Ms Pennicuik.

**Ms PENNICUIK** — If I could turn to budget paper 3, pages 128 and 129, the total output cost for the resources portfolio target is \$126.5 million, expected outcome \$56.4 million, which is quite a change, and part of that is saying that being significantly under budget is due to scheduling changes for projects including CarbonNet. Also, on page 358 the mention of CarbonNet there under resources out shows that in 2015–16 only 43 per cent of the milestones were met. My question is: what aspects of this project have been rescheduled and what milestones have or have not been met? And also how much is expected to be spent on it over the next year and the forward estimates?

**Mr NOONAN** — The issue of CarbonNet, as you probably know, has been around for a while. It was established in 2009. It has progressed to an important next step after some discussions between the Victorian and commonwealth governments. CCS, or carbon capture and storage, is being explored as part of a suite of solutions of course, with a potential to mitigate greenhouse gas emissions and address climate change. To date the CarbonNet project has undertaken extensive investigations of the offshore Gippsland Basin, including Geoscience studies, which have been subject to independent scientific peer review.

So that I can be as efficient as I possibly can with your question, the resources output budget for 17–18 is 70.1 million higher than the 16–17 expected budget outcome. This is mainly due to 40.4 million higher expenditure due to CarbonNet. This is due to the ramping up of the work program from 17–18 as the project moves into the next phase, and it also reflects the rescheduling of work following delays in the greenhouse gas acreage regulatory approval process and delays to the work program to enable the development of a new coal policy.

**Ms PENNICUIK** — It is interesting that you talked about peer review studies. Two questions: who caused the delays and what were the causes? Was it the department; was it the companies. If you cannot give me that now, you can give it to me on notice, but the real question is: why are we spending any money on this particular program given that it has been an abject failure around the world and most people who know anything about it will say that it is not going to work. They have ruled it out as being unfeasible.

**Mr NOONAN** — On the delays I will come back to you with some more information.

**Ms PENNICUIK** — And what the 40.4 million is actually going to be spent on.

**Mr NOONAN** — I will say that the next stage of activities includes a marine seismic survey in Bass Strait, which is proposed for the summer of 17–18. Field activities during stage 3 will require extensive stakeholder consultation and regulatory and environmental improvements.

In relation to the general question about why this, again in the time that I have been resources minister I have come to appreciate that those who have an interest in potentially using coal in particular for alternate uses have an interest on the basis that CCS is part of the potential of those projects. So this is essentially why we move to the next phase of the CarbonNet project.

**Ms PENNICUIK** — Minister, if you have any evidence about the success of CCS, as you claim, would you provide that to the committee?

**Mr NOONAN** — If the member wants me to provide the global picture, where there are currently 21 large-scale CCS projects operating or will operate by the end of 2017 —

**Ms PENNICUIK** — Largely not working.

**Mr NOONAN** — I would be happy to provide that information as to where they will be.

**Ms PENNICUIK** — Fabulous.

**Ms WARD** — Minister, can I get you to go back to some of the conversation you have already had with us around gas and gas exploration, and I take on board your comment in response to Mr Morris's comment around needing to also ensure supply. Could you please let me know what is the potential supply of offshore gas for Victoria?

**Mr NOONAN** — To understand gas you have really got to have a look at what is happening in the eastern Australian market. What we have got to recognise is that there has been a rapid rise of LNG — liquefied natural gas — export projects in Queensland. That has caused a very significant disruption in the east coast gas market as Victorian gas supplies traditionally for domestic consumers are now being exported interstate or overseas. Energy and gas companies are investing in gas exploration off Victoria's shoreline because it is one of the prospective areas for new resources. I have had the opportunity to visit Origin's plant, which is east of Warnambool. You can see possibilities for future supply to come from those Victorian waters. Of course we do not pre-empt anything, but there is, through my discussions with local representatives on the ground, some real opportunity there in relation to that.

There is also the opportunity around gas storage, which I have already mentioned, which is about helping to potentially ease price and supply shortfalls during times of peak demand. So what we want to do with this work through our program is to partner with industry in order to provide them with a level of pre-commercial information that they need to invest. This work should not be undervalued because it does essentially provide them with information that they would otherwise have to invest themselves in order to make investment decisions about continued opportunities down that Victorian shoreline.

**Ms WARD** — You mentioned peak demand. The gas storage that we have got — how is that supply guaranteed during peak demand? What are any supply shortfalls that have been identified?

**Mr NOONAN** — The issue of gas storage is an interesting one. It has probably not been looked at in the way it should have over recent times. If you go to Lochard Energy's gas storage facility at the Iona Gas Plant, that has a storage capacity of around 20 to 25 petajoules. That is approximately 10 per cent of Victoria's annual



gas demand. Again, if you want to draw a picture in relation to what the storage capacity can be, that gives you a bit of a sense of what it could in fact hold.

During periods of high demand, particularly in the winter months, stored gas can be provided into the gas system in order to ensure a security of supply and mitigate short-term price increases. Of course we have had challenges in Victoria in the past in relation to gas supply, through an explosion at Longford as an example. What we understand is that there are currently 10 potential sites in the Otway Basin that have been identified by the Geological Survey of Victoria as having potential for gas storage. We are now working with licence-holders to help promote their potential commercial development. It is an important area of work, and again an important area of work within the context of our gas program.

**Ms WARD** — So there are some thorough studies going on at the moment then to get to that point?

**Mr NOONAN** — Yes, there are. We are talking offshore, we are talking onshore and we are talking those gas storage components all sitting neatly under the Victorian gas program. The initial focus of Geological Survey of Victoria of course will be that area in the Otway region. That is the most prospective area in relation to Victoria in terms of what we are talking about here. As I indicated earlier, the Gippsland Basin is considered to be less prospective for that onshore conventional gas or in fact even gas storage. That gives you an understanding about why our focus is in that area. It is also worth saying that conventional onshore gas was extracted in Victoria until about 2005, if my memory serves me right. It stopped because there was a depletion of reserves, so going back to that area makes a bit of sense.

**Ms WARD** — Are you partnering or intending to partner with industry in these studies?

**Mr NOONAN** — It is really critical that industry are partners in this Victorian gas program. One of the first things we did straight after the budget was released on the Tuesday is we invited industry to come in on the Friday so the department could essentially present this program to industry. Representatives from, obviously, those gas supply companies will be asked to take part in the stakeholder advisory panel for this onshore conventional gas program. We will also work alongside licence-holders and gas supply companies throughout the offshore gas and gas storage components of the program as well so that we can provide, importantly, that pre-commercial information that they do need to make investments in our domestic gas supply market. Industry are absolutely central to this work that will be done over the coming years.

**Ms WARD** — Earlier, Minister, you commented on your desire to work with the commonwealth and to have a productive relationship. Have you sought to partner with the commonwealth regarding these studies?

**Mr NOONAN** — Yes, I have, and I have done it in good faith. In fact I travelled to Canberra to meet with the federal resources minister, Matthew Canavan, seeking an opportunity in some respects to set the noise aside and also to educate him about the nearshore reserves as well as an important opportunity, I suppose, for the commonwealth to partner with the state in relation to this geoscientific program. I think it would be fair to say that the minister was open to the idea. I read now from the responses that the minister has since made: he would only look to do that if in fact Victoria lifted all moratoriums, including moratoriums around unconventional gas. And of course the Parliament — —

**Ms WARD** — So he is placing terms in terms of how the — —

**Mr NOONAN** — He has not conveyed back formally a position in relation to that, so I will be a bit cautious in my remarks, but I think I have picked up from enough of the public comments that there is a desire to see all of those moratoriums lifted.

**Ms WARD** — Have you got any indication of why they want the moratoriums lifted?

**Mr NOONAN** — Fundamentally the federal coalition position on unconventional gas is at odds with the Victorian opposition's position in relation to the issue of unconventional gas. Despite us making it absolutely clear on many occasions that this has received all-party, all-member support through our Parliament, the commonwealth government, for their own reasons, continue to make an argument that the ban on fracking and unconventional gas should be lifted in Victoria, and clearly that is not something we are prepared to do.

**Mr DIMOPOULOS** — They are absolved of their national responsibility by blaming others.

**Mr NOONAN** — They have their reasons, but we do not support those reasons. We actually understand very clearly that the Victorian community, and indeed the Victorian Parliament, have made a clear choice about this, and we will not accept a condition that we lift a ban on fracking as a way of receiving financial support for programs like this. That would not be acceptable and we will not accept it as a Victorian government — and I doubt that any future government would either. I would certainly hope not.

**Ms WARD** — I would assume that you or the department has conveyed to the federal government or made it clear that onshore gas — people stopped looking for that a number of years ago because they just could not find it.

**Mr NOONAN** — The federal government have put forward through commentary a range of forecasts in relation to what gas is in fact available onshore in Victoria. Largely these are desktop studies. They do not essentially get into the detail — the detail that will be done through our own gas program — to that sub-basin level to actually understand whether those reserves, if they are there, can be commercially extracted anyway. It does suit the commonwealth's interest to be asserting that Victoria is awash with onshore gas, but the reality is, despite issuing exploration permits and the like over years, there is currently no proved or probable reserves of onshore gas either unconventional or conventional.

**Mr MORRIS** — Just a quick one, going back to the gas program: BP3, page 27. Minister, given that you will not move the moratorium end date from 2020 and given that it will take an estimated five years for an onshore drilling site to deliver gas supplies to market, do you concede that Victorians will not see any onshore gas projects coming on-stream until at least 2025 under your government's regulatory approach?

**Mr NOONAN** — The problem in terms of the question is twofold. Firstly, your party supported the moratorium on onshore conventional gas until 2020 until the debate was had in the Parliament, so I want to make that clear to the committee — that your party flipped on this position at the 11th hour in the Parliament.

**Mr MORRIS** — It is actually not correct, but we are not here to rehash a parliamentary debate.

#### **Members interjecting.**

**The CHAIR** — Order! Government members!

**Mr MORRIS** — The question was very simple: will Victoria not see any new onshore gas projects coming on-stream until at least 2025 under your current regulatory approach?

**Mr NOONAN** — What your question does is it pre-empts a position, and I am not going to deal with a — —

**Mr MORRIS** — You said you will not move the moratorium and we know it is going to take five years for a project to come on-stream.

**Ms SHING** — I would like to raise a point of order in relation to speculation. You are asking about something which is yet to be determined as a potential industry anyway. That is the whole point of the program.

**The CHAIR** — There is no point of order. I will let the minister answer the question.

**Mr NOONAN** — I need to be clear that what your question goes to is essentially pre-empting an outcome to this work. I need to be clear — —

**Mr MORRIS** — Even if it green lights it, it is going to take until 2025 under this approach.

**Mr NOONAN** — You asked a question in relation to AEMO before and this issue around a potential gas shortfall. They actually put — —

**Mr MORRIS** — No. We are talking about new supplies, and you have said in previous testimony you will not move the moratorium date. Given that refusal to move the moratorium date and the estimated five years, we are not going to get anything until 2025.

**Mr NOONAN** — Again we might be in a better position if indeed there was a decision to lift a moratorium in 2020 as a result of the work that we will do. There is no — —

**Mr MORRIS** — You have already said you will not consider lifting it.

**Mr NOONAN** — No. Let us be clear because you could — —

**Mr MORRIS** — You will not front-end the financing.

**Mr NOONAN** — No. Let us be clear, because you can put words in my mouth that I have not used. I have made it clear — —

**Mr MORRIS** — I asked if you would you front-end the financing. You said, ‘No’. I asked you as a very early question, ‘Should the review verify that conventional onshore gas is safe to extract? Will you repeal the moratorium early in 2020?’, and you said, ‘No’.

**Mr NOONAN** — Yes, I did say no. We will not lift the moratorium before 2020. But what we will do is we will do what AEMO proposed in terms of their most recent report. We will do a level of work in relation to understanding what reserves we may have available to make available to the market in order to — —

**Mr MORRIS** — It does not bring them online before, but anyway.

**Mr NOONAN** — I am being really clear about this. What we will do is we will make the investments, we will provide the precommercial information that is not currently available. You have to have a good understanding of the work that would need to be done in relation to the geoscientific work.

**Mr MORRIS** — The precommercial information does not help bring a project on-stream and a project cannot start until the moratorium is lifted.

**Mr NOONAN** — And that was a position that we put to the Victorian Parliament and that was the position that was accepted by the Victorian Parliament, and your party did not oppose the final bill on that matter.

**Mr T. SMITH** — Change of tack slightly. Modernising earth resources, budget paper 3, pages 128–129. In 2016–17, \$7.7 million was allocated to modernising earth resources management, DEDJTR. This is to the secretary: could you quantify the increased cost to industry on the introduction of the extractive industry risk-based work plans and explain why a regulatory impact statement was not conducted at the time of their introduction?

**Mr BOLT** — Thank you, Mr Smith. The best person to cast light on that subject is Natalia Southern.

**Ms SOUTHERN** — I might just talk to the modernising earth resources management initiative to start with. It was 7.7 million, as you mentioned, over four years, and we are just at the commencement of that program. We are still working through how we will roll out risk-based work plan guidelines to the sector and doing that consulting with the key industry associations so that we can manage the impact. That is what I would say at this stage.

**Mr T. SMITH** — Sorry, can you repeat that?

**Ms SOUTHERN** — We are working with the sector at the moment in terms of developing some risk-based guidelines to roll out to the sector, including a way of communicating that across the sector to manage the impact of that requirement.

**Mr T. SMITH** — So there was not a regulatory impact statement undertaken?

**Ms SOUTHERN** — I would have to take some information on that, because it was before my time.

**Mr T. SMITH** — Secretary, can you shine further light on this?

**Mr BOLT** — No, I am afraid I cannot, Mr Smith. I am not aware of the regulatory impact statement, whether that was done or not.

**Mr T. SMITH** — Minister? Anyone?

**Mr NOONAN** — We can provide more information to the committee; we will have to.

**Mr T. SMITH** — Okay. All right. To you, Minister, could you indicate whether the tonnages of construction material being approved through the extractive industry work plan approval process, including variations, is going to meet the supply and demand, as per your supply and demand study, necessary for meeting Victoria's infrastructure development needs over the forward estimates?

**Ms WARD** — Which is the budget paper reference, Mr Smith?

**Mr T. SMITH** — As I said at the outset, Ms Ward, if you cannot hear or listen to what I am saying, I am not going to repeat myself.

**Ms SHING** — Budget paper 3, page 128 and 129.

**Mr T. SMITH** — Thanks; someone was listening.

**Mr NOONAN** — I was listening.

**Mr T. SMITH** — Thank you, Minister. I am glad you were.

**Mr NOONAN** — Thanks, Mr Smith. Look, I think this is really a critical area in terms of the resources portfolio, and indeed — you are right — with a really significant public infrastructure program and agenda we need to be mindful of the extractive resources which will be needed to support that program. There needs to be a cost-effective component to extractive resources in order to essentially provide the program. So in July last year — and I am not sure if you are aware of this — I did launch the extractive resources demand and supply study for the 2015–2050 period. The report said that demand for our extractive resources would double by 2050, so that does set a challenge for us as a government, but what it also did, which was really important, is that it basically provided us with an overview about where those resources would come from in a geographic sense.

So two things happen out of that. The report — the first of its kind, I should say, and highly supported by the extractive sector — tells us that we have got to plan for our extractives within our planning framework and our planning policy. The study and the results of the study have been included in the *Plan Melbourne: 2017–2050* report, and we are now consulting with 18 local councils — —

**Mr T. SMITH** — We have only got 2 minutes left, Minister.

**Mr NOONAN** — Okay.

**Mr T. SMITH** — I just want to know: is it going to meet essentially the population policy pressures year on year going forwards, and what is that amount?

**Mr NOONAN** — It is a very specific question about tonnage, which is very difficult to deal with in this forum, but what I would say is it is more important to define at this point where you think you will need your extractives from, and that is why government are now, for the first time ever, working with 18 local councils that have been identified in that study as having real potential in relation to their extractive resources to work collaboratively with them in relation to their own land planning.

**Mr T. SMITH** — Could we perhaps take the tonnage on notice?

**The CHAIR** — One minute.

**Mr NOONAN** — If I can provide more information on the tonnage, I will, because I certainly do not know it off the top of my head.

**Mr T. SMITH** — Okay. Moving on. New fees and existing fee increases were introduced in 2015 with transitional arrangements to 100 per cent of fee increases occurring on 1 January 2017. In February 2017 a letter was sent from DEDJTR to the extractive industry concerning the need to further increase fees from 1 July 2017 for the cost of improvements to earth resources regulation totalling over \$2 million. Could you please quantify the improvements and how they have benefited the extractive industry?

**Ms WARD** — Can we ask for that letter to be tabled, please?

**Mr NOONAN** — I think I caught most of your question. You asked it fairly quickly; sorry about that.

**Mr T. SMITH** — That is all right — because we have only got 1 minute left.

**Mr NOONAN** — Oh, sorry.

**The CHAIR** — Order! Ms Patten until 12.40 p.m.

**Mr NOONAN** — So perhaps with the 1 minute left — —

**The CHAIR** — No, it is Ms Patten's turn.

**Mr NOONAN** — Oh, sorry. I now understand why Mr Smith was asking the question very quickly.

**Ms PATTEN** — Just turning to the Victorian gas program and the involvement with industry, which obviously is crucial, some of the industry have spoken to me saying that a lot of the information particularly around the drilling et cetera has already been done by industry and that they would be providing the chief scientist with that information. Is that the case, and if that is the case, would that mean that some of that information would have to be kept commercial in confidence?

**Mr NOONAN** — Can I ask Ms Southern to answer this?

**Ms PATTEN** — Yes.

**Ms SOUTHERN** — Certainly as part of the geoscience program that we are planning we would hope to be able to leverage off the information that industry already has. That is part of the discussions that the lead scientist has already had, as I understand. It is part of her one-on-one discussions with various industry players.

**Ms PATTEN** — Okay. Thank you. And with this information — —

**Mr NOONAN** — The second part was commercial sensitivity?

**Ms PATTEN** — Yes.

**Mr NOONAN** — We might just deal with that if we can.

**Ms SOUTHERN** — I think that would be assessed as part of the process in terms of understanding what information each of the current licensees hold and how sensitive that is and whether it could be either released to the market or used to inform the geoscience work that we would then undertake.

**Ms PATTEN** — Right. So, yes, it might stay confidential, that information, and then be released.

**Ms SOUTHERN** — And we would not want to reinvent the wheel if they have already done some of that.

**Ms PATTEN** — No, which was what I was getting at.

**Mr NOONAN** — It is a good point.

**Ms PATTEN** — Which is good. I have got a question around royalties and looking at the change in totals from last year's budget to this year's budget. Last year's budget was anticipating for 17–18, \$122 million in royalties, and then the forward estimates were 118/119. Those estimates have now gone down substantially in this year's budget to 90 and 95. This is in budget paper 5, page 23. I was interested in the quite significant change in the royalties. I am also conscious — and I probably should have asked the roads minister about this yesterday — that where the budget seems to be making up for it in this section is on fines and speeding tickets. I am hoping that if we do not speed this year, you will not have to change your royalty figures for next year to meet the gap.

**Mr NOONAN** — I cannot answer for the roads minister. There has been a fair bit of discussion about the coal royalties in recent times, certainly before I became the minister and subsequently. It is right to say that the royalty rate had increased, but it is important to point out to this committee — —

**Ms PATTEN** — But the gross return has decreased.

**Mr NOONAN** — That is right, and there is a reason for that. But before I go to that, I do want to point out that the royalty rate had not changed in a decade. That was then dealt with last year. It does bring us into line with other states, including New South Wales, Western Australia and Queensland. Brown coal royalties across the state are forecast to total \$64.8 million for the 16–17 year, which is accounting for the closure of Hazelwood. The revenue from brown coal royalties is expected to decrease by 4.5 million in the 16–17 financial year against the budget forward estimates as a result of that closure, noting that they were operating until 30 March.

In relation to the forecast brown coal royalty payments in the forward estimates, again you will note that the years are laid out. I am happy to provide those, but I suspect you can pick those up yourself.

**Ms PATTEN** — I have got those. I guess I am just seeking clarification on why there is a significant change from last year's budget and the forward estimates.

**Ms SOUTHERN** — If I might just say, it is essentially because of the closure of Hazelwood, which has an impact on the forward estimates partially in this year. That is why there is only a \$4.5 million reduction, but \$27 million followed by 28 million in the following two years.

**The CHAIR** — I would like to thank the witnesses for their attendance: the Minister for Resources, the Honourable Wade Noonan, MP; Mr Bolt; Mr Hanney and Ms Southern. The committee will follow up on any questions taken on notice in writing. I believe there was one question taken on notice. The response, answering the question in full, should be provided in writing within 10 working days of the committee's request.

**Witnesses withdrew.**