CORRECTED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2005–06

Melbourne — 8 June 2005

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Witnesses

Mr T. Theophanous, Minister for Energy Industries and Resources;

Mr H. Ronaldson, secretary;

Mr B. McDonald, executive director, corporate services; and

Mr P. Clements, manager, retail markets, energy and security division, Department of Infrastructure.

The CHAIR — I declare open the second session of Minister Theophanous's Public Accounts and Estimates Committee. I welcome Mr Howard Ronaldson, Secretary of the Department of Infrastructure; Mr Bob McDonald, the executive director of corporate services; and Mr Peter Clements, manager, retail markets, energy and security division, Department of Infrastructure, departmental officers and members of the public. Minister, it is over to you for your presentation on the energy industries portfolio. Then we will move to questions.

Overheads shown.

Mr THEOPHANOUS — The energy portfolio is a very important portfolio from the point of view of the Victorian government. Its aims are to encourage investment in Victoria, to meet increasing energy demand, to further develop market and regulatory frameworks and consumer protection, to maintain energy safety standards and security of supply and to provide certainty around greenhouse gas abatement. The slides will reflect those objectives and achievements.

The slides start with achievements that have occurred with increase in consumer choice, protection and safety regulation. The dot points indicate some of those achievements. The $70 million gas extension program has resulted in 29 regional towns connected — the slide says 'connected', but of course those connections are in train at the moment. Some have been commenced and certainly the announcement of those 29 towns has taken place.

The second is in relation to a huge increase in the transfer rates, which are called the 'churn' rates in relation to shifting energy supply. The churn rates are now over 20 per cent in Victoria, which is just a phenomenal recognition of the success for retail competition. We passed legislation to protect consumers through to 2007, and that included the four-year price path which will result in a reduction in electricity prices to consumers of up to 5.6 per cent in real terms by the end of the period. That has provided a stability in pricing for consumers and allows consumers to simply ask when they are changing the retailer, 'How does the deal you are proposing to me compare with the government negotiated price?'. It has provided certainty for consumers and competition under the pricing structure.

We have made a decision to extend the network tariff rebate, which is a further $110 million over three years to maintain the equity between country and metropolitan regions. I am sure you understand, Chair, that this is the result of the privatisation process which resulted in two regional distribution companies being established. Those regional companies have different cost structures because of the longer distances and the greater number of calls and wires they have to service. Consequently without this network tariff rebate prices in regional Victoria would be higher than there are in metropolitan Melbourne. We are in the process of establishing a single safety regulator called Energy Safe Victoria. That will mean that for anything to do with energy people will be able to ring Energy Safe Victoria. It is a new initiative and one for which there will be projected savings not in the first year but in later years of $1.5 million. But that is not the main aim; the aim was to create greater efficiencies in this area.

Finally — I am very pleased to be able to talk about this one — is the inquiry into financial hardship which is headed by Professor Niewenhuysen, an inquiry designed to establish better guidelines and more appropriate practices in dealing with hardship.

The second set of major achievements is in relation to national energy market reform. The government took this up, and I as minister took it up in a sustained way when I became minister for energy. We have been able to achieve something which had been in the wind for a long, long time but had been held up nationally for a very long time. That is the creation of new energy market institutions, the Australian Energy Regulator (AER) and the Australian Energy Market Commission (AEMC). We have established those two bodies. The AER, which is the bigger the two bodies and which will have a staff about 150 people, will be located in Melbourne. We have done major improvements to NEM in connection planning. We have very strongly pushed for this because we wanted the NEM to have the capacity for this last-resort power of direction for interconnectors to be established, so that it was done on the basis of a national planning structure and not just left to individual states.

This slide refers to the major reform of the national gas regime being lined up with electricity regulation in 2006, and of course the development of a national framework for distribution and retail regulation which is to occur in 2006. I must say to the committee, and I am happy to elaborate on this later, that some bottleneck emerged at the national level in relation to this reform, and I am hopeful that the federal government will be able to assist us in getting through that bottleneck so that we do not hold up that shift to distribution and retail in 2006.

The other area is of course security of supply. Since 1999 we have facilitated well in excess of 1000 megawatts of capacity to the system. I am not going to provide the details of that now, it is a matter of record, but of course peak electricity demand still continues to grow by almost 3 per cent per annum and base load also is growing at around 2 per cent per annum. That means that every two to three years we need new peak-generation capacity added to the system, we need intermediate capacity probably by 2010 and we need new base load by around about 2015.

As part of this proposal I took the view that we had to have some levels of insurance when we were doing this, so we had the Basslink project being developed. It brings 600 megawatts on stream, but I was keen to encourage, in the event that something went wrong with the Basslink project, a fallback provision.

The CHAIR — Wise!

Mr THEOPHANOUS — We encouraged the development of the Laverton North power station, which is a 300-plus megawatt peaking station, and we are very keen to make sure that that is in fact built by the peak period this year. I also note, however, that Origin has a plan to build 100 megawatts of gas-fired base load — I think probably it is fair to say that this will be more like intermediate/base-load power — and that is planned for Mortlake. I can come back to a discussion of that if you wish. And of course there are the new protocols in managing major interjurisdictional gas supply emergencies which we have achieved as well.

In terms of meeting the greenhouse challenge for energy, this is very important to us. We put out our *Greenhouse Challenge for Energy* paper. The key elements of that are listed up there, but they include and we still strongly support the establishment of a national emissions trading scheme. We support an emissions report and reporting requirements for large emitters. We have developed the energy technology innovation strategy. We want to see an expansion of the mandatory renewable energy target scheme and a renewable energy strategy and an energy efficiency strategies plan for release at the end of this year.

As you can see, we have had a huge number of what I would call achievements, but of course a significant number of challenges as well that we have to meet in this portfolio, and I believe we will be able to meet these challenges in the coming years.

The CHAIR — Thank you, Minister. Could I take you to BP3 at page 238, which refers to the local government sector development, and could you outline to the committee how the recent changes to the rating of generators is going to impact on local government?

Mr THEOPHANOUS — Can I say that this is an initiative which we took, and it arose from a simple set of problems — well not simple, but a set of problems that had emerged for us. There was a set of arrangements in place for the power generation companies down in the Latrobe Valley which resulted in them paying a reduced level of rates to the local council, and we then were asked by the wind energy industry how it could get access to this rating proposal as well. It was decided that it was necessary to have an inquiry about this and have that inquiry report back because this was a very complicated issue.

The inquiry came back with what I think was a fairly well thought-out model which would allow development and rating certainty for investment in this particular sector. It treats all generation the same, whether it be wind, geothermal or coal, or any other source. It is all treated the same under this proposal. The way it works in relation to wind, because generally speaking wind facilities are not as big in terms of generation capacity as would be the big base load power stations, the committee decided that it would have a $40 000 flag fall, as it were, and that flag fall means that even in small scale power stations, they would pay a significant amount of rates to a local community, although not the full rates. Had there not been a flag fall, of course, they would have finished up paying an insignificant amount in rates to local councils.

I want to make a point about this because there are disagreements between us and The Nationals in particular in relation to wind energy, but I have to say that it is important that we at least work on the basis of factual accounts. I notice that some of the comments that have been made in particular by Peter Ryan, who seems to me to be running a bit of a scare campaign in South Gippsland in relation to wind farms and in relation to the rating of these winds farms — and I want to set the record straight in relation to that — his comments in Parliament about the loss of local government revenue and so forth as a result of the panel recommendations do not stack up with the facts.

It is true that in one wind farm, which is the Toora wind farm down in South Gippsland, which decided it would voluntarily pay the council the full rate, in that instance, which is $77 000, that if it used this particular scheme, its rating level would come down from $77 000 to $59 000. However, I make two points about that. First of all, this is not compulsory. The business can access this or it can continue to pay what the council has requested of them. But, secondly, it is not the only wind farm down in that region or the only proposed wind farm.

In fact, when you look at what is likely to occur for that local government region, at the Dollar wind farm and the Bald Hills wind farm — and those wind farms coming on stream — together those two wind farms would provide to the local council $245 000 a year under the formula in rates, and over a period of time, over what you might call the life of the project which is about 20 years, that will amount to a contribution to the local area of about $6.5 million in rates over that period.

This is very significant, but it is also fair because it provides the certainty, it provides a reasonable return to councils in relation to wind developments, but still makes Victoria competitive in relation to other states. I notice that there has been a call to the Tasmanian government that it adopt the same sort of system as we have in relation to this rating issue.

The CHAIR — There is a supplementary question from Mr Forwood.

Mr FORWOOD — When a calculation is done of the capital improved value of a property, does it include the value of the wind housed on the property?

Mr THEOPHANOUS — The rating formula is not based on capital improved value, Mr Forwood. The rating formula is based on the capacity of the wind farm or of any other energy facility, so if the capacity of the wind farm is 30 megawatts of capacity, then the formula is very simply $40 000 plus $900 per megawatt.

Mr FORWOOD — I am thinking more about the farmer who owns the land.

The CHAIR — He has answered that.

Mr FORWOOD — No, he has not. I am not talking about the wind farm. I am talking about the farmer who owns a piece of land and he is going to pay the capital improved value on it. When the valuer comes around and values his land as sheep land, cattle land or — —

The CHAIR — But that is — —

Mr FORWOOD — Hang on.

The CHAIR — Finish your question.

Mr FORWOOD — If it has wind farms on it, is the value of the wind farm included in the capital improved value?

Mr THEOPHANOUS — I do not want to mislead you, but my understanding of it — and if you like, I can get back to you with a more complete answer — is that this rating structure replaces the other rating structure. However, just so that I do not mislead you in any way, I will come back if that is different.

Mr CLARK — My question relates to the electricity network tariff rebate scheme which you referred to in your slide presentation and the funding related to that set out on page 291 of budget paper 3. I have been trying to trace where it appears in the output groups for the Department of Infrastructure, and I have been unable to find it in any of the output groups there. It is reported as an administered item at page 76 of budget paper 4, so it may be that for some reason it does not make it into the output groups at all, but can you shed some light on that and explain to us where, other than in the initiatives statement, the funding for the rebate scheme is included?

Mr THEOPHANOUS — Again, this might be a bit complicated, but my understanding is that output groups relate to controlled activities of the departments, but if you go to appendix A, page 291 — —

Mr CLARK — That is the one I cited in my question. It is set out there, but then the question is: where does it appear in the departmental financial statements? I gather the answer you are being given is it does not appear in the output groups at all, but is going to appear only as an administered item?

Mr THEOPHANOUS — That is my understanding, yes.

Mr CLARK — Is that in accordance with normal practice and does that mean that all grant and rebate schemes such as this do not appear in output groups; they only appear in administered items?

Mr THEOPHANOUS — Perhaps I will ask Bob McDonald to elaborate on that.

Mr McDONALD — In relation to that matter, it is deemed that it is not controlled by the department — the output groups pertain to departmental operations — and therefore it is a transfer by the state across to VENCorp. It is actually controlled through their processes. Therefore it is deemed under the Treasury rules that apply to the construction of output management that it is not a controlled activity of the department.

Mr CLARK — So does that apply to all grant schemes or only this grant scheme for the reasons that you have given?

Mr McDONALD — The principle applies to all activities. The definition is what is controlled and what is administered, so generally speaking that is the principle, and each grant scheme needs to be looked at in the context of that principle.

Mr FORWOOD — We should get a list of them.

The CHAIR — Do you want to ask that as a supplementary?

Ms GREEN — It is more broadly for other departments.

The CHAIR — We might take that up later.

Mr CLARK — I suppose it would apply to the subsidies for public transport, for example. Again, are they treated as administered items or as outputs?

The CHAIR — You cannot answer for public transport.

Mr FORWOOD — He is a deputy secretary of the department. The previous speaker was the secretary of the department. He turned it into a private bus!

The CHAIR — We can follow that up later, not in relation to this portfolio. If there is something on this portfolio, we will do it now.

Mr THEOPHANOUS — Can I just add to this. You might have a look at page 96 of budget paper 3, because it outlines there, for instance, the energy, water and municipal rates concessions, and the same set of principles applies in relation to those transfers for that $249.1 million, which I understand is in a sense treated in exactly the same way.

Mr FORWOOD — No, they cannot be.

Mr CLARK — Minister, what you are saying is almost exactly the opposite because this is being treated as — —

Mr THEOPHANOUS — Sorry. The principle applies but they are controlled.

Mr CLARK — Those concession payments are being treated in an output group, whereas the rebate scheme is not being treated in an output group. I gather you are going to say one is controlled and one is not controlled?

Mr THEOPHANOUS — Correct.

Mr MERLINO — Minister, I refer you to page 296 of budget paper 3 and the description of the energy, technology and innovation strategy. You referred to ETIS in quite some detail in the resources presentation. In your capacity as energy minister can you inform the committee how the strategy helps Victoria deal with the challenge faced by greenhouse?

Mr THEOPHANOUS — Thank you, Mr Merlino. I have spoken about this in my other portfolio area. The reason it crosses over the two portfolios, incidentally, is that in relation to the mining operations associated with coal that is obviously a matter for my resource portfolio area but the energy aspect of this, the actual production of energy from the coal, is of course handled by the energy side of my portfolio so there is a bit of overlap in this. Some of the policies and practices in the resources section of my portfolio in relation to things like the brown coal tender and so forth, which are designed to reduce emissions, are part of the policy mix that we put together.

I think I have mentioned before what we are trying to do with ETIS from the energy perspective. There are two big streams of trying to deal with the problem of greenhouse reduction, and deal with it effectively. The two major streams come down to technology development on the one side and on the other side what you might call commercial and market-type mechanisms that might encourage the reduction of greenhouse gas emissions and investment in those technologies.

As you are aware we have a disagreement with the federal government in relation to the market side, because we think a market mechanism like an emissions trading scheme is required not only to help us reduce emissions and reach emission reduction targets. We have put out information about a proposed model for an emissions trading scheme which is agreed to by all the states. It still remains the case that the federal government refuses to even partake in the discussion about this, which is a real problem. I have to tell you that from the point of view of industry the lack of certainty is having an effect in relation to investment.

However, we did not just want to, as it were, keep arguing with the federal government about the lack of a market mechanism. We wanted to take up the opportunity when they said. ‘The solution is technology’, so they put up this $500 million. The second part of the final resolution to these issues will be a combination of the market and commercial aspects and the finding of the new technology. So ETIS is meant to say to the federal government, ‘We are prepared to put serious money up’ — but bear in mind that we are the only state that has been prepared to do this. All the state budgets have come in now and no other state budget includes anything like the ETIS proposal.

What we are trying to do with this is to have an impact on finding a future for the Latrobe Valley and coal production in the Latrobe Valley. For the foreseeable future, notwithstanding some of the comments that have been made about other forms of potential energy in Victoria and in Australia — and I note that the New South Wales Premier made comment about nuclear energy — we do not believe that is the appropriate place for Victoria to go. We think that we can find technology solutions and market solutions for the use of our brown coal.

It is a significant resource, as I mentioned before. There is 500 years supply. In energy terms it is bigger than the North West Shelf, and we have an obligation to try and use it in some way for the benefit of our children and generations to come and use it in a way that does not damage the environment.

What ETIS does for us is to say, ‘We want to find a way for the next generation of power stations in this state to be able to reduce emissions from current technology by 40 per cent and more’. However, we have looked at this very closely and internationally what happens is that companies will not invest in new technology if there has not been a demonstration of the new technology, not at a pilot level but at a demonstration level. Often they want more than one demonstration plant to be put in place. That is the only way we are going to get there, but consider what this means to not just Victoria but to the planet if we are able to find a technology — for example, for the use of brown coal which reduces emissions out of brown coal by 40 per cent.

I point you, Mr Merlino, to the fact that in China their plans are to increase the size of their system by about the same size as the whole Australian electricity industry’s output, and they want to do this every year for the next seven years. That is the time scale and that is the kind of program they have in place. It is a massive increase. That is why we have significant interest in this technology and in being partners with the Chinese. They are doing so because even though they are not signed up to Kyoto they can see that if they can use fine technology that can be used in building new plant which reduces the emissions, it will place them in a much better position in the future when they eventually will have to come into that kind of scheme.

So think about the contribution Victoria would give if we demonstrate the technology and then not only used it in Victoria but exported it to places like China to reduce emissions in their future power stations. Think about the contribution we are able to give out of trying to find this technology. I would really urge the federal government look at this very seriously and come on board with us in developing this technology.

The CHAIR — There is a supplementary question from Mr Forwood.

Mr FORWOOD — Minister, you mentioned uranium. What work has been done by the department on uranium energy?

Mr THEOPHANOUS — None that has come across my desk, Mr Forwood.

Mr FORWOOD — Does that mean none has been done?

Mr THEOPHANOUS — As far as I am aware the Victorian government position is not supportive of nuclear energy, and I think there is an act of Parliament to that effect as well, so I do not think any work has been done, Mr Forwood.

Mr FORWOOD — Minister, you were talking about the emissions trading system. Perhaps you would like to clearly outline to the committee firstly, where your ETIS proposals with the other states are up to, despite the fact that the federal government is not participating, and when you think this might be implemented and what it might look like?

Mr THEOPHANOUS — Thank you, Mr Forwood. What I would say about this is a set of principles has been agreed to by the states. There are 11 principles that have been agreed to, and I am happy to make those principles available to the committee if requested.

Mr FORWOOD — Can we request them?

The CHAIR — I think we can take that as read.

Mr THEOPHANOUS — Those 11 principles were agreed to not just by the ministerial councils but actually by all the Premiers. But, of course, the federal government continues to refuse to be involved in the development of a scheme. In broad terms, Mr Forwood, the scheme is one that involves a cap and trade-type system where you establish a cap and say, 'These are the amounts of emissions that a particular facility is able to emit without being charged', and emissions beyond the cap would have to be purchased on the market in terms of credits. As you are aware, this is similar to the scheme which is operating in Europe, and at the moment that scheme is resulting in the price of carbon in Europe being around 8 or 10 Euros per tonne of CO_2. But bear in mind that the really hard edge of the development of this emissions trading scheme will come in the negotiations over the caps, or the allocations to each of the facilities. For instance, in Canada the allocations were set at, I think, near 100 per cent for the first five years, and then there were progressive reductions on the 100 per cent to give adequate time to each of the facilities to be able to introduce technology to meet the targets that were set under the allocations.

Our single biggest issue with this is the certainty. Without it we are having a lot of difficulty in getting projects up, and I point you to a couple of examples. I mentioned earlier the Mortlake facility for the 1000 megawatt power station. The decision has not yet been made by the company to make the investment, and in coming to a view about making the investment one of the biggest issues for it is whether there will be any credit under an emissions trading scheme for that particular company by the use of gas, which is a much lower emissions level, than by the use of coal. The current answer to that question is no, because there is an emissions trading scheme. The consequence is that it makes the company baulk about whether it will make that very significant level of investment. That is not the only example. I was in New Zealand recently, and, as you are aware, New Zealand has decided to sign onto Kyoto. I was made aware of one wind farm in New Zealand which was made commercially viable on the basis that it accessed credits that were purchased by the Dutch government, because the Dutch government needed credits to meet its targets under Kyoto in Europe. It purchased these credits from the wind farm all the way around the other side of the world in New Zealand which resulted in $5 million being made available to that New Zealand wind farm which made that wind farm possible.

I point out to you, Mr Forwood that that is not possible under the current system that we have here because we have not signed onto Kyoto and we do not have an emissions trading scheme. Companies are in fact going across the Tasman and trying to establish partnerships with New Zealand companies to make investments in the Third World, because under Kyoto you can get credits by making appropriate investments in the Third World for emissions reduction-type investments.

So we are in this situation where the states have said that they will look at going to a state-based emissions trading scheme. We are talking to other players in this, including a group of states in North America that are considering similar action, because we are very frustrated by the fact that this is affecting our capacity to attract this investment in base load power, in coal and in a whole range of areas. I really think this decision, which was made in the white paper by the federal government, is very regressive, and I very much hope when the Prime Minister position changes for Peter Costello, that he has a re-think about the decisions that he made in this regard, and maybe changes the policy of the federal government in this aspect.

Mr FORWOOD — Minister, when do you think the states will implement their emissions trading scheme?

Mr THEOPHANOUS — I do not think that we are at that point yet, Mr Forwood. I will make this point to you. Firstly, we will not introduce one unless every state and territory signs onto it.

Mr FORWOOD — Including Western Australia?

Mr THEOPHANOUS — That is our policy position. We want every state and territory to be a part of it. Secondly, and most importantly, our preferred option still remains, and will continue to remain, that it is done by the national government as a national scheme.

Mr SOMYUREK — Minister, I move on to funding for the Australian Energy Market Commission and the Australian Energy Regulator. Page 101 of budget paper 3 refers to developing market and regulatory frameworks in the energy sector. Can you inform the committee about recent developments in national energy markets reform and, in particular, recent discussions regarding funding for the two new national regulatory bodies, the AEMC and the AER?

Mr THEOPHANOUS — I have already indicated to the committee some of the very significant developments that have occurred in national energy market reform. However, two and a half weeks ago I attended a meeting of the ministerial council on energy in Brisbane, and I think there is now a disturbing trend where there has been a shift in the kind of cooperation which lead to the breakthroughs with the federal government. In some respects there seems to be quite a bit of backtracking on some of the agreements that were made with the federal government. You will remember that there was a breakthrough agreement in December 2003 which saw the establishment of the Australian Energy Regulator and the Australian Energy Market Commission, and to a large extent that occurred because we in Victoria went to the federal government and talked to it and we talked to the ministers and at departmental level and, of course, to the ACCC — and Victoria had supported the new head of the ACCC taking up his post — so we had taken the initiatives to bring this about. It was a breakthrough agreement.

At that time it was agreed that these bodies would be funded by the federal government imposing an industry levy. That commitment was reaffirmed by the Prime Minister at the June 2004 COAG meeting. So there is a commitment from the Prime Minister in relation to this as well as the decision of the ministerial council. Because we could not reach agreement — and I have to say that this is much more about federal politics than it has to do with anything else — I think the federal Treasurer finished up becoming concerned that this industry levy would be seen as a new tax, and so he decided that the federal government would not introduce this levy. A short-term funding arrangement has been reached for 12 months to establish the AER and the AEMC, but at the end of that funding period there is still no agreement about how to continue. The short-term funding agreement means that Victoria will contribute $1.4 million to the maintenance of the AEMC. The federal government has decided to fund the AER completely for the first year.

But we are not in a position of agreement as to the long-term future of this despite the original agreement of the federal government. I must also point out to you there is some clawback by the federal government to the original agreement which was that the ACCC would not double-guess the decisions that were being made by these new regulatory bodies. That was what we were trying to avoid in the whole exercise. There has been a bit of an attempt to try to reintroduce a second-guessing process by the ACCC through what is called part 3A of the Trade Practices Act. So I am very concerned that a lot of the good work we did earlier seems to be being undermined to some extent because of a lack of cooperation at this level by the federal government.

Mr FORWOOD — I refer you to the Economics, Innovation and Industrial Development Policy Committee work, an ALP energy policy development discussion paper prepared by Ian Dennis, Graeme Watson, Brett McLean, Andrew Bridger and Renee Caruana — —

The CHAIR — You will tie it into the minister's responsibilities, I'm sure.

Mr FORWOOD — I particularly refer to the comment on page 31, which says:

> All carbon abatement schemes proposed to date, whether emissions trading, carbon tax or MRET result in an increase in the cost of energy sourced from fossil fuels. As a result all consumers will end up paying more for their energy.

Could you indicate to the committee how much you think energy will be increased by your desire to bring in carbon abatement schemes or a state-based MRET system?

Mr THEOPHANOUS — I should make a couple of points about this so-called report that you are reading from. The first thing I would say it is good to be part of a party that has democratic processes.

The CHAIR — It needs to be a passing reference. As I said to Mr Forwood, he would tie it in to the minister's responsibility, and he has done this before. I would stress, Minister, that you stick to your portfolio and your responsibilities as minister.

Mr THEOPHANOUS — In my responsibility as a minister of course I go and talk to policy committees of the Labor Party. I was pleased to see the policy that was taken to the recent conference of the Labor Party on energy reflects the discussions that we have had. It is a very good policy that we will be developing and helping to put together for the good of Victorians.

However, in relation to your specific question about the MRET scheme, Mr Forwood, it is a federal government scheme. As a federal government scheme it does add to the cost. It is funded out of the industry and so it adds to the costs of the industry. The decision to establish the MRET scheme was a deliberative decision. We said as a national community that it was a good idea for us to pay a little bit more, as it were, nationally for the cost of power in order to be able to bring in new renewable energy across the nation.

The MRET scheme was established. It has a cost associated with it. It is a national scheme administered by the federal government. That cost is borne by the whole of the industry but results in more hydro power, solar power, wind power and more renewable energy overall.

Mr FORWOOD — Minister, I think you misunderstood my question. What I specifically was saying was that if you move to a state-based MRET scheme or to a carbon abatement scheme, which is what the paper says, these are new schemes and as a result all consumers will end up paying more for energy. I want to know how much more will your new schemes, either the ETS or the state-based MRET scheme, add to consumers paying for their energy?

Mr THEOPHANOUS — As I have indicated to you, Mr Forwood, the discussions occurring with the various jurisdictions are over an emissions trading scheme and an MRET scheme as well. Our position is identical in this regard with respect to both of those schemes — that is, we will not act unless we can act in unison with all the other states. We are not going to introduce an MRET top-up scheme in Victoria which does not apply in other states and therefore adds to costs in Victoria but not in any other state. We would only do it in unison.

What we would simply say, Mr Forwood, and you should take this back to your federal colleagues, is that they had an independent inquiry into the MRET scheme. It came back and suggested we should maintain effectively the 2 per cent target that had been achieved under the original MRET scheme but had been reduced over time. The federal government decided not to accept the recommendations of its own committee in relation to that scheme. Had it accepted the recommendations of that report, there would be no argument about state-based schemes.

The truth of the matter is we feel we have a responsibility to try. We potentially have thousands of jobs in regional Victoria at stake in relation to wind energy projects and other renewable energy projects that will not be able to come to fruition if the federal government continues to nobble the MRET scheme.

Ms GREEN — Minister, I return you to the subject of the electricity network tariff rebate (NTR). In your presentation you referred to the tariff rebate scheme and its benefits for country Victoria. Could you provide further detail to the committee about this rebate and why it is necessary for country Victoria and also, importantly, for the outer suburbs?

Mr THEOPHANOUS — Thank you, Ms Green. This is a very important scheme. Bear in mind that this scheme is $110 million over three years, but if you look at the amount of the subsidy that we are talking about, it is

$320 million that will have been spent by the Bracks government when the scheme finishes to equalise prices between regional Victoria and metropolitan Melbourne.

The previous government, when it set up the privatised model, obviously had no intention of equalising the prices. We have decided that this is something that should be done because it is a way of recognising that the costs for electricity for regional Victorians should not be significantly different to what is paid in the city. We have adjusted the scheme over time and now the scheme equalises the costs for residential customers in regional Victoria up to the average consumption level.

We decided not to subsidise over-consumption for environmental reasons. We subsidise and equalise the cost up to the average consumption level of 4000 kilowatt hours of use. That means that any country Victorian who is using power up to the average level will pay a similar amount to that which is paid in metropolitan Melbourne.

We did something similar for businesses where we set the threshold at 8000 kilowatt hours. As a result of the NTR more than 1 million people benefit from this rebate. We could have spent this money on other priorities of government, but we decided we should continue to spend it. What it effectively means is that we are putting $35 million every year into regional Victoria and some outer metropolitan areas of Melbourne as well.

The CHAIR — Thank you. A final question will be asked by Mr Forwood.

Mr FORWOOD — I am very disappointed that this will be the final question. Next year we will need more time. Minister, last year's budget papers in the discontinued measures in appendix Don page 343 showed a discontinued measure expected outcome for 2003-04 of the number of towns included in natural gas reticulation of four. Could you name the four towns that were connected to that natural gas reticulation system in 2003-04 year?

The CHAIR — You can hand it up if you like. Have you got it there?

Mr FORWOOD — You can take it on notice, if you like.

Mr THEOPHANOUS — I might have to take the question on notice, Mr Forwood. I think we have made announcements in relation to the roll-out. We are looking forward to that, but I will take this question on notice.

The CHAIR — Thank you, Minister. That concludes the budget estimates consideration of the portfolios of resources and industries.

Mr FORWOOD — Shame!

The CHAIR — Even though Mr Forwood is disappointed, he can catch up with you over lunch. I thank the minister and departmental officers for their attendance today and to those who prepared extensively for today. We also place that on record, even though many of them are not here in attendance. The committee has a number of matters it will be following up with you, Minister, plus the ones that you have taken on notice. The transcript will be sent to you shortly.

Witnesses withdrew.