

REVISED CORRECTED TRANSCRIPT*

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2005–06

Melbourne — 8 June 2005

Members

Mr W. R. Baxter
Ms C. M. Campbell
Mr R. W. Clark
Mr B. Forwood
Ms D. L. Green

Mr J. Merlino
Mr G. K. Rich-Phillips
Ms G. D. Romanes
Mr A. Somyurek

Chair: Ms C. M. Campbell
Deputy Chair: Mr B. Forwood

Staff

Executive Officer: Ms M. Cornwell

Witnesses

Mr T. Theophanous, Minister for Resources;
Mr D. Seymour, acting secretary;
Mr R. Aldous, executive director, minerals and petroleum division; and
Mr S. Condon, chief finance officer, Department of Primary Industries.

*Corrections to the transcript by one or more of the witnesses have been received and accepted after the initial publication date.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearings on the 2005–06 budget estimates for the portfolios of resources and energy industries.

I welcome the Honourable Theo Theophanous, Minister for Energy Industries and Resources; Mr Dale Seymour, acting secretary, Department of Primary Industries; Dr Richard Aldous, executive director, minerals and petroleum division; Mr Shaun Condon, chief financial officer, Department of Primary Industries, departmental officers, members of the public 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 and witnesses will be provided with proof versions of the transcript early next week.

In accordance with the guidelines for public hearings, I remind members of the public that they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the minister or his chief of staff, can approach the table during the hearing. Members of the media are requested to observe the guidelines.

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

Overheads shown.

Mr THEOPHANOUS — Thank you Chair, and thank you for giving me the opportunity of making a presentation to the committee on the future directions within the portfolio. I will go straight into that, and I will try to be as brief as possible to allow for questions.

In the presentation I want to show to the committee how it is that we have had what I consider to be phenomenal success in attracting investment and jobs in this sector. I want to take the committee to how we have been able to do that in relation to the critical role that the government has played.

On the first slide you can see that there are four main areas that we look at in what we call the minerals and petroleum value chain, and that is exploration leading to development, leading to operation, leading to further investment and so on. The role that we see in this is to provide pre-competitive data delivery during the exploration stage, facilitation of approvals, then effective and efficient regulation leading to new technologies, and so the chain goes on, continuing that cycle, for the investments that we need.

The next slide shows the outcome that is needed for those areas — the spin-offs or the benefits — which are quite significant. You can see that in the exploration spend alone we have invested in excess of \$420 million over the last three years which puts us ahead of every other state except the two big resource states of Western Australia and Queensland. That is a pretty significant achievement. Our capital expenditure is in excess of \$4 billion and that has been put into this economy by the private sector on major new minerals and petroleum projects across the state. A significant number of new jobs have been created as a result of this activity, and I will come back to that a little later. Of course, this has all been geared off revenue of \$24 million, which has also been contributed to the state.

This is a nice graph. It shows the increase in exploration expenditure that has taken place since 1991. As you can see, it continues to rise as a percentage of the share of Australian mineral exploration expenditure, and I think that is a pretty good record.

The next slide gives you an idea of some of the projects. It is not exhaustive, but it provides a snapshot of some of the projects that are part of what we are calling the resources boom in Victoria. You can see that in gold the Fosterville Bendigo mine, which is in the construction phase, involves 200 construction jobs, 150 permanent jobs and an investment of almost \$100 million. When you see just the four gold projects, there is a very significant investment and a very significant level of jobs coming into regional Victoria as a result of the new gold rush as we sometimes call it.

Minerals sands is a completely new industry for Victoria, with a potential investment of \$270 million and 250 jobs in construction. Then, of course, there is all the gas activity with Minerva Gas, with SEA Gas, BASS Gas, Casino

Gas and the Otway Gas project. All together they are huge projects that are creating a large number of jobs in construction, and a significant number of permanent jobs as well.

The next slide shows major budget initiatives that affect this portfolio. There are two initiatives shown; one is about what we call the ETIS — the energy technology innovation strategy — which involves a significant amount of money which has been allocated by the government, including approximately \$84 million for a large-scale demonstration plant, \$4 million for geosequestration, \$16 million for research and development into energy efficient technologies and other technologies, and of course, there is also the mechanical thermal expression coal drying demonstration plant that is also being funded by the government at \$2.2 million.

So when you look at all of those initiatives, it really is the government putting its money where its mouth is so far as stimulating new ways of using our brown coal. Supporting that budget initiative are the other initiatives to create investment opportunity in the industry including through the 2002 brown coal tender with the coal to liquids proposal from Monash Energy; coal gasification by HRL as well as the low emissions power generation proposal from Loy Yang A.

There is still a significant amount of interest in clean coal technologies, including coal drying and geosequestration. Essentially I think that when you look at all of those things together, this particular portfolio of resources really is a good news story. It is one of great success creating a huge number of jobs, and I am pretty pleased to be the minister during this time.

The CHAIR — Thank you, Minister. Could I take you to page 40 of budget paper 3 where reference is made to the energy technology innovation strategy. Could you outline to the committee how it is going to be implemented? You mentioned it briefly in your overheads. What are the key performance indicators?

Mr THEOPHANOUS — I am very pleased about this particular proposal, the energy technology innovation strategy. It is an initiative which was first outlined in the Greenhouse Challenge for Energy paper, which was launched in December 2004, and which I am sure members would be aware of.

The energy technology innovation strategy proposal aims to provide coordinated support for pre-commercial energy and energy-related technologies across the research and development demonstration and commercialisation supply chain. As I have indicated to the committee already, there is a total of \$104 million over four years approximately, including \$83.5 million for the demonstration plants, \$16 million for research and development into early-stage demonstration projects with the focus being on brown coal, renewables and energy efficiency, and \$4 million for a geosequestration plant in the Otway Basin. In addition to ETIS the government will be spending \$2.2 million to support construction of a pre-commercial plant demonstrating one type of coal drying known as mechanical thermal expression.

ETIS has a number of veins which are to ensure Victoria's investment is efficient and effective. It is to leverage commonwealth funds out of the commonwealth \$500 million fund and to ensure Victoria attracts investment and technology partners. This is an exciting project, and essentially it is based on the view the government had that at one end of this chain we had research and development taking place in a variety of ways and technology being developed at the pilot stage, and at the other end there were full-scale power stations being built. But there was not this thing happening in the middle of commercial level demonstration plants which really are required before you can gear up to a full-scale plant. That is the hole this particular fund is meant to fill.

I will just give the committee an indication of the time lines: in June and July there will be international meetings with possible investors that the department is organising; on 28 October the request for proposals will close; in November, December and January there will be a review by an international panel and consideration by the government; and in the first quarter of 2006 the shortlist will go to the commonwealth for consideration. I must say it is very important to us that the commonwealth does not simply see the funding that Victoria has provided — because we are the only state providing this funding — as being a substitute for its \$500 million package. We see this as an add-on to that \$500 million package. We want to help local companies that want to do this kind of demonstration plant — in other words, we want it counted as part of the 2:1 ratio. We do not want the commonwealth saying, 'This is not counted and this means we do not have to provide as much under the 2:1 ratio'. I am very keen that that message gets to the commonwealth government to ensure we get the maximum gearing for these proposals.

Mr FORWOOD — Is there any suggestion of that? That was not my understanding.

Mr THEOPHANOUS — I have had a number of discussions with Ian Macfarlane about this. I would put it to you in this way, Mr Forwood: I think Mr Macfarlane is probably fairly clear on it, but I am not sure all of the people under him have a clear understanding of where we need to go on this.

Mr FORWOOD — Minister, last year if I turned to the budget papers I would have found a minerals and petroleum output group and under that a subset that had minerals and petroleum regulation services and ministry and petroleum industry development and information. If I turn to DPI on page 186 in this set of budget papers I get four output groups: primary industries policy; regulation and compliance; strategic and applied scientific research; and sustainable practice change. Firstly, I put on the record my grave disappointment at the fact that all mention of minerals and petroleum has vanished from the budget papers in the output-group sense and how difficult it now is to ascertain what is actually going on. What I would like to know is: last year this output group had \$10.1 million in industry development and information and \$8.2 million in regulation services; can you outline to the committee how much funding is now available out of the \$351 million being made available to DPI peculiarly for you and your portfolio responsibilities in this role?

Mr THEOPHANOUS — This is a question in relation to the budget and how it operates for this department. You are aware, Mr Forwood, that there have been some changes by the Treasurer in relation to presentation of the budget overall. I will ask Shaun to provide a brief response to your question.

The CHAIR — Before Shaun speaks, this is a portfolio that may have interesting names and it would be of assistance to Hansard if they were noted by Dr Aldous and passed to Hansard. Thank you.

Mr CONDRON — The direct allocation to the resources portfolio is \$20.8 million out of the \$351 million. That compares to \$18.6 million last year when you add the two together.

Mr FORWOOD — How is that divided up? How are you planning to spend the \$20.8 million that the minister has responsibility for?

Mr SEYMOUR — I will answer that. Essentially — —

The CHAIR — Before you do, it is up to the minister to decide who answers questions.

Mr SEYMOUR — I am sorry, Chair.

Mr THEOPHANOUS — I would ask Mr Seymour to answer.

The CHAIR — We would be delighted to hear from Mr Seymour.

Mr SEYMOUR — It is broken up, Mr Forwood, into a number of business activities. The first is the minerals and petroleum regulation function, for which we have budgeted \$6.3 million for 2005–06. The second is our geoscience capability, run by Geoscience Victoria, which is budgeted at \$5.7 million. The third is the business development technology function that the minister outlined briefly in his discussion on ETIS activities, at \$3.9 million. The fourth is information development, at \$1.5 million — that is the regular provision of pre-competitive data and other activity sets and making sure it is accessible to investors coming into Victoria. There is a policy legislation function budgeted at \$1 million. We are very active in that area at the current time. And the last is the executive and business management tasks, which we are budgeting at \$1.1 million. If you add all that up, it comes to just under \$20.8 million, except that there is a fixed cost that is a balancing item of depreciation, amortisation and capital charge.

Mr MERLINO — Minister, I refer you to the regulation and compliance outputs on page 188 of BP3. Can you advise the committee what steps are being taken to resolve the current industry and community concerns over the future operation of section 45 of the Mineral Resources Development Act as highlighted in the recent Victorian Competition and Efficiency Commission report on regional regulation?

Mr THEOPHANOUS — This is an issue which has been of some concern to me. It follows a decision in 2004 made by VCAT in relation to Tech Sol resources at Mount Egerton that I am sure members would be aware of. That raised a number of issues in relation to consent being given by landowners under section 45 of the MRDA. That section relates to the capacity of miners and explorers to be able to operate within a 100-metre limit. This 100-metre limit, as members might be aware, is quite difficult to ascertain, because it is not actually a 100-metre limit from the border of the property itself. It is actually a 100-metre limit from the house and gardens. It depends

how large the garden is and all sorts of issues. Then there are a range of heritage questions when it comes to the indigenous community when it comes into play.

I have decided that therefore, rather than trying to deal with this internally — I think this is a really significant issue for both landowners and the Victorian Farmers Federation and the Minerals Council of Australia — the best way to deal with this is to commission an independent inquiry into this issue and into the operation of both section 45 and section 46 of the act and to consider legislative reform later this year arising out of that.

Chair, I am pleased to be able to announce that Mr Simon Molesworth, AM, QC, who will be supported by Ms Rosemary Martin, has agreed to undertake this inquiry. This team brings significant experience in resources, heritage, planning and environment law needed to address what is a very complex issue, and Mr Molesworth has a significant record of service to both government and the Victorian community. I have asked Mr Molesworth and Ms Martin to report to me in the latter half of the year and interested parties, including the Minerals Council of Australia and the Victorian Farmers Federation, will have the opportunity to put forward their views to this inquiry. I look forward to trying to resolve what has been an intractable issue for a significant period of time.

The CHAIR — Before we go to the next question, a mobile phone is playing havoc with the microphones, so could that perhaps be moved and if any others are on the table — and have we got a pad for that one?

Mr FORWOOD — Minister, in your slides you showed that revenue contributed to the state in 2004–05 was \$24 million. I wondered if you could outline what comprises the \$24 million in 2004–05 and what you anticipate it to be in 2005–06.

Mr THEOPHANOUS — Again, I might ask Richard Aldous to answer that particular question with detailed information.

Dr ALDOUS — The approximate revenues for this year of \$24 million comprise brown coal royalties of approximately \$16 million, other royalties of \$4 million, and fees and charges associated with licences and so on of \$4 million. With the proposed increase in brown coal royalties by the time we get out to perhaps two years we envisage that brown coal royalty will be up to \$32 million and, assuming that the other charges are the same, we will see — sorry, there is another dimension and that is mineral sands. We will see mineral sands coming in at around \$2.5 million and that will be ramping up, but again I am looking at two years. We also expect by then to raise another half a million dollars through audit compliance, that is just looking a little bit harder at whether people are paying the appropriate amounts.

Mr THEOPHANOUS — I might just make the point, Mr Forwood, that we pride ourselves on being one department that actually brings in more money to the government than we spend.

Mr SOMYUREK — Minister, I refer you to page 188 of budget paper 3 and the Department of Primary Industries' new regulation and compliance outputs. Under regulation and output compliance it refers to the encouragement of best practice behaviours. Could you please advise the committee why the Strzelecki sustainability awards were instituted and how these awards will contribute to better environmental outcomes in the resources sector?

Mr THEOPHANOUS — Thank you, Mr Somyurek. Might I say this is one of the initiatives that the department has introduced that I am particularly pleased with, and in some respects I am a bit surprised that it had not been done a number of years ago.

Mr FORWOOD — You were not the minister.

Mr THEOPHANOUS — They have been unbelievably well accepted by the industry. When we had the awards here in Parliament House there was a lot of enthusiasm surrounding them. I also reported to the Parliament, Chair, about the outcomes of the awards and the winners in each of the categories, and I do not intend to go into great detail about that here today, but I think it is important to indicate that what we were trying to do was get awards which demonstrated the kind of triple bottom line approach that we have now in this sector to sustainability.

We wanted to provide awards for community engagement as being one of the triple bottom line approaches that we think the industry should be involved in and also of course for environmental sustainability and industry best

practice as well. We wanted the gold awards to reflect the triple bottom line approach that we are keen to encourage.

Then we had as well as that a platinum award which went to Karkarook Park, the Readymix/Boral Joint Venture. For those who have not gone down to Karkarook Park, it is a phenomenal achievement to have rehabilitated this massive area and, not only that, but to have rehabilitated it to the point that it has become a tourist attraction, a park that is enjoyed by a whole lot of people. It really does show that you can extract the value out of the earth's resources and take the community along with you and then effect an environmental outcome that is actually in some respects better than what was there in the first place. So we are very pleased with that.

I have got to say that in relation to one of the awards, the community engagement award, which was won by Iluka, that they have had a number of other players in the industry that have approached them and said, 'Well, how did you win this award, because we want to know how you actually were able to engage the community so successfully and get them on side?'. So it really is quite a spectacular achievement. What we are aiming to do now is to further refine the awards and have them as an annual event in the resources calendar.

Mr FORWOOD — Minister, last year we had quite a long conversation about Hazelwood, and I guess I should start by saying that despite the fact that a year ago we were talking about the pressure that you were putting on them to get on with it, not a lot has happened since then. I wonder if you could outline to the committee, firstly, your area of responsibility about where we are up to, but secondly, we know that the EES, after all its problems, has been handed to the government in April. Maybe you could touch on that process as well?

Mr THEOPHANOUS — Mr Forwood, maybe from your perspective, where you sit, not much has happened, but I can tell you that it has certainly occupied my mind over the last 12 months on an ongoing basis. I want to make a couple of important points about this mine and this power station.

First of all, this power station provides around 22 per cent of our base load power here in Victoria. It is a very efficient mine from the point of view that it produces power at a very competitive price. It is part of the mix of our base load power stations that allow us to deliver to the Victorian community, not just to individuals and to households but also to businesses a low cost structure in our energy provision, which then drives our manufacturing base and our industry and jobs and so on. So it is a hugely important aspect of our industrial processes.

As I have already indicated in the past to the committee and again I indicate today, when this originally came before me as minister responsible I had to make a decision about the new coal that was being sought by Hazelwood, by International Power. We had in place a brown coal tender process which had occurred in 2002. That brown coal tender process had identified that we should not allocate further brown coal without asking the recipient of that brown coal to identify the use of that brown coal as meeting certain targets of emission reduction or of energy efficiency.

The same kind of criteria was applied in my mind in relation to the Hazelwood power station and formed the basis of the ongoing discussions that have occurred from that date until now. It is tied up, as you are aware, with Hazelwood's desire to shift the road and the river in the proposal. To just try and identify for the committee, the shifting of the road and river is critical for Hazelwood because it is the only way it can continue to mine in this square-shaped way that is the most efficient way for it to mine. It is also the reason that it needs to get access to the west field and the additional coal in that west field.

It is not that it does not have coal within its existing mining lease. We have identified that it has a huge amount of coal within its existing mining lease, but accessing that coal is more costly. It is more technically difficult. It has asked for access to this additional coal in the west field.

We have said that we will allow it to, over the life of the plant, reduce the spread of the emission reduction that we would normally require for the extra bit of coal that we are providing for it — to spread that over the life of the plant. That is the basis of the negotiations that have been taking place. As you know, there has been a panel hearing. That is with the Minister for Planning at the moment. He has to make a decision in relation to that panel recommendations that have gone to him.

Those decisions will then come to me and I will make a decision in relation to the mining lease. Meanwhile, there are negotiations that have been occurring which are commercial in confidence in nature until we are able to make

an announcement. They will continue to occur with the company. I am hopeful that we will be in a position to make an announcement in the not too distant future.

Mr FORWOOD — Thank you for your answer. I wonder if you could try and narrow down ‘not too distant future’ to month, weeks or years?

Mr THEOPHANOUS — I know you want to push me on this, Mr Forwood, but I am prepared to say that certainly it will not be, as you said, years. It may be a matter of a month or two, but it is certainly not going to be much longer than that.

Mr FORWOOD — Am I right in assuming — without going into details — that you and International Power Hazelwood have arrived at your end of the deal but this been held up elsewhere in government through the EES process and that in fact you are ready to go but you are being held up by planning?

Mr THEOPHANOUS — That would be an incorrect assumption, Mr Forwood.

Mr FORWOOD — So you have not finished?

Mr THEOPHANOUS — You asked me about the EES process. I do not have anything to do with the EES process. It is done by a different minister.

Mr FORWOOD — That is my point.

Mr THEOPHANOUS — My discussions are with International Power Hazelwood. When they are concluded, I will make them public.

Mr FORWOOD — Can I just change the nature of the question?

The CHAIR — If it is a supplementary in relation to the initial question which is to do with Hazelwood, the EES and the finalisation of the matter.

Mr FORWOOD — Yes, it is particularly about the EES. Minister, are you concerned that the EES process will hold this up more than it already has? Let us face it: VCAT said it would send it back. It put the emission stuff in. It had to go through the whole thing again, as you know. A year ago we were saying that the EES process is nearly finished. Is the EES process as far as you know — given that you are not the minister responsible for it — nearly finished?

Mr THEOPHANOUS — Mr Forwood, I am confident that the whole issue in relation to Hazelwood will be able to be concluded within the time frame that I have indicated to you.

The CHAIR — Minister, going to your overheads, you referred to Fosterville Gold and the resources boom in Victoria. You also mentioned a number of other gold projects. I would like you to outline for the committee where there is currently exploration for gold in Victoria and whether the department has any key performance indicators in relation to those projects.

Mr THEOPHANOUS — Thank you, Chair, for that question. Again, I am pleased to be able to say that this is very much a good news story. I am not sure why all this is happening in the last few years, Mr Forwood —

Mr FORWOOD — The price of gold has gone up.

Mr THEOPHANOUS — This is another good news story — the price of gold is a factor of course. But Victoria is experiencing significant developments in the gold sector on a scale which has not been seen since the gold rushes of the 1800s. By the end of the year gold production in rural and regional Victoria will have doubled. Victoria has other major gold operations planned and under development in new areas around Stawell, Ballarat, Bendigo, Costerfield and Fosterville. Within two years all of these sites are expected to be producing gold.

In April 2005 the first gold bar was poured at Fosterville goldmine using an innovative bacterial process to liberate the gold. Both the Ballarat goldfields and Bendigo Mining have started building their new ore treatment plants.

Production from Fosterville is expected to increase to around 135 000 ounces in the next calendar year. Stawell is increasing, where there is over 100 000 ounces of gold that were cheap last year.

New advances in geological science have led to the discovery of the Golden Gift ore resource. Mining of this new resource will allow the company to increase gold production to 125 000 ounces in 2005.

To put it in perspective, if all of the published plans come to fruition, Victoria will be producing close to 1 million ounces of gold within 10 years. The largest single producer will be Bendigo Mining whose peak production is expected to be over 600 000 ounces of gold. With respect to the creation of jobs, the Fosterville, Bendigo and Stawell projects alone brought about 350 construction jobs and will generate 900 permanent jobs.

The ABS quarterly figures show a steady rise in investment in Victoria's mineral exploration. It went from \$42.6 million in 2002-03 to \$53.3 million in 2003-04. This resurgence in gold and the marketing efforts we have done internationally have attracted major players from overseas as well. Mining giants such as Anglo American, Barrick gold, Inco resources and Rio Tinto are actively exploring across Victoria for gold, nickel and mineral sands. The majority of gold exploration is currently centred around the known goldfields of Bendigo, Ballarat and Walhalla.

However, new geological models and geoscientific information is being applied by several companies in greenfields exploration with Barrick, Anglo American, New Crest and Gold Fields all looking for gold in completely new areas of the state. This is being assisted by the VIMP project which has endeavoured to reduce the risk and increase the explorers chances of success. This really is an important set of initiatives. When you think that the VIMP program is supported by \$1 million per annum by the government, it is a very good investment of \$1 million, I can tell you.

Mr FORWOOD — The slides that you put up are different to the ones that you handed out. In the ones you handed out, under the third dot point under 'brown coal tender' you had a new generation 1000 megawatt power station in Loy Yang which was different to what you had on the slide. Can you tell us what is the status of a new generation 1000 megawatt power station for Loy Yang in the valley?

Mr THEOPHANOUS — Thank you, Mr Forwood. Sometimes there are early drafts, and sometimes there are later drafts! The 1000 megawatt proposal is really a proposal from Loy Yang A. It was a proposal which came forward as a result of the 2002 brown coal tender process. You would be aware that there were three successful tenderers in that process. One involved a gasification proposal, which was HRL, and they received a significant amount of coal within an exploration licence for that proposal. The other was what was then the APEL project and is now the Monash project, which is a liquefaction proposal attached to a geosequestration model. It also received significant amount of coal as well. That was an important project.

The third of these was Loy Yang A, which had put up a proposal involving gaining access to additional coal which joins their existing mine. Its proposal was based on the notion that they would introduce new technology for a new brown coal power station at some point in the future, which would reduce emissions to levels which had not occurred in the past. That would involve using supercritical or ultrasupercritical boilers attached to coal-drying technology to achieve reductions in emissions of somewhere around 30 or 40 per cent on current practices, which, of course, is very significant.

All of these projects are subject to annual review by the department. There is a minimum level of spending which is required on developing the projects in each case. If the holders of these rights do not achieve their required level of spending which is set by the department, then they can in fact lose the tender which they achieved under the brown coal tender process. We monitor these very closely. We are very keen to make sure that they live up to the promises that they made during the brown coal tender process, and that will continue.

Mr FORWOOD — Minister, in relation to those three, have all of them met the milestones that were set down by the government, or have some of the milestones for some of the projects been altered?

Mr THEOPHANOUS — We certainly have not altered the milestones. There are always proposals that are put up in each case, and some of those proposals may involve, for example, interim steps towards reaching a final outcome. You can take as an example the proposal by HRL, which involves the construction of an integrated drying gasification combine cycle (IDGCC) assist brown coal power station, which is using the gasification technology to produce power.

They have, however, taken the view that although it wants to go to a 900-megawatt or a 1000-megawatt power station using this technology, they believe they need to do it initially through a demonstration plant. That is why they have come up with the proposal and have made application and are talking to us in relation to the ETIS funding as well to try and do the interim steps leading up to the final step. That, I do not think, was in the original proposal, but it is in keeping with what the original proposal was putting forward. We are certainly prepared to look at that, but we are not prepared to in any way alter the milestones of spending that are required by these companies.

Ms GREEN — Minister, page 40 of BP3 indicates the government's commitment to brown coal research. Could you advise the committee of what the Bracks government intends to do to ensure that Victoria retains a strong and effective brown coal research capacity following the commonwealth government's decision to abolish the CRC for Clean Power from Lignite?

Mr THEOPHANOUS — Thank you, Ms Green. Brown coal continues to be — and the Premier has made this point — an important part of the future of this state in providing us with cheap power. Obviously within the context of the enormous amount of interest and the knowledge that we now have about global warming and about issues around the environment it would be irresponsible if we did not continue to try and find technology solutions and other solutions for using our brown coal with the least possible impact on the environment.

I have already indicated to the committee that of course the coal that we have is inexpensive to mine. There is a lot of it. It is low in impurities, such as sulphur and ash, but it does have the disadvantage of adding significantly to greenhouse gas emissions because of its high water content. We in the Greenhouse Challenge paper in 2004 supported a coordinated approach to greenhouse gas abatement, which included the development of these new clean coal technologies and of course renewable energy and energy efficiency. The position statement that we issued back then identified a number of key initiatives, including the ETIS proposal. We are committed to reducing this, and that is why we have introduced the ETIS initiative, which I have already mentioned to the committee.

I also noted that coal-drying technology, known as mechanical thermal expression, developed by the CRC for Clean Power from Lignite has been proven at what you call the laboratory scale. The 2005–06 state budget announced the support of \$2.2 million to prove this technology in what is called a pre-commercial scale. It was very disappointing for me to hear from the commonwealth government that it has decided against continuing to support the work of the CRC for Clean Power from Lignite past the June 2006 date. However, this does not mean that the Bracks government will back off from supporting this important brown coal research.

DPI, DOI, DIIRD and DSE are working with industry to develop an alternative mechanism for supporting ongoing brown coal research and development. I want to take this opportunity to highlight that the government supports the CRC for Greenhouse Gas Technologies, which is called the CO2CRC, bringing Victoria to the forefront of research on innovative technology. The CO2CRC is a world leader in geosequestration, which is the permanent storage of carbon dioxide in deep underground structures. At the same time we are supporting mechanical thermal expression. I again urge the commonwealth government to reconsider its decision to cease funding in this very important area.

Mr FORWOOD — I just want to go back to my last question, if I could. Minister, the new generation 1000 megawatt power station — part of the condition of the access to the coal was that they would build a new generation 1000 megawatt power station, and if so, within what time frame?

Mr THEOPHANOUS — Mr Forwood, the coal is allocated through what is called an exploration licence and not through a mining licence as it were. It is a two-stage process. What the brown coal tender delivers is an exploration licence which allows the company to explore the area and to examine the feasibility of using that area. As part of that exploration licence they also have to meet certain milestones along the way in relation to spending in the development of their proposal. If those time lines are not met in relation to that spending, then obviously the exploration licence can be withdrawn. I might ask Richard Aldous, who is very close to this particular proposal, to further comment on this issue.

Dr ALDOUS — Thank you, Minister. The situation with Loy Yang is slightly different. Because there was a hiatus due to their change of ownership they were not in a position at the time of tender to come back and say, 'Yes, we can commit to this'. So we have given them a period to regroup, which has now happened, and we are now negotiating exactly what those conditions will be. We have not yet defined the precise milestones, but we expect to get that settled probably in the next month.

To expand on that, the whole concept with these brown coal tenders is that the companies commit, as the minister has said, to certain expenditure levels and they also commit to certain milestones. The milestones may be, for example, doing a feasibility study or doing some planning in a certain way by a certain time. We will be looking very closely at those milestones as they unfold. What the companies are effectively doing is spending money on next-generation technology with a view to being able to make something happen in the future which is going to use that technology.

They are spending money and effectively they are buying an option with that. They are spending money to have an option on the coal in the future, but it is really an agreement and they have to get to that milestone before they can really say, 'The coal is ours and we can use it'.

Mr FORWOOD — So there is no way that Loy Yang will get access to the additional coal unless they commit to the new power station?

Mr THEOPHANOUS — No, it is a question of them committing to the new technology. The coal is conditional on them being able to achieve milestones in relation to the reduction of CO² emissions out of the use of that new coal.

Mr FORWOOD — So they could retrofit their existing power station?

Mr THEOPHANOUS — That is not part of the new field that is allocated under the brown coal tender process.

Mr FORWOOD — Let me just try and understand that. What you are saying is that the new coal that is being available under no circumstances will be used in the existing power station?

Mr THEOPHANOUS — That is my understanding.

Dr ALDOUS — We have got to be careful here because we do not normally discuss peoples' licence applications and the details of what are in their licences in the public domain, because it is a private arrangement between the government and the company.

Mr FORWOOD — This is a public accounts committee you are talking to.

Dr ALDOUS — I know. But the point is that there are issues associated with confidentiality of what the company is committing to and their rights with respect to the stock exchange and announcements and the like. We have not reached a final conclusion, as I said earlier, on what the precise milestones will be. What I can say is that the company has put forward a number of different streams of work that they propose to do, and some of those include enhancing their current plant and significantly reducing CO² emissions from their current plant. Some dimensions of it are to do with studies on another power station or other ways of producing more electricity.

The CHAIR — So that I can get it clear myself, what is in the public domain in relation to reducing emissions?

Dr ALDOUS — There were statements — are you happy for me to answer this, Minister?

The CHAIR — Just what is in the public domain now?

Mr THEOPHANOUS — What is in the public domain is the brown coal tender in 2002. There were three applicants and Loy Yang A was successful in relation to this brown coal tender for access to additional coal, as I understand it, beyond what are the requirements of their current operation at Loy Yang. That additional coal was based on the idea that if they wanted to access that additional coal they could only use that coal within the context of significantly reduced emissions arising out of that new coal.

Normally that would be in relation to the construction of a new power station, because otherwise it would be virtually impossible to reduce emissions out of the current Loy Yang A to the extent that is identified in the brown coal tender. But if they came up with a proposal, Mr Forwood, to completely revamp Loy Yang A and reduce emissions by 30 per cent, I think it would be a small price to pay to give them access to some additional coal, but I do not think that is the way it is going to happen.

The CHAIR — So is there anything in terms of quantifying at this point in the public domain the greenhouse emissions?

Mr FORWOOD — Yes, absolutely. There was a commitment given.

Mr THEOPHANOUS — In relation to the new coal — —

The CHAIR — Yes.

Mr THEOPHANOUS — There is an absolute commitment that that new coal can only be used in the context of reduced emissions arising out of that brown coal — —

Mr FORWOOD — Over 30 per cent.

Mr THEOPHANOUS — Yes.

Mr MERLINO — Minister, I refer you to page 40 of budget paper 3, which mentions new energy technologies. Following the passing of the Geothermal Energy Resources Bill, could you inform the committee of the next steps in promoting geothermal energy in Victoria?

Mr THEOPHANOUS — We are always looking at new ways of doing things in this portfolio and of attracting new industry. I mentioned to you before the new mineral sands industry. I am hoping that we are able to develop a new industry as a result of encouraging geothermal power, which is of course a clean, renewable form of power that is low in greenhouse gas emissions as a result. It is created from heat deep within the earth.

I suppose the truth about this is that if you bore deep enough, you will get to something hot enough. But of course commerciality comes into play here, and it depends on how deep you have to go in order to access this heat. It has been traditionally thought that Victoria had low geothermal energy potential; however, today I think there is a renewed interest in this form of energy, and there is growing interest from companies wanting to explore for this resource. I think that is partly driven by the fact that we now have a legislative framework that allows them to do so. That is why we passed the Geothermal Energy Resources Act 2005, because it will provide secure rights to geothermal resources to encourage investment in large-scale commercial exploration and use.

The regulations and other implementation measures are now being developed, and all stakeholders will be consulted during the process. The Sustainable Energy Authority Victoria (SEAV) currently has a number of geothermal applications for funding through the renewable energy support fund, and they will also assist in this process. The Victorian renewable energy strategy (RES) is currently under development and is considering policy options for meeting the 10 per cent renewable energy target and to address specific barriers to the development of each of the renewable fuels. Geothermal is of course a renewable fuel and is included within the scope of that RES.

Mr FORWOOD — Minister, I want to return to the issue of the Molesworth inquiry into section 45 and section 46 of the Mineral Resources Development Act as a result of the Tech-Sol hearing at the Victorian Civil and Administrative Tribunal. Firstly, are the terms of reference available, and if so could you provide them to the committee; and secondly, do they include looking at the issue that consents given under section 45 do not survive a change of ownership and the consents can be withdrawn by an owner or occupier at any time?

Mr THEOPHANOUS — Can you repeat the last part of the question, please?

Mr FORWOOD — The VCAT decision said, amongst other things:

Consents given under section 45 do not survive change of ownership.

So if I give a consent that I sell the house, and the next night I withdraw it, or:—

Consents can be withdrawn by the owner or occupier at any time.

In other words I do give a consent and I withdraw it. Does the Molesworth inquiry investigate those two issues as well?

Mr THEOPHANOUS — Those two issues are very significant issues, as you would appreciate, Mr Forwood. It would be inappropriate to have an inquiry such as this one which did not examine those amongst a

number of other complicated questions. Certainly that will be examined within the course of the inquiry. I am happy to make available the terms of reference. This is an open inquiry, so I am happy to make available to the committee the terms of reference that the inquiry will be undertaking. We can send them to the committee following the meeting.

Mr FORWOOD — Other than the Tech Sol case, have there been any circumstances where mining companies have been affected by an owner or occupier withdrawing a previously given consent or a new owner withdrawing previously given consent?

Mr THEOPHANOUS — I am not sure. I do not want to mislead the committee. Richard, you have a longer history of knowledge than I have on this. Are you able to give an answer?

The CHAIR — You can take it on notice if you want.

Dr ALDOUS — We can take it on notice. It recent times there has not been, but in the past — —

Mr THEOPHANOUS — I will take it on notice. I do want to mislead the committee, but certainly not in recent times.

The CHAIR — I thank the witnesses who have provided assistance to the committee. The Hansard transcript will be circulated early next week.

Witnesses withdrew.