

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2006-07

Melbourne — 4 July 2006

Members

Mr W. R. Baxter

Ms C. M. Campbell

Mr R. W. Clark

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Witnesses

Mr T. Theophanous, Minister for Resources;

Mr P. Harris, secretary;

Mr D. Seymour, deputy secretary;

Dr R. Aldous, executive director, minerals and petroleum division; and

Mr S. Condon, chief financial officer, Department of Primary Industries.

The CHAIR — Welcome. I declare open the Public Accounts and Estimates Committee hearings on the 2006–07 budget estimates for the portfolios of resources and energy industries.

I welcome the Honourable Theo Theophanous, Minister for Resources and Minister for Energy Industries; Mr Peter Harris, secretary; Mr Dale Seymour, deputy secretary; Dr Richard Aldous, executive director, minerals and petroleum division; and Mr Shaun Condron, chief finance officer, Department of Primary Industries. I also welcome departmental officers and members of the public and media.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript via email for their verification within two working days.

In accordance with the guidelines for public hearings I remind members of the public that they cannot participate in committee proceedings. Officers of the PAEC secretariat are to approach PAEC members. Departmental officers as requested by the minister or his staff can approach the table during the hearings. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee rooms.

Minister, I now pass over to you for a 5-minute presentation firstly on the resources portfolio. At 3 o'clock we will take a brief break, and then we will do the overhead presentation for the energy industries portfolio.

Mr THEOPHANOUS — Thank you, Chair, and it is a pleasure to be here once again to address the Public Accounts and Estimates Committee. I will try and be as brief as I can, although I have to say to the committee right at the outset that it is an exciting time in the earth resources sector in Victoria with the significant developments that are occurring and some major achievements.

Slides shown.

Mr THEOPHANOUS — The first slide shows just some of the major achievements in 2005 and 2006. You will see that listed there are achievements such as the \$200 million Casino gas project which commenced production in February 2006 and will provide gas for the next 12 years. There is the \$100 million Fosterville gold mine which was officially opened in July 2005 and in its first full year of operation will have produced approximately 100 000 ounces of gold with an annual projected amount of 130 000 ounces per annum. The \$304 million Basker-Manta oil project, which commenced production in November, will recommence production in September 2006. The project is utilising a floating production storage and off take facility, which is a first for Victoria to produce oil that we otherwise might not have got.

The next slide shows some of DPI's major achievements and challenges for this period. The first of those, in terms of achievements, is the VIMP program, which goes back quite a long way. We did the 18th VIMP geoscience data release not so long ago, which I released. There is an enormous amount of interest in this program. We have now spent \$30 million on VIMP, and it is an important part of our armoury of ways of getting investment in this sector.

I put the Benambra mine rehabilitation project up there because DPI has funded this to the tune of \$4 million for the rehabilitation of this mine, following the collapse of the company that had been mining there. We wanted to rehabilitate it in an appropriate way for that area, and the earthworks have now been completed. We are now at the point of seeking to release some area around Benambra for further exploration as a result of a very successful project.

We are continuing with the technology road map project, which is another of our initiatives. I can talk about these things further in answer to questions. The new Pipelines Act, in terms of legislation, was passed in 2005, and the geothermal regulations also came into play. We released the geothermal acreage in April 2006 in an attempt to try to get more power out of geothermal as well.

We have established the now targeted occupational health and safety audit program, and we are facilitating a series of major projects which include the Monash Energy project — formally known as the APEL project — which is owned by Anglo, and the Woodside project, which is again a huge project that has come to fruition; and we are continuing negotiations in relation to Alcoa, which is also a very big part.

The next slide shows the developments of the state's earth resources in terms of aggregate figures. It is self-explanatory: you can see that huge amounts of gold, brown coal, base metals, gas and mineral sands are available.

We operate — and I think the committee has seen this kind of thing before — on the basis of a kind of schema where we use government investment and facilitation. We regulate new projects and encourage innovation to try to bring together increased activity in this sector. Listed there are some of the projects and activities that we have been able to do using this model.

There are major budget initiatives for this year in terms of new programs. We have a \$9 million Developing Gold Undercover project which is about attracting new gold exploration in the state. It is a three-year program, with \$3 million per annum announced in the budget. There is the \$1.5 million Latrobe Valley resources future project, which is about encouraging low emission brown coal investment. That is a three-year program costing half a million dollars a year. Of course, the existing current initiatives, the energy technology innovation strategy, which is an \$83 million project for demonstration-size plants in the Latrobe Valley, the Otway Basin trial and the MTE demonstration plant at the Latrobe Valley are still going.

Finally, in the last slide I thought it would be interesting to note, because I do not know that there are many departments that fall within this category, that ours is one of the departments which actually has a net benefit to the state budget — that is, we collect more revenue than costs to run our bit of the department. As you can see, the brown coal royalties that we collect and other royalties and so on amount to \$31.8 million in 2005–06, and the total output expenditure is \$20.9 million. The net surplus to the budget is \$10.9 million in 2005–06 and \$17.7 million in 2006–07. All in all, it is mainly good news in the resources sector. I am happy to answer questions.

The CHAIR — Thank you, Minister. We have 55 minutes for questions on this portfolio. Could I take you to the first slide and the last slide where you make reference to the government facilitating almost \$2 billion in new oil and gas investment in offshore Victoria. You also referred to the revenue that your portfolio brings to the state. Could you outline to us in some detail any taxation or royalty revenue the Victorian government receives or is likely to receive, particularly from the new oil and gas fields as well as the existing Bass Strait operations?

Mr THEOPHANOUS — Thank you for the question. Over the last six years, we have seen a massive expansion in the oil and gas sector in Victoria. At the Otway Basin we have facilitated the development of BHP's \$250 million Minerva gas project and Santos's \$200 million Casino gas project. In the Gippsland Basin we have seen Anzon come along with its \$304 million Basker-Manta oil project. These are all big projects that are producing huge amounts of revenue. We are seeing the completion of the first stage of Woodside's \$1.1 billion Otway gas project. We have offered Esso a production licence for the massive Kipper gas project in Bass Strait. We see in today's news that Origin's \$500 million BassGas project is likely to come into operation in the near future as well.

These are all massive projects. We have facilitated, as you said, more than \$2 billion in investment. It is the biggest petroleum investment since the development of the Bass Strait fields by Esso BHP that we have been able to bring about. So more than ever with the development of these multimillion-dollar facilities we see ourselves as the energy hub of the south-east of Australia. But Chair, I have to say to you that while Victoria is a beneficiary of this boom in terms of employment, it is not a beneficiary in terms of revenue from resource rent. Indeed, the government which collects the petroleum resource rent is in fact the federal government, which collects something in the order of \$1.5 billion in petroleum resource rent from this industry every year. It is an unfortunate situation where we in Victoria are a disadvantaged relative to other states. There are resource rent arrangements in place with Western Australia, for example, where it receives hundreds of millions of dollars in relation to the big resources that come out of that state, and I am talking about the offshore resources. Victoria receives virtually nothing from the massive amount of revenue that is raised each year by the commonwealth in resource rent, and it is a bit of an unfortunate situation.

I was a bit amused to see the federal Treasurer talking about financial relationships. The fact is that Western Australia gets something in the order of \$600 million or \$700 million in resource rent arising out of the offshore North West Shelf operations that are taking place in this sector; Victoria gets virtually nothing. It would be a really good thing if the federal Treasurer was to, as a first step, start to think about how he could return a fair share of the resource rent that is collected in this area instead of collecting \$1.5 billion in resource rent, then slugging motorists again at the pump in relation to petrol by another huge amount of tax with a GST on top of that. This area requires

some reform and we would welcome the federal Treasurer entering into discussions about how he could return some of that \$1.5 billion back to Victorians.

The CHAIR — Perhaps we will be mindful of that in our recommendations. Mr Baxter, would you like to ask a supplementary question?

Mr BAXTER — Just going on the information you have given us on what Western Australia collects in resource rents as against Victoria, has that got something to do with how far offshore the particular extraction is? Is the Western Australian one within the 3-mile limit and ours is further? Is that the reason? What is the reason?

Mr THEOPHANOUS — In both cases the facilities are outside the 3-mile — or 5-kilometre — limit, which are the state borders. With all these facilities, Mr Baxter, you always have onshore facilities and offshore facilities. The actual extraction takes place offshore, as it does in Bass Strait and similarly in Western Australia. There are also onshore facilities that have to be licensed and so forth. To be frank, this is a matter of historical arrangements that were put in place many, many years ago, and the historical arrangements that were put in place in relation in Western Australia result in it getting significant revenue from its resources. It is called a different name; it is not called a tax, but it is a resource tax. The arrangements that were put in place in relation to Western Australia are different to those that were put in place so long ago in relation to Victoria. We are not saying, ‘Why did this arrangement take place back then?’. All we are saying is that given there are these differences between states, it might be appropriate if Victoria received a bit of a share of that revenue.

Mr CLARK — My question also relates to government revenue from resources, and I refer to your final slide with the breakdown of royalties and other receipts. My question is in two parts. First of all, can you tell the committee what the nature is of the other royalties, the other fees and rentals? Secondly, in relation to brown coal royalties, did Alcoa agree to pay the additional royalties that were legislated for in the Mines (Aluminium Agreement) (Brown Coal Royalties) Act, and how much of the increased brown coal royalties this year are due to that royalty arrangement and due to other increases in royalties that were imposed at that time on other miners?

Mr THEOPHANOUS — Could I say first of all in response to your question, Mr Clark, we certainly make no apology for having increased the royalties on brown coal. They were increased, as you can see — the slide shows that increase. There was a significant amount of debate about that at the time. Some of the generators claimed that the arrangements were such that they believed at the time of privatisation they would not be subject to additional royalties. We took a different view to that, and ultimately that was tested in the event when we sought to negotiate with them. I am not underestimating their opposition to it, Mr Clark, but in the end they agreed to — —

Mr CLARK — When in the end you used legislative power to impose it on most of them.

Mr THEOPHANOUS — Yes, but it was with their agreement, and in fact the generators at the time wanted us to legislate because they could not guarantee that they could pass through unless we actually legislated, and Alcoa was one of the issues in relation to the pass-through for Loy Yang B, which sent significant amounts of power down there. They had a pass-through clause in their contract, but that clause also had an aspect of it that depended on how this increase in royalty came about. So they actually preferred us to legislate to create certainty for them, because that way they could say they have not — —

Mr CLARK — They did not want any increase in royalties at all, I would suspect.

Mr THEOPHANOUS — They did not want any increase, that is true, but — —

Mr CLARK — You are tearing up their legislative rights and contractual rights.

Mr THEOPHANOUS — Again I repeat, they wanted us to legislate. They did not want a simple agreement because that would have brought under question whether they had agreed to an increase and therefore did not have a right to pass it on. So we agreed to legislate in this regard.

Obviously as a business they did not want any increase in royalties, but we do not walk away from it, given that we have the lowest such royalties on our coal resources of any other state. Again I refer you to my previous answer, in which I contrasted \$1.5 billion that is ripped out of the industry — and motorists pay for it — in relation to the federal government, whereas we are talking about \$31 million in terms of a huge brown coal resource that we have.

Just to give you some comparative figures in relation to that, if you translate the brown coal into gigajoules as a measure of energy, you will find that the state coal royalty corresponds to about 5.5 cents per gigajoule, which is a minute amount, and that compares to the federal government's resource rent tax, which is \$1 a gigajoule — it is quite a little bit more. If you are going to criticise anyone for putting resource rent tax up, then I think you could well start with the federal government.

Mr CLARK — I am not criticising the sovereign right, but will you answer the question in terms of, firstly, did Alcoa agree, and secondly, how much of the increase is due to the increase in royalty rates?

Mr THEOPHANOUS — I might pass that technical aspect on — I do not know. When you ask, 'Did Alcoa agree?', I think in terms of Alcoa, under the terms of the agreements to purchase power it has to be passed through. I have not heard anything back to the extent that those costs have not been passed through in relation to Loy Yang B. There is a separate issue in relation to Alcoa's facility at Anglesea. I do not know — Dr Aldous, are you aware of the circumstances surrounding that? I might pass to Richard Aldous, who may have something to add to that.

Dr ALDOUS — Yes, Minister. Anglesea is subject to a special agreement, and their royalty is set in that agreement at the moment. There is provision in the legislative change that was made to introduce the new coal royalties to change that at Alcoa's Anglesea site, but that has not been proclaimed yet.

Mr THEOPHANOUS — In other words, Alcoa has not agreed yet. I said when I introduced the legislation we would not do it without its agreement, so it is part of other negotiations.

Mr SOMYUREK — In your presentation earlier you displayed a map which seemed to indicate that there was a minerals and petroleum boom across the state. Could you please tell us a little bit about the nature of this boom?

Mr THEOPHANOUS — Thank you, Mr Somyurek. This is an exciting time for this industry. When we came into power six or seven years ago there was very little gold being produced out of Victoria. Victoria was not seen as a gold production centre, except perhaps if you went back 150 years when we had the gold rush. I mentioned earlier that we have a number of — we are calling it a second gold rush. It is an historic boom in this sector.

The development of the Fosterville goldmine is set to double production in 2005–06 to about 250 000 ounces, valued at \$190 million. That is just one of the new mines that are coming on. I officially opened the next underground stage of this operation, which will set the scene for many, many years of production from this mine. The Stawell goldmine is on target to produce 100 000 ounces of gold, with production focus shifting to what is called the new Golden Gift resource that has been identified.

We also have other major gold operations planned to come into production shortly. They include Ballarat, Bendigo and Costerfield. Bear in mind it is all within the last six or seven years that these things have been taking place. With these new operations, production is set to double again over the next 12 months. We will not have seen this level of gold production in Victoria since 1917 — during the war there was an enormous increase in activity in order to produce gold for the purposes of funding that war. These developments are bringing jobs, wellbeing and economic development to regional Victoria. A recent study by La Trobe University on the regional economic impact of the new Bendigo goldmine — just one mine — found that up to 2100 new jobs will be created in Bendigo and the surrounding community, and as the mine approaches full-scale production it will add around \$600 million a year to regional output. This is an enormous boost to the Bendigo region. It puts gold ahead of agriculture as the main income source in the Bendigo region.

It is a very exciting time. When you add to that the developments in the Iluka mineral sands mine and the operation which will start production shortly at Douglas in western Victoria, you have new industries that are emerging, and they are creating a huge number of regional jobs. We are very proud to be a part of that.

Mr RICH-PHILLIPS — I would like to get some detail on the output initiative 'Developing Latrobe Valley's resources future', which is listed as funding 'provided to support and encourage new brown coal-based investment in the Latrobe Valley', including 'producing a strategic plan to develop Latrobe Valley's resources and create new investment opportunities'. Can you tell the committee how the \$1.5 million will be acquitted? What is

the nature of the new investment opportunities you are referring to? Does it include a new coal-fired power station in the valley?

Mr THEOPHANOUS — In relation to new coal-fired power stations in the Latrobe Valley, can I just say, Mr Rich-Phillips, this is a complicated problem and a complicated question. Perhaps the best way to answer it is to say that the government has a series of strategies in place to try to encourage investment in new generation facilities in the Latrobe Valley and across the state.

Part of attracting that investment is to do two things: one is to develop technologies that will allow a new generation of cleaner brown coal power stations to be built, and that is why we established the ETIS program and the funds under ETIS, which is a significant amount of money — I think all up about \$104 million. It is the largest investment that I can remember in this kind of industry that has occurred in Victoria, certainly since privatisation. It is designed to do one thing and one thing only, and that is to find ways of using our brown coal to produce electricity which is cleaner than we had before. However, that on its own will not stimulate the investment that is required. There are a number of other things that are necessary for that investment to occur. The most important of these is the problem of carbon risk, which I will also mention in my presentation under energy as well. In brief, the problem that we have in relation to the carbon risk involved is very serious, where investors are reluctant to make an investment where they do not know what potential costs they might be up for in relation to the future carbon regimes.

As you know, the federal opposition has a policy of introducing an emissions trading scheme. State governments are examining an emissions trading scheme, and the world community and many places around the world have put a price on carbon. So when you come to invest in Australia and you are a big investor and you want to make the investment in a brown coal power station, there is an enormous carbon risk and there is no certainty. This is why we are moving in the direction of trying to create some certainty for investors. It is a complicated issue and also relates to projections about how much energy is required. We have, as you know, recently brought on the Basslink project which has added additional capacity to the state. It is a complex problem which we are trying to work through both through a technology initiative and through working on schemes that might allow us to create some carbon certainty out into the future.

Regarding the other aspect of your question, Dr Aldous may want to add something to that.

Dr ALDOUS — I cannot say precisely because we do not have the numbers with us in terms of how that will be broken up, but I can say what the key elements will be. Firstly, looking at the coal resources that the state has in more detail with a view to understanding quality and quantity issues. This is quite important in seeing where the future of the valley will go. It is also important in terms of protecting resources appropriately for the future of Victoria. The other thing we are looking at is geosequestration. Critical to the future of the Latrobe Valley in a carbon-constrained world is the need to capture CO₂ and certainly the opportunities for doing that and sequestering CO₂ in Bass Strait are very high. We will be looking at that and how that can work.

We will also be looking at the non-power uses of coal. With the advent of projects like the Monash project where we see coal for the first time potentially being gasified, we then have the potential to turn that gasification product into methanol, urea and a number of downstream products, which has potential for new industries in Victoria. So part of the vision for the Latrobe Valley is to see those kinds of industries being considered. Money will be spent in these areas in discrete sub-strategies that will be looked at with a view to creating a full understanding of what the potential of the valley is.

Mr RICH-PHILLIPS — Do you see this program leading directly to investment opportunities or is that further down the track?

Mr THEOPHANOUS — This is, as I said, one program in a suite of actions and programs across both of my portfolio areas designed to try to get additional investment. But as you are aware, to cite one of the examples, the Monash project, if it comes to fruition — it is an exciting project — will have a big player in Anglo, which is part of this. As I mentioned in Parliament, there are some negotiations and discussions occurring between Anglo and Shell in relation to its coming into this partnership is well. You are talking about very large companies. If they take up that opportunity, we will be talking in terms of a \$4 billion investment to create diesel from brown coal. It would be a completely new industry for the Latrobe Valley, and we are very excited about that kind of opportunity as well as what I mentioned earlier in relation to new power stations.

Ms GREEN — Minister, I would like to draw your attention to DPI's regulation and compliance output group shown on page 209 of BP3, which refers to the regulation of natural resource use in the public interest. Can you advise the committee what steps have been taken in reference to the inquiry into section 45 of the Mineral Resources Development Act.

Mr THEOPHANOUS — Thank you for the question. This issue of section 45 is something that has been hanging around for a number of administrations, and there has been some uncertainty in relation to the way this operates. It came to the fore as a result of a decision made by the Victorian Civil and Administrative Tribunal in 2004 regarding Techsol Resources at Mount Egerton. The findings in this decision contrasted with the common understanding and practice which led to questions about the validity of existing consents and uncertainty for industry and community stakeholders about the operation of section 45.

I have now committed to introducing legislation in response to the inquiry's report. I commissioned an inquiry; it came back with a report and recommendations. The legislation will seek to resolve this significant uncertainty in relation to existing approved mining operations that are dependent on valid sections of section 45 consents. The legislation will make those valid. That was one of the key recommendations of the inquiry. It will also address some other areas of uncertainty for new operations, for miners and community stakeholders which were highlighted by the inquiry, including how to measure the 100 metres from residential buildings where there was a lot of uncertainty, because in the past it was the building plus the garden, and no definition was present about the garden and so forth. We have cleaned all that up, and there will be an enormous amount of certainty now in relation to it by essentially saying that it is 100 metres plus an allowance of an additional 20 metres for the garden around the premises. That will avoid all that uncertainty about where the garden starts, where it finishes and so forth.

We have also clarified how consents are obtained and recorded. We have made some recommendations that we will clarify such things as that community facilities will be protected under the legislation and so on. It will add a great deal of certainty. It is an important community measure where people in regional Victoria will know that they have this kind of buffer zone and now it will be much more clearly defined. A mining operation outside a property cannot come within 100 metres — actually 120 metres — of the boundary of the home. For anything under 0.4 hectares they cannot come within 100 metres of the boundary of that 0.4 hectares. So it is a significant new protection for people in regional and rural Victoria.

Mr BAXTER — Minister, in relation to the Benambra mine rehabilitation, was the department holding a bond from the company and therefore the \$4 million you mentioned is a net figure? And in relation to extractive industry licences generally, particularly sand and gravel, what is the approximate percentage of the retention rates of rehab bonds? In other words, how many licence-holders are failing to adequately rehabilitate the sites?

Ms GREEN — That is clever, Bill. That has two questions in there.

Mr BAXTER — They are related.

Mr THEOPHANOUS — Thank you, Mr Baxter. The former owner of the Benambra mine went into liquidation and left outstanding rehabilitation works at the mine site and no capacity to collect anything.

Mr BAXTER — And the department was not holding a bond?

Mr THEOPHANOUS — It was a very small bond which was, as I understand it, expended right at the beginning of the process a long time ago, so there was no other facility. Dr Aldous will outline something about that.

Dr ALDOUS — It was a small bond, and the company got into trouble and ran down for a number of years. The situation was that that bond was effectively used up in mitigating potential impacts on the environment for that interim period while the company was in administration.

Mr THEOPHANOUS — The original arrangements, including the rehabilitation bonds, were certainly not made under the present government; they were made under the previous government. I must say that one of the issues I had, Mr Baxter, related to rehabilitation bonds, and we have actually done a review of those rehabilitation bonds and, as a result, we are now updating the way in which we hold rehabilitation bonds.

The CHAIR — Would you like to outline that? For an estimates report, as you know, that would be very interesting.

Mr THEOPHANOUS — Again I will ask Dr Aldous to outline exactly what that involves.

Dr ALDOUS — The arrangements now are that no operation can start up without having been properly bonded, and we have environmental inspectors who go and assess — at any time, actually — what the potential cost is of rehabilitating that site, and the owners are required to lodge a bond with us. In the last two to three years we have made substantial progress in reviewing bonds and getting the potential liabilities of the state reduced. I think the total amount of bond that we are holding is somewhere of the order of \$90 million to \$100 million.

Mr THEOPHANOUS — Bear in mind that when we say we hold bonds, we do not actually hold the cash, we hold bank guarantees. It is not a cost on the industry until or unless we have to take it up, but it is a guarantee to us in relation to that cost.

Mr BAXTER — Are you able to give me any sort of feel for how many of those you are required to take up because rehabilitation is inadequate?

Mr THEOPHANOUS — I do not know how many have been taken up over the last 12 months or so.

Dr ALDOUS — We do not have the data with us, but we can certainly provide that.

Mr THEOPHANOUS — We will provide that data.

The CHAIR — By way of follow-up from our briefing notes, can you give us some information on whether the Benambra mine site is now completing its rehabilitation? I took it from what you were saying before that it was, but I just want to be absolutely sure. And what were the total costs incurred in the rehabilitation of the Benambra mine site compared with what your expectations were? I understand you have given that figure of around \$4 million; is that a total cost?

Dr ALDOUS — No. The total cost is \$5.8 million, but we borrowed some money from Treasury.

Mr HARRIS — The only thing relevant in that is that we sold plant off the site, so that reduced some of the cost, but the overall number of \$5.8 million — it was a tender that was done for purchasing processes and the cost came out as we anticipated, in a sense because the department found the funds, rather than going to the government for the funds. So we have actually rehabilitated this site ourselves. It was not as if we went to the government and asked for a specific amount of money and the cost of the tender was higher or lower; effectively we took on the responsibility of rehabilitating the site ourselves. So in terms of your question, it met our expectations in the department because of course it met the cost of the tender.

Mr CONDRON — And the \$4 million was the loan we needed to bridge the difference between what we could put to it ourselves, and we paid that back.

The CHAIR — That is comprehensive. Thank you.

Mr THEOPHANOUS — You asked about the completion. The works have been done; the site has been rehabilitated. There is, however, some tree planting still to be done and we are just waiting for the settling of the soil and the right weather conditions for that to take place.

The CHAIR — Thank you. Now could I take it to a completely different topic and that is one that was referred to a number of times in your slides, the MTE — the mechanical thermal expression — demonstration. Minister, could you outline to the committee the cost of that project and explain to us in a little more detail exactly what it is and why it is important to spend taxpayers funds on it?

Mr THEOPHANOUS — Can I say in relation to this project, and perhaps put it into some context for you, one of the ways that we can reduce greenhouse gas emissions from burning brown coal is to remove the water content from within the brown coal before we actually burn it. Brown coal has a water content of around about 60 per cent, so it is a significant technical problem in trying to remove the water prior to it going into the boilers for combustion.

There are a number of programs around the world in which people have looked at different ways of removing the water from brown coal before it is burnt. The Germans are doing quite a lot of research on this in what is called coal bed technology, another way of drying the coal. This technology, which we call mechanical thermal expression, is being researched only in Victoria — nowhere else in the world. There was an attempt at some point many years ago to do something in Germany but it was dropped some time back because of the costs, so it has not proceeded. It is happening only here in Victoria.

The technology involves — as it says, it is like squeezing the coal to get the water out under steam pressure. There is a lot of excess steam in the power stations that could be used for this purpose. We had a small 1-tonne-an-hour bench model operating at Monash for a while, to test the technology. This latest one is the development of a 15-tonne-an-hour demonstration model to be done down at the Loy Yang A facility. I launched that fairly recently and that is going ahead. The contribution involves \$2.2 million from the state government and a further \$2.2 million from the federal government and then the generators themselves are making a contribution, so it is a three-way contribution.

If we can find a way to reduce the amount of water in the coal in a cost-effective way, then this project will have been well worth the money that has been spent on it. The challenge for this demonstration level at 15 tonnes is to show that it can work and then to move up to a much larger scale demonstration plant after that.

The CHAIR — The DPI would be surprised if I did not ask what kind of work has been done on protecting the intellectual property of this work?

Mr THEOPHANOUS — The answer to that question is that we are not actually protecting the intellectual property, so far as I am aware, because of the fact that generators are involved in it. We are quite happy if this is able to be used by those generators, but we are interested also, if we do get it right, in transferring it overseas. I am not sure what the arrangements are in relation to that.

The CHAIR — I was not suggesting the Victorian government alone would hold the intellectual property rights; I was thinking more in terms of Australia benefiting and the company that put the money into the investment benefiting if it was so good that it could be exported.

Dr ALDOUS — The intellectual property came out of the Cooperative Research Centre for Clean Power from Lignite, and the Victorian government and a number of brown coal players in Victoria were part of that, so they collectively own the IP. The IP is held by those, but as the minister said it has been structured in a way such that it can be made available for the use of people in Victoria. The intellectual property will now move into a special-purpose vehicle. The CRC for clean power is closed, but that special-purpose vehicle is being used to fund the next stage, which is the 15 tonne per hour the minister has spoken about, so they will continue to add intellectual property to the research.

Mr RICH-PHILLIPS — A footnote in the budget papers notes that the audit work the mineral and petroleum division undertakes on major sites is shifting from a comprehensive audit process to a targeted audit process on particular high-risk issues. Can you explain to the committee what those high-risk issues have been identified as that you will now focus on?

Mr THEOPHANOUS — Thank you for the question. May I first of all say in relation to the question that we take safety very seriously. It is one of the highest priorities that we have as a government. As you would expect, Mr Rich-Phillips, I personally take it very seriously as the minister responsible for this area. We do not want to see any mine accidents. We certainly do not want to see any deaths emerging from this industry. We saw the events in Tasmania and how heartbreaking those events can be. You see overseas that in places like China thousands of people die each year in the mining industry in China, and we take every single life as being important. So the processes that we put in place and the way in which we deal with safety is of a great deal of importance to me as a minister and to this government, and I know that it is also to the opposition.

We thought about this in great detail. The issue about how you use resources in terms of safety is whether you try to cover everything or whether you try to identify the high-risk areas and spend more resources on those high-risk areas. That is what DPI decided to do, what we call blitz auditing campaigns which are part of the auditing mix now. It is widely employed by the Victorian WorkCover Authority as well. It allows DPI to visit more mining and quarrying sites. Blitz audit campaigns are publicised in advance to promote voluntary compliance, although visits

to particular sites are unannounced. We announce the program of the blitz but we do not say which site we are going to go to.

The key issues that are regulated in the targeted program are identified from analysis of the OHS and environmental incident database and input from the inspectorate and other stakeholders. We do a bit of research in relation to identifying the sites and the issues. The first two targeted audit programs were on mobile equipment and guarding, which had been the subject of numerous incidents and accidents over the past 12 months. The campaign resulted in unannounced visits of mines and quarries across Victoria, and a number of notices and directions were issued as a result. The last blitz campaign, which is still in progress, in fact, is focused on environmental impacts from dust and noise and is targeting mines and quarries that are located close to residential areas.

You can see that what we are trying to do is identify individual problems and then, with this approach, target that problem in the way that we have.

Mr RICH-PHILLIPS — How do you draw a practical distinction between your role and the VWA's role? Is there a lot of overlap in some of those areas?

Mr THEOPHANOUS — Yes, there is. As you again would know from Parliament, where I answered a question in relation to this, I set up an inquiry which was headed by Neil Pope to look at the synergy between what the DPI does in the mining area and the VWA. That report has only recently been delivered to me, and I am now considering that report and its recommendations before making any decisions as to whether there should be any change in arrangements.

Let me say that DPI works very closely with the VWA in relation to safety issues, and indeed the act under which the VWA operates, allows DPI to operate under that act as well, and that is the current arrangement.

Mr SOMYUREK — Minister, if we can go to government investment in exploration, I refer to the three slides up from that which should be titled Victorian government actions in 2005–06. That is it. I have not found the reference to seismic transects in this budget. I assume there is a reference in budget papers 2005–06. Can you give the committee a progress report on how this particular project is going?

Mr THEOPHANOUS — Which one, sorry?

Mr SOMYUREK — The seismic transect.

Mr THEOPHANOUS — The seismic line. Yes, this is an important and exciting project for us. We are looking at the structure under the crust of the earth and doing a seismic line across the northern part of Victoria, above the Bendigo and golden triangle area, if you like. It is a collaboration in which seismic data is collected using a truck which goes in various parts across a 400 kilometre area. It collects seismic information which we are then able to use to generate maps of the crust of the earth going down 60 kilometres.

This is the first time, as I understand it, that it has been done in Victoria — that is, on-land seismic data of this sort being collected. It will provide us with a significant amount of information about the various layers beneath the earth's crust and how we can then build a picture of the various possibilities for exploration within that region. Again, the seismic line is going to complement the \$9 million Gold Undercover initiative which starts in 2006–07 as part of the Provincial Victoria statement and that initiative builds on the other data that we collect from the Victorian Initiative for Minerals and Petroleum. So the seismic line will be a vital input to a three-dimensional model of simply Victoria which will be extended by Gold Undercover initiative.

We have contributed \$360 000 to this project of the \$915 000 that was required for the project and the state contribution includes \$100 000 from the Science, Technology and Innovation program in Business Victoria. So it is a bit of a partnership. We have managed to put the funds together, it was a bit touch and go at one time, Mr Somyurek, I have to tell you, but we managed to find the funds and I am very pleased we have because the data coming out is already showing things that we were not aware of in relation to the structure of the crust in that region.

Mr SOMYUREK — In relation to the progress, I am not sure if you actually addressed that part of it, the status of the project itself?

Dr ALDOUS — The data gathering has been completed. Trucks have been across the ground and taken measurements, and we have got first class information out of that. There will now follow many, many months of processing of that data. The quantity of data that is collected is incredible. It is very large quantities of data and it will be a very sophisticated process actually processing this to get the detailed analysis that the minister has referred to. We probably will not be releasing the final outcome of that for up to a year. We have got many partners and universities involved in helping with that interpretation.

The CHAIR — Are they doing that gratis?

Dr ALDOUS — That is part of the integrated program. There will be some in-kind arrangements through the CRC, for predictive mineral discovery for example. It will be involved in using and working on that data, and I have to say that the earth resources community in Victoria, the explorers and the academics, have been extremely pleased to see this. It is something they have been wanting to do for many years, to make this sort of breakthrough insight into the structure of the crust of Victoria.

The CHAIR — Thank you.

Mr BAXTER — Has the doubling of the price of gold over the last five years led to a significant increase in the number of applications for miners' rights and the like, for want of a better word, amateur prospectors?

Mr THEOPHANOUS — In terms of the actual numbers, there is a bit more interest than there was in the past and we have encouraged miners' rights. We have made it possible to get miners' rights on line and we have now established a number of places also around the state where you can go and purchase a miner's right.

To be frank, Mr Baxter, it is more of a hobby-type activity for the vast majority of people who are involved in it. It has not yielded a major mine or a major bit of gold that would be produced for the state. Our major activity is in very large capital-intensive operations which are mainly underground, of the sort I mentioned earlier: the big mines that are coming on stream.

Ms GREEN — So you will have to look for an alternative source of income post Parliament, Mr Baxter.

Mr THEOPHANOUS — I would certainly encourage people from the point of view of an interest and a hobby. It is a very good thing to do, to walk around and look for gold in that way. I think it would keep you fit and probably help you to live a bit longer as well, but — —

Mr BAXTER — It is not price elastic? The increase in the price of gold has not made a material difference?

Mr THEOPHANOUS — Over 1000 have been sold on line since we introduced the on-line sales. I am not sure about the numbers historically; the total numbers are much larger than they have been in the past but I think most people do it from the point of view that they might find a nugget, and a few of them have. I have got to say there have been a few finds and some pretty good ones, some famous ones, but not of the sort that were found back in the 1800s which were very significant indeed.

The CHAIR — That concludes this section of the estimates hearings. I thank those advisers and departmental officers who have attended to cover the resources portfolio and we will say thank you to the people from the department also who may not be here today but who have worked, one might say slaved over, those briefing folders, from what departmental people tell me, so thank you.

Witnesses withdrew.