

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2010–11

Melbourne — 18 May 2010

Members

Mr R. Dalla-Riva

Ms J. Graley

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Witnesses

Mr P. Batchelor, Minister for Energy and Resources,

Mr R. Bolt, Secretary,

Mr P. Naughton, Acting Deputy Secretary, Energy and Earth Resources, and

Mr C. O'Farrell, Chief Financial Officer, Department of Primary Industries.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the 2010–11 budget estimates for the portfolio of energy and resources. On behalf of the committee I welcome the Honourable Peter Batchelor, MLA, Minister for Energy and Resources; Mr Richard Bolt, secretary; Mr Peter Naughton, acting deputy secretary, energy and earth resources; and Mr Chris O’Farrell, chief financial officer, all of the Department of Primary Industries. Departmental officers, members of the public and the media are also welcome.

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/her chief of staff, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council Committee Room.

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. There is no need for evidence to be sworn. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript to be verified and returned within two working days. In accordance with past practice, the transcripts and PowerPoint presentations will then be placed on the committee’s website.

Following a presentation by the minister, committee members will ask questions relating to the budget estimates. Generally, the procedure followed will be that relating to questions in the Legislative Assembly. I ask that all mobile telephones be turned off.

I now call on the minister to give a brief presentation of no more than 10 minutes on the more complex financial and performance information that relates to the budget estimates for the portfolio of energy and resources.

Mr BATCHELOR — Thank you, Chair. It is a pleasure to be back before PAEC again. I see there have been no purges overnight, I see the usual team that is here, so that is good. I would just like to make some introductory comments.

Overheads shown.

Mr BATCHELOR — I want to talk about the challenges that are facing us with the transformation of our energy sector and our ongoing plans to make that as smooth as possible as we head towards a cleaner future.

As you can see from this slide, we have a big task ahead of us. The world is required to shift towards a cleaner, lower carbon future, and for Victoria that is a major and a significant challenge because it will require a major energy transformation. You can see this is, from the slide, because of our current dependence on coal to generate electricity and the requirements to change our energy mix more towards renewable sources and low emission sources.

The bulk of our energy currently comes from brown coal. It is very carbon dioxide intensive. We have got to find new ways of producing electricity that will have to come from a wider range of sources — from different locations — and new technologies. It will also require us, as a community, to work out how we use our energy differently — at home and at work — and particularly to use it in a more efficient way.

This transformation will take decades; it is not something that can be achieved overnight. But it will require an enormous amount of investment from the private sector and they will need support from the financial sector. We have an important role to play as a government, and our plan is to really try to navigate a course towards a cleaner future.

Much of this transformation is going to be dependent upon a price of carbon being established at the national level. A price on carbon will be the change agent, it will be the catalyst, it will be the lubricant, if you like, that will enable this transformation to be undertaken over time here in Victoria. It is clear that without a price on carbon the transformation of our energy sector is made much more difficult, because basically there is no financial incentive to change, and there is no certainty provided to investors about their costs or their rates of return.

The federal government continues to support a lower carbon future. It is doing that currently through the renewable energy targets, investment and energy innovation, particularly through the two flagship programs.

Also the Prime Minister has announced an energy efficiency task force. Despite the uncertainty of the price on carbon, we are getting on with the job of trying to prepare our economy, to prepare the community for the inevitable changes. What we are trying to do in four main areas is facilitate investment in energy technologies in infrastructure. We want to drive energy innovation to maximise our energy options. We want to work with other Australian governments to ensure that the national energy market can manage and handle this transformation to a cleaner energy future. We want to build the capacity of Victorian communities to meet these challenges and prepare for the way ahead.

We have been encouraging additional capacity in our generation capacity here of recent years. Major achievements include the 192 megawatt Waubra wind farm and the recently announced project of the Oaklands Hill wind farm, which is 63 megawatts and a \$210 million investment. I think people would be aware that the 550 megawatt gas-fired power station at Mortlake is nearing completion. We expect that to be commissioned later this year or early next year on advice from Origin, who are the owners.

The government has also announced a green door policy to try to encourage renewable energy investment through a one-stop facilitation program for investment and streamlining existing approval processes. We want to make sure that Victoria is a place that is susceptible and responsive to the needs of — —

The CHAIR — What is it called? A green door policy?

Mr BATCHELOR — It is a green door policy, that is right. It is to encourage investments in low emissions technology.

We are undertaking this work in the energy area, but we are also investing in the resources area. It is important part of my portfolio. Around \$5.4 billion has been invested in capital equipment in earth resources since 2006. To underlie the importance of this sector, more than 13 000 people are employed. That is the highest number that the state has had employed in this area. It is contributing about \$5 million to gross state product.

We are assisting this through Rediscover Victoria drilling programs. We are also providing more improved technical data to try to reduce the risks from exploration.

As government policy we are trying to accelerate the development of new renewable and lower emissions technology. This is really a key focus. As you can see from this quote from Paul Gilding recently in the *Latrobe Valley Express*:

Put your eggs in many baskets —

that is a better outcome —

because if one egg breaks, you're kind of stuffed.

It underpins why this government has been backing a portfolio approach, and a range of different ways of reducing our greenhouse gas emissions and assisting this transformational change.

We have got a lot of resources here which could contribute to the energy mix. We have got wind, solar, geothermal, wave and gas. We are using technology in these various areas, in research and development and pilot scale projects, to understand how we might use technology and innovation in this transition.

We are also investing in low-coal emissions. We would like to see these cleaner technologies coming into play because of the large resources of coal we have currently available to us, and all of that stored energy in our coal is a resource we cannot be ignorant of.

I am going onto the next slide about market reform. Victoria has a very competitive energy market. It does not come by accident. It has been designed to work that way. We have got efficient networks. These are essential. We are trying to deliver affordable low-cost electricity here in Victoria. There is a very interesting quote from the *Daily Telegraph* of yesterday in relation to this.

The CHAIR — It is on the screen.

Dr SYKES — There were some interesting quotes in the *Age* today, too.

Mr BATCHELOR — About the purging of the shadow ministry? That was in the *Herald Sun* yesterday, wasn't it? But this is the A team that is here today!

The *Daily Telegraph* of 17 May under the heading 'Rules keep power prices high for New South Wales families, a lack of competition among energy providers' the article starts off:

A lack of competition in the NSW power sector is costing families hundreds of dollars a year.

The state's energy market is about as vibrant as ... a 40-watt globe. Victoria, meanwhile, is 100 watt.

Victorians get better deals on electricity because there are more providers south of the border, and these providers fight each other harder to win customers.

It goes on to praise the competitive nature. That is from a leading daily newspaper.

Mr WELLS — Who was that set up by?

Mr BATCHELOR — By Steve Bracks.

Mr WELLS — Which you opposed.

Members interjecting.

The CHAIR — We can spend a lot of time on this argy bargy and going backwards and forwards. But without assistance, Minister, please conclude your presentation.

Mr BATCHELOR — I will just take a little extra time, given the interruptions. This is an important element of our design. It is supported by very hard-won consumer hardship protections that we intend to maintain and make sure they are not watered down.

We are also working with communities. That is important because this graph shows that our energy use is going to increase by more than 20 per cent by 2030. So at a time when energy consumption is increasing, the task of reducing greenhouse gas emissions and other abatement activity will be even harder.

We are doing a number of things through our energy saver incentive, and 4.7 million tonnes of greenhouse gas emissions have already been saved as a result of that particular program. In reducing greenhouse gas emissions, it saves domestic or household bills and makes it more affordable to use electricity.

We also established the premium solar feed-in tariff last year. More than 20 000 locations now have solar panels connected to the grid. This is more than any other state. We are also rolling out smart meters to 2.5 million households and businesses. This will bring forward 21st century technology and enable people to take control of their electricity consumption for the first time.

In conclusion, we are developing a future energy statement; this will be released shortly. It will outline a framework for Victoria's energy policy. It will begin a conversation with Victorians about our energy future, position Victoria as a good place to invest, and outline how we are getting on with the job of preparing the energy sector for when a price on carbon is established at the national level. Thank you.

The CHAIR — Thank you. We have until 10.45 a.m. for questions on energy and resources. Minister, the budget aims to allocate funds in 2011 and subsequent out years for stated government priorities and outcomes to be achieved. Could you please advise the committee of the medium and long-term planning goals strategy or strategies upon which the budget for your portfolio is based and whether there have been any changes since last year?

Mr BATCHELOR — The annual budget allocation process within energy and resources is based on both medium and long-term planning strategies. These are developed in line with the departmental strategic plan, which is shaped by government policies but in particular the Growing Victoria Together vision. Under Growing Victoria Together, the department makes its contribution by leading primary industries in Victoria to achieve a number of objectives — to increase productivity and competitiveness, increase the volume of exports and investments and the quality and quantity of jobs, to reduce the intensity of greenhouse gas emissions, to

improve efficiency of energy, water and other resources, and to increase the reuse of waste products generated from this production.

We do that through delivering the energy technology innovation strategy, or ETIS as we refer to it. This supports research, development, demonstration and deployment of investment in low emissions energy technologies, and it is basically designed to help us become ready for a low carbon future by promoting commercial applications of new low emissions technologies. We also attract and facilitate investment to make sure that Victoria is seen as a competitive location for new energy investment. Our planning and projects approval process tries to do this in a timely and efficient manner.

We have given a lot of emphasis to solar generation as a strategic priority. As you know, we have introduced the solar feed-in tariff bill. We have also supported solar initiatives through the Victorian large-scale solar project. This aims to build about 330 gigawatt hours of solar power somewhere in Victoria — up in the north-west, more likely — so that can be fed into the national electricity market.

We established some time ago the Victorian renewable energy target scheme, which is currently being transferred into the commonwealth scheme. We are awaiting the final parliamentary redesign of that scheme at the national level. We have also paid a lot of attention to energy efficiency through the energy saver incentive. As recently as today there has been a call for discussions of what new elements to the energy saver incentive might be included in the scheme. That call was made by the scheme operators — the Essential Services Commission.

They are the sorts of things that drive the activities that are undertaken in this department's work, largely to shape investment in the private sector to deliver the ongoing supplies of affordable energy but also in the years ahead, less carbon intensive energy.

The CHAIR — You mentioned before about a new energy strategy — —

Mr WELLS — How many questions?

The CHAIR — Just a clarification. The energy technology innovation strategy, which you have been involved with, you are looking to have a new strategy some time or other?

Mr BATCHELOR — No, that is a very long-term project because it develops and provides financial assistance to demonstration projects at the large scale, and there are very large amounts of money available. The most recent one is in relation to a solar power station in Mildura. It was awarded funds. The company administering it ran into financial problems, notwithstanding the apparent integrity of the technology.

That has now been taken over by a New South Wales-based company and it is continuing to operate. We have brought forward some part of those ETIS funds to assist the new owner in finalising the development project so they can then go on to the next stage of developing a large-scale solar power station.

The CHAIR — Mr Wells?

Mr WELLS — Thank you. Minister, I notice in your handout there is no reference to smart meters. Is there a deliberate reason why — —

Mr BATCHELOR — I mentioned smart meters earlier.

Mr WELLS — Yes, but in this handout there is no mention of smart meters — unless I am missing a page?

The CHAIR — What is your question?

Mr WELLS — No, am I missing a page?

Mr RICH-PHILLIPS — I must be missing it too.

Mr DALLA-RIVA — I must be missing it too.

Mr BATCHELOR — Why don't you ask your question?

The CHAIR — Can we get a question? Can we avoid the statements and get on with the question, please?

Mr WELLS — No, I am just asking.

The CHAIR — What is your question?

Mr WELLS — All right. I will ask the question. I was just making sure I wasn't missing a page.

The CHAIR — I know you are trying to make an irrelevant point — —

Mr WELLS — We've got one! Is that the one we are supposed to have?

Mr BATCHELOR — I have got something in store for you. Do you want to ask the question?

Mr WELLS — I will ask the question, but in the handouts was there supposed to be one? I was just asking and clarifying the point.

Mr BATCHELOR — No, there wasn't one supposed to be in there.

Mr WELLS — It wasn't supposed to be in there?

Mr BATCHELOR — I thought you might ask a question on the smart meters.

The CHAIR — Get on with it. I do not have a lot of tolerance for smart comments, so can we get on with it, please?

Mr WELLS — My question is in regard to smart meters.

Mr BATCHELOR — I have a presentation for you.

The CHAIR — Thank you, Minister, let's hear the question.

Mr WELLS — The Auditor-General's report to the Parliament on smart meters noted that the cost estimate the state government used to proceed with the project was \$800 million, but this figure has since been admitted by the minister's department to be flawed; that appears in *Towards a 'Smart Grid* at page 30. In Parliament on 9 March 2010, as reported in *Hansard* at page 664, you, as the minister responded to a matter concerning smart meters on the adjournment, and made the claim:

... there has not been a cost blow-out ...

So my question is: in light of the minister's claim, can you now confirm that the entire smart meter project will be delivered for the original \$800 million cost estimate; or if not, how much extra will the Victorian electricity users have to pay due to this government's lack of competence in managing major projects? Will it be more or less than the \$2.25 billion figure that the Auditor-General has referred to in his report?

The CHAIR — Minister, please answer the question in so far as it relates to the estimates.

Mr BATCHELOR — Going forward, electricity consumers — domestic and small businesses — will pay for the installation of new smart meters. They are being rolled out at the moment and that will continue over a four-year rollout period. There was an original estimate in 2006 of \$800 million. That is correct, but that is the only correct part of Mr Wells's question. The rest of it is incorrect — —

Mr WELLS — Sorry, with respect I was quoting you — —

The CHAIR — You are not showing a lot of respect. You must go through the Chair. Let us hear the minister's answer.

Mr WELLS — Through you, Chair, I was quoting the minister in *Hansard*. Are you saying that is not correct?

The CHAIR — You have made your point. Minister, continue to answer, without interruption.

Mr BATCHELOR — I want to be clear on what the circumstances are. In 2006 it was estimated that the cost of the interval meter rollout, not the smart meter rollout, was \$800 million. At that time, industry approached the government and advised that there were changes that had taken place in technology and that the metering function, going forward, would be better served by having two-way communications established to each interval meter.

So the functional design of the meters was then changed and a new project emerged. So it is not correct to compare the cost of \$800 million of the interval meters that occurred at that time with the cost of running out smart meters now, because of the additional functionality; a new costing process was entered into. So you cannot compare the \$800 million with the cost that is now believed to be the cost of rolling out the smart meters, because they are different products.

At the moment we are undertaking another cost-benefit study, and that cost-benefit study, which has been called for by the opposition, is nearing completion. We are having it checked and it will shortly be released, later this year, after it has been through the cabinet process, and cabinet has had time to consider it. What I can reveal to you is that the extra cost of smart meter services is likely to be \$1.6 billion — not the \$2.25 billion figure I think you have been referring to quite consistently. It is likely to show that there will be benefits in the range of between \$2 billion to \$4 billion, so it will be a positive cost-benefit ratio.

The 2.25 figure that you refer to was referred to in the Auditor-General's report. It was a figure that he did not analyse; he sourced that from industry sources at a much earlier point in time. That figure of 2.25, as the Auditor-General highlights, contained what the distribution companies had put to the regulation review that is conducted by the Australian Energy Regulator. That was the figure that they had put to them at that time for smart meters, but it also included the cost of other metering. So it was the full metering services, old and new; it was not the additional cost that would have to be borne by the consumers.

The additional costs of the new technology — smart meters as opposed to the interval meters — is likely to be around \$1.6 billion; that will become clear once this cost-benefit analysis has been completed, once it has been considered by cabinet, and I am hopeful that we will be able to release that a bit later on.

Mr WELLS — Can I clarify two points?

The CHAIR — Very quickly.

Mr WELLS — Minister, firstly, will that cost-benefit analysis be released prior to the election? Secondly, in regard to when the industry sources came to you and said that there was a change and was going to use different technology, at what point did you inform the public that that was going to happen and that there would be an increase in cost?

The CHAIR — This is an estimates hearing. It is not a hearing on energy-technology usage in the past. But I will allow you to use your discretion in terms of those considerations, Minister.

Mr BATCHELOR — I expect that the cost-benefit analysis will be released to the public. We would like to do that as soon as possible; we would like that to be, certainly, well before the election. It has to go through the cabinet process, and it is a decision of cabinet ultimately, but that will be my recommendation, because I think it will assist the public debate. It will certainly help the opposition understand what the real additional cost of smart meters is going to be and I think it would be a good thing to do, so I am hopeful that cabinet will do that.

The process is not concluded; the figures I have given to you are the early indications. You wanted to know when the change of — —

Mr WELLS — Yes, when the industry came to you to say that there has been a change — —

The CHAIR — I do not think that relates to the estimates, quite frankly.

Mr WELLS — The actual rollout of the smart meters does relate to the estimates.

The CHAIR — It does, but what happened in 2006 does not, actually.

Mr WELLS — I am just wondering at what point did you inform the public that there would be any increase in the cost?

The CHAIR — As I said, I do not think that relates.

Mr BATCHELOR — I do not think I was the minister at that time, but my memory is that there were stakeholder consultations and a statement made and information put into the public domain. But you will have to bear with me; I do not believe I was the minister at the time.

The CHAIR — We should be able to put that as a question on notice on the notice paper.

Ms GRALEY — Minister, I would like to talk to you about solar energy policy. I am mindful that we do not want to put all our eggs in the one basket, as you said, but I know that Victorians are really enthusiastic about solar power, as indicated in your presentation. I refer you to budget paper 3, page 201, which talks about the increase in the expected outcome for the strategic policy briefings on energy matters to the portfolio. I think it is at footnote (h). The performance measurement is due to the commencement of the premium feed-in tariff scheme. I am wondering if you could advise the committee, apart from the premium solar feed-in tariff, what else the government will be doing to encourage the uptake of solar power?

Mr BATCHELOR — In response to the Chair's question about the ETIS program I pointed out that these are large investments that take place over many estimates periods and outlined to him the assistance we are providing to what was previously known as the Solar Systems large-scale power station and the financial troubles that the then company got into before it was taken over. As part of that, we have brought forward some \$3.5 million of the previous \$50 million grant that is being made available to help fund Silex Systems, the new owners, to ensure that the research and development that takes place can be concluded and they can go to the next stage of this project, the next stage following the first stage. The first stage was a 140-kilowatt plant built at Bridgwater; the next stage is to build a much larger scale power station up near Mildura, at Carwarp.

This project is an example of how, over time, we are helping to try and draw large-scale solar power stations to Victoria. Why we are doing that in addition to helping domestic-scale solar generation is that the cost per unit of electricity generated from large scale is much cheaper than that generated from domestic-scale solar power facilities. That is one element that we are doing.

The second element is that we are developing a second large-scale solar power station which we think will be capable of supplying about 50 000 Victorian homes and we are allocating \$100 million towards the project. We think that during the next forward estimates, we will be in a position to make a decision on that. Why are we saying that? Because one of the preconditions of getting this \$100 million funding from the state government is that the proponent that is successful under Victoria must, first of all, also be successful with the Solar Flagships money; they have got to attract federal funds to their particular project.

Recently, the federal government announced that there would be eight proposals put on their short list, half for solar thermal, half for solar PV power generation, and three out of the four proposals for the PV have proposals to build either the entire power station or parts of the power station in Victoria. So the \$100 million we have put on the table to try and attract not only solar generation but funds from the federal government under their flagship payment are there. Money is being made available at the moment from the federal government to conclude feasibility studies and I understand they will be making a decision in the first half of 2011 as to where their Solar Flagships money will be going. If it is for a power station in Victoria, we have already indicated that, if it comes through that process, we would be prepared to put in \$100 million. So that is what we are doing at the large scale.

We are also working at the innovation end of the market in trying to identify through research and development grants how we might improve new technologies in solar. We have given \$6 million to Melbourne University and they are continuing that program over a number of years to develop organic solar cells. These are an alternative to the silicon-based solar cells and they will produce a really significant and important step change in solar production because of the relative cheapness in cost of producing them, and I have brought one of these along to show you today. The proposal is to develop a thin film of, for want of a better word, plastic-type material. Printed inside the film are several layers. It uses the technology that printed bank notes are made with.

The CHAIR — Polymer technology.

Mr BATCHELOR — Polymer, they are. That is right; that is the technical word — plastic-type stuff.

Embedded in here are organic solar cells. It is some sort of dye that, when exposed to sunlight, produces electricity. They are now working out, having solved the problem of how you print it, how you then might have a practical application for it. As you can see, this is a much more efficient way of producing solar power cells, and it would have a whole variety of different applications.

For example, part of the consortium that is involved in this is BlueScope Steel and other universities. They can see the benefit of perhaps having a flexible film or skin that you could perhaps apply to roofs and walls. You could also have applications where you might build dam covers with it to stop evaporation but also to generate electricity, or you can stretch it out over very large areas on the ground. It is limited by your imagination.

We have put \$6 million into that type of project. We have also put \$3 million into Swinburne University to develop the Suntech advanced solar facility, again who are interested in thin-film solar technologies.

Whether it is at the large scale, the domestic scale or the innovative edge of making solar, we are trying to do it. The big issue for solar is its cost to production, and we are particularly excited about this organic solar cell development, because of the ability to bring down the cost of producing electricity from the sun. While sunlight is free, solar power is not. You have got to have the black box, if you like, to convert the free sunlight into electricity, and that is what we are seeking to do.

The CHAIR — Thank you.

Mr RICH-PHILLIPS — Minister, I would like to take you back to the smart meters issue that Mr Wells raised. Firstly, I refer to the Department of Primary Industries' fact sheet on smart meters, and a section with respect to who is paying for smart meters. The fact sheet says:

In the same way you pay for the current meter and electricity infrastructure (the poles and wires), the costs of the overall smart meter upgrade will be included in your electricity bill over a number of years.

Are you aware of any instances where householders have been informed that before a smart meter can be installed in their property, they need upgrades to the electrical infrastructure in their property and that they will need to pay for that? Consistent with what the fact sheet says, can you provide an assurance that no householders will have to pay upfront for any of the works required for the installation of smart meters — that it will all be included in the bill as planned by the fact sheet?

Mr BATCHELOR — I am not aware of the specific instances you cite. If you would like to hand that information over, I will follow that through for you, and either answer it now, if you have got the material. It is a bit hard, Chair, to answer specific questions on generalised accusations without any information. I do not know whether the information is in fact true, however, so I will await the provision of such information, if it in fact exists. I do not know whether it exists, and I always try and bring along material and evidence.

Mr RICH-PHILLIPS — But you are not aware of any instances?

Mr BATCHELOR — I am not aware of the instances you are referring to, and you apparently are unable to supply the information.

Mr RICH-PHILLIPS — Minister, if you are not aware of instances I am referring to, are you aware of any instances where upgrades have had to be charged or where householders have been told upfront they need to pay for upgrades before a smart meter can be installed?

Mr BATCHELOR — I can understand there might be some circumstances where during the rollout of 2.5 million individual smart meters there may need to be some safety changes made at the meter box area. This has been envisaged and foreshadowed as an issue that might need attention.

There are a very limited number — a very small number — of cases where the technician turns up at a house and finds that the pre-existing wiring is unsafe and needs some adjustment to it. The level of adjustment ranges enormously, and the level of correction and upgrading ranges enormously. In some instances it is fixed then and

there as part of the meter installation. However, if it is unsafe, it needs to be corrected, and that is outside the scope of the smart meter rollout.

It is an issue that the property owner should have already addressed. The installation program provides the opportunity for it to be brought to the attention of the householder. If the existing arrangements are unsafe, the householder needs to make them safe, although under some instances if it is a small requirement, it can be done as part of the rollout, but the responsibility lies with the householder.

There are also other possibilities — and I am not sure if any have occurred yet — where households have been illegally bypassing the meter and tapping free electricity. In those circumstances they would have to pay to have the wiring done properly so that they pay for their electricity and are not bludging on the rest of us who have to meet that cost.

There may well be some of those circumstances that arise during it. But I think we have had about 100 000 meters installed to date and the occurrence of these types of circumstances is very small. I would be prepared to get the details from you, if you could send them to my office this afternoon — if they exist — that would be very helpful.

Mr DALLA-RIVA — So you do not know? That is a smart remark.

Mr BATCHELOR — I do not know whether he has got it.

The CHAIR — The minister, without assistance.

Mr BATCHELOR — I do not know whether he has got stuff. He said he had it. I want him to show us.

Mr DALLA-RIVA — You just told us you know about it and then you ask us for it. That is a smart remark, really. No wonder it has blown out.

The CHAIR — Without assistance, please.

Mr RICH-PHILLIPS — You said yourself it was a safety issue.

The CHAIR — Mr Rich-Phillips, do you wish for some clarification?

Mr RICH-PHILLIPS — The minister is saying ‘safety issues’. In how many instances within that 100 000 installations have safety issues arisen where remedial works have been required to be paid for by householders?

Mr BATCHELOR — I have not got those figures.

The CHAIR — You can take that one on notice.

Mr BATCHELOR — And I want on notice the case that he referred to.

The CHAIR — There are examples where people have got solar ones where they do have to make some sort of minor adjustments.

Mr BATCHELOR — No, that was not the one he was talking about.

Mr NOONAN — Minister, I want to ask about the Victorian renewable energy target, which is referenced on page 45 in budget paper 3. It talks about the transition process to the commonwealth’s expanded program that obviously seeks to increase the share of renewable energy in Australia to 20 per cent by 2020. I just wonder, for the committee’s benefit, whether you can indicate what impacts there are on renewable energy investment in Victoria and how the government will assist over the forward estimates period?

Mr BATCHELOR — Sure. As all members of the committee, both upper and lower houses, would know, in November last year the Victorian Parliament passed legislation transferring the VRET into the commonwealth RET scheme that took effect from 1 February. Participants in the VRET scheme automatically became participants in the RET scheme, and that took over from the Victorian scheme.

Just by way of background, the Victorian scheme has been a huge success. It has led to over 2000 jobs being created and about \$2 billion worth of investment; most of that has taken place in regional Victoria. It has led to outcomes whereby there has been renewable energy generated. It has led to a reduction in greenhouse gas emissions, and it has also led to the establishment of a new source of non-farm income for farmers who participate in this.

Of course it is not compulsory to have a turbine put on your farm, but there are lots of farmers who are benefiting financially because they are able to have a turbine placed on their property and continue the rest of their farming activities. So this provides them with a regular, non-weather-dependent form — it is dependent on the wind, but it is drought-proofed in the sense that it is not dependent on rain — of income.

I know that the VRET also not only brought on wind investment but it has brought on hydro investment. The member for Benalla was pleased to be at the Bogong hydro scheme that brought on 140 megawatts of renewable energy in his electorate. He is a great supporter of renewable energy.

VRET has seen eight wind farms established. There are another 20 permits for wind farms that have been approved and, as I understand it, about seven planning applications have been lodged. This is a critical time for wind farm development, because whilst that is not the only form of eligible renewable energy under either VRET or under the new commonwealth RET scheme, it is the cheapest to produce and it produces the lowest price in most circumstances — other than, say, perhaps some hydro schemes in the long run. But wind at the moment is the most affordable and accessible form of renewable energy, and we are waiting on the passage of the renewable energy scheme at the national level to be able to trigger some very substantial investment projects here in Victoria.

The Macarthur wind farm, which is a proposal being led by AGL, will produce one of the biggest wind farms, if not the biggest, in the Southern Hemisphere. I think from memory it is about \$800 million worth of investment and this will bring an enormous economic benefit. But it is dependent upon the commonwealth RET scheme being made more rigorous and more operationally effective in a similar way as the Victorian renewable energy target was.

A lot of effort, a lot of consultation, a lot of dialogue with industry went into the design details of the VRET scheme, and when it was transferred to the commonwealth there were some problems generated by the inclusion of small-scale renewable energy schemes. We hope that is now being addressed. The wind industry is eagerly awaiting it and I see that even in places like in Portland, where Denis Napthine is the member, they are keenly awaiting the outcome of this because of the impact it will have on the local industry, particularly the wind tower producers at Keppel Prince.

So there is an enormous amount of interest and benefit waiting to accrue to Victoria through the transition to the commonwealth scheme and in getting the design details and the legislation through the commonwealth Parliament this winter.

The CHAIR — Thank you for that.

Mr DALLA-RIVA — Minister, back to the issue of smart meters: can you confirm that an advertising campaign promoting the rollout of smart meters to Victorians will be undertaken in the forward estimates? If so, how much will the campaign cost, when will it commence and are there any prominent personalities to be engaged as part of the advertising campaign?

Mr BATCHELOR — Sorry, what was the last bit? Prominent personalities?

Mr DALLA-RIVA — Are there any prominent personalities to be engaged as part of the advertising campaign?

Mr WELLS — Prominent female personalities.

Mr DALLA-RIVA — Female, we understand.

Mr NOONAN — How do you classify them?

Mr WELLS — Prominent females.

Mr NOONAN — What is ‘prominent’?

Ms GRALEY — What is he talking about?

Mr BATCHELOR — ‘Prominent female’? What do you mean?

The CHAIR — I think it is self-explanatory. The minister, to answer.

Mr NOONAN — Where is it in the budget papers?

Mr BATCHELOR — I do not know.

Mr DALLA-RIVA — I will send you a dictionary.

The CHAIR — The minister, to answer, without assistance. The question has been asked.

Ms GRALEY — Where is the prominent female in the budget papers?

The CHAIR — Thank you, Ms Graley.

Mr BATCHELOR — I am not aware of any prominent females being in the forward estimates — —

Mr DALLA-RIVA — How much will the campaign cost, when will it commence and how much taxpayers money — —

The CHAIR — You have asked the question once, Mr Dalla-Riva.

Mr DALLA-RIVA — I am getting snide remarks back — —

The CHAIR — Without assistance. Minister.

Mr BATCHELOR — Part of the rollout of smart meters entails not just the physical rollout, house by house and small business by distribution business over a four-year installation period. It is not just that: it also requires retailers understanding how they might offer better products. It is also necessary for appliance manufacturers to be able to offer much more advanced products, and it is also important that communities and households understand how they might make use of smart meters. So we are envisaging that there will be an education campaign. I think it will be less than \$1 million next year, but we would envisage that there would be an education campaign trying to achieve those objectives.

In terms of the form and the content, I am not aware of the form or the content of what it would do, but I think it is important that people understand the benefits. You see the benefits on the presentation here, on the overhead. They are quite extensive, but people need to understand those. People are very pleased that there will be no more estimated bills, because the meter, having a two-way communication device, enables the information to be fed back, and the power companies will be able to read the meter. It will probably be done on a daily basis rather than a quarterly basis. When you move, you will not have to wait until the next turn for the meter reader to turn up. They will be able to organise it so it will be much cheaper and quicker to connect to power when you move house.

They will also have the ability during a blackout, instead of relying on you ringing up and telling the distribution companies that you have some problem at your place or in your street, to report that information automatically for you. So if you are at work and there is a blackout, it will be reported in your absence and they will then be able to send out the right sort of team to deal with it. These types of meters are easier to connect with the distributed energy generation that is fed back into the power grid. Particularly with solar, you cannot have a solar system and the feed-in tariff with the old-fashioned meters; you have to get an upgraded meter, and of course these new smart meters will have that capacity.

If you want, you will be able to get real-time readings of electricity in your house. So if you want to monitor and better understand your energy consumption and then hence change your behaviour, you will be able to save money. You will be able to make a contribution to the environment. Really big changes will come through lower network charges due to the design and construction of a smarter grid. You cannot have a smarter group without smart meters.

An example of that is that there is a cultural phenomenon at the moment, particularly in the more established suburbs, of people putting in air conditioning where it has not been installed previously. It is an individual choice and activity. You are not required to report it to the electricity company. They do not know what is happening. Then suddenly on a day of peak demand — and there are a couple of those a year — you find that the sudden increase in energy demand brought about by these new electrical products puts pressure on the system. We even saw some instances where there were localised blackouts in the heatwave of 2009.

Smart meters and a smart grid will be able to feed back information to distributors, and they will be able to work out if there needs to be an upgrade of the capacity of the supporting wires and poles, the distribution network, to try to prevent the sorts of outages that occur when it is not possible to know this sort of information at the moment.

Also benefits will accrue under this category of savings because the distribution and the network will be able to be better designed and be able to even the load. That will help defer the need for construction of additional generating capacity. Those benefits, either through the actions of consumers or those network benefits, will need to be passed back to consumers as they are the people that have been paying for them. They will be passed back to consumers, and the Australian Energy Regulator has already given a commitment that it in fact will be doing that.

Mr DALLA-RIVA — Just to clarify, in the forward estimates where would the money come from in the budget for the expenditure on the advertising campaign?

Mr BATCHELOR — It is in the line items for department expenditure.

Mr DALLA-RIVA — What page?

Mr O'FARRELL — It is not separately identified in the budget papers.

The CHAIR — It is in the appropriation to the department in the bill, is it?

Mr O'FARRELL — Yes. As the minister said, the preliminary estimates are that the cost of any sort of education campaign could be up to or less than \$1 million next year, and subject to the appropriate approvals. I understand this sort of stuff has to go through a committee of cabinet — —

The CHAIR — It has to go through a special committee.

Mr O'FARRELL — And the minister's approval and so on. Then the department looks to allocate that money.

Ms HUPPERT — Minister, of great interest to Victorian consumers is the price paid for power, particularly electricity and gas. I note that on page 84 of budget paper 4 there is a reference to the ceasing of operations of the Victorian Energy Networks Corporation, which at the time it operated was responsible for the efficient operation of the gas and electricity industries. Could you please explain for the committee how the government will be involved in electricity and gas pricing in Victoria into the estimates period?

Mr BATCHELOR — Certainly. As you rightly refer to, the operation of the market was undertaken by VENCORP. The regulation of cost applications was conducted through the Essential Services Commission. In establishing the national electricity market these have moved to a national structure. VENCORP has ceased to exist, but it has been taken over by AEMO, and the Australian Energy Regulator has taken over most of the functions of the Essential Services Commission. The one remaining area that has not been transferred and is the subject of negotiations and discussions at the moment is in relation to consumer protections. At the moment they are still regulated the Essential Services Commission, but the rest of it has been undertaken by the AER.

As I indicated earlier on and is acknowledged by Sydney's leading daily newspaper, the *Daily Telegraph*, we have got the most competitive energy market not just in Australia but in the world.

Mr DALLA-RIVA — Who is he? He is a Twitter; I just checked his name on it.

The CHAIR — Without assistance. Minister, to continue, please.

Mr BATCHELOR — We have got excellent competition here. On 1 January the *Herald Sun* reported that the highly regarded energy retail markets authority, first data, had rated Victoria as the world's most competitive energy market. Over the last two years it has also been independently rated by another international agency as the most competitive in the world. This means that we are able to produce savings. If you shop around, if you go from one retailer to the next, you can produce savings, and they are reported. We have seen studies where it is around 10 per cent. The *Daily Telegraph* in Sydney reckons that it is about 11 per cent at the moment, if you shop around. They did a comparison between a part of Sydney in the western suburbs with a similar part of Melbourne in the eastern suburbs and a similar household. They have identified that because of the cheaper prices and because you can shop around and through competition get better deals here in Victoria, your electricity bills would be something like \$200 a year cheaper than the comparison in the western suburbs of Sydney.

Dr SYKES — Not if you are in country Victoria.

Mr BATCHELOR — You can see that our prices are not just lowest in Melbourne; they are lower right across the state because of this competitive outcome. The comment by the *Daily Telegraph* of the advantages of people south of the border, that starts at Wodonga and makes its way all the way down the Hume Highway to Melbourne.

Members interjecting.

The CHAIR — Without assistance, please. The minister to conclude his answer.

Mr BATCHELOR — I have.

The CHAIR — Thank you for that.

Ms PENNICUIK — Minister, on page 6 of your presentation you talk about ageing infrastructure being a challenge for the system. My question is about the greenhouse gas reduction deed between the state and Hazelwood, a power partnership signed in September 2005, which agreed to limit CO₂ emissions to the equivalent of 445 million tonnes over the operating life of Hazelwood, and if Hazelwood exceeded, they would have to pay the state \$10 per tonne for every tonne over this limit. My question is: has Hazelwood paid anything to the state over this period, and is it expected that it will do so in the budget period forward? Are you able to inform the committee if Hazelwood is on target to meet its cap of 106 million tonnes equivalent for its first report date due this year in December?

The CHAIR — Minister, as it relates to budget estimates.

Mr BATCHELOR — In 2005 I think it was International Power, the owner of the Hazelwood power station, entered into an arrangement with the state government called the greenhouse gas reduction deed. It was to cap future greenhouse emissions from Hazelwood and to put it on a trajectory to see those emissions reduce over time — over the period to 2030, as I recall. The company is currently meeting all its obligations under that agreement and has been able to do that since the signing of the deed. I think they have been successful in doing that. They are currently below it, so they do not have to pay the penalty that you referred to. I do not believe, accordingly, that it would be contained within the estimates for this year in terms of a penalty payment.

It entered into this agreement in order to obtain an additional mining licence. As a consequence, it was required to change its mining operations. The deed for Hazelwood required it to use its best endeavours to reduce greenhouse emissions intensities from the power station, to report on the progress of its internal research and development into the use of new technologies and to facilitate the establishment of new technology projects that were supported by the ETIS project.

To date they have been successful in bringing about efficiencies. They have also trialled alternative technologies. They have looked at a number, in terms of drying technologies for application in the plant. They have looked at burning of biomass to complement or replace the coal. They are also participating in a pilot plant for carbon capture. They have also participated in looking at how they might use the carbon dioxide from the power station, part of its emissions, to accelerate the growth of algae and then that algae be used for diesel or ethanol or protein production.

You can see that whilst it is our oldest power station, the power station that produces 25 per cent of our emissions, it is a power station that has got a commitment to reducing its greenhouse gas emissions over time. You can see from what I have described as a number of initiatives that it is taking, has taken and that are currently under way, that they are the sorts of initiatives that will help it meet its long-term commitments now or into the future, so that it can play its role in reducing greenhouse gas emissions overall.

Ms PENNICUIK — Chair, I want to follow up just on — —

The CHAIR — A clarification?

Ms PENNICUIK — Yes, a clarification, Chair. In 2006 Hazelwood was granted \$30 million to undertake the coal drying which you mentioned. What is the status of that project? Has it commenced?

Mr BATCHELOR — The design work and early preparation have commenced, but it was predicated around technology coming from Germany. It was dependent upon a technology trial concluding in Germany, and that technology trial has not concluded, so they are waiting on that. They do not want to purchase technology until it has been demonstrated that it works satisfactorily in Germany.

Ms PENNICUIK — So that \$30 million is sitting there waiting for them to commence?

Mr BATCHELOR — Under our ETIS program, the payment for initiatives is based on milestones being agreed, and money is not handed over when the announcement is made. As I explained with, say, the solar ETIS grant, they get the money when they meet various milestones. In relation to this question and this plant, the milestones come from implementing or constructing the plant.

Ms PENNICUIK — So has any of the \$30 million been handed over to Hazelwood yet?

Mr BATCHELOR — No.

Ms PENNICUIK — So how long is that going to sit there before they start?

The CHAIR — I think we have had enough on that one.

Mr BATCHELOR — Sorry, no, just to clarify, not for the coal drying, but they have got another project under way at the moment to which they have received funding because they have reached the respective milestones.

Ms PENNICUIK — How much?

Mr BATCHELOR — Three million, I think. Less than three. I will get it; I will tell you.

Ms PENNICUIK — Thank you. I would like those figures, if we could have them on notice, Chair.

Mr BATCHELOR — It is a carbon capture project at Hazelwood, and we have reported on it previously.

The CHAIR — Of course we reported on this in our last report — including on the particular project that you mentioned — which was just tabled in the Parliament earlier this month and in which you will actually find some details of the question you asked in regard to that, Ms Pennicuik.

Ms PENNICUIK — Yes, thanks, Chair. There are lots of reasons for asking questions here.

The CHAIR — You should read our own reports.

Mr SCOTT — Minister, I would like to ask about the Energy Saver Incentive. On page 195 of budget paper 3 it outlines that DPI contributes to key government outcomes, including the efficient use of natural resources. How will the energy saver initiative encourage the residential sector to save energy over the next four years?

Mr BATCHELOR — We have an ongoing program called Energy Saver Incentive — it was previously known as the Victorian energy efficiency target — which sets a projection of greenhouse gas abatement. The

first year target was 2.7 million tonnes, and it sets a target for each year. I can report that in the first year it achieved its target. In fact, it achieved slightly more than its target.

It is a scheme that works by issuing tradeable certificates. Each certificate represents a tonne of greenhouse gas avoided. As a consequence, it is a driver for household energy efficiency improvements. Retailers are required to accrue a prescribed number of certificates, depending upon their position in the retail market, and this ultimately translates or reflects into energy savings in the homes of Victorians. In a sense, retailers can purchase certificates from an organisation that is accredited to create them, they can undertake the prescribed activity themselves and if they fail to meet their requirements, they have got to meet a penalty.

The scheme has been very successful and, whilst it is a scheme that has its measurements around greenhouse gas avoidance, or abatement, it does translate through into energy efficiencies. So the scheme, as it is designed, is to help households reduce their energy consumption to achieve the twin goals of abatement and lower costs. The sort of things that it is doing at the moment: it is seeing the installation of compact fluorescent lights, and under some circumstances these are able to be offered at very low or no cost to the householders; and there are other projects such as the installation of double glazing and the purchase of new energy efficiency products. As I mentioned before, the scheme is administered by the Essential Services Commission who are taking industry advice at the moment as to what additional activities may be undertaken in the scheme in the years ahead. But it has started off. We think that it can save the average household about \$45 per annum for those who participate in the scheme. In essence, the quicker you are involved in the scheme and you capture these benefits and savings, you then will be able to have those accrue to you or your household year after year in the years ahead.

Dr SYKES — Minister, I refer you to budget paper 3, page 112, in relation to electricity concessions. On that page we see that the number of households receiving mains electricity concessions has increased from 747 347 in 2008–09 to a target of 780 000 in 2010–11. If you then look at budget paper 4, page 241, the top line, table 5.5, there the cost to the government of electricity concessions has fallen from \$69 million in 2008–09 to \$68 million projected in 2010–11. Can you explain why an increase of 32 000 households receiving electricity concessions will cost the government \$1 million less?

Mr BATCHELOR — The concessions provided by the government come within Minister Neville's department. I cannot provide the answer to that at this stage. I will take it on notice and either she or I will get back to the Chair with the answer.

The CHAIR — Thank you for that. There are various categories of energy concessions as well; that may provide the answer there. I thank Mr Bolt, Mr Naughton and Mr O'Farrell for their attendance.

Witnesses withdrew.