

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2012–13

Melbourne — 16 May 2012

Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr M. O'Brien, Minister for Energy and Resources,

Mr J. Rosewarne, Secretary,

Mr D. Sceney, Acting Executive Director, Energy and Earth Resources,

Mr C. O'Farrell, Chief Financial Officer, and

Mr M. Feather, Acting Executive Director, Energy Sector Development, Department of Primary Industries.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — I now welcome from the Department of Primary Industries: Mr Jeff Rosewarne, secretary; Mr Doug Sceney, acting executive director, energy and earth resources; Mr Chris O'Farrell, chief financial officer; and Mr Mark Feather, acting executive director, energy sector development. 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 relating to the budget estimates for the energy and resources portfolio.

Overheads shown.

Mr M. O'BRIEN — Thank you very much, Mr Chairman. The portfolio objectives of the energy and resources portfolio are to seek to deliver affordable, reliable and sustainable energy for Victorians and to foster the efficient and responsible development of our earth resources. This budget continues to deliver on the government's commitments in this regard. We are seeking to take action based on sound policy development, and to that extent we have undertaken a number of reviews, which we have now acted on, including the review of advanced metering infrastructure, the Powerline Bushfire Safety Taskforce and there is currently a review under way into feed-in tariffs being commissioned from the Victorian Competition and Efficiency Commission.

In the state budget 2012–13, as you see, the vast majority of DPI's expenditure in the energy and earth resources area is fixed. That is to say, it is project based, in large degree; there is a relatively small amount of recurrent expenditure. There has actually been an increase of 34 per cent in the energy and resources budget this year, to 132.9 million. It was 99.4 million in 2011–12. In the main this reflects the phasing of cash flows for existing programs as well as the impact of new initiatives, including in relation to the Australia Energy Market Commission, advanced metering infrastructure and facilitating low-emission transition programs. Cash flow for the ETIS — that is, the energy technology innovation strategy — also includes the commencement of funding associated with other initiatives announced as part of last year's budget.

Some of the key areas of expenditure in this year's budget — the safer electricity assets work plan. As members would be familiar with, the Victorian bushfires royal commission came down with a number of recommendations in relation to improving the safety of electricity assets in this state and thereby to reduce the risk of bushfires commencing from them. The government considered the royal commission's report and we considered the work of the Powerline Bushfire Safety Taskforce, which had been instituted by the former government to advise on specific recommendations. We announced that decision late last year, and that involves a significant sum of money to improve the safety of powerlines operating in rural and regional Victoria in particular.

Perhaps just to put it in context, \$500 million is to be spent by electricity distribution businesses on improved technology; up to \$200 million on improving technology for specific powerlines to be funded by the budget; \$10 million for better research into being able to reduce the level of bushfire risk from electricity assets; and \$40 million in relation to hardship and other support grants. The first instalment of the 200 million, of 62.5 million, is funded in the budget across the forward estimates. This is of course a 10-year program, which is what was recommended by the Victorian bushfires royal commission.

We had sought support from the commonwealth government to add to what the Victorian government is spending on this program, on the basis that while the package we crafted could deliver, on the basis of the Powerline Bushfire Safety Taskforce's work, around about a 64 per cent reduction in bushfire risk, that number could be increased if there was additional funding coming in from the commonwealth to undertake further works. I regret that, in probably one of his last acts as a cabinet minister before he was no longer a cabinet minister, Robert McClelland wrote to me to advise that the commonwealth had declined Victoria's request to contribute — to meet us halfway in terms of providing additional funding to support the improved safety of powerlines and electricity equipment in bushfire-prone areas. That is a matter which Victorians feel entitled to be disappointed by. The commonwealth government certainly expressed concern about Black Saturday, and they certainly did contribute some money at the time to some of the immediate relief efforts, but it is disappointing that the commonwealth has elected not to contribute to the work that needs to be done to try and reduce the prospect of that sort of tragedy happening again.

In relation to advanced metering infrastructure, the budget provides \$19.8 million over four years to implement the Auditor-General's recommendations. The Auditor-General undertook a report on the former government's advanced metering infrastructure program in November 2009. The coalition said that it would implement all recommendations of the Auditor-General, and this budget funding will support us to do that.

With the move to the carbon tax, coming in on 1 July, that poses particular risks and threats to Victoria, particularly in the energy sector in relation to energy supply, energy reliability and energy costs. We have an amount of funding of \$9.5 million in this budget to assist the Victorian government to manage some of the risks that are related to the introduction of the carbon tax. Victoria is a constituent member of the National Electricity Market, and it also has an obligation to support funding for the Australian Energy Market Commission. The AEMC sets the rules by which the National Electricity Market operates, and our contribution is \$4.5 million over that budget estimate period, and that is also provided for in this year's budget.

I have already flagged, Mr Chairman, that we have been active in implementing our policies, in particular our response to the bushfires royal commission. That work will see significant improvement in the safety of bushfire-prone areas and will significantly reduce the risk of bushfires commencing from electricity assets. And of course remember that 5 of the 11 fires on Black Saturday were found by the royal commission to have commenced as a result of electricity assets, so this is a very significant issue for all of us.

We have continued our efforts to improve energy efficiency, including a doubling of the Victorian energy efficiency target. We have expanded it to allow businesses to participate as well, instead of just households. We have also reformed feed-in tariffs. The cap that had been had been set by the former government under their premium feed-in tariff scheme had been reached, and a number of other jurisdictions have completely abolished their feed-in tariff schemes on the basis that they were a very costly form of abatement. Because of the flood of rooftop solar certificates that had been created by rooftop solar, it had actually been preventing a lot of other activities in the renewable sector, including wind generation, from getting off the ground, because the number of renewable energy certificates that had been created by the flood of rooftop solar had actually caused a glut in the market.

Rather than taking the position that other jurisdictions have taken, and I notice that the ACT government had a feed-in tariff scheme which lasted all of 48 hours before they had to close it down, we wanted to have something that would be sustainable. So when the former government's premium feed-in tariff scheme had reached its statutory cap — and I should say a statutory cap that the government had put in place — of 100 megawatts, we implemented a transitional feed-in tariff scheme which at 25 cents per kilowatt hour is still very generous by Australian standards. We are currently awaiting the draft report of the Victorian Competition and Efficiency Commission. We did ask VCEC to undertake an inquiry into feed-in tariffs in terms of what advice they can provide to the government in terms of the best way to go forward in the future.

Coal allocation has been an area of great interest for Victorians. We have got the second largest brown coal asset in the world outside of Russia; it is a terrific opportunity for us. Certainly in the past the technology has not been there to consider using it for many purposes other than feeding old-style coal-fired power stations and a little bit of briquette manufacturing. But there are fantastic opportunities for Victoria to develop strong industries in Gippsland, in the Latrobe Valley, with new technology, clean technology that provides not only great opportunities for us for domestic purposes but also potentially for export purposes. So the Victorian government is undertaking action in relation to developing that terrific asset that Victorians have and, by the use of clean coal technology, to actually promote emission reductions. It is really the win-win situation that I think communities like. Cleaner coal technology leads to lower emissions and more jobs.

Part of that is the carbon capture and storage project, CarbonNet. I was very pleased to go down to the Latrobe Valley earlier this year with my federal counterpart, the Honourable Martin Ferguson, Minister for Resources and Energy and Minister for Tourism, and we announced joint Australian and Victorian government funding of \$100 million, 30 million of which is coming from Victoria, for a two-year feasibility study of Victoria's CarbonNet project. This is carbon capture and storage. We have not only one of the world's best coal reserves but we also have some of the best geological storage facilities — you look at the Gippsland basin and you think of the wonderful opportunities that exist there. We know we have had terrific oil and gas extractions from the Gippsland basin over many years. There is a wonderful opportunity to develop a carbon capture and storage network which can not only put that brown coal to work but do it in a way which has effectively zero emissions. It is obviously cutting-edge technology, and it takes a lot of work and effort to make sure that it is up to scratch, but that is why the Victorian and commonwealth governments are working together — and I acknowledge the support of Minister Ferguson on this — and have been prepared to say we will make this investment, we will invest in the valley, we will invest in Victoria and we will invest in our future by putting this money on the table to promote carbon capture and storage.

We also have our energy technology innovation strategy, ETIS, which has provided funding for a number of projects including renewable projects such as solar cells, wave energy, hydrotechnology and geothermal. We are undertaking an action to seek to put downward pressure on the pricing of electricity networks. Electricity supply costs make up about 50 per cent of the cost of the average electricity bill, and those costs are going up. We need to take action as a government to try and seek to put downward pressure on them, and we have done that through intervening in matters before the Australian Energy Regulator, which sets the prices that the networks are allowed to charge. We are seeking to reform the rules of the Australian Competition Tribunal. We think that those rules are currently stacked in favour of the distribution businesses and against the interests of consumers, and we are actively pursuing reform of that through the Standing Council on Energy and Resources.

We have undertaken significant reviews of advanced metering infrastructure, and I hope I have a chance to speak to the committee about that over the course of the rest of this hearing, but, in short, we have tried to undertake reforms that will bring forward benefits to consumers. We think consumers have been the missing link in smart meters to date and the government really needs to do more to try and bring forward the benefits to consumers. At the moment consumers have had to eat a lot of the costs; they have not seen the benefits. We need to turn that around to make sure that consumers can start to see some of the benefits for what is an important upgrade.

We have also taken action through the Parliament to extend the Anglesea coal lease for Alcoa. This was an obligation of the government; Alcoa had an absolute right to extend that lease for a further 50 years. The question was: do they do it on the terms and conditions that applied back in 1961, or do they do it on the terms and conditions that reflected modern environmental practices? I acknowledge that the work was started by my predecessors in government and was completed by us, and we think we were able to put together a package which led to a significantly better environmental outcome while providing that sense of security that Alcoa needs for the coal for its power station.

Finally, the impact of carbon pricing is one that is going to be significant for this state. I refer members to the chart on the right, which is from the federal Treasury's modelling of the Clean Energy Future package. What that chart shows, if you look at the green line, is the impact on gross state product of the introduction of a carbon price and associated measures. What that shows is that Victoria will suffer the greatest blow to its gross state product from about the introduction of the carbon tax right through until about 2038. So it is there in — I was going to say 'black and white' — colour that Victoria will suffer the greatest hit to its gross state product, to our economic activity, as a result of a carbon price, more than any other state in the commonwealth and for the next 25 or so years. That is what we are dealing with. While the state government cannot stop the carbon tax coming in, we can try and take measures as best we can to try and limit the ability of this carbon tax to cause disruption to the Victorian economy, to the Victorian energy sector and to Victorian families and Victorian businesses.

The CHAIR — Thank you for your presentation, Minister. The remaining time until midday is available for questions on the energy and resources portfolio. Minister, given the key growth and efficiency initiatives announced in the budget, can you please outline for the committee the likely impact of the budget on enhancing service delivery, promoting productivity and achieving efficiency gains within your portfolio? In responding, could you also indicate how you intend to monitor the portfolio's effectiveness in maximising improvements in these areas?

Mr M. O'BRIEN — I will perhaps take you and the committee to a number of initiatives the government is implementing, which we think will try to improve efficiency and productivity. One of them is the somewhat vexed question of advanced metering infrastructure, or, as it is more commonly termed, smart meters. Smart meters are essentially equipment that allows householders and businesses to record their electricity usage every half an hour. The difference between the old-style meters and a smart meter is essentially that the smart meter provides more accurate, more regular information. Why is that of use to anyone? The answer is because if you have better information about what you are using and what it is costing you, then it gives you better opportunities to save money by controlling your own energy usage.

When the government considered the review that had been undertaken of the smart meter program, instituted by the former government, there were some obvious things that needed to be changed. One is that the former government had orders in council that regulated the smart meter program which allowed the electricity distribution businesses to overspend their regulated budgets by up to 20 per cent and to automatically claim that back from households through higher bills. We took the view that nobody should be allowed to just overspend

their budget with impunity, that essentially if you are given a budget, you should stick to it as much as possible. So we removed that legislated 20 per cent tolerance which the former government had given electricity distribution businesses, and we did that to try and rein in the costs of this project and to try and reduce the impact of it on consumers' electricity bills.

We also added devices called in-home displays to the Victorian energy efficiency target program. In-home displays are devices that you can put on your fridge or on your wall and they will give you in real time the same information that your meter is collecting. It can tell you how much electricity you are using and how much it is costing you. If you want to, for example, set yourself a budget of only using a certain amount of electricity per day or if you want to try to set yourself a target of maybe reducing your usage, an in-home display can help you to do that. In many ways an in-home display provides that interface between the meter, which gives information to the electricity business, and the customer at home. By trying to encourage a greater understanding of electricity prices and electricity price tariffs and uses, we think that the adding of in-home displays and seeing those come out on a more broadscale basis will certainly improve the efficiency of the energy networks.

We are also trying to promote better consumer education through the YourChoice website, and we will have funding available in the budget to enhance that. The YourChoice website is currently run by the Essential Services Commission and it provides a price comparison website. We have recently seen a lot of publicity about one particular so-called price comparator website which has received a lot of publicity for the wrong reasons. The difficulty is that some of these price comparator websites in the private sector are done on commission; they only compare particular prices and particular products from particular companies that pay the people hosting the website. We think that Victorians deserve to have an honest broker, someone who is not getting paid by any of the electricity companies, providing a price comparator website. We will be seeking to upgrade the price comparison website, which is currently done through the YourChoice ESC website, so that Victorians can have somebody they can turn to as an honest broker rather than a website that has a vested commercial interest.

As I flagged before, through our facilitating low emission transition program we are also trying to help Victoria manage the significant new risks that are imposed by the commonwealth's carbon tax and also the contracts for closure. The commonwealth proposes to close down 2000 megawatts of brown coal-fired power generation, and it proposes the contracts be signed by 30 June this year. They may not take effect for some time to come, but it is proposed the contracts be signed by 30 June. If, for example, the commonwealth was to seek to close down Hazelwood, what happens to the Hazelwood mine? What about the remediation work? How can we be sure that the interests of Victorians, and particularly the Latrobe Valley community, will be looked after? We have already had an issue with the Princes Freeway at Morwell, which abuts the Hazelwood mine. It is absolutely essential that if the commonwealth is determined to go ahead with this contract for closure, and if it is determined to close down Victorian mines and Victorian power generation, that appropriate remediation is undertaken to protect the local community. That is an example of the sort of activities that we are doing, and obviously we will be judged on the results.

The CHAIR — Thank you, Minister. In the interests of time, I will resist asking a follow-up question, because I am sure that the deputy is anxious to put a question to you.

Mr PAKULA — Anxious might be overstating it, Chair. Minister, you talked in your presentation about the energy technology innovation scheme. I noticed last year you, or the government, made reference to Greenearth Energy's funding agreement even though that grant was awarded in December 2009. I am wondering if you could just take us through the funding and the details of the projects that have been funded out of ETIS — new projects — since you came to government.

Mr M. O'BRIEN — I will take up the deputy chairman's point about geothermal. While it is one thing to put out a press release, as the former government did in terms of proposed agreements, it is another thing to actually sign on the dotted line. As Minister for Energy and Resources I was the minister who signed off on that agreement with Greenearth in relation to the geothermal project concerned — —

Mr PAKULA — Funding was awarded two years earlier.

Mr M. O'BRIEN — I can say that there is no funding until the project agreements are signed, until the due diligence is completed. That was done by the coalition government, not by our predecessors, so I just make that point to start with.

In 2011 we have had \$6 million in research and development funding of organic thin-film solar technology, which includes a research consortia made up of the universities of Melbourne and Monash, the CSIRO and industry partners. Again that has been an area that has been supported by both the commonwealth government and the Victorian government. We think that our universities and organisations such as the CSIRO are doing terrific work in developing solar cell technology. The challenge is to try and make it as efficient as possible in terms of converting sunlight to electricity and to do so as cheaply as possible.

There is a significant R and D aspect. When I was out at the University of Melbourne announcing this grant with Minister Ferguson, I remember Minister Ferguson making comments to the effect that these are the sort of green jobs that you can get. The general notion that the only green jobs are from installing solar panels is a furphy. The real green jobs come from R and D, they come from tech work, and that is where we are investing because developing that technology is the key to ensuring there can be more widespread, more efficient use of renewable technology.

In December 2011 I announced a \$5 million investment in a wave energy project at Port Fairy. Wave technology is something that is very exciting. It has been used in other areas. Given the coastline of Victoria, it is an area where potentially we have some really good opportunities. So having done the due diligence, we awarded a \$5 million support investment to this wave energy project at Port Fairy. It is based on mimicking the movement of seaweed, Mr Chairman, which is something that was not known to me until I saw all the paperwork.

But there is no reason why we cannot, and we should, take a portfolio approach to our energy needs. While we have traditionally been a coal-based state — and let us not forget over 93 per cent of our electricity comes from brown coal generation — we need to look at other approaches.

In March this year I announced \$1.6 million of funding for Cetus Energy to demonstrate its technology at AGL's Rubicon Valley hydro-electric plant, which is 40 kilometres south-east of Alexandra. A lot of people do not realise we are actually doing some hydroelectricity in Victoria. If we can make that hydro-electricity more effective, than essentially it can make hydro more competitive. The more efficient the technology is, the more competitive that is as an energy source.

It has always struck me as interesting, Mr Chairman, that there are many people who claim to be environmentalists who say that they think that you should have as much renewable power as possible but seem to be completely opposed to hydro-electric power. Hydro is the only baseload renewable technology that we have operating in Australia, but of course hydro takes dams, and there are some people, Mr Chairman, who are just completely opposed to dams. Do you want renewable baseload generation, or are you opposed to dams? Because if you are serious about it, you have to think very carefully about that. A former leader of the Greens was caught out on this on *Q&A* a few weeks ago where there was an article about his time campaigning against the Franklin Dam and he said at the time, 'Well, we should have more coal-fired stations'.

You need to take a serious approach to these issues, Mr Chairman, and that is why we are taking a portfolio approach. We are not putting all our eggs in one basket. We are supporting solar, we are supporting hydro, we are supporting wave, we are supporting clean coal and a host of other different types of energy resources. I will not go through the complete list, Mr Chairman, on the basis that other members will want me to answer questions, but I hope that gives the committee a flavour of the sort of work we have been undertaking.

Mr PAKULA — I am sorry, can I just clarify, Minister: so those items you referred to are new projects since you have come to government and they are funded out of the ETIS?

Mr M. O'BRIEN — Certainly they are new projects in that I am the minister who has had to make the decision, 'Does this project get funded? Does it not get funded?'. I was the minister who had to sign off on the legal agreements that actually delivered the funding. So, yes, Mr Chairman, I can say that they are coalition projects.

Mr PAKULA — Are they out of the ETIS?

Mr M. O'BRIEN — They have been funded in our budgets and under agreements signed by me.

Members interjecting.

Mr MORRIS — Minister, I refer you to budget paper 3, page 241, and in particular the DPI departmental objective of ‘Competitive businesses and efficient markets’. I am wondering, can you outline to the committee the government’s approach to minimising the cost pressures on electricity and gas prices?

Mr M. O’BRIEN — I thank Mr Morris for his question. One thing I will mention, which while it is not directly in my portfolio obviously it will be of interest to members, is the — —

Mr PAKULA — You can answer this! You can answer this!

Mr ANGUS — Stop interrupting the minister.

Mr PAKULA — You cannot answer police questions, Treasury questions.

Mr ANGUS — You right?

The CHAIR — Thank you, colleagues. Minister?

Mr M. O’BRIEN — It is of course the extension of the electricity energy concession. Electricity concessions were previously paid only six months of the year. When the coalition came to government we extended that to 12 months a year. We now have electricity concessions operating 24 hours a day, 7 days a week for vulnerable Victorians. Obviously that 17.5 per cent concession provides a significant bonus to people who are struggling to pay their bills. We appreciate that many people are.

We have also encouraged better competition. In Victoria retail prices are set by the market. Can I say that this has been a longstanding march of various governments, and in fact it was the former Brumby government which removed the last vestiges of retail price control. I acknowledge the fact that it was the former Labor government that delivered full retail price deregulation, and there are now no controls. I do not say that as a bad thing. In fact when you look at the figures Victoria still actually does better than many states where the retail prices of electricity are actually highly regulated.

We want to have a more efficient and more effective market. We want to have a competitive market. We have the most competitive retail market in the world in Victoria. Around about 27 per cent of Victorians change their electricity retailer every year. That churn does mean that we have got a very competitive market. It means that there are lots of retailers out there encouraging people to switch and encouraging people to compare. We need to make sure that that is done in a fair way for customers. That is why we have supported some of the steps that the retailers have taken to get their own house in order and introduce binding codes of conduct for their members through Energy Assured Limited. We have also got some tough regulations in place in terms of when people can knock on doors and things like that.

Promoting competition is one thing, better consumer education is another thing, and Consumer Affairs Victoria — wearing my other hat — has worked with government, worked with industry and worked with a range of consumer advocacy groups to ensure that consumers are better aware of their rights when it comes to retail energy.

I mentioned, I think previously, the Australian Energy Regulator, and certainly this government has made submissions to the AER against some of the claims that electricity distribution businesses have put forward for price increases. I should just make it clear: the Australian Energy Regulator regulates the prices for the supply and distribution networks — so the poles and wires. We do not have a competitive market in poles and wires — we only have one set outside our homes — so for that reason the companies that own those poles and wires can only charge what the Australian Energy Regulator lets them charge.

We have made submissions on behalf of Victorians, but we have also made a push for reform of the appeals process. The appeals process is one that is stacked against consumers at the moment. At the moment, if a distribution business gets a decision from the Australian Energy Regulator, it can take the bits that it likes and put them in the bank, and it can appeal the bits that it does not like, and only those bits will be at risk. That is not fair for consumers.

I know that Mr O’Brien, Ms Hennessy and Mr Pakula, as lawyers — and there are possibly some bush lawyers at the rest of the table — would appreciate that when you go to a court or tribunal, if you get a decision that is 50-50, one of the things that makes you think twice about appealing it is the thought that you could actually lose

the 50 per cent that is in your favour. But if you have no disincentive to appeal, because you can just bank the parts of the judgement that are favourable to you and you do not put those at risk by appealing, of course you are going to appeal. That is what we have seen happen time and again, and it has hurt Victorian consumers. Victoria has pushed very hard, through the Standing Council on Energy and Resources nationally, for a review of what is called the merits appeal processes. SCER has agreed to review it. That review is being undertaken at the moment, and Victoria will continue pushing until we get a set of rules that are fair for Victorian consumers. That is another key way that we are trying to keep pressures down.

I mentioned what we are doing with the changes to the rules on smart meters in terms of the abilities of companies to exceed their budgets, and I should just also mention the energy saver incentive — the Victorian energy efficiency target. We have doubled that. We have added new products to it. We have added businesses to it, which means that effectively there will be more energy efficiency activities and more energy efficient products put out there that will not only help those companies and households that put energy-efficient products in, such as stand-by power controllers, but the overall impact of this program, according to our economic modelling, has an overall depressing price on electricity prices. So we are taking action on a number of fronts to try to reduce those really difficult price pressures on electricity prices for Victorians.

Mr SCOTT — I would like to move to the resources part of your portfolio, and I note in budget paper 5, page 25, under ‘Other revenue’ there is ‘Royalties’, and I note that royalties increase over the estimates period, and of course royalties have an influence on the success or otherwise of the resources industry in Victoria. To provide certainty in an uncertain industry can you pledge that the government will not increase the rate of royalties over the first term?

Mr M. O’BRIEN — I believe I was asked this question last year. I believe I said at the time that the government had no intention of altering the royalty regime. I believe the experience of the last 12 months has been that the government did not alter the royalty regime, and I maintain that position.

Mr SCOTT — So you are not giving a specific commitment? You are stating what you have done previously and your current intent rather than giving a commitment over the four years? Is that correct, what you have just said? Clarify?

The CHAIR — Thank you, Mr Scott. If that is your follow-up question, I am sure the minister would be pleased to answer it.

Mr M. O’BRIEN — I suspect it was the same follow-up question as I got last year. I give the same answer as I gave last year: I think the experience of the last 12 months is instructive in that regard.

Mr ANGUS — Minister, I refer you to budget paper 3, page 58, which refers to the new facilitating low emission transition, and I note also, Minister, that you touched on that in your presentation as well. Can you explain to the committee the Victorian government’s plan over the forward estimates to manage the risks to Victoria’s energy security from the introduction of the commonwealth government’s carbon tax?

Mr M. O’BRIEN — I thank Mr Angus for his question. Mr Angus is quite right: the Australian government’s carbon tax does pose a serious risk to Victoria, not just economically but specifically in relation to the security of our energy supply. Say 93 per cent of our electricity in this state comes from brown coal. The Hazelwood power station produces around about 25 per cent of our electricity that we use. If the federal government was to precipitously close down Hazelwood, as is certainly a possibility under the contract closure policy, you have to wonder, ‘What would that do to our electricity supply?’. The best analogy is if you are sitting on a chair with four legs and you pull one of the legs away, the chair is not going to stay upright for very long. If you pull out 25 per cent of Victoria’s electricity supply without having equivalent baseload ready to go, ready to come online, then our supply security will be jeopardised. So it is very important for Victoria that we seek to mitigate as much as we can some of the potential impacts of federal government policy.

The federal government has established an Energy Security Council. I have met with Dr Michael Vertigan, who is the chair of that, and I acknowledge that the commonwealth is concerned also about trying to alleviate these risks, but frankly the choreography, if you like, that is involved in trying to close down a major baseload generator and then at the same time have another one ready to come online is the sort of choreography that is very delicate, and when you are talking about a federal government that had trouble putting pink batts into people’s roofs, personally and I think from a government point of view we have some serious doubts about

whether the federal government is up to that sensitive task. If the lights go out in this state, nobody will forgive the federal government, but we need to try and do what we can as a state government to seek to mitigate those risks. This \$9.5 million fund is seeking to do that.

We need to have better work done to manage those risks to energy supply, including understanding risk scenarios and determining appropriate controls. We need to manage the risk to coal mines, including where necessary reviewing and managing appropriate safe and stable mine site remediation that does not sterilise the coal resource. We need to review the risk of future state liabilities and determine appropriate controls. We need more forecasting of energy market scenarios and energy pricing packs under a range of feasible market and regulatory conditions. We need to review the formation and administration of new agencies and regulations to manage risks to this state, and we also need to maximise the opportunities for Victorian businesses and communities to benefit from assistance provisions.

I make the point that Prime Minister Rudd, when he was proposing his carbon pollution reduction scheme, proposed a package of assistance to regional communities that would be affected by the ETS, and that amount was \$200 million over five years. A few years later when Prime Minister Gillard is now proposing her carbon tax, she is proposing a regional assistance package which is \$200 million over seven years. I do not need to tell members of the Public Accounts and Estimates Committee that \$200 million over five years is worth a lot more than \$200 million over seven years, so in fact the Gillard package is even cheaper or less generous, far less generous, than the Rudd package was.

These are real challenges that are facing Victoria. The Victorian government cannot stop the carbon tax, but we can do what we can to try and alleviate the impact of that carbon tax on Victorian families, Victorian businesses and Victorian communities.

Ms HENNESSY — Minister, I refer you to budget paper 3, page 244, and to the role of DPI in energy industries. You committed to match Labor's \$100 million of funding to the Mallee solar park project in the last election. I note that yesterday your spokesperson was quoted in the *Age* stating that:

... the Victorian government contribution will be funded from an application of existing government programs and additional ... funding.

How much will your government now commit to this project, and what evidence is there of that in the budget papers?

Mr M. O'BRIEN — Can I say that the Mallee solar park project was put forward as part of the commonwealth government's Solar Flagships Program. The former Labor government committed to it. It said it committed \$100 million; the budget papers even referred to that amount of money. Unfortunately the former Labor government had not actually provided anything more than \$1 million. There was a \$99 million solar black hole in Labor's funding — a solar black hole, Chair. That, can I say, was appalling. That was a fraud on the people of Mildura and it was a fraud on the people of Victoria. And the Auditor-General's report on facilitating renewable energy development was absolutely scathing. It was absolutely scathing about the former government's behaviour and failure of policy when it comes to renewable energy. Let me just quote this:

In June 2008, the then government requested DPI to investigate options, and their implications, for developing two to four large-scale solar energy generators in Victoria by 2015. This was subsequently revised to consider facilitating the development of one new generator.

There was no documented assessment that considered the need for the project, or demonstrated its alignment with government policy. Nor was a business case completed before the government approved its contingent investment of \$100 million.

So they commit to \$100 million, do not fund \$100 million and do not even do a business case for it. That was the behaviour of the former government.

Members interjecting.

The CHAIR — Colleagues, order! The minister is about to come to the substantive part of his answer, I think.

Mr M. O'BRIEN — Thank you, Chair. Having inherited another Labor solar black hole, we had to undertake some work to try and fix the problem. What happened was when the original bid by TRUenergy,

which was supported by the Victorian government, did not succeed — and we were disappointed in that — we had thought essentially that that door had closed. However, the failure of the original winning proponent meant that the door reopened. Can I say, as part of this budget process, this government has worked very, very hard to make sure that we could put a credible level of support into the project to give it what we hope is going to be a very positive chance of success in the rebidding process.

I am not prepared to discuss the exact level of state government support for the reason that we are still in the middle of a competitive bidding process. I would hope that all members of this committee, indeed of the Parliament, would not want to prejudice this particular project's chances of success by putting on the table now the level of state government support when it is still in the middle of a competitive bidding process. I hope members understand that it is not in this state's interest for us to telegraph our punches to our competitors.

What I will say is that the overall project cost has fallen compared to what the original project cost was. That is largely because the cost of solar panels has fallen for both technical reasons and Australian dollar appreciation reasons. I can also say that the Victorian government's commitment to the project remains the same as it was on a proportional basis. The same proportion of the project that Victoria offered to fund in the first bid is the same proportion of the project we are offering to fund in round 2.

Ms HENNESSY — Let me put the question another way perhaps, Minister. Giving your spokesperson said yesterday that the Victorian government contribution was going to be funded from an application of existing government programs and additional budget funding, what proportion will come from existing programs and what proportion will come from additional budget funding?

Mr M. O'BRIEN — I thank the member for her question. For the reasons I outlined previously, I will not go into details other than to note that the ETIS program will be one of those budget lines which will be making a contribution. There is also some actual funding in the contingencies as opposed to what the former government did. But, for the reasons of just not wanting to in any way prejudice the prospects of success of this program, I will not go into further details at this time. However, once the dust settles I am happy to provide further information to the committee.

Mr D. O'BRIEN — I was just wondering if we could call up the slide again showing the impact of the carbon pricing which shows that it is a tax on Australian energy, which is our competitive advantage. It will therefore be a tax on Victorian manufacturing and Victorian jobs. Thank you for your presentation, Minister. I would like to ask you, based on page 246 of budget paper 3, which refers to the performance measures for the feasibility stage of CarbonNet, which is a Victorian government program, can you outline how the government's approach to developing carbon capture and storage opportunities in Victoria is progressing?

Members interjecting.

The CHAIR — Thank you, colleagues. I know you have been here for a long time.

Ms HENNESSY — Make it stop!

The CHAIR — But we have a fair way to go, so let's all be calm. 'Keep calm' is a great saying.

Mr M. O'BRIEN — I thank Mr O'Brien for his question. Obviously, as the slide indicates, the carbon price will have a massive impact on Victoria. It will have a negative impact on us in relation to jobs, economic development and energy prices. It is important that we try to put in place measures that will seek to ameliorate that impact as much as possible. One thing we think the Victorian government can do and do in partnership with our federal counterparts is to develop a carbon capture and storage network for this state.

Without labouing the point, we have magnificent brown coal resources. When you actually examine the content of Victoria's brown coal and look at the levels of sulphur and other nasties, if you like, in the brown coal, it is incredibly clean by world standards. A lot of brown coal has additives, in other parts of the world. Victorian brown coal is actually very clean. It is just the moisture content which causes the higher emissions. The ability to develop a carbon capture and storage network where carbon emissions from energy production through electricity generation or the conversion of brown coal into other products — such as hydrogen, urea, DME or anything else — offers a wonderful opportunity for the state to be able to use its brown coal resources

in a way which is environmentally friendly, and it opens it up to a whole lot of uses beyond what we have traditionally used it for.

I am pleased that the federal government has recognised the benefit of this project not just to Victoria but to Australia. They have money on the table with Victoria to progress the CarbonNet project to the feasibility stage. CarbonNet was one of two projects across Australia that has succeeded under the federal government's CCS flagship program. There is another one in Collie in WA. As a result of the success, over the next two years intensive work will be done in terms of technical issues and commercial issues to try and work out how we can make this CarbonNet project become a reality, because getting it right will be the key to unlocking the Latrobe Valley and our brown coal resources there in a way which is good for the environment and great for our economy.

Can I say it is important, I think, to the valley? The valley has gone through some tough times. They are facing a lot of uncertainty at the moment due to the impending carbon tax. We saw one of the briquette manufacturers put out a statement a couple of weeks ago which flagged that its entire operations are under review as a direct result of the carbon tax. This factory employs 200 people — 200 Victorians, 200 Gippslanders, are now worried about their employment and their economic future. Their families are worried about it, and rather than just sitting on our hands we are actually trying to make sure that we can promote the technology which will really unlock the benefit of our brown coal, do it in a way which is consistent with environmental objectives and really lead to terrific opportunities in the valley.

I note that last night on 7.30 there was a very interesting piece about what Victoria is doing. We see that a carbon net is, in many ways, not the only option, but it is a key one because while carbon capture and storage has been used efficiently in other areas such as on the North West Shelf, what we are doing in terms of Victorian brown coal really would be a world first. It is appropriate, given the scale of the proposal, that we proceed in a cautious way and that we make sure we do our homework, and that is what this two-year \$100 million feasibility phase is all about. But the prospects for Victoria of getting this right are just extraordinary, and the government is committed to exploring this in as much depth as we can.

Mr PAKULA — I also want to ask you about your carbon tax modelling to which you and others have referred, Minister. I remind you about the correspondence sent by Mr Rosewarne to Ms D'Ambrosio in January about your carbon tax modelling when the opposition sought the release of that, and the letter from Mr Rosewarne which said in part:

The advice provided by the department to the minister in the document you seek is necessarily speculative. There is no way in which the department can predict or in any way influence how that advice will be treated and deliberated upon. In this case, the advice provided by the department was different to what was ultimately published in the media release referred to in your request. This reflects the inability of the department to influence how the advice of its officers will ultimately be treated by the minister.

Which is basically a kind way of saying that what you said is not what was in your advice. Minister, for the avoidance of doubt, and so we can understand whether or not your claims are actually backed up by the modelling provided to you by your department, will you now release it?

The CHAIR — I am not sure — —

Mr PAKULA — He has referred to it in the presentation.

The CHAIR — I am sorry; let me deal with this. Deputy, I am quite happy for you to take a question in relation to this matter, but I think that the question you are putting about releasing a document is not really appropriate at this time. If you wish to get some information from the minister, then I think you should structure your question on those lines.

Mr PAKULA — Chair, I find that ruling extraordinary. We have got a piece of modelling which has been referred to by the minister over and over during this hearing. We have got evidence from the department that the way the minister has used that modelling is inconsistent with the way the modelling was presented to him, and I think I am well within my rights to say, 'Can we see it?'.

Mr M. O'BRIEN — Can I just perhaps correct a misapprehension of the Deputy Chair. The modelling that is on the screen at the moment, which he has cast aspersion on, is actually that of the federal department of treasury —

Mr PAKULA — I am asking about your modelling.

Mr M. O'BRIEN — and it is released as part of their Clean Energy Future modelling, so it may well be that the Deputy — —

Mr PAKULA — Oh, you are not using your modelling anymore?

The CHAIR — Deputy, I know you are enthusiastic to get an answer from the minister. The minister will give an answer if he is not interrupted.

Mr M. O'BRIEN — Mr Chairman, can I say that the government has certainly referred to the federal Treasury's modelling, which as the architects of the carbon tax we thought perhaps that might be something which even members of the Labor Party in this state might have some regard to, and we can see what the impact of it is there. Deloitte has undertaken modelling on behalf of the Victorian government, and that modelling has been released.

Can I say prior to the further details of the carbon tax coming out there were some estimates that were produced, and I am very happy to make clear what the basis of those were. I make the point that this was done at a time when the Department of Primary Industries needed to put together estimates based on what was thought to be the case at the time — and this is often through things such as substantive newspaper reports which flagged, for example, things like the price of the forthcoming carbon tax.

There were estimates that were put together by the Department of Primary Industries based on what was known or thought to be known at the time. That included, for example, that the carbon tax was estimated to be \$25 a tonne. Of course we subsequently know it is \$23 a tonne as a starting price. But this was made clear — this was made absolutely crystal clear — at the time that the estimates were produced, and in fact I do have an additional chart, which I happy to call up, which demonstrates the nature of the material which DPI provided, and I am happy to make clear where it was that we determined that there should be more conservative assumptions provided. I can say it was based on \$25 a tonne, an emissions intensity of 1.3 tonnes per megawatt hour and a 70 per cent pass-through of carbon tax impost and GST. Where there is a difference is that DPI thought there may be a greater pass-through of the carbon tax impost.

Out of an abundance of caution the government actually said, 'Hang on; we don't think it will be as high as that. Let's make it 70 per cent'. Our estimates are actually lower in terms of the ultimate impact on prices compared to those that DPI sent.

Members interjecting.

Mr M. O'BRIEN — It is quite interesting to be in a position of having done the responsible economic thing and put in calculations which are lower than those which were originally given, out of an abundance of caution, which actually led to a lower price impact than we had initially been provided, and then to be criticised for it. It is quite extraordinary. I note, Mr Chairman, if you look at that figure which was given as an example, it shows the net increase on electricity prices was 9.9 per cent. What does the federal government say is the likely impact on electricity prices? Ten per cent, so even our estimates on that basis were lower, more conservative, than even what the federal government itself has said.

Members interjecting.

Mr M. O'BRIEN — I am happy to look at the federal Treasury modelling, the Deloitte modelling, that is out there. We have made clear what the basis of our assumptions was.

Mr PAKULA — Minister, let me repeat again that it is clear from your own secretary's correspondence that the media release that you put out did not reflect the advice that you were given by your department, and putting one little bit of it up on a screen is not going to change the fact that the correspondence that was sent by your secretary makes it clear that the media release you put out does not reflect the advice you received. The only way you can clear that up is to release it.

The CHAIR — Thank you for that advice. Thank you very much, Deputy, I am not quite sure that there is anything for the minister to respond to, but he is welcome to respond.

Mr M. O'BRIEN — Mr Chairman, let me channel Tony Jones, and I will take that as a comment.

Members interjecting.

The CHAIR — Indeed, thank you. If we can have some order! Minister, I refer to BP 3, page 246, in relation to performance measures on the energy technology innovation strategy. How will ETIS affect the development supporting our renewable energy technology?

Mr M. O'BRIEN — Thank you, Chair. When the Auditor-General went through the former government's various programs in this field and he handed down the *Facilitating Renewable Energy Development* report in April 2011, he was very critical of a number of activities, failed plans and unmet targets of the former government. One program he actually did give a tick to was ETIS, and from opposition the coalition recognised that ETIS was a well-structured program. That is why we went to the election with a commitment to double the competitive funding amount from 41 to \$82 million, and we have delivered on that.

One of the troubles, though, with ETIS was that it was purely about renewables rather than necessarily about low emissions. There are other ways to cut emissions other than just renewables. Promoting more efficient gas, for example, clean coal — these are ways in which you can reduce the emissions that this state produces but in a way which is more economically efficient.

While I did advise the committee of some of the projects we have funded under ETIS, there are perhaps some more that I could refer to. In April this year I confirmed \$4.5 million funding for a biomass plant which will turn organic waste into a new clean source of electricity. On 3 April this year I announced a \$1.6 million grant to support the University of Melbourne and its partners to demonstrate the efficiency of direct-use geothermal for heating and cooling buildings. A direct geothermal system uses a heat pump to draw heat from the earth near the surface to warm buildings in the winter, and it reverses the process to cool buildings in the summer. Under this project, direct geothermal heating and cooling systems will be installed into about 30 to 40 buildings across Victoria.

The benefit of these pilot programs is that once the technology can be demonstrated to work, and work efficiently, it then makes it much easier for it to be rolled out on a wider scale. When I was discussing it with the engineers and researchers who are involved with this project, they flagged to me that at scale it may well be possible for builders to install this sort of heating and cooling into new homes and indeed to retrofit existing buildings in a way that could see the recoupment of the initial capital cost in just a few years. It would be terrific for people in terms of managing energy bills et cetera if you were able to effectively run a lot of your own heating and cooling from geothermal without any effective ongoing bills. We think that there are some wonderful opportunities through the ETIS program.

I mentioned before the Port Fairy wave funding. In February I announced a \$250 000 grant for a Scoresby-based company to develop new technology that could help businesses reduce the amount of electricity they use on lighting by as much as 80 per cent. The ETIS program is about developing new and better forms of technology but also about promoting better energy efficiency.

We actually have an interesting situation in Victoria at the moment in that about 50 per cent of the costs of the electricity bill come from the supply charges — that is, once the electricity is generated, getting it from where it is generated into the home or into the business. About 25 per cent of our supply network is used on only 10 days a year. Imagine if you were building a bridge or a tunnel for cars that was only used 10 days a year. It is a lot of money that is being spent on something that is used very little.

If we were able to try to improve the efficiency of our energy networks and energy supply infrastructure, we would really have a chance to defer what is very expensive investment in those energy supply networks, and in doing that we can try to deliver downward pressure on people's bill. We think that is something we can do through the ETIS program; we are also doing it through the Victorian energy efficiency target. You can take the carbon tax approach, which says that the best way to cut emissions is to put a tax on them and make it more expensive for people to use electricity and pay their bills, or you can take the approach we are taking, which is, 'Let's promote more efficient technology. Let's promote energy efficiency. Let's give people more control over their bills — more choices. Let's try and protect jobs, and let's try and ensure that we can get an affordable electricity supply with reduced emissions that just does not penalise Victorian jobs and Victorian families'.

Mr SCOTT — Minister, I refer you to budget paper 3, page 244, and DPI's role in addressing the major and emerging challenges in productivity and sustainability, and I ask: do you remain committed to achieving the 5 per cent solar energy target by 2020, and what milestones do you have in place to measure your progress?

Mr M. O'BRIEN — Again, the 5 per cent target of the former government was something which the Auditor-General made significant comment about. In his report he found that essentially there had been very little success in doing that, that it had come at a significant cost to Victorian families and that the government, as I said, even when it came to a \$100 million commitment on the Mallee solar park did not have the money and did not have a business plan.

We are of the view that the best way to encourage large-scale solar in this state is to make sure that we can get some projects up and running that are effective, that are efficient and that can pave the way for further large-scale projects down the track. To that end we have supported, as I have indicated, the Mallee solar park project. We have supported that with real money, as opposed to the promises which were never funded by the former government. We are also supporting the Silex solar systems project. So there are two examples where this government has got actual money on the table to support large-scale solar. If those projects are able to succeed and demonstrate that large-scale solar has a strong future in Victoria — and we certainly hope that they will, and we are supportive of them — then that will pave the way for future large-scale solar projects to follow.

What the Auditor-General found — and excuse me for paraphrasing and not using his words — was essentially that the former government had a lot of targets when it came to renewable energy, and it did not meet them. Every time it came within striking distance of not meeting its target it would just simply create another target another few years down the track, and then it would not meet that target, and then it would create a further target further down the track. All this came at great expense and great churn of taxpayers money and delivered just about nothing. We are about practical demonstrations and practical support for real projects. That is why we have got money on the table for Mallee solar park, that is why we have got money on the table for Silex and that is why we want to see those projects succeed. That will be the example, that will be the exemplar, which will then set up Victoria for further large-scale solar projects into the future.

The CHAIR — We are out of time for this hearing. I wish to thank the minister and officers from the department for attending today. I think there was one question that was taken on notice, so we will write to you, and we look forward to a response within 21 days. That concludes the hearing on the budget estimates for the portfolios of gaming, consumer affairs and energy and resources.

Committee adjourned.