

GENERAL PURPOSE STANDING COMMITTEE No. 5

Friday 17 October 2008

Examination of proposed expenditure for the portfolio area

ENERGY

The Committee met at 9.15 a.m.

MEMBERS

Mr I. Cohen (Chair)

The Hon. R. L. Brown
The Hon. A. Catanzariti
The Hon. R. H. Colless
Dr J. Kaye

The Hon. T. J. Khan
The Hon. E. M. Obeid
The Hon. L. J. Voltz

PRESENT

The Hon. Ian Macdonald, *Minister for Energy, Minister for Primary Industries, Minister for Mineral Resources and Minister for State Development*

Department of Water and Energy

Mr M. Duffy, *Director General*

Ms L. Baumgartner, *Deputy Director General*

CORRECTIONS TO TRANSCRIPT OF COMMITTEE PROCEEDINGS

Corrections should be marked on a photocopy of the proof and forwarded to:

Budget Estimates secretariat
Room 812
Parliament House
Macquarie Street
SYDNEY NSW 2000

CHAIR: I declare the meeting open and welcome Minister Macdonald and the accompanying officials to the hearing. Today we will examine the proposed expenditure for the portfolio of Energy. In accordance with Legislative Council guidelines for the broadcast proceedings only Committee members and witnesses may be filmed or recorded. People in the public gallery should not be the primary focus of any filming or photos. In reporting the proceedings of this Committee you must take responsibility for what you publish and for the interpretation placed on anything that is said before the Committee. The guidelines for broadcasting proceedings are available on the table by the door. Messages from attendees in the public gallery should be delivered through the Chamber and support staff or the Committee Clerks. I remind the Minister and the officers accompanying him that you are free to pass notes and refer directly to your advisers. I also remind everybody to turn off their mobile phones. The Committee has agreed to have questions in 20-minute lots. We will get through this as quickly as we can given the great practice both you and the Committee have had in the estimates process. We should be able to get through very efficiently in a skilful way. The return date for questions on notice is 21 days.

MARK DUFFY, Director General, Department of Water and Energy sworn and examined, and

LEISL BAUMGARTNER, Deputy Director General, Department of Water and Energy, affirmed and examined:

CHAIR: We will start with questions from the Opposition.

The Hon. TREVOR KHAN: Minister, it is the case, is it not, that in May this year you travelled to China on a trade mission?

The Hon. IAN MACDONALD: Correct, yes.

The Hon. TREVOR KHAN: Who attended the trade mission with you?

The Hon. IAN MACDONALD: Quite a number of people. Do you want departmental people or business people?

The Hon. TREVOR KHAN: Everyone.

The Hon. IAN MACDONALD: I do not know if I have all the names but I will give you some of them and I will answer it on notice later. It was the Director General of the Department of Primary Industries, Dr Richard Sheldrake; Jason Bartlett, from my office; and Dr Christine Wang, from the department. From business, people came and went at various times because the mission was to both China and Korea.

The Hon. TREVOR KHAN: We will deal with the Chinese part.

The Hon. IAN MACDONALD: I think there was Bob Cameron from Centennial; I think Colin Bloomfield from BHP Billiton came across to China; and I think Xstrata was there. I am pretty sure Col White from Xstrata was there. I would have to get the other names but there were a significant number of businessmen from the resources sector.

The Hon. TREVOR KHAN: Was there a Mr Fang from the Tianda Group?

The Hon. IAN MACDONALD: Yes, Mr Fang attended part of it in Guangzhou and in Beijing.

The Hon. TREVOR KHAN: Do I take it that the costs of the trip were some \$27, 500, of which about \$16,000 was for airfares and \$11,500 was for accommodation?

The Hon. IAN MACDONALD: I think that would possibly be right. I do not have the figures with me.

The Hon. TREVOR KHAN: Whom do those figures cover in terms of costs?

The Hon. IAN MACDONALD: They would cover, I think, my office. I am not sure whether they would cover anyone outside; I do not have a break-up of it. I can give that to you at a later stage.

The Hon. TREVOR KHAN: Excellent. So you will take that on notice as well?

The Hon. IAN MACDONALD: Yes.

The Hon. TREVOR KHAN: I take it that the way these trips work is that prior to going somebody in the ministerial office or the departmental office will book flights and organise the accommodation? It is not done by turning up to the check-in counter and buying the ticket there.

The Hon. IAN MACDONALD: Yes, that is right.

The Hon. TREVOR KHAN: Do I take it similarly that all accommodation is arranged ahead of time?

The Hon. IAN MACDONALD: Yes, that is right.

The Hon. TREVOR KHAN: On a Government account of some sort, is that right?

The Hon. IAN MACDONALD: I am not sure exactly how they do it but it is organised by the department.

The Hon. TREVOR KHAN: In other words you do not have to pull out your personal credit card to pay for bits and pieces along the way.

The Hon. IAN MACDONALD: That is correct. That has occurred on occasions but I am not 100 per cent certain of the detail of how this was paid for, but it would have been paid by the department then reimbursed by us or paid by my officers along the way. It varies according to circumstances.

The Hon. TREVOR KHAN: Do I take it that you are aware there is a degree of cultural sensitivity in dealing with people from many countries, including China? For instance, small gifts are tendered from time to time and small gifts are given in return essentially as a sign of mutual respect?

The Hon. IAN MACDONALD: Yes.

The Hon. TREVOR KHAN: Of course we know, do we not, that in some countries there is a cultural sensitivity, for instance, in the offering of a gift and not getting one in return?

The Hon. IAN MACDONALD: Yes, there is sensitivity on that issue, that is true.

The Hon. TREVOR KHAN: Including in China.

The Hon. IAN MACDONALD: Correct.

The Hon. TREVOR KHAN: It is one hand giving and the other hand taking, and the reverse being done.

The Hon. IAN MACDONALD: Yes.

The Hon. TREVOR KHAN: Of course a similar issue of cultural sensitivity is that the gifts that are given are small and more in the nature of tokens than anything of substance.

The Hon. IAN MACDONALD: Yes, generally speaking.

The Hon. TREVOR KHAN: The reason for that is, of course, that if a large and expensive gift is given it has to be met in a sense in a similar way with a similar return. Is that right?

The Hon. IAN MACDONALD: Yes. Any gifts we have given are normally of the—

The Hon. TREVOR KHAN: Token variety.

The Hon. IAN MACDONALD: I would not say token, I would say they are appropriate gifts at a reasonable price.

The Hon. TREVOR KHAN: Do I take it that in that spirit you would not take a gift of substance, of significant value, while you are away on one of these trips?

The Hon. IAN MACDONALD: Yes. I cannot think of anything I have ever been given that I think would break anyone's bank account, that is for sure.

The Hon. TREVOR KHAN: I suppose it depends on whose bank account it is.

The Hon. IAN MACDONALD: Average Australian.

The Hon. TREVOR KHAN: All right. You have filed a pecuniary interest disclosure of recent times, have you not?

The Hon. IAN MACDONALD: Yes.

The Hon. TREVOR KHAN: If I were to go to that pecuniary interest disclosure I would find that in fact on that trip you received two gifts of substance, did you not?

The Hon. IAN MACDONALD: I do not know if they were gifts as such. You will have to describe what you mean by gifts.

The Hon. TREVOR KHAN: Let us deal with this. You go on a trip on a trade mission and whilst on that trade mission one of the members of the trade mission, Mr Fang of the Tianda Group, pays for the air fare and accommodation from somewhere in the south-west of China to the north-west of China.

The Hon. IAN MACDONALD: That comes under travel, not under gifts. That is declared.

The Hon. TREVOR KHAN: I am not suggesting it is undeclared. A company official who is attending with you paid a substantial amount of money to fly part of your delegation to Gansu, did he not?

The Hon. IAN MACDONALD: I understand he would have paid for that—I might as well now, given that I know your drift, give you some detail on that. Neither Alan Fang nor his company, I am advised, has any commercial interests in mining in New South Wales. My visit to China and Korea was made in strict accordance with the New South Wales Ministerial Code of Conduct. Australia became the largest trade partner with Gansu last year. I was in the province at the direct invitation of the Gansu Government. The purpose was to discuss the feasibility of New South Wales providing training in mine safety and environmental stewardship, something I think we should be praised for. The Department of Water and Energy has had ongoing contact with the people there. The meeting was highly productive and saw a draft memorandum of understanding signed between the States. All travel by me and my staff was conducted in strict accordance with the Premier's guidelines. I have declared the travel expenses by Tianda and the Gansu Government in the appropriate manner. The reason for the travel arrangements—that is the original flights that were arranged when we were in Australia some time before—being altered was that the Gansu governor and vice-governor were unable to meet on the Sunday. The original meetings were scheduled for the Sunday prior to lunchtime.

We were unable to conduct that meeting because the governor was in the south of Gansu when the earthquake hit Szechwan and several hundred people were killed. The governor expressed an interest in the meeting going ahead on the Sunday evening. However, there were no regular air services that would have returned me to Gansu in time to address the joint economic meeting the next morning. As it was, we arrived back in Guandong at 2.00 a.m. on Monday, the joint economic meeting between Guandong and New South Wales was to be held at 9.00 a.m., and I was scheduled to speak after the Premier. While in Gansu I, on behalf of the New South Wales Government, gave a commitment on their state television and in their media to help the earthquake victims. Upon my return I, in conjunction with the Premier, organised a fundraiser for the earthquake victims. More than \$80,000 was raised, 20 per cent of which went directly to Gansu via the Red Cross to help earthquake victims in that area.

The Hon. TREVOR KHAN: Minister, is it not the case that the Tianda group has interests in mining and exploration in Australia?

The Hon. IAN MACDONALD: It does in Australia; that is correct.

The Hon. TREVOR KHAN: Would it be fair to say that that company actively seeks further opportunities in Australia?

The Hon. IAN MACDONALD: Yes. I do not think anyone would dispute that that company is seeking opportunities in Australia.

The Hon. TREVOR KHAN: And the chief executive officer of that company attended a New South Wales trade mission, of which you were a party? Is that right?

The Hon. IAN MACDONALD: There is nothing wrong with that. In fact, all the other companies that were on the mission do exactly the same, except they are active in the industry in New South Wales.

The Hon. TREVOR KHAN: What the others did not do, but what Mr Fang of the Tianda group did, was pay for some of the costs associated with flying you and others of your delegation around China.

The Hon. IAN MACDONALD: Yes, to enable us to meet with the governor of that state who expressed a strong interest in being able to get people from other parts of the world interested in what was going on there. He suggested that he could get us there and back. That was the only way it could be done, given that the meeting was on the Sunday evening. There was no other way of doing it and I have declared that. I do not think I am any different from the Prime Minister and a number of current Federal Cabinet Ministers who declared in their pecuniary interests that they had received travel and accommodation assistance over the past few years for various meetings around the world.

The Hon. TREVOR KHAN: Minister, taking into account the concessions you made earlier with regard to cultural sensitivity, does the possibility of an expectation arise? By accepting the generosity of Mr Fang, in essence you exposed yourself as Minister and the New South Wales Government to the suggestion that you could be bought.

The Hon. IAN MACDONALD: No, there is no question of that. I am offended by that piece of nonsense. I have attended functions with members of the industry and I would say that I am fairly close to lots of members of the industry. But in the end I go on the advice of my department. I adopt whatever that advice is.

The Hon. TREVOR KHAN: That cannot be so, can it? That would mean that if you were invited to jump off the Gap you would follow its direction.

The Hon. IAN MACDONALD: Be sensible.

The Hon. TREVOR KHAN: It is plain that you have an independent thought process.

The Hon. IAN MACDONALD: But be sensible. You are inferring that I go on the advice of the department. However, the department never advises me to jump off the Gap. Some people might wish to do so, but not me brother. I would not take the advice of my department in such circumstances because quite clearly it would be outside their departmental responsibilities. But in relation to policy and minerals licensing arrangements across the State, I always act on its advice. There is no inference that I would use whatever the department recommended to advantage someone. I have not done that and I will not be doing it.

The Hon. TREVOR KHAN: By undertaking the course of action that you undertook you could give someone an opportunity—and I am not saying that Mr Fang would do this—to, in a sense, spruik that he or she was owed a favour by someone in the New South Wales Government?

The Hon. IAN MACDONALD: No, I do not see that at all. That mission was for humanitarian purposes—to get us to a part of the area in which there had been a massive earthquake in which hundreds and thousands of people were killed. We had arranged a meeting with the governor of the state, that meeting had to be rescheduled, and they were able to get us there. Quite frankly, I am proud of that.

The Hon. TREVOR KHAN: Minister, why did you not use your ministerial credit card or other resources to hire the plane yourself?

The Hon. IAN MACDONALD: Hiring a plane in China through the use of a credit card is completely outside my normal type of behaviour. Quite frankly, I did not have the great wit of the Hon. Trevor Khan to be able to think of such a creative solution.

The Hon. TREVOR KHAN: Why have you not reimbursed Mr Fang for the costs of the trip?

The Hon. IAN MACDONALD: That is also a novel thought.

The Hon. TREVOR KHAN: It is not particularly novel. You have taken a gift from a businessman.

The Hon. IAN MACDONALD: It is not a gift; it is assistance with travel. That is a completely different category within the pecuniary interest document. If you look at the meaning of the word "gift" you will find that it is a different category.

The Hon. TREVOR KHAN: Do you take a gift as being a tie or a bottle of scotch?

The Hon. IAN MACDONALD: No, I take as gift travel contributions under the section in the pecuniary interests document. It is not a gift and it is not unusual for members to have assistance in one form or another from companies and individuals when performing some types of duty. If you look at the Federal pecuniary interest document you will find lots of declarations relating to travel contributions from businessmen and companies. I do not see any difficulty with it. I have never done it before but because an earthquake occurred in the day or two prior to our meeting they were anxious for the meeting to go ahead. Quite clearly, the governor wanted to tell to the world of their predicament.

I was a Minister from a country with whom they have good relations and Australia is now Gansu's largest trading partner. They were keen and enthusiastic about me attending the meeting so that they could say what was going and so that I could convey back the message—which I did at the fundraiser that we organised about a month after the visit. Considerable sums of money were raised via the Red Cross. The only reason I went there in those circumstances was to attend a meeting with the leaders of a state that had been severely hit by an earthquake in May.

The Hon. TREVOR KHAN: In summary, you are saying, "I was attending ministerial duties but a businessman involved in the operation of a mining and exploration company happened to pay my travel and accommodation expenses."

The Hon. IAN MACDONALD: He got me to the meeting with the governor and back to perform my duties, that is, speaking to the joint economic meeting in Guangdong the following morning. If we had been able to get to the meeting with the governor—in fact the vice-governor, other people and some Ministers were there—and we were able to continue our meeting with that group on the Sunday night there is no question about the fact that I would have gone by commercial arrangements.

The Hon. TREVOR KHAN: The Governor of Yunnan province paid for your accommodation in Kunming, is that right?

The Hon. IAN MACDONALD: Let me point out that in both Lanzhou, the capital of Gansu, and Kunming, in the south of the State, the accommodation was in the Government guesthouse. In fact, I was very fortunate in Gansu to have stayed at a guesthouse where the Chinese Premier stays when he visits there. It is just a hotel, in effect, but they put me up on both occasions in those states in the Government guesthouse.

The Hon. TREVOR KHAN: It that gave you a feeling of vicarious power, is that the general view?

The Hon. IAN MACDONALD: No, not really. I have to be around you to get that.

The Hon. TREVOR KHAN: In summary, are there any other circumstances when you travelled overseas and you have had a businessman pay for part of your trip?

The Hon. IAN MACDONALD: No, not that I can recall. I have declared in the past—

The Hon. TREVOR KHAN: I am not asking about what you have declared; I am asking whether somebody has actually paid it?

The Hon. IAN MACDONALD: No, not that I can recall.

The Hon. TREVOR KHAN: So, it was a truly exceptional circumstance?

The Hon. IAN MACDONALD: The exceptional circumstance in my view was the fact of the earthquake and the Governor expressing a keen interest to have the meeting.

The Hon. TREVOR KHAN: And you had access to, for instance, a mobile telephone or whatever else to be able to call home?

The Hon. IAN MACDONALD: To call home? What do you mean?

The Hon. TREVOR KHAN: You had the ability to arrange things by ringing back to your office and saying, "Hey Bluey, something's come up. We need to change the arrangements." That was still possible for you, was it not?

The Hon. IAN MACDONALD: Well, I guess so, but it was irrelevant. There were no other flights that could have achieved what was necessary—that is, to have a meeting in the evening. There was a meeting followed by a dinner. It finished at maybe 9.00 p.m., somewhere around that time. As you might have been informed, Lanzhou is not the head of the tourist routes within China. So, there was no other way of getting back.

The Hon. ROBERT BROWN: I have a polite way of asking this question, but I will not ask it in that manner. In light of the Government's and the Opposition's failure to secure the energy future of this State, can you outline the Government's plans, if it has any, for investment in the electrical sector? In particular, are you aware of any intentions of plans by the aluminium smelting industry either to leave New South Wales because of a lack of security of supply or, alternatively, not invest in future smelters in the Hunter Valley because of a lack of supply or lack of plans to provide that power?

The Hon. IAN MACDONALD: The Government has quite an extensive capital works program currently underway in meeting the needs of the energy sector. This financial year, for instance, we have committed an estimated \$3.5 billion towards the capital expenditure program. This is an increase of \$660.1 million or 23 per cent on the 2007-08 budget. Around 65 per cent of the electricity sector's capital program in 2008-09 will be undertaken by the electricity distribution poles and wires business.

The Hon. ROBERT BROWN: Is that subject to the mini budget or are they things on which we can rely?

The Hon. IAN MACDONALD: I would not rule anything in or out in relation to the mini budget, but I think in this sector that these figures will remain pretty robust. EnergyAustralia, for instance, is putting in \$883,000 into network projects such as replacing substations and increasing capacity in greater Sydney; Country Energy is expecting to spend \$668,000 on its program and Integral Energy is spending five \$545,000. So, there is a lot of work happening on the poles and wires side. In relation to generation, we believe there are around 1,800 megawatts of new generation proposals under construction in New South Wales and will be available to meet increasing demand identified by the National Energy Market Management Company in its annual statement of opportunity that is due for release this month.

The Hon. ROBERT BROWN: By the private sector?

The Hon. IAN MACDONALD: Yes, I will go through it. Of this new energy generation 141 megawatts will be from renewal energy sources—that is the Capital Wind Farm at Tarago—while the remainder is from three gas-fired generators. Of the 1,667 megawatts of gas-fired generation under development, around 1,000 megawatts is expected to become commercially operational over the next few months. For example, TRUenergy's 400 megawatt Tallawarra Power Station is currently undergoing hot testing, followed by full commissioning over an eight-week period. Tallawarra will be ready for full commercial operation prior to the upcoming summer peak. These new projects, together with upgrades that have been undertaken on existing coal-fired plants in New South Wales, will combine to meet the growth in both peak and base load demand expected over the next few years.

The National Electricity Market Management Company recently published forecasts for electricity demand for New South Wales over the next 10 years, which show growth in the summer peak demand of 2.3 per cent and the energy growth rate of 0.8 per cent. The National Electricity Market Management Company also releases an annual report, the Statement of System Opportunities, outlining the supply and demand balance for each region in the national electricity market. The 2007 report found new capacity would be needed in New South Wales from 2013-14. Since then, additional new projects have progressed and forecasts of demand growth have been revised. The next report, due out at the end of the month, is expected to show New South Wales being in a stronger position for supply capacity beyond 2013-14.

In their submissions to the Owen inquiry, private sector and state-owned energy companies put forward a number of options for developing coal-fired and gas-fired base load generation. The Government has already supported power station upgrades at Liddell, Bayswater, Eraring and Mount Piper. These upgrades have expanded capacity by a total of 320 megawatts. A future upgrade of 160 megawatts at Eraring is also planned for this financial year. A large range of new generation proposals also are being developed in New South Wales, which could meet the additional capacity requirements from a range of different fuel sources. For example, over 260 megawatts of wind-fired generation projects and over 1,300 megawatts of gas-fired generation projects at various sites around New South Wales have already received development approval. These include Crookwell 2, Taralga, Gunning and Woodlawn wind farms, as well as gas-fired generators at Tomago, Bamarang and Parkes.

In addition, over 4,700 megawatts of generation projects currently are going through the planning process. These include the 1,000 megawatt Silverton wind farm; the 278 megawatt Gullen Range wind farm near Goulburn; the 120 megawatt Kyoto wind farm in the Upper Hunter; the 660 megawatts of gas-fired generation at Wellington; up to 800 megawatts of gas-fired generation at Marulan; 300 megawatts each of gas-fired generation at Penrith and Appin; the second stage of Tallawarra, which is a further 300 megawatts of gas-fired generation; and a 120 megawatts each of gas-fired generation at Bega, Mildura and in the Upper Hunter.

It is clear with these projects currently under construction, already approved for development and currently progressing through the planning stage, that there is strong interest in that element of renewable peak generation in New South Wales. So, in relation to your question about the aluminium smelters, yes, it is an issue that will have to be resolved. This can be done in a timely manner, given that the contracts come up in 2015 and 2017. So, we do have some time and discussions are underway with the proponents in relation to those sites.

The Hon. ROBERT BROWN: As part of those considerations will the Government consider a government-private enterprise arrangement whereby perhaps those who require the power could build it and then receive some sort of feed-in tariff-type situation or does that feed-in tariff apply only to domestic?

The Hon. IAN MACDONALD: There are twin aspects to that. Feed-in tariffs are currently being discussed by the Ministerial Council on Energy [MCE] at a national level. I can deal with that a bit more. We look at creative solutions to ensure that those smelters remain open. They employ many people.

Dr JOHN KAYE: One thousand five hundred people.

The Hon. IAN MACDONALD: Many people, lots of people—1,500 at least, and perhaps many more in an indirect sense. They are very important and we have to look at how we can supply for the future. But as I have said before we are still in considerable and extensive discussions with those corporations.

The Hon. ROBERT BROWN: I will move on to the issue of feed-in tariffs. What has the Government done to address this issue? Just so that we do not get sucked into the "feds have to do it first" round of answers, is there any value in having a State-by-State arrangement? In other words, is there any reason why New South Wales could not just go for it?

The Hon. IAN MACDONALD: New South Wales consumers who install solar panels will receive payment for the electricity generated by those systems. Feed-in tariffs provide a guaranteed buyback price—

The Hon. ROBERT BROWN: At the feed-in green rate?

The Hon. IAN MACDONALD: —for any excess household electricity generation returned to the grid. In most cases, this additional generation occurs through the installation and operation of rooftop solar panels, and typically the paid rate of return for excess electricity generation is much higher than conventional

power rates. Households usually are paid this premium price for every kilowatt hour generated and/or supplied to the grid, which helps to repay the cost of installing a solar system.

These higher prices are recovered by retailers and/or distributors through slightly increased overall tariffs to all consumers. Queensland, Victoria, South Australia, Western Australia and the Australian Capital Territory either have introduced or plan to introduce feed-in tariffs for small renewable systems. However, these schemes are not compatible as they differ in some basic aspects, such as tariff rates, price caps, gross versus net pricing, coverage of different renewable technologies, and legislative enforcement.

It is important to note that the New South Wales Government supports the adoption of feed-in tariffs as long as they can be applied and administered in a fair and responsible manner. To that effect, the Rees Government is actively working with the Council of Australian Governments to consider the best and most harmonious way of adopting a suitable scheme for New South Wales. But let me also make it clear that New South Wales home owners with existing solar photovoltaic systems already can arrange a net metering tariff whereby they can export excess electricity from the house back to their electricity supplier.

While the rate can vary between retailers and, in some cases, at different times of the day, the rate paid is often the same as the home owner's electricity purchase price. For example, Country Energy pays customers the same rate for exported electricity as the customers electricity tariff for systems below 5 kilowatts. Energy Australia offers customers with solar panels and a smart meter a time-of-use rate when electricity that is generated at peak times is paid at a higher price. I look forward to updating the New South Wales Parliament on the development of a suitable feed-in tariffs scheme for New South Wales in the very near future.

CHAIR: I am very interested in this because my understanding is that the feedback into the grid, even though it is green energy from a photovoltaic source, is not at the rate of green energy. One of the big issues that the industry and individual users have is that they do not get the advantage of green power rates when feeding solar-generated electricity back into the grid. Resolving that one point would go greatly improve the dispersal and development of an alternative decentralised energy industry.

The Hon. IAN MACDONALD: I understand that some of our retailers offer a premium.

CHAIR: A premium, but not the green rate. It is not the same rate as the one companies are charging consumers, such as the many people in this room, to purchase electricity at the green rate. That is a seriously inequitable situation. Would you not agree with that?

The Hon. IAN MACDONALD: Given that there are a number of different policies in this area, I will take it on notice and come back to you. I agree that we need to look at ways of being able to systematise it somewhat better.

CHAIR: Would you also agree that that would be a significant stimulus to the solar and wind decentralised individual residents industry, which really has to be one of the great potentials in New South Wales?

The Hon. IAN MACDONALD: There is no doubt that it would provide that kind of stimulus, but we have to balance this against the cost of energy as well. These are factors that are being weighed up.

CHAIR: What? The cost of energy that is being given back to the grid? I am sorry, I do not quite understand what you mean.

The Hon. IAN MACDONALD: In terms of prices that are being paid, at some point that comes back to the consumer in terms of the price for electricity.

CHAIR: In this case it is the consumer supplying electricity.

The Hon. IAN MACDONALD: Yes, but in the end, if it is coming at a significant higher rate than they pay elsewhere and that is done on a very widespread basis, you would have an additional cost that then would have to be passed on to the consumer.

CHAIR: Would that not be a part of the expansion of that aspect of the power supply—the icing on the cake, if you like? It is not taking away from any other sector. Obviously, there will be projected shortages in the

future, so it creates a win-win for industry and the environment when the individual person takes on the task of putting in those systems.

The Hon. IAN MACDONALD: Yes. That is part of the current review that is going on at the moment to land a policy approach to this particular issue.

CHAIR: While I am on that point, one of the things I have found out through hard experience is that while people get grants for the installation of solar panels for their houses, there is no opportunity for a landlord or someone who does not live at that place getting those grants. Would it not make sense that landlords and people who have investment properties should be encouraged to receive a similar rebate on the installation of solar panels, just as do people who are living at the residence?

The Hon. IAN MACDONALD: We understand that the grants you are referring to are Commonwealth grants.

CHAIR: There is State input on that at all?

The Hon. IAN MACDONALD: Not as far as I am aware.

CHAIR: I understood there were also State rebates.

The Hon. IAN MACDONALD: Ms Baumgartner may be able to help.

Ms BAUMGARTNER: New South Wales administers one of the Commonwealth rebate programs. We administer it, but we do not have policy responsibility for it. That is a Commonwealth program and I know that that issue has arisen previously.

CHAIR: Perhaps a recommendation from the States would go a long way on that matter.

Dr JOHN KAYE: Minister, while we are talking about feed-in tariffs, you are aware of the difference between gross feed-in tariffs and a net feed-in tariff?

The Hon. IAN MACDONALD: Is that a question?

Dr JOHN KAYE: Yes. Are you aware of the difference between the two?

The Hon. IAN MACDONALD: I am aware that there are differences.

Dr JOHN KAYE: You understand that the gross feed-in tariff simply pays for the energy generated by the panels, whereas the net feed-in tariff only pays for energy in excess of household demand.

The Hon. IAN MACDONALD: Yes.

Dr JOHN KAYE: Are you aware of the arguments that support gross over net in terms of providing a secured income stream rather than one which is at the mercy of the amount of household energy consumed?

The Hon. IAN MACDONALD: What you are doing now is putting forward a case for a particular approach. We have a review into this. I suggest that you put that view to us in some detail, and we will consider it as part of the process.

Dr JOHN KAYE: But you are aware of those arguments?

The Hon. IAN MACDONALD: I am aware of many arguments in this area.

Dr JOHN KAYE: Sure. There may be arguments for net measuring, one of which is, of course, that it turns out to be cheaper for the utilities and results in generating less energy, but are you aware of the arguments for gross metering?

The Hon. IAN MACDONALD: I am aware of a number of different points of view on all of the issues in this area. In terms of a determination and a policy strategy, we are looking at these very issues to try to

make a landing. In each State where feed-in tariffs have been introduced, there are different policies. As I pointed out in my answer to the Hon. Robert Brown, there is a whole range of different policies in other States in relation to this issue. What we are trying to do at the moment is get some harmony in a policy approach to it so that we do not have one State offering a whole series of different policy approaches to the whole issue of feed-in tariffs. That is the policy framework we are trying to work through at the moment to get some sort of uniformity so that you do not have a situation where one State has a distinctly advantageous policy compared to another and the consequential skewing impacts that that may create.

Dr JOHN KAYE: This matter will be discussed at both the Ministerial Council on Energy [MCE] and the Council of Australian Governments [COAG]. The final determination will be made at the Council of Australian Governments, or at the Ministerial Council on Energy?

The Hon. IAN MACDONALD: I would think the Council of Australian Governments would do that.

Dr JOHN KAYE: The Ministerial Council on Energy meets before the Council of Australian Governments.

Mr DUFFY: I think there is a November Council of Australian Governments meeting.

Ms BAUMGARTNER: There is a Ministerial Council on Energy meeting in December.

The Hon. IAN MACDONALD: No. I am not sure. I will have to come back to you on that. I am not sure when the Council of Australian Governments is actually meeting.

Dr JOHN KAYE: Fine.

The Hon. IAN MACDONALD: The Council of Australian Governments working group on climate change and water is modelling all options and variables, and we are working with them. Our policy is due for announcement by the end of the year.

Dr JOHN KAYE: Presumably that means that the last meeting of the Council of Australian Governments, which will be in early December, will make a determination.

The Hon. IAN MACDONALD: Presumably, maybe — I do not know.

Dr JOHN KAYE: Is it correct that clean coal and carbon capture and storage research and development is funded from a variety of different sources in the New South Wales budget?

The Hon. IAN MACDONALD: Clean coal?

Dr JOHN KAYE: Is it correct that a number of different budget allocations support carbon capture and storage, clean coal or low emissions, coal-based technology—the whole gambit of those technologies—or is there one single allocation?

The Hon. IAN MACDONALD: At the moment the only funding arrangement I know of is through the mineral resources section of the Department of Primary Industries. I do not think the Department of Water and Energy has a budget for it, but it is part of the policy considerations that the department has in place. You must also take into account that the generators themselves have an active policy in this area, particularly Delta and its partnership with us at Munmorah. I understand that the other generators have split up the work; each of them is doing a different part of the work that needs to be done to head towards feasibility.

Dr JOHN KAYE: What is the total amount of money that the New South Wales Government spent on clean coal research and development over the last budget period?

The Hon. IAN MACDONALD: I will have to take that on notice. I do not have a full, accurate figure of it. But, for instance, the Department of Primary Industries, through mineral resources, has been doing sequestration studies—basically, a geological survey. At the moment we are finalising arrangements for drilling in the Munmorah area for potential sites, and that will not take long. There will be some value of work that has to be done in relation to that.

Dr JOHN KAYE: Is that in partnership or is the Department of Primary Industries doing that on its own?

The Hon. IAN MACDONALD: The Department of Primary Industries is doing the drilling for the sequestration study.

Dr JOHN KAYE: And covering the costs for that?

The Hon. IAN MACDONALD: Yes, that is correct.

Dr JOHN KAYE: Is the Munmorah capture pilot, which is a pilot for a demonstration, half funded by Delta and half funded by the Department of Primary Industries or fully funded by Delta?

The Hon. IAN MACDONALD: I do not have the actual break-up of the structure but it is primarily funded by Delta. However, there might be some assistance from us and some assistance from the CSIRO, which is doing the science.

Dr JOHN KAYE: Apart from the clean coal fund, what is the four-year forward estimate of money to be spent by all New South Wales Government sources on clean coal, including carbon capture and storage?

The Hon. IAN MACDONALD: I will have to take that on notice.

Dr JOHN KAYE: Can you give us a ballpark estimate?

The Hon. IAN MACDONALD: We had a figure. If the sequestration stopped, geological surveys for sequestration, I think the figure we had in mind was about the \$20 million mark. But whether it is over four years or three years, I do not have that precise information with me.

The Hon. TREVOR KHAN: With regard to electricity assets, can you confirm that the dividends drawn by the State Government since Labor came to power have been in the order of \$11.3 billion?

The Hon. IAN MACDONALD: Over the full 13 years?

The Hon. TREVOR KHAN: Over the full 13 years.

The Hon. IAN MACDONALD: I will have to take that on notice.

The Hon. TREVOR KHAN: Are you able to give us a breakdown of how much has been received from each of the trading enterprises that form part of the electricity industry over that period as well?

The Hon. IAN MACDONALD: Yes, I can get you that information on notice.

The Hon. TREVOR KHAN: In essence, dividends have been drawn down from the generators, transmitters and retailers. That is the essential exercise, is it not?

The Hon. IAN MACDONALD: Yes. There are two streams: the generation and distribution-retail.

The Hon. TREVOR KHAN: Assuming that the figure is in the order of \$11 billion, how much of that has the Government put back into the electricity industry?

The Hon. IAN MACDONALD: I can more safely deal with what is occurring currently, rather than delve into the past. I was not the Minister for Energy before last year.

The Hon. TREVOR KHAN: You are one of the longest-serving Ministers at present.

The Hon. IAN MACDONALD: I try to gain expertise in my own areas. I do not necessarily spend a lot of time trying to learn what other Ministers are doing in minute detail. For instance, the current capital works program in the electricity sector is \$3.5 billion this year. That is a substantial amount of money, as I read it to you before. That is an increase of \$660.1 million or 23 per cent on the 2007-08 budget. In this financial year we are spending about \$3.5 billion; last year we spent \$2.8 billion.

The Hon. TREVOR KHAN: When you say "we", are you talking about the Government?

The Hon. IAN MACDONALD: The government-owned entities.

The Hon. TREVOR KHAN: Via the corporations, essentially, is that right?

The Hon. IAN MACDONALD: Yes, government-owned corporations have spent a little over \$6 billion last year and this year.

The Hon. TREVOR KHAN: Are you able to separate out or tell us what the spend is from the generators, compared to the transmitters and retailers?

The Hon. IAN MACDONALD: You were out of the room when I enlightened the Committee on some of these figures, but I will go through them. This year the capital expenditure for Energy Australia—that is the retail distribution side—is \$1.1 billion; Country Energy, \$668 million; and Integral Energy, \$545 million.

Dr JOHN KAYE: Do those figures include retail and distribution?

The Hon. IAN MACDONALD: I have not broken it up. Infrastructure projects for Energy Australia, for which I do have a break-up, is \$883 million, and there is \$217 million for other capital works. I do not have the others here.

Ms BAUMGARTNER: Expenditure on the retail side would be particularly small. The capital spending for those businesses is on the distribution side because that is where the assets are.

Dr JOHN KAYE: The gas turbines being purchased by distribution companies, you are putting into distribution, not retail—

Ms BAUMGARTNER: Gas turbines? I am not sure what gas turbines you are talking about.

Dr JOHN KAYE: The Marulan plant is partly owned by Energy Australia.

Ms BAUMGARTNER: That will be a different arrangement that they have.

The Hon. IAN MACDONALD: Delta Electricity is spending \$401 million on increased generation capacity. Macquarie is spending \$101 million—I have details of what it is on—and Eraring has forecast—

Dr JOHN KAYE: Billion or million?

The Hon. IAN MACDONALD: It is \$101 million. It is not spending as much as Delta. Eraring Energy is spending \$178.8 million. So it is considerable. With regard to questions about the finances of these corporations, I should add that I do not have responsibility for the financial side of them; that rests with the Treasurer.

The Hon. TREVOR KHAN: That is a real worry. Can you confirm that the State's electricity generators incurred \$3.7 billion in hedging losses in 2006-07?

The Hon. IAN MACDONALD: I cannot confirm that figure but I know that some difficulties were being experienced by some of them during that period. I will consult with the Treasurer and get you some figures.

The Hon. TREVOR KHAN: In light of those losses, have you reviewed the electricity hedging position of the State's generators?

The Hon. IAN MACDONALD: It is not my role; it is the Treasurer.

Dr JOHN KAYE: As shareholding Minister or as Treasurer?

The Hon. IAN MACDONALD: Probably both.

The Hon. TREVOR KHAN: Do you know what, if any, the hedging losses were for 2007-08?

The Hon. IAN MACDONALD: No.

The Hon. TREVOR KHAN: Will you find out?

The Hon. IAN MACDONALD: I think I have indicated I will try to find out. I will consult with the Treasurer and see if I can answer it.

The Hon. TREVOR KHAN: Will you take it on notice?

The Hon. IAN MACDONALD: That is correct.

The Hon. TREVOR KHAN: Are you aware that some 40 per cent of the existing trades in the national electricity market are being undertaken by two traders that are not involved in the ownership of assets in the electricity market?

The Hon. IAN MACDONALD: I will take that on notice.

The Hon. TREVOR KHAN: Would it concern you that essentially there seems to be in the nature of speculators that are heavily involved in the market?

The Hon. IAN MACDONALD: I am concerned about speculation everywhere. But I do not have Ministerial responsibility for this side of the energy business. As you know it has been divided over years. But I will again talk with the Treasurer and come back to you with an answer.

The Hon. TREVOR KHAN: Is it case that steaming coal prices have increased by something in the order of 125 per cent in the past 12 months?

The Hon. IAN MACDONALD: There has been a significant increase in steaming coal, but whether it has affected all of the contracts in the generators I am not too sure. They have long-term contracts, and I am not sure of the details of those contracts and at what price they are scheduled for over a period of time and whether the increase has affected—as far as I understand, there are different types of arrangements for domestic coal as distinct from those set at an international level.

The Hon. TREVOR KHAN: Mr Duffy is nodding feverishly. Is Mr Duffy able to make some contribution?

Mr DUFFY: No, I am only agreeing with the Minister.

The Hon. TREVOR KHAN: That is a wise course of action.

Mr DUFFY: Coal types are many and coal contracts are complex with many and different ages attached to them. In addition, you have got a difference between coal that is exportable and coal that is consumed domestically. It is a very complex range of arrangements.

The Hon. TREVOR KHAN: Minister, Mr Duffy or anyone else for that matter, is it the case that the majority of the coal contracts are due to expire before 2011?

The Hon. IAN MACDONALD: Yes. In terms of the energy, I know some are expiring, but whether it is the majority you will have to consult with the Treasurer.

The Hon. TREVOR KHAN: Will you obtain details of that?

The Hon. IAN MACDONALD: Yes, I will do what I can to get your questions fully answered by the Minister responsible.

The Hon. TREVOR KHAN: Do you agree that if these contracts are to be renegotiated before 2011 in the light of the increases, that of necessity there will be substantial increases in the price paid for coal that is used in the electricity generation industry?

The Hon. IAN MACDONALD: It is possible if coal prices stay at these levels through to that period it might have some flow-on impact. But I think a lot of the coal used for domestic purposes really you do not export for one reason or another. I am not so sure that it would be a massive increase, like, in the order of 125 per cent or anything of that nature. Let us hope not, anyway. But the scenario between domestic and exportable coal is quite significant in New South Wales. We believe there will be adequate sources of domestic coal at reasonable rates but, again, we are talking in an area that is quite speculative about pricing in an industry in two and a bit years' time. I cannot provide a "This is what is going to happen" answer.

The Hon. TREVOR KHAN: Is that right? We heard the terms "belief" and "hope" used in your answer. Surely you have forward projections that you have undertaken to know where electricity prices are going over the next few years. Surely that is basic commonsense to do that.

The Hon. IAN MACDONALD: Yes, it is commonsense but did anyone predict the events of the last couple of weeks on the share market? People told me it was bottoming out in August and we appear to be heading towards not such a deep crisis, it will improve rapidly, and yet here we are today with this bouncing around of enormous proportions affecting shareholders around the world and, therefore, societies and economies. Yes, people have done lots of scenarios about what will occur but we have also got to take into account the Carbon Pollution Reduction Scheme and its impacts. There are a lot of ponderables out there about what will land as the price in 2011. I do not think me being somewhat hesitant to give you a definitive answer suggests we are not doing the work; we are doing the work and, particularly, Treasury will be doing considerable amounts of work on these issues. I cannot give you a definitive answer.

What if this economic crisis continues into next year and after? What if it does not? What if the measures that are being taken at an international level to try to stabilise the economy do not work? Well, we are then going to have prolonged recessions throughout the Western World and beyond. That will affect the prices of things and the level of productive activity in China and India, two of the key countries to our future in terms of the resources area, in particular, and the source of income that we derive from sales there, if that comes off and cools down. I mean the scenario is very difficult to predict and has got more difficult in the past two weeks.

The Hon. TREVOR KHAN: Do I take it that your answer can be distilled: first, yes, there are projections done; second, I do not know how accurate they still may be; third, and I am inviting the answer, the projections having been done, will you undertake to provide the committee with those projections as to prices?

The Hon. IAN MACDONALD: Again, I will talk to the Treasurer who has responsibility for this area in relation to the financial side and projected side of energy and seek to provide an answer.

The Hon. TREVOR KHAN: Is it the case that irrespective of whether the Treasurer is doing the maths it is information that is available to you? It being available to you, what I am asking you is not to redo the maths but simply give the committee the information that you have?

The Hon. IAN MACDONALD: I will talk to both the Treasurer and the State owned corporations to see what information they have in relation to that.

The Hon. TREVOR KHAN: And provide it to the committee? That is the second part of my question.

The Hon. IAN MACDONALD: As far as I am enabled to pass it on, I will pass it on by way of an answer.

CHAIR: Are you taking it on notice?

The Hon. IAN MACDONALD: Yes.

The Hon. TREVOR KHAN: Has it been the case that Centennial Coal is the major supplier of steaming coal for the electricity industry in New South Wales?

The Hon. IAN MACDONALD: I am not sure whether it is the number one, but it is certainly one of the most significant, for sure.

The Hon. TREVOR KHAN: Is it not the case that until recently about 70 per cent of its output has been applied domestically, principally to the electricity and generating industry?

The Hon. IAN MACDONALD: Whether it is 70 per cent—it is a significant proportion of their business.

The Hon. TREVOR KHAN: Are you aware that Centennial Coal has now made the decision to reduce its exposure to the domestic market and export more of its output overseas?

The Hon. IAN MACDONALD: Yes, I would think that any company in the coal industry would be looking enviously at the export prices and what it means for their business. I am aware that it is looking for opportunity. Bob Cameron, the managing director or chief executive officer, or chairman, I am not sure which position he holds, has been on approximately three delegations with me to China on the resources sector. He clearly sees the opportunities in North Asia, not just China, for export of coal resources. So I would not be surprised by your statement that he is looking at broadening its business with more export coal. Whether that will affect the domestic market, I am not sure, because he is always looking for new opportunities.

The Hon. TREVOR KHAN: If a major supplier is reducing the amount of coal that is going to be sold to the electricity industry, it is, I suggest, simple logic that that means that you are losing a potential source of supply?

The Hon. IAN MACDONALD: No, not at all. He might be developing other resources to meet export demand. He is obviously in a contract position and while the life of those contracts remain he would continue to supply, I am pretty sure. Over time he may see future in the development of further resources for an export market. I do not necessarily say that he is going to immediately start exporting coal that is assigned from his business to the domestic site, he is going to then shift it offshore—I think a lot of their current resources would not be suitable for export.

The Hon. TREVOR KHAN: I take it that your department, amongst others, would be involved in undertaking projections as to available coal supplies, factoring in the loss of potential Centennial coal supplies?

The Hon. IAN MACDONALD: No, I think you have missed my point. Centennial may have as a strategy developing other resources and meeting overseas commitments through that. I do not think he will renege or move out of the domestic market. He might want to expand his market. Remember recently Centennial sold Mangoola and one of its coking coal plants near Bargo—in that area in the southern coalfields—to Xstrata for \$1.1 billion, so presumably the Centennial Coal Company is rather cashed up to some degree and could be looking at expansion of current resources or looking for other opportunities. It is not a lock-in that if Centennial wants to increase its export coal, ipso facto, therefore there is going to be reduction in its domestic capacity or production. They have a number of mines across the State, which are supplying domestic industry, and I would think within that area they would have resources for some time.

The Hon. TREVOR KHAN: In that answer I think you used the terms "might", "may", "could", "I think"—you are not suggesting to this Committee, are you, that the supply of electricity in New South Wales is being done on a wing and a prayer and a hope?

The Hon. IAN MACDONALD: No, not at all. The situation is that I cannot, nor do I want to be able to, tell Centennial Coal what to do. My understanding is that they are meeting their contracts and my understanding is that they would continue to meet their contracts. As for whether they want to go into exporting in addition to that is a matter for Centennial Coal. I do not have a share to my name and I am not a director of any of these companies.

The Hon. TREVOR KHAN: Do I take it from that that your department has not undertaken any forward projections of impact on the price and supply of coal to the electricity industry because of, for instance, the decisions of a major supplier such as Centennial Coal? Is that what you are telling us?

The Hon. IAN MACDONALD: No, we always do a considerable amount of work, particularly in Mineral Resources, which you probably should have attended yesterday and asked me these questions—

The Hon. TREVOR KHAN: They did not allow me.

The Hon. EDDIE OBEID: No wonder!

The Hon. IAN MACDONALD: They knew you. The Hon. Rick Colless is very wise. All I am saying is that, yes, we do this work, but we do not control this area. But remember the companies—Delta, Eraring and Macquarie Generation—are doing this sort of work on a daily basis. They are looking at their contracts and their needs for the future.

The Hon. ROBERT BROWN: Excuse my ignorance, Minister, what is CPRS?

The Hon. IAN MACDONALD: Carbon Pollution Reduction Scheme.

The Hon. ROBERT BROWN: In other words, carbon scam tax.

The Hon. LYNDA VOLTZ: I hope our scientist of the year does not hear that.

The Hon. ROBERT BROWN: He has probably got his nose in the trough too, like all the rest of them. Minister, given my previous question on your ability to guarantee future electricity supplies for New South Wales after the failure of the Government and the Opposition to do something substantial about it when given the opportunity, is there any danger that the carbon tax that is being proposed by the Federal Government—no-one seems to know what it is—smack-bang on top of the shortage of available investment finance that we may be looking at for the next couple of years could severely impact upon the projections that you gave in an earlier answer?

The Hon. IAN MACDONALD: I am getting the questions today, aren't I? In relation to this question, I think there is nervousness amongst many governments about the potential cumulative impact of carbon policies and the international crisis. Just this morning I was listening to the President of the European Union talking about the need to continue with their scheme. I think they have in place, or are talking about getting in place and finalising by the end of the year, a 20 per cent target by 2020. He was saying that despite the crisis in the world economies at the moment they should press on, but at the same time they had reports from other governments expressing concern that the cumulative impact will create even more dramatic economic problems if you introduce a carbon reduction regime whilst this economic crisis is being played out.

This matter is again in the province of the leadership of the Prime Minister and the Federal Government. I am sure they will be listening to all of the key stakeholders on these issues, whether it be environmental stakeholders, industry and consumer groups, on the future of the Government's plans. The latest statement made by the Hon. Penny Wong, just a couple of days back, indicated that it was business as usual, as I gathered from her comments, and they were still pressing on with the time line proposed for the white paper fairly soon and then decisions in the first half of next year for commencement in 2010.

As for what will occur over the next month or so, I would say the result of the American election will be very critical in terms of this issue and where we go. As I understand it, both of the candidates are signed up to some form of carbon reduction scenario at an international level and where we go in that sense will also be impacted by whether this crisis stabilises in the near future. I think there is no doubt that the global economic crisis could have some impacts on the carbon reduction scheme. As to the extent or limit, I think that is a debate that will be carried out early next year.

Dr JOHN KAYE: With regard to our discussion about clean coal and carbon capture storage you are going to get back to us with figures on total investment. Can you tell us what the milestones are that you are expecting from the State's investment? When will we see zero carbon coal burning?

The Hon. IAN MACDONALD: I guess you are talking here about the stationary energy contribution to carbon. I believe that by 2020 we will have viable projects in place and working.

Dr JOHN KAYE: May I interrupt? I did not actually ask for your personal views; I asked what were the milestones for this investment.

The Hon. IAN MACDONALD: The first milestone was the opening of our project with the CSIRO and Delta Electricity at Munmorah and the commissioning of the pilot plant. The next step is the identification of sequestration sites in the area of the power plant, so drilling work will commence shortly to identify whether there are reasonable sequestration sites at 800 metres and below. As you would be aware, it becomes a very secure product when sequestered at depths below that due to pressure and other issues.

Dr JOHN KAYE: I am aware of that theory.

The Hon. IAN MACDONALD: Norway has been doing it with a million tonnes a year and there do not appear to be any problems there. It is being done in other parts, mainly for gas and oil removal. That seems to be okay. Of course there is the study being conducted in the Otways in Victoria—

Dr JOHN KAYE: Is New South Wales investing in the Victorian study?

The Hon. IAN MACDONALD: No. We are not investing in it.

Dr JOHN KAYE: We are really back to the question about the State's key performance indicators.

The Hon. IAN MACDONALD: You keep asking me questions.

Dr JOHN KAYE: It is the same question.

The Hon. IAN MACDONALD: No, in between. We will be drilling shortly in the Munmorah area for two potential sequestration sites there. If they prove positive and can store a significant volume of carbon it is the Government's intention, in partnership with Delta, CSIRO, the Australian Coal Association and the Federal Government to look at the feasibility of building a more significant demonstration plant on the site at Munmorah. If it is not feasible there we would look at other sites, perhaps in the Lithgow area.

Dr JOHN KAYE: So it is—

The Hon. IAN MACDONALD: Let me finish. You asked me for the milestones. At the moment we believe that demonstration plant can be operational by 2013, and that is our intention. It would sequester a more considerable amount of carbon than the current pilot project.

Dr JOHN KAYE: Is that a sequestering plant?

The Hon. IAN MACDONALD: It is both, it is combined.

Dr JOHN KAYE: Capturing and sequestering by 2013?

The Hon. IAN MACDONALD: Combined, yes. Capture and sequestration by 2013, but as a demonstration plant.

Dr JOHN KAYE: Capturing one per cent of your plant's output.

The Hon. IAN MACDONALD: The percentage is really up for discussion about what is feasible at this time and the funds available. The Federal Minister has indicated to me that he is keen for us to move to demonstration and an even more significant project as soon as possible. As you would be aware, they have funds available for this, and we would of course cooperate with them. The Australian coal industry is keen to plunge considerable funds into this out of the \$400 million it is raising that is available for New South Wales. They have made commitments to this plant and are prepared to put in in the order of \$50 million. If the feasibility of sequestration at Munmorah proves positive we would then look at going to a more significant plant at Munmorah than the pilot plant. If not, we will have to look at one of the other sites and one of the generators out west is most likely.

Mt Piper has been the subject of discussion. We are serious about getting this operation. If we prove the carbon capture technology works the next step is securing the carbon that is captured in deep structures where it can be contained for many generations. We are also doing geological survey work in the Darling Basin and we have also had discussions with Santos about its facilities in the Moomba area of South Australia. We have some

advantages there in that there is a pipe that connects Sydney with Moomba—not the gas pipe but another pipe—which could be used to transport carbon.

Dr JOHN KAYE: What pipe is that?

The Hon. IAN MACDONALD: I think it runs from Mascot or Rosebery to Moomba.

Mr IAN COHEN: Is it the gas ring pipe you are talking about?

The Hon. IAN MACDONALD: It is not the main gas pipe, there is another pipe.

Dr JOHN KAYE: But it is a gas pipe?

The Hon. IAN MACDONALD: Yes, it has been used as a gas pipe.

Dr JOHN KAYE: You said it was not a gas pipe but it is actually a gas pipe.

The Hon. IAN MACDONALD: No, sorry. It is not the main gas pipe from Moomba to Sydney. It is another pipe. I used to know what it carries or has carried. There have been considerable discussions with Santos about that. Of course Santos has indicated both in discussions with us, the Federal Government and Queensland that it can store considerable volumes of carbon per annum, a massive component of the national emissions. That is why there has been a discussion at the Mineral Resources Ministerial Council about a national grid to be worked on and developed over the next few years in order to be able to sequester the carbon at available sites. We are looking at big sites in the Darling Basin but we also know that it is feasible for Santos. This is exciting. It has gained tremendous support internationally. It has also gained support from many of the environmental groups, which have made it clear that we need to get on with—

CHAIR: That is a good opportunity to stop. I hate to curb your enthusiasm, Minister.

[Short adjournment]

CHAIR: The Hon. RICK COLLESS: Can you advise the Committee in what research you are participating into geothermal power generation in the Moomba area?

The Hon. IAN MACDONALD: I am not aware of us participating in research. Are you talking about the Department of Water and Energy, or are you going back to someone else?

The Hon. RICK COLLESS: Are you aware whether any research is being done into the geothermal industry?

The Hon. IAN MACDONALD: A fair bit. As I understand it, a number of potential sites have been identified and Dr Tim Flannery's enthusiasm for this strategy has received considerable public attention. Feasibility research has been conducted primarily in South Australia. If you look at map of geothermal sites in Australia you find that a lot of them are located a long way away from significant sources of demand.

The Hon. RICK COLLESS: And water.

The Hon. IAN MACDONALD: And water, unless you use the Basin, but I am sure Dr John Kaye would have concerns about that. There is a pretty significant constraint on the identified areas. I have had discussions with a company in the Newcastle-Hunter region that has been looking at this in a different sense—trying to use the heat from an old coal seam that is on fire and creating energy through that methodology. The problem is that a corporation that wants to build a housing estate in that area owns one of the most appropriate sites, and the company has had difficulty securing the agreement of that corporation. But, as I understand it, it is quite feasible to do some generation in that area. That would be quite a useful and large contribution to our energy supplies in New South Wales. Some burning coal seams in parts of the Hunter Valley could be tapped for geothermal purposes.

The Hon. RICK COLLESS: Following your earlier comments about piping carbon dioxide to Moomba, why would you not consider commissioning a geothermal power plant in the Moomba area, which has

substantial geothermal resources, and using it to produce hydrogen on site and then piping the hydrogen back to Sydney as the cleanest fuel in the world?

The Hon. IAN MACDONALD: I am quite happy to look at all this. As you would be aware, I do not commission power plants of any kind. The Department of Water and Energy is more about policy and assisting with the regulation of energy in New South Wales.

The Hon. RICK COLLESS: Why would you not pursue that angle?

The Hon. IAN MACDONALD: I am quite happy to look at that. However, I think a geothermal scheme would require a national approach to put it into effect. At the MCE and, in particular, at the mineral resources level we are discussing these issues and we are trying to work out viable approaches to put them into effect.

The Hon. RICK COLLESS: Has there been much discussion about the potential for geothermal generation at that level?

The Hon. IAN MACDONALD: There has been some discussion and some papers have been put forward, yes.

The Hon. RICK COLLESS: But at this stage you do not know whether or not it is comprehensive?

The Hon. IAN MACDONALD: I guess it is not a policy priority. I think you would have gathered, as a result of announcements by the Federal Government in recent times, that it has a strong policy priority oriented around clean coal technologies and its sequestration. But geothermal energy is available and I think it will become more and more viable over time.

The Hon. TREVOR KHAN: I refer to both coal and electricity hedging contracts. How often does Cabinet review the position of State-shared energy resources in relation to those hedging contracts?

The Hon. IAN MACDONALD: I think Treasury looks at these issues quite often in the context of its responsibility for the financial side of energy in New South Wales and, in particular, generating companies. I cannot recall Cabinet discussing the hedging contracts all that often. In fact, if my memory serves me correctly, I cannot remember the hedging contracts being discussed at that level at any time. They would have been discussed in the context of one of the subcommittees. For example, problems in that area will affect the dividends that might be paid to the Government at the end of the financial year.

The member might be confused about this issue. Those three generators are meant to operate at arm's length from the Government under the corporatisation framework, but the state-owned corporations [SOCs] have responsibility for the hedging contracts and how they operate. That also goes for the retail and distribution companies. I have never been called upon to enter into that discussion. The chairs of some of these SOC's have raised this issue with me at various times. One of the corporations suffered some problems in this area and the matter was raised with me, but I do not have a directional power in relation to the SOC's on this issue.

The Hon. TREVOR KHAN: Are you telling the Committee that a \$3.7 billion loss was incurred in hedging in 2006-07 and that was not discussed at a Cabinet level?

The Hon. IAN MACDONALD: I do not recall it being discussed at a Cabinet level.

The Hon. TREVOR KHAN: An amount of \$3.7 billion, even in this State's budget, is pretty significant.

The Hon. IAN MACDONALD: I am really trying to tell you that I do not have responsibility for this area. I do not know how many ways I should politely say it to you before you get it, but I am not the shareholding Minister and I am not responsible for the financial operation of these energy SOC's. It is just not my role. Whether or not it should be is another debate. What I want is irrelevant, but that is the way the framework has worked for many years in New South Wales. Your forensic skills should have been used at the Treasurer's presentation to the Committee. I think they are wasted in this forum. You have picked the wrong witness.

The Hon. TREVOR KHAN: You are saying that it was not discussed in Cabinet; it is just not a question of your disinterest?

The Hon. IAN MACDONALD: No, no. I said I do not recall it being discussed. We have other forums at which I am certain many of these issues would get amplification—for instance, the budget committee of Cabinet. You have to remember that SOCs work at arm's length and are meant to work at arm's length from the Government; that corporatisation system was put in place many years ago.

The Hon. TREVOR KHAN: Is this the same budget committee that knew about the stamp duty loss but did not tell the rest of Cabinet? Is that the one you are talking about?

The Hon. IAN MACDONALD: You are framing your questions in a funny way. You should be in another Committee meeting. You are asking me about Cabinet, which I am not able to discuss at any point. In the end I am not sure what the actual hedging loss was anyway. I can try to get you the hedging loss figures at some point.

The Hon. TREVOR KHAN: Yes, you committed to do that earlier. Do I take it from what you have said that you personally have not asked or proposed anything in Cabinet or any other committee to ensure that there are appropriate risk-management strategies in place to deal with such things as these hedging losses?

The Hon. IAN MACDONALD: How many times do I have to say it to you?

The Hon. TREVOR KHAN: I want to be clear on it.

The Hon. IAN MACDONALD: I am happy to work you through this. We should start at Cabinet responsibility because Ministers are given portfolios for which they are responsible. They take for discussion matters relevant to those portfolios and only to what is contained within the Acts assigned to Cabinet. I know the Opposition has been out of government for a long time, and could be for a considerably longer time, so you might not have much opportunity to learn this. You should have turned up on Monday or Tuesday of this week and raised these questions with the Treasurer. The Treasurer is responsible for the financial side of the business.

The Hon. TREVOR KHAN: Is it the case that your own figures indicate something in the order of \$300 million is wasted each year through the inefficient use of home appliances?

The Hon. IAN MACDONALD: The belief is that we could do a lot better in this area, so perhaps I should tell you something about it. The National Framework for Energy Efficiency stage 1 measures largely have been completed or are approaching completion, and a suite of stage 2 measures have been agreed to by the Ministerial Council on Energy. These address the issues you are talking about. These stage 2 measures, which are being implemented until 2008-09, include expanding and enhancing minimum energy performance standards for appliances and equipment. Products proposed for future regulation include external power supplies, televisions, set top boxes, home entertainment products, a range of lamp types and commercial chillers; an inefficient lighting phase-out strategy, which has received some comment in recent times; government leadership on commercial building efficiency through green leases; a heating, ventilation and air conditioning high efficiency systems strategy for commercial buildings; development of measures for a national hot water strategy; energy efficiency data gathering and analysis; and trades and professional training and accreditation.

Funding for the National Framework for Energy Efficiency is provided by jurisdictions on a population-share basis: the Commonwealth contributes 50 per cent and New South Wales 16.8 per cent, except for appliances and equipment when New Zealand also contributes and the New South Wales share is 14 per cent. National Framework for Energy Efficiency total funding requirements are projected to be \$6.461 million with New South Wales' share being \$1.001 million. In 2008-09 major efficiency contributions are \$420,000 for the equipment energy efficiency program, \$168,000 for phase-out of inefficient lighting and \$130,000 for the high efficiency systems strategy, to address the issues raised in your question.

The Hon. TREVOR KHAN: How ineffective has the strategy been in reducing energy consumption?

The Hon. IAN MACDONALD: I will defer to the deputy director general.

Ms BAUMGARTNER: At this point I think we are still assessing the effectiveness of the strategy. It is a strategy that is still in the process of being implemented in the various parts. That is something we will be taking account of as we go along—as we take further steps.

The Hon. TREVOR KHAN: Is that not a way of saying, "I don't know?"

Ms BAUMGARTNER: No. It is a way of saying that the impact of the strategy is going to be something that we will build on as time goes on and as people change their behaviour. Changing behaviour of this type is not something where you put the strategy in place and suddenly everybody shifts; it takes time as consumers are educated and start to understand the difference. So it is something where we expect to see significant change over a period of time rather than on day one.

The Hon. TREVOR KHAN: Talk of electricity or energy efficiency has been around for decades. Are we at the stage of just putting our foot in the water and not really knowing whether we are succeeding in doing anything? Is that a fair assessment?

Mr DUFFY: I would not have thought so. I think if you are assessing a program when you have 7 million individuals, households and businesses making individual decisions every few minutes when they turn on or off an air conditioner, the success of a policy cannot necessarily be measured whether or not you have pulled back growth from where you think it might be. Realistically, it would be a pretty difficult thing to be measuring when you have significant growth in purchasing consumption of air conditioners, plasma television screens and all those other things. That is not to say that more policy cannot be done, but there is a measurement issue, which would be quite a difficult one to establish how powerful and effective those policies will be.

The Hon. IAN MACDONALD: That was one part of the strategy. The strategy has a number of other elements that I can detail on notice.

The Hon. ROBERT BROWN: How much is the State Government doing in renewable energy projects under development in light of the Federal Government's mandatory renewability contract? Are there any? If so, how many? Are they going to be affected?

The Hon. IAN MACDONALD: This is an admirable question from the Hon. Robert Brown. Currently there are three wind farms operating in New South Wales at Blayney, Crookwell and Hampton, as well as a single turbine at Kooragang Island in Newcastle. Together these have a capacity of 17 megawatts. The capital wind farm near Bungendore, with a total of 132 megawatts, is well into construction. In addition, around 450 megawatts of wind farms have been granted development approval in New South Wales. This includes four wind farms each with a generating capacity of 50 megawatts or more: Crookwell 2, Taralga, Gunning and Woodlawn. Seven other wind farm projects also have been granted development approval and each varies from 8 to 30 megawatts in total capacity. A number of wind farm projects with a combined generation capacity of well over 1,000 megawatts currently are going through the development planning approvals process. These include the massive proposal at Silverton, which is projected at 1,000 megawatts.

Dr JOHN KAYE: Which you think is a good project?

The Hon. IAN MACDONALD: I will come back to that if you want to ask me a question. It also includes the 278 megawatt Gullen Range wind farm near Goulburn and the 120 megawatts wind farm in the Upper Hunter. These projects do not include the many other wind farm proposals that have been announced by developers but that are still in the feasibility stage and therefore have not yet commenced the formal planning approvals process. The Government is aware of at least 500 megawatts of such proposals.

In total, there are more than 2,000 megawatts of wind farm development proposed for New South Wales at the moment. This demonstrates a commitment by proponents in the industry to wind power in New South Wales. Analysis from the University of New South Wales shows that New South Wales has the greatest opportunity to develop practical wind power potential within its current infrastructure. The establishment costs for wind farms vary, depending upon the size of the farm and its proximity to existing transmission and distribution networks. Typically, wind farm costs are around \$2 million per megawatt installed.

As is the case with any relatively new technology, as efficiency improvements are made, as technological advancements continue to progress, and as the pace of investment increases even further, these costs are likely to decrease.

The Hon. ROBERT BROWN: It is all well and good to talk about wind power, but some time ago I had the opportunity of the looking at the linear solar generator projects that at Macquarie Generation. Are those projects ongoing, or have they been stopped?

The Hon. IAN MACDONALD: I am not sure whether the Macquarie Generation project has stopped. My understanding is that it is going on towards completion. I have not heard any other information.

The Hon. ROBERT BROWN: Are there any other solar projects around that you are aware of?

The Hon. IAN MACDONALD: In association with the generators?

The Hon. ROBERT BROWN: Yes.

The Hon. IAN MACDONALD: The generators have a number of projects, but that is the main solar one at Macquarie Generation. Each generator, as I said earlier in the discussion, is doing something and is committed to playing a number of roles in the strategy of trying to improve their carbon footprint. Delta is concentrating on post-carbon capture and storage. Macquarie Generation has a number of strategies around water usage and solar energy, and if I remember correctly, Eraring is doing a considerable amount of work on the framework for cleaner coal technologies.

The Hon. ROBERT BROWN: I understand that it is not necessarily what you would call a renewable energy strategy, but are we doing any research at all into oil from coal for power generation?

The Hon. IAN MACDONALD: I understand there are technologies that probably really were developed in Germany during World War II using coal to create oil-type products.

The Hon. ROBERT BROWN: South Africa, right throughout apartheid, got its oil from that.

The Hon. RICK COLLESS: BCL say that too.

The Hon. IAN MACDONALD: Yes, I know that a number of countries have, but I was talking about who originally really made the technology far more sophisticated.

The Hon. ROBERT BROWN: Sorry.

The Hon. IAN MACDONALD: My understanding is that it was in the early thirties and late forties in Germany, due to the fact that they had lost access to the oilfields when Stalingrad fell in about 1943. Leaving that history aside, from time to time it is raised that we could do this, but again it is an issue which, at this point in time, would be somewhat prohibitive, due to the costs of such technological development. If it was to proceed, it would have to be generated in effect by the power companies or some power company that would see the virtues of doing it. We have large reserves of coal in New South Wales and you cannot rule out anything in the future. But I do not see it as being feasible in the timeframe that, say, the Hon. Rick Colless would be looking at.

The Hon. RICK COLLESS: You will keep.

CHAIR: Minister, you astutely mentioned before the upcoming summer peak and its impact basically on electricity usage. Obviously, air-conditioners will play a major role in that. Why are we in New South Wales so obsessed with centralised power projects? Why are we not looking at a simple mechanism? I understand that in America air-conditioners are now on the market that have solar panels to run the air-conditioner. That makes for an obvious balance of how we can solve the problem in a decentralised manner. Have we not looked at that sort of thing?

The Hon. IAN MACDONALD: I think we have looked at all sorts of things; for instance, the Gridex proposal.

CHAIR: But what about solar-powered air-conditioning?

The Hon. IAN MACDONALD: The Gridex proposal concerns development of their own energy supply system for a development in the Hunter. We have worked with them to resolve the issues of what is essentially a gas-based generation system for that particular development. They are able to then sell excess back into the grid. But in relation to your solar panel driven—

CHAIR: Air-conditioners.

The Hon. IAN MACDONALD: I would support solar panel driven air-conditioning, if it is feasible.

CHAIR: It is on the market in the United States.

The Hon. IAN MACDONALD: Let us hope there is an enterprising young corporate leader around or and Green ex-politician who one day might get out there and sell it to people.

Dr JOHN KAYE: In the last two years, have you had meetings with Martin Ferguson at which you have discussed the issue of compensation for the stationary energy industry in respect of the cost of purchase of certificates under the Carbon Pollution Reduction Scheme [CPRS]?

The Hon. IAN MACDONALD: In the last years since he has been Minister, I have had a number of discussions with my good friend Martin Ferguson, the Federal Minister for Resources and Energy. Martin and I have had a number of meetings in Sydney, Canberra and Melbourne, and we had very fruitful dialogue about these issues. The discussion has centred round the difficulties that would be encountered by our generators through some forms of the Carbon Pollution Reduction Scheme. We have been talking about how to ensure that the system in New South Wales does not enter into a terribly disadvantageous situation with the introduction of the Carbon Pollution Reduction Scheme.

Those discussions have been private and, in a sense, public in the sense that they have been held at the Ministerial Council on Energy [MCE]. I think all of the energy Ministers at the Ministerial Council on Energy are concerned about the impact of the Carbon Pollution Reduction Scheme on stationary energy. I cannot say everyone, necessarily; I think Tasmania might have a different view, given that it is nearly all hydropower.

The Hon. ROBERT BROWN: It is plugged in, but not turned on.

The Hon. IAN MACDONALD: They certainly have it. In recent times it has been more and more one-way traffic into Tasmania from Basslink.

The Hon. ROBERT BROWN: Thanks for the story.

The Hon. IAN MACDONALD: Tasmania might have different needs, but certainly the rest of the Ministers are concerned and have discussed in great detail the need for some form of offset, at least in the initial phases of the introduction of the Carbon Pollution Reduction Scheme, to alleviate any potential economic damage that could be caused to the generators.

Dr JOHN KAYE: Did any of those discussions, either public or private discussions, include the issue of electricity privatisation in New South Wales, specifically the leasing or other disposal of the generators?

The Hon. IAN MACDONALD: No. I think we were more concerned about the Carbon Pollution Reduction Scheme. I do not think, in my private discussions anyway, he was getting into the real debate about privatisation. You would have to ask him about his views.

Dr JOHN KAYE: No, I asked you did you mention it to him. Did you mention it to him?

The Hon. EDDIE OBEID: Why would he do that?

Dr JOHN KAYE: I am sorry; I will ask the questions, Eddie. Did you mention to him the impacts—following what Garnaut said we should do, which is not compensate the stationary energy industry—that the scheme would have on the privatisation of the electricity industry?

The Hon. IAN MACDONALD: I do not know. I do not think we discussed that particular issue.

Dr JOHN KAYE: You did not mention that issue?

The Hon. IAN MACDONALD: I cannot recall having discussed that particular issue with him. He certainly is supportive of the view that there should be some form of offsetting to the stationary generators during the introduction of the Carbon Pollution Reduction Scheme. There is no question of that. Whether I actually discussed anything more than that in generalities with him, I cannot recall. I met him in May. I had dinner with him up in Sydney. We had a long discussion, but it was mainly about, as I have said to you before, the Carbon Pollution Reduction Scheme and where we go with that. Clearly, the impact on the generators was one of the discussions, but I do not think I have had much of a discussion with him on the privatisation side of the issues. They are not relevant in this context. I try to make my conversations with Mark Ferguson relevant.

Dr JOHN KAYE: I beg to disagree with you on that, but that is another story. Can we talk briefly about the plan B sell-off of the retailers? We have heard both the Treasurer and the Premier say that they are committed to withdrawing New South Wales from the business of retailing electricity. What steps has your department taken in relation to changing or anticipating changes to the regulation of electricity retailing in the event of privatisation?

The Hon. IAN MACDONALD: I think there may have been some scoping work done on issues relevant.

Dr JOHN KAYE: Relevant to plan B, not the original plan?

The Hon. IAN MACDONALD: Yes. I am talking about plan B, if it is a plan. I am talking about the issue of retailers but in reality this matter is open for some discussion, which will be conducted during the current period, particularly with the mini-budget over the next month or two.

Dr JOHN KAYE: And nothing is ruled in or out, as you always say.

The Hon. IAN MACDONALD: That is right. You will find that that is the case.

Dr JOHN KAYE: It is simply a mantra that continues to come out of ministerial mouths. Can you tell us when that scoping work was done? What date was it commissioned?

The Hon. IAN MACDONALD: I do not have—

Dr JOHN KAYE: Can you get back to the Committee on that? Can you get back to us with the date on which that scoping work was commissioned?

The Hon. IAN MACDONALD: I do not think there was work commissioned. We have a policy division and people may have been looking at all options in light of the fact that there had been a change of policy. I do not know precisely the point of your questioning—

Dr JOHN KAYE: I do not know that it is necessary to have a point. I simply want to know when the work in relation to plan B commenced. At what point did the Department of Energy or other agencies under your supervision start looking at issues to do with plan B, that is, the sale of the retailers and the generation sites, not the leasing out or sale of the generators?

The Hon. IAN MACDONALD: I will give you those details in the context of a question on notice.

Dr JOHN KAYE: Did you institute that work? Did you initiate that work or was it initiated by a departmental officer?

The Hon. IAN MACDONALD: No. A number of government agencies have been involved in this issue. A number of the plans for the retail side—extensive work had already been done in relation to retail in the context of plan A. I will answer the question on notice.

(The witnesses withdrew)

The Committee proceeded to deliberate.
