

SELECT COMMITTEE INTO THE SUPPLY AND COST OF GAS AND LIQUID FUELS IN NEW SOUTH WALES

Inquiry into the supply and cost of gas and liquid fuels in New South Wales

Questions taken on Notice

Ms HARGREAVES: One of the issues we found when we first started to look at some of the projects in the regions was that we actually needed to map the water basins. So, along with Land and Water Commissioner Jock Laurie, we started a process of mapping three of our largest basins to look at both the quantity and the impacts of industrial activity in those basins. Those studies have been done and completed by independent hydrologists and the findings are all publicly available on the Office of Water site. There are plans to do several more water basin studies and, in line with an announcement this Government has made around the environmental database, the findings of those results will be made available on an environmental database so that we can actually start tracking baseline results on our watertables regardless of the industrial activity that is occurring.

So, as you can appreciate, in terms of quantity some industries such as agriculture and irrigation will have a very large impact on quantity. We obviously want to check quality as well as quantity, and those sorts of impacts will be environmental available on the environmental database. As I said, the first of the three basins have been completed and are available and are regularly being used in talking to councils and communities about the impacts of activities on their water basins.

The Hon. MICK VEITCH: What is the timetable for the other basins?

Ms HARGREAVES: I will take that on notice.

The Hon. MICK VEITCH: Thank you.

Answer:

The project was commenced in 2014 mapping data for the Gunnedah, Clarence-Moreton and the Gloucester basins. This information is currently accessible on the NSW Office of Water's website at <http://www.water.nsw.gov.au/Water-management/Groundwater/Water-Monitoring-Framework/NSW-Groundwater-Baseline-Project>.

The project is currently finalising the baseline mapping for the Riverina, Greater Sydney, Southern Highlands, and Hunter regions.

CHAIR: Are there any questions on notice?

The Hon. ADAM SEARLE: You mentioned the implementation of the Chief Scientist's report. Could you provide on notice a status update on the implementation of each of the recommendations and any time frames for the achievement of those recommendations?

Mr ANTHONY ROBERTS: Certainly.

Answer:

The NSW Gas Plan set out the Government's response to the implementation of these recommendations.

The Hon. NIALL BLAIR: Minister, you mentioned the potential buyback of some of those leases— the use it or lose it policy. Could you provide the Committee with an update of any of those that have been purchased or surrendered back or any agreements that have been entered into?

Mr ANTHONY ROBERTS: Certainly.

Answer:

The PEL Buy Back Program has commenced and titleholders contacted with initial offers. Discussions with titleholders are commercial-in-confidence and therefore more details cannot be provided at this time.

CHAIR: We did not get a chance to ask you much about the liquid fuels, unfortunately. I have a question on notice, which is: Would the Government consider a mandatory strategic reserve policy for New South Wales or will this be left to industry to continue to do it just in time?

Mr ANTHONY ROBERTS: I hope it is not.

CHAIR: Will you take that on notice?

Mr ANTHONY ROBERTS: Certainly. I have to say that is one of the critical things as well that should come out of this, dare I say it. I am not intending to direct you. Our fuel security, petroleum security, is something that needs a large amount of work and leadership.

CHAIR: That is right. We have spent a lot of time this morning talking about gas and it is a very important issue but the fuel situation is developing into something quite interesting as well.

Mr ANTHONY ROBERTS: I think as someone said, if those boats stop it is a month to Mad Max.

Answer:

There is much work going on this area with this Inquiry and an Australian Government Senate Committee - the *Senate Rural Affairs and Transport References Committee*. I understand that there are public hearings in Sydney commencing 2 February 2015, on *Australia's transport energy resilience and sustainability*.

The hearings and recommendations from this work will be closely monitored by the NSW Government.

Supplementary questions

NSW GOVERNMENT

1. Could you please provide the modelling which is the basis for your statement that “When you have a look at should Narrabri and Gloucester come online, you will see decreases—rightly so—of around 3 per cent. Should they not come online, you will see corresponding increases of some 3 per cent.”

The Commonwealth Bureau of Resources and Energy Economics Eastern Australian Domestic Gas Market Study is available at www.industry.gov.au/Energy/EnergyMarkets/Pages/GasMarketDevelopment.aspx

It should be noted that this study assumes that eight LNG trains will come online in Queensland by 2022-23. At this time only one LNG train has come online, with five more in the final stages of construction. There are no confirmed plans for any additional LNG trains to be built on the East Coast Gas Market.

The modelling of future gas can be based on a variety of assumptions. The committee may also wish to examine other reports including:

- *Future NSW Gas Supply and Usage: Economic benefits of increased coal seam gas development*; ACIL Allen Consulting, 25 July 2014
- *Study on the Australian Domestic Gas Market*; Department of Industry, and Bureau of Resources and Energy Economics; 28 November 2013
- *NSW Coal Seam Gas: Potential economic significance of NSW coal seam gas*; ACIL Allen Consulting, 29 May 2013

In its May 2014 update to the *Gas Statement of Opportunities* the Australian Energy Market Operator (AEMO) stated:

“The Narrabri project, combined with proposed new production in the Gloucester Basin, could reduce shortfalls in New South Wales to 47 TJ across four winter days in 2020, down from 2,083 TJ across 86 days projected in the 2013 GSOO.”

2. Now that BTEX chemicals have been found in water following AGL’s Gloucester fracking program, do you agree with the Department of Planning’s assessment in 2012 that not using BTEX in CSG “effectively eliminates any health risks associated with these chemicals”?

Investigations concerning AGL’s fracking program are ongoing. I have committed to releasing the investigation report when finalised.

The Chief Scientist concluded that through appropriate measures, the technical challenges and risks posed by the coal seam gas industry can, in general, be managed through strategic resource management, high technical standards, comprehensive monitoring, and improvements to environmental data collection and the publication of that data.

The NSW Government will adopt all the recommendations made by the Chief Scientist and Engineer, in her Final Report.

This Government has already put in place the most comprehensive regulatory controls for the coal seam gas industry in Australia to protect our vital land and water resources, including:

- a Water Monitoring Framework to map, monitor, report and protect groundwater resources across NSW
- scoping the development of an environment data repository and baseline subsidence mapping
- a two-kilometre exclusion zone around residential and village areas
- banning the use of harmful BTEX (benzene, toluene, ethylbenzene and xylene compounds) chemicals
- banning evaporation ponds
- introducing an Aquifer Interference Policy
- developing Codes of Practice for Well Integrity and Fracture Stimulation.

3. Will the Northern Rivers be a gas field area under your Gas Plan?

Action 2 of the NSW Gas Plan requires the introduction of a Strategic Release Framework that will identify the appropriate areas for gas extraction. Community consultation will be undertaken upfront and title areas will be put out for public expressions of interest so that the Government can identify the most suitable locations and capable proponents.

For the public expressions of interest process, proponents will be required to meet a new fit and proper person test established in legislation, new standards for financial and technical capability and provide work programs that outline how the proponent will achieve geophysical, community consultation and environmental management (Action 8).

Existing titleholders will be afforded an opportunity to relinquish their titles under the PEL buy-back scheme. Existing titles will also be subject to “use it or lose it” measures as outlined in the NSW Gas Plan, whereby titles may be cancelled if titleholders do not show a strong commitment to the development of state resources.

4. Will the Liverpool Plains be a gas field area under your Gas Plan?

As per 3.

5. Will the Central Coast be a gas field area under your Gas Plan?

As per 3.

6. Will the Metropolitan Sydney be a gas field area under your Gas Plan?

As per 3.

7. Will the Sydney water catchment be a gas field area under your Gas Plan?

As per 3.

8. Do you think that overseas customers should be prioritised over domestic customers in the gas market?

In December 2014, the COAG Energy Council rejected the need for national interventions such as national gas reservation as solutions to pressures in the eastern gas market.

However, under the NSW Gas Plan gas companies will be asked to demonstrate how projects that develop NSW gas reserves will benefit NSW gas customers. Only projects verified through this process will receive Strategic Energy Project status. Gas from proposed projects in Narrabri and Gloucester will be supplied into the NSW domestic gas market.

9. Are you aware of any consultation either between commercial entities or other state or federal governments and previous NSW Governments when the contracts for gas exported through the Queensland LNG terminals were developed?

The export contracts are private commercial transactions between domestic and international companies for the export of gas through Queensland ports.

10. Has your Government had talks with BHP, Esso or pipeline companies about securing gas for NSW from the bass strait gasfields?

Victorian gas fields already supply NSW with over 50% of its gas demand, through the Eastern Gas Pipeline (EGP) and the Vic-NSW interconnect pipeline. These pipelines are operating at near capacity. Jemena is currently building two new compressor stations on the EGP which will increase the EGP capacity.

11. If gas shortages do occur, how will the government's emergency powers be used? Can you run us through a possible scenario?

In the event of a supply failure and consequent shortage of gas supplies, there are two key response mechanisms in place. The first is the NSW emergency powers available under Part 6 of the *Energy and Utilities Administration Act 1987* and the second is the Memorandum of Understanding in relation to the National Gas Emergency Response Protocol.

The powers under the *Energy and Utilities Administration Act 1987* can include directions to producers, transmitters, distributors, sellers and end users of a form of energy through rationing or curtailment of supplies.

The provisions require a declaration of an emergency in relation to the form of energy in question and the Governor's approval is required. The directions and or regulations are limited to 30 days in duration with provisions for extension if required.

NSW Trade & Investment will advise the Minister of the need to have a Proclamation of an emergency situation and a Regulation allowing the granting of emergency powers under the *Energy and Utilities Administration Act 1987*.

The Memorandum of Understanding in relation to the National Gas Emergency Response Protocol is an intergovernmental agreement that details various steps and measures for communication and coordination between jurisdictions in the event of a gas emergency.

The objective of the Protocol is to provide for more efficient and effective management of major gas supply shortages. Under the Protocol, if a jurisdiction is considering enacting its emergency powers then it must use its best endeavours to advise other jurisdictions, however a jurisdiction is not bound by the Protocol. The Protocol is designed to support jurisdictional enactment of emergency legislation by allowing discussion of shared impacts, and seeking to have coordinated cross-border actions to enable the best possible outcome in relation to the supply disruption event.

In relation to gas, there are three key elements of the supply chain that represent security vulnerabilities: the production facilities, the processing facilities and the pipelines. Failures at these points have occurred in the past, for example the Moomba to Sydney pipeline has failed due to corrosion, the Moomba production plant has suffered technical failures meaning gas has not been able to be processed, and the Longford processing plant suffered a catastrophic failure.

In the event of an emergency, consultations with the affected industries would occur in order to assess available quantities and supplies of the fuel in question. The community would also be called on to exercise restraint in the use of the fuel in question.

The emergency powers were used in NSW in early 2004, as a result of a failure at the Moomba processing plant. The powers were used to obtain information on gas consumption from large users, and direct large customers to limit their use of gas at certain times.

12. Has the MOU you signed with Santos expired, given Santos have failed to even produce an EIS and the deadline agreed in the MOU your Government signed for the projects approval has passed?

While the timeframes in the MOU have been affected, the MOU has not expired.

13. Did you ever get any indication from Santos that securing the MOU with the NSW Government was done in order to attract an investment partner for their Narrabri operations?

The Government signed the MOU to assure Santos that the assessment and determination processes for its Narrabri Gas Project will be dealt with in a timely and coordinated manner.

14. What impact will the steep reduction in world oil prices have on proposed NSW gas projects?

That is a commercial matter for the proponents of these projects.

15. Can you comment on Santos' recent statement in the media that the "back end of the decade" now looks more likely now for the start of production at Narrabri, rather than 2016?

As per 14.

16. Have you had any meetings with Santos following their huge capital expenditure reduction and share price dive and if so what was discussed?

My office has regular contact with Santos discussing a range of issues regarding the Narrabri Gas Project.

17. Does the NSW Government accept the finding of the Independent Pricing and Regulatory Tribunal in their submission to this inquiry that the main factors impacting on gas prices in the future will be the availability of LNG export capacity and domestic and international demand and that it's not clear that the development of NSW's limited coal seam gas reserves will have any impact on price at all in this context?

Prices will be influenced by a number of factors related to both supply and demand. Increases in supply, particularly domestic NSW production with lower transport costs, have been shown to put downward pressure on prices. Further both the Narrabri and Gloucester proponents have stated that gas from those projects will be directed into the NSW gas market. Increases in domestic supply improve our gas security and reliability which is critical for NSW households and businesses.

18. This inquiry has received a number of submissions which have very different findings regarding gas demand over the next decade, what are your government's predictions regarding gas demand and how confident are you in your government's predictions?

The Australian Energy Market Operator (AEMO) is the independent operator of the gas market across Eastern Australia working in the long term interests of consumers. AEMO releases a range of information on gas demand based on comprehensive models and methodologies developed through consultation processes.

19. Which gas companies have told you that there will not be a gas shortage?
Which gas companies have told you there will be a shortage?

I refer you to the submissions to this inquiry.

20. Does the NSW Government endorse the apology that Government Whip Dr Peter Phelps purported to make on behalf of the NSW Government to Santos and all gas customers in New South Wales for the cowardly attitude which he suggests the NSW Government has taken on this issue of coal seam gas largely in response to one big mouthed radio shock jock?

The Government apologises to the people of NSW for the totally inadequate regulation of this industry that occurred under the former NSW Labor Government.

21. Does the NSW Government endorse the view of Lock the Gate that a condition of doing business in NSW should be that the details of any contracts relating to gas which will be exported through the Gladstone LNG terminals should be made available to the NSW Parliament?

The COAG Energy Council supports the development of measures to increase access to key market information as set out in the Gas Market Development Plan.

22. How will the development of the Gloucester and Narrabri gasfields assist if there is a gas shortfall in 2016-17, as identified by AGL, given both AGL and Santos have indicated to this committee that neither the Gloucester or the Narrabri gas projects will come online until after this time?

Gloucester and Narrabri will improve gas supply security for NSW and are forecast to put downward pressure on NSW gas supplies.

23. What do you expect would happen to the NSW gas market if one of the Gladstone LNG terminals was to be mothballed, especially given the recent oil price drop and subsequent credit rating downgrades for companies which have shares in the LNG terminals?

Energy security cannot be based on hypotheticals. AEMO has made it clear that NSW will face gas shortages in coming years. Hope is not a strategy when it comes to energy security.