

**Submission
No 3**

**INQUIRY INTO THE SUPPLY AND COST OF GAS AND
LIQUID FUELS IN NEW SOUTH WALES**

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ENERGY RESOURCE INFORMATION CENTRE

the source for natural gas facts

Submission to the Select Committee Inquiry

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

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About Us

The Energy Resource Information Centre advocates for the natural gas industry, providing a fact based, evidence led source of information about natural gas exploration and development.

We are funded by companies operating in the natural gas industry, including exploration and extraction companies and technical service providers.

Our supporters include small and large companies and are predominantly Australian owned and/or operated.

Executive Summary

- New South Wales needs to develop its natural gas resources – in the interests of consumers and the jobs of thousands of workers in manufacturing and other industries.
- There is a potential for the State's future gas needs to be entirely met through the responsible development of natural gas reserves in appropriate locations across the State.
- However, this potential is being thwarted by a vocal minority intent on the eradication of fossil fuels, no matter what the social cost.
- It is incumbent on Government to adopt strong policies to address any community concerns, while at the same time balancing the need to develop an industry that can secure gas supplies for decades to come.
- Policy action is needed quickly. The impact of gas shortages may start as early as winter next year (2016). The sooner new supply is brought on stream, the sooner the prospect for securing jobs in manufacturing and creating downward pressure on prices for consumers across the State.
- There are policy examples from other jurisdictions that the Committee should examine when considering issues related to gas supply.

Introduction

Thank you for the opportunity to provide a submission to this Inquiry.

Our focus areas

Our submission focusses on the following sections of the Terms of Reference for this Inquiry:

- (a) The factors affecting the supply, demand and cost of natural gas and liquid fuels in New South Wales;
- (f) the possible regulatory responses to protect New South Wales gas consumers from adverse market fluctuations and failures; and
- (g) any other related matters

Basis for this submission

We make this submission as an industry advocacy body dedicated to the responsible development of natural gas resources that deliver sustainable, cost effective natural gas supplies to business and residential customers across the State and the nation.

Issues already extensively examined

It is worth noting that issues relating to the supply and cost of gas in New South Wales have been extensively canvassed in two previous New South Wales Parliamentary inquiries:

- Legislative Council GPSC 5 Inquiry into Coal Seam Gas (Report No. 35, 2012)
- Legislative Assembly State and Regional Development Committee Inquiry into Downstream Gas Supply and Availability (Report no. 2/55, 2014)

In addition, the NSW Parliamentary Library's Research Service's comprehensive Briefing Paper 4/2014 '*A tightening gas market: supply, demand and price outlook for NSW*' canvasses many of the issues that the terms of reference for this Inquiry seek to address.

We therefore urge the Committee to take into account the extensive work already undertaken on this important topic, and ensure that the Inquiry does not become a forum for unsubstantiated claims and grandstanding ahead of the 2015 State Election.

Factors affecting the supply, demand and cost of natural gas and liquid fuels in New South Wales

New South Wales was the fourth highest consumer of natural gas in Australia in 2012-13 at 162 petajoules (PJ).

Growth in natural gas consumption has remained relatively subdued in New South Wales, increasing by 13 per cent between 2002-03 and 2012-13.

On a per capita basis, New South Wales is the lowest consumer of natural gas (at 21.8 GJ/annum in 2012-13) when compared with the other States and the Northern Territory. Western Australia had the highest per capita consumption in 2012-13 at 289 GJ/annum.¹

The primary factor affecting the supply of natural gas in New South Wales is the State's reliance on the delivery of natural gas from other States.

Despite having abundant natural gas reserves – primarily coal seam gas - New South Wales currently produces only 5 percent of gas requirements from AGL's Camden gas project on the south western outskirts of Sydney. The remainder of supply is imported to NSW from onshore and offshore gas fields in other states.

Unlocking the development of unconventional natural gas reserves in New South Wales will provide adequate supply for decades to come.

Unfortunately, the campaign of misinformation, deceit and fearmongering that has been waged against the natural gas industry by organised protest groups masquerading as 'local' activists means that NSW now faces a gas supply cliff as early as 2016.

Piecemeal policy interventions over the course of the last ten years have stalled the development of the State's gas reserves.

In our view, it's time to unlock the gate to natural gas development in New South Wales to enable the responsible development of natural gas reserves. This will increase the supply of natural gas to New South Wales businesses and households, putting downward pressure on prices.

To achieve this, Government must look beyond the short term scare campaigns of anti-industry activist groups and implement policies that fast track the development of natural gas reserves in a way that balances the needs of local communities with the need to secure the State's future gas supplies.

In this regard, it's instructive to examine the impact that the development of the gas industry has had on the Queensland economy.

In 2015/16, Queensland expects to transition from a lower performing state, to the national leader of economic growth – a doubling of its rate of growth from 2.75% to 5.75%, mostly due to the gas industry.

¹ NSW Parliamentary Research Service – Briefing Paper 4/2014 - Accessed 2/12/14

In areas of south-east Queensland where gas has been developed, small business revenue has jumped and unemployment has plunged. Communities in south eastern Queensland are proving that the development of a safe and sustainable gas industry does deliver benefits to communities, and can coexist with agricultural enterprises – despite the claims of anti-industry activists.

While the recently released NSW Gas Plan is a good start, we believe more needs to be done to encourage the development of the State’s gas reserves.

Possible regulatory responses to protect New South Wales gas consumers from adverse market fluctuations and failures

One of the possible regulatory responses that will undoubtedly be raised in several submissions to this Inquiry is that of domestic gas reservation (DGR).

DGR is the subject of a current campaign calling for its introduction, but should be viewed with some caution based on the experiences of other jurisdictions and the advice of regulators and policy developers.

There’s also the simple economics of supply and demand, which when viewed in the context of calls for a domestic gas reservation boils down to a simple fact – you cannot reserve what cannot be supplied.

The Commonwealth Government’s recently released Green Paper on future energy policy² made several observations about the effectiveness of reservation policy, including:

“Such actions will not address current challenges in the market and may result in negative long-term outcomes by deferring future investment. Instead, more competitive markets need better market information, informed community participation, operational transparency, and accelerated project development”

In Western Australia, where a domestic gas reservation policy has been in place for some time, the State’s independent Economic Regulation Authority (ERAWA) examined the effectiveness of the policy as part of a broader inquiry into microeconomic reform³.

The Authority’s final report lists four impacts of the State’s Domestic Gas Reservation (DGR) policy:

- It reduces the incentive for investors to invest in the gas industry in the longer term, reducing future levels of gas available for domestic or international use
- It perpetuates the existence of industries that may not have a comparative advantage in Western Australia at the expense of investment in other industries
- It inhibits dynamic efficiency and technological innovation. For example, the policy artificially depresses domestic prices, which discourages domestic gas users from investing in technologies to lower or substitute their gas consumption

²Commonwealth Department of Industry: Energy White Paper: www.ewp.industry.gov.au. Accessed 15/12/14

³ WA Economic Regulation Authority: Inquiry into Microeconomic Reform: <http://www.erawa.com.au/inquiries/industry-and-resources-inquiries/microeconomic-reform-2014> Accessed 15/12/14

- It increases reliance on subsidised gas prices, leading to over consumption of the resource (page 367)

Apart from those sobering consequences, the Authority's views on the longer term impacts of the DGR policy are noteworthy:

"The implementation of the DGR policy appears to have been the Western Australian Government's response to an adjustment by the market that involved a sharp spike in gas prices and tight supply of domestic gas. However, after careful consideration of the current gas market, the ERA is of the view that the DGR policy is not required; indeed, the DGR policy is likely to inhibit development of the Western Australian gas market in the long term." (page 366)

And:

"(I)ntroducing a policy that artificially restrains price rises does not necessarily provide a sustainable approach to achieving efficient outcomes. Rather, removing barriers and providing incentives for more investors to enter the market is more likely to achieve an efficient and sustainable market to the long term benefit of consumers in Western Australia" (page 366)

The Authority recommended that the State's DGR policy be rescinded as soon as practicable.

We recommend that the Committee take into consideration the conclusions of both ERAWA and the Energy White Paper when examining the issue of gas reservation in the context of this inquiry.

Any other related matters

Experiences in two other jurisdictions are relevant and related to this inquiry.

Tasmanian Workplaces (Protection from Protestors) Bill 2014

The Tasmanian Parliament last year passed the Workplaces (Protection from Protestors) Bill 2014.

According to the explanatory note that accompanied the Bill⁴, the legislation does not seek to prohibit the right to peaceful protest. It does, however, regulate inappropriate protest activity that impedes the ability of businesses to lawfully generate wealth and create jobs.

The legislation states that a person engaged in protest activity must not hinder, obstruct or prevent business activity on business premises.

According to legal publisher Timebase⁵ :

“The act is designed to allow facilitate industry confidence and allow businesses and employees to do their work creating wealth and employment opportunities for the Tasmanian people. The point was stressed that far from infringing on the freedom of speech, the act will only send a strong message to disruptive and irresponsible extremist protest groups that such unlawful actions will not be tolerated by the Tasmanian community.”

Development of a NSW Gasfields Commission

As previously stated, the development of the State’s natural gas industry is being held back by a campaign of misinformation.

There is a need to directly address and counter these campaigns, and develop stronger relationships between industry and regional communities.

In this regard, we recommend the Committee examine the foundation and operation of the Queensland Government’s Gasfields Commission with a view to determining whether a similar body could operate in New South Wales.

The functions of the Gasfields Commission include:

- a. Facilitating better relationships between landholders, regional communities and the onshore gas industry;
- b. Reviewing the effectiveness of government entities in implementing regulatory frameworks that relate to the onshore gas industry;
- c. Advising Ministers and government entities about the ability of landholders, regional communities and the onshore gas industry to coexist within an identified area;
 - ca. in response to requests for advice from the chief executive under the *Regional Planning*

⁴ Fact Sheet: Workplaces (Protection from Protestors) Bill 2014. http://www.parliament.tas.gov.au/bills/Bills2014/pdf/notes/15_of_2014-Fact%20Sheet.pdf Accessed 29/12/14

⁵ Workplaces (Protection From Protesters) Bill 2014. <http://www.timebase.com.au/news/2014/AT656-article.html> Accessed 29/12/14.

Interests Act 2014 about assessment applications under that Act, advising that chief executive about the ability of landholders, regional communities and the resources industry to coexist within the area the subject of the application;

- d. Making recommendations to the relevant Minister that regulatory frameworks and legislation relating to the onshore gas industry be reviewed or amended;
- e. Making recommendations to the relevant Minister and onshore gas industry about leading practice or management relating to the onshore gas industry;
- f. Advising the Minister and government entities about matters relating to the onshore gas industry;
- g. Convening landholders, regional communities and the onshore gas industry for the purpose of resolving issues;
- h. Obtaining particular information from government entities and prescribed entities;
- i. Obtaining advice about the onshore gas industry or functions of the commission from government entities;
- j. Publishing educational materials and other information about the onshore gas industry;
- k. Partnering with other entities for the purpose of conducting research related to the onshore gas industry;
- l. Convening advisory bodies to assist the commission to perform a function mentioned in paragraphs (a) to (k).⁶

Implementation of a similar entity in NSW could go a long way towards addressing many of the concerns raised about the development of the industry in regional areas.

Conclusion

We urge the Committee not to support or recommend any further restrictions on the responsible development of the New South Wales natural gas industry.

I trust that this information is of assistance to the Committee.

If you require more detail, please visit our website at www.naturalgasfacts.org.au.

Steve Wright

Director

Energy Resource Information Centre

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⁶ Queensland Gasfields Commission – Powers and Functions:
<http://www.gasfieldscommissionqld.org.au/gasfields/about-us/powers-and-functions.html> Accessed 29 December 2014.