Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By:	Australian Labor Party	Proposal No:	A183
Date Referred:	4/02/2015	Date Published:	23/03/2015

Proposal Title: **UNCONVENTIONAL AND COAL SEAM GAS POLICY**

Cluster: Planning and Environment

General Government Sector Impacts

	2014-15 $'000	2015-16 $'000	2016-17 $'000	2017-18 $'000	4 Year Total $'000
Expenses (ex. depreciation)					-
Depreciation					-
Less: Offsets					-
Revenue					-
Net Operating Result:	-	-	-	-	-
Capital Expenditure					-
Capital Offsets					-
Capital Expenditure:	-	-	-	-	-
Net Lending/(Borrowing)	-	-	-	-	-
Net Financial Liabilities:	-	-	-	-	

Total State Sector Impacts

Net Financial Liabilities:	-	-	-	-

Notes and costing assumptions

The policy proposes to implement a moratorium on coal seam gas. From 1 July 2015, all coal seam gas exploration licences will be suspended and the issuing of extraction licences will cease in NSW. The policy proposes legislation will be enacted so the State is not liable to pay compensation for the licence cancellations.

Whilst the policy is estimated to have no budget impact, the following should be noted:

1. The costing assumes that the policy will not impact on current petroleum production leases, including the AGL Camden project (currently producing gas for market) and Santos PPL3 at Narrabri (not yet producing gas to market).

2. The legislation to prevent compensation payments is likely to be subject to legal challenge. The costing makes no allowance for compensation which may be payable if a challenge is successful because Australian Accounting Standards, which are used in the preparation of the NSW Budget Papers, treat possible obligations, whose existence will only be confirmed by uncertain future events, as contingent liabilities. Contingent liabilities are not recorded until there is certainty that the liability will arise and can be reliably quantified. If compensation payments were payable, the costs could be considerable.

3. Potential royalties from exploration licences are not included in the forward estimates, therefore no loss of royalty revenue is included in the costing. Nevertheless, there is a strong likelihood that royalties will be lower than they would otherwise have been due to the cessation of extraction licences.

4. No costs are included for potential effects such as the increase in sovereign risk and economic costs to NSW

Costing assumptions continued:

from lower mining investment and activity, and the loss of state taxes from companies closing operations across NSW. Such effects may be significant but are not reliably quantifiable.

5. Existing agency staffing resources are assumed to be diverted from coal seam gas activities to work on implementing the moratorium.