

TRANSCRIPT

STANDING COMMITTEE ON THE ENVIRONMENT AND PLANNING

Inquiry into unconventional gas in Victoria

Melbourne — 15 September 2015

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Mr Peter Dobney (affirmed), Board Member, Energy Users Association of Australia.

The CHAIR — I welcome Mr Peter Dobney to the table. I indicate to him that the hearing is now formally open. We will proceed to evidence followed by questions, noting that evidence you give today is protected by parliamentary privilege; if you speak outside, it may not be.

Peter, you are from the energy users association?

Mr DOBNEY — Correct.

The CHAIR — You might want to begin with a short presentation followed by some questions.

Mr DOBNEY — Thank you, Chairman. My name is Peter Dobney, I am a board member of the energy users association and I am also the general manager of resources and energy at Orora Limited, formerly Amcor Limited. I have been involved in the procurement of energy since around about 2000 at Amcor, now Orora. I appreciate the opportunity to address this inquiry and would like to put forward the views of members of the energy users association, which represents around about 100 of the largest energy users in Australia. Our members are vitally interested in the outcome of this inquiry. Hopefully we can find a way forward.

Affordable natural gas underpins the viability of large parts of the Victorian manufacturing sector, which in the first instance help fund the development of the natural gas industry in Victoria. The conventional offshore gas builds in Victoria have by and large been fully developed, and there is little opportunity for further offshore gas development. Any new offshore gas developments that I have seen recently are only incremental. Victoria therefore needs to look elsewhere for its future gas supplies.

All of Victorian conventional gas has been repriced upwards towards LNG netback pricing or higher, and there appears to be no respite for gas users in this case. It is interesting to note that despite the global oil price falling by around 50 per cent in recent times, there has been no such fall in the price of natural gas, which means that the supply-demand balance is in favour of gas producers and that gas is in short supply. Victorian gas users, large and small alike, have had to absorb price increases, and I do not think we have seen the end of them yet. Those industries have to compete in global markets and are unable to pass through the cost of this gas to their customers. Victoria has seen no benefits at all from the LNG exports in Queensland — in fact the reverse is probably true for this state.

Development of onshore unconventional gas and coal seam gas is a great opportunity, and all Victorians stand to benefit. It will bring gas basin to gas basin competition back into the gas market, whereas at the moment we have none. The benefits flowing from unconventional gas developments in Victoria will flow right through the economy — increased royalties to government, lower gas prices to households and businesses, more employment opportunities due to business growth and certainty, and potentially income to landowners and communities — and that is something I urge this committee to look into further. Gas is also a much cleaner source of energy than brown coal for electricity generation, and if Victoria is to reach its greenhouse gas emissions reduction target by 2020, then gas must be a fuel that we look to for electricity generation.

A number of articles have been recently written stating that we do not really need so much gas and that it can be replaced by electricity and renewable energy. Let me be quite clear here: gas and electricity may be interchangeable fuels at a residential or even at a commercial level, but they are certainly not interchangeable at an industrial level. Gas is used widely in industry as a feedstock, and it is combusted for process heating. It has replaced heavy fuel oil as a much cleaner source of energy. There is not enough electricity in the state of Victoria to come anywhere near replacing gas with electricity for industrial purposes. That is something you really need to think about. You would have to more than double the amount of electricity generation and electricity transmission and distribution in this state to do that, and the cost of that would be prohibitive.

If you believe that wind and solar can deliver lower greenhouse emissions without major cost implications, you do not need to look any further than South Australia. Electricity prices in South Australia have surged 50 per cent in the last two months. Why is this? Because South Australia has a large wind capacity but it is quite variable. One of its coal-fired power stations has announced it is closing next year, and they have already started mothballing the plant. One of its gas-fired power stations has found it more economical to sell gas rather than to generate electricity over winter, so they have mothballed their plant over winter. This has played into the hands of some of the other power stations, including the Torrens Island power station, which now has market power in that state and is therefore bound to drive up prices to levels that are even higher than when the carbon tax was in place. This is not going to play out well for the South Australian economy, which is already struggling with the

impending closure of its car industry. South Australia is more reliant than ever on power from Victoria and also gas from Victoria. Even though South Australia has large volumes of gas in the Cooper Basin, most of this has been directed north for export.

In trying to stem the rising gas costs, the company that I represent, Orora, Orica and Brickworks are all underwriting the development of a Strike Energy coal seam gas resource in northern South Australia, which will come online in late 2017 or early 2018. The South Australian government is very pro gas development. It can see that its industry is being threatened by high gas costs and the lack of availability of gas, and it has put in place a very robust process, including applications and licensing, legislation and compliance, and environmental and land access. The Victorian government needs to ensure that there will be sufficient gas to power electricity generation in this state and enough for industrial purposes as well. Whether people make their own choices about moving from gas to electricity is entirely up to them, but this gas will not come from the existing gas fields, that is for sure.

If you look to the gas market in the US, you can see the benefits from having increased availability of gas and what a reduction in gas costs has done for that economy. Gas prices in the US are now sub \$4 a gigajoule compared to what we are paying in parts of Australia, which is now in excess of \$10 a gigajoule. Business is flourishing in the US, as is business investment, and as a result of the US becoming self-sufficient in oil and gas, global oil prices have dropped by around 50 per cent. Greenhouse gas emissions in the US have also tumbled by more than 20 per cent. Meanwhile in Australia we will soon reach the point where many of our businesses that rely on gas as a feedstock or as a major fuel input will become uncompetitive. The only thing keeping them competitive at the moment is the lower Australian dollar.

A recent report published by the US EPA titled *Assessment of the Potential Impacts of Hydraulic Fracturing for Oil and Gas on Drinking Water Resources* has found that there are almost no instances of contamination of drinking water and groundwater despite these activities being carried out since the early 2000s. The energy users association believes that the Victorian government's blanket ban on onshore drilling and fracking is wrong. The energy users association is of the view that there is no need for an onshore drilling ban as there has been plenty of onshore drilling in this state for many years without any environmental disasters. If the government has an issue with onshore fracking of coal seams, then why not just have a moratorium on fracking, not on drilling?

Also the current ban on drilling is not being applied equally. Origin Energy has been allowed to drill onshore for access to offshore gas fields. There is no technical difference between this and what onshore gas prospectors would be doing. We have been advised that not all onshore gas deposits in Victoria require fracking to stimulate gas flows, so the government should at least differentiate between these two activities rather than maintaining a blanket ban on both. The energy users association agrees that we do need regulations to ensure that all landowners are treated fairly, that royalties are shared with landowners and communities, that appropriate environmental safeguards are put in place and that a rigorous monitoring regime is also put in place. A good example, as I quoted earlier, was the South Australian government's regulations.

The energy users association believes in consultation, but consultation in this state regarding onshore drilling for gas has been going on for too long. We need to find a way forward and address all of the environmental concerns regarding coal seam gas while at the same time not shutting the gate on industry. In Victoria we have had consultation on unconventional gas ad nauseam, starting with the Reith review back in 2012–13. Since then there have been plenty of opportunities for the government to move forward in a well-planned manner, but at this stage none has been able to do so. A well-developed implementation plan within appropriate environmental safeguards needs to be put in place that will address all these matters, rather than just another report that will lie on the shelf and gather dust. Landowners need to be brought into the equation so that they will receive some of the benefits of any gas field developments — much like what has been proposed under the New South Wales government about sharing financial benefits with landowners and communities. The energy users association believes that the Victorian government now needs to take a stand on this issue, rather than let it run on further, and provide certainty for onshore gas field developers in this state.

In conclusion, there should be no blanket ban on drilling for gas onshore in Victoria. The two issues of drilling and fracking should be separated and dealt with separately. In order to progress the development of onshore gas by fracking we need to have a clear and workable set of environmental regulations in place. We can learn from our South Australian neighbours, who have been managing these developments for many years. We can also

learn from New South Wales, where the issue has become so politicised that they are going backwards. The one good thing that has been done by the New South Wales government is to develop some principles for landholders and local communities to share the benefits of onshore gas. If we continue to stall, a significant economic opportunity will be lost for this state.

The CHAIR — Can I thank you for that submission and note that I think the essence of it is — and tell me if I have mis-summarised this — that you see additional costs to industry if there is not additional supply; that you believe that the supply can be done safely; you asked us to differentiate between conventional onshore gas and other forms of unconventional gas that require additional stimulation to achieve; and you point, importantly, to job losses with the reduced supply and increased costs. Is that a fair summary?

Mr DOBNEY — That is correct; that is a very good summary. Thank you, Chairman.

The CHAIR — The second point that you make is Victoria has received no benefits from the export of gas from Queensland and from movement of gas up the eastern seaboard. That is a fair summary, is it?

Mr DOBNEY — I think so, yes; that is my understanding of the situation.

The CHAIR — So why would — and I am just trying to understand this; I am not agreeing or disagreeing — additional supply not simply flow out into additional exports?

Mr DOBNEY — Well gas will go where it is required to be used. But what you have seen in Victoria, I guess, is the move away from gas-fired power generation. There is virtually none happening at this point in time. If we want to go down the path of having a cleaner electricity sector — and if you look at what we have in place at a federal level — then there will be some imposts on electricity generators sometime in the future if they cannot lower their greenhouse gas emissions, and that is only going to come about by more renewables but also having gas available for generation.

The CHAIR — The additional point you make is that electricity is not substitutable for some uses for gas?

Mr DOBNEY — Yes, that is correct. That is something that is, I think, not well understood. The company I work for, Orora, has a large mill in Sydney, at Botany, and we were asked by the New South Wales energy minister — previous energy minister — why could we not just switch to electricity. Well I did a bit of a back-of-an-envelope calculation on that, and it would just black out Sydney pretty much. People do not understand the amount of energy that comes through a gas pipeline compared to what comes down the poles and wires. It is huge.

The CHAIR — Thank you.

Ms SHING — Thanks very much, Mr Dobney, for your contribution both in oral evidence to the inquiry today and also by way of additional materials that have been provided. I would like to take you to a couple of the comments that you have made and ask you to reflect on them in the time we have available. In the first instance you made a comment around how your group takes the position that consultation has been going on for too long — I think you used the term ‘ad nauseam’. I take that to mean ‘to a nauseating extent’.

Mr DOBNEY — Yes.

Ms SHING — And I am a little concerned with how that fits, given the community sensitivity and the views that have been held by a number of communities that we have heard from, both in the east when we had our hearings at Sale — and there are a couple of members on this committee who represent Gippsland, including myself — and also in the west in Torquay, where one of the key concerns was what it would mean for local communities and what the risks are in terms of an incredibly lucrative dairy, beef and agricultural industry that we have as far as jobs generation and money for the state’s income. I would like you to reflect on that if you can, along with your comments that ‘the issue has become so politicised that it is going backwards’. At what point can we turn that around, in your view, given that there is already so much opposition to the issue of unconventional gas in Victoria — and that has been borne out by the evidence that we have had?

Finally, you made a comment that landowners should be treated fairly. I would like you to extrapolate a little on that, if you can, because again the evidence we have heard is that the views of one landowner may be very, very different to those of a landowner with an adjoining property, particularly where there are shared water resources

and/or concerns about the productivity and value of the land in agricultural areas, where we are looking at exporting to very niche markets which pride themselves on the clean, green wholesome branding that has made much of Victoria's produce world famous. Just those three things, if you could just give your views on them?

Mr DOBNEY — Okay, yes. Well to take your first point, the consultation — I go back to the Reith review that was done in 2010 or 11, whenever it was — 11–12. It has been a long process, and there does not seem to have been a proper process. We might be getting to that now, but that is not where we started out. We seem to have been going around and around in circles, and there does not seem to have been a lot of direction about, 'Okay, all right, if we're going to go down this path, usually you look at what the issues are and if it is possible to solve the issues or not'. I do not think we have actually got to that stage yet as to if there are issues that need to be addressed, what they are and what the solutions are. It is a matter of working through the processes. It is okay going out and getting people's opinions and things like that.

I am not a geologist, so I do not propose to have all the answers to that, but I really think, as I said earlier on, there have been an awful lot of holes drilled in Victoria over a long period of time, and to my knowledge there is no environmental damage being done anywhere by that drilling. Do people have an issue with what has been done over the last 50 years? I do not know, but the resources of gas in the Gippsland area have been known for quite a long time, I am sure. There has been an awful lot of drilling by Lakes and others around there over a long period of time. Your second point?

Ms SHING — The issue has become so politicised that it is going backwards.

Mr DOBNEY — Yes. That is my perspective rather than the energy users association's perspective. I have been around the industry a long time, and I just do not see any traction. I do not see anything happening. I do not see a lot of direction. Consultation ad nauseam, yes — that about sums it up for me. I guess where I am coming from is a different perspective to the landowners. I am coming from the point of view that we have a manufacturing industry that, due to the high dollar and other high costs and the carbon tax and all these other things that have been imposed on it and now higher gas prices, is just becoming more and more uneconomic.

Ms SHING — What did you mean when you said that landowners should be treated fairly?

Mr DOBNEY — I believe that landowners should be treated fairly. We have a differentiation between what is the surface and what is subsurface and who has ownership over what. I think where the New South Wales government was trying to get to on that was, 'All right, so we have some royalties in place. Now we have to share them or make sure that the landowners get their share of what's coming out of the ground under their property', and I do not have a problem with that. I think that is fair and reasonable. I own property, and I would want that for myself too.

Ms SHING — So 'treated fairly' would not extend to a right of veto, for example?

Mr DOBNEY — Well, you know, you can have a right of veto, but it is a very difficult issue because the resource goes under a very big area. So if you say to that landowner, 'Okay, we're not going to give you anything. We won't do anything over there', you will be drawing gas from under their property whether they like it or not. The gas goes to where the lowest pressure is, and it will find its way to the surface. So I think everyone needs to be on the same page on that. We are not trying to smuggle the gas out from underneath them or something like that. I think that would be the wrong thing to do, but I think a framework needs to be set up so that these landowners and the communities they are in actually get some benefits out of this.

I had said right at the outset, and at the end, that I think we have to address the environmental concerns. You cannot go willy-nilly just doing things without addressing the environmental concerns.

Ms BATH — I appreciate Ms Shing's question because it was well on the same line as my thoughts. On your recommendations on page 3, could you just go through recommendation 5? It says, 'Prevent retention or withholding of existing reserves that are commercially viable'. What is the thinking behind that?

Mr DOBNEY — All right; okay. What has happened is that some of the large gas producers are treating Australia as a big bank. They can bank all their gas here, they can sit on it for a long period of time and they do not need to do anything to develop it — they know it is there, and they will get to that one day. What is happening is that this has been driving up gas prices. So they keep their foot on the gas, so to speak — not on

the gas, but they are holding the gas supply back so that they can drive the price up. So if these leases, instead of being retained, are recycled — give someone else the opportunity to develop them — then they will go into development and we will actually get some more competition back into the market, because believe me, there is no competition in the market whatsoever at present.

Mr LEANE — We had similar evidence, I think at the last hearing, around the importance of gas supplies to industry, and your submission is therefore about the importance of opening up an unconventional gas industry in Victoria for that purpose. One issue is that we have had evidence, even all the way from oil companies to other experts, saying that there is doubt whether there are any real commercial, viable deposits of gas in Victoria without the exploration, but that is a status of opinion at the moment. Does that put industry in a position where they need to have a rethink about their business model as far as their energy use or their sources go?

Mr DOBNEY — I think some of the large gas producers would like you to believe that there are no other supplies of gas. Like I said before, they want to keep the gas in the ground — keep the price high. There is no point in them — the existing producers — developing a lot more gas resource because they know that will only reduce the price. Sorry, you were talking about whether we could — —

Mr LEANE — If the case is correct that there are no or very few viable commercial deposits of gas inland in Victoria — your submission is that it is important that there be an industry to supply greater industry — if it becomes the case that there are no deposits, does that not put industry in a position where they should be rethinking their business model anyway?

Mr DOBNEY — If there is no more gas in Victoria, then we are out of business; we will have to move.

Mr LEANE — I am talking about inland.

Mr DOBNEY — Yes, but the fact of the matter is: we do not know what we do not know and we will not until you allow some onshore exploration. There are people willing to risk capital to do it, and the company I work for has put risk capital into a small gas producer in order to do just that: to prove up a gas field. You know that where you have coal you are going to have gas. I think it is highly unlikely that you will have coal without gas. So wherever you have a coal seam you are going to have gas. I do not understand their logic, quite frankly, in saying that there is not likely to be any more gas. There is a lot of gas. The gas field that I am involved with at the moment is up in the Cooper basin. Strike Energy is drilling into a coal seam that runs in various layers between 1 and 2 kilometres underground. Go figure how it got there in the first place — well it is there. It is a long way down, but there is plenty of gas in the coal seam. There is plenty of gas in most coal seams. I do not know of a coal seam that does not have gas in it.

Mr RAMSAY — Just a quick clarification. In your recommendation 1 you ask the Victorian government to overturn the statewide moratorium on all forms of conventional gas exploration and development for the benefit of Victorians. Can you identify what conventional gas means in relation to unconventional gas? This inquiry is about unconventional gas exploration, but your recommendation is talk about lifting the moratorium on conventional gas.

Mr DOBNEY — I guess in terms of conventional gas we mean gas that can be released without the need for fracking coal seams or other structures in the ground. My understanding is that there is plenty of free gas underground onshore in Victoria if you put in a gathering system, just like you put a gathering system into a tip. Have you ever been to a tip where they have put the gas systems in there? Gas is just percolating out of the ground due to what is going on down below. It is coming up all the time. In terms of a tip, you have quite a low density compared to heavy shale or something like that, but we are not talking about shale here, we are talking by and large about brown coal. Victoria has a lot of brown coal. Brown coal is pretty soft stuff. Gas molecules will flow through that. You can put in a gathering system; I do not think you would need to frack it to release the gas. I am not a geologist, but my understanding is that you do not need to do that. And to me that is conventional gas; it is just gas.

Ms DUNN — Thank you, Mr Dobney, for your submission today. In terms of what we have heard, we have heard a lot of evidence about potential risks with unconventional gas, and those risks span a whole range of different areas, whether you are looking at the health of local communities, the impacts on agricultural land and primary production; and whether those risks be to the environment around water, air or land or even the reputational risks that Ms Shing talked about a little bit earlier in terms of being a clean and green primary

producer. I am wondering what your views are should the worst-case scenario arise and there be some sort of pollution or contamination because of unconventional gas exploration, mining or supply. Should in fact those miners or suppliers of unconventional gas be liable to pay for any damages that they create from that?

Mr DOBNEY — I would expect that to be the case. You need look no further than, I think, in Sydney under Botany Bay. There was a plume of chemicals coming out of the Orica plant there and they have had to put in a facility to clean that plume of chemicals up. They are pulling the water out of the ground and they are cleaning it all up. It is quite a process — it is quite an expensive process — but they will be doing it. How do you put safeguards in place? I think is probably better to put the safeguards in place at the front rather than even run the risk of that and that is why I suggested that you need to have a proper environmental permitting and monitoring regime in place to make sure that you do not get to that stage. No-one wants to go there; no-one wants to be there.

Ms DUNN — Absolutely. If I could ask a supplementary question, given all those elements of risk that may come to fruition and or may not come to fruition, and given that we have heard evidence that there may not even be deposits of unconventional gas in Victoria, in terms of securing industry supply of this energy source is that the best way to do that when there are so many question marks against unconventional gas?

Mr DOBNEY — I do not know where this information is coming from that there is possibly no gas in the first place.

Ms DUNN — I am talking about unconventional gas when I talk about that.

Mr DOBNEY — Yes, okay. Why would not you let people drill and find out for themselves? Miners come in and prospect and do things. This is no different. They will risk their capital and do these things. They should be allowed to do that. I think the economic benefit for Victoria could be very significant by allowing them to do that. If there is nothing there, what damage have they done? They have drilled a hole; they fill it in. It is pretty simple.

Mr YOUNG — Reading through your recommendations as well, no. 8 is for the provision of fact-based information and education to assist all stakeholders to understand the sources and use of gas throughout the community. That is obviously in an attempt to achieve what has been called the social licence. How highly do you regard social licensing proceeding further with this industry?

Mr DOBNEY — I think it is very important. The New South Wales government called for a gas committee task force to be developed to look at what the issues were in New South Wales and why there was a backlash there. They have gone down the path now of informing people what gas is actually used for. I do not know whether you have seen it, but they have put out a series of advertisements: do you realise that the milk bottle you buy your milk in relies on gas to make the plastic to make the milk bottle? Gas is used to create so many things in the value chain of our society. It is very hard to think of something that you can manufacture without having gas. I think it is an educational thing, and I think we need to take that approach and educate people as to why gas is good. That is part of the process, I think.

Mr YOUNG — Do you think that is achievable, given the stigma?

Mr DOBNEY — I think it is, yes. I think we have been too late in coming to the table with that, and that is the industry's fault as much as anyone else's. We should have been out there saying, 'Actually, we need gas. It is very beneficial for XYZ'. We make glass bottles, and you cannot make glass bottles — this is glass but not a glass bottle — unless you have a lot of gas. The company I work for buys 3 million gigajoules a year of gas. For every dollar that the price of gas goes up, that is another 3 million dollars it is going to cost us. We are competing against imports from Asia and from the Middle East in terms of glass bottles. We have got the wine industry in Australia crying out for bottles, and we want to make them but we are up against pretty stiff competition from those two markets in particular about who is going to make and source the bottles. Do we just want to become an importer?

The funny thing is I went to a gas conference recently in Sydney. Everyone is crying out about the lack of gas. Sydney is in a far worse position than Victoria, by the way, because until recently there were some forecasts that Sydney would be short of gas in 2017–18 over winter and that would mean that industry would be shut down to preserve gas for mums and dads and for hospitals and so forth, which is fine. While I was at this

conference bemoaning the cost of gas and the lack of availability of gas, because it is very hard to get gas prices, I had a Chinese gentleman come up to me and he said, 'Would you like to buy some gas? We have a lot of gas. We've got too much gas coming from Australia. We don't know what to do with it. We haven't built all the import terminals to cope with all this gas. So if you can take it, I'll sell you a shipload of Australian gas' — and at a lower price than I can buy it locally. Then you go, 'What on earth is going on here?'. The problem we have in Australia is a market problem of market failure. I know I am getting a bit away from the coal seam gas issue, but we do have a market failure in gas in Australia.

The CHAIR — In relation to that, both the Deputy Chair and I are interested in a policy of reservation of some of the gas for either domestic or industry purposes. If new supply were to come and it were tagged in some way for specific purposes in the metropolitan area, perhaps, where there is industry, would that assist?

Mr DOBNEY — It is very hard. I mean, you cannot label the molecules. You do not know where they go.

The CHAIR — You can meter it, though. We meter it now.

Mr DOBNEY — You can meter it — yes, you can.

The CHAIR — The stuff that is moved from here to Queensland is metered.

Mr DOBNEY — It certainly is, yes, but it is very hard to quarantine it, given that it is an interconnected market.

Ms SHING — But reservations specifically as a policy option — what is your organisation's view on that?

Mr DOBNEY — We are not in favour of reservation per se. When we look at what has happened in WA, it has helped improve the availability of gas but it has not improved the pricing of gas really.

The CHAIR — There are two sides to the coin, but you are saying it has helped with one but not the other.

Mr DOBNEY — Not the other.

The CHAIR — Thank you. We indicate our appreciation, and we indicate that the secretariat may be in contact for further details.

Mr DOBNEY — Thank you very much for the opportunity.

Witness withdrew.