

15 July 2015

**Kier Delaney**  
**Secretary**  
**Environment & Planning Committee**  
Parliament House  
Spring Street  
Melbourne VIC 3002



By online submission: <http://www.parliament.vic.gov.au/epc/article/2636>

Dear Mr Delaney

**EUAA submission to the Victorian Governments Unconventional Gas Inquiry**

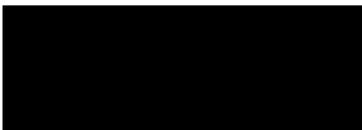
Thank you for this opportunity to make a submission into the Unconventional Gas Inquiry.

The Energy Users Association of Australia (EUAA) was formed in 1996 to provide a single national association to effectively represent and service the needs of Australian energy users. We exist to assist our members run efficient and profitable businesses as they relate to their energy use.

The EUAA and its members have been involved with many papers and submissions regarding the gas industry. We have previously stated that action is required to restore certainty to Victoria's gas and energy sector to help this state restore its manufacturing reputation. With the changing landscape in the Australian gas sector, now is the time for Victoria to take decisive action to give energy users in Victoria clarity.

We look forward to engaging further with the Environment & Planning Committee on this vital issue.

Yours faithfully



**Phil Barresi**  
**Chief Executive Officer**  
**Energy Users Association of Australia**

## Introduction

Thank you for the opportunity to make a submission to The Victorian Governments inquiry into unconventional gas.

The EUAA represents many of the large energy users in Victoria in the manufacturing, commercial, industrial and resources sector. Our members account for a significant proportion of the gas consumed in the eastern Australian gas market. Reliable access to affordable energy, including gas, is essential to the continued success of many large businesses and the jobs they support.

Victorian and Australian industry must have certainty of supply and the development of onshore unconventional gas is vital for these industries which consume 87.6 PJ of gas per year. It is important to note that Victoria is the largest consumer of gas on the east coast. Next year, LNG export trains are scheduled to be completed in Gladstone, Queensland, and the EUAA has long asserted in several papers that these LNG trains will increase the demand for, and price of, gas across the whole east coast. There is potentially the risk that Victorian offshore gas may migrate north to these LNG trains if they encounter supply constraints from Queensland fields. This pressure will compound the gas supply issues our members are already experiencing (e.g. upstream consolidation) and will significantly decrease the level of competition thereby negatively impacting on operations, corporate strategy and the bottom line of all industries.

The EUAA has focused intensely on these issues through a succession of submissions into the gas industry and in the last twenty four months alone the EUAA's contributions have included:

- Response to AEMC Stage 1 Draft East Coast Gas Market Review June 2015
- AEMC East Coast Wholesale Gas and Pipeline Frameworks review 2015
- Report on "Upstream Gas Policies for Australia" November 2013
- Scoping Study on the Economic Impact of High Gas Prices February 2014
- Deloitte Access Economics Report "*Gas market transformations – Economic consequences for the manufacturing sector*" July 2014
- Submission to the AEMC on the Gas Market Scoping Study June 2013
- Submission to AER's Draft Shared Assets Guideline September 2013
- Submission to NSW Government Parliamentary Inquiry in Downstream Gas Supply June 2013
- Submission to Productivity Commission inquiry into National Access Regime
- Consultation with Victorian Government Taskforce into onshore gas development

Considering the number of reports, forums and inquiries it is understandable that many gas energy users find that government policy response lags behind an expectation for immediacy of action.

Victoria has sizable known and inferred reserves of unconventional gas resources and this resource base is large enough to sustain Victoria's energy needs for many years to come. If carefully regulated, managed and developed, these gas resources have the potential to solve industry's current and looming energy dilemma leading to positive economic and social consequences. However, at present Victoria's moratorium on hydraulic fracturing and all forms of onshore gas development has provided only uncertainty and disincentive to explore further, let alone to develop these gas resources.

## **We need certainty of Energy supply at competitive prices for industry and manufacturers**

Our Victorian members have a very strong interest in the development of a competitive, transparent and properly functioning gas market to support the long term sustainability of their operations. This type of gas market meets the National Gas Law objective of being in "... the long term interests of consumers". The current gas market falls well short of this objective.

Together with our alliance partners from five other industry associations we commissioned Deloitte Access Economics (DAE) to investigate the likely impacts from official gas price projections in Australia. The resulting report: "*Gas market transformations – Economic consequences for the manufacturing sector*" was released in July 2014. DAE's research found that the most plausible price projections would lead to \$118 billion (in NPV terms) of cumulative lost output from manufacturing to 2021 with the sector losing an additional 14,600 jobs as a result. Within the Victorian economy DAE project \$23 billion of economic loss and 1,500 lost jobs over the same period.

Currently companies endure an inability to contract competitive terms for gas purchases to maintain the long term sustainable operation of their businesses in Victoria. Many of our members have experienced first-hand the impact of the fragmented gas market as they have sought to secure gas supplies – they have found it very difficult/impossible to get more than one proposal for supply. Indeed, when a proposal is provided it is subject to very restrictive acceptance conditions and prices well above what our members regard as indicative of a competitive market.

Continuation of such an uncompetitive gas market will result in:

- (i) uncertainty of future costs to energy consumers operations which will impact decisions on future operations in Victoria, and,
- (ii) the prospect of significant job losses in industry.

In the DAE report, these risks to Victoria are highlighted in a case study of Australian Paper's Maryvale Mill in the Latrobe Valley. DAE states that without "access to an affordable, reliable gas supply, it is highly likely that the Mill's operations would be significantly curtailed, leaving little or no scope to undertake future or even continued investment in the Maryvale Mill's operations." They go on to say that with "900 regional jobs tied directly to the Maryvale Mill's operations, a potential closure of the Maryvale Mill would have significant direct and flow on impacts within the Latrobe Valley."

Industry is already facing a myriad of problems making Victoria increasingly less attractive for capital expenditure - energy supply is one aspect the Victorian government can and must address considering we are endowed with large reserves of gas, and new supplies must be allowed to come on line to support and encourage economic growth.

## **We must develop onshore deposits in order to guarantee supply**

Industry representative bodies for gas users state that their members need to lock in long term gas supply agreements at reasonable prices. They suggest that their members are under pressure to scale back, close down or move to other parts of Australia or overseas where they can gain certainty on price and long term delivery tenure to underpin their investment and growth plans. This correlates with what the EUAA's members are telling us, and therefore we believe this supply question needs to be addressed.

Onshore Victorian gas development can remedy this uncertainty and support our existing manufacturing sector whilst providing further incentive for new industry investments. In an

open market, demand driven price increases can be addressed via increased supply, and Victoria's purportedly significant onshore gas reserves can supply industry and residents of Victoria at competitive long term prices thereby easing supply concerns.

The greatest advantage Victoria possessed as a manufacturing centre of excellence has been its access to deep, liquid, reliable and affordable energy such as gas. This advantage has been negated due to the uncertainty in the energy sector and fear of long term gas security.

Investment decisions where gas is either an energy source or an input to manufacturing, such as in the plastics and chemicals industry can no longer be made with confidence.

Federal Minister for Industry Hon Ian Macfarlane, in his address to the EUAA Annual Conference on 17 October 2013 made particular reference to "slow approval processes and excessive green tape... [for] east coast gas supply are compromising the energy security of the region and beyond".

Whilst the EUAA and our members are sensitive to environmental concerns and supportive of sustainable and safe developments, we feel that the current moratorium on hydraulic fracturing and onshore exploration has unnecessarily impacted onshore conventional gas exploration. This is especially so given the importance of the Bass Straight conventional gas fields that have helped heat and power Victoria for the last 45 years in a safe, sustainable and environmentally friendly manner.

## Recommendations:

1. The EUAA urges the Victorian Government to overturn the State wide moratorium on all forms of conventional gas exploration and development for the benefit of all Victorians and indeed all Australians.
2. The EUAA supports the careful and scientific approach to assessing the safety and sustainability of hydraulic fracturing and unconventional gas exploration and development.
3. Environmental and social concerns about new onshore gas projects have led to restrictive regulation and community disruption of projects. We urge the Victorian government to work with the Australian Government to apply the capabilities of our national science institutions to improve the independent evidence base for assessing the impact of proposed projects.
4. Remove excessive regulatory barriers to new conventional gas production, by streamlining and harmonising approvals processes across all levels of government and councils while maintaining strong regulatory and environmental oversight standards.
5. Prevent retention or withholding of existing reserves that are commercially viable – for example, a use-it-or-lose-it approach to retention leases or mandatory development of such reserves to discourage gas "warehousing".
6. Gas supply constraints should be removed so that new second and third tier gas suppliers can enter the market, provided appropriate environmental standards and landowner rights are met.
7. It is crucial that Victorian energy policy and its regulatory components be developed with a strong focus on the full range of competitive advantage provided by Victoria's abundant gas reserves. As such, a clear, deliberate and strategic vision supported by a robust evidence base and analysis is required to enable the whole economy to make full use of our national endowment in energy resources.

8. Provision of fact-based information and education to assist all stakeholders to understand the sources and use of gas throughout the economy.

9. Introduction of an Independent Gas Commissioner in each state to oversee gas field development similar to that established in Queensland. This would provide a trusted, independent source of information on gas fields and their environmental performance.

10. Where there are obvious gas reserves in relative proximity to domestic markets, government action must address the ability for producers to access the gas in a cost-effective manner by reducing red and green tape.

END.