

16 July 2015

Keir Delaney  
Secretary  
Environment and Planning Standing Committee  
Parliament House  
Melbourne VIC 3002

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### **Inquiry into Unconventional Gas in Victoria**

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Environment and Planning Standing Committee's Inquiry into Unconventional Gas in Victoria.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 37 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 59,000 people and contribute \$24.1 billion directly to the nation's Gross Domestic Product.

The Australian gas market is undergoing an unprecedented level of change. Production costs are rising, political uncertainty is hampering onshore gas development in a number of regions and east coast liquefied natural gas (LNG) exports will soon far exceed domestic gas consumption in that region. While it is unclear how these factors will ultimately influence domestic gas market dynamics, the key to alleviating any supply/pricing pressures will be continued resource development. Victoria will benefit from access to conventional offshore gas resources in the Gippsland and Otway Basins in this regard. But there is also an opportunity to facilitate the responsible development of the state's unconventional onshore gas resources.

As conventional gas resources diminish, the LNG export industry will be a key driver of continued resource development in Australia, providing a level of demand and capital that is sufficient to underpin the development of significant and higher-priced unconventional gas resources. Despite the obvious benefits this creates, linkage to LNG export markets does change the competitive environment relative to business as usual, exposing the domestic market to the influence of world prices and a competing source of demand that will far exceed domestic demand.

This issue is particularly relevant to the east coast gas market at present, given LNG exports are expected to exceed 1,200 PJ<sup>1</sup> in 2016 compared with total domestic demand of around 570 PJ<sup>2</sup>. While it is anticipated there is sufficient gas to support projected domestic and export demand for at least the next 20 years in that region, this assessment is predicated on

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<sup>1</sup> Australian Energy Market Operator, *National Gas Forecasting Report*, December 2014.

<sup>2</sup> Ibid.

continued resource development, including unconventional resources.<sup>3</sup> Of note, unconventional gas accounts for approximately 88 per cent of proven reserves on the east coast.

With total unconventional gas reserves and resources of around 770 PJ, Victoria is the least advanced of the eastern market states in terms of exploration and development of onshore natural gas. This is due to a number of factors, including its proximity to significant (and relatively low cost by historical standards) conventional resources in Bass Strait and uncertain geological suitability for natural gas from coal seams. But persistent political intervention has also impeded exploration activity and contributed to a lack of key information about potential resource size and commercial viability. Victoria is not alone in this regard.

The development of unconventional gas reserves and resources has been constrained to date, principally as a result of political uncertainty and overly restrictive planning laws and regulatory frameworks. Such an environment has severe implications for the timeliness and diversity of supply, as it creates barriers and risks to investment at a time when continued resource development is essential. New South Wales is at the forefront of this issue and serves as an example of the problems that could emerge more broadly unless appropriate policy settings are in place for the exploration, production and supply of gas.

Despite the factual inaccuracies often purported about the impact of unconventional gas production, unconventional gas has been safely produced from the Bowen Basin in Queensland since 1996 and from Camden in New South Wales since 2001. Active exploration drilling for coal seam gas (CSG) has also occurred in the Otway and Gippsland Basins in Victoria from 2000 to 2007.

A number of recent independent inquiries into onshore resource development have made it clear the risks imposed by the onshore gas industry can be safely managed. These include the 2013 Victorian Gas Market Taskforce report, the 2014 New South Wales Chief Scientist report and the Report of the Inquiry into Hydraulic Fracturing in the Northern Territory released in February 2015.

To ensure gas resource development is sufficient to support both domestic and export demand in the future, it is critical government policies relating to the exploration and production of unconventional gas resources are carefully considered. The key will be to ensure current frameworks provide a better balance of the social, environmental and economic costs/benefits of resource development than has previously been achieved.

This includes giving adequate consideration to the concerns of local communities as well as the role gas plays in the Victorian economy, both in terms of economic/employment growth and as an essential service. Simply imposing a blanket ban on fracking and the issuing of new exploration licences for CSG exploration fails to achieve this. The stable regulatory framework currently applied in Queensland provides a clear example of how this balance can be achieved.

The overriding message for Government's and the community is clear – the risks associated with unconventional resource development can be appropriately managed under robust regulatory frameworks. Experiences in Queensland and research undertaken in other regions, such as the 2014 New South Wales Chief Scientist report and the Report of the

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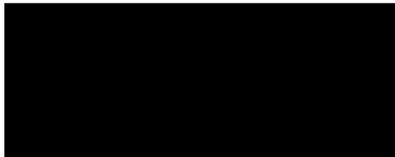
<sup>3</sup> Australian Energy Market Operator, *Gas Statement of Opportunities 2013*, 29 November 2013.

Inquiry into Hydraulic Fracturing in the Northern Territory provide useful guidance in this regard.

The Association would welcome the opportunity to appear before the Committee to further explore the issues raised in this submission along with any other issues Committee members may have.

Any questions about our submission should be addressed to Shaun Cole, by email to [shaun.cole@esaa.com.au](mailto:shaun.cole@esaa.com.au) or by telephone on (03) 9205 3106.

Yours sincerely

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