



EnergyAustralia

10 July 2015

Keir Delaney
Secretary
Environment & Planning Committee
Parliament House
Spring Street
Melbourne, VIC 3002

Submitted online at: epc@parliament.vic.gov.au

To the Secretary,

Inquiry into Unconventional Gas in Victoria

EnergyAustralia welcomes the opportunity to make a submission to the Victorian Parliament Standing Committee on Environment and Planning Inquiry into Unconventional Gas in Victoria.

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to 2.6 million household and business customers across Australia.

EnergyAustralia owns and operates a multi-billion dollar portfolio of energy generation, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM). We also own and operate the Iona Underground Gas Storage facility, near Port Campbell in western Victoria.

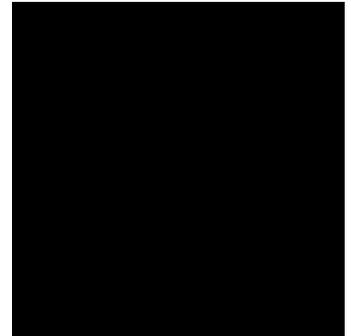
Our primary interest in making a submission is on behalf of the 426,000 Victorian residential and business customers for whom we provide gas, and seek to do so at the lowest price possible. A regulatory regime and community engagement framework that adequately balances the costs, benefits and environmental considerations of gas development is vitally important to achieving this and securing energy supplies in the future.

For further information on any issues raised in this submission please contact Lee Evans, Policy & Advocacy Manager, on (03) 8628 1185 or at lee.evans@energyaustralia.com.au

Regards

Karyn Freeman

Head of Reputation



Executive Summary

Natural gas is a very important part of Victoria's energy supply. It heats our homes, cooks our food and powers many of our businesses – large and small. While all of this gas is currently sourced from offshore or interstate fields, it will not last forever, and identifying alternative gas resources in-state is vital to ensure gas prices for Victorian households and business can be kept at reasonable levels in the future.

Development of 'unconventional' gas supplies should be supported by a robust and science-based regulatory regime. EnergyAustralia supports a regulatory framework that delivers balanced decisions, based on rigorous cost benefit analysis across economic, environmental, health and community factors, and a transparent and predictable process.

We recommend that the regulator be tasked with developing such a regime, similar to the Queensland model, within 6 months of the Committee's final decision, after which time the current moratorium on onshore gas development should be lifted.

EnergyAustralia recommends that conventional gas development be immediately removed from the current moratorium as the industry has practiced this safely in Australia for decades. Victoria has a long history of safe onshore development of conventional gas resources and this has been needlessly halted as a result of the moratorium.

Finally, EnergyAustralia recommends that the Government, alongside independent authorities, take a leading role in educating the community about gas exploration and development. This should aim to facilitate community discussion and debate about the potential for unconventional gas activities in Victoria, based on scientifically and technically robust facts and information.

Differentiating between 'conventional' and 'unconventional' gas

Exploration for, and development of, natural gas has been conducted in parts of onshore Victoria for many years (largely the Otway and Gippsland Basins) without any harmful impact on safety, environment or communities. This activity has principally involved 'conventional' natural gas and it is important that all stakeholders understand how this differs from 'unconventional' natural gas.

'Conventional' natural gas is trapped in rocks which are porous and permeable (much like a sponge) which, when penetrated with a drill hole, can generally be produced with relative ease.

'Unconventional' natural gas is trapped in rocks such as coal or shale or low permeability sands, all of which require something more to enable production than for conventional gas, such as production of large volumes of groundwater (e.g. de-watering of coal seams) and/or the use of hydraulic fracturing, to create more permeability in the rock, providing pathways for gas to flow to the well bore.

While drilling for oil and gas in onshore Victoria has occurred in various areas for many decades, to date the only onshore natural gas that has been discovered and commercially developed is of the conventional type, largely in south-western Victoria. Production since 1979 has yielded over 50 Petajoules and supported major industries in the region including aluminium smelting in Portland, wool processing in Hamilton, milk processing in Cobden and general and light industry in Warrnambool.

This onshore exploration and production has been conducted in a safe and environmentally responsible manner through all that time, with no harmful impacts - to the contrary, it has been of substantial net benefit to many communities in this region of the state. An ongoing positive legacy of that conventional onshore gas production has been the installation and operation of the Iona Underground Gas Storage, which has played a major role in providing storage and security-of-supply for gas users across the state since 1999.

The long history of safe, uneventful onshore conventional gas activity indicates that the longstanding regulatory regime that has been in place for gas exploration and development in onshore Victoria has incorporated appropriate standards and safeguards.

EnergyAustralia recommends that conventional gas development be immediately removed from the current moratorium whilst a robust regulatory regime for unconventional gas is developed (discussed below).

Security of gas supplies

Retail gas prices in Australia have increased by approximately 40% since 2008. This has largely been driven by the development of Liquefied Natural Gas (LNG) plants in northern Queensland drawing gas north and setting a national benchmark for gas prices (often linked to the US oil price). This increase has had a significant impact on Victorian households and, particularly, businesses. The Energy Users Association of Australia, a representative of large industrial energy users, has forecast that up to 3300 jobs and up \$1.9 billion of capital expenditure could be lost Australia-wide if growing gas prices force businesses closures¹. This would have a large impact in Victoria which has a significant manufacturing sector.

Victoria's gas supply is largely supplied from two sources – the Gippsland Basin and the Otway Basin. Whilst Victoria's immediate gas supply is not threatened, diminishing reserves in these basins and competition for gas to export from Gladstone in northern Queensland means gas prices will continue to increase unless alternate supply sources are developed.

Gas exploration and development is an expensive and timely process, therefore action is required now to develop the gas fields of the future. Investigation of the potential for unconventional gas in onshore Victoria is a logical extension of the exploration and development of conventional gas undertaken to date. If successful, it would revive onshore gas exploration and production activity in Victoria, and provide a greater diversity of gas supply to the domestic market and significant potential job creation.

Development of unconventional gas supplies should be supported by a robust and science-based regulatory regime. There is a significant body of work in Australia and internationally to guide regulators on what a safe gas exploration and development regulatory framework looks like. A list of references is included later in this submission for the Committee's information. Committee members are encouraged to talk directly with their counterparts in Queensland who have created a prosperous onshore gas industry with a rigorous regulatory framework that has supported much economic development, particularly in rural and regional areas. Whilst Victoria has some unique jurisdictional characteristics, the Queensland experience is a valuable starting point as it has introduced world-leading regulatory practices in terms of the environment and safety.

EnergyAustralia recommends that the regulator be tasked with developing a science-based regulatory regime similar to the Queensland model within 6 months of the Committee's final decision, after which time the current moratorium should be lifted.

EnergyAustralia supports a planning system that delivers balanced decisions, based on rigorous cost benefit analysis across economic, environmental, health and community factors, consultation and a transparent and predictable process.

Community Engagement

Much of the community concern over unconventional gas activities that has arisen in recent years has been based on misinformation and fear. International films, such as 'Gasland', have been used to sensationalise gas development and demonise businesses involved. This type of activity and selective use of information has resulted in stalling activity and delaying genuine opportunities for resource development based on scientific evidence.

The Victorian Government should play a vital role in educating and informing the community about gas exploration and development, the regulatory regime that supports these activities and their rights and obligations under that regime. The Government should seek to ensure that community discussion and debate about the potential for unconventional gas activities in Victoria is based on scientifically and technically robust facts and information.

¹ Energy Users Association of Australia, *Submission on the Eastern Australian Domestic Gas Market Study*, 7 February, 2014

EnergyAustralia recommends that the Committee consider the community engagement done in Queensland and consider approaches taken there, and internationally, to ensure communities can share in the economic benefits created by gas projects without environmental degradation.

Further Reading

In recent years, multiple studies and inquiries into the key aspects of the exploration and development of onshore gas resources (both conventional and unconventional) have been conducted in Australia and internationally (especially North America) and the bulk of results from this work are freely available. The Committee is encouraged to review the following publications:

Cook, P, Beck, V, Brereton, D, Clark, R, Fisher, B, Kentish, S, Toomey, J and Williams, J (2013). *Engineering energy: unconventional gas production*. Report for the Australian Council of Learned Academies, (www.acola.org.au).

O’Kane, M (2013). Initial report on the Independent Review of Coal Seam Gas Activities in NSW. (www.chiefscientist.nsw.gov.au/coal-seam-gas-review/initial-report-july-2013)

O’Kane, M (2014). Final Report of the Independent Review of Coal Seam Gas Activities in NSW. (www.chiefscientist.nsw.gov.au/__data/assets/pdf_file/0005/56912/140930-CSG-Final-Report.pdf)

South Australian Government (2015). The Facts about natural gas and fracture stimulation in South Australia. (www.statedevelopment.sa.gov.au/upload/Fracking/thefactsguide.pdf and www.statedevelopment.sa.gov.au/resources/the-facts/fracture-stimulation-in-south-australia)

Victorian Gas Market Taskforce (2013a). Final Report and Recommendations. (www.energyandresources.vic.gov.au/about-us/publications/Gas-Market-Taskforce-report)

Victorian Gas Market Taskforce (2013b). Supplementary Report. (www.energyandresources.vic.gov.au/about-us/publications/Gas-Market-Taskforce-report)