



## Tenure Matters



*A column by Sue Slater, Senior Advisor Petroleum, RLMS*

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The Queensland Government has announced that they are developing a Gas Supply and Demand Action Plan<sup>1</sup>. Consultation with industry stakeholders has commenced. Many of us may be experiencing a good dose of déjà-vu. The terms of reference for the study were released on July 7 2015. Four key themes have been identified:

- Characterising the Queensland gas sector;
- Identifying barriers to achieving least cost supply;
- Ensuring markets are able to continue to evolve;
- Ensuring Queensland capitalises on all possible demand opportunities.

The Government has described the themes below; and many of these are recurring issues that feature in the recommendations of many previous discussion papers, including reducing unnecessary regulatory burden for example. None of these issues is particularly new.

Characterising the Queensland gas sector includes:

- the identification of risks and threats to Queensland's development of its resources,
- defining the gas regions by endowment and likely development and transportation costs under a number of scenarios,
- defining all existing and potential demand segments and their possible size, and
- estimate the scope of the potential benefits to Queensland.

Identification of the barriers to achieving least-cost supply includes:

- issues around public and private sector Research and Development (R&D) collaboration,
- adequacy of pre-competitive geoscientific information,
- access to capital, labour and land including social licence to operate,

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<sup>1</sup> <https://www.dnrm.qld.gov.au/our-department/policies-initiatives/mining-resources/gas-supply-demand-action-plan>

- optimal tenure management and land release strategies, and
- removing unnecessary regulatory burdens.

Ensuring that markets are able to continue to evolve by examining:

- whether markets have enough information to make informed decisions, and
- liquid and transparent market mechanisms in gas production, processing and transportation

Ensuring Queensland capitalises on all possible demand opportunities includes:

- opportunities for greater gas fired generation,
- gas-to-liquid applications, and
- manufacturing feedstock applications.

There will be a Discussion Paper released for further consultation, targeted for December 2015, with the final Queensland Gas Supply and Demand Action Plan expected to be completed by March 2016.

This is a significant body of work, if it can be achieved in the timeframe. The plan is seeking to:

- Provide an alternative to market interventions, such as reservation policies
- Demonstrate government support for the sector
- Facilitate leadership on policy issues impacting the sector
- Deliver a clear picture of Queensland's gas commercialisation potential
- Realise demand opportunities
- Build on current jobs and revenue streams, and
- Forge closer relations with the Federal, Northern Territory and South Australian governments.

When making the announcement, Minister Lynham said: *“This action plan will be an overarching strategy to maximise exploration, drive development, keep gas costs down and get maximum economic and job benefit for Queensland.”* and *“Our Gas Action Plan will aim to stimulate increased gas supply, optimise the economic recovery of gas resources, and leverage and build on the Commonwealth Government’s various gas and energy initiatives.”*

There have been many strident calls for some sort of gas reservation policy in Queensland, since the major CSG-LNG projects began to take shape. In 2011, the Government response included amendments to the *Petroleum & Gas (Production & Safety) Act 2004*, as part of the *Gas Security Amendment Act 2011*. This included the provision of an Australian market supply condition to areas released for tender, with amendments to sections 35, 42, 123, 127 and others, and the insertion of Part 2A, Prospective Gas Production Land Reserve (PGPLR). In this part of the Act, an Australian market supply condition, for land, is defined as a condition under which the gas produced from the land must not be supplied other than to the Australian market, and any contract or other arrangement for the supply of the gas must include a condition that the gas must not be further supplied other than to the Australian market (section 175A). To date these provisions have not been invoked for any land release, and it is difficult to imagine that such a condition would result in an avalanche of applications for such an area.

This was preceded in September 2009 by a consultation paper, *Domestic Gas Market – Security of Supply*<sup>2</sup> which discussed two options, a reservation policy based on a requirement for a percentage of gas production to be supplied to the domestic market, or the development of a reserve of potential gas-producing land released as required to ensure supply.

No attempt was made to identify this potential gas-producing land; and given that by 2009 much of the best understood areas were already held by the CSG-LNG proponents, one can only assume that any relinquished land was perhaps going to be accumulated by the Government for a PGPLR area. Certainly the frontier basins where land was available were, and still are, many years from any meaningful production, given the fact that these areas are often stranded with respect to existing transport infrastructure. Nevertheless the second option was ultimately the one reflected in the *Gas Security Amendment Act 2011* and was certainly the more palatable option for industry. At least under this scenario, the Government had to stipulate at the time of land release that the area was PGPLR, and a company could make their decision about whether to apply for the area knowing that was the case. What effect this might have had on the willingness to undertake exploration does not appear to have been considered.

On April 14 2015, the Federal Government released its Domestic Gas Strategy.<sup>3</sup> Through this strategy the Australian Government would implement a cross-portfolio steering committee to work with the States, but what does this really mean? Previously, on 3 January 2014, the Australian Government released its Eastern Australian Domestic Gas Market Study<sup>4</sup>. The objective of this study was to inform policy on the demand and supply situation in the eastern Australian market, barriers to domestic gas supply between 2012 and 2023, and identify opportunities to improve market efficiency. At the time the expiry of many long-term domestic supply contracts was imminent, and replacement contracts were required. Given the historical, unrealistically low price of gas, it was unlikely that the new contracts would be as attractive for the gas users, with the potential for export gas prices out of the LNG trains. This, for obvious reasons, was an issue of concern for domestic gas users and led to calls for gas reservation.

But the key to ensuring domestic gas supply is to incentivise the explorers, not to deter them. A domestic gas reservation is more likely to have an adverse effect on exploration than even a ‘do nothing’ approach. Remove or streamline some of the onerous regulation that impedes and slows down (and sometimes stops completely) the transition from exploration to early development and there should be positive impacts on exploration and hence longer term, on gas supply.

Exploration tenure holders currently have to meet a range of expensive, and essentially meaningless, requirements because the legislation makes no distinction between a large CSG-LNG development particularly in agricultural and more highly populated areas, and early exploration, in sometimes remote and sparsely populated regions. Regulatory requirements should be reasonable, they should be relevant for the risk level and they should be appropriate. No-one is suggesting no regulation, but a reasonable approach that takes account of the varying stages of exploration, appraisal and development should be in place. The blanket approach of many of the regulatory reforms over the last 5 years is stunting the exploration industry in the State, and this includes regulatory changes

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<sup>2</sup> If you search for the title, you will find a PDF of the document from Cabinet

<sup>3</sup> <http://www.industry.gov.au/Energy/EnergyMarkets/Pages/UnconventionalGas.aspx#domesticgas>

<sup>4</sup> <http://www.industry.gov.au/Energy/EnergyMarkets/GasMarketDevelopment/Pages/EasternAustralianDomesticGasMarketStudy.aspx>

made by both the Department of Natural Resources and Mines and the Department of Environment and Heritage Protection under three main Acts, the *Petroleum & Gas (Production & Safety) Act 2004*, the *Environmental Protection Act 1994* and the *Water Act 2000*, although there are obviously other changes that have had an impact including urban restricted land, strategic cropping land, regional planning interests, wild rivers and so on.

The more expensive and time consuming exploration becomes because of the increased regulatory burden, the greater the impact on gas supply, whether it be domestic or for the LNG market. Without some major reform in both legislation and the administration of that legislation, there cannot be a healthy exploration industry in this State. What happens to domestic gas supply then?

I am happy to hear suggestions about topics you would like covered. Feel free to email me at [sue.slater@rlms.com.au](mailto:sue.slater@rlms.com.au) with the subject heading Tenure Matters.

In the meantime, remember “Tenures make the Project; the Project doesn’t make the Tenures”.

*RLMS covers the project spectrum from planning through to State and Federal government approvals, including land access, compensation, environmental impact statements and work schedules for clients ranging from entrepreneurs to major corporations, from start-ups to government agencies, and state significant projects such as Queensland’s LNG giants. Contact RLMS at:*

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