



Tenure Matters



A column by Sue Slater, Senior Advisor Petroleum, RLMS

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Welcome back. This month I want to look at some recent government decisions that impact on the never-ending gas supply and demand debate.

Much of the discussion around gas price and supply focuses on the reform of the market, creating trading hubs, easier access to transport infrastructure and so on – but none of that will matter one iota if Governments continue to make it difficult to explore or appraise for gas. Gas will stay in the ground unless the exploration for gas is encouraged by removing some of the barriers – including an ever-increasing array of regulations, the moratoriums and bans in place in various areas of the country, and every other road block that is created. **Gas supply starts with exploration.** If exploration cannot occur, or is financially unable to occur, then supply will drop – it really is that simple. There is no shortage of gas in the ground, but it is increasingly more complex and expensive to explore for and then extract that gas. The Australian Bureau of Statistics release of petroleum exploration data for 2015-2016 shows that the number of exploration wells drilled offshore is at the lowest level in 20 years and onshore the lowest for 15 years¹. This trend has been evident for a while now, and there will be consequences for future gas supplies.

The 5th COAG² Energy Council Meeting was held in Canberra on 19 August. With the exception of Victoria, all States agreed to adopt the Council's Gas Supply Strategy implementation plan. Victoria has subsequently announced a permanent ban on exploration and development for all onshore unconventional gas in the State. There is currently a moratorium in place in Victoria which will be extended to 30 June 2020, and fracking will remain banned. Since Victoria is apparently the State most reliant on gas (used by almost 80% of households, not to mention its widespread use in manufacturing) it is unclear what is planned to replace gas usage on this scale. It seems hypocritical to continuing using gas once you have banned the exploration for further supplies. As Cheryl Cartwright, APGA Chief Executive has said:

¹ APPEA media release 5 September 2016

² Council of Australian Governments

August 2016

“Quite clearly, now that it has abrogated its responsibilities to the East Coast gas market, the Victorian Government should also withdraw from further policy discussion. Its opinion has no credibility when it comes to policies that might address the demand-supply imbalance of gas on the East Coast.”

There is no scientifically valid or environmental reason to prohibit onshore gas development in Victoria with every independent scientific study confirming that with proper regulation (and more to come on that chestnut in a further issue) unconventional gas is safe. And as far as conventional gas is concerned there is a long history of safe production in the State.

Meanwhile the Queensland Gas Supply and Demand Action Plan³ has not yet been released. Terms of reference were released on 7 July 2015, and the website is now postulating a Q1 2017 release. By the time this plan gets released, one has to wonder whether the content or message will still be relevant; and whether there will still be enough exploration companies willing to explore in Queensland.

Every time any review of regulation of the sector is carried out, the recommendations are consistent – reduce the number and complexity of the regulatory regime. Please note that this does not mean de-regulation – it just means that the mess that we are currently working with is slow and ponderous, with needless duplication and overlap that adds no value nor results in a better outcome (environmental or otherwise). It must be fixed, but it never will be given that the inexplicitly long amount of time to complete any review and make changes is longer than the typical political interest span determined by a desire for re-election. Of course, Queensland remains slightly ahead of the game in that there has been no talk of a moratorium on fracking, but that doesn't mean that it has been an easy ride in that space, with some difficult negotiations with the DEHP to get some sensible and consistent conditions applied in environmental authorities. Contrary to claims by many environmental groups, not all or even most CSG wells in Queensland are fraced, although fracking has occurred in conventional wells, and will certainly be required in shale gas wells.

The election results for Northern Territory have introduced more uncertainty with Labour having promised a moratorium on fracking until (yet another) independent review of the process is carried out as part of their election campaign. And I would not be rushing to build the Northern Gas Pipeline in the meantime, with construction currently planned to begin in early 2017. Design, approvals and planning are already well underway - but with no fracking, where will all the gas come from? Most of the onshore basins being investigated by explorers are old – old rocks are mostly tight rocks, they are not likely to flow without some help.

Gas supply starts with exploration, and continues with appraisal and development. The sector needs robust but sensible regulation, and it needs that regulation to be delivered in a timely and consistent fashion in order to plan and execute development. It does not need policy and regulation swings every State election. These changes impact on project execution and costs; they create uncertainty and sovereign risk.

So why is gas still so important to our energy mix? Recent events in South Australia and Tasmania illustrate that gas still has an important role to play in maintaining energy supply.

³ <https://www.dnrm.qld.gov.au/our-department/corporate-information/policies-initiatives/mining-resources/gas-supply-demand-action-plan>

South Australia relies heavily on wind power, being the largest producer of wind energy in the country, spread across 16 wind farms with a combined installed capacity of 1473 MW⁴. Gas-fired, coal-fired and rooftop photovoltaics also contribute, as does supply from Victoria via the interconnector. In breaking news, the SA Government has announced a \$24 million incentive to increase the use of gas-fired power in the State⁵. SA Energy Minister Tom Koutsantonis has acknowledged the importance of gas as a transitional fuel, and has announced new initiatives to boost competition in the power sector and incentives to support further development of gas. *“The fact remains that gas-fired generation is essential to reliable electricity supply – its rapid response technology is the natural complement to intermittent renewable energy.”* Stronger physical links in the national grid will also allow an increase in supply and sale of wind and solar power when there is surplus.

Meanwhile in Tasmania a perfect storm of circumstance, including record low rainfall between September 2015 and April 2016, and an extended outage of the Basslink connector resulted⁶ in severe pressure on the hydro storages. Tasmania relies heavily on the production of hydro-power.

Typically in Tasmania the bulk of the power generated comes from hydroelectricity⁷ with 30 hydropower stations operating throughout the State. Wind power developments⁸ including Musselroe Wind Farm in the northeast, commissioned in 2013, and Bluff Point in 2004 and Studland Bay in 2007 in the northwest have a combined generating capacity of 308MW across a combined 118 turbines. The Bluff Point and Studland Bay wind farms were commissioned while the MRET (mandatory renewable energy target) was in operation. The Tamar Valley Power Station has a generating capacity of 386 MW split between combined cycle (CCGT) and open cycle (OCGT) gas generation. This is generally used for peak demand.

The Basslink undersea power cable allows the importation of electricity when low water storage levels mean that hydro-electricity generation is low; and conversely the provision of power to the mainland when generation is high. In late 2015, up to 40% of Tasmania’s energy needs were being imported via the cable since the State experienced the driest September to April period on record resulting in lower water storages than usual. With the Basslink interconnector out of service from 20 December 2015, this meant that in order to minimise disruption to consumers Hydro Tasmania had to:

- restore full capacity at the gas units at the Tamar Valley Power Station;
- implement temporary diesel generation, and
- negotiate voluntary commercial load reductions with major industrial users.

⁴ <https://www.sa.gov.au/topics/water-energy-and-environment/energy/energy-supply-and-sources/renewable-energy-sources/wind-energy/wind-energy-in-sa>

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http://www.energynewsbulletin.net/StoryView.asp?storyID=826967086§ion=Policy§ionsource=s245&aspdsc=yes&utm_medium=email&utm_campaign=ENB+Standard2016-9-9&utm_content=ENB+Standard2016-9-9+CID_2231c1d28b09a4ab13346144aaf77010&utm_source=Campaign+Monitor&utm_term=Full+Story

⁶ <http://www.hydro.com.au/energy/energy-supply-situation-and-response>

⁷ <http://www.tchange.com.au/infrastructure/hydro.html>

⁸ <http://www.hydro.com.au/energy/our-power-stations/wind-power>

The Basslink interconnector returned to service in early June, after almost 6 months. High rainfall in May and June alleviated water storage issues. The Energy Supply Plan⁹ final summary document provides an overview of the issues and the actions taken during this power.

What should governments have learnt from these combined events? Clearly an over-reliance on renewables, without adequate peak generation capacity to back it up, will leave you short. Despite the rhetoric of the anti-fossil fuel brigade, there is still, and will be for some time yet, a clear need for fossil fuels to supply the short-fall. We do not have a well-integrated enough network to seamlessly move power around the states. And in an ironic twist, Victoria will now likely lean even more heavily on burning its brown coal – which is possibly the worst environmental outcome possible.

Meanwhile, in other news set to make the domestic gas reservation camp somewhat happier, Origin Energy has signed a 20 year gas transportation agreement with APA Group¹⁰. APA will build and operate a pipeline from the existing APLNG network to the Wallumbilla Gas Hub. Gas from APLNG's CSG fields will then have direct access to the domestic gas market. APLNG already supplies about 25% of domestic gas to the east coast market. The Australian Energy Market Commission announced proposals in July to give users better access by increasing competition at the Moomba and Wallumbilla hubs¹¹.

This brings us back to the focus of much of the domestic gas debate: reforming the market, trading hubs and access to infrastructure. So finally **gas supply needs infrastructure**. Trying to address any particular aspect in isolation, without considering the exploration-appraisal-production-supply process as a whole, will not result in successful outcomes.

I am happy to hear suggestions about topics you would like covered. Feel free to email me at 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:

Level 14, 10 Eagle St
BRISBANE QLD 4000
P. +61 7 3229 8472
E. rlms@rlms.com.au

⁹ http://www.hydro.com.au/system/files/Energy_Supply_Plan_2016_Final_Summary.pdf

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http://www.energynewsbulletin.net/StoryView.asp?storyID=826967023§ion=Liquified+Natural+Gas§ionsource=s588036&aspdsc=yes&utm_medium=email&utm_campaign=ENB+Standard2016-9-6a&utm_content=ENB+Standard2016-9-6a+CID_b11652f23b5ef411e27122dba5bb5680&utm_source=Campaign+Monitor&utm_term=Full+Story

¹¹ <http://www.aemc.gov.au/News-Center/What-s-New/Announcements/Roadmap-released-to-reform-east-coast-gas-market>