

Analysis of the NSW Gas Plan April 2015

Preface

This paper was provided at the request of Carmen Dwyer of the NSW EPA who has been charged with rolling out the Gas Plan. In keeping with the aim of frank and open communication between all parties, I think it would be desirable for it to be circulated widely. As far as I am concerned, it is a public document.

Time does not permit the extensive referencing and footnoting that such a meaty topic deserves. Much of the justification for the position held by Groundswell Gloucester is on our web site and in correspondence to government and agencies.

New South Wales

Climate change

Competent authorities worldwide are concerned that too little is being done by high emitters such as Australia to curb greenhouse gas (GHG) production. A plan for developing yet another fossil fuel in such an environment should deal with climate change – yet it is not mentioned in the Gas Plan.

Evidence for the claim that burning gas produces lower total GHG emissions than burning coal is absent from this Plan and from the Commonwealth Domestic Gas Strategy (DGS).

The DGS makes passing reference to CSIRO studies on fugitive emissions, which I assume is the report of the Energy Technology Division of June 2014. This report is appalling. It took a tiny sample of gas wells (not random but provided by the industry) and tested emissions only from the wells (ignoring all other system components) and only tested at a single time. None of the testing was done at Gloucester where the complex geology increases the risk of gas escaping. The report is so filled with caveats that it should never have seen the light of day.

The GHG consequence of fugitive emissions from NSW gas fields is still an open question and the Plan makes no mention of any systematic and credible project to remedy that absence of data.

Per unit of electricity produced burning gas produces fewer combustion emissions than coal. However, gas will not displace coal on the east coast instead gas power stations will probably be shut down. The reason is that the price of gas will soon be so high that burning coal is much cheaper. Thus, the

expansion of the gas market has the perverse consequence of increasing rather than decreasing GHG emissions.

In ignoring climate change and failing to consider the alternatives to gas as an energy source the Plan loses any credence as a relevant energy policy document. What then is its purpose?

Inadequate Supply as a Reason for Local Development

The Plan says “The Australian Energy Market Operator predicts that NSW could face gas shortages in the next five years, if things do not change. To put downward pressure on energy prices and secure supply, we need the growth of viable gas projects. It’s that simple.” And also “NSW is rich in gas resources, but only five percent of the gas we consume is produced in NSW. Without affordable and reliable gas supplies our manufacturers will struggle to compete and households will pay higher prices.”

The industry and government speakers including Minister Roberts and Deputy Secretary Hargreaves have made similar public statements several times. AGL has produced the consultant’s report “Solving for X” showing that under their modelling there will be gas shortages in the winter of 2016.

Nobody has ever explained why the gas supply has suddenly become unreliable and no justification has been given for the assumption that developing NSW gas fields will be a remedy for this supposed problem. Gas fields currently supplying NSW will not be exhausted soon. Demand is not rising – in fact the contrary.

Recently Ms Hargreaves said that industries that have been using gas are suffering and implied that developing Gloucester would be at least a partial remedy to their problem. There is no doubt that industries that were profitable when gas was near \$3 per GJ will struggle (or cease) if the price reaches \$7 or \$9 per GJ. While admitting that the market is never going back to past days of very cheap gas she somehow still maintained that developing NSW fields would be essential to those industries without producing any evidence.

To imagine that local producers would not sell their gas at the maximum possible profit suggests company directors would fail in their legal duty to shareholders. In the absence of a gas reservation policy (that neither state nor federal government supports) the unit price will approach the export netback price. Petty fields such as Gloucester will hardly make a significant difference to that.

The Australian Energy Market Operator (AEMO) has now reversed its position and declared there will not be gas shortages in the next five years. AGL has renewed contracts to supply the domestic market until 2020. Victorian fields can continue to supply NSW longer than that.

AGL have announced that not only can they continue domestic supply but they will have enough gas under contract to sell an amount per year into the profitable QLD market that is greater than the forecast yield of Gloucester.

The often-repeated promise that local gas will not be exported simply saves the industry the expense of constructing a local export terminal. Local gas sold to the local market will free them to export other gas in its place thus, holding hand on heart, they can say they did not export local gas while reaping the profits as if they had.

The Plan mentions investigating new pipelines. I wonder if this is an acknowledgement that transport is more of an issue than local origin, or is it to facilitate avoiding bad press by the deception of not exporting local gas while profiting from export all the same, or both.

So, other than maximising local gas industry profits, why do we need local gas and why do we need it in a hurry?

Transparency of the East Coast Market

Action 15 raises the issue of the opacity of the eastern gas market. In sharp contrast to the electricity market there is little or no data available to gas buyers or government about available energy supply or contracted future prices. Minister Roberts has remarked on his frustration concerning this industry secrecy. The Minister has statutory obligations to ensure that domestic gas supply continues. Under the present situation, he is in the dark and cannot properly discharge that duty.

Action 15 is a concern to the public firstly because in calling for the industry to reveal the missing data the Minister acknowledges that he doesn't really know what is going on. So how can he declare the supply is under threat? Secondly, this action makes no mention of compelling producers to reveal the data.

Government intends to use the carrot rather than the stick and to award Strategic Energy Project status only to those who voluntarily support this initiative. The two NSW projects that might contribute to the gas market this decade already have such status so this motivation has no practical effect in that timeframe.

The public has the right to be assured that the gas producers do not manipulate the price of gas by engaging in cartel behaviour. For all we know the consumer price of gas may be influenced more by the secrecy of the market, which weakens all buyers' negotiating positions, than the small production volume that might become available from local gas fields.

Perhaps AEMO would have got their predictions of supply right the first time if they had sufficient data.

The commonwealth DGS also raises this point thus: "Improving gas markets to enable better access and price discovery for all market participants including customers"

Why is it that all of government suffers the gas industry to hide this key data of considerable public value behind 'commercial in confidence' ?

Public Health

The Plan is silent about the risks to public health of developing CSG fields close to housing. There is some evidence from overseas and QLD that unconventional gas production is detrimental to health. Saying that such reports are not high quality peer-reviewed studies (and thus can be ignored) is an example of the reversal of the precautionary principle. Rather than prove that CSG in NSW will be safe the onus is put on to critics to prove that it is not safe.

Speakers from the Department of Health have said that epidemiological studies will be inconclusive in small populations such as Gloucester. Other than that, there is little evidence that Health has contributed at all. If everything is just

fine perhaps the Minister for Health will say that his experts have thoroughly examined the regulatory regime and declared it safe.

The current regime is to model the problem and to declare that probably there is no significant risk. Models depend on both accurate representation of the real world and on the assumptions that are fed into them to be useful. The community does not trust models, especially when they are told nothing that would give them faith in the process of building them.

Another way to show the community that they are not at risk would be to do a base-line study of health before extraction starts and then to reassess community health at intervals until it is clear that there is, or is not, a health problem. There has been plenty of time to set this up, at least at Gloucester, because four years have elapsed since conditional approval.

Apparently, this approach is too expensive (and might provide evidence that exposes the producers to legal action) so it will not be done. Thus the community is left with 'trust us it will all be fine'.

The extended uncertainty of development of both coal and gas extraction, the cumulative impacts, loss of family lands and vistas and loss of amenity has taken its toll on the mental health of the community and its social structure. Any health assessment activities undertaken must include not just physical health but mental and social as well.

Perhaps the 'sharing the benefits' money could be directed into demonstrating to people that they and their children will not get sick and to healing divisions.

Review of Royalties

An independent reviewer is supposed to report to the state next month whether the royalty regime encourages sufficient investment in gas. We have heard nothing about who is conducting the review or what they have been doing.

This action can only mean that the state is considering a reduction in royalties or some form of royalty holiday for CSG production. One has to ask why a government subsidy would be required for a new industry that is claimed by proponents to be so bountiful. If the state can afford subsidies for new industries then the renewable energy industry would be a more worthy target.

Divide and Conquer

It is hard to imagine a more cynical action in the Plan than foreshadowing that gas producers will be required to share more of their profits with the communities at risk from their projects. This features prominently in advertisements.

If sufficient harm is caused by the proximity of CSG to houses or land or water to justify compensation then why are the projects being allowed at all?

If this resource sharing is a distribution of the value of minerals in the land collectively owned by all Australians then how can giving a greater share to some and less to others be justified?

The explanation for this move is that it is pork barrelling. The industry and government realise that CSG is very unpopular in nearby communities and would like to buy them off. The primary aim is to buy the opinion of the whole community. If that cannot be bought, then the secondary aim is to buy a

sufficient proportion to guarantee conflict or to provide a plausible illusion of community support for CSG. We already see AGL's attempts at astroturfing to augment the institutional pro-gas lobby.

Statements from APPEA and pro-gas lobbyists show that they would dearly love to separate green activists from landholders. This announcement is a contribution to a strategy to do just that.

AGL already tout at every opportunity the \$47,000 they have spent in a year at Gloucester to try to buy some good opinion. That trivial sum has already contributed to the divisions within the community and one can only shudder at the prospect if they provide a significant sum in future, especially if they are allowed to play favourites with its distribution.

Gloucester

The Role of the Agencies at Gloucester

The Waukivory fracking pilot was stopped in January due to unforeseen pollutants being observed. At the time of writing, three months later, we still don't know if any environmental harm has been done. Given that delay it is hard to see that either the monitoring advised by the EPA was adequate to provide sufficient data or that the agency is appropriately resourced to deal with problems in good time.

When the AGL irrigation scheme was proposed at Tiedmans, Groundswell said that in time the salt would kill the soil and that the pollutants would become evident in the runoff or in the fodder, or both, as they could not simply vanish. Apparently some assessment within the EPA agreed with that view but the project was approved anyway. In my view the consent authority did not want to stand in the way of AGL.

Now the project has been cancelled. Despite the spin from AGL that it was a great success it would not have been cancelled if AGL thought they had a chance of getting an extension because they are now left to find a destination for the remaining produced water from Waukivory and two more pilots as well if they go ahead. This project was not an 'irrigation trial' just a convenient way to get rid of some dirty water without the expense of RO and it has been stopped for exactly the reasons foreseen.

The Plan mentions a number of times that the Independent EPA is the Chief Regulator for CSG. Recent discussions with EPA have not really assisted us in clarifying how EPA's role has changed with its new title as Chief Regulator. The Government through the Plan needs to spell out exactly what this means and how this has changed compared to its previous role.

In **Action 7**, it states that the community will have 'one place to go should they believe violations.... are occurring.' How will this also apply to conditions and regulations set through the PEL, future PPL and Part 3A of the Planning legislation that are not Acts administered by the EPA?

In particular monitoring and compliance around pollution of aquifers, surface water and riverine ecosystems is quite opaque and seems to still be divided between various agencies.

The Plan says: "Starting in the Gunnedah, Gloucester and Clarence Moreton basins, experts have studied groundwater availability in these areas and carefully analysed where industries such as agriculture and mining draw their water and the volume allocated. This project is now being rolled out across the state."

What was the outcome of this analysis and why has it not been advertised to the Gloucester community?

In 2014 the Waukivory pilot was held up for 9 months while government pondered the problem of the relevant SEPP requiring an EIS that AGL patently did not want to do. The matter was resolved in AGL's favour by altering the SEPP so that an EIS was not required. On the same day the pilot was approved, the PEL was renewed and the EPL was granted. That afternoon AGL's trucks rolled in and their offices were surrounded by security.

Seeing AGL get free kicks from the umpire like this does nothing to reassure a community that is already suspicious of possible collusion with government.

It is hard to see how the EPA can be 'proactive and fearless' as stated in the Plan if they are not resourced properly or heeded. Trusting AGL to do their own compliance or waiting for the public to report a problem does not sit well with locals who see AGL reporting problems at their convenience and manipulating information flow to conceal risks that are invisible to the casual observer.

Exclusion zones

The plan refers to the creation of exclusion zones: "... within two kilometres of residential zones and within critical industry clusters. "

Many of the villages in the Gloucester valley do not benefit from the zone and the AGL stage #1 development area has been exempted. Thus, Gloucester does not benefit from this component of the approach 'reset'.

How can it be world's best practice to protect people using a property zoning system that was established for administrative reasons having nothing to do with the risks of pollution plumes from CSG activity?

The rules regarding REF approvals can be altered with retrospective effect to benefit AGL but not the exclusion zones to benefit the community.

Land Use Conflict

Manufacturing and other industries that consume gas and those that bear the risks of gas production, such as agriculture, are at risk of losing productivity and shedding jobs due to changes in gas production and marketing. Pro-gas speakers often defend the former while assuming the latter have no problem.

The Plan alludes to the consequences of CSG extraction impairing agriculture saying that the Gateway Panel will mitigate effects. Of course the Panel cannot do more than mitigate as they cannot forbid CSG.

The exclusion zone for industry requires that industry to be 'critical'. How this is determined is hard to see. The fact that in Gloucester the rural nature of the views and vistas of the district and its clean-green image bring in at least \$50 million a year from tourism seems to be overlooked. The political influence of horseracing and winemaking industries is relevant to them being protected. Agriculture at Gloucester has no such protection and can be industrialised by coal and gas.

The beef and dairy industries of the valley benefit from the clean image too. No authority wants to discuss what beef farmers should put on their vendor declarations concerning pollution from CSG that they have no control over.

AGL has spoken at frothy optimistic meetings about the possibility of a gas-fired milk factory in the valley. None of AGL, the impotent go-between Dairy Connect and current dairy manufacturers want to talk about the possible cost to the dairy industry of the perception of milk pollution.

When it comes to grand plans like exporting milk powder to China perception of pollution is as important, or more important, than reality. Nothing is being done to protect the brand name of Gloucester by proving that CSG has no such consequences. As with human health the attitude is: the model we use says there is no problem, trust me, I'm from the government.

Land and Water Commissioner

Mr Laurie has not provided independent advice but stuck strictly to the combined AGL-government position. He has rarely, if ever, supported the community in obtaining the information that it wants but been more comfortable sticking to whatever either AGL or government was willing to provide. His uncritical endorsement of the fanciful milk factory project at Gloucester suggests he is more concerned with the appearance of supporting communities than the reality.

Use it or lose it

"We will seek from titleholders serious commitments to invest in this state by the end of 2015. If a serious commitment to invest in the state cannot be demonstrated, companies may face cancellation of their titles."

The terms of the AGL conditional Part 3A approval are that it expires in February 2016 and AGL must demonstrate commitment to production before then by ordering at least the major part of the equipment required.

AGL are already saying they will not make their final investment decision until 2016 but since that decision has already been put back several times that target is uncertain. Is the definition of 'serious commitment' in the Plan consistent with their existing approval or will they be granted an extension if they ask?

Priority 1

The final report of the Chief Scientist and Engineer (CS&E) says:

"...the CSG industry can in general be managed through:

- careful designation of areas appropriate in geological and land-use terms for CSG extraction"
(plus five more items)

Under Priority 1 the Gas Plan quotes the second to sixth items from the CS&E verbatim but the first item has been edited to say instead:

"...the coal seam gas industry can be managed through:

- careful designation of areas appropriate for coal seam gas extraction"
(plus five more items)

The qualifications relating to geology and land use were the only things that were excised from the extended CS&E quote in the Plan. These are the very matters that pertain directly to Gloucester.

The CS&E report also says:

“... provided drilling is allowed **only in areas where the geology and hydrogeology can be characterised adequately**, and provided that appropriate engineering and scientific solutions are in place to manage the storage, transport, reuse or disposal of produced water and salts – the risks associated with CSG exploration and production can be managed.”
Where in NSW does Professor O’Kane mean the geology and hydrogeology cannot be characterised adequately if not Gloucester? Despite the Plan saying that the CS&E report recommendations would be adopted in full this qualification to the recommendations is not mentioned.

It is hard to avoid the conclusion that, whether or not the CS&E report is implemented in full elsewhere in the state, it certainly will not be implemented in Gloucester.

Communication of Change and Community Consultation

With the exception of risks to health, land and water, this is possibly the most vexed issue in the whole CSG debate at Gloucester. The two matters are intertwined.

The proposal to develop the gas field was approved in the form of a concept plan and stage #1 gas field of up to 110 wells in February 2011. Commonwealth approval followed. State approval was under the now repealed Part 3A of the EP&A Act and while the community did have the right to make formal submissions to that process, it had no provision for a merits appeal.

The original EIS and proposal was made without a detailed study of many aspect of the project. Just how the risks of fracking would be evaluated and managed was put off to a plan in the future. The proposal listed several ways to dispose of produced water and although AGL has now settled on reverse osmosis, which was the favoured method proposed, the topic was dismissed in a few paragraphs by putting it off to another future plan. Many other aspects of the project were treated the same way. The state and commonwealth applied many conditions to their approvals to make up for lack of detail and rigour in the original assessment.

The practical consequence of this process has been to prevent public input and scrutiny of many significant components of the project. The community has no right to be involved in the multitude of Reviews of Environmental Factors (REF) or the process of evaluating the many conditions applied. Last year when the SEPP of the day required an EIS it was changed so that a REF would suffice. Given that AGL said there was as much work in doing the REF this was done just to avoid public scrutiny.

In the guise of community consultation AGL participated in the Gloucester Dialogue, a Community Consultative Committee of their own devising and have spent millions on a sustained media campaign and uncounted additional meetings. In all of these activities AGL adopted one approach, which is to reveal exactly as much information as they thought would suit their purposes and if that was not what the community wanted or needed – tough luck.

AGL has since been expelled from the Dialogue and their CCC is characterised by opacity, unanswered questions and a similar rate of spin as their advertisements that feature fat cows, green pastures, pretty models and little about gas. There

is ample evidence that AGL does not have, and judging by their corporate behaviour will not earn, a social licence for the project.

To understand details of the AGL disinformation campaign, their failures to declare political donations and other reasons why they are not fit to hold their licence download 'Exposing the Truth' at <http://www.groundswellgloucester.com/info.html>

The government information campaign has followed a parallel course in that the OCSG web site makes all the points in favour of CSG development, including some debunked here, and says hardly a word about the risks or the way that regulation is being developed on the run. The Plan advertisement in the Gloucester Advocate leads off with: securing farm futures, financial benefits and landowner payments and continues with images of green fields etc. The government response to community concerns includes systematically refusing GIPA applications about the processes of approval and regulation of CSG.

When a major component of government communication turns out to be PR and not information that satisfies the community's need to understand their future the people become more distrustful.

Conclusion

If viewed as a statement of state-wide energy policy or a roadmap for a new industry the Plan is deficient in many areas, largely in crucial matters not mentioned and assertions not supported by evidence.

If it is viewed as a public relations exercise intended to sway a doubtful electorate towards a truth they have somehow missed, it is biased, simplistic and not believable.

So many decisions have been made over the years that favour AGL regarding the Gloucester Gas Project you might think we would be used to it but it is still confronting to see the interests of the valley's community specifically excluded in such a statement of government intent.

The Plan advertises a reset of approach to CSG but there is no reset for Gloucester just more of the same. No good explanation has been given in the Gas Plan why NSW needs CSG, why we need it now and how it is appropriate at Gloucester. The people of the Gloucester-Stroud valley have every right to feel like a CSG lab rats. The community sees it is headed for the sacrifice zone, while wondering why.

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