

Submission | *Minerals Legislation (Offshore Drilling and Associated Infrastructure Prohibition) Bill 2023 Inquiry*

Australian Petroleum Production and Exploration Association | 31 August 2023

INTRODUCTION

The Australian Petroleum Production & Exploration Association (APPEA) welcomes the opportunity to provide a submission to the Committee on Environment and Planning as part of your inquiry into the Minerals Legislation Amendment (Offshore Drilling and Associated Infrastructure Prohibition) Bill 2023.

APPEA is the peak national body representing Australia's upstream oil and gas industry. The Association has more than 60 full member companies that explore for and produce Australia's oil and natural gas resources. These companies currently account for an estimated 98 per cent of the nation's petroleum production.

In addition, APPEA also represents more than 140 associate member companies that provide a wide range of goods and services to industry. The oil and gas industry invests billions of dollars to generate reliable, secure and cleaner energy, creating jobs and economic growth for the communities in which we operate.

As the Committee considers the impact of legislation that would prohibit offshore exploration and drilling, we urge you to consider the risk of gas supply shortages in NSW and the importance of regulatory stability as the foundation of a dependable investment environment that will ensure NSW's energy security.

EXECUTIVE SUMMARY

- **To ensure a stable electricity market and maintain affordable domestic gas during the energy sector's transition, it's critical to invest in new gas supply for the east coast. This is particularly vital as coal-fired generators retire, renewable projects connect to the grid, and storage capacities are integrated to bolster renewables.**
- **Prohibitions and ongoing uncertainty will deter investment in new supply. This will impact the sector's capacity to deliver reliable, affordable energy for households and businesses in NSW.**
- **The Australian offshore oil and gas industry is governed by stringent regulatory and environmental legal frameworks, with a strong record spanning more than 60 years of safe and successful activity around Australia. This record should give confidence to the NSW Parliament that petroleum exploration can occur safely in NSW waters.**
- **CCUS is unique among emissions reduction technologies; it addresses emissions from current infrastructure, manages hard-to-abate industrial emissions, and supports extensive carbon removal. Its potential shouldn't be curtailed by broad legislative constraints like those in the proposed Bill.**

REGULATORY CERTAINTY NEEDED FOR NEW NSW GAS SUPPLY TO AVOID SHORTAGES

To ensure a stable electricity market and maintain affordable domestic gas during the energy sector's transition, it's critical to invest in new gas supply for the east coast. This is particularly vital as coal-fired generators retire, renewable projects connect to the grid, and storage capacities are integrated to bolster renewables.

The Australian oil and gas industry is working to ensure the secure, reliable and affordable supply of natural gas for NSW and Australian households and businesses against a background of a global energy crisis and domestic market upheaval. The Russian invasion of Ukraine has compounded the underlying trend of energy price increases in the domestic energy market caused by underinvestment in new gas supply combined with increasing demand volatility.

Prohibitions and ongoing uncertainty will deter investment in new supply and impact the sector's capacity to deliver reliable, affordable energy for households and businesses in NSW.

Australia's reliance on natural gas for secure and dispatchable power is increasing with the transition away from coal-fired power generation and growing shares of renewables. This was evident during the 2022 winter, where a combination of coal outages, limited renewable capacity and cold weather, saw demand for natural gas increase by 55 per cent relative to the same time in 2021. The ability of industry to ramp up supply to meet this demand is key to keeping the lights on and industries running across the east coast of Australia.

Natural gas has an important role in Australia's energy mix, and will have far into the future . According to the Australian Energy Market Operator (AEMO), *"as Australia transforms to meet a net zero emissions future, gas will continue to complement zero emissions and renewable forms of energy, and to provide a reliable and dispatchable form of electricity generation, and may provide potential pathways to incorporate hydrogen and other 'green' gases within Australia's energy landscape."*¹

Independent authorities and industry stakeholders have provided warnings to state and federal governments about the risk of gas supply shortfalls and the need for investment in new supply.

In its recent 2023 Electricity Statement of Opportunities (ESOO)² released on 31 August 2023, AEMO warns of the "material risk" to Australia's power supplies because of future gas shortfalls and a lack of investment in gas generation.

The report said the "ongoing availability" of energy sources such as gas "will be critical to the reliability" of the National Electricity Market (NEM), underscoring the critical need for new gas supply and gas generation capacity to ensure energy security as part of the net zero energy transformation³.

The report estimates that over 1.5GW of new gas power generation capacity is needed in New South Wales and Victoria by 2026-27 in order to meet current reliability standards. In NSW, AEMO said

¹ Australian Energy Market Operator Gas Statement of Opportunities March 2023, page 4

² [Australian Energy Market Operator 2023 Electricity Statement of Opportunities, August 2023](#)

³ AEMO 2023 Electricity Statement of Opportunities, p4

there were “significantly increased risks if thermal fuels are scarcer, highlighting the importance of maintaining the availability of coal, gas and distillate fuels, and the effective management of their supply chains.”

This is the latest in a series of reports from independent regulators warning of looming shortfalls in NSW and Victoria. AEMO and the Australian Competition & Consumer Commission (ACCC) have both repeatedly raised concern over supply shortfalls.

Despite increased production commitments from the gas industry, AEMO has warned supply in NSW and Victoria is declining faster than the projected demand.⁴ Meanwhile, the ACCC has forecast that the southern states are expected to experience a 44 PJ shortfall in 2024 due to declining gas reserves and high levels of residential gas demand during winter.⁵

Gas market shortfalls primarily stem from under-investment in supply and infrastructure. Intensifying these issues are market interventions, price regulations, permitting lags, and state impediments to new gas projects, collectively driving gas prices higher. Due to bans, moratoriums, and other interventions, NSW gas users face an additional \$2/GJ cost when sourcing gas from Queensland.

The best way to avoid shortfalls and put downward pressure on prices is to bring on new gas supply close to where it is used. The closer the gas is to the customer, the lower the cost. The offshore Sydney Basin is a rich source of potential new gas supply, close to Australia’s biggest domestic energy market and positioned to provide reliable backup for increased uptake of renewable energy in NSW.

INDEPENDENT REGULATORS BEST PLACED TO ASSESS ENVIRONMENTAL CONSIDERATIONS

The Australian offshore oil and gas industry is governed by stringent regulatory and environmental legal frameworks.

Exploration plays a vital role in identifying and developing new energy resources that can create jobs and additional reliable and affordable gas supply. The best gas is the gas closest to customers.

The Australian oil and gas industry has a proud record of safe operations and minimal environmental impact over the past 60 years. This has included more than 3,000 exploration and production wells that have been drilled in Australian waters, predominantly off the Victorian and Western Australian coastline.⁶

The Offshore Petroleum and Greenhouse Gas Storage Act 2007 (Cth) provides a robust regulatory framework for petroleum exploration and recovery as well as the injection and storage of greenhouse gases in offshore areas (which is necessary for carbon capture and storage). Offshore petroleum exploration and storage titles are managed by the National Offshore Petroleum Titles Administrator (NOPTA), which provides advice to the Joint Authority.

⁴ Australian Energy Market Operator Gas Statement of Opportunities March 2023, page 4

⁵ ACCC Gas Inquiry Interim Reports, June 2023, page 10

⁶ [2015 Operational Review of NOPSEMA](#), p60

The 'Joint Authority' is the decision maker under the OPGGS Act. Where decisions are to be made under the Act in relation to the offshore area of a State, the Joint Authority comprises the responsible State minister and the responsible Commonwealth Minister. The responsible Commonwealth Minister is the final decision maker. The Joint Authority's functions include but are not limited to; the grant/refusal of offshore petroleum titles, variation, suspension and extension of title conditions, and renewal, surrender and cancellation of titles.

Meanwhile, the most recent statutory independent operational review of the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA), which is Australia's independent safety and environmental management regulator for all offshore energy operations and greenhouse gas storage activities in Commonwealth waters, found it to be "appropriately focused in bringing about improvement in OHS, well integrity and environmental management across the offshore oil and gas industry."⁷ The review also found NOPSEMA to be "compliant with its obligations in administering the streamlined Endorsed Program under the *Environment Protection and Biodiversity Act 1999*."

The Committee's proposed amendment would hinder Commonwealth-approved offshore exploration beyond NSW waters by disallowing essential infrastructure, including vessel repair, refuelling, petroleum processing, and pipeline construction. Exploration permit decisions should consistently adhere to the established regulatory framework.

CARBON CAPTURE, UTILISATION AND STORAGE BENEFITS

CCUS plays a unique role amongst a portfolio of emissions reductions technologies as it can address emissions from existing facilities, mitigate emissions from hard-to-abate industry and underpin large-scale carbon removal.

The proposed amendment undermines the potential for the deployment of future carbon capture, utilisation and storage (CCUS) projects in NSW.

Australia's world-class CO₂ storage resources along with a wealth of CCUS skills and experience within the industry gives Australia a comparative advantage on the roll-out of CCUS. To capitalise on Australia's CCUS potential, we need clear policies and a stable regulatory and investment landscape.

If you require further information, please contact APPEA General Manager – Policy and Advocacy, Victor Violante, at vviolante@appea.com.au

⁷ [2020 Operational review of NOPSEMA](#)