NORTH WEST GAS DEVELOPMENT (WOODSIDE) AGREEMENT AMENDMENT BILL 2014

Second Reading

Resumed from 26 November 2014.

MR F.M. LOGAN (Cockburn) [7.00 pm]: I am not the lead speaker on the North West Gas Development (Woodside) Agreement Amendment Bill 2014, as that falls to the shadow Minister for State Development, who is currently committed to a matter outside the Parliament and will return in the near future, but I am a speaker on the bill so my allotted time will be as indicated on the clock.

I rise to make my contribution to the North West Gas Development (Woodside) Agreement Amendment Bill 2014. The bill is supported by the opposition. However, we have a number of points that we wish to make about both the domestic gas market, which a significant amount of the bill refers to, and the bill itself. Effectively, as set out by the Premier in his second reading speech, the provisions of this amending bill go to a number of changes for the approval of an additional 86 million tonnes of liquefied natural gas to be produced from the Woodside joint venture operations on the North West Shelf. New clause 46(1B) provides that the joint venturers need to obtain the minister's approval before any arrangements are entered into for the export of LNG from gas to be recovered from wells in the agreement area that goes beyond the existing approvals, and such additional LNG will be subject to the agreed domestic gas commitments. New clause 46A provides that the joint venture parties are required to reserve, market and make available new domestic gas equivalent to 15 per cent of new LNG exports approved for marketing under new clause 46(1B).

Of course, the most important part of this amending bill also opens up a possibility for third party tolling of gas through the North West Shelf joint venture operations that are managed by Woodside. That in itself, if it is agreed to by the partners in the North West Shelf operations and the third party who may wish to use the facilities on the North West Shelf, is a critically important part of the agreement. I put it to the house that it is unfortunate that provisions were not included in the bill that will put even greater pressure on the North West Shelf operators to seek third party usage of their facilities in the North West Shelf for the tolling of gas. I say that because of a number of things. Firstly, as the volume of gas that is actually fed into the North West Shelf operations continues to decline, the operators will be looking for other sources of gas for both domestic and LNG exports. Secondly, should that volume of gas not be available, discovered or in the volume they thought, they will obviously be looking at other operators that may well have a large volume of gas. I believe Hess Corporation is in discussions with the North West Shelf joint venturers; it has discovered a very large volume of gas offshore but it does not have the facilities to liquefy it or even make it available to the domestic market because it has no infrastructure.

We see from the history of the North West Shelf operations, as outlined by the Premier's second reading speech—he knows more about the history of those operations than probably anyone else in the house—that the whole of the LNG export industry was underwritten by the state of Western Australia. The state undertook a take-or-pay contract with Woodside, as the lead management company of the joint venturers in the North West Shelf, to take a higher volume of gas from the operations than the state could use at the time. That take-or-pay contract, in effect, underwrote the unbelievably dynamic export LNG industry that currently exists in Western Australia. I believe that long-term contract has been replaced with a further contract for an extension of the volume of gas to be taken from the North West Shelf operations, but not at the volume originally committed to by the Woodside joint venture operators. The North West Gas Development (Woodside) Agreement Amendment Bill 2014 does not require the operators to increase that level. Effectively, the volume of gas that will be made available to the domestic market from the North West Shelf operations is 700 petajoules. That gas commitment is equivalent to a little under 100 terajoules a day, or about 10 per cent of the current consumption in Western Australia.

That leads one to say that if that is to be the official volume of gas out of the North West Shelf operations, it will certainly not meet the demand from the domestic gas industry. It is the view of the government and the market that the rest of the volume of gas that will go to meet domestic demand will be made up of supply from Chevron's Gorgon operation when it comes onshore, the Wheatstone operation, and of course the Apache operation outside Onslow, which has just started up and is pumping into the domestic gas market as we speak. The view of the Department of State Development, Woodside and, I believe, the market is that the difference in the decline in the volume of gas made available to the domestic market from the North West Shelf operations will be made up—even though a further long-term contract has been signed—from the increase in the volume of gas from existing and new Apache operations, and also the new supplies of gas that will come onstream from the Wheatstone and Gorgon operations.

That leads to a continuation of the volumes of gas at probably not much more than what the domestic market consumes at the moment. Therefore, that will not provide a market condition in what upstream suppliers would say will be an oversupply of gas into the market and what the downstream consumer—for example, DomGas Alliance—would argue will be a healthy supply of gas for marketing. It will not lead to market pressure to bring down the price of gas. The shadow Minister for State Development will probably refer to the fact that the spot-market price for gas in China is now at $6 a gigajoule, which is cheaper than the price domestic users of gas get from upstream suppliers in Western Australia. If a larger volume of gas is not made available for domestic consumption, two things will occur: firstly, it will continue what I believe is the unsustainable current price of domestic gas; and, secondly, it will not give the state government, whichever party is in government at the time, the economic levers to attract new energy-consuming industries to Western Australia, and that is where a major number of jobs are created. Any country in the world with vast volumes of gas will attract energy-consuming industries for the purposes of carrying out production. Look at Saudi Arabia, Qatar, Bahrain or Malaysia, for example. All those countries have vast volumes of gas that they are able to offer access to at a cheap rate. Mineral processing or energy-intensive industries will locate in those countries for obvious reasons—because it is cheap energy. Our ability, particularly in Western Australia as a major resource producer, to process those resources and even manufacture those resources downstream, is constantly constrained by the cost of energy. One of the main drivers of that cost of energy is the volume of gas available to Western Australia and the price of gas marketed in Western Australia. For example, even in my own electorate—the Premier knows this, because I have raised it a number of times and he has commented on it—Cockburn Cement used to have a fuel mix of 80 per cent gas and 20 per cent coal, but it is now using 80 per cent coal and 20 per cent gas. It found itself in that situation because of the volumes of gas available and the price at which gas can be sold to Cockburn Cement. That is a classic example of the impact of the volume of domestic gas.

One good thing about this bill—there are a number of good things in it—is that it confirms the state government's commitment to the 15 per cent gas reservation policy. The gas reservation policy is under attack and continues to be under attack. A recent report by the federal Minister for Industry and Science has already criticised the Western Australian reservation policy, while the Western Australian Economic Regulation Authority has recommended that the gas reservation policy be removed because it does not allow for proper operation of the marketing of gas and restricts the ability for upstream players to make whatever choices they want to make about gas. The reservation policy is continually under attack by certain sections of the business community, the ERA and certain sections of the Western Australian government, and it is certainly under attack by the federal government, whether it is the Productivity Commission or the Department of Industry and Science and the Minister for Industry and Science. Ironically, as much as our reservation policy is under attack, it is being considered by New South Wales and Queensland as an option to protect their industries and their supply of gas. We will see what happens in that area in the future. The one good thing about the North West Gas Development (Woodside) Agreement Amendment Bill 2014 is that it confirms the importance of the domestic gas reservation policy.

The second benefit that will come from this legislation is, as I indicated, the possibility of allowing third parties to gain access to North West Shelf infrastructure for the purposes of tolling gas. Significant volumes of gas off the north west coast of Western Australia have yet to be harnessed and brought onshore. ExxonMobil is still a long way from doing that with its Scarborough field, given the international price of gas at the moment. It is an enormous field that has massive potential for Western Australia in the future, but it has yet to be considered for production. Hess Corporation's operations have resulted in significant finds. I believe that that company would like to see the processing of its gas, but with the cost of infrastructure being what it is at the moment, whether it is onshore or offshore, and the global price of gas continuing to decline, it would only make sense for companies like Hess to harness and monetise the value of their gas by tolling it through an existing facility. If that facility can be made available in the North West Shelf, that is a great thing; indeed, it would be good for the North West Shelf players, the state and obviously for Hess. The legislation will also provide that beneficial outcome.

I will point out further criticism about the situation in which Western Australia finds itself in the marketing and availability of gas, particularly from the North West Shelf. This bill has not addressed that issue, and I do not expect it to be addressed by the bill, because it cannot be addressed by the bill. However, in discussing the bill, I would like to hear the Premier's comments about the joint marketing approach by North West Shelf players to domestic gas. Under Australian Competition and Consumer Commission provisions, for many years Liquefied Natural Gas Ltd from the North West Shelf was allowed to be a single joint venture selling operation of Australian LNG for the international marketing of Australian liquefied natural gas. That monopoly selling position was allowed also for marketing domestic gas. Over the years, the six players in the North West Shelf operations have decided that they do not want to market their gas through a single marketing body such as Australian LNG Ltd, and they have gone their separate ways and now organise the sale of their gas with separate contracts through the six individual players of the North West Shelf. Even though it has been referred to the

Australian Competition and Consumer Commission on a number of occasions, the monopoly marketing of domestic gas continues to be allowed. Buyers, whether they be the state government through Synergy or private buyers, still have to deal with a monopoly seller on the North West Shelf. That is wrong and it should be changed so that some further competition can be brought into the market and some market pressure can be applied to the delivery of gas. In the long term, that may well bring down the price of gas for domestic consumers. I know the DomGas Alliance supports that position, as do many other players in the industry. It is one position I put to the government that we must continue to support and push for.

MR B.S. WYATT (Victoria Park) [7.21 pm]: I, too, rise to make some brief comments on this North West Gas Development (Woodside) Agreement Amendment Bill 2014. As the member for Cockburn pointed out, the member for Cannington is the lead speaker on this bill, which the opposition supports. The Premier outlined in his second reading speech the purpose of the legislation, which is, effectively, a variation to the North West Gas Development (Woodside) Agreement Act 1979 to take account of a number of different things. I thank the staff from, I assume, the Department of State Development for their briefing today; it was very enlightening. I always find the story of gas and state agreements in Western Australia very much a story of Western Australia, and I always find them interesting. I came into the Parliament in 2006 without a huge understanding of the history of gas, but I certainly became aware of the North West Shelf mainly during my time in the Army Reserve, funnily enough. Having spent many years in the Pilbara, I knew it was there, but never really had anything to do with the LNG facility in Karratha, but during my time in the Army Reserve we spent time doing what I think was called vital asset infrastructure protection. I cannot remember now what it was called; it goes back to the 1990s–early 2000s. Junior officers travelled around the state to various vital assets with the idea of assessing how we would protect them in the event they needed protecting. I will not pretend for a minute that I know, but it was certainly an interesting time to get a better understanding of the importance of these assets to Western Australia and Australia.

In his second reading speech, the Premier outlines the history of the original agreement for the North West Shelf joint venture and the purpose of this particular variation. As was pointed out by the DSD staff during the briefing today, the joint venture was, of course, conceived originally as a domestic gas project with, effectively, an export component but over time it has become the most lucrative part of the project.

Mr C.J. Barnett: I think it is the other way around in reality. It was always going to be an export project. Domgas was a way of phasing into the export stage. Export was always going to be bigger.

Mr B.S. WYATT: I think that reflects what I was told today. If I did not say that, effectively, that is what the briefing told us today. Of course, we are all aware of what LNG has done over time, compared with what the price of domestic gas has done. Interestingly, that commitment has delivered over 5 000 petajoules into the domestic market. That obligation was met last year. We all know the facility is looking for more gas. It is my understanding from the briefing today that there are pressing final investment decisions around a couple of different gas fields—Persephone and Greater Western Flank. There is a developing sense of urgency about the passage of this legislation through Parliament, which will of course pass with the support of the opposition.

With the declining reserves and increased capacity at the plant, as the member for Cockburn outlined and as the Premier referred to in his second reading speech, a variation agreement allows third parties to bring gas through the facility, but that, of course, is also subject to the domestic gas policy. The reservation policy was raised by the member for Cockburn, specifically the 15 per cent requirement. Everyone would accept that a gas plant, regardless of its age, needs to be run efficiently and effectively, and nobody, least of all the owners, wants to see a facility not being used to its maximum capacity.

I was interested to hear during the briefing today that the state has a new right. Obviously, the company has the obligation to supply gas regularly, and in the event that the project meets all its domgas commitments and it wants to put the facility into a non-operational phase, it has to give the government six months' notice of this intention. The government also has the capacity, if it is not satisfied with the reasoning behind the project putting the facility into a non-operational status, to effectively refer that position to an expert third party to arbitrate that decision. The state has been given an important right, particularly as we enter into a different phase in the supply and demand of domestic gas and liquefied natural gas going forward.

The bill also provides for offsets. I do not think they are envisaged at this stage, but it provides for offsets and a credit for 43 petajoules has already been provided. In his second reading speech, the Premier emphasised the importance of providing for regularity of supply, but the rate is, of course, being left to the parties to sort out on a commercial basis.

This morning, the staff who briefed the opposition made the same point that I made at the beginning of my speech about changes in the gas market and access to infrastructure over the last four or five years. I am mindful of the rapid development in technology since I was elected in 2006 and how, in that time, the development of floating infrastructure seems to have also progressed remarkably quickly. It seems to be changing some of the dynamics around the commerciality of various gas reservations, as is no doubt the gas price itself.

I want to make points about two things. I have a little bit of flexibility in my contribution tonight. Some years ago legislation was introduced by the Premier regarding Bankwest. We made some changes to Bankwest through the Bank of Western Australia Act, or whatever it was called, in light of the fact that the Commonwealth Bank had purchased Bankwest. My contribution that night related to the story of Western Australia's bank debt, which in the past 40 or 50 years has been for gas. I do not know whether the Premier is aware of this book, but late last year I was sent—I do not know whether anyone else was sent one; I assume we all were—a copy of a 2014 book written by Kristin Weidenbach titled *Blue Flames, Black Gold: The story of Santos*. I have not read the book in its entirety, but I would certainly recommend it. Santos is a proud South Australian company that has operations that now go very much beyond South Australia. I have pulled bits and pieces out of the book about South Australian gas and oil, and the story of Santos—the South Australian Northern Territory Oil Search. If members look through the index, it certainly is the story of gas as it has matured as a market and is produced here in Australia, including Western Australia, because Santos has a significant presence in Western Australia now. It also refers to the involvement of Alan Bond in the 1970s, which left a long-term hangover, if you like, with a 15 per cent shareholding cap on Santos. It was not until 1979 that that cap was introduced into Santos by the South Australian Parliament, effectively to thwart Alan Bond's attempt to take control of Santos. When I read through this chapter, it is an interesting history of not only South Australian and Western Australian politics, but also national politics at the time in respect of Santos and oil and gas.

As members would expect, there is criticism when a state Parliament passes legislation to limit a shareholding. At the time, it required Alan Bond to sell down a significant percentage of what he then owned—some 20 per cent of the company, I think, from flicking through the book. The book states, "Bond would have to sell 22.5 per cent of his stake" in Santos. At the time, Prime Minister Malcolm Fraser and his Treasurer John Howard were very critical of the then state government of South Australia that introduced the cap. Interestingly enough, I think this was the same year that the North West Gas Development (Woodside) Agreement Act 1979 was signed between the WA government and the joint venture partners in the North West Shelf. It goes on to make the point, which is interesting to read bearing in mind where we are now in the price of gas, that it is a cyclical product; it rises and falls. It will only take a minute or two, but I will read in a part of the book about Santos struggling with the price of gas. I quote from page 111, which reads —

> 'The price of gas we were getting was so abysmally low and we were spending money to find more gas … It was very, very tight,' remembered Zehnder. 'We were very close to the bone at times. We really were.'
>
> The Managing Director —

Who was Zehnder —

> didn't try to hide the seriousness of the situation from his employees. Zehnder had only been at the company a relatively short time but already he had earned a reputation as a caring, honest straight-talker, and the trust of those around him. He gathered the staff together and said: '"Now fellas, look we're in a bit of trouble,"' recalled David Partington, '"I don't know whether we can pay you next week."'

The early 1970s were interesting times for Santos to be going through. The author makes the point again, highlighting that in countries such as ours commodity prices generally dictate politics and vice versa, and what happens during those times. She goes on to make the point —

> While Santos was wrestling with a widening gap between income and expenditure, the Whitlam-led Labor Party took federal office in December 1972 and quickly introduced a whole suite of measures that would have drastic and far-reaching consequences for Santos operations.

The author goes on to talk about Rex Connor's ambitious plans of effectively buying back the farm for Australia. For Santos, the first significant announcement was the then government's intention to establish a national pipeline authority to construct and operate a nationwide natural gas grid. The removal of the shareholder cap did not actually take place until 2006–2007. It has been around for a long, long time, bearing in mind it was introduced in 1979 to thwart a rampaging entrepreneur, which I guess was the thought at the time by the Parliament—probably the correct one. It would also be worth members going through and enjoying the writing of the politics around trying to remove the cap.

The person who had that job in Santos was Christian Bennett, a former Department of Foreign Affairs and Trade official. It sounds like he was employed by Santos effectively to ensure that that happened. A journalist by the name of Nigel Wilson, as the member for Cockburn knows and as we all know, was writing for *The Australian* at the time. John Ellice-Flint was the managing director of Santos at the time. He made the point that it was in the interests of the shareholders to remove the cap. Wilson, writing for *The Australian*, wrote some quite scathing pieces about the South Australian government not being at all keen on removing the cap in 2001. Kristin Weidenbach, the author of this book, astutely makes the point that the looming South Australian election may have had an impact on the success of that removal. Either way, the cap was eventually removed and Santos has continued to grow. No doubt it is having some trouble with the gas price at the moment.

Mr F.M. Logan: And its share price.

Mr B.S. WYATT: No doubt the gas price is flowing through to its share price. Santos is a South Australian company at heart. We have companies such as Woodside and Bankwest, that I referred to earlier. We should bear in mind that we had to deal with our own cap effectively. It was not a shareholder cap but we had to make some changes as a result of the purchase of Bankwest by the Commonwealth Bank.

Mr F.M. Logan: And Woodside by Shell.

Mr B.S. WYATT: That is right. These stories are not just about Western Australia but also Australia. They are interesting stories. We are very fortunate to have a process in which Western Australian state agreements and variations come through the Parliament. They are unique but it gives us, whether we are in the Parliament or outside the Parliament, a transparent way to watch the politics and the history of gas or iron ore or whatever the state agreement act is dealing with as they come and go over time. Last year the Premier brought in some amendments to an old state agreement act relating to iron ore that needed to be updated or abolished. I cannot remember the details now; it was something like that. They are always interesting debates to listen to because they tell the story of what we are and what we have created in Western Australia.

I did not intend to speak for long other than to make the point that we will be supporting this bill. Although I did not deliberately do so, I did a bit of a pitch for Kristin Weidenbach's book. It is an interesting read not just in terms of Santos but it gives the history of Alan Bond and others, where Santos is now and the role it plays in Western Australia.

DR A.D. BUTI (Armadale) [7.38 pm]: I rise to make a brief contribution to the debate on the North West Gas Development (Woodside) Agreement Amendment Bill 2014. I believe that the lead speaker has returned, for which I am glad because there is no way I would be the lead speaker on this bill. This bill seeks to amend the North West Gas Development (Woodside) Agreement Act 1979. As other speakers before me have mentioned, we have a domestic reserve gas policy in this state which I think we all agree is necessary. Through this variation agreement, the government is continuing its commitment to a gas reserve supply amount, which I think we would all be very supportive of. It is important to have a gas reserve policy because gas as a form of energy is incredibly important to the economy of Western Australia.

In 2011, there was a parliamentary inquiry into the domestic supply of gas in Western Australia. We should remember that under the original domestic reserve policy or the original domestic gas contracts, the domestic supply of gas was rather cheap. As time has gone on, it has become more expensive to source gas from other fields. They are different from the gas sources that were available when the original contracts were entered into. It has become a lot more difficult for suppliers to retain that 15 per cent domestic reserve limit because the margins have been squeezed.

In regards to this 2011 domestic gas reservation study, it is interesting to look at some of the documents that were produced. The "2011 Domestic Gas Scorecard" had a number of factors as headings—"2011 Market", "Status" and "2015 Vision". The status of "Gas brokers active in market" was completed and the 2015 vision was for greater liquidity and transparency. The 2015 vision for "New aggregators active in the market" was to have more market participants. The 2015 vision for "Short Term Trading and Gas Bulletin Board" was to have more short-term gas trading. There are other criteria. The 2015 vision for "New LNG projects selling domgas" was to have multiple sellers. The 2015 vision for "Unconventional gas developments" was to have direct competition between sellers. Greater diversity of supply was the 2015 vision for "North West Shelf State Agreement — State to prioritise domgas supply over new LNG contracts".

A discussion paper published on 1 June 2011 from the DomGas Alliance, headed "Meeting Domestic Gas Obligations: Discussion Paper" reads —

> Domestic gas reservation remains the single most effective policy available to the State to promote supply and competition in the WA domestic gas market.
>
> A strong, transparent mechanism to implement the domestic gas reservation policy will balance the needs of producers to cover their costs and deliver an acceptable return to their shareholders, and the needs of gas and electricity users to manage their energy costs at a level which allows them to compete in their markets and support the state economy.

It mentions in this paper the key elements —

> To meet this minimum requirement, a 15 per cent commitment needs to be applied on **all existing and potential gas reserves**.
>
> This must include the remaining reserves from the North West Shelf Project, the expanded reserves supporting the Gorgon, Wheatstone and Scarborough projects in the Carnarvon Basin, and the discoveries in the Browse Basin …

The paper very supportive of this 15 per cent reservation policy and refers to other issues about obligations in regards to joint venture and how obligations should apply to existing and expanded LNG production. It concludes by stating —

> Strong enforcement penalties should be applied to enforce domestic gas supply obligations. These could be incorporated as part of a project State Agreement or through other export licensing / land access arrangements.

Some people may seek to advocate for a greater minimum domestic reservation policy, and one could argue there is a lot to be said for that; we should be seeking to secure much of the domestic gas supply for domestic consumers. That is a very laudable aim for us to work toward, but the issue of the cost factor is something that must be considered, because it costs us more to access or source the gas in Western Australia than it does in much of Australia and also much of the world. Therefore, we have to always be mindful of the cost issues in any policy that we seek to advocate about energy sources for Western Australians and the export market.

It was very busy in 2011. The February 2011 "Domestic Gas Reservation Study" key points state —

- The State's gas reservation policy aims to ensure secure, affordable domestic gas supply to meet WA's long term energy needs and sustain growth, development and value-adding investment.

It is interesting and it refers to the various levels of gas that need to be committed to Western Australia.

The study then states —

- The State is likely to fall well short of this target.
- This exposes it to serious gas shortages, energy disruptions and even higher gas and electricity prices.

That we do not have security of gas supply for the domestic market is quite an alarming prediction. Of course, when we advocate for a secure domestic reservation policy, or gas supply for the Western Australian market, we must ensure that it will be viable, and it will be viable if there is a very strong export side to the equation, because that creates the economic value for producers and allows them to supply gas to the domestic market. We know that energy is paramount for any civilised society and any vibrant economy and that engaging in policies that create uncertainty in energy production has adverse effects on many levels of the economy. We talk about not wanting negative multiplier effects in the economy, because the consequences can be quite alarming.

I will read from the 2011 document, "The facts on Domestic Gas". Things would have changed somewhat since 2011, but not by a significant magnitude. The document states —

- Western Australia depends on natural gas for 60% of its primary energy and 70% of its electricity generation.
- Despite the State's "abundant" gas resources, businesses and households face serious gas shortages and sharply rising prices. This is threatening manufacturing, investment and jobs.
- The State's 15% domestic gas reservation policy is the most effective means of ensuring secure and affordable supply.
- Without reservation, large LNG export projects are unlikely to develop sufficient supply to meet the State's energy needs.

Gas is an incredibly important energy source for the Western Australian economy at many levels. Manufacturing, investment, small business and households depend on a secure and affordable gas supply. The bill before us recognises the importance of gas supplies to the WA economy and the significance of the domestic gas policy we have had for a number of years, and that should be welcomed. But, although we have an abundant gas supply in Western Australia, a lot of that gas is in commonwealth waters. That brings me to another point—the Premier is much more learned on these matters than I am—is there a national gas reservation policy?

Mr C.J. Barnett: No.

Dr A.D. BUTI: I think that is a bit of a problem. We have our own Western Australian gas reserve policy, which is important, but considering that much of the gas is sourced from commonwealth waters, I think it would be advantageous to have a national policy on this. That is the case in many other countries, including Egypt and Qatar. Of course, they are not a Federation like Australia is but they do have national policies. Energy sources feed into our national security policy. It is interesting that we do not have a national approach to this that includes the ability for state variations because we will always want to have control over our own domestic gas supplies. The bill before us seeks to continue the longstanding Western Australian tradition of having a domestic gas supply reservation policy. We should always be mindful that it is very important that the citizens, residents and companies of Western Australia have constant certainty about the gas supply. Legislation and contractual obligations should always work in a way that helps that to continue and should not inhibit or reduce our ability to supply gas to the citizens of Western Australia.

MR C.J. TALLENTIRE (Gosnells) [7.50 pm]: I rise to make a brief contribution to this debate on the North West Gas Development (Woodside) Agreement Amendment Bill 2014. I acknowledge that this bill seeks to ratify a variation to the agreement that has been made for the delivery of gas to our domestic market. I begin by saying that I support the legislation and the notion of domestic gas reservation. It is important for the delivery of a cleaner energy form, via the Dampier to Bunbury natural gas pipeline, to those of us who live in the south west of the state, and we benefit from that. It is also important for the economic wellbeing of this state.

I also want to make some comments about the use of liquefied natural gas. I note that according to the Premier's second reading speech, in the last 25 years this state has exported around 220 million tonnes of LNG. That was at a production efficiency level that I think would be typical of the levels expected 25 years ago. However, I note that in the Canadian province of British Columbia, under the Greenhouse Gas Industrial Reporting and Control Act, natural gas cooling facilities must meet a benchmark of 0.16 CO_2 equivalent tonnes per tonne of LNG produced. That is a good figure, I think. I notice that more recently, our own Environmental Protection Authority has been talking about an efficiency target of only 0.26 tonnes of CO_2 equivalent per tonne of LNG produced, and it is prepared to see that further improve over time. Therefore, there is some discrepancy between what we are aiming for in Western Australia and what British Columbia is aiming for. The British Columbians are going further than us. We are pitching this state as being a global leader when it comes to LNG production, yet on this one indicator of efficiency of production in terms of greenhouse gas emissions, in our very latest plant—I am looking here at the EPA report on the Chevron Wheatstone project—we are not keeping up. We are not in the game compared with the British Columbians. That is very disappointing.

However, I want to go on further about the Wheatstone project, and I touched on this briefly in my response to the Premier's Statement last week. Chevron, which is the proponent for the Wheatstone project, agreed to be covered by the federal emissions trading scheme. We need to bear in mind that Wheatstone involves the emission of 10 million tonnes of CO_2 a year. That is a significant amount of CO_2. That was to have been covered by the federal emissions trading scheme. However, the people of Australia, in their wisdom, heard the Liberal Party with its slogans and voted against the retention of that emissions trading scheme, and that scheme has now been removed. Therefore, the approval for Wheatstone is no longer covered by any form of constraint on greenhouse gas emissions, even though Chevron, with its Wheatstone project, had agreed to be constrained in some way. Chevron even accepted, and the Environmental Protection Authority put this forward, that should there be some change in circumstance, meaning that there would no longer be a federal scheme, there still should be some form of state coverage. It is really disappointing to see that we do not have that. For some reason the current state government has decided to give the Chevron company a free kick that they were not even asking for. Chevron was prepared to pay the price to some extent. I refer to condition 19 in the ministerial approval statement covering the Wheatstone project. The proponent and the minister had signed off on this project to be covered by some form of state-based system should the federal system fall over, yet that has not happened. The latest comments from the Minister for Environment were along the lines of, "Well, I'm not going to revisit this. I'm just going to let it off scot-free." It is amazing! The EPA said that of those 10 million tonnes to be emitted per year, it expects coverage of about 2.6 million tonnes at an absolute minimum because that is the reservoir gas level. The EPA expects coverage of that, yet no effort has been made at all. If we conservatively price that out, we can see that we are giving Chevron a free kick of around $50 million to $60 million a year, depending on the way a tonne of carbon is priced. I note that the British Columbians have figures not dissimilar to the figures we were using. They refer to the sequestration rate as around the $25 to $30 per tonne mark. However, it is very interesting to note their situation in reports I have with me. A report of 20 October 2014 states —

> Today, the BC Government introduced new legislation aimed to help BC meet its greenhouse gas emission targets by imposing environmental standards on liquefied natural gas (LNG) export facilities operating within the province.

> Under the Greenhouse Gas Industrial Reporting and Control Act, natural gas cooling facilities must meet a benchmark of 0.16 carbon dioxide equivalent … tonnes per tonne of LNG …

I mentioned that benchmark earlier. The idea of a domestic gas reservation is all very well, but we should be making sure that our plants are as efficient as possible.

I also want to question how our market-based system works when it comes to individual producers each wanting to have their own gas processing facility. There is something a little odd that the companies in the North West Shelf joint venture are currently facing a situation of there almost not being enough gas coming in for processing. We are looking for means to bring in gas from other fields owned by the holders of other acreages, yet we had to construct the Pluto LNG trains to deal with Woodside's LNG held in the area that was owned only by Woodside. We then had to duplicate things further down with Chevron and its Wheatstone project. Then we are looking at other options as well. There was talk of BHP Billiton having a dedicated facility for the Scarborough field. We, of course, have the Gorgon facility. It seems sometimes that the corporate world cannot work in a cooperative fashion that we know intuitively would mean greater efficiency. But of course those companies are in competition. This legislation is therefore an interesting example of competition not giving everyone the best price. Perhaps it is an example of competition leading to the unit cost of production being higher because everyone wants their own gas processing facility rather than combining in some joint user facility. I think that is something that should be explored further. I realise that it is not always a popular notion when we want to encourage competition, but we must acknowledge that there are times when that competitive force leads to everyone going their own way and going to the extra expense of having their own facility. To use a suburban example, it is like the idea that if everyone wants to buy their own lawnmower, we would not be as well off as if one person in the street buys a lawnmower and shares it around. There might be a comparison there that is applicable to this situation.

The issue of pricing comes into play. The Organization of the Petroleum Exporting Countries has dominated the energy prices in the global market and changed things around dramatically. It has put projects, such as some of the shale gas projects, into difficult circumstances and made it no longer viable for some of the US projects to sustain production. No doubt OPEC remains a major player in the global energy market. It is a master at providing just enough energy on the global market so that we then turn to its produce, rather than switching to alternatives. That is certainly a very interesting development that we have seen in recent times. I noticed the member for Victoria Park mentioned the situation with Santos. We know that the share price for Santos has fallen dramatically in recent times.

Another point is the role of floating liquefied natural gas processing into the future. I heard federal member for Brand, Gary Gray, talking on this. I know it is a contentious issue, but there is an argument that it will perhaps be the most efficient way of extracting gas from offshore gas fields. That, of course, has implications for the capacity that we Australians have to acquire some of that gas as domestic gas. It has implications for the potential for us to use that gas in downstream processing. In Western Australia we have not been particularly successful at the development of downstream processing facilities. With the North West Shelf joint venture and the development of the Burrup Peninsula, I recall talk around the Maitland industrial estate and the idea of having there a whole series of gas processing facilities and downstream processes and using that North West Shelf gas to develop a range of products, from methanol plants through to fertiliser plants. To the best of my knowledge, on the Burrup Peninsula we have only Burrup Fertilisers, when at one stage there was the opportunity for a company called Methanex to be there, and several others were looking to be on the Burrup Peninsula. However, at the time we were telling them that perhaps it would be better that they go to the Maitland estate to avoid the whole contentious issue of being in the vicinity of the petroglyphs of the Burrup Peninsula. I know that the Premier took that campaign very much to heart when he was Leader of the Opposition. He has deserted that campaign now, but that issue was of concern to many interested in the cultural heritage of the Burrup Peninsula. The thought was that if we could transfer that industry over to the Maitland estate, it would mean that there would not be any damaging properties in the air to corrode the petroglyphs.

Mr C.J. Barnett: It was Pluto that disturbed the rock art—the Pluto project.

Mr C.J. TALLENTIRE: The Premier is right. Prior to that, the joint venture also moved a lot of rock art.

Mr C.J. Barnett: Originally. Hearsons Cove, which was originally designated for Pluto, could not have affected the rock art.

Mr C.J. TALLENTIRE: It was a beautiful beach. It was the only swimming beach for the residents of Karratha. Now people who go there are pretty aware of the Burrup Fertilisers plant. We have allowed industry to be put in places where that rock art has either had to be moved or has been damaged in some way. That is a sad fact and hopefully we will learn from it. I know that amendments to the Aboriginal Heritage Act are set to come before the Parliament at some stage. I hope those amendments will lead to a toughening up of the laws around the protection of Aboriginal heritage so that similar events do not arise. However, from what I hear in preliminary discussions about those amendments, I fear that it is actually the other way and the government's intention is to weaken those laws that protect Aboriginal heritage. We will no doubt debate that on this side of the house and we will be extremely questioning of any weakening of the current laws and will question the government if it does not seek to toughen laws.

I support this legislation. There is very clearly a benefit to Western Australians of having a domestic gas reservation policy. There may be some economic arguments about certain distortions that come in when a percentage of gas supply is reserved for domestic use, but I think we can manage those and ensure instead that we have a reliable gas supply to the rest of the state that can be enjoyed by all Western Australians.

MR W.J. JOHNSTON (Cannington) [8.06 pm]: Mr Acting Speaker (Mr I.M. Britza), I let you know that I am the lead speaker for the opposition on the North West Gas Development (Woodside) Agreement Amendment Bill 2014. I start by saying that we will support the bill. My colleague the member for Cockburn also has a couple of questions and we will spend some brief time in consideration in detail, but I do not expect it to be too long.

I do not want to go over old ground too much, but on behalf of the Labor Party it is worth putting on the record how we have come to be debating this bill. Of course, we have to start back in the 1970s—in 1979—with the first part of this project. Let us make it clear: with five export trains and two domestic trains, this is a world-scale project. The companies involved have helped Australia because it is probably the single largest industrial project in the country and it has been exporting since the 1980s. It has been a tremendous contribution to Australia's economy. Having said those things—I know the Premier says this himself, and it is no surprise—I put on record again on behalf of the Labor Party that it was of course the domestic contract, the take-or-pay for the domestic supply of gas, that underpinned this project. Without that domestic supply contract, the North West Shelf project would never have proceeded at that time. Gas would have been used eventually because that is the way with natural resources—eventually there is a project that works—but at the time the only reason the project proceeded was that the state government took the risk and bought the gas. Remember, much of the gas that was paid for was never used in the early years of that take-or-pay contract because there was not the demand for the gas here in Western Australia. Later on, of course, the gas contract was renegotiated and became a volume contract, and even later it was broken up into separate contracts and all those contracts then ran their course. In 2011 the Economics and Industry Standing Committee reported into the domestic gas price in Western Australia. It is a great report; I was deputy chair of the committee and, obviously enough, I strongly endorsed the outcome of the report. It sets in very great detail the history of the gas price. Initially, the price paid for gas in Western Australia was very high—I have said this before and I will not go on for extra time—but over time it ended up being a lower price because of the way the market for gas around the world changed.

We are now paying probably the highest domestic prices in the world here in Western Australia. I will get to this in a minute, but there may be an argument to be made about the price paid by the Japanese or by North Asia generally for imported liquefied natural gas. In respect of domestic gas, because these are confidential agreements we cannot have complete transparency, but the reports in the media are somewhere between $7 and $9 per gigajoule for gas, which makes it the highest domestic price in the world.

There are interesting reports in the Asian media about what is happening with the gas price at the moment, and I will just read briefly from an online news report that appeared in an online LNG network, LNG Hub, dated 19 February. It explains the pricing formula and states —

> For Asian buyers, a reduction of $7 to $8/MMBtu in the price paid for LNG under long-term contract will provide welcome relief from the high prices they have been paying—the so-called "Asian premium".

The article continues, talking about the fact that spot prices in Asia have fallen because oil prices have fallen —

> However, this is not because of the oil price fall since spotLNG prices have decoupled from oil prices and are being setby supply and demand. Demand growth in Asia has slowed -in 2014 imports increased by 1.7% compared with 6.3% in2013. At the same time, Pacific basin supply has increased, boosted since May 2014 by output from PNG LNG, which delivered 51 cargoes to buyers during the year.

The article continues in reference to spot prices —

> … peaking at close to $20/MMBtu in February 2013 and 2014. However, by the end of 2014 spot prices had fallen to $10/MMBtu, nearly$9MMBtu lower than a year earlier. They have continued to weaken in 2015 and in the first three weeks of February they were under $7/MMBtu, the lowest level for nearly 5 years. They were also below European prices as measured by the UK's National Balancing Point (NOP) price, yielding a higher netbeck for producers in the Atlantic Basin and the Middle East

> than delivering cargoes to Asia The impact can already be seen by the increase of 17% in Europe's LNG imports in the fourth quarter of 2014 and the reduction in the reloading of LNG at European receiving terminals.

What does that have to do with the North West Shelf joint venture? We can see that there is a significantly declining price. If there is gas-on-gas competition, that is a good thing for users of gas. However, it is a bad thing for exporters of gas, and Australia is an exporter of gas, but in terms of our domestic market there should now be some easing of domestic prices. If there is no easing of domestic prices, it must be because there is a non-market problem, or a problem with our market that is not based on the laws of supply and demand. That is why I am raising this issue.

I will read another brief comment from the same report, in respect of the US market —

> In the last few days of December 2014, Henry Hub prices fell to under $3MMBtu and they have remained belowthat level in the first seven weeks of 2015. US natural gas production in December 2014 was at a record level of 72.5Bcf/d, 12.4% higher thanin December 2013. The market perception is that US natural gas prices will remain low rising gradually over the next decade to between $4 and $4.6/MMBtu in 2024. However, there is an alternative scenario in which US natural gas prices will be stronger in the longer-term because the balance between supply and demand will tighten.

The article goes on to explain why that might occur, which is related to what is called associated gas coming out of shale oil fields.

One way or another, it appears that that the days of $9 domestic gas in Western Australia should be numbered, and that is good for us.

I have said before that if there were a fungible price of gas, we probably would not need a domestic gas reservation. There is not a fungible price and that is why we need a domestic reservation policy.

The view around the industry and in the briefings from the Department of State Development—I think this is probably right—is that the market will remain in balance. The domestic obligation in this agreement that we are discussing is for effectively just under 100 terajoules a day over a period compared with the 720 terajoules a day that was being produced by the North West Shelf at the time of the 2011 report. There has been a reduction of 620 terajoules a day from the North West Shelf. That is being made up by other projects such as Devil Creek, Macedon and Gorgon in the future and Wheatstone after that. The market will remain roughly in balance, but if it is roughly in balance at $9 a gigajoule—one million British thermal units and a gigajoule are not directly interchangeable, but they almost are; I think MMBtu is about one per cent smaller than a gigajoule—when the rest of the world, including Japan, is paying significantly less than that, there is clearly a problem.

Although the Labor Party supports this agreement, if we were to critique it, we would make two comments. Firstly, we still need to examine how we can get more production out of the North West Shelf facilities. There is no doubt that the deal done by the government with the joint venture partners is ensuring that the appropriate amount of gas is taken out of the fields that the North West Shelf joint venture partners are underpinning with the continued use of these facilities. However, there is still a need in Western Australia to have these facilities used. The sellers of gas say that the market is in balance. All markets are always in balance. If the supply of gas in Western Australia is increased, the price will fall. That is simple supply-and-demand economics. There is still a need for Western Australians to try to get additional gas into these facilities in the North West Shelf so that additional gas is still being sold domestically.

The next point is the question of joint marketing of gas domestically. We have this interesting situation in that the North West Shelf joint venture partners have chosen to market the gas separately internationally but they continue to be allowed by the Australian Competition and Consumer Commission to market gas as a single entity domestically in Western Australia. That was canvassed in the 2011 inquiry. We made a specific recommendation that the government oppose any application by the joint venture to seek a renewal of the authority from the ACCC, and I note that that date has not yet arrived, so that is for the future. However, if we were to critique this agreement, we would say that this might have been an opportunity to get some commitments to doing that. That was one of the recommendations arising from that report in 2011 that the government did not accept. WA Labor's view is that ending the joint marketing of domestic gas sales is very important. The ACCC has lined up the approval for Gorgon and the North West Shelf so that they effectively have the same date for their approvals—that is, within a few months. WA Labor and the 2011 inquiry, which was chaired by the now Minister for Energy, recommended that the state government, although it is not a state government decision, seek to end the joint marketing arrangements.

I also want to quote from the ABC's website from 21 January this year. It states —

> Chevron has announced it has signed a gas supply deal with a South Korean industrial conglomerate.

> The five-year agreement, which commences in 2017, will see the US oil and gas giant supply 4.15 million tonnes of liquefied natural gas … from its Gorgon project, on Barrow Island off Western Australia's Pilbara coast.
>
> In a statement, a spokesperson from Chevron said that from 2017 to 2021 more than 75 per cent of its LNG from Gorgon will be committed to customers in Asia.

Why did I read something about Gorgon when we are discussing North West Shelf? I make the point that currently 25 per cent of the capacity of LNG exports to Gorgon is not contracted. Currently, nobody is buying that gas. It will be interesting to see —

Mr C.J. Barnett: I don't think that's quite true. I think in the case of Chevron they are deliberately holding back gas for a future market.

Mr W.J. JOHNSTON: One way or another, whether it is doing it deliberately or because it cannot find customers —

Mr C.J. Barnett: They are not sweating over there. It is quite a deliberate strategy to hold gas back.

Mr W.J. JOHNSTON: At the moment most of the large-scale LNG projects around the world—not the American ones—are fully committed before gas flows; that is the history. There might be 10 per cent or something left over, but 25 per cent is uncontracted at this late stage. All the literature I read from the Asian business media says that we are now moving into a potential oversupply, partly because of the three projects on the east coast of Australia.

Mr C.J. Barnett: Which haven't got enough gas.

Mr W.J. JOHNSTON: They may in fact, as the Premier says, not have enough gas. That is going to be an interesting problem.

The point is that there is still an overhang of uncontracted LNG. As I understand from the briefing given to me by the North West Shelf joint venturers on the renewal of this agreement, their volumes are contracted, and I am not getting away from that. Under the terms of their future contracts, all their gas is contracted. But, of course, their facilities, including the export facilities, will not be fully utilised, so there could potentially be a very large overhang of both domestic and export gas. I would encourage those players to look around for additional domestic customers. We are a common law jurisdiction, we can rely on the customers, and we can do deals. If the price of gas is falling, it is going to fall anyway; if it is an oil-linked price, it has fallen because the oil price has fallen. If they are selling their cargoes on the Singapore hub, those prices are falling because of an imbalance in supply. We might as well be looking for domestic customers. The great thing is that for the industries that need gas at a Henry Hub price—if they are getting towards that—there might be some reasons that those businesses can expand here in Western Australia instead. The reality is that while we have had $9 gas, there has been absolutely no possibility of any additional demand for gas in Western Australia. It is just not going to happen because the capital will be invested somewhere else in the world where the gas price is lower. It is just a reality.

Mr C.J. Barnett: What you are saying sounds logical, but right now we have FMG building a pipeline to supply gas to displace diesel, and the Tropicana mine is doing exactly the same.

Mr W.J. JOHNSTON: But, with respect, Premier, that is about using gas as a fuel in a power station.

Mr C.J. Barnett: It is value-adding.

Mr W.J. JOHNSTON: I am referring to the sort of thing the Premier has talked about in the past, which is using gas in other industries. We do not want to lose Alcoa or Worsley from Western Australia, and we do not want to miss out on any opportunities for any project that requires gas, such as a fertiliser plant.

Mr C.J. Barnett: We have the Yara fertiliser plant, which has been expanding. We are also getting the dynamite plant being built on Hearson Cove. We are actually getting some high value-adding.

Mr W.J. JOHNSTON: Premier, that is a very, very important issue. Those gas prices were contracted before the increase in the LNG export prices, and that is why those projects are being expanded. It is well known in the industry that they were signed at a price below what could be obtained for the same gas. In fact, there is an argument—I only read it in the business media; I cannot verify whether it is true—that the reason Apache bought into that project was so that the proponents would not resell the gas that Apache had sold to the fertiliser plant on to other consumers, and that it was better for Apache. It is the only place in the world that Apache has bought a processing facility. There is an argument in the business media that said Apache did that so that its customer would not resell the gas but, rather, would build the technical ammonium nitrate plant. It is good for Australia that Apache built the TAN plant because, obviously, more value is added, particularly with the massive iron ore industry on its doorstep. It is a great project, but there are four empty sites on the Burrup Peninsula. I am not aware that a single proponent is talking about those sites, and I imagine that one of the reasons for that is that they are paying $9 a gigajoule. If they were paying a smaller amount, a proponent might be able to get the maths to work. That is what I am saying. Now all the sellers will ring me up telling me why I am wrong, which is fine, but it is still an important issue for Australia.

Again, it is good that the agreement provides for a mechanism to allow third-party use of the facilities. That is important. I asked the joint venture partners whether it was possible to separate the use of the domestic trains from the overall facility. Their advice was that it is an integrated facility and that they all have to use it together. Why is that important? Obviously, the specs of the gas going into the facility have to match, and it is just not possible to use gas that is wildly different in its chemical composition—for example, the amount of CO_2 et cetera—from gas in its own fields, which is a pity because it would be good to be able to use those domestic trains separately. I am no engineer. The joint venturer told me that it is not possible. I accept that entirely, but one way or other it is good that the agreement provides a mechanism to allow third party gas to be processed in the facilities. I make the point that it is not that it is an agreement for third parties to use the facilities; the agreement is the process to allow it to occur, which is very important. If a third party wanted to use the facility, there would have to be two separate sets of negotiations. Firstly, that third party would have to negotiate commercial terms with the joint venturer, and then the joint venturer and the third party would have to negotiate with the government about the terms of their use of the facility. That is good. Let us hope that we can do whatever we can to kick this long.

I have an article here, but I will not bother reading it into *Hansard*. It states that LNG facilities in the United States are, generally speaking, not being done as investments of the gas producers, but are being done in what is called midstream, which means that an infrastructure investor builds the facility and the gas purchasers either buy the gas at a hub price or they buy it from an aggregator. One way or other they are not done in the way that we do them here. It is interesting, too, that in Canada—a couple of other members have mentioned the LNG projects in British Columbia—the provincial government of British Columbia last year put the final piece of the puzzle together in the export of LNG from British Columbia, which was to set a differential tax rate. British Columbia does not have a domestic reservation policy—it has a massive oversupply of gas, which is why the United States is using Canadian gas—but if the gas is sold into the Canadian market, a much lower rate of tax is paid than the tax on LNG exports, so it is effectively the same as a domestic reservation policy. The argument from industry against a domestic reservation policy is that it is a tax on exports. That is exactly what British Columbia has done; it has done it explicitly as a tax on an export. Obviously, a lower tax is paid if the gas is being used in British Columbia.

These are all important issues. I note that just before Christmas, Hess Corporation and the joint venture signed—I am not sure how to describe it—a heads of agreement that they would start discussions about Hess resources being processed through the North West Shelf joint venture. It would be good to have third party gas and to have the infrastructure owners seeing their facilities as infrastructure rather than as an integrated upstream and midstream project. We do not know what will happen with those negotiations; indeed, there have been a lot of false starts on third party gas in different projects around the country, but if it comes off, it will be good. Of course, I make the point—the Premier disagrees with me on this—that the North West Shelf joint venture facilities are also a possibility for the processing of Browse gas. The gas does not have to be piped from Browse to the Burrup; indeed, the gas has to be piped only from Browse to the North West Shelf subsea facilities, which are significantly north of the Burrup. I am no engineer and I am sure that there are many technical issues that might be involved in putting Browse gas through the North West Shelf facility, but I make the point that engineers can solve problems and I do not believe that it is beyond the wit of petroleum engineers to solve those problems.

Mr C.J. Barnett: There is no technical problem with that.

Mr W.J. JOHNSTON: No. I do not believe there is, but people tell me different things, Premier.

Mr C.J. Barnett: The problem is that they are different joint ventures and they will never agree.

Mr W.J. JOHNSTON: That is right. I am getting to the point, which I have made a couple of times, that it would be good to move the facilities to an infrastructure player rather than having an integrated gas player. That has happened around the world; indeed, that is what happens in Qatar, which is our biggest competitor. The gas producers do not own the LNG facilities; rather, the gas is tolled through the government-owned LNG facility. As I made the point before, we do not have direct government involvement in these projects. I am not necessarily saying that that is good idea; I am making the point that that is the way our competitors do it. I would be interested to read what is happening with the Indonesian projects of between 25 and 30 years' operation that are short on gas; indeed, knowing what to do with older facilities is a real problem not only here. We are lucky because unlike the Arun facility in North Sumatra, which did not find other large fields nearby, we have large fields nearby. If we can get the companies to see the infrastructure component as separate from the field development, that would probably be in our interest. As I have said in the chamber before, I was interested to read late last year an article in *The Australian Financial Review*—I tried to google it before speaking because I cannot remember whether it was PricewaterhouseCoopers or another consulting firm—that made a point about the future of the Australian LNG industry and how it has to include an increase in cooperation between the resource owners. I think that is right.

I will finish by seeking clarification about the idling of a plant. I was pleased to have the benefit of the department's briefing on it, but I want put on the record the circumstances in which the DomGas Alliance facilities can be idled and the process for third party arrangements.

I want to now take up the Premier's invitation about the Queensland projects being short on gas. There is an argument that the projects on the east coast that rely on coal seam gas do not have enough gas to last for the length of their contracts. We read this in the media but there is no way we can know.

Royal Dutch Shell's Arrow Energy is the fourth proponent in Queensland that did not get its project away. We read in the media that the other projects are all looking to buy Arrow Energy's gas. It will be interesting to see how that goes. Of course, the other problem is that gas will probably be sourced from existing fields. Indeed, Santos is taking gas out of the Cooper Basin into its facility. That is clearly taking gas that would otherwise have been sold on the east coast of Australia and selling it overseas. It is interesting that after the Queensland election, when it was not clear who would form a minority government in Queensland, the Liberal–National Party wrote a letter to Katter's Australian Party members of Parliament, offering them a domestic gas reservation policy. I have said for some time that it is not a Labor Party–Liberal Party issue because at the moment, whether it is Ian Macfarlane or Gary Gray, they oppose a domestic gas reservation policy. We can see that now these issues that we have been confronting —

Mr C.J. Barnett: I might have missed something, but Ian Macfarlane has never supported it.

Mr W.J. JOHNSTON: Yes, I know; that is what I just said.

Mr C.J. Barnett: Okay.

Mr W.J. JOHNSTON: Here the Premier and I sit in violent agreement that domestic gas reservation is important to Western Australia and there Mr Macfarlane and Mr Gray sit in violent opposition to domestic gas reservation. I was making the point that there seems to me to be a crack in that facade, because the Queensland Liberal–National Party offered a domestic gas reservation policy as part of its offer to Katter's Australian Party, which is a strong supporter of domestic gas. Maybe that is why I should question what I think. That is the first crack.

In terms of exploiting gas resources on the east coast, we have an effective moratorium by the former Victorian Liberal government on coal seam gas exploitation onshore in Victoria, and an effective moratorium in New South Wales by the current Liberal government on exploitation in that state. There has been a lot of criticism about the New South Wales position because, of course, it let country for exploration and now it is effectively stopping the exploitation, whereas Victoria has not allocated the land for search, so it stopped earlier. But one way or another there is still strong criticism in the business press about the exploitation of gas resources on the east coast, and there is an argument that they would solve all their problems for high-priced east coast gas if New South Wales was allowed to exploit the gas. I am not a New South Wales person; I will not put my view about whether they should or should not, but let us assume that exploitation of the coal seam gas in New South Wales was allowed. What is to stop that gas from flowing into the LNG facilities in Queensland and off to Japan and Korea? That would mean that the high-price problem would not be solved. In my view, there will be a national domestic gas reservation policy because it makes sense to have one. I imagine the federal Australian Labor Party will have to confront that at our national conference in July. I am not a delegate this year, but I understand that some proposals to have a review into a domestic gas reservation policy might be made at the conference.

Some form of national review is a good idea. The 2011 inquiry here in WA, chaired by the now Treasurer, the member for Riverton, was a great piece of work. Even people who do not agree with the recommendations of that report still acknowledge that it was a good piece of work.

Every LNG project in Western Australia has a domestic gas reservation arrangement. A domestic gas reservation arrangement does not kill liquefied natural gas projects; otherwise we would not have any LNG projects. I urge members to read the evidence of the representative from Chevron, representing the Gorgon joint venturers at that inquiry, when he was asked about the decision of the Gorgon joint venturers to build the domestic gas plant. When asked by the chairman about the economics of it, he said that it was not an economic decision; it was a requirement of the agreement to build the LNG facility. It is pretty simple. I imagine the Browse joint venture partners play hardball—the Premier knows much better than I do because he is at the table, not me—and I bet at the end of the day they will do a domestic deal for the supply of domestic gas. That is what happens in Western Australia, particularly now that we have all that extra gas after the famous "golden rocks".

The Grattan Institute and others have put around that the domestic obligation on an LNG project might kill off the LNG project; actually, it has not. All LNG projects in Western Australia have been successful and they all have domestic supply. Northern Territory has one operating, one potential and one under construction, with no domestic obligation. Queensland has three projects, with no domestic obligation. Because coal seam gas is exploited differently from the reservoirs that we are more familiar with here in WA, Queensland has allocated land for domestic use so that gas has to be used domestically. Of course, nobody is exploiting the gas. There is always the potential that that gas will end up being exported as well.

My colleague the member for Cockburn has just given me a newsletter from my good friends at the Australian Workers' Union. It shows some of the facts about the eastern states' gas market. The one good thing about Australia is the petroleum resource rent tax. It is probably not as good as the Norwegian gas arrangements in which 78 per cent of the value of the gas is kept. All that money is put into a wealth fund but it all has to be held in foreign currencies. They are not allowed to hold any assets in krone. That stabilises the currency at a lower level.

In 2012–13 the industry complained about the fact that Australia was without doubt the highest cost jurisdiction for LNG. There is no doubt about that. I have heard a couple of executives from different companies admit the fact that they had made it that way by constantly poaching staff from one business to another by continually increasing salaries. At that time, the Australian dollar was about $1.10 to the US dollar; now it is 80c. Australia is already 30 per cent cheaper than at the 2012–13 height of that cost impact. It is very hard to get an LNG project away when there is no security of what the price profile will look like going forward. Again, that is a good reason for companies to look at how they can use the North West Shelf facilities. Obviously, the sunk capital in the North West Shelf is probably the cheapest option for companies developing a project because they do not have to redo the large capital there.

We are supporting the North West Gas Development (Woodside) Agreement Amendment Bill 2014. We made a couple of comments about our view that it is important to try to secure those 720 terajoules a day. It is not just about the balance in the market. We accept that the market is balanced and we accept that the North West Shelf joint venture will continue to supply gas to the market until these other projects come online and then it will reduce. We accept that the agreement applies the 15 per cent in a balanced way on the export volumes under this agreement. We think it is good that the third party use arrangements are in the agreement but we are certainly looking for actual third party gas to go through the facilities. We note that we still have the highest domestic gas prices in the world. If the media comments that I read into *Hansard* earlier are correct, it is now probably higher than the commodity price in Japan. We also think that there should be an obligation for the joint venture to end its joint marketing as soon as possible. I will briefly ask some questions in consideration in detail but, otherwise, I will end my remarks there.

MR C.J. BARNETT (Cottesloe — Minister for State Development) [8.47 pm] — in reply: I thank the opposition for its support for the North West Gas Development (Woodside) Agreement Amendment Bill 2014. As the member for Victoria Park remarked, whenever we have a state agreement bill before the house, we have a wide-ranging debate about resource projects and resource developments and government policy with respect to it. I will not go into that but I will make a couple of observations. From my point of view, it has been the case for probably the last 25 to 30 years that the biggest game in town is natural gas and the development of that resource. Western Australia has massive natural gas resources—at least 150 trillion cubic feet offshore and probably twice that onshore in the form of shale gas. To put that in perspective, three trillion cubic feet of gas is enough to produce two million tonnes of liquefied natural gas for 20 years. It is a massive amount of energy. We have used only a very small proportion of that. Indeed, Australia as a whole uses only one TCF of gas a year. We have several hundred TCF. Gas will be a big player in our economy for a long time.

Gas is also going through a period of extraordinary change. There are all sorts of projections about what might happen in the market, but the one thing that is certain is that with growing world economies and increasing urbanisation, the long-term trend will be an increased demand for natural gas. Emerging economies in particular will want to have a cleaner atmosphere and therefore government policy choices will be in favour of using more natural gas to displace coal in power generation. The other factor is that with the tragic Fukushima nuclear disaster in Japan, the appetite for nuclear power has certainly diminished in Japan and in a number of other countries. Despite imbalances and periods of oversupply, which we may well be in, and then periods of undersupply, I have no doubt that the long-term prospects for natural gas are very, very strong. While members opposite quoted spot prices and so on, the reality still is that because of the very high capital expenditure in these projects, most gas is still sold on long-term contracts at attractive prices. Buying governments around the world will not risk potentially running out of energy. It is true that they will pay and help support trading companies—power companies—to invest in those long-term contracts. At the same time, we are getting changes in technology. We have debates in this place about the development of floating liquefied natural gas, which will be a very dominant force in the Western Australian market. There is also the emergence of shale gas, particularly in the United States. Shale gas has transformed the United States' economy and attracted manufacturing investment back into the US after decades of losing investment. There is a view, particularly in Japan, perhaps in China and maybe in Korea, that there will vast amounts of export LNG from US shale gas. I doubt that that will be the case. It will certainly happen, but it might in the order of 70 million tonnes; it is not going to change the total market. I think the reasons for that are threefold. The first is that the economics are difficult because getting gas over the Rockies is not easy. A producer that exports from the Gulf Coast of the USA on the Atlantic side has a very long trip around the bottom of South America to get to the Asian market. So there are some economic factors. The second factor is that for the first time in a long, long time the US has energy self-sufficiency, and I do not think that any future American President will compromise that. The third factor is that although there is a huge potential resource, the flow-rates out of some of those fields have been disappointing recently. They started off with a bang—that is a poor choice of words! They started off with very strong flows, but those flows have not been sustained. I suspect we will not see —

Mr W.J. Johnston: They call it the hockey stick, because it is very high and then it goes down.

Mr C.J. BARNETT: Yes, and a lot of the companies are now finding they have slower flow-rates. It is a very complicated industry. In Western Australia, although energy from coal is cheaper, natural gas is very much our future in the long-term. Our energy distribution system will consist of developing pipeline infrastructure around the state with power stations dotted along it. The state has done pretty well over the past 15 years or so doing that and it is good to see that pipelines have now been built to the Fortescue Metals Group mines and the Tropicana Gold Mine project. That network of pipelines is growing. The government is still struggling to get the Albany pipeline underway but that is important. The Albany pipeline lacks a major customer at the end, but we are still progressing that project and hopefully we will get there because it will be a major addition to the link.

This bill comes in the midst of all these changes and events in the gas market. Again, and members have summarised this, it is a variation to the North West Shelf agreement, which dates from 1979. This variation took quite some time to negotiate; negotiations started with North West Shelf in February 2014. I want to compliment the Department of State Development for the result it has achieved—it has done exceptionally well. As members have said, this bill allows for an expansion of LNG exports to the tune of 88 million tonnes, it allows the producer to bring on new gas fields, such as Persephone and Greater Western Flank, which has 2.5 trillion cubic feet of gas. With that extra gas coming on for export and triggering the 15 per cent domestic gas reservation, it obviously generates more gas for the domestic market—that is, 100 terajoules a day, or about 10 per cent of current supply. It is a significant addition to the domestic gas supply along with the forthcoming gas from Gorgon, Wheatstone and perhaps Browse, however that may be structured.

There is also an obligation on the companies to maintain the reliability and capacity of the domestic gas plant. As members said, it allows third-party gas to be tolled through the North West Shelf project. That will be good to bring on some of the smaller fields that by themselves could not support an LNG project or even an LNG train. I think there is a lot of good stuff in this legislation. The North West Shelf as it stands now supplies 520 terajoules, which is just over 50 per cent of the gas into the domestic market—another 100 terajoules is a good result. I thank members for their support for the legislation. Our timetable is that we are hoping to get this bill through both houses by June 2015. That will fit with the understanding with North West Shelf.

I am just reacting to a couple of the comments made by members. There was a discussion of history. That is fine. I accept that gas supply is still tight, but I am optimistic that the new fields like Macedon and Devil Creek that have come into the market in the last few years are adding to domestic supply. I think that although the big gas fields will only ever be developed for LNG export, the 15 per cent reservation policy, which is a sound policy, plus the encouragement of the development of smaller fields for specific customers, will also bring on domestic gas. It always seems to be difficult, but I think we are doing it.

I note that the joint marketing arrangement for the North West Shelf will expire this year, and we will see whether that is reinstated or not. That is an opportunity, I guess, and perhaps it is time that we ceased with the joint marketing.

Gas prices are high. That is somewhat of an anomaly in the market. I think the future will see more attractive and lower domestic gas prices in Western Australia. Some comments were made about the coal seam gas projects on the east coast. It is paradoxical that we will see a massive increase in gas production from coal seam gas on the east coast, in New South Wales and Queensland, yet domestic customers will see a big gas price rise. That is a disastrous outcome for the economies of the east coast. I think it is politically impossible to explain to the public why increased supply should bring increased prices. I saw a comment in one of the papers today—I thought it was a ridiculous comment—that Australian customers will have to compete with Chinese customers for the gas in Australia. As I, and I am sure others, have repeatedly reminded the companies, they do not own the gas. They have a right to develop and market the gas, but they do not own it. In fact, they do not own those molecules of gas, I think, until they come out of the LNG plant and go into the ship. The companies are inclined to forget that. But I think the Western Australian government, through successive governments, has been strong on this. There have been plenty of big stoushes about the North West Shelf and other projects, but those projects are there, and the expansion through this decade from around 20 million tonnes to 50 to 60 million tonnes will be the historic period of expansion of LNG in Western Australia. I am sure there will be further projects, but they will never match this period of expansion. That will take Western Australia to probably second in the world to Qatar for LNG exports. If we add the coal seam gas projects on the east coast, which in total are only about 30 million tonnes, Australia will be the number one producer of LNG exports.

There are also other dimensions, such as pipeline gas around the world. Again, China now sees comfort in pipeline gas coming into Western China from Russia through Siberia. That is good, but the east coast of China will probably still be on LNG. Europe, which is dependent on pipeline gas from the other end of Russia, is suddenly getting very nervous due to occasional incidents in which the pipeline is turned off and the like, so I think we will probably even see Europe become a bigger buyer of LNG into the future.

Finally, mention was made of the Browse Basin project and the golden rocks. It is fortuitous that Western Australia now owns probably close to 60 per cent of the total Browse field and most of the Torosa field. The media keep writing that we should forget about Browse; it will never happen. I am having a meeting with the joint venture tomorrow morning to discuss the two key points, which are domestic gas and the location of the supply base. So, Browse is moving forward, albeit, like most projects, it is taking a lot of time. I would not discount Browse, and I think that will also be a future supply of domestic gas.

There is also the Canning Basin and onshore shale gas. Although that is technically difficult, there is a vast amount of gas. The advancement of technology in the United States for extracting coal seam and shale gas is taking place very quickly. I think that as the project is assessed, the technology will also advance, and I would guess that in five years' time that will probably move into some sort of production, even if it is a limited production, for the domestic market.

It is a fascinating industry. It is full of a mix of big business, world events, domestic controversy, arguments between joint venturers, and arguments between governments among themselves, the commonwealth and the state, and then with the proponents. There have been screaming matches at airports. The development our natural gas industry has been a colourful exercise, but it will be at the centre of our economic development for the next 50 years. It is an enormous opportunity that we are seeing played out at the moment.

I thank members for supporting this bill. I think this legislation has some fantastic features. The tolling of third party gas particularly is a good step forward, and the fact that if that third party gas is tolled through the North West Shelf, it will also be subject to the 15 per cent domestic gas reservation. The gas reservation dates back to the North West Shelf through not only the take-or-pay contract, but also a volume of gas that was reserved to the domestic market. In the negotiations during the Carpenter government in the Pluto project, it was refined and approved to the principal of 15 per cent. I support that and it has bipartisan support. Although commentators may argue against it, I think it is a very proper safeguard for the security of gas into the domestic market, and a very fair and reasonable thing to be done by the owners of the natural gas, whether it be an Australian-based resource or a state-based resource. I therefore thank members and we will now proceed.

Question put and passed.

Bill read a second time.

Leave denied to proceed forthwith to third reading.

Consideration in Detail

The ACTING SPEAKER (Ms L.L. Baker): Would the member for Cannington like to ask a question?

Mr W.J. JOHNSTON: I have a procedural question. Correct me if I am wrong, but my memory is that we can go back and forth when we deal with the schedule. Although we have to follow the usual pattern for the bill itself, we can go back and forth for the schedule. Is that the arrangement?

The ACTING SPEAKER: Yes. We can deal with any part, I understand, in the one question.

Mr W.J. JOHNSTON: Excellent.

Clauses 1 to 5 put and passed.

Clause 6: Schedule 5 inserted —

Mr W.J. JOHNSTON: This clause is now the guts of the amendments to the agreement. I want to go first to clause 2 of the schedule, which reads "The Principal Agreement is hereby varied as follows". Then clause 2(4) of the schedule at page 9 inserts subclause (1B) to clause 46.

The ACTING SPEAKER: Page 9, member?

Mr W.J. JOHNSTON: Yes, at the bottom of the page, and it goes over the page.

The ACTING SPEAKER: I will just check that we are all up with that. I think we are good. Go ahead, member.

Mr W.J. JOHNSTON: Okay; excellent. My understanding is that this is the clause that allows the third-party gas to be used in the facility. Am I on the right track?

The ACTING SPEAKER: Is it on pages 9 and 10, member?

Mr W.J. JOHNSTON: Yes. Clause 2(4) of the schedule reads "in clause 46 by deleting subclause (1A) and substituting the following new subclauses".

Mr C.J. Barnett: I think it is page 7 you want.

Mr W.J. JOHNSTON: I am sorry, yes.

Mr C.J. Barnett: On page 7, clause 2(3)(d) inserts new subclause (2) at the bottom of the page.

Mr W.J. JOHNSTON: Could the minister confirm how this operates? My understanding is that this is a provision that allows the negotiation, rather than a specific commitment—if the minister sees what I mean. Could I have that confirmed?

Mr C.J. BARNETT: It allows a negotiation. If they wish to bring third party gas into the North West Shelf, that will trigger a negotiation between North West Shelf and the Department of State Development and, potentially, the supplier of the third party gas, to ensure that it is all kosher. Obviously, there will be technical issues with the composition of the gas, but the key issue is that the figure of 15 per cent of the market is properly administered and measured and tolled through the plant.

Mr W.J. JOHNSTON: Given that is the case, there is an expectation that there will be the same 15 per cent obligation on the third party operator as there is on the North West Shelf joint venture, and that is clearly the policy position of the state government.

Mr C.J. BARNETT: That is correct. It is quite clear and that has been the important breakthrough in this negotiation. Third party gas will be tolled through, which is good and certainly allows smaller fields to be commercialised, but equally the principle is that if it is tolled through that facility, the 15 per cent domgas obligation will apply. It means that smaller fields can find their way to market by being a domestic gas plant project in their own right, such as Devil Creek or Macedon, which is good and probably even better, but there will also be opportunities to share both an export and domgas supplier. It is a good step forward.

Mr W.J. JOHNSTON: Let me find my way. I think the provision is proposed subclause (16).

Mr C.J. Barnett: If you tell us what you are looking for, we might be able to find it.

Mr W.J. JOHNSTON: It is the provision about the circumstances in which the domestic facility can be idle. When I had the briefing from the agency they explained —

Mr C.J. Barnett: I am sorry to interrupt, but it is page 18, subclause (16) down the bottom.

Mr W.J. JOHNSTON: I actually got it right; I am pleased. My understanding is that to keep the facility "hot"—I think the word is—requires a certain amount of gas to be used in the facility. That, of course, is not sensible if we are not marketing additional gas. I understand this provision allows the joint venture partners to idle one or both of the domestic facilities in certain circumstances. I know this is a very technical issue, but I think it is important to get on the record examples of the circumstances in which either one or both of the domestic trains would be allowed to be idle—in other words, not to continue to produce gas.

Mr C.J. BARNETT: It is a bit confusing. I understand that they need to idle the gas to maintain the plant. That is probably not a great cost, but if they wish to close down the plant, they would not have any contracts, so they would have nowhere to sell the gas, but they would still have to give six months' notice to get agreement. I cannot see that happening. There is an issue about the age of domestic gas plants on the North West Shelf.

Corrosion takes place, so the metal is thinning all the time. We hope that there is enough going through that they will maintain and keep those gas plants in a reliable state. The age of the plants poses a risk to the state.

Mr W.J. Johnston: Could the Premier tell us what he thinks might be a circumstance that would lead to an agreement to idle the plant?

Mr C.J. BARNETT: It would be that they do not have a contract for gas to go through that plant. I cannot see that happening. Although it might be a relatively small supplier compared with export liquefied natural gas, it is still a very big domestic gas supplier and I think one that will grow.

Mr F.M. LOGAN: I raised with the members from the Department of State Development an issue that I ask the Premier's opinion on as well. When there are negotiations between the parties to toll third-party gas—apparently there are some negotiations underway at the moment—and those negotiations are not successful, which was not even the intention of this bill, so it is not surprising, there is no mechanism in place to either assist the parties or force the parties to reach agreement to keep that plant operating. Has the Premier thought about that? Looking at other markets, whether electricity or railways—we have been debating access by third parties to railways here recently—there are mechanisms whereby the parties are expected to go and get the matter resolved or even arbitrated, in the case of railways, by the Economic Regulation Authority. However, there is nothing in the gas market that may force the parties to reach agreement and keep that plant operating. What is the Premier's view on that?

Mr C.J. BARNETT: I think that ends up a commercial matter. There is nothing in this amendment to the North West Shelf agreement that can force third parties. I think that is the role of governments and ministers, and Hess is probably an interesting example. It had discussions with Chevron about tolling through Wheatstone, which I thought would probably have happened but did not eventuate for whatever reason. I understand they are now talking to the North West Shelf. It would be thought that Hess would want to commercialise its very significant deposits or discoveries. Government encourages that and I think North West Shelf now has the need to prove up more gas fairly quickly.

Mr F.M. Logan: The reason I raise it, Premier, is that North Sea Gas was faced with very similar circumstances, particularly with the declining large volumes of gas and the access by smaller third parties to the infrastructure that was still owned by the multinational corporations. Ultimately, that was opened up and forced on them by the government of the day, which was a Conservative government by the way.

Mr C.J. BARNETT: I doubt that would happen here, but I think with the reality in the Carnarvon Basin, North West Shelf, Pluto, Gorgon and Wheatstone I cannot see another greenfields plant being developed, so it would be adding additional trains. Obviously the economics of Pluto would be greatly improved if we could have a second train. That is attractive to everyone. Gorgon plans a third train, I think. Wheatstone has capacity for co-location and the like. I think that in itself will engender more tolling of gas, bringing in marginal fields and the like. In the Browse Basin I am still optimistic that we will see an onshore gas plant, because I think we have barely scratched the surface or the bottom of the sea at Browse. There is a huge amount of gas and oil to be found in the Browse area. I think it can pretty well be said that after this round of investment in terms of hard infrastructure the Carnarvon Basin is basically established and it will be additions, tolling and swapping of gas that will see it go further.

Mr F.M. LOGAN: I have a separate question to the Premier. Given the fact that the Premier raised the issue of Pluto, under Pluto there is an obligation to deliver domestic gas as well and I believe there is a time frame on the obligations by Woodside to deliver domestic gas. Can the Premier give his view to the Parliament on how Woodside will be assisted to meet its obligations?

Mr C.J. BARNETT: I think the obligation kicks in around 2017.

Mr F.M. Logan: It's not long away.

Mr C.J. BARNETT: No, and we would expect Pluto to do that. It is not that far away. It is not hard for Pluto to connect into the infrastructure, so I would expect that to happen. Pluto got a good deal and it has been very profitable for Woodside in particular. Woodside is in a bit of a conflict situation here as the operator of the North West Shelf and basically the owner of Pluto. I would think there is probably a greater return in Woodside getting gas into Pluto than there is getting gas into North West Shelf. However, it would be thought with the discoveries that gas should be able to be got into both of them.

Mr W.J. JOHNSTON: There is an obligation on the joint venture to market domestic gas and there is a procedure for the Premier or the minister—it is the Premier at this stage, but the agreement will last a long time—to review the bona fides of the joint venture. On my copy of the bill I understand that is covered at pages 16, 17 and 18. I am interested to understand how this procedure works. What would be a trigger for the minister to appoint an independent agreed person to do the review of the marketing arrangements? Is it contemplated how that person would be provided with information? What information that that person has access to would be provided to the minister, for the minister to then make the decisions that the minister is obliged to make?

Mr C.J. BARNETT: There are provisions for that to happen if it is thought that the companies are not genuine in supplying or marketing domestic gas. However, I think despite all the battles and changes of position, the reality over the last 30 years has been that these companies have been responsible and have honoured their obligations. I think that tends to sort itself out, and the fact is that these negotiations have been going since February 2014. It takes a long time, but North West Shelf as a joint venture has come to the party on domestic gas. As I said, I have a meeting tomorrow with the Browse joint venture, so we are very much back to the beginning of that, but we have reached the point now where there is basically an acknowledgement that there will be a domestic gas obligation from Browse. Browse is floating LNG, so that raises some other issues, but that negotiation is at the early stages of progressing. But my experience—I think the member would say the same—is that at the end of the day, the companies do the right thing. It is a matter of price, probably, more than anything else.

Mr W.J. JOHNSTON: On a new topic, I understand that there are existing contracts with the joint venture that are counted towards the domestic gas obligation under this agreement. I also understand that those contracts are not known by the Department of State Development because, obviously, they are commercial arrangements between commercial parties. I am just wondering whether the minister can tell us the volume of gas under those existing contracts that is effectively grandfathered into the domestic obligation.

Mr C.J. BARNETT: I have just been advised that there are two contracts and collectively they amount to 43 petajoules.

Mr W.J. JOHNSTON: That is about —

Mr C.J. Barnett: Of the 15 per cent reservation, it accounts for about one per cent.

Mr W.J. JOHNSTON: So it is a pretty minor amount. We are also expecting that the companies will be providing more gas than 100 terajoules a day for a while.

Mr C.J. Barnett: That is 100 extra.

Mr W.J. JOHNSTON: Well, it is 100; it is not 100 extra. It is extra in respect of the previous arrangements. There is going to be a period before Gorgon and Wheatstone come on in which we are going to expect the North West Shelf to provide more than 100 terajoules a day; that might go for a few years.

Mr C.J. Barnett: But it's 100 terajoules of gas tied to the expansion of LNG exports.

Mr W.J. JOHNSTON: Yes, I appreciate that, and the existing contract is only a very, very small component of the total obligation, but there will be a phase where it will still be providing more gas into the market, otherwise we would be in deep trouble, but that is taken off its entire obligation. I am just wondering whether the department has calculated how much it is above the 100 terajoules. If we take the obligation, it is effectively 98 or 99 terajoules a day for the period of the obligation, but it will actually be providing about 500 terajoules for at least 18 months, and then it will be providing some more for some period of time; it would be about three or four years before Wheatstone would be online, so it will have to provide a significant amount of gas. I am just wondering whether the department has worked out how much of the obligation is going to be frontloaded, if you like, into the next four years or so until Wheatstone's domestic facility is available.

Mr C.J. Barnett: I think the gas supply is there, but the early 2020s could be tight. It is dependent on other projects, and hopefully some more smaller domgas projects will come on. It is potentially a tight period.

Mr W.J. JOHNSTON: But the minister is not aware of what percentage of the obligation in this agreement that we are talking about will effectively frontload it because other projects are not yet online. If this obligation will go for a period until the export contracts have expired, at effectively 100 terajoules—let us call it 100 because it is a nice easy number—there will be 500 terajoules for the first year and there might be 400 terajoules for the second year, because it will be a while before Gorgon and Wheatstone come on. There will be a couple of years upfront when they will be doing four or five times more than the agreement obliges, but it is still part of the total volume. I am just trying to work out whether the department has considered how much of the obligation will be exhausted in, say, the first five years.

Mr C.J. Barnett: I am told that the existing contracts go through to 2020, so that supply is separate from this and that will continue. But the early 2020s could be a tight period.

Clause put and passed.

Title put and passed.

Leave granted to proceed forthwith to third reading.

Third Reading

MR C.J. BARNETT (Cottesloe — Minister for State Development) [9.22 pm]: I move —

That the bill be now read a third time.

MR W.J. JOHNSTON (Cannington) [9.22 pm]: The Labor Party is pleased to have cooperated with the passage of the North West Gas Development (Woodside) Agreement Amendment Bill 2014. There were some interesting speeches from members on our side of the chamber. Sadly, I missed most of them, but I am sure that they were high-quality speeches. Certainly, the two speeches that I heard, from the member for Armadale and the member for Gosnells, were very high quality. I am very sad that I missed the speeches of the member for Victoria Park and the member for Cockburn. I know that the member for Willagee wanted to speak, but he was paired tonight so he missed out on having his say.

I draw the chamber's attention to one of the issues that I discussed with the Minister for State Development in the consideration in detail stage, and that is how long this obligation will go for. We are frontloading the domgas obligation because the joint venture parties are making sure that there is no supply gap, and I thank them for that. In 2011 they were producing 720 terajoules a day, but, with the passage of this bill, their obligation will be effectively 100 terajoules a day. If they instantaneously withdrew 620 terajoules day, we would be in deep trouble in Western Australia. They are not doing that and that is fine. I think they are down to 500 or 550 terajoules a day because Devil Creek has come online and other projects will soon come online. We all understand that the two big lumps that are coming on are the Gorgon domestic and Wheatstone domestic trains. We all understand that it will take a while for the two tranches of the domestic obligations from Gorgon to come online. There are the domestic obligations at Wheatstone, but it will take a while for all of that to come online. In the meantime, the North West Shelf joint venture will continue to make up the gap between the other providers, plus their obligation and the total demand. But that extra gas that it is providing into the system is still part of the domestic obligation that we are agreeing with the North West Gas Development (Woodside) Agreement Amendment Bill 2014. That is not a bad thing. I am not saying that is wrong; I am just making the point that that means that the domestic obligations will expire earlier because of what they are doing with the existing supply.

I also asked about the circumstances in which the plant might be allowed to be idle. I take at face value the Premier's comments that that is not likely. It is interesting, too, that the companies have, on a number of occasions, patted themselves on the back—I am happy for them to do it—about the fact that, effectively, the LNG facilities have been completely rebuilt through maintenance over time. That is excellent; it is very good news. Then they say their domestic plants are ageing. My question is: if they are able to maintain their LNG export facilities to the standards they want, I think they need to maintain the domestic facilities to the same type of standard. As we all understand, existing infrastructure is the cheapest to use because the capital has already been sunk, so we want to make sure that the domgas facilities are used as much as possible.

Mr C.J. Barnett: If I can interject, I think after the Varanus Island explosion the companies will be at great lengths to make sure that all their facilities are safe and reliable.

Mr W.J. JOHNSTON: Absolutely. Good interjection, Premier, I think that is excellent. Everybody in Western Australia thinks it was a pipeline explosion, but in fact it was a feed line as part of the domgas facility at Varanus Island that exploded. That is why I was interested to ask —

Mr F.M. Logan: On the beach.

Mr W.J. JOHNSTON: On the beach, yes. There was never a royal commission; a royal commission was promised in 2008, but it was never held. Anyway, we will not go down that track.

Maximising the use of these existing facilities is very important. I again go back to the 2011 inquiry. We pointed out that there is actually quite a good deal of capacity for gas plants in the midwest, but of course there is no gas. Here we are in the north west, where there is plenty of gas, much of it untapped, so let us make sure the facility gets maximum use. That then goes to the question of third party gas. We have had a number of discussions tonight and on previous occasions about that; it is really where we need to get to. The Premier, in his reply to the second reading debate, commented about pipeline gas going into China. That Russian deal will be interesting. There is some discussion in the media about whether the gas will actually get supplied because nobody knows how much Russian gas there really is. Madam Acting Speaker (Lisa Baker) would be interested to know that one of the big sources of greenhouse gas emissions is leaking pipelines in Russia. I went to a conference last year in London about environmental issues regarding shale gas exploitation, and a number of the presenters made the point that actually there are probably much more risks in leaking pipelines in Russia than there is in potential shale gas. But also, of course, China has potentially massive reserves of shale gas. I read in the media that it is having problems recovering its shale gas —

Mr C.J. Barnett: They don't seem to be giving great emphasis to the shale gas at this stage. It is interesting; they seem to be more interested in LNG and pipeline.

Mr W.J. JOHNSTON: Yes. Again, I was reading recently about the deal with some of the stands they have to get gas out of central Asia, and out of Burma, too. It is good that they are buying gas from their neighbours because they attract political influence by being big customers, just as they do by buying iron ore from us. As the Premier says, that is absolutely correct. In my view this is a fascinating area of public policy. It is very complex and there are lots of moving parts. There are no simple solutions. Every time someone from the industry says, "Yes, but," to me—I accept that there are plenty of "yes, buts"—I make the point that I am a state member of Parliament and that I am interested in outcomes for Western Australians. Next week I will be going to Queensland to attend the Australian Workers Union National Conference to in fact talk about domestic energy security. As the Premier rightly pointed out, domestic energy security has been for the United States, ever since the oil shock of the 1970s, its number one priority. We in Australia are very lucky because we have an unbelievable energy resource. We have so much energy resource that we can share with our neighbours such as Japan, China, Taiwan and Korea, but it needs to be done so that it does not disadvantage our domestic requirements.

The opposition is happy to support the bill. Opposition members have made their comments and put on the record the couple of points that they think are important. I am pleased that I have been able to put on the record those few issues about third party obligations, how domestic obligations work and what are the circumstances under which a minister would refer matters to third party assessment procedures. We will watch with interest as the joint venture parties move forward, and we wish them success in their project.

I will finish by noting that Woodside is, of course, an important employer in the Pilbara. Given the ambition of the people of Karratha to have a city of 50 000, they must realise that to have a city of 50 000 people, there needs to be 30 000 jobs. Making sure that these gas facilities continue into the future is an essential component of a large city in the Pilbara. As a very young child I lived in a place called Captains Flat, which nobody has probably heard of. It seems that someone here has heard of it! Captains Flat is a tiny town in which the silver-lead-zinc mine closed in 1963. That is when my family moved there because they were able to get a really cheap house, but of course there were no jobs. When we look at what is happening currently in Port Hedland, the only way that the Pilbara towns can survive in the long term is to have long-term jobs, and that will require projects like the North West Shelf to be successful over a long period of time. The Labor Party looks forward to working with the joint venture in the future on this project.

MR F.M. LOGAN (Cockburn) [9.34 pm]: In rounding out the debate on the third reading of the North West Gas Development (Woodside) Agreement Amendment Bill 2014, I thank the Premier for responding to the issues that I and the member for Cannington raised during our second reading contributions. However I am not sure whether the Premier commented on the issue that I raised about the joint marketing of gas by the North West Shelf operator.

Mr C.J. Barnett: I did say during consideration in detail that that arrangement runs out this year, 2015, and, without saying anything definitive, I think it is probably time that we now go to individual marketing. That is something to be looked at this year.

Mr F.M. LOGAN: I am glad the Premier has responded that way. I certainly urge him and the government to try to bring that to a successful conclusion, because that in itself will allow downstream players, particularly members of the DomGas Alliance—of course, the state government is a large purchaser—to pressure the individual members of the joint venture marketing body to possibly provide gas at a cheaper rate than is currently marketed by the six of them as a monopoly body. I am glad to hear the Premier say that. I certainly wish the government success in bringing that about.

Once again, I raise the issue of the domestic supply of gas and the outcome of this agreement. Although it provides a further 100 terajoules a day of supply, some of the information provided by some of the players in the gas market to the Economics and Industry Standing Committee for its inquiry into floating liquefied natural gas is that the upper potential supply forecast for North West Shelf re-contracts are predicted to be just over 500 petajoules a year of supply by 2020, dropping off to slightly under 500 petajoules. Whereas, the lower potential supply forecast will see the supply of domestic gas reach approximately 450 petajoules of gas a year, dropping back to about 380 petajoules, which is the base demand already. It appears that might well be the case unless significantly more gas is put into the domestic market from players such as Wheatstone, Gorgon and Apache over and above what they currently do. That will mean that the lower potential supply forecast from re-contracting to the North West Shelf will leave us exactly where we are at the moment with our supply meeting base demand. That will be a problem for any government in Western Australia because, as I indicated to the house in my contribution to the second reading debate, it will constrain the state government from marketing Western Australia as an economy open for business for energy-consuming industries. It will restrict that capacity.

We are a relatively large energy-consuming economy, but it is constrained by the actual supply of domestic gas. If we can somehow encourage, incentivise or even compel the players from the North West Shelf—there will be a significant number of suppliers by 2020—to put more energy into the domestic market, that will provide the opportunities for governments of the day to expand Western Australia's processing industry or whatever type of energy-consuming industry we are talking about. It does not necessarily have to be mineral processing; it could be any other type of large energy-consuming industry. We cannot try to get those industries to establish in Western Australia if we do not have the energy; it is as simple as that. Given the volumes of energy we are talking about, as the Premier outlined clearly when he opened up in his response to the second reading debate about the 150 trillion plus cubic feet of gas on the North West Shelf, why should the state of Western Australia be left in that situation? Certainly, no other government around the world is left in that position. The member for Cannington referred to Norway, but there is a list of other countries around the world where particularly national governments, as well as state governments, are extremely firm with companies.

Mr W.J. Johnston: A production-sharing agreement.

Mr F.M. LOGAN: Exactly, a production-sharing agreement, which is the base of most of the Middle East gas. It is sold to the same consumers that we sell our gas to. The tiny states of the Middle East keep control of that gas until it is unloaded in Korea and China. The money is then transferred into their accounts. Western Australia is not in that situation. It is unfortunate for Western Australian citizens because we would benefit greatly if we were able to market our gas in a very similar way. If we could, we would be as rich as some of the citizens of the Middle East. We are not even contemplating that type of nirvana that the Middle Eastern states have. Larger volumes of gas are made available to the domestic economy even if demand is not there. It just provides the opportunity for the state government to go out there and attract energy-consuming industries to Western Australia.

Mr C.J. Barnett: The member is right; most are still largely government dominated —

Mr F.M. LOGAN: The majority of the gas market is.

Mr C.J. Barnett: — in terms of production sharing and government-owned petroleum companies. It was not that long ago that the North West Shelf could rightly boast that it was the only private sector LNG project in the world. Probably 15 years ago it was the only one. But the socialists are over on your side; not on this side.

Mr W.J. Johnston: One of the most interesting things is that Chevron's Gorgon and Wheatstone projects were the first two LNG projects. It is not as though they are experienced in this.

Mr F.M. LOGAN: That is right. It is not as though a significant number of private sector players are out there. The Premier has said that the Woodside joint venture was the first one in the world, but really there is only a handful of others.

Mr C.J. Barnett: A select club.

Mr F.M. LOGAN: Yes. Only a handful of private sector companies around the world are in that market because the rest of them are all government owned one way or another.

Mr W.J. Johnston: I read the history of Bontang in Kalimantan, Indonesia. It is very interesting, the way it all developed—all controlled by the government. That is a Chevron player as well.

Mr F.M. LOGAN: Although we can have this debate in the Parliament of Western Australia and even discuss the concepts that I have raised, if these issues were raised in the federal Parliament, both sides of Parliament would hound us out of the house, unfortunately, because they have a completely different view over not just the exploration, but also the production and marketing of gas around the whole of Australia. The federal government does not at all take into account states' interests. Disneyland, in the middle of New South Wales—known as Canberra—is a fictitious creation of a nation state operated out of a very large paddock. It basically controls the exploration, production and marketing of one of the most critical energy sources in the whole of the continent of Australia. It supposedly acts for the interests of all citizens, which it claims it does in all of its decisions on oil and gas. The extension of that is that it certainly does not act in the interests of the states. It claims that it acts in the interests of all citizens, but when it comes to state governments, we are left out. It does not act in our interests. The problem lies with the marketing of domestic gas, the availability of domestic gas and the rapacious demand for tax and resource income from the federal governments of Australia.

There will be a continuing fight between states such as New South Wales, Queensland, South Australia and Western Australia and the federal government for decades into the future. It is not unusual in any federation for there to be continuous tension between states and federal governments. There is tension in Germany, Malaysia, India and Canada. It happens all the time in federations but in Australia, for some reason, when it comes to the critical energy resource of gas, governments on both sides of the spectrum in Canberra continue to act against the interests of the states, and it is something that has to be resolved. The member for Cannington referred to the resolution coming up in the ALP national conference later this year. I hope that that resolution is carried because it may break the impasse between Canberra and Western Australia over the continuance of the domestic gas reservation policy and the interests of Western Australia. I commend the bill to the house.

Question put and passed.

Bill read a third time and transmitted to the Council.