NORTH WEST GAS DEVELOPMENT (WOODSIDE) AGREEMENT AMENDMENT BILL 2014

Receipt and First Reading

Bill received from the Assembly; and, on motion by **Hon Peter Collier (Leader of the House)**, read a first time.

Second Reading

HON PETER COLLIER (North Metropolitan — Leader of the House) [3.12 pm]: I move —

That the bill be now read a second time.

The purpose of this bill is to ratify a variation agreement made on 20 November 2014 between the state and the North West Shelf joint venturers that approves the continued export of liquefied natural gas and secures new domestic gas supply for the state, consistent with the Western Australian government's domestic gas policy. The bill amends the North West Gas Development (Woodside) Agreement Act 1979 by ratifying the variation agreement.

The North West Shelf project: the North West Shelf project is Australia's oldest and largest LNG project. This year it celebrated the anniversary of the first LNG export 25 years ago. Since then, the project has shipped more than 220 million tonnes of LNG. In 1979, the Western Australian government underwrote the development of the Carnarvon Basin and Australia's future LNG export industry by entering into long-term take-or-pay contracts for gas from the North West Shelf joint venture. That was the beginning of gas reservation in Western Australia. The government also financed construction of the 1 489-kilometre Dampier to Bunbury natural gas pipeline connecting the project to its customers in the south of the state.

The domestic gas policy: the government is securing Western Australia's energy needs through its domestic gas policy. This policy was formalised in 2006 and reiterated and clarified in 2012. The policy requires LNG producers to make gas equivalent to 15 per cent of their LNG exports available to the domestic market. LNG producers comply as a condition of project approval by reserving gas for the domestic market, having infrastructure in place to supply it and marketing the gas to Western Australian consumers.

The North West Shelf in the domestic gas market: to date, the North West Shelf project has supplied more than 5 150 petajoules of gas into the Western Australian market. In 2013, it was the source of more than half of Western Australia's gas consumption. Without this variation agreement, it would have continued to be a major, though declining, supplier for the Western Australian market until 2020, when the last of its domestic gas contracts were due to expire. Gas from the new Gorgon and Wheatstone domestic gas facilities under construction will offset the reductions in contracted supply from the North West Shelf project until 2020. After this time the domestic gas market is forecast to be tight. The extent of future supply from the North West Shelf project has been a major source of uncertainty for the market. The variation agreement addresses this uncertainty by applying the domestic gas policy.

North West Shelf export approvals: the North West Shelf joint venturers obtain approval to market and contract gas for export from the Western Australian government. The joint venturers are close to exhausting the last approval they received in 2004, which was for 70 million tonnes of LNG. In November 2012, the joint venturers approached the minister for approval to export additional LNG from their reserves, which would provide them with the financial certainty they need to invest in the Persephone and Greater Western Flank 2 developments. Although new domestic gas supply commitments, foreshadowed at the time of the 2004 export approval, were not realised, the joint venturers have supplied more than enough gas to meet the domestic gas obligations formalised in its state agreement in 1994.

The variation agreement: on ratification of this bill, the variation agreement grants approval for an additional 86 million tonnes of LNG to be produced from the future processing through the onshore facilities of natural gas recovered from a well or wells in the North West Shelf agreement area to be marketed for export. In doing so, the variation agreement documents the joint venturers' agreement to new domestic gas arrangements. The joint venturers commit to a domestic gas obligation equivalent to 15 per cent of LNG approved for marketing for export under this and any future approvals. It will ensure, on agreed terms, a regular supply of gas to Western Australian consumers and that sufficient domestic gas production capacity is maintained to deliver its commitments. The minister may approve processing of gas from wells outside the North West Shelf agreement area provided that the owners of this gas have provided a commitment to the state for domestic gas consistent with the new domestic gas commitment of the joint venturers. The new LNG export approval and domestic gas arrangements take effect on the ratification of the variation agreement by Parliament. The joint venture's new domestic gas supply commitment amounts to 700 petajoules. The gas commitment is equivalent to a little under 100 terajoules a day, or about 10 per cent of current consumption in Western Australia, until the agreement expires in 2034. Without the minister's agreement, the joint venturers may not count gas supplied under existing contracts with domestic consumers towards their domestic gas commitment. The minister has agreed that the joint venturers may count 43 petajoules of gas towards their commitment. This is for gas that will be supplied after the date of the variation agreement, but under contracts that took effect after discussions on the new domestic gas arrangements had begun. As circumstances may change, there are provisions built into the variation agreement that will enable the minister to deal with them. If the joint venturers have no contracted domestic gas to supply and have been complying with their domestic gas marketing commitments, they may seek to maintain the domestic gas plant on a non-operational status but are not relieved from their domestic gas marketing obligations. The joint venturers may also make a request for the state's consideration to offset all or part of the domestic gas commitment using alternative sources and facilities. Further, they may seek that the minister approve a reduction in the 15 per cent relevant percentage, as set out in proposed clause 46A(6), if the minister is satisfied they have been meeting their domestic gas commitment and that the market is adequately supplied.

Provisions of the bill: the provisions of the bill now before the house are outlined in detail in the explanatory memorandum. The key provisions of the bill are as follows. Clause 5 inserts a new section 6A into the North West Gas Development (Woodside) Agreement Act 1979, which ratifies the variation agreement and provides for it to operate and take effect despite any other act or law. Clause 6 inserts, as schedule 5 to the North West Gas Development (Woodside) Agreement Act 1979, a copy of the variation agreement.

Provisions of the variation agreement: the key provisions of the variation agreement are as follows. New clause 46(1C), the approval of an additional 86 million tonnes of LNG: this approved quantity can be reduced by approval of the minister if the joint venturers demonstrate that actual LNG production from gas recovered from the agreement area wells will be materially less than 86 million tonnes. New clause 46(1B): 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 then existing approvals, and such additional LNG will also be subject to the agreed domestic gas commitments. New clause 46A: 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 clause 46(1B), including the quantity approved by clause 46(1C). Gas used in the operation of the joint venturers' facilities and, unless the minister agrees otherwise, supplied under existing contracts is precluded from counting towards meeting this obligation.

The joint venturers are required to market domestic gas with the view of achieving a reasonably stable and regular supply over the life of the state agreement. The joint venture is also required to maintain its domestic gas facility operational and in good order to meet its domestic gas commitments. The joint venturers can place their domestic gas facilities on a non-operational status only if they have complied with their domestic gas obligations and will have no contracted gas to be supplied. If the minister requires, this will be subject to independent assessment.

The minister may suspend unutilised LNG export approval for a joint venturer if domestic gas supply obligations are not being met by that joint venturer. In an amendment to clause 9, the minister may approve the processing, utilising the joint venturers' onshore facilities of third party gas recovered from wells outside the agreement area provided that the minister is satisfied that the gas owner has provided to the state a commitment for domestic gas consistent with that of the joint venturers under new clause 46A.

Pursuant to standing order 126(1), I advise that this bill is not a uniform legislation bill. It does not ratify or give effect to an intergovernmental or multilateral agreement to which the government of the state is a party, nor does this bill, by reason of its subject matter, introduce a uniform scheme or uniform laws throughout the commonwealth.

I commend the bill to the house and table the explanatory memorandum.

[See paper 2593.]

Debate adjourned, pursuant to standing orders.