



LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

12th Assembly

Committee on the Northern Territory's Energy Future

Public Hearing Transcript

8.30 am – 9.15 am, Friday, 14 February 2014

Litchfield Room, Level 3, Parliament House

- Members:**
- Mr Gary Higgins, MLA, Chair, Member for Daly
 - Mr Kon Vatskalis, MLA, Deputy Chair, Member for Casuarina
 - Ms Larisa Lee, MLA, Member for Arnhem
 - Mr Gerry McCarthy, MLA, Member for Barkly
 - Mr Gerry Wood, MLA, Member for Nelson
 - Mr Francis Kurrupuwu, MLA, Member for Arafura
- Witnesses:**
- Mr Steven Gerhardy: Director – NT, Australian Petroleum Production & Exploration Association
 - Mr Stedman Ellis: Chief Operating Officer – Western Region, Australian Petroleum Production & Exploration Association

Committee commenced at 8 30 am

Mr CHAIR: We will get under way. Mr Vatskalis will be here shortly.

On behalf of the committee I welcome everyone to this public hearing into key challenges and opportunities associated with meeting the Northern Territory's future energy needs. Welcome to the table to give evidence to the committee from the Australian Petroleum Production and Exploration Association, Steven Gerhardy, Director NT.

Mr GERHARDY: Thank you.

Mr CHAIR: Stedman Ellis, Chief Operating Officer, Western Region, welcome.

Mr ELLIS: Thank you.

Mr CHAIR: Thank you for coming before the committee. We appreciate you taking time to speak to the committee and look forward to hearing from you today. As you know, this is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee apply.

Also, being a public hearing it is being webcast through the Assembly's website. A transcript will be made for use of the committee and may be put on the committee's website. If at any time during the hearing you are concerned what you will say should not be made public you can ask the committee to go into a closed session and take your evidence in private.

If I can start by asking each witness to state their name for the record and the capacity in which they appear. I will then ask you to make a brief opening statement before we go to questions. If you could both state your names and capacities and then one of you might like to make a statement.

Mr ELLIS: Stedman Ellis, Chief Operating Officer, Western Region APPEA.

Mr GERHARDY: Steven Gerhardy, Director Northern Territory for APPEA.

Mr ELLIS: Thank you Mr Chair. We appreciate the opportunity to talk to the submission we have made to the inquiry. I will make a short opening statement and then Steven and I would be happy to answer any questions.

APPEA is the peak national body for the oil and gas industry in Australia. Our member companies' account for 98% of the oil and gas produced in Australia and the vast majority of exploration activity. APPEA also represents many of the companies providing goods and services to the oil and gas industry. I am the Chief Operating Officer for the Western region within APPEA, which means I have responsibility for our activities in Western Australia, South Australia and the Northern Territory.

We welcome the opportunity to appear before the committee which we believe can play a very useful role in helping shape the Northern Territory's energy future. There is no doubt the Territory is well positioned to take advantage of the emerging opportunities created by increasing global demand for energy, particularly in Asia.

The significant investment occurring in oil and gas projects, both onshore and offshore, is evidence of this. Natural gas, in particular, is delivering economic, social and environmental benefits for the Territory through job creation, energy security and lowering of greenhouse gas emissions.

The Mereenie project near Alice Springs and, more recently, the Blacktip project near Wadeye have been supplying gas to meet the power generation needs of Darwin and other parts of the Territory for almost three decades.

Liquefied natural gas projects such as Darwin LNG, which is currently in operation and the Ichthys project currently under construction, have and will continue to provide significant employment and economic benefits to the Territory for decades to come.

The development of other offshore resources could extend the current wave of investment activity. Onshore the Territory's potentially vast shale gas resources are attracting explorers from around the globe. The US Energy Information Administration has estimated the Territory contains more than 260 trillion cubic feet of gas, or enough gas to power a city of one million people for more than 5000 years. There is an urgent need to encourage exploration to provide a clearer picture of these resources.

Shale gas has the potential to provide much needed jobs, investment and improved infrastructure in remote and regional areas. As well, royalties from shale and gas could become an important revenue stream for the Territory, increasing financial certainty for future governments and reducing their reliance on tied Commonwealth funding. However, further investment in the Territory's gas potential and the realisation of the industry's economic, social and environmental benefits cannot be taken for granted.

The reality is the rising cost of doing business in Australia, and growing competition from international gas producers, means investment in new gas projects in the Territory and elsewhere in this country cannot be assured. A competitive and stable investment environment and a continuing commitment to market-based policies are essential if new projects are to be developed.

To that end a number of challenges will need to be addressed. Calls for market intervention such as domestic gas reservation must continue to be firmly rejected. Other policies reducing cost competitiveness must also be addressed. These include the NT Build scheme which, in its present structure, is an inefficient and costly means of providing long service leave benefits for construction workers.

Finally, it is vital that industry and government continue to work together to ensure good operator practice, robust and efficient regulation and a constructive stakeholder engagement. This is especially the case in the Territory's emerging shale gas industry and the scare campaign being waged against it. It is crucial that every effort is made to counter the misinformation being spread by groups ideologically opposed to natural gas who ignore the extensive body of science proving it poses negligible environmental and health risks.

Reputable studies in Australia and around the world have clearly demonstrated that with appropriate monitoring and regulation shale gas resources can be developed safely and effectively with no environmental harm. Safe, clean, abundant natural gas is already a vital part of Territory life, powering homes and businesses and providing jobs and investment that drives economic growth.

APPEA hopes the committee can properly inform the public debate, the policy processes and the regulatory efforts required to ensure natural gas plays an even bigger role in the Territory's future prosperity. Steven Gerhardy and I are happy to answer any questions you have.

Mr CHAIR: Do you want to make a statement, Steven?

Mr GERHARDY: No, I am happy to answer questions as we go.

Mr CHAIR: Okay.

Mr WOOD: Mr Chair, can we ask questions on the statement?

Mr CHAIR: Yes.

Mr WOOD: Before we get to the formal questions.

Mr CHAIR: Yes.

Mr WOOD: I will get this out of the way early because it is not exactly about gas, but you mentioned NT Build and basically said it does not work. I presume you would support people having long service leave and that type of thing.

Mr ELLIS: Yes.

Mr WOOD: What is your version to allow that to happen outside the present way of doing things?

Mr GERHARDY: NT Build, as it is currently structured, applies a levy to project developers which is calculated as a percentage of the capital cost of the project. The capital cost will obviously include not only the wages paid to construction workers, but also the equipment that might be brought into the Territory that might be manufactured in another state or overseas. We have been proposing the levy is reformed so it is similar to the levy which applies in five of the seven other Australian jurisdictions for portable long service leave and is more directly based on the wages paid to construction workers. It is calculated as a percentage of the actual wages paid rather than as a percentage of the capital cost because, at the end of the day, the benefit construction workers receive is so many weeks of pay after so many years of service. Effectively, the money going out of the scheme is based on wages paid and we believe money going into the scheme should also be based on wages paid so there is a linkage between the two.

Mr WOOD: Basically you are not against the scheme but as it is, it has some faults that need fixing.

Mr GERHARDY: That is right. We are not opposed to the scheme. The concept is fine and similar schemes apply in every other state and territory in Australia. We are not opposed to the scheme, but we would like to see it reformed so it does not particularly disadvantage projects with high capital costs.

Mr WOOD: One of your concerns in relation to your industry is it is holding back development?

Mr GERHARDY: That is right. We all hear about the high costs now of construction projects in Australia and that Australia's competitiveness for attracting investment is at risk. This is one of the things the Northern Territory government can do to help improve the Northern Territory's competitiveness for attracting investment, not just in oil and gas projects, but in mining projects and other tourist projects. Anybody that is subject to this levy faces the same problem.

Mr WOOD: Thanks.

Mr CHAIR: In the opening remarks we heard there is enough gas in the Territory to generate enough power for one million people for 5000 years. The Territory does not have that many people and we will not be around for that long.

In your submission we got the impression securing gas for a small domestic market in the Territory may prove problematic. We also heard that rather than a domestic gas reservation policy you suggest a market-based energy policy would be more appropriate. Do you want to clarify what you mean by that transparent market-based approach?

Mr ELLIS: Mr Chair, I suggest what the Territory can see in recent times is by attracting investment like the Inpex Ichthys project to the Territory you are getting the benefit of economic growth and investment. If you recall the time the Ichthys project came to the Territory one of the issues in public debate was the imposition of a reservation policy under Western Australian policy. For the Territory that provided a differentiation. For companies in our industry looking at investment, artificial interference by government determining who they can sell gas to imposes cost and constraints in the development of the project. Effectively, it is a subsidy for local users of gas at the expense of the investors in the project.

Our view would be if you attract investment and grow the gas market that will be the best way of securing long-term energy security. We think the Territory is in an advantaged position by its rejection of its domestic gas reservation policy, as have all other states and territories except Western Australia which have considered this question.

Mr WOOD: I might have asked this question in Perth, but some people would say the gas belongs to the country. Theoretically, if we had X amount of gas and sold it overseas as part of the market-based economy and we did not have any for ourselves we would look pretty foolish. What do you think of the concept - this might have been raised before - of the government being part of the market and saying, 'We will explore and keep that bit of gas. That is ours because we discovered it and will use it when we feel like it'?

Mr ELLIS: In regard to oil and gas exploration development the industry is well placed to undertake that activity, probably better placed than government. If you can maximise the level of exploration occurring in the Territory you have the potential to enlarge the gas market. In practice, what we see happening in places like Western Australia is the export market is helping the domestic market. It is attracting investment but it is also enlarging the market and making it possible to supply domestically. Security would be delivered long-term by attracting investment rather than seeking to impose policies which would restrict the level of investment or restrict where marketing of gas can go.

The other thing is what we are proposing here is really no different from the framework the country has used in developing its agriculture industry or its fishing industry. It is to seek the most value for the product of all Australians - of Territorians or states - and maximise that value by seeking the best price for them.

Mr VATSKALIS: I can see your logic behind it and we do not do it with any other industry. Why should we do it with the gas industry? Do you support the principle of use it or lose it?

Mr ELLIS: Steven can talk to what the Northern Territory government is doing in that regard.

Mr GERHARDY: The Northern Territory government has just introduced some legislative changes along those lines and tightened up the requirements for permit holders to undertake their work programs as they have

committed to do, and also demonstrate when it comes to renewals, or retention leases, the work they have done and hold them to account. In general terms, we support that.

We are keen to see activity on the ground, see the exploration occurring, keep the investment rolling in, and the only way we will know what resources are out there and how they might be developed for the benefit of the Territory is to encourage that exploration. It is not in the industry's interest to have large areas of land sitting idle for long periods of time.

Mr McCARTHY: In regard to that as a management practice, how does it sit globally considering Australia deals with high costs of exploration and high costs of processing and production?

Mr ELLIS: In relation to the principle of ...

Mr McCARTHY: Gas reservation. Does that apply in Africa?

Mr ELLIS: There are a few countries in the world - they are in the minority - that apply gas reservation policies. In answer to your question, I am not aware of the situation specifically in African countries.

I believe around the world you can find a diversity of policy responses in how countries are seeking to maximise the value of their energy resources. I believe in Australia's circumstance, our economy at a national, state and Territory level has been built for a long time on attracting foreign investment to create competitive export industries, that have, largely, driven our economy in creating jobs and the standard of living we enjoy.

In our circumstances, where we have very large potential resources of gas, where we are reliant on attracting foreign investment to develop that gas, the ability to do so will be important in sustaining our standard of living. We need policy response to the concept of reservation that is based on that local understanding.

If you look at the national government's consideration of this under its Energy White Paper, it has firmly rejected reservation policy. I believe it sees it very much as akin to the type of subsidies which have been unwound for car manufacturing in recent times in Australia. Indeed, Queensland has also assessed this and also made a decision not to proceed with a reservation policy.

Mr McCARTHY: In trying to explain it to the constituency, it is good to have no gas reservation policy to attract exploration which will lead to more players in the market and, presumably, more finds, more production. The market forces control the price of gas, but what happens when prices start dropping?

Mr ELLIS: That is, of course, the story of the United States over the last five or six years. Perhaps five or six years ago gas prices in the United States were very high, which led to significant investment in exploration onshore and trying to work out how to develop the shale gas resource of the United States.

The scale of that investment was very large. You have now seen a very large onshore gas industry develop. That onshore gas industry in the United States has created more than one million jobs over the last five years and has resulted in the United States' gas emissions being the lowest in 20 years. In relation to gas prices, it has reduced gas prices to a very low and competitive level which is credited with being one of the major factors for driving a renaissance of the US economy. The market forces there encouraged investment which grew the supply which took price down by creating competition in supply.

Mr VATSKALIS: I will play the devil's advocate here. Do not get me wrong, I do not support a gas reservation policy. We do not have a gas reservation policy, everything is exported, the price Japan pays is really high and there is not enough gas to go around for Australia. Now we have the situation where gas generators say gas is too expensive and will close down the gas generation and go back to coal. How do we manage those two? We go to gas to reduce emissions but gas is expensive so we go back to coal which is really dirty. How do you explain to people it is good economic sense not to have a gas reservation policy but you have to lump it with coal?

Mr GERHARDY: There are short-term cycles in any market where prices go up and down according to supply and demand and that happens in primary industries as well as everywhere else. There will be times when prices go up, as they are in the eastern states, in response to demand rising and also supply being perhaps tighter than what it should be.

In the West Australian market, for example, there was a period in the early to mid-2000s when the resources boom was in full swing, when demand was growing rapidly, and the supply and demand gap was very tight so prices were rising. What happened in response to the rising prices was people did exploration and developed new sources of supply. So three or four new projects have come on stream in the last couple of years to supply the West Australian market.

That is an example of market forces at work in response to tightness in supply. While the eastern states may be experiencing a tightness in the market at present due to LNG projects being developed and starting up and restrictions on gas production in states like New South Wales, the high prices will trigger more options. One of the options for the Territory which the Chief Minister has talked about is shale gas and even offshore gas. If shale exploration proves successful and we have the vast quantity of gas Sted mentioned, one of the options is supplying gas to the eastern states if that market remains supply constrained.

Mr WOOD: We buy our gas from Blacktip and I am unsure if any still comes from Amadeus. That is a set price and I assume there is a contract out until 2030 or something?

Mr GERHARDY: Yes.

Mr WOOD: What difference would it make, if we have a booming gas industry in the Northern Territory, to the average consumer in Darwin?

Mr GERHARDY: Yes, you are right it is supplied under a fixed contract, but that contract will end. It might sound like a long time 2030, but when you are looking at the oil and gas industry it takes a long time to get projects up and for exploration to discover resources, appraise them, develop a market plan for them, get the financial and technical capability and so on. This is a long-term industry - and, while 2030 is 15 years off - it can take 15 years to develop a gas project. The other thing the Territory is aiming to do is attract more industry, downstream petrochemicals and other sort of industries that can use gas. The more we can grow the demand and market the more attractive it will be for people to develop gas projects. That will increase supply competition which brings benefits itself.

Mr WOOD: I was concerned when you said someone could set up generating plants using gas from a much cheaper source, where the Territory is locked into a particular long-term contract which will make our existing power and water non-profitable. The competition will be uneven because they will be getting gas from the source which Power and Water cannot because they are locked in.

Mr GERHARDY: Yes, a contract is a contract and there will be terms in the contract that deal with the price it is supplied at and the volumes and so forth. Of course, we are not privy to that but they are usually in a contract. It is negotiated, so there are benefits to both parties when the contract is signed and during the course of the contract. However, to the extent the Northern Territory market grows and there is a demand for extra energy, whether that be in a form of electricity or in gas for industry use, that incremental growth has to be met from somewhere so there is a supply opportunity there.

Mr WOOD: Without getting too side-tracked by that debate, it seems an uneven debate when our main source of energy electricity is from one supplier who is locked into a contract. If the government decides to open that up for competition to people who can get gas from a cheaper source it seems that it is not real competition because the other side cannot compete anymore.

The price of gas to Japan is fairly high. This is about reservations, but what is the actual cost of production versus how much it is costing to deliver to Japan? I understand it is expensive to produce gas – you only have to see INPEX - but people might be looking at a reservation so the gas kept for Australia is sold at a reasonable price not based on an overseas price, a bit like oil from Singapore.

I do not know what it costs to produce our own oil in the Bass Strait, but I imagine it would be a bit cheaper than to bring it all the way from Saudi Arabia, having it refined in Singapore and brought here by ship. However, we pay the market price which does not always reflect the true cost of production and a reasonable profit.

Can we get locked into the so-called market price and be paying a lot more for our gas than we really should be as a consumer?

Mr ELLIS: Obviously we will always be paying less for our gas than the Japanese because we are not paying for the processing and transportation to get it to Japan or other Asian customers. If you look to the long-term, people are looking for secure and competitively priced sources of energy and how to get those. You get those through competition in the market, a diversity of suppliers competing and you get it by attracting investment. You indicated development of some of these offshore gas fields requires very significant capital investment to make these projects feasible. The risks taken - the investors need the opportunity to recoup those investments over a long period of time.

I again point to the example of whether it is our agricultural or seafood products, we benefit by tapping into the ability to sell those products into export markets at the prices our trading partners are prepared to pay, and that creates jobs and investment here. The gas industry can deliver energy security by attracting investment, growing the market and growing the number of suppliers so when NT power and gas seeks to renew its contract it has competition in the market to renew that contract. We can also drive significant job creation and investment at a local level through the investment of these projects. There are two sides to what the energy industry or the gas industry can deliver to the Territory.

Mr WOOD: Energy is what runs our economy. Look at the car industry. If our energy sources were half the price they are today could Toyota, Ford and Holden still exist? I am not sure competition has done that for us. Is that the real price? Could we develop our own energy at the cost of production plus profit, or do we leave it to market prices where we get a much higher cost of production than perhaps should happen?

Mr ELLIS: Even in the last five or 10 years in the national economy the fact that Australia is attracting \$200bn of investment in LNG projects around the country, including the Ichthys project, has created a major new driver for the Australian economy at the time we need one. That investment, driven by the ability to serve growing Asian markets and their desire for cleaner fuel in polluted cities, is a significant opportunity and it is creating a significant plank in our economy which will be there for decades.

There are very strong economic benefits for the standard of living of all Australians out of attracting this investment and serving these markets.

Mr GERHARDY: The benefit of a market approach is if you have multiple suppliers competing against each other to supply a power and water corporation, a petrochemicals plant, a major industry, then the competition between those suppliers will drive prices down to the point where they are long run costs. That is the way markets work.

Mr VATSKALIS: We discussed gas reservation; let us get to the nitty gritty. What do you consider to be the problems in the Territory? Is it land access, is it lack of infrastructure? What would your association like to see to ensure more people come to explore in the Territory?

Mr ELLIS: The Territory faces the same challenge all jurisdictions face at the moment. Australia has become one of the most expensive places in the world for doing business and building new projects and that is a significant issue. Attracting investment, the projects that might follow Ichthys in the offshore, and attracting and facilitating the early investment onshore is within the context of being one of the most expensive places in the world.

That comes back to the comments we made about NT Build. Everywhere the Territory can pull a lever to ensure the Territory is competitive in attracting investment is important. The other things we touched on in our submission is that the Territory has established a good platform by moving forward on a supply base. It has already secured activity coming from the Shell Prelude project off the Kimberley coast. You would expect more use of floating LNG technology partly to address this cost pressure. There is an opportunity to look at the government settings in how you maximise the ability to take advantage of two LNG plants, a supply base and close access to Asian markets to make Darwin more of a centre for the offshore activity.

The other thing the government can do, which we touch on in our submission, is the development of onshore gas which has attracted controversy and concern in some communities. That is understandable where the oil and gas industry is going into areas where communities are not familiar with the technologies and practice of the industry or how it is regulated. It also reflects a scare campaign that has been run by those ideologically opposed to further development of fossil fuels.

There is something for industry to do about that. Industry needs to operate very well. It also needs to engage very proactively. But there is a task that falls to government that we talk to here and that is to continue the work they have begun to ensure they have a regulatory framework, regulatory capacity and resources to regulate the industry in a way that can generate confidence in the communities where the industry is going.

Mr CHAIR: In the submission there is reference to three specific things I would like some answers on. One is the uniform legislation, and Kon has already mentioned infrastructure. The third one, which we have not touched on yet, is land access, with Aboriginal land as one of the areas. How do you see us solving some of that? How can we make that easier?

Mr GERHARDY: Infrastructure - it is ...

Mr CHAIR: Money.

Mr GERHARDY: Yes, well, money. Work on planning for infrastructure needs to go hand in hand as industry is developed, and not just our industry but others as well. We mentioned gas pipelines as critical for getting gas to markets. One of the challenges for development of the onshore shale gas industry is the pipelines we have at the moment are limited in number and capacity, and if a large resource is discovered which is remote from those pipelines, or even next door to it, there would need to be further investment in pipeline infrastructure to get that to market. That would require some innovative thinking and work by governments to attract private investors and make that attractive.

One of the challenges in supplying and developing a large gas resource is you need a large market to justify the initial expense and building pipelines is an expensive exercise. That work needs to progress hand in hand. Just as gas fields take a long time to develop, it can take quite a long time to get all the work done for getting a pipeline in place when you take into account all the land access issues, approvals and so forth.

Working with government on infrastructure needs and the onshore oil and gas industry here - apart from the Amadeus Basin, the Mereenie project and Magellan work south of Alice Springs - is at a very early stage. Exploration is still at a very early stage, so we need to define how much of that very large resource can be converted into economically recoverable reserves. As that work continues - it will take some years to firm up - it is a progressive process of exploration narrowing down the areas and options until you find the most prospective area in which to drill some holes. That will take some time but it is good the government is thinking about things like pipelines and how the gas might be marketed as well.

Mr CHAIR: With access to land, the introduction of a GasFields Commission in Queensland established and managed the coexistence of rural landowners, regional communities and the industries. Would that be of any benefit in the Northern Territory - a similar sort of scheme or commissioner?

Mr ELLIS: We think the establishment of the GasFields Commission in Queensland is a very positive move. We think it is one of the better things any of the state governments have done. We think it is well worth considering. The industry would acknowledge, in Queensland, the speed with which three projects developed concurrently and the level of effort put in early to engaging farmers, in hindsight, might need to have been stepped up. The Queensland GasFields Commission has played a really important role in that interface of improving understanding on both sides. We certainly commend the committee consider that as a model that might have utility in the Territory, both in dealing with pastoralists but also in dealing with Aboriginal people.

Mr McCARTHY: Does APPEA play a role in that? Have you guys had direct involvement with land councils in the Northern Territory?

Mr ELLIS: Perhaps I will answer the first part of the question and defer to Steven for the second. In relation to the Queensland GasFields Commission, a series of commissioners have been appointed. One is from industry, Rick Wilkinson, who works for APPEA, one of our colleagues. We have involvement in the commission in that way as an appointment by government on a government established body.

Mr GERHARDY: The Northern Territory is unique in having the Aboriginal Land Rights Act as well as native title. The primary responsibility for communicating and talking to traditional owners and Aboriginal communities rests with the individual operators and they work with the land councils and communities to get their approval and access to land. APPEA is relatively new to defining its role in this process and how it can usefully assist in the Northern Territory and in other parts of the country. We have not traditionally, as an industry association, been heavily involved in communications, negotiations and so forth for approval processes with land councils or Aboriginal communities.

Since coming to the Northern Territory six months ago we have opened up discussions with the land councils and it is an issue we discuss with our members, the companies that are operating in the Northern Territory. We are looking at ways in which we can usefully assist in the process. We do not want to usurp the role of the companies and take away their obligation to be doing due diligence, proper processes, communication and so on but how can APPEA, as an industry association, provide information, briefings or assist Aboriginal communities understand what the industry is doing and how we manage the risk and impacts on the environment.

Mr McCARTHY: What we hear from the minerals industry is it is really important in the exploration phase as they are based on a scientific methodology. Without that road map they find blockers where they can explore and that detracts from the bigger picture. I am advised from back home that is a real frustration and if there are strategies to avoid that in the planning stages it makes everything much smoother and cheaper.

Mr KURRUPUWU: You mentioned investment and royalty. Can you clarify royalty a bit more?

Mr ELLIS: Certainly, Francis. As you would be aware, the Northern Territory government is 80% dependant on tied grants from the Commonwealth in its own revenue. If we saw the substantial development of a shale gas industry onshore, those royalties would flow to the Northern Territory government. Given the size of the potential resource we talked about, - enough gas potentially to power a city of one million people for 5000 years - if the exploration currently under way gives a clearer picture of those resources and you start to attract significant investment, then you will start generating a very significant revenue flow direct to the Northern Territory government. This would, fundamentally, shift its reliance from Commonwealth grants funding.

Mr WOOD: Can I ask a question on that? How much do we get from oil and gas direct to the Territory government? The only benefits I have found in asking this question of the Territory government is sales tax, stamp duty, motor registration and payroll tax. How do you see the Territory government financially benefiting if it goes back to the Commonwealth? I presume it comes back in the form of GST. They put it in the GST bucket and that means it is spread throughout the whole of Australia based on population.

In reality, do we get a fair share of the energy we have produced or is it spread around the rest of the country?

Mr GERHARDY: Resources which are located onshore or in Territory waters come under the jurisdiction of the Northern Territory. Any of the mining resources, or oil and gas, once developed and in production, pays a royalty on production. In the case of oil and gas, this is usually 10% or 12% of the value of production at the well head. That royalty goes directly to the Territory government once those resources are developed.

At the moment the only producing fields in the Northern Territory's jurisdiction are the Mereenie fields and Palm Valley but they are not producing very much because they do not have markets. Mereenie has gas but it does not have any customers so they are probably not paying much in the way of royalties – this is conjecture on my part and you could check with Santos. They are probably not paying a lot, but as we see the shale oil and gas industry potentially developing and if, for example, it is piped to the eastern states, then every gigajoule of gas produced by those projects will pay a royalty directly into the coffers here.

Mr WOOD: Government will not tell us how much royalty is paid from mining companies in the Territory. That is good and, in other words, we should not be promoting offshore, it should be onshore?

Mr CHAIR: The Commonwealth will only rip us off.

Mr GERHARDY: I am sure projects can bring other benefits, as we have seen with INPEX, and they can help to establish an industrial base, a supply centre in Darwin and help build up the capacity of suppliers which will be of benefit to onshore projects as well.

Mr CHAIR: One thing we have not covered is uniform approaches to legislation across jurisdictions. Can you give us some examples of where that can be improved, and whether your people have fronted any of the states with suggestions?

Mr GERHARDY: Yes, petroleum regulation is one area where, for the onshore area, the states have traditionally taken different approaches and are at different phases and different levels in what they are doing. This is one area where APPEA is encouraging each state and territory jurisdiction to work with the others and look at ways in which regulation can be reformed so it is best practice and more consistent across the country.

There are two key objectives with regulation. One is to provide an efficient and transparent system for projects and investors within which they can operate with clearly defined rules, so it encourages investment. Also, the other important role for regulation is to provide confidence to the community and other stakeholders such as pastoralists, fishermen and Indigenous communities that their interests are being protected and the environment is being safely managed, for example. There are two very important roles for regulation there.

The industry is keen to see both promoted, but is also keen to see best practice regulation across all jurisdictions. That is one area where we are working with the NT government and the department here as the onshore shale oil and gas industry develops. It operates and develops in a slightly different way to conventional oil and gas due to the nature of the resource. Therefore the regulation regime needs to be modified to take account of the sorts of activities that are done and ensure it is taking into account best practice around the world and is reformed to reflect that.

One of the regimes the committee might like to look at is the South Australian regulatory regime for onshore oil and gas which is generally regarded by the industry as perhaps being best practice in the country at this point in time. They have done a number of things including developing a roadmap for unconventional gas, and introduced approval processes and regulations which are considered to be very effective at meeting both of those criteria.

This has given the industry certainty and efficiency, but also protects the community's interests and provides reassurance to stakeholders.

Mr CHAIR: Thank you for that. We have run out of time. So, thank you very much, both of you, for coming today. Is there anything you want to say in closing?

Mr GERHARDY: There is just one. I refer members to a couple of reports that have been put out which deal with a comparison of the gas subsidy regimes that apply in different countries. There was a report done about 12 or 18 months ago that compares those. We could provide that to the committee.

We also refer the committee to a quarterly publication issued by a company called Energy Quest which actually has gas prices and talks about contracts and volumes and what is happening in each of the states and territories around Australia. It has very useful, detailed information, if you are interested in delving into the gas contracts issue.

Mr CHAIR: Thank you very much and I am sure we will talk again.