



LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

12th Assembly

Committee on the Northern Territory's Energy Future

Private Hearing Transcript

12.15 am – 12.45 pm, Friday, 27 March 2015

Litchfield Room, Level 3, Parliament House

Hon Gary Higgins, MLA, Chair, Member for Daly

Mr Gerry Wood, MLA, Deputy Chair, Member for Nelson

Members: Mr Francis Kurrupuwu, MLA, Member for Arafura

Mr Gerry McCarthy, MLA, Member for Barkly

Ms Nicole Manison, MLA, Member for Wanguri

Apologies: Mr Matthew Conlan, MLA, Member for Gireath

Department of Mines and Energy: Energy Directorate

Ron Kelly: Chief Executive Officer

Witnesses: Victoria Jackson: Executive Director Energy

Mr CHAIR: On behalf of the committee I welcome everyone to this public hearing into electricity pricing options. I welcome to the table to give evidence to the committee from the Department of Mines and Energy Energy Directorate, Ron Kelly, the CEO and Victoria Jackson, the Executive Director Energy. Thank you for coming before the committee. We appreciate you taking the time to speak to the committee and look forward to hearing from you today.

This is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee apply. This is a public hearing which 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 that what you will say should not be made public, you may ask that the committee go into closed session to take your evidence in private.

I ask each witness to state their name for the record and capacity in which they appear. I will then ask you to make a brief opening statement before proceeding to the committee's questions. Could you please each state your name and the capacity in which you appear?

Mr KELLY: Ron Kelly, Chief Executive of the Department of Mines and Energy.

Ms JACKSON: Victoria Jackson, Executive Director of the Energy Directorate at the Department of Mines and Energy.

Mr CHAIR: We now have microphones attached so, Ron, would you like to make an opening statement?

Mr KELLY: Thank you, Mr Chair. I will briefly outline the current initiatives and functions of the Department of Mines and Energy and the areas of priority, if you like, that we are currently focusing on.

The Energy Directorate is working primarily in the area of industry facilitation and, of course, regulation in the oil and gas sector. Since 1986 gas has been the primary source of energy for at least on-grid energy sources for the Northern Territory, with the majority of off-grid sites operating on oil, as we know, or diesel. Small amounts of solar energy supplement that, but in the main it is diesel in the remote communities and gas in the major centres. If we look at Nhulunbuy sourcing their energy from Rio Tinto, that is a different arrangement. That is heavy fuel oil at the moment. Jabiru is diesel-based fed from the ERA operations. That is the picture of the current energy demands and use.

The department is working very hard to encourage more gas and oil development in the Northern Territory because we see that as the ability to drive economic activity in the Northern Territory by providing cheaper, sustainable energy that will encourage not only manufacturing and marrying up with some other mining operations such as phosphate to create value-adding in the form of fertilisers - we need to have gas developments to provide that - but also to develop or deliver the energy security requirements of the Northern Territory and for the nation's energy security, if we can develop the oil and gas fields that are prospective out there.

We have known reserves in the order of 30 trillion cubic feet or thereabouts of reserves. Correct me if I am wrong on these numbers, but prospective gas reserves in our territorial waters and onshore estimated reserves in the order of 200 to 250 trillion cubic feet of gas reserves depending on who you talk to.

Ms JACKSON: I might change that word to resources if I may ...

Mr KELLY: Sorry.

Ms JACKSON: ... because they are not bankable.

Mr KELLY: Sorry. I appreciate that and apologise for using the wrong language and being potentially misleading. They are estimates resources, of course not currently fully proven up, and certainly we do not have any major reserves in production to give accurate figures on the energy resources that may be out there.

Hence the role of the department at the moment is working with industry to facilitate exploration and development of those potential reserves. Initiatives such as the CORE are program being run to create or generate the baseline science that is open source to all explorers to look at and help facilitate them in making their decisions and, hopefully, see some exploration occur and ultimately turn into production that will provide us with that energy security that we need and to facilitate industry directions.

We have a smaller capacity – I will use that term deliberately at the moment – in the agency for looking at the renewable energy sector. It is a role or function that we have in the agency, but to date we have been working primarily on the oil and gas aspect of the energy opportunities and will move further on the developmental work with the science of renewables as we move forward.

At the moment we are, as I said, concentrating on trying to develop the oil and gas reserves or potential reserves in the Northern Territory and working diligently towards that end.

That is the rough picture, I suppose, of where we sit at the moment and our focus and direction. We certainly welcome any questions about those operations.

Mr WOOD: Before you get to those, Ron there has been a lot of talk about reservation of gas. One of the options put to this committee when we visited Perth was the government has the power to hold some of those gas resources, if I can call it that, undeveloped until it needs it. You mentioned energy security, and that is important for us as a Territory. Has the government given any consideration to saying this part of the Northern Territory, the reserves under the ground here will be retained for Northern Territory use and not be exported or sold?

Mr KELLY: That is a policy decision of government and I have not received anything other than the current stated position of government which is there is a no reservation policy. Our focus is on finding those resources and having industry develop them and, hopefully, turn them into production.

Ms MANISON: I have a question about the work you are doing as part of the energy directorate. You said you are really focusing on the oil and gas component. Renewable energy is a really exciting opportunity in the Territory. You said you have started doing a bit of work around that. Do you think the best place to have that focus on potential renewable energy development is within the Department of Mines and Energy or is it something you feel should be perhaps back in Power and Water? Where do you think it should be placed?

Mr KELLY: That depends on which aspect of the renewable we are looking at. I understand there is a question on notice, or a question you mentioned before we started

Ms MANISON: ...in Power and Water? Where do you think it should be placed?

Mr KELLY: That depends on which aspect of the renewable we are looking at. I understand there is a question on notice or a question you mentioned before we started. I believe the research and the facilitation role of engaging or increasing the use of renewable energy is one for the Department of Mines and Energy, to fit in with that facilitation mode we have in our agency to try to get industry - whether it is oil, gas, or even renewable developments - into the Northern Territory. We can take on that role.

As for issues such as how that is priced into the market, that is currently not an issue for Mines and Energy and government will decide where that will ultimately sit.

I look more at renewables being an alternative or additional source of energy that could be used or rolled out in the Northern Territory. Further research and investigation into that space can take place outside of our department. It is beyond the remit of Mines and Energy to look at things like storage, refining and enhancing of the technology that is required to make it cost effective in comparison to other energy sources so it can become a mix into our market and not distort prices to consumers. All of those issues are something we should and will be looking at.

Mr CHAIR: Going back, we had Treasury here this morning, just to throw a spanner in the works for you. We asked them the question about feed-in tariffs and the setting of that. We were after a bit of clarification. They seemed to think that determining that tariff should sit with Mines and Energy.

Mr KELLY: That is very nice of Treasury to have a wonderful opinion. I have not given much thought to the specifics of that question. What I am aware of at the moment is that the determination of feed-in tariffs and pricing is currently in the domain of what would be old Power and Water but is now Jacana in where that retail sector buys their energy mix from and how they buy it.

It is not a role that DME is looking at, at the moment. I believe in most other jurisdictions pricing or feed-in tariff pricing is simply a cost of buying in whatever your mix of energy is to put into your customer networks. Notwithstanding other comments that have been made that I am not aware of, that is as I see it; that it sits with the energy retailer where they buy their energy from.

As I said earlier, our role we are looking at in the department is to how we can potentially encourage more alternative energy options to be explored in the Northern Territory.

Mr McCARTHY: I asked Treasury about the economics of selling gas reserve resources to the east coast market. Then it was refined into the excess gas we currently have that Power and Water contracted for. We use X but actually have Y in that resource. Treasury gave a ballpark figure of the contract until about 2034.

Has the Department of Mines and Energy looked at the opportunity for using that excess gas in producing superphosphate in partnership with our phosphate resources that have been identified?

Mr KELLY: The Department of Mines and Energy does not own that gas nor the contractual arrangements around that gas. That is rightfully asked of Treasury because that gas contract is managed through Power and Water - they own that. I said earlier one of the driving factors of the Department of Mines and Energy is to create more opportunities in customers and demand, then that promotes supply or exploration companies to find more gas.

I cannot really comment on the dealings in that excess gas that is in that Power and Water contract because it is their contract. We know, as we hopefully encourage exploration, and therefore production, there will be demands for that gas and it can create us enormous opportunities, some we cannot even define yet. As it comes forward there will be opportunities there that people will step into the mix. As for those contracts of gas, I am afraid that needs to be referred to those people.

Mr McCARTHY: Sure and I accept that, so let us go back to a mines and energy perspective. We have identified significant resources of phosphate that could be exported as rock phosphate. To significantly value-add we could look at the opportunity of creating super phosphate. We know there is a gas reserve there. We know there is excess gas owned by Power and Water, but would Power and Water be willing to sell it to a customer that comes online to produce super phosphate? I daresay they would be interested in that. Have you guys commenced any work on that?

Mr KELLY: No, it is a decision of government as to what happens with that gas and that contract. They are not negotiations or discussions that we are involved in. We are in the business of providing whatever support and regulation – never forget that Mines and Energy is a regulator as well and we cannot diminish that responsibility, but our focus in the energy directorate is to support the industry to create more gas. We are not involved in discussions of what happens with existing gas.

Mr CHAIR: Can you give us an update on where the NT's Energy Advisory Council is at?

Mr KELLY: Certainly, the minister will be making a decision shortly. I will not put an exact time frame on when the minister or the Cabinet make a decision, but we have worked to find and identify suitable people and that is now a decision for government.

Mr CHAIR: Those recommendations on membership have gone through to government?

Mr KELLY: We have worked to provide options to the government and that will be actioned on its time line.

Mr WOOD: Could I ask a question on renewables again? The government got some funding from the Commonwealth for a renewable program across the Territory in various remote communities. I have forgotten its proper name ...

Ms JACKSON: Solar set up.

Mr WOOD: Are you involved in that program?

Mr KELLY: I will ask Victoria to answer that question.

Ms JACKSON: To an extent we are, yes. We are involved in the oversight management committee. There is a committee headed up by ARENA and the project management side of that is run through Power and Water. Our role is to provide advice and guidance and to ask some questions if we are concerned that the project is not moving along in the right process. It is purely an advisory role on our part.

Mr WOOD: I have been watching progress with tidal energy for a number of years. Tenax Energy has applied to look at providing power into the Darwin grid. Have you had any involvement with them in relation to getting that project off the ground?

Ms JACKSON: No, we have not had any involvement. That has been done out of Power and Water as it is as an operational project. Our focus has mainly been on providing some advice and support into the ARENA projects.

Mr WOOD: I am a little confused as to which main government body promotes renewable energy. Is it Power and Water, is it yourselves? I am trying to think who else it might be, but has someone got a lead role in that area or have you each got a finger in the pie?

Mr KELLY: Probably a fair way to describe it at the moment is there are a number of different agencies, or in the case of Power and Water the GOC corporations have various roles to play. Certainly the retailers into where they source their energy from - from Mines and Energy we would be and do have the lead in putting a regulatory regime around energy supplies. We certainly take the lead role in issuing any permits, licences and operating permits that are required, or dealing with the Environmental Protection Authority or whatever else on the impact it might have. At the moment it is a bit of a mixture of agencies for looking at various aspects of the roll-out or development of alternative energies.

The Department of Mines and Energy, through Energy Directorate is stepping further into that space to try to facilitate greater energy supply and diversity in the Northern Territory marketplace. But we do not have all of the policy decisions or directives giving us the lead, if you like. They are still decisions of government as to how and where those responsibilities fall.

Mr WOOD: Another question on not quite renewables, but one of the areas of energy production that has gone quiet, maybe because gas has taken over the popularity stakes at the moment, is geothermal. I have been following geothermal for a long time. I am interested to know where we are at in relation to geothermal energy. Are there any prospective areas that there are real customers willing to come in and test the waters – it is not quite the right name - test the rocks?

Ms JACKSON: We have a *Geothermal Energy Act*, as you are probably aware. At the moment we do not have a single permit that has been issued and no one knocking on our door to apply for new permits.

One of the biggest projects in Australia that was looking at geothermal rocks was in South Australia. I believe last year they sold their surface assets to an oil and gas company and they are now working offshore in the more traditional hydrothermal areas rather than geothermal.

From my understanding, the technology has proven to be very expensive and difficult, and there are issues with where the rocks might be in location to major populations. There has been very little interest in the Territory in the last two years.

Mr WOOD: I hope to get down to the Cooper Basin this year. I might see if the powerhouse they set up there is working. I will be a bit sad if it has failed because it had so much promise. It is expensive. Thank you.

Mr McCARTHY: Has the Department of Mines and Energy made a submission to South Australia's Royal Commission into Nuclear Energy?

Mr KELLY: Not at this stage.

Mr McCARTHY: Do you anticipate that the Territory will?

Mr KELLY: That would be a decision for the minister and government. We have not as yet ...

Ms JACKSON: We have had no instructions as yet.

Mr CHAIR: Okay. That seems to be it. Thank you very much for coming. We will let you go and I am sure we will call you again. Thank you.

Mr WOOD: Sounds like a threat.

Mr KELLY: We will be very pleased to attend at any time.