



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

STANDING COMMITTEE ON ECONOMICS

**Reference: Gas explosion at Varanus Island, Western Australia**

TUESDAY, 28 OCTOBER 2008

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE STANDING COMMITTEE ON  
ECONOMICS**

**Tuesday, 28 October 2008**

**Members:** Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), Senators Bushby, Cameron, Furner, Joyce, Pratt and Xenophon

**Participating members:** Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Ellison, Farrell, Feeney, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Hanson-Young, Heffernan, Humphries, Hutchins, Johnston, Kroger, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams and Wortley

**Senators in attendance:** Senators Bushby, Cameron, Eggleston, Hurley, Pratt

**Terms of reference for the inquiry:**

To inquire into and report on:

- a. the economic impact of the Western Australian gas crisis, including but not limited to:
  - i. the extent of losses faced by business and industry failing to meet production targets due to the lack of gas supplies,
  - ii. the disproportionate disruption to industry in the south west of Western Australia, and
  - iii. the nature of contractual arrangements forced on business and industry during the gas crisis and their status since the resumption of gas supplies from Varanus Island; and
- b. the government response to the Western Australian gas crisis, including but not limited to:
  - i. the adequacy of the crisis management response,
  - ii. the adequacy of reliance on one source supplies of gas for domestic markets,
  - iii. the provision of reliable and affordable supplies of alternative energy,
  - iv. the feasibility of developing emergency storage facilities of gas in depleted reservoirs or other repositories, and
  - v. the justification for any refusals to release relevant facts and documents publicly.

**WITNESSES**

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**Committee met at 11.14 am**

**CHAIR (Senator Hurley)**—I declare open this meeting of the Senate Standing Committee on Economics inquiry into matters relating to the gas explosion at Varanus Island, Western Australia. This is the third public hearing of the inquiry. The Senate referred this inquiry to the committee on 28 August 2008, and the committee has received over 25 submissions. The committee is due to report to the Senate by 13 November 2008. The inquiry's terms of reference require the committee to examine:

- a) the economic impact of the Western Australian gas crisis, including but not limited to:
  - i. the extent of losses faced by business and industry failing to meet production targets due to the lack of gas supplies,
  - ii. the disproportionate disruption to industry in the south-west of Western Australia, and
  - iii. the nature of contractual arrangements forced on business and industry during the gas crisis and their status since the resumption of gas supplies from Varanus Island; and
- b) the government response to the Western Australian gas crisis, including but not limited to:
  - i. the adequacy of the crisis management response,
  - ii. the adequacy of reliance on one source of supplies of gas for domestic markets,
  - iii. the provision of reliable and affordable supplies of alternative energy,
  - iv. the feasibility of developing emergency storage facilities of gas in depleted reservoirs or other repositories, and
  - v. the justification for any refusals to release relevant facts and documents publicly.

These are public proceedings, although the committee may agree to a request to have evidence heard *in camera* or may determine that certain evidence should be heard *in camera*. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer a witness may request that the answer be given *in camera*. Such a request may of course also be made at any other time.

The Senate has resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given a reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanation of policies or factual questions about when and how policies were adopted. I welcome our first witnesses, representatives of the Insurance Council of Australia. I have a couple of other matters to attend to, so Senator Doug Cameron will be Acting Chair.

[11.18 am]

**SCOFIELD, Mr Nicholas, General Manager, Corporate Affairs, Allianz Australia**

**SULLIVAN, Mr Karl, General Manager Policy, Risk and Disaster Planning Directorate, Insurance Council of Australia**

*Evidence was taken via teleconference—*

**ACTING CHAIR (Senator Cameron)**—Welcome. Mr Sullivan, do you have any opening statement you would like to make to the committee?

**Mr Sullivan**—No, we do not. We have just prepared ourselves to answer questions that the committee might have.

**ACTING CHAIR**—Okay. Who would like to start off? Senator Eggleston.

**Senator EGGLESTON**—Thank you very much for giving evidence via this teleconference call. Could you give us some idea of the size of the claims which the insurance industry has had to bear as a result of the Varanus Island explosion?

**Mr Sullivan**—Yes. At the present time—and I should stress that claims will continue to come in for some time—the aggregate of claims made to the general insurance industry is \$75 million. That is perhaps a smaller figure than the media have led others to believe.

**Senator EGGLESTON**—So that is ‘million’, not ‘billion’ dollars?

**Mr Sullivan**—That is ‘million’, yes.

**Senator EGGLESTON**—Okay. Where have those claims largely come from—what part of the state?

**Mr Sullivan**—Predominantly from a mixture of businesses and commercial operations in the south-west part of the state and around Perth. There are a reasonable proportion of claims in there from mining operations and manufacturing operations.

**Senator EGGLESTON**—Whereabouts are the mining operations that have been affected?

**Mr Sullivan**—I do not have access to that information.

**Senator EGGLESTON**—Okay. There is some suggestion that, for example, nickel might have been affected, which would have to be down in the Kalgoorlie area, I would have thought.

**Mr Sullivan**—It is certainly something I could take back to insurers to find some answers to that question, if you would like.

**Senator EGGLESTON**—It would be very useful if you could break the \$75 million up on some sort of regional basis so that we could look at the Pilbara itself; the Carnarvon area, where there is horticulture; the Perth metropolitan area; the south-west; and the eastern goldfields—the Kalgoorlie area. That would be very helpful.

**Mr Sullivan**—We will formulate a response to that one and send it through to the secretary after this meeting.

**Senator EGGLESTON**—Thank you very much. As you know, there was a committee set up to manage this situation. Was the Insurance Council happy with the way the aftermath of the explosion was managed?

**Mr Sullivan**—From a state-by-state perspective, Western Australia does things particularly well in the disaster management space. We were not directly involved in the task force set up for this incident, but we were plugged in to the state recovery committee and we certainly had enough information coming back to us to allow us to adopt the right posture, and we as an industry were able to provide advice through to that committee, so we were quite satisfied with arrangements there.

**Senator EGGLESTON**—Thank you. That is interesting. Were you happy with the market model under which gas was allocated?

**Mr Sullivan**—We have had no reflection back through our claims process that would indicate that it could have been done in a particularly better way, but it is not a problem that we have sat down and analysed fully. Really our role is to respond to claims as they come in and to judge them on their individual merits.

**Senator PRATT**—I have a follow-up to that. I think you might have just answered it, Mr Sullivan. Clearly there was a decision made about who would and would not get gas, and that has commercial implications. That, in turn, has implications for your industry in terms of who needs to put in an insurance claim. You really do not have an opinion about the way the market mechanism resolved who did and did not get gas?

**Mr Sullivan**—The feedback we have had from insurers is that it was probably the best model that could be achieved at the time. We have had no overwhelming comment that it could have been done better if, for example, these people had received more of an allocation. So on the evidence we have it appears to have been appropriate.

**Senator PRATT**—So you cannot foresee that adjusting the way the gas was delivered in terms of who got it and did not get it and biasing it in different ways would have made any substantial difference to claims because the losses would have been incurred somewhere in the system in any case?

**Mr Sullivan**—Not particularly. It is probably because of a threshold issue that exists with the majority of policies out there. Seventy-five million dollars as an aggregate loss is very small if you compare this to, for example, the Longford gas disruption in Victoria some years ago. Many policies that do exist out there will not have been activated in this event simply because businesses have chosen not to take out the business interruption cover, and there are a variety of

reasons for that. So, regardless of how the gas may have been prioritised for users out there, it would ultimately make little difference to the insurance picture simply because many people would not have recourse to insurance as a result of the policy they have chosen.

**Senator EGGLESTON**—I was going to ask you about the categories of insurance which people in Western Australia have taken out. You have mentioned that they did not take out, on the whole, interruption of income insurance. What categories of insurance have been taken out to make up that \$75 million aggregate?

**Mr Sullivan**—That is quite broad. I am really restricting my comments to the commercial sector here—small to medium enterprise and industrial activity. If we could put aside the residential market, because that is not particularly relevant in this case, the predominant number of policies that have been activated or responded to come out of the industrial sector, and probably an equal proportion out of small and medium enterprise.

Industrial policies generally will cover a range of supply chain issues that could interrupt their business operation. Small to medium enterprise, though, is a very different picture. Generally, with commercial policies in that field, you will have the option of taking out business interruption insurance, and in many cases you can take out options for utilities cover. Even when you take out a utilities cover, though, there are terms and conditions around that. For example, some policies may state that in order to make a claim and recoup the loss under your insurance policy you need to have had a total loss of the utility for a certain period of time. The circumstances of this event, where many people have simply not suffered a total loss of the utility but only a minor loss of access to the utility, would mean that they have not got access under the insurance policy. Probably the overwhelming figure is that, in the small to medium enterprise space, about 28 per cent of businesses nationwide choose not to take out any form of insurance cover whatsoever. Of those that do take out insurance cover, many do not take out the business interruption side of things. They protect themselves against theft, fire and damage to their premises, but they do not look at their business operation and protect their income.

**Senator EGGLESTON**—That is interesting, because the Chamber of Commerce and Industry Western Australia estimates the loss of income at something like \$2.5 billion. That is not reflected in your figures in any significant way at all, is it?

**Mr Sullivan**—Not at all.

**Senator EGGLESTON**—So that means that very large numbers of businesses did not have insurance cover for loss of income claims. What about damage to their equipment and production caused by having to close them down, closing them down suddenly or anything like that? Are there claims there for that sort of thing?

**Mr Sullivan**—There certainly are claims in the mix for that sort of thing, but the bulk of the \$75 million in claims that we have seen come out of business interruption and having to set up alternative processes to protect their income. The reason that \$75 million is so small compared to the loss is that people simply have not taken out the appropriate level or type of cover to protect them. If they had, I imagine that the loss in insurance terms would have been far higher and that people would have recourse to their insurance companies for a larger percentage of that \$2½ billion.

**Senator EGGLESTON**—Do you have any recommendations for the future management of interrupted gas supply to Western Australia's south-west and to industry in general given that Western Australia is very heavily dependent on gas as a source of energy? Would your council have any recommendations that might be of use to the Western Australian government in managing any future interruptions of this kind?

**Mr Sullivan**—I would have two—one a fairly tactical and operational consideration and the other a deeper strategic one. The first one, as an immediate consideration, would be for the state government, in particular, to continue what I would have to say has been very good work in terms of encouraging business to undertake risk management and continuity planning. Any efforts in that space can only yield dividends for the state further down the track. Businesses will learn from this experience, particularly the ones who have lost a great deal of income, and they will adapt and put in place continuity plans, but without another event occurring in the next couple of years—and hopefully that will be the case—a lot of those lessons will start to die off and businesses will cease to implement the lessons that they have learnt there. If the state government could continue to emphasise the need for businesses to be robust and resilient in the face of disaster events, I think that is an appropriate action.

The second one is a deeper and more strategic issue, and that is encouraging businesses—in particular, through the risk management process—to implement the right types of financial offset. That may not be taking out an insurance policy. However, if they do choose to take out insurance policies then there are a range of obstacles that stand in the way, particularly in terms of the cost, that may dissuade a percentage of the 28 per cent of businesses who choose not to insure from taking out cover.

We have recently made some submissions to the Henry tax review, and to different state governments, about the removal of taxation on insurance products as our analysis shows that arising from those taxes there is a direct disincentive on businesses taking out the cover. I think if I was going to sum that up in one sentence I would say that it is fine to tax sins out there in the environment—gambling, alcohol, cigarettes et cetera—but insurance is not a sin. Insurance should be encouraged at every single level by governments by reducing any imposts on it that might stand in the way of businesses deciding to take it up.

**Senator EGGLESTON**—I find that quite a fascinating point. I thought that most insurance that business took out was tax deductible. It is a business expenditure, is it not, usually? Could you just give us a brief overview of what kinds of insurances are taxable? Do you mean the payouts?

**Mr Sullivan**—There is still an upfront cost in the insurance. So we are advocating, as a first step, a closer examination of insurance stamp duties—and, eventually perhaps, even GST costs—to lower the upfront costs, on insurance. There are many classes of insurance—and I could not list them for you here—where the costs going into them can be offset in a taxation sense, but it is still a significant upfront cost and it is something that factors into the decision cycle of small to medium enterprises about where they are going to put funds. If we take the context of the economy becoming tighter and tighter in Australia, I would imagine that this will only get worse. As fewer dollars come in the front door of a business there will be harder decisions made about what overheads they will cut. That could mean that insurance starts to get cut more and more by small and medium enterprises. So if there is a disaster situation on top of

the economic crisis you could find small and medium enterprises having even less recourse to policies.

**Senator EGGLESTON**—That is very interesting. Thank you very much.

**ACTING CHAIR**—I would like to ask you a few questions. We are running a bit over time. Given that you have indicated that 28 per cent of businesses are not insured, if you look at the other side of that you find that 72 per cent are insured. With 72 per cent of industry insured in Western Australia, the claims were only for \$75 million. It seems to me, then, that many people are paying insurance but are not accessing it or do not find it financially beneficial to access their insurance claim. Would that be a reasonable statement?

**Mr Sullivan**—I think there are two separate points coming out of that question. Firstly, the people who do have insurance may not have the correct type of insurance. You would understand that in your own home and contents insurance, there are many different options you can select. You can choose what level of deductibles you might withhold and you can choose the different items and events that you will insure against. We do find that small and medium enterprises—and in Australia, we are talking about very clever business people—sit down and analyse their risks, as they should be doing, and choose the risks that they will insure against. Our point is that, while 72 per cent of people are insuring, quite often they do not insure for all of the risks that they should insure for. Secondly, if they do insure for those risks, people quite often set themselves up with a very high deductible in order to keep premiums low. When it comes time to make a claim there is a cost-benefit analysis about whether they should make a claim and have to pay that deductible. I think that answers the question.

**ACTING CHAIR**—In relation to the aftermath of this explosion, firstly, does the Insurance Council see this as a business opportunity in terms of trying to get more people into insurance; and secondly, what education programs have you put in place so that business understands the correct insurance to take out?

**Mr Sullivan**—As to the first question, the Insurance Council does not write premium itself. Its members do have a strong presence in Western Australia. Getting the message out there to small to medium enterprise about taking up insurance is something that we would like to do in partnership with government. In different forums we have managed to get those fundamental considerations put into pamphlets, fliers and discussions held by different government departments with the business community. However, the fundamental issue that often stops somebody taking out insurance is cost, so we are always seeking ways to be more competitive. That relates back to the taxation issue as an overhead on it as well. In terms of education material, the industry runs a website through the Insurance Council with details on it about how to undertake a risk management process and what types of insurance you may wish to consider, but our industry is one voice out there, and quite often our industry can be portrayed as simply trying to sell more premium. What is required is a consistent message from government and the business community about how to better risk-manage these circumstances.

**ACTING CHAIR**—Can you provide some information to the committee in relation to the profitability of the industry in Western Australia if you are seeking further tax exemptions. Could you give us some details about the profitability of the industry and also some details of executive salaries within the industry in Western Australia.

**Mr Sullivan**—That is information I do not have on hand at the moment. I am not sure I could get executive salary information, but certainly we have made submissions about the impacts of taxation on premiums and on take-up of insurance in Western Australia and across the nation. I would be more than happy to provide that after this meeting.

**Mr Scofield**—Just to clarify, the industry is not seeking tax exemptions; we are seeking to have taxes removed that increase the price of insurance and make it less affordable.

**ACTING CHAIR**—I also think there is another side to that coin, and that is why I am asking you about profitability and executive salaries.

**Senator PRATT**—In relation to your own risk management, I wonder if you have any comments in relation to the issues of diversity of supply within the Western Australian energy market, noting that clearly if you have a single source of energy and that goes out then it wipes out a lot of supply in one swoop. How does that impact on the way that you set premiums and manage your own risk?

**Mr Sullivan**—Individual insurers will look at an actuarial model of the region where they are selling premium. If they are trying to sell premium for utilities cover, one of the key factors they would look at is the population of utility suppliers over there and any known critical vulnerabilities where one or more of those suppliers could cease to be able to carry out their function. In a very gross sense, if you had a market where there were 10 or more providers of a particular utility, that would be seen as a relatively low-risk environment for a catastrophic failure of the whole utility service. In an environment where you only have one provider, there is obviously an increased level of risk of that one provider ceasing to function or having a critical problem in itself. So it is definitely something that insurers look at in terms of the risk, but it does not equate to such a high risk that premiums become unaffordable or, indeed, uninsurable.

**Senator PRATT**—Yes, I understand that. Have you got any particular comments on those factors as they might influence the Western Australian energy markets in terms of the lack of diversity of supply? I understand they might not greatly impact on premiums, but I would be interested in your assessment of what you think the Western Australian energy market looks like in relation to diversity of supply.

**Mr Sullivan**—I do not have any remarks to make on that, offhand. It is something that we could put back to one of our committees to see if there is a view on it. My initial reaction is that the only view that would come back would be perhaps a comparison of the level of supply or the number of suppliers in Western Australia and one of the other states.

**Senator PRATT**—I think that would be a useful comparison, because it would appear that Western Australia's energy markets are less diverse than other states, in part by virtue of their being on the SWIS, not connected to the national grid—and the same with gas. So I would be interested in your comments in relation to that if at some future point you would like to put them forward to the committee.

**Mr Sullivan**—We will have a look at that, Senator.

**ACTING CHAIR**—I think this has to be the final question because we have to wrap up. Could you provide the committee with details of the percentage of the cost of a policy that the limited pipeline available has in Western Australia? You did indicate that you had factored in these issues but, given there are these very small numbers of failure points within the system, surely that is not an insignificant risk factor?

**Mr Sullivan**—If I understand the question correctly, Senator, it is: what weighting or what percentage within a premium calculation is given to a critical vulnerability such as there being only one gas pipeline or one provider? Is that correct?

**ACTING CHAIR**—Yes.

**Mr Sullivan**—We will have a look at that and we will respond after this meeting.

**ACTING CHAIR**—Thank you. And thanks for getting through that question there—you did well! Mr Sullivan, Mr Scofield, thanks very much. That was helpful, and we appreciate you taking the opportunity and time to make an ‘appearance’ here this morning. Thank you.

**Mr Scofield**—Thank you.

**Mr Sullivan**—Thank you very much.

**ACTING CHAIR**—I now call representatives from the Department of Resources, Energy and Tourism, Geoscience Australia and the Attorney-General’s Department.

[11.42 am]

**JERKS, Mr Michael, Assistant Secretary, Critical Infrastructure Protection Branch, Attorney-General's Department**

**GRIFFITHS, Mr John, General Manager, Energy Security Branch, Energy and Environment Division, Department of Resources, Energy and Tourism**

**SQUIRE, Mr Martin, Acting General Manager, Offshore Resources Branch, Department of Resources, Energy and Tourism**

**HAY, Mr Russell James, Project Leader, Critical Infrastructure Project, Geoscience Australia**

**WATERS, Mr Denis Robert, Senior Economist, Geoscience Australia**

**ACTING CHAIR**—Good morning, everyone. Does each department have an opening statement, or how would you like to proceed?

**Mr Griffiths**—Senator, I might just briefly talk about the role the Department of Resources, Energy and Tourism played in the Varanus Island disruption. Whilst the Varanus Island disruption was principally a Western Australian government matter, our department was mainly involved in advising the Minister for Resources and Energy. We also provided briefings for a number of parliamentarians, both senators and members of the House of Representatives, principally those from Western Australia, on the disruption. We were also extensively consulting on the disruption with Western Australian government officials and with Commonwealth government officials, including Attorney-General's and Geoscience Australia.

**Senator EGGLESTON**—I would like to ask a few questions. We might as well go back to the issue you have just raised about the Commonwealth's jurisdiction. What jurisdiction does the Commonwealth have over gas supplies in Western Australia, given that most of the gas platforms are in fact in Commonwealth waters rather than state waters? Where could the Commonwealth come in in a situation like this?

**Mr Griffiths**—Very generally, beyond three nautical miles those gas resources are in Commonwealth jurisdiction and those areas are jointly administered by the Commonwealth and the relevant state—in this case, Western Australia. With respect to onshore gas supplies and gas infrastructure, such as Varanus Island—the island is actually within the area of Western Australian state government jurisdiction—then the Commonwealth's principal role would be in a number of areas. For example, if there was a liquid fuel national emergency then the Commonwealth would get involved through the Liquid Fuel Emergency Act. That would require a national disruption so you would need to have a situation where, for example, there were shortages in diesel in Western Australia—there has been an increased usage of diesel in Western Australia—which required diesel to be shipped from the eastern states and that created a shortage in the eastern states as well. That might provide a trigger for the Commonwealth minister or the Commonwealth government to enact the Liquid Fuel Emergency Act.

**Senator EGGLESTON**—What about a terrorist act as defined in the Criminal Code section 100.1, which I gather covers terrorist acts? For example, we heard over the weekend that a boatload of refugees had tied up at an oil rig off the coast of Western Australia and somebody said, ‘That means that equally easily a group of terrorists could have tied up at an oil rig and perhaps taken it over or blown it up.’ Do you have powers to declare a state of emergency affecting Western Australia under the terrorism provisions of the Criminal Code?

**Mr Jerks**—With regard to acts of terrorism, the response would be the responsibility, initially, of the state government. If the incident is of such a magnitude that the state government requires additional assistance, there are provisions, under the national counterterrorism plan, to have the state government ask for assistance from the Commonwealth government. For offshore facilities there is also a Commonwealth government role with regard to their protection. I will just expand on the Commonwealth-state relationship with regard to Varanus Island.

**Senator EGGLESTON**—There is a dual jurisdiction there, with NOPSA, I gather.

**Mr Jerks**—Yes. With regard to Varanus Island, the Western Australian government is the main jurisdiction responsible. It is only the offshore component of the island facilities—and that is apparently a monopod network—that is regulated under the Maritime Transport and Offshore Facilities Security Act 2003, otherwise known as MTOFSA. That particular act is administered by the Office of Transport Security within the Department of Infrastructure, Transport, Regional Development and Local Government.

**Senator EGGLESTON**—And the Commonwealth does not have any power to declare an emergency or intervene if there is an overriding economic impact on a state, such as might follow the complete disruption of the gas supply to the south-west from the Pilbara? The present disruption was only a partial disruption.

**Mr Jerks**—With regard to an economic disruption, that would be correct, other than in the Liquid Fuel Emergency provisions, but I would have to check on that with regard to economic impact.

**Senator EGGLESTON**—Do that, if you would. Can I ask you, if it is appropriate: from the point of view of the Department of Resources, Energy and Tourism and the Commonwealth, given there were two previous episodes of interruption of the gas supply to the southwest in the last few years, were you happy with the way the Western Australian government handled the situation?

**Mr Griffiths**—I think it would be fair to say that we do not think we have a particular opinion on that.

**Senator EGGLESTON**—You do not have an opinion?

**Mr Griffiths**—I think it is the sort of issue that we do take very seriously. Our department is involved in the work of the critical infrastructure protection program, which is administered by the Attorney-General’s Department. Our department provides the secretariat for the Energy Infrastructure Assurance Advisory Group. That group is a collection of industry bodies and state and territory officials. We look at ways of improving the resilience and protection of critical

infrastructure in the energy sector. Certainly that group has Western Australian representatives and those issues have come up. Through that group we have also been in contact with and worked with the Attorney-General's Department's Critical Infrastructure Protection Modelling and Analysis Program work, which has looked at trying to better understand the energy infrastructure and supply chains in Western Australia.

**Senator EGGLESTON**—So you really would not have any comment on the workings of the market model in allocating gas or whether a state of emergency should have been declared or not.

**Mr Griffiths**—I guess that as a department we take an interest in those sorts of issues through our work with the Ministerial Council on Energy and things like the reforms to the national gas market, which has Western Australia included in that.

**Senator EGGLESTON**—You offered the services of Geoscience Australia to assist with estimating the macroeconomic impact of the gas disruption using the Attorney-General's Critical Infrastructure Protection Modelling and Analysis Program. What would that have involved?

**Mr Griffiths**—The department made a formal request to the Attorney-General's Department for the Varanus Island disruption to be looked at by the Critical Infrastructure Protection Modelling and Analysis Program team. I will ask Michael to expand on that.

**Mr Jerks**—The Critical Infrastructure Protection Modelling and Analysis Program, or CIPMA, is a computer based capability that takes both a large amount of data from public sources and very sensitive information from the owners and operators of critical infrastructure to model and analyse the operation of our critical infrastructure networks and systems, especially the relationships between the sectoral components—the way, if you like, that the gas system feeds in to the electricity generation system, which powers the communications system, which the banking and finance folks rely upon to do their business. First of all, CIPMA analyses those interdependency relationships. Secondly, CIPMA can simulate an incident whereby there might be a disruption to a particular element of critical infrastructure and then analyse the way that that disruption cascades through other sectors. With regard to the CIPMA capability, we have recently moved from a pilot capability to an ongoing operational capability with new funding through the 2008-09 budget process. The capability itself is focusing at the moment on the priority sectors of banking and finance, communications, energy and water, and the Attorney-General recently announced transport as the fifth sector in the CIPMA capability. It is a long-term capability in its development, and it will be several years before CIPMA covers the entire economy in terms of the infrastructure sectors.

With regard to CIPMA and the operational activities of CIPMA, which we have just moved into, DRET requested that CIPMA undertake some modelling and analysis work on the economic impact of the Varanus Island disruption. We have provisions in our tasking and dissemination procedures to be able to accommodate that urgent request outside the normal application round process for our stakeholders for looking at different scenarios. We were able to take on that particular task, which was undertaken by our technical partners, Geoscience Australia, and we delivered the CIPMA report on the disruption to DRET on 3 October.

**Senator EGGLESTON**—So there is in effect a report on the economic impact, is there?

**Mr Jerks**—There is a security classified report, yes.

**Senator EGGLESTON**—‘Security classified’ means, I presume, that you are telling us it cannot be tabled before this committee—or can it?

**Mr Jerks**—I would have to take that on notice. I will explain the complexities of that, if I could.

**Senator EGGLESTON**—Of course. Please go ahead.

**Mr Jerks**—Thank you. The critical infrastructure protection program that the Australian government runs is a non-regulatory approach to infrastructure protection in Australia. We work with business and other governments who are the owners and operators of critical infrastructure to really assist those owners and operators to better protect their critical infrastructure through the provision of information and the exchange of information under what we call the Trusted Information Sharing Network for Critical Infrastructure Protection, or the TISN. Under the TISN there are a number of deeds of confidentiality for the exchange of that information. Also, with regard to the CIPMA Program, there are deeds of confidentiality for the data that is provided from the owners and operators of infrastructure to the CIPMA team to be able to undertake that analysis. Overall, the primary goal of the CIP program is to better protect critical infrastructure by ensuring that there are adequate levels of protective security on our major installations and networks, minimum single points of failure and rapid tested recovery arrangements. The Insurance Council of Australia made a very good point with regard to risk and risk management, and that is precisely what the CIP program aims to achieve—that is, to advise owners and operators of infrastructure and provide them with increased information about all hazards that they can factor in to their risk management decision making for the protection of their infrastructure. So a key objective of the CIP program is to improve the overall risk management decision making by the owners and operators of infrastructure in Australia to better protect that infrastructure.

With regard to the specific Varanus Island economic impact report that CIPMA has undertaken, there is sensitive information and commercial-in-confidence information about the supply chain aspects of the customers and the infrastructure up in that sector. There is also the actual economic impact work that was undertaken. Part of the deeds of confidentiality that CIPMA has with the owners and operators of infrastructure is that we have undertaken to consult with the owners of the data prior to the release of any reports, but certainly we will look at how we can best assist the committee in its deliberations without breaching the commercial-in-confidence nature of that data. Correct me if I am wrong, but my understanding is that, if reports are tabled in the committee, they ultimately become public documents. Is that correct?

**Senator EGGLESTON**—They can do. If you table them in-camera, the Senate will probably respect that, but it may reserve the right to make them public. But it is a ‘may’. You have to know that that possibility exists, but the confidentiality of such documents is generally respected.

**Senator BUSHBY**—Is it security classified because of the commercial-in-confidence nature, not for other reasons?

**Mr Jerks**—It is commercial-in-confidence, plus there is sensitive information about critical infrastructure networks in systems in the report. Vulnerabilities with regard to those supply chains could be exploited by those who would seek to do that.

**ACTING CHAIR**—I find it a bit amazing actually that we may be denied access—I am not saying we will be—to this report, when it is one of the major analyses that have been done of the issue that we are investigating. As I understand it, Senator Eggleston is asking for that, and I think the committee would certainly put a formal request to you for that information. Given what is on the public record about our gas supplies and knowing where the vulnerabilities are, I just do not understand what would be so critical in terms of this report that is not on the public record. I am not asking you to indicate that, but I really cannot come to grips with what would be so secret about that gas supply, not only on Varanus Island but also on the North West Shelf and in other areas around the country.

**Mr Jerks**—It is probably less a case of there being a lot of highly classified, secret information in that report and more about our obligations under our deeds of confidentiality to at least consult with the owners of the data prior to the release of any particular reports.

**ACTING CHAIR**—So it is a commercial issue, as distinct from a national defence or terrorism issue?

**Mr Jerks**—No, there is a dual issue there, Senator. One is the commercial-in-confidence nature of some of the information and the other is the sensitivity of the information on our critical infrastructure networks and systems, about which, in fact, as you rightly pointed out, there is a lot of information out there, which is cause for some concern, I suppose you would say, to the Critical Infrastructure Protection Branch—that there is so much out in the public domain that could be exploited by, in this case, terrorists.

**ACTING CHAIR**—We cannot really hide the North West Shelf gas train; you cannot hide the pipes! I think it is pretty well known where these things are.

**Mr Jerks**—Yes. That is where the CIP program comes in, to look at areas of greatest vulnerability, where the loss of a facility or a network or a system has a major consequence, and work with the owners and operators so that they can feed that sort of information into their risk management decision-making—especially with regard to dependencies, because while an operator might have a very good understanding of their particular, say, gas pipeline network they may not have a full understanding of the implications of an infrastructure loss in other sectors and how that might cascade through and impact upon their particular installation or their business.

**ACTING CHAIR**—While I am questioning you, Mr Jerks, I just want to make sure that there will be no headline in the *Western Australian* tomorrow about terrorist attacks on the North West Shelf gas project or Varanus Island. You are not expecting any terrorist attacks, you have got checks and balances in place and we are not extremely vulnerable in that area, are we?

**Mr Jerks**—Information about the likelihood of a terrorist incident in any particular critical infrastructure installation is the purview of ASIO. With the arrangements we have in the CIP arena, if there is any intelligence that comes through with regard to a potential terrorist attack,

ASIO have the arrangements in place to go directly to the owners and operators of particular infrastructure with intelligence relating to that infrastructure. We have also, with ASIO, developed sectoral assessments of the potential for terrorist attacks, and that information likewise, in terms of risk context statements, has been delivered to the infrastructure sector across Australia, not only in energy but in other sectors. So, with regard to the Varanus Island incident, that was certainly not a terrorist related incident; that was another aspect.

**Senator BUSHBY**—While we are still on that issue, I take it then that your main concern about the report from a security perspective is not so much that the information it contains is not something that is out there but that it draws it all together and points out where the problems might be.

**Mr Jerks**—With regard to the CIPMA capability, that is certainly an issue for CIPMA because there is a huge amount of data and information in the CIPMA capability. With regard to the reports that are generated from the CIPMA program, there is an issue about the commercial-in-confidence information that may be contained in reports. There is an issue with regard to information that is sensitive about the infrastructure networks and systems and there is an issue about maintaining and preserving the modus operandi of the critical infrastructure program, which works on trust between the owners and operators of infrastructure systems networks and the Australian government to exchange information. If there was a breach of that trust and a breach of the confidentiality arrangements that we have in place it would be somewhat of a blow to the critical infrastructure program across Australia because it is such a trust-based relationship between the business community and the Australian government in exchanging quite sensitive information.

**Senator BUSHBY**—I understand and I appreciate what you are saying about that. I do sympathise with what Senator Cameron said: it sounds as if it would be quite useful to have access to some of the information in that. As Senator Eggleston said, we can accept these things in-camera on a confidential basis, but there is a discretion for the Senate, if it decides it is in the public interest, to release it. I suspect that in this case—I cannot say it as a matter of fact—it would be very unlikely that the Senate would consider that it would be in the public interest to release it publicly, given some of the issues relating to it that you have outlined. All I can say is that I would add my voice to the request that we see what is in it.

Coming to some other issues, I turn to the Liquid Fuel Emergency Act. I apologise; I was reading something when we first started and you may have already answered this. What are the circumstances under which that act would be invoked?

**Mr Griffiths**—I guess, very generally, it would be invoked when there was a liquid fuel emergency that crossed state borders.

**Senator BUSHBY**—So it needs to cross state borders for the jurisdiction—

**Mr Griffiths**—It needs to cross state borders for the Commonwealth to call a national liquid fuel emergency.

**Senator BUSHBY**—And you are using the example of diesel crossing state borders as possibly one way that that might have occurred.

**Mr Griffiths**—I guess that is why we monitored the situation very closely. We were in contact with the Western Australian government to find out whether they thought such a triggering of that legislation was necessary. Essentially, they were able to get through the disruption. I understand that diesel usage went up by at least 40 per cent at one stage but they were able to secure other supplies and there was no knock-on effect to the eastern states.

**Senator BUSHBY**—Hypothetically, if the powers of that act were invoked, what could have been done that was not, in this particular situation? What powers would that have allowed to be employed?

**Mr Griffiths**—Essentially the act would involve reducing allocations to customers, and therefore some rationing of supplies.

**Senator BUSHBY**—That would have enabled the federal government, presumably to have stepped in and looked at the issue of who is getting what and to try and impose, effectively, a planned solution to ensure that those who needed a minimum were getting it, and others who had a little bit extra might have some taken from them.

**Mr Griffiths**—Yes, that is correct. That would be done in consultation with the state government.

**Senator BUSHBY**—Yes, but it would take place under the Commonwealth act. That leads to another question. I think Senator Eggleston asked your opinion as to whether the situation was particularly well handled and you said that it was not something that you really wanted to venture into. We have heard a lot of evidence in the west, from the WA government and from a lot of the people involved, that the government decided at the time to take a market approach to dealing with it rather than intervening, in the sense that we were talking about just then, under the Liquid Fuel Emergency Act. We are talking here about a situation where there was a massive supply shock. There was 30 per cent of the supply stopped overnight. There were monopolistic, or maybe oligopolistic, suppliers, and one of them had lost a large degree of its supply and the other one still had most of its supply. So, effectively, you had a monopoly handed a situation where demand far outstripped supply. Do you think that better results could have been achieved if an interventionist approach had been taken, along the lines of what you could do under the Liquid Fuel Emergency Act?

**ACTING CHAIR**—That is almost getting to a policy question of the department.

**Senator BUSHBY**—No, I am asking for an opinion on fact on the basis of their expertise. Do you think that an interventionist approach could have delivered better outcomes?

**Mr Griffiths**—I am not aware of any evidence that would support that proposition.

**Senator BUSHBY**—Are you aware of the *Hansard* transcript? Have you looked at the *Hansard* transcripts on some of the outcomes and the way it has affected some of the small businesses in WA?

**Mr Griffiths**—I have not seen those transcripts, but when we were briefing parliamentarians we certainly heard a lot of firsthand accounts—or not quite firsthand, but second- or third-hand

accounts—of some of the particular impacts on businesses. I guess we heard some of that from the Western Australian government officials as well, and obviously we read the papers and saw that there were significant disruptions to certain businesses.

**Senator BUSHBY**—Does the department consider that Western Australia is more or less dependent on a limited energy supplier than other states? Do you see it as being at greater risk given the degree of dependency that it has on gas compared to the energy supply in other states? Is that the sort of thing that the department would look at from a national perspective?

**Mr Griffiths**—Yes, as far as looking at energy security goes we are involved in the National Energy Security Assessment. Western Australia is probably more dependent than most of the states on gas. When you look at the history, where the gas is and where the population is, what you have is a long, long pipeline. I guess the key thing in our observation is limited injection points as far as gas production facilities feeding into that pipeline go. It is probably more that that is really the issue rather than just a long pipeline.

**Senator BUSHBY**—Okay. And it is also not connected to the national electricity market—is that correct?

**Mr Griffiths**—Certainly there is no—

**Senator BUSHBY**—No physical way of transferring it?

**Mr Griffiths**—Yes, there is no connection from the gas supplies in the west to the east, and as you say there is no connection from Western Australia to the national electricity market either. I guess that means the Western Australian market, by its geography, is isolated from the rest of the country.

**Senator BUSHBY**—Is it the only state that is not now connected physically to be able to transfer electricity?

**Mr Griffiths**—I think yes, apart from the Northern Territory. As far as the national electricity market goes, yes, the rest are connected.

**Senator BUSHBY**—Given the fact that it is not physically connected to the national electricity market and its dependence on gas, is that an issue that the department has looked at? It seems to me that it makes WA particularly vulnerable from an energy security perspective compared to any of the other states. Is that an issue that the department is looking at or is concerned about?

**Mr Griffiths**—We have certainly looked at those issues, yes.

**Senator BUSHBY**—Given that there have been two previous disruptions to that gas market in recent years, is that something that has concerned you as well? In the lead-up to this, were you concerned at all about the need for some action to address energy security issues in Western Australia and appropriate plans?

**Mr Griffiths**—Yes, we were well aware of those previous disruptions. I guess that is one of the reasons why we have worked with, as I mentioned, the Energy Infrastructure Assurance Advisory Group and the Attorney-General's Department on looking at vulnerabilities in the west, particularly looking at the CIPMA capacity to model those vulnerabilities, and then to look at mitigation strategies.

**Senator BUSHBY**—You say 'and then to look at mitigation strategies'. You had not reached that point as part of the process of what you were doing?

**Mr Griffiths**—I guess we have identified vulnerabilities as far as, as I said, the limited injection points are concerned. There are developments taking place in the west which will alleviate some of those problems in the sense of new production facilities that are being developed.

**Senator BUSHBY**—The ultimate purpose of this inquiry is to try and see whether there are any lessons that we can learn to ensure that in the future, when something like this happens, we can minimise the impact. What lessons do you think have been learned so far from what happened in June? In the context of the greater process that you said is already happening, in terms of WA's vulnerabilities, where we go forward from here? What could be done to make things better in the future if there is another major disruption, whether that is through terrorists or a similar instance to this one?

**Mr Griffiths**—I suppose that in a general sense there would be further development of the gas market in Western Australia. At the moment it is a fairly thin market. During this disruption, the government established a gas bulletin board which was designed to facilitate trade of the additional gas that was brought on stream. The sort of thing we would see as probably improving the energy security situation in the west would be a better developed market.

**Senator BUSHBY**—So that is improving the gas supply or the diversity of the gas supply in a sense. What about other forms of energy? Is that something that you think WA needs given its dependency on gas? We have had evidence about renewable energies in the west—geothermal, solar, wind, tidal et cetera, and even nuclear. Do you think that they need to diversify? In terms of maintaining the security of their energy supply, do you think that having other options is a way to go? Is that something that you are looking at as part of the process you are working through?

**Mr Griffiths**—Generally, diversity of supply does improve energy security. Obviously on the west coast of Western Australia there is a lot of gas adjacent to the state, in Commonwealth waters, and there is also some onshore. You could say there is a huge energy resource there. A lot of it is about trying to encourage more development of that gas, more sources of supply and, as I said, more injection points into the Western Australian gas market, as well as other potential sources of energy in Western Australia. You mentioned renewables and things like that. I know developments are happening in those areas.

**Senator BUSHBY**—Do you see that, over recent decades or so, the development of the gas export market has threatened the domestic gas supply at all?

**Mr Squire**—Particularly the North West Shelf project and other projects that are under active consideration have probably enhanced the development of the gas market in that those projects, with their nature and size, are too large to be absorbed within the WA domestic market. So, in developing those projects for LNG exports, they have allowed the use of gas through the Dampier to Bunbury natural gas pipeline.

**Senator BUSHBY**—That is good to hear. The reason I asked is that I read some submissions which suggest that, by contracting to sell the gas, if there is a problem like we had in June, those contracts are essentially unviable and you would have a huge supply shock. It is the domestic users who suffer as a result. I am glad to hear your comment on that. What about the prospect of storing the gas? We have had some submissions saying that you could pump that underground into empty reserves or things like that so that you actually have a backup reserve of gas. Is that something that is viable or feasible?

**Mr Griffiths**—I understand there is some storage of gas. Probably as a general proposition, we would see that a more developed gas market in Western Australia would actually encourage storage of gas, where people could reap a commercial advantage by storing the gas—buying it when it is cheap and selling it when it is expensive.

**Senator BUSHBY**—But in terms of the actual capacity to pumping it underground and storing it, that is something that could be done?

**Mr Griffiths**—Yes, it certainly can be done and that can help.

**Senator BUSHBY**—In an economically reasonable way?

**Mr Griffiths**—Yes. There is evidence in other markets where it can be done on a commercial basis without the government having to fund such storage facilities, but it really comes back to having the right sort of market mechanism in place to encourage the commercial sector to do that rather than the government having to pay for such facilities.

**Senator PRATT**—Further to Senator Bushby's question, I am interested in the issue of international markets versus local supply. The contracts for the North West Shelf are very specific and do not necessarily allow them to divert gas locally, but that question has been put to us as a committee and I have not really seen a way to compel it to be done. Is that an issue that you have looked at specifically, in an emergency situation? You did briefly touch on that issue before.

**Mr Griffiths**—In the first instance, even if you had wanted to stop the export of gas, it would not have been physically possible to divert that gas into the Western Australian market because of the pipeline capacity to bring that gas down. So you could not have actually done that.

**Senator PRATT**—It is worth being able to express that clearly, because people who have missed out on gas have put these kinds of issues to us. It is actually worth us going through them and ruling them out. Thank you.

**Mr Griffiths**—My understanding is that Woodside did increase production as much as they could, given the pipeline capacity to supply extra gas to the market.

**Senator EGGLESTON**—Another idea that has been suggested is to have a gas storage area in Kwinana. You could bypass the pipeline, put the LNG into ships, bring it down to Kwinana and put it into a storage tank. It might be a tank which is constantly used and supplied from the gas pipeline, but in an emergency situation like this that reserve could be supplied by ship from the North West Shelf. Is that an option which might have some validity?

**Mr Squire**—Building an LNG regasification terminal off Perth or somewhere would be an option. The challenge would be in the cost of building such a facility to allow that to be undertaken as an option, versus the current cost of transmitting that gas via the pipeline. You could certainly build something of that nature, the question for the operator of such a facility would be whether it was economic or not to do so. With most strategic stores, I think that would be the challenge.

**Senator EGGLESTON**—I have heard that answer before in relation to that. It took some time for the full supply of gas to be restored to the south-west in particular, and there has been some suggestion that gas capacity from Woodside could have been used to ensure that the gas levels were restored more quickly. Do you have any comment on that?

**Mr Griffiths**—I am not aware of any evidence to support that claim.

**Senator EGGLESTON**—You do not think that the length of time of the deficiency could have been shortened somewhat?

**Mr Griffiths**—My understanding is that Woodside did increase their production as much as they could, given the pipeline capacity, to supply additional gas to the market.

**Senator EGGLESTON**—Having restored the gas supply, the unit price of gas has gone up. Would you care to comment on the increase in price following this event? Is that a reasonable thing to have happened? Is it justified on the basis of the incident?

**Mr Griffiths**—When you have got a situation where there is a shortage of any commodity I guess it is not unreasonable to expect the price to go up. That would be a way of allocating scarce supplies.

**Senator EGGLESTON**—This is post the event of the shortage though, and there has been an ongoing increase in price. Some Western Australians feel that is a little bit unjust.

**Mr Griffiths**—I think there has been some tightness in the Western Australian gas market for some time. Certainly, the Varanus disruption spiked the Western Australian gas prices, and they obviously remain high. I think that is probably the way markets tend to work.

**Senator EGGLESTON**—The only other question is about diversification. In the interests of energy security should Western Australia invest in more coal powered and diesel powered power stations to ensure that there is a broader base for energy supply to the south-west grid, in particular?

**ACTING CHAIR**—That's called the hospital pass, where I come from!

**Senator EGGLESTON**—I would like to have it on the record, though, from these people.

**Mr Griffiths**—As I said, it is very hard to make comments or recommendations along those lines. I think the key thing has been encouraging more injection points with the gas. They do have a lot of gas and it is a matter of making sure there are more sources of supply, as well as looking at other sources of energy, which I think they are doing.

**Senator EGGLESTON**—You mentioned more injection points but the gas is off the Pilbara and Kimberley coasts. It is a long way away from the south-west. It is hard to think of more injection points being feasible unless you had gas fields further south.

**Mr Squire**—There are a number of projects under consideration that could add additional supply into that WA pipeline through additional domestic gas supplies. The Macedon field, for example, is a field operated by BHP Billiton. There is currently an issue that is being looked at in WA in relation to the gas specification of that field to allow that gas to enter the domestic market.

**Senator BUSHBY**—I have one final question following on from what Senator Eggleston was asking about in relation to pricing. I understand that the price of the gas in Western Australia is significantly higher than similar quantities of gas in the eastern states. I am struggling to get it straight in my mind how all the pricing mechanisms work, but one of the common arguments in relation to petrol—or oil—is that we pay import price parity: there is a price that is available overseas and we end up paying the same price per barrel here, even if it costs us less to produce it here. I understand that the price of gas all over the world varies depending on the markets and the localities but one of the things I read in one of the submissions was that in WA the export of gas at a higher price than the domestic price is having an impact on domestic gas prices. Is that something that you think is a reasonable assertion and may well explain what is going on in WA with the price of gas?

**Mr Squire**—The price that we have seen for LNG is, arguably from the point of view of the operator of those facilities, far more attractive than supplying domestic gas markets. So that may well have an impact on their decisions in terms of how particular markets are supplied, given the alternative of exporting gas as LNG.

**Senator BUSHBY**—Is that something that the department considers is a threat to the energy security in WA, given that selling domestically is less attractive, from a market perspective, and the dependence on gas domestically?

**Mr Griffiths**—It is probably fair to say that it is something that needs to be balanced and looked at carefully. I guess you could also argue that those LNG developments are really what are needed to make commercial some of those very large gas resources that tend to be quite distant from markets.

**Senator BUSHBY**—I understand that. I actually think it is a great idea but it obviously comes with issues that need to be worked through, and I was just wondering to what extent they are being worked through.

**Mr Griffiths**—They are certainly issues we are looking at. As I said, they are issues that need to be balanced in as far as, yes, we are exporting some of that gas overseas but those export projects allow some of those big, distant gas resources to be developed, which means that there is more gas being brought on-shore, which then creates those openings for domestic supply.

**Senator BUSHBY**—And if it results in an import parity price situation developing, where the price of domestic gas rises to something more comparable to what they are achieving by selling it overseas, will that present a risk to the Western Australian energy security situation, or the economy?

**Mr Griffiths**—It would certainly reduce the affordability of gas.

**Senator BUSHBY**—But it is a possibility, as you said, that it will continue to place upward pressure on domestic gas prices?

**Mr Squire**—Senator, if the domestic prices in WA reflected international and LNG prices, the suppliers would view the domestic market more favourably, you would presume, and look to—

**Senator BUSHBY**—But it would have impacts at the other end, at the user end.

**Mr Squire**—Certainly.

**Senator BUSHBY**—Okay. Thank you.

**ACTING CHAIR**—If there were flexibility in the export contracts to provide, in an emergency situation, increased gas supplies to the domestic market, there would still be constraints in terms of the pipeline, wouldn't there?

**Mr Griffiths**—That is correct.

**ACTING CHAIR**—I know that in New South Wales, where we have had road blockages due to accidents, they have got this system called contra flow. Is there a similar thing in gas pipeline engineering?

**Mr Griffiths**—You will have to expand on the question. I am not quite sure what is being proposed.

**ACTING CHAIR**—I think what contra flow means is that, if you take the road as being the pipe that the traffic goes up and down, you can actually get traffic off that road and into a contraflow area and get it moving again. Would there be an opportunity to build contraflow areas on the pipeline that would allow us to bypass a problem area, or would that simply be too expensive and require duplication, as we have heard? The other argument we have heard constantly is to get a duplicate pipeline at—we have heard as well—huge cost.

**Mr Griffiths**—My understanding is that there is actually a process going on at the moment where they are doing what they call looping of the Dampier-Bunbury pipeline. That looping effectively increases the capacity of the pipeline system. So I would have thought that would be

a good thing as far as increasing the capacity to pump more gas down to southern Western Australia.

**ACTING CHAIR**—These new projects coming on will give us more flexibility in terms of the input into the pipeline, but how soon will it be before that pipeline has no further capacity to accept extra producers?

**Mr Hay**—That is a bit difficult to determine, given that it depends on the size of the plants they are talking about and the amount of domestic injection they are looking at here. The pipeline can be continually expanded in terms of looping and adding in compression—to a point, of course—but it depends on how large those plants will be and how much injection they are looking at from a domestic point of view as to how far they can go with that expansion.

**ACTING CHAIR**—That is not very clear. Could you take that on notice and see whether you can give me a more detailed answer? If we are looking at energy security, I would like to know how long the existing infrastructure has got in terms of providing the capacity for domestic supply.

**Mr Hay**—Yes, I will take that on notice.

**ACTING CHAIR**—As there are no further questions, I would like to thank everyone here for your input and for coming along.

**Committee adjourned at 12.33 pm**