

AUSTRALIAN, STATE AND TERRITORY ENERGY AND RESOURCES MINISTERS MET IN MELBOURNE TODAY FOR THE INAUGURAL MEETING OF THE STANDING COUNCIL ON ENERGY AND RESOURCES (SCER).

MINISTERS WELCOMED THE OPPORTUNITY TO DISCUSS UPSTREAM AND DOWNSTREAM ENERGY ISSUES IN THE ONE MINISTERIAL FORUM.

THE COUNCIL WILL SEEK TO ENSURE THE SAFE, PRUDENT AND COMPETITIVE DEVELOPMENT OF AUSTRALIA'S MINERAL AND ENERGY RESOURCES AND MARKETS TO OPTIMISE LONG-TERM ECONOMIC, SOCIAL AND ENVIRONMENTAL BENEFITS TO THE COMMUNITY.

THE MEETING GAVE MINISTERS THE OPPORTUNITY TO CONSIDER THE COUNCIL'S PRIORITY ISSUES OF NATIONAL SIGNIFICANCE AND DISCUSS HOW JURISDICTIONS WILL CO-OPERATIVELY PURSUE AND MONITOR THESE ISSUES.

The key strategic issues Ministers discussed included:

- coal seam gas 'regulatory frameworks'
- energy market resilience
- network regulation, and
- gas market developments

Ministers also discussed key strategic issues with the three energy market agencies – the Australian Energy Market Commission (AEMC), the Australian Energy Market Operator (AEMO) and the Australian Energy Regulator (AER) – and the National Offshore Petroleum Safety Authority (NOPSA), and noted recent developments in relation to skilled migration for the resources sector – and in particular the implementation of Enterprise Migration Agreements (EMAs).

Coal Seam Gas

Ministers discussed the significance of Australia's growing coal seam gas sector as well as community concerns in relation to the environment, water resources, agricultural production and human health.

Ministers agreed to the development of a national harmonised regulatory framework for the coal seam gas industry. The work program is based on areas of key community concern encompassing water management and monitoring, well integrity and aquifer protection, and monitoring of hydraulic fracturing and chemical use. Ministers agreed to publicly release the work program to further build community confidence in the effectiveness of regulatory regimes governing the industry's development. The work program is attached to this Communiqué.

Ministers noted the extensive work that had been done by governments and industry to respond to public concerns. Governments have strengthened the regulatory arrangements to significantly enhance community engagement, and have made factual information on the industry more readily available.

Energy Market Resilience

Ministers acknowledged the range of challenges facing the energy markets over the coming years.

Carbon Pricing

Ministers received a briefing from the Commonwealth on the progress in implementing measures included as part of the Commonwealth's Clean Energy Future package – including the carbon price legislation itself, contract for closure, the energy security fund, and the establishment of the Energy Security Council. They discussed the implications for energy markets.

Market Stability

While National Electricity Market (NEM) participants need to manage their own financial and commercial positions, Ministers noted that there are significant financial interdependencies that exist between these parties, arising through exposure to a common spot price and their hedging arrangements to mitigate volatility in this spot price.

Ministers agreed that it is important that these financial interdependencies and any implications for the stability of the market are well understood by market participants, market bodies and policy makers. Ministers requested that, with the input of market participants and other stakeholders, the AEMC identify the nature of any risks to the efficient functioning of the market arising from these interdependencies and recommend mechanisms for addressing such risks for consideration by SCER.

Energy White Paper

Ministers noted and discussed progress towards the Commonwealth Government's Energy White Paper. A Draft Energy White Paper will be released before the end of 2011 for public consultation. The Draft Energy White Paper will set out a strategic policy framework to guide the development of Australia's energy policy to 2030 and beyond.

National Energy Security Assessment

Ministers also noted that the Commonwealth intends to release the 2011 National Energy Security Assessment before the end of 2011.

In this context, Ministers discussed the importance of continued monitoring of developments in electricity, gas and liquid fuel markets to ensure market resilience is maintained.

Network Regulation

In recognition of the importance of ensuring network regulatory frameworks are delivering efficient and stable outcomes for consumers and investors, Ministers agreed to bring forward to 2012 the review required under national energy laws on the Limited Merits Review appeal arrangements.

It is anticipated that the review will examine the operation of the appeals process to date and make recommendations to Ministers about any amendments necessary to ensure that the process balances the interests of network businesses and consumers. It will also seek to deliver a set of appeal arrangements that are consistent with the National Electricity Objective and the National Gas Objective as set out in the National Electricity and National Gas Laws. Ministers acknowledged the need for the terms of reference and the approach to the review to complement the process already underway by the AEMC in assessing three Rule change proposals in relation to network regulation.

Ministers further noted the range of work that is currently being progressed in relation to energy networks, including the Transmission Frameworks Review being undertaken by the AEMC. Ministers noted that network regulation issues remained a high priority for the Council but it was important that the work underway, particularly the independent assessment of Rule changes by the AEMC, need to run their course.

Ministers noted the announcement that the Productivity Commission would undertake an independent assessment of productivity benchmarking in relation to the distribution network regulatory regime, and would assess whether efficient levels of transmission interconnection are being delivered in the NEM.

Gas Market Developments

Further to discussion of coal seam gas developments and regulatory frameworks, Ministers noted the important role gas is likely to play in Australia's energy future. In this context, Ministers also noted the significant developments occurring in Australia's gas markets, and discussed actions that SCER might take to facilitate the timely market delivery of infrastructure to meet Australia's domestic gas needs. Ministers requested officials to assess the impact of these developments in the market and to report back on any further action that may be required.

Short Term Trading Market

Ministers noted the 1 December 2011 start to the Brisbane Short Term Trading Market (STTM) hub, and agreed to continue to closely monitor the operation of the three STTM hubs to ensure they are delivering desired outcomes smoothly and efficiently, from both an industry and customer perspective. Noting rapid changes in the gas market in Queensland, Ministers also asked AEMO for a rigorous consideration of whether a supply-side STTM, as proposed by Queensland, had merit in being pursued.

Gas Safety

Ministers noted the progress on the Gas Appliance (Carbon Monoxide) Safety Strategy which is exploring options to mitigate the risk of carbon monoxide poisoning. The final Strategy is expected to be completed around mid 2012.

Petroleum Regulatory Reform

Ministers noted the significant progress in transitioning to the new regulatory arrangements that will apply in Commonwealth offshore areas from 1 January 2012 and the considerable co-operation from the States and the Northern Territory to minimise the impact of the transition on industry. The National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) and the National Offshore Petroleum Titles Administrator (NOPTA) will commence operations from 1 January 2012, replacing the state and Northern Territory government roles in the day-to-day regulation of petroleum activities in Commonwealth offshore areas. State Ministers and the Northern Territory Minister will maintain their current decision making role in relation to petroleum titles through the retention of the Joint Authorities.

Other issues:

Resource Exploration Investment

Ministers discussed recent statistics that revealed mineral exploration expenditure to be at record national levels, while Australia's international competitiveness remained relatively stable.

Ministers stressed the importance of continued support for investment in exploration in Australia.

Consistent with the report of the Policy Transition Group, Minerals and Petroleum Exploration, Ministers agreed that addressing Australia's declining share of international resource exploration expenditure remains a key priority on SCER's forward work plan.

In this context, Ministers noted that the Productivity Commission will conduct a review into non-financial barriers faced by exploration companies – with the review to begin in 2012.

National Offshore Petroleum Safety Authority (NOPSA) Operational Review

Ministers discussed the key recommendations and findings of the 2011 operational review of NOPSA. The 2011 Review commenced on 8 July 2011 and the Review Panel reported its findings to the Minister for Resources, Energy and Tourism, the Hon Martin Ferguson AM MP on 29 November 2011. The Second Triennial Review of the Operational Effectiveness of NOPSA Report was tabled in Parliament on 8 December 2011 and is available on the Department of Resources, Energy and Tourism website www.ret.gov.au. Section 695 of the Offshore Petroleum and Greenhouse Gas Storage Act 2006 (OPGGSA) requires that the responsible Commonwealth Minister initiate a review of NOPSA every three years. The Commonwealth will now consult with stakeholders with a view to publicly responding to the Review in three months time.

Demand Side Participation (DSP)

The importance of DSP and the ability of consumers to make informed decisions about the quantity and timing of their electricity use was recognised by Ministers.

Ministers noted the progress of issues identified in Stage II of the AEMC DSP Review, and the key work being undertaken by the AEMC in its Stage III DSP Review "Power of Choice".

Ministers also noted the proposed extension of the Commonwealth's Energy Efficiency Opportunities program to energy network companies, and were reassured that the Commonwealth's investigation of the costs and benefits of a potential national energy savings initiative is being undertaken thoroughly. It was noted that any decision to progress to a national energy savings initiative would require Council of Australian Governments' (COAG) agreement, positive cost benefit analysis and the abolition of existing and planned jurisdictional schemes.

Ministers also requested officials to develop a detailed SCER DSP work plan for consideration at their June 2012 meeting.

National Energy Customer Framework – Progress to Implementation

Ministers considered progress in implementing the National Energy Customer Framework, noting the significant work being undertaken by energy market participants, institutions and jurisdictions to ensure a smooth implementation.

Ministers reconfirmed their agreement to target implementation by 1 July 2012.

Australian Energy Market Commission Report on Possible Future Electricity Prices

Ministers noted the release of a report prepared by the AEMC, Possible Future Retail Electricity Prices: 1 July 2011 to 30 June 2014, on the AEMC's website at www.aemc.gov.au. The report estimates a rise in residential electricity prices of around 37 per cent nationally over the period from 2010/11 to 2013/14, including the impact of a carbon price, and a rise of around 29 per cent over this period without a carbon price.

The main driver of upward pressure on electricity prices is rising distribution network charges due to the significant investment being made in new and replacement network infrastructure to meet rising demand and reliability of supply requirements. Rising wholesale energy costs are also a key driver that is putting upward pressure on prices due to the introduction of a carbon price and renewable energy schemes.

Ministers noted that these price estimates should be treated as 'indicative only' rather than forecasts of the actual prices to be paid by consumers. The report does not account for future revenue determinations and changes to state and territory pricing methodologies. The report aims to better inform public understanding on movements in electricity prices and the associated drivers.

Impact of the enhanced Renewable Energy Target (RET)

Ministers noted the Interim and Final reports prepared by the AEMC, Impact of the enhanced Renewable Energy Target on energy markets. Broadly, the reports analyse the impact of the enhanced RET on electricity prices, carbon emissions reduction and the electricity networks. The Interim Report was largely prepared prior to the announcement of the Commonwealth's Clean Energy Future Package. The Final Report includes supplementary analysis based on electricity demand and carbon price projections conducted in the development of the Clean Energy Future package. Ministers endorsed the publication of the AEMC's reports and the contributing consultant reports on the AEMC's website at www.aemc.gov.au.

Collaborative Framework for Engagement on Renewable Energy

Ministers agreed that the development and use of renewable energy sources would be vital to ensuring a cleaner energy future for Australia. To underpin this, Ministers agreed that the Australian Centre for Renewable Energy (ACRE) should develop a paper to examine the merit and scope of a Collaborative Framework for Engagement on Renewable Energy (Collaborative Framework) to support the development of renewable energy technologies recognising the benefits of a national approach. This Collaborative Framework could guide the Australian Renewable Energy Agency's (ARENA) collaboration with jurisdictions and promote an open exchange of valuable information.

Smart Meters

Ministers noted progress on a national framework for smart metering, and agreed to continue developing a framework that can be applied to all likely deployment scenarios. Ministers also endorsed a national minimum functional specification for smart meters and asked officials to advise on implementation and transitional arrangements. Ministers noted the upcoming release of a consultation paper, by officials, as part of the review of consumer protection and safety arrangements in light of smart meters.

Greenhouse and Energy Minimum Standards Scheme

Ministers noted the work under way to enhance the delivery of national Greenhouse and Energy Minimum Standards (GEMS) and recognised the collaboration between jurisdictions that has occurred to progress the implementation of this COAG decision.

Members of the Council:

SCER comprises Commonwealth, State, Territory and New Zealand Ministers responsible for resources and energy.

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| Commonwealth | The Hon Martin Ferguson AM MP, Minister for Resources and Energy (CHAIR) |
| New South Wales | The Hon Chris Hartcher MP, Minister for Resources and Energy |
| Victoria | The Hon Michael O'Brien MP, Minister for Energy and Resources |
| Queensland | The Hon Stephen Robertson MP, Minister for Energy and Water Utilities |
| | The Hon Stirling Hinchliffe MP, Minister for Employment, Skills and Mining |
| Western Australia | The Hon Norman Moore MLC, Minister for Mines and Petroleum |
| | The Hon Peter Collier MLC, Minister for Energy |
| South Australia | The Hon Tom Koutsantonis MP, Minister for Mineral Resources and Energy |
| Tasmania | The Hon Bryan Green MP, Minister for Energy and Resources |
| Australian Capital Territory | Mr Simon Corbell MLA, Minister for Environment and Sustainable Development |
| Northern Territory | The Hon Delia Lawrie MLA, Treasurer |
| | The Hon Kon Vatskalis MLA, Minister for Primary Industries, Fisheries and Resources |
| New Zealand | The Hon Hekia Parata, Acting Minister of Energy and Resources |
| | The Hon David Carter, Minister of Agriculture |

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Coal Seam Gas Policy Statement

The Standing Council on Energy and Resources has agreed to develop and implement a harmonised framework for coal seam gas to address key areas of community concern based on four key themes:

- water management;
- multiple land use framework;
- best practice standards; and
- co-existence

Implementation of a harmonised framework seeks to generate greater public confidence in the effective regulation of the industry while supporting the commercial extraction of coal seam gas.

The harmonised framework will draw on the experience to date across all jurisdictions in the adaptive management and development of the coal seam gas industry, and will be assessed against six key criteria:

- early advice to, and consultation with, all stakeholders;
- transparency of process, information and standards to all stakeholders, including transparent assessment of the risks and mitigation strategies at the local and regional level by governments and industry;
- the most efficient use of collected information within and between jurisdictions;
- the rights and interests of all parties are represented equitably;
- decisions must incorporate appropriate review mechanisms; and
- communication, explanation and education on the leading practice that arises from the application of these criteria to all stakeholders, including industry.

Introduction

The resources sector makes a substantial positive contribution to Australia's economic wealth and energy security. In order for the resources sector to continue to sustain that contribution, it must continue to operate at the very highest operational and environmental standards while gaining permission and support from the community to access land required to explore, develop, produce and transport its products.

Sustainability and land access are the key strategic issues for the coming decades as the growth in demand for Australia's resources and the expansion of the sector increasingly intersects with the aspirations of some sections of rural and regional communities and the environmental and social concerns of some sections of the Australian community.

This intersection has been thrown into harsh relief with the relatively rapid rise of the coal seam gas industry, particularly in New South Wales and Queensland. Coal seam gas is strategically important as it supplies 32 per cent of the eastern states' domestic gas production, it assists in containing power prices in a carbon constrained economy and is a substantial source of export income and employment.

Despite the extensive regulation of the sector and the community's growing dependence on gas within Australia's energy mix, there is mounting public concern about the safety and environmental impacts of coal seam gas. Governments have been responding to public demands by strengthening regulatory frameworks for unconventional gas and significantly enhancing community engagement processes. More work will be done by governments and industry in response to genuine community concerns regarding co-existence, management of water systems, chemical use, well integrity and hydraulic fracturing and rehabilitation.

Approaches to coal seam gas development will continue to be informed by sound science and high quality data, and utilise appropriate risk management frameworks managed by regulators capable of attaining and sustaining the trust of stakeholders in transparently protecting natural, social and economic environments while enabling the environmentally sustainable use of land for multiple compatible purposes.

Cooperative Actions

Ministers have agreed to develop a national harmonised framework covering the coal seam gas industry with the initial work program based on areas of key community concern encompassing:

- water management and monitoring; picking up hydraulic fracturing and chemical use; and
- well integrity and aquifer protection.

Nature of the Harmonised Framework

The harmonised framework is designed to be flexible to accommodate the range of geographical, geological, resource, social, regulatory and institutional arrangements that exist in each jurisdiction. Successful implementation of the harmonised framework will support public confidence in the effective regulation of the industry while promoting the commercial extraction of coal seam gas.

The national harmonised framework will incorporate a combination of leading practice guidelines, protocols, standards, regulations and legislation and it is expected that there will be variations between jurisdictions on how each element is treated. The harmonised framework will not lower existing jurisdictional standards and practices, but will build on and enhance work already underway by state and territory governments.

How the task will be carried out

The work program has been scoped out below. The scoping describes the stages of work, the anticipated content of each topic, and likely timeframes. Each stage of the project will conclude with a public statement on the progress to date against the scope of the program. The document has been framed with the deliberate intention that the proposals contained within it are flexible. Should additional priority issues be identified, they can be incorporated into the work program as it is progressed, although this may require separate timetabling.

WORK PROGRAM SCOPE

Objective

A national harmonised framework for:

- the management and monitoring of water used and produced in coal seam gas production
- well integrity for coal seam gas
- hydraulic fracturing practices and procedures for coal seam gas
- chemical use and management in coal seam gas activities

Consultation and development of proposed National Harmonised Framework

In consultation with jurisdictions, develop and agree on the proposed:

- policy statement
- work program for harmonised framework
- summary of activities in place or being progressed by jurisdictions
- community engagement and communications strategy.

Research and Analysis

A stock take of existing Australian requirements (legislation, regulation, standards etc) for coal seam gas wells in each jurisdiction; and a stock take of current Australian government and industry practices, procedures and reporting requirements to determine:

- Where common ground already exists between jurisdictions on well integrity and water management and monitoring, including hydraulic fracturing and chemical use for coal seam gas.
- Where gaps may exist in a comprehensive approach to well integrity for coal seam gas within and between jurisdictions.

Identification of the elements of a leading practice approach

This work will establish the base-line for analysis. Jurisdictions have agreed that the development of the leading practice approach will, on the basis of lessons learned to date in developing an approach to coal seam gas extraction, need to meet six key tests:

- Does the approach provide for early advice and consultation with all stakeholders?
- Does the approach provide for transparency of process, information and standards for all stakeholders, including transparent assessment of the risks and mitigation strategies at the local and regional level by governments and industry?
- Does the approach support the most efficient use of collected information within and between jurisdictions?
- Is there an opportunity for the rights and interests of all parties to be represented equitably?
- Are all decisions subject to appropriate review mechanisms? and
- Is there a process in place to allow for communication, explanation and education on the leading practice that arises from the application of these criteria to all stakeholders, including industry?

Drafting of a harmonised framework

Each element of the framework needs to address identified risks as well as achieve a balance between the rights and interests of different stakeholders.

Each of the elements of the well integrity framework arising from significant considerations, including environment, land access, occupational health and safety; reporting requirements; cumulative impacts, performance benchmarking; audit, compliance and accountability; transparency; and data sharing will be drafted to cover:

- Engineering and design
 - Commissioning
 - Operational practices
 - Decommissioning
 - Hydraulic fracturing
 - Other significant considerations
- The water management and monitoring framework arising from significant considerations, including environment, land use, occupational health and safety; reporting requirements; cumulative impacts; performance benchmarking; audit, compliance and accountability; and transparency will be drafted to cover:
- Water use, production, reuse and discharge including:
 - Accounting
 - Measurement
 - Treatment
 - Analysis and testing
 - Quality and standards
 - Storage and containment
 - Seepage
 - Discharge
 - Runoff
 - Reinjection
 - Salinity
 - Waste management such as heavy metal disposal

- Aquifers including:
 - Protection
 - Baseline establishment
 - Monitoring
 - Regional and cumulative impacts; and
- Chemicals and contaminants including:
 - Use
 - Reporting
 - Transparency
 - Measurement
 - Assessment and predictive methodologies
 - Risk analysis
 - Ongoing evaluation

Completion Date: June 2012

Evaluation and consultation

- Evaluate options where identified and consult with stakeholders on the draft proposal.
- Based on the analysis, identify possible dates for the introduction of initiatives to address gaps in existing arrangements by individual jurisdictions
- Final paper and recommendations to SCER for publication of a national harmonised framework

Completion Date: September 2012