Submission: Cost recovery framework for the Northern Territory onshore petroleum industry

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INTRODUCTION

The Australia Institute welcomes the opportunity to make a submission on the Cost recovery framework for the onshore petroleum industry.

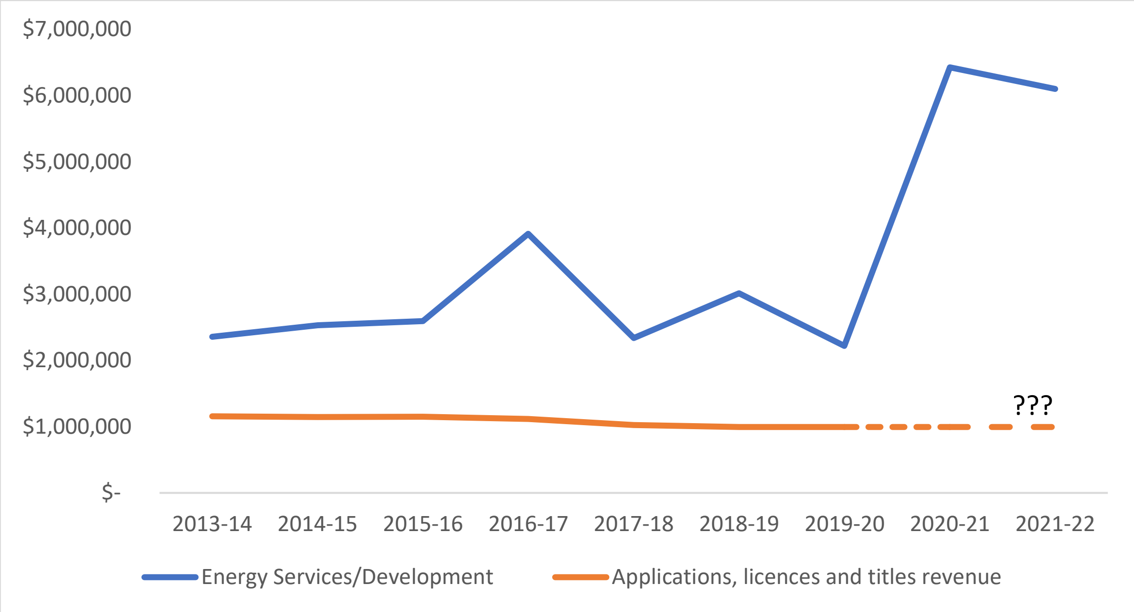
This consultation stems from the Scientific Inquiry into Hydraulic Fracturing in the Northern Territory (Fracking Inquiry) and its finding that there were significant costs to administering the onshore gas industry that are not recovered and thus result in a significant public cost. The Fracking Inquiry recommended:

> Recommendation 14.1
>
> That prior to the granting of any further production approvals, the Government designs and implements a full cost-recovery system for the regulation of any onshore shale gas industry.[1]

Examination of NT budget papers shows that under-recovery of costs is significant, as shown in Figure 1 below:

[1] NT Fracking Inquiry (2018) *Final Report: Chapter 14 – Regulatory Reform*, https://frackinginquiry.nt.gov.au/inquiry-reports/?a=494300

Figure 1: Energy Services budget vs revenue



Sources: NT Budget papers, various years

As shown in Figure 1 above, the amount allocated to Energy Services (now renamed Energy Development) has tripled in recent budgets, with no justification given. Revenue from applications, licence and title fees is no longer reported separately in the NT budget papers, reducing transparency, but there is no reason to expect a major increase in this revenue. Administering the onshore gas industry appears to impose a cost on the NT public of at least $5 million per year at present.

Also important is the economic advice commissioned by the Fracking Inquiry. It found that the "very high probability" outcome of onshore gas development would be a period of exploration followed by "failure to commercialise".[2] The marginal economics of onshore gas in the NT and its potential to impose significant costs on the public is also highlighted by the Federal Government's recent attempts to spend tens of millions on subsidising the industry.[3]

In other words, the onshore gas industry already imposes significant economic costs on the NT and Australian public and significant environmental costs are likely to follow. This is not an industry that has a benign effect on the surrounding environment and industries. It is socially divisive and has the potential for major environmental harm.

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[2] ACIL Allen (2017) *The Economic Impacts of a Potential Shale Gas Development in the Northern Territory*, https://frackinginquiry.nt.gov.au/inquiry-reports/?a=494324

[3] Knaus (2022) *Coalition announces new $19m Beetaloo Basin gas support after previous grants ruled invalid*, https://www.theguardian.com/australia-news/2022/feb/23/coalition-announces-new-19m-beetaloo-basin-gas-support-after-previous-grants-ruled-invalid

Regulators will need to be well-resourced and politically supported to protect the public interest.

In this context, cost recovery processes should focus on protecting the public interest rather than facilitating the development of the industry. Full costs should be recovered as quickly as possible from all companies involved in the industry. No exemptions or delays should be granted. From this perspective, we address below the consultation questions posed in the consultation document.[4]

Q1: Are there reasons to justify use of the AC cost approach rather than the preferred FDC approach?

No, a fully distributed cost approach is preferable given the significant costs of the industry to the public.

Q2-3: Are there principles of cost recovery that are more important than others?

Equity should be a focus here, specifically, the current inequity created by cost non-recovery and the potential inequity of the industry imposing environmental costs on the public. This should take precedence over other listed principles such as efficiency and administrative simplicity.

Q4-6: Separate and bundled charges

Some combination of separate and bundled charges appears most appropriate from an administrative perspective. Alignment between when charges are paid and when regulatory work effort occurs is important. With such marginal economics, firms are likely to leave the industry and leave behind administrative and environmental costs, as is being seen in the offshore gas industry.[5] Fees should be charged in advance or, or as close to delivery of services as possible. It would be preferable to maintain separate charging structures for different regulators to ensure transparency and accountability to different ministers and the public.

[4] NT Department of Treasury and Finance (2022) *Cost recovery framework for the onshore petroleum industry: Additional information on regulatory cost recovery options*.

[5] Milne (2022) *WA offshore oil producer in corporate turmoil with finances questioned*, https://www.watoday.com.au/national/western-australia/wa-offshore-oil-producer-in-corporate-turmoil-with-finances-questioned-20220214-p59wem.html

Q19: Water-related regulatory services

Water is a key issue for unconventional gas production. These regulatory costs could be significant and should be included in full cost recovery as a separate charge.

Q20: Costs of Aboriginal Areas Protection Authority

Traditional owners have repeatedly expressed concerns about, and often opposition to, onshore gas development. Costs related to the Aboriginal Areas Protection Authority should be included in the scope of activities for full cost recovery as a separate charge to maximise transparency and accountability.

Q21: Regulation of pipeline infrastructure

Pipelines are essential for onshore gas development, are likely to be subsidised by the public, present major potential safety concerns and are a large potential source of fugitive emissions. They should be closely regulated and costs should be recovered from the onshore gas industry.

Q22: Implementation

The development of an onshore gas industry is unlikely to provide social or economic benefit and likely to impose significant costs, as highlighted by ACIL Allen's report to the Fracking Inquiry. Minimal consideration should be given here to "facilitating development" of the industry.

The NT public is already shouldering at least $5 million per year in unrecovered costs, as discussed above. Almost four years have passed since full cost recovery was recommended by the Fracking Inquiry and adopted as NT Government policy. The industry has had ample time to prepare for cost recovery and there should be no further delay, transition or exemptions to fulfilling this recommendation of the Fracking Inquiry.