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Professor Mary O'Kane
NSW Chief Scientist and Engineer
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Dear Professor

I am writing in response to the initial report of your independent review of coal seam gas (CSG) activities in New South Wales. I commend you and your team for the report, which neatly sets out the state of knowledge of potential CSG impacts and makes what seem to us to be sensible recommendations on the safe development of the resource.

In your report you state (at page 12):

It is notable the Review did not receive any submissions from companies or industry groups which use CSG as part of their business (e.g. manufacturers, chemical companies, factories etc.). This is of interest given the strong public position from such groups on the issue of domestic gas supply and predicted rising gas prices.

This lack of submissions is easily explained. For most gas users gas is simply gas, whether it comes ultimately from a coal seam or a conventional formation. Gas users deal mostly with retailers and tend to be far removed from the detail of production. Gas users do not generally have any special expertise in the environmental issues around CSG production. As such, many will have felt that they had little to offer a review focused on these issues, notwithstanding the great importance of gas supply to their businesses.

It is also the case that many gas users have been and remain focused on the extremely serious problems of supply and sharply rising price across the Eastern gas market associated with the looming commencement of Liquefied Natural Gas exports from Queensland. This has limited the engagement of many with the related but more intense supply issues confronting NSW.

While understandable, this lack of engagement with your review is unfortunate. The Australian Industry Group does not have unique insights into the environmental impacts of CSG. However we are extremely concerned at the prospect that NSW businesses could face absolute gas supply shortages from 2016 if NSW CSG cannot be safely developed.

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This risk arises because most existing gas contracts in NSW will have expired by 2016-17; because future supply from the Cooper Basin has been snapped up by LNG proponents to ensure they can meet their export contract obligations; and because processing and pipeline capacity are inadequate for Victorian supply to fill the gap in time. Work by ACIL Allen Consulting indicates a serious shortfall in supply during the seasonal peak in demand around winter. It is most likely that gas-using businesses would bear the brunt of this adjustment, whether through shutdown in response to uneconomic prices or through physical curtailment of supply in preference to households, institutions or power stations.

Thus while NSW gas production has not previously been crucial for meeting NSW demand, in the near future it will be central because of shifts in the wider market. Last week our National Executive discussed the gas supply situation with Premier O'Farrell, expressing strong concern. Your efforts to outline the real risks of CSG and advise on how to manage them are of great importance.

In Ai Group's recent report on the Eastern gas market, which we have enclosed for your information, we highlighted the extent to which gas users are already feeling tight supply and rising prices. We also recommended several steps to address these problems. The national interest test and market reform measures we mention are not of direct relevance to your work. However, we also raise the fundamental need to increase gas production in Eastern Australia, including NSW, and recommend three steps towards this:

1. *Lifting blanket exclusions and moratoria as soon as possible.* Flat bans on unconventional gas production in certain areas are at best a blunt, temporary measure. Our understanding of the state of the science and of your report is that the challenges are manageable with good practices, good engineering and good regulation. While further work and monitoring is required, there is no indication of unavoidable threats that would support permanent no-go areas.
2. *Strengthening and streamlining regulatory arrangements to deal with CSG credibly and efficiently.* Consistent with your own recommendations, we called for a regulatory system that commands community confidence, is transparent to industry and the community, and makes decisions in a timely and workable manner.
3. *Ongoing dialogue between communities and other stakeholders.* As your initial report confirms, there is widespread concern about CSG and that concern can be very intense. All stakeholders, including gas-using industry and government, need to join the dialogue with communities to exchange information and convey the importance of getting gas development right.

If you wish to discuss these issues further, our advisor Tennant Reed (tennant.reed@aigroup.asn.au or 03 9867 0145) can set up a meeting. I look forward with great interest to the results of the next stage of your work.

Yours sincerely



Innes Willox
Chief Executive