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Ms Margaret Sewell
Energy White Paper Taskforce
Department of Industry
GPO Box 1564
CANBERRA ACT 2001

Via email: EWP@industry.gov.au

Dear Ms Sewell,

Energy White Paper – Issues Paper

As Australia's largest investor in petroleum exploration and development, Chevron Australia Pty Ltd (Chevron) welcomes the opportunity to provide brief comments on the Energy White Paper – Issues Paper. Chevron also acknowledges and supports APPEA's comprehensive submission to the Taskforce.

Chevron is currently developing two of Australia's largest resources projects in the north-west of Western Australia. The Chevron-operated Gorgon and Wheatstone Projects represent over \$80 billion of investment and will position Australia as a leading liquefied natural gas (LNG) supplier in the Asia-Pacific region. With the development of domestic gas plants as part of the Wheatstone and Gorgon Projects, Chevron will also be a significant provider of domestic gas to Western Australia.

In addition, Chevron is operator of the oilfields on Barrow and Thevenard Islands; a foundation partner of the North West Shelf and maintains the largest petroleum exploration program in Australia, including a recently-announced \$500m work program in the Great Australian Bight. Chevron has also acquired working interests in two tight gas blocks in the Nappamerri Trough in the Cooper Basin.

Importantly, Chevron is also contributing to the level of oil and gas research in Western Australia through a strategic research alliance with WA:ERA, and is contributing to research and academic infrastructure at the University of Western Australia and Curtin University. In addition, Chevron has located one of its two Global Technology Centres, focused on research and development, in Perth, Western Australia drawing on local talent to support innovation and excellence in Chevron's projects.

Declining competitiveness

Chevron welcomes the Issues Paper's statement that, "Energy policy should remove unnecessary barriers to continued investment in exploration, production, distribution and end use systems to meet demand and support Australia's economic growth."

The Bureau of Resources and Energy Economics (BREE) noted the unique contribution of petroleum developments in its latest biannual Major Project report:-

LNG, gas and oil projects account for the majority of investment at the Committed Stage. Although more coal projects are under construction, the 14 LNG, gas and oil projects have a higher combined value of \$195 billion because of the very large individual values of several key projects. For example, Chevron's [\$54] billion Gorgon LNG project in Western Australia is almost five times the value of all coal projects at the Committed Stage. The LNG projects under construction in Australia remain a significant source of investment with each project at least double the cost of the Snowy Hydro Scheme in real terms [\$7.5b].¹

However, BREE also noted the negative impact of the recent steep increase in development costs:-

"The value of the existing stock of committed projects is still projected to decline rapidly over the next four years in line with the completion schedules of the mega LNG projects. As outlined in the previous Resources and Energy Major Projects a substantial number of the high value projects that would have sustained the record levels of investment in the resources and energy sectors have been either delayed or cancelled."

Research demonstrates that costs for the construction of LNG plants are significantly more expensive in Australia than in other parts of the world. A number of projects or expansions have been delayed or cancelled. Those projects which are proceeding are applying Floating LNG technology – with a consequent impact on their potential contribution to local employment; local industry; government revenue; and domestic gas supply.

Chevron welcomes a range of recent government initiatives which will assist in addressing Australia's declining competitiveness, including the removal of economically inefficient measures relating to greenhouse gas; industrial relations reform; streamlining environmental approvals; red tape reduction; and ensuring access to skilled overseas labour where necessary.

Chevron suggests that the Energy White Paper undertake a comprehensive empirical analysis of the factors driving cost differentials between Australia and its LNG competitors in North America, Asia and Africa, and assess further policy initiatives to address these barriers to investment – with a focus on Australia's poor productivity performance.

Domestic gas reservation

Domestic gas reservations have a distorting effect on investment decisions and the efficient operation of markets. This may lead to less development (particularly in

¹ Bureau of Resources and Energy Economics (BREE) October 2013. www.bree.gov.au/publications/resources-and-energy-major-projects

exploration and development of higher-risk, marginal domestic gas projects), less supply and higher prices in the long term. There should be a priority focus on reform initiatives that will lead to improved access to resources, market liquidity, depth, resilience, breadth of participation, and transparency.

It is ultimately a properly functioning market which can balance energy market supply and demand fundamentals that will result in increased security and reliability of energy supply. A clear example is the recent history of the United States gas market where higher gas prices drove technological breakthroughs and a supply side response which has now led to a competitively priced energy market.

Energy efficiency

It would be appropriate for the Energy White Paper to examine the role of government in driving industrial energy efficiency. In Chevron's view, price is the most effective energy management driver. The ideal role for government in driving energy efficiency is to continue to work to deregulate energy markets.

The Government's own industry research indicates the vast majority of firms see no benefit from the Energy Efficiency Opportunities (EEO) Act and view it as an unnecessary intrusion into the management of business. Supporters of the EEO wrongly assert that the EEO is responsible for energy efficiency improvements undertaken by reporting firms whereas much of this investment would have occurred in any event as business as usual. Chevron welcomes the announcement in the 2013 Mid-Year Economic and Fiscal Outlook that funding for the program is to cease in July 2014, and is of the strong view that there is an urgent need to repeal the EEO legislation.

Summary

A second wave of onshore LNG investment in Australia is possible. Asia Pacific gas demand forecasts remain strong. There remains a short window of opportunity for Australian projects to beat their increasing number of competitors to market. Chevron welcomes the Energy White Paper as an opportunity to identify and enable the necessary reforms to achieve this.

Chevron looks forward to participating in further consultation with the Department throughout the development of the Energy White Paper.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Fairclough' followed by a stylized 'for'.

Peter Fairclough

Policy, Government and Public Affairs General Manager