



NSW Government

Department of Water & Energy

*copy → upstream petrols letter
Team*

File Ref: DG08-332

Mr Philip Weickhardt
Commissioner
Upstream Petroleum Regulation Study
Productivity Commission
Locked Bag 2
Collins Street East
MELBOURNE VIC 8003

- 2 SEP 2008

Dear Commissioner

I am writing regarding the Productivity Commission's Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector (the Review).

The upstream oil and gas sector in NSW is relatively small, although growing, and is regulated by agencies other than the Department of Water and Energy. Notwithstanding that, the Department strongly supports regulatory reforms that improve the climate for investment in all parts of the energy supply chain, including at the production level.

An important concern for NSW has for some time been the need to facilitate greater competition in the upstream natural gas industry. Connected with this concern, the Ministerial Council on Energy (MCE) and the Ministerial Council on Minerals and Petroleum Resources (MCMPR) established a Joint Working Group (JWG) on Natural Gas Supply.

The JWG has reported that a number of stakeholders believed the current system of acreage management, in particular, retention leases, are creating barriers to domestic gas supply. Retention leases protect the interests of companies that discover gas resources and which are not commercially viable in the short to medium term.

While acknowledging the role of retention leases, the JWG reported strong support in some parts of the industry, other than the upstream sector, for a more efficient acreage management process to provide a higher level of transparency on the commerciality test used to assess whether to extend a retention lease.

The JWG's final report is publicly available on the MCE's website (www.mce.gov.au) and its recommendations are currently being considered by the MCE and MCMPR. The issue of improving the current acreage management process falls within the responsibility of the MCMPR. You may wish to take these developments into account as part of the Productivity Commission's review.

Should you require any further information about this matter, please contact Ms Shirley Wu in this Department's National Energy Markets section, on (02) 8281 7412. I would appreciate Ms Wu being kept informed of further progress with the Review.

Yours sincerely

Leisl Baumgartner
Acting Director-General

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