8 November 2013

To Whom It May Concern (via: Srlup@planning.nsw.gov.au),

Re: Coal Seam Gas (CSG) Regulations – proposed expansion of CSG exclusion zones and BSAL areas

NSW clearly needs new gas supplies. The NSW's Government's policies work against this need, penalising NSW gas exploration and production despite the absence of any justification in terms of health, safety or environmental risk management.

Metgasco:

- continues to oppose the proposed application of 2km exclusion zones to the coal seam gas (CSG) industry in general, and recommends that the policy should definitely not be applied to proposed growth zones around Casino; and
- wishes to express concern over the need for and proposed application of the BSAL concept to its NSW exploration areas.

We also wish to express concern over the continued lack of consultation with industry in relation to changes to NSW regulations.

<u>Exclusion Zones</u>

Our position is stated in the letter we wrote to NSW Government leaders on 25 February, 2013 (Attachment 1). In summary:

- There is absolutely no scientific, engineering or risk management basis for the proposed exclusion zones. The policy is nothing short of arbitrary and applies restrictions to the CSG industry that are not applied to other comparable industries.
- The exclusion policy severely damages CSG companies by reducing their certified reserves – these reserves that have been established through the expenditure, in good faith, of shareholder funds.
- In addition, the policy damages the CSG industry by implying to the general community that there are significant and unmanageable risks associated with the industry, despite the fact that these supposed risks have not been identified or quantified.

Contrary to suggestions that have been made, the industry is already regulated in terms of clearances for CSG activities from houses and other developments, as per the Petroleum Onshore Act. Conditions applied to individual exploration licence awards and the environment approvals required for individual exploration wells place further constraints on activities to ensure the health, safety and environment needs are satisfied.

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Again, there is no scientific, engineering or risk management justification for the exclusion zones – they simply penalise companies that have acted in good faith and severely discourage investment in the CSG industry, and at a time when NSW badly needs additional gas supplies. Metgasco's share price has suffered seriously as a result of the exclusion zone announcement and we have been forced to terminate the employment of 21 of our 27 staff. We have lost about 20% of our 2P CSG reserves and will lose more with the application of exclusion zones to future growth areas.

We know of nowhere else in the world that arbitrary exclusion zones of this nature are applied. The Queensland exclusion policy, which was announced shortly before the last state election by the previous government, was never enacted. Furthermore, on 7th November, 2013 the new Queensland Government announced that it has abandoned the exclusion zone policy.

We strongly recommend that:

- the exclusion policy should not be adopted at all, and that if it is, there should be a sunset clause to allow the policy to be repealed in response to other events, such as an investigation and recommendation from the NSW Chief Scientist and Engineer; and
- the policy should not be applied to future growth zones.

The application of the exclusion zone policy to future growth zones would be even more unjustified than it is to existing residential areas. There is no apparent measure of market demand for these growth zones, nor any time scale in relation to when the zones might actually grow. The inclusion of growth zones will isolate gas assets unnecessarily, "protecting" residential development that might never eventuate and from risks that have not been identified.

We note in particular that the "Fairy Hill" future growth zone northwest of Casino comes from an old strategy document which is no longer considered to be relevant. This is one area in particular that should not be accepted as an exclusion zone.

Exploration and corresponding development planning requires stability and certainty. As such, the limits of the exclusion zones and associated buffer zones should not be allowed to change over time. If the exclusion zones are to be applied, they should be frozen now, and not subject to changes in council policy which can vary from time to time and from one election to another.

As far as the implementation of the exclusion zone policy is concerned, we note that while the different residential zonings have been defined on the Government's website, there are no maps showing the exclusion and buffer zones themselves. To avoid confusion, maps such as the one included in Attachment 2 to this letter, which is our interpretation of the Casino (stage 1) exclusion zone, should be publicised on the Government website.

BSAL and Gateway policy

We have concerns about the nominated BSAL areas that were defined as part of the 3 October, 2013, announcement and the Gateway process itself. The BSAL concept and the gateway process result in a cumbersome, unnecessary and counter-productive review and approval system. We have not seen any demonstration or study that supports the notion that CSG is a risk to agriculture or that existing review and approval processes are not already adequate.

All approvals are in effect “gateways”. We take no exception to provide engineering and environmental assessments to demonstrate that any risks to agriculture or water supplies are identified and managed to an acceptable level, but see no reason that this cannot be done through the normal development approval process, with the inclusion, if necessary, of an agricultural impact statement as originally proposed for Metgasco’s exploration and development activities when the SRLUP policy was originally announced in September 2012.

As above, consideration of agricultural impacts can and should be undertaken as part of the major project assessment under the *Environmental Planning & Assessment Act (1979),* not as a pre-cursor. The cumbersome gateway approach only adds to the time, cost and uncertainty relating to the economic viability of a project and extends what is an already expensive and time consuming planning process.

Mapping of BSAL

Soil landscapes in NSW have been extensively researched and mapped through the Farmland Protection Project, a scheme operated by the NSW Departments of Infrastructure, Planning and Natural Resources, and Primary Industries, and which ran from 2001 – 2010. The process for the Northern Rivers Region ran from July 2002 through a 3-stage process culminating in the final report of 2005. This was a detailed report that focussed on the inherent value of soil types and had specific criteria that divided land into ‘State significant’ and ‘Regionally significant’ agricultural land.

Analysis of the mapping from the 2005 report found that there is **no** agricultural land within Metgasco’s tenement areas that meet the ‘State Significant’ criteria.

Mapping for the proposed draft BSAL currently tabled by the State amounts to almost 52,000 hectares within Metgasco’s exploration tenements. It is difficult to understand how this 52,000 hectare area can be reconciled with the results of the 2005 study. Is it possible that the desire for a relatively quick definition of BSAL areas has meant that previous work has simply been ignored? Is there any justification for the newly defined areas? Do the newly proposed BSAL areas exaggerate the land’s significance in the overall context of State importance?

Lack of industry consultation

The proposed SEPP changes have been developed in isolation and without involvement and input from industry. Metgasco believes that industry should be consulted and involved more in any future planning changes.

NSW can benefit from working constructively with industry rather than creating an environment of mistrust and uncertainty for CSG companies and local communities.

Community expectations

Metgasco is concerned that by displaying proposed exclusion zones with accompanying 2km buffer zones at the same time as defining BSAL areas, some landholders might be confused. It is not clear to many people that exclusion zones prohibit all activities whilst BSAL designation leads to the Gateway process.

Since the announcement of the current proposed amendments to the *State Environmental Planning Policy (Mining Petroleum Production and Extractive Industries*), the purpose of BSAL and the gateway process has been consistently misrepresented in the media as 'protecting' tracts of land when in fact the land is subject to further assessment to determine provisions required to enable mining developments to proceed on, or adjacent to, BSAL.

This has created (and might continue to create) a false community expectation of how and where mining development can occur in the region. Going forward, these misrepresentations might result in a climate of fear and objection to CSG development amongst landowners and the broader community, making it more difficult for CSG companies to successfully negotiate access agreements and increasing costs.

Conclusion

The proposed amendments to the *State Environmental Planning Policy (Mining Petroleum Production and Extractive Industries*) are unfounded, excessive and do more to aggravate objection and opposition to CSG development than they do to "protect" the community or provide the community with confidence in the industry.

Metgasco has already paid heavily with the introduction of Stage 1 controls and any further implementation of further exclusion zones, buffer zones and BSAL (52,000 hectares within Metgasco's current tenement areas) will further sterilize our assets and add costs to our operations in NSW, discouraging expenditure and development.

NSW needs gas. As such, it needs policies that encourage the industry, not the reverse. The exclusion zone policy should be rejected and the overall review and approval process streamlined so that the BSAL and gateway processes are made redundant. Metgasco recommends that NSW work with other Australian states to learn from their approaches and to apply a consistent set of regulations and standards in Australia. Why should NSW pursue regulations that discourage the industry when other states are doing the reverse, providing regulations and policies that stimulate the industry?

Metgasco management and staff would be delighted to share their views in more detail should you wish.

Yours sincerely

Peter J Henderson
Managing Director & CEO

METGASCO

Attachment 1

25 February 2013

Commercial in Confidence

The Hon. Barry O'Farrell MP, Premier of NSW
The Hon. Andrew Stoner MP, Deputy Premier NSW
The Hon. Mike Baird MP, Treasurer NSW,
The Hon. Brad Hazzard MP, Minister for Planning & Infrastructure
The Hon. Chris Hartcher MP, Minister for Resources & Energy

Re: Coal seam gas (CSG) regulations

Gentlemen

Metgasco is profoundly disappointed with your government's announcement of an even greater regulatory burden for the coal seam gas (CSG) industry. We ask that you reconsider the new regulations announced on February 19. The changes will have a material impact on the NSW CSG industry and Metgasco in particular. They could well mean that we are no longer able to invest in NSW, with dire consequences for our shareholders. The changes will threaten the existence of a natural gas industry in NSW, which will in turn will:

1) threaten the viability of many NSW businesses that rely on gas; and

2) will limit retail gas supply alternatives, driving gas prices even higher.

We urge that changes be made to at least reduce the damage caused by the announcement. We believe that there are means to show the community that the government is listening to concerns while at the same time allowing the industry to continue and giving the Government the flexibility to respond to new information and needs in the future.

<u>The industry is safe and environmentally acceptable</u>

The changes have no credible scientific justification in terms of either environmental or health outcomes.

There is no evidence of cross contamination of aquifers as a result of CSG activities. The NSW Parliamentary Inquiry into CSG noted in 2012:

> ***4.15** The Committee notes an hydrogeologist and other experts who appeared before the Committee were, despite their extensive experience over many years, unaware of any instance of cross-contamination of aquifers in Australia due to coal seam gas drilling for exploration or production. Page 44*

As another example, from a health perspective, during the last 40 years, the petroleum industry has been supporting an independent survey of the health outcomes of people working in the petroleum industry. There is nothing in those results that would give any support whatsoever to the claims of health problems related to natural gas production. Prima facie, any such claims are groundless.

Impact on Metgasco

Metgasco has spent more than 8 years and $100m exploring in the Clarence Moreton Basin (Northern Rivers) and has been successful in discovering about 400 BCF of 2P CSG reserves and 2,500 BCF of 3P CSG reserves. Indeed, Metgasco has over three hundred voluntary access agreements with local farmers and we receive unsolicited calls regularly asking for natural gas wells to be located on farmers' properties. We have strong local council and business support. For example, the Richmond Valley Council recently released a position statement on CSG supporting the development of the industry, with the Council's General Manager recently stating:

> *"We know there's lots of gas and we know there's lots of coal and if it flows at the rates they (Metgasco) would hope... you'll see enormous economic growth, you'll see great development in the Richmond Valley, lots of jobs, lots of opportunity... and infrastructure improvements as well."*

The 2km residential no-go zone could sterilise a significant amount of the State's productive gas resources and in Metgasco's case will reduce our 2P reserves by between 20% and 30% and our 3P reserves by between 40% and 60%, depending on how residential areas are defined. It will also have a major impact on the conventional gas prospect that we have identified and planned to drill this year.

Metgasco's market capitalisation (refer to Attachment 1) has already been savaged by 18 months of an effective moratorium after your government came into office, followed by unlawful protests by green / socialist left activists, the recent comments from Canberra and now by the announcement last week. The further delays resulting from the new regulation together with the impact of reserve reductions will further damage our company and the prospects of developing a gas business in NSW.

We are also very worried that it will be impossible to quarantine the no-go zone to residential areas. The selection of 2 km has no science behind it, nor does it provide any indication of what urban dwellers are being protected against. People living in rural areas will want the same protection and consideration as people living in residential areas. Given that the Chief Scientist has apparently been given a brief to consider the protection provided to rural dwellings, there must be a chance that unwarranted restrictions will creep into the regulations, irrespective of the 2km no-go zone applying only to residential areas. From our experience, the Green / socialist left campaign will not stop as a result of the 2km no-go zone regulation.

With the already unstable regulatory environment and this deteriorating outlook, we suspect that not many company boards will approve any CSG related expenditure in NSW. Junior exploration and development companies operating in NSW will be unable to obtain any financial support from the market.

Disappointment at lack of consultation

We must also express extreme disappointment at the handling of the changes. We spent 15 months working with your government before licences were renewed and new regulations put in place last September. We did not agree with the new regulations but went ahead in good faith and raised $20 million of new equity to implement our current exploration and development program. We have already drilled two new wells. We now find these new regulations announced without any consultation whatsoever. We also feel last week's announcement has severely damaged the industry's credibility because it sends a message to the community that our industry is unsafe, contrary to all the evidence.

Comparison with other industries

Our industry already has a breadth of regulations it must satisfy before development approvals proceed. These are in place to protect the community against unwarranted noise etc, just the same as other industries. It is not clear why noise from our industry is any different from noise from other industries. We also point out that many other industries are able to operate well within a 2 km buffer zone. For your interest, Attachment 2 provides a section from the NSW Environmental Planning and Assessment Regulation 2000, showing the separations required for a range of industries required before they even become “Designated Developments” (ie; if not within this separation distance, they are not even considered to be “Designated Developments”). The Protection of Environment Operations ACT lists various industries which are 'politically sensitive' but distance restrictions don’t apply. In the case of general blasting there is no prohibited distance, rather ANZECC guidelines provide the limits that apply at certain blast overpressure and ground vibration. In other words, for the bulk of other industries, regulations are based on a scientific and professional assessment of risk, not on an arbitrary decision made with no consultation.

Damage to NW industry and gas supply / price implications

There should be no doubt that in damaging the CSG industry, NSW’s gas supply is substantially weakened. Gas prices are already rising strongly, and this is before NSW’s existing supply contracts expire. Attachment 3 (Australian, 23 February, 2013) is just one example to support this statement.

The proposed changes will severely damage the CSG industry and NSW and will be difficult to remove in the future. We ask that as a minimum there should be a consultation process to establish what any no-go zone distance ought to be. We also request that the following be included in any SEPP changes:

- make any no-go zone apply solely to surface facilities;
- allow activities within the buffer zone to proceed after going through an extensive and specific review process; and
- put a sunset clause in SEPP changes so that, for example, after a period of 2 years, the no-go zone will be reviewed and, if justified, removed or modified.

We request the opportunity to discuss our situation with you and your staff personally.

For your interest, we will be seeking to have the ABC and SBS screen the video documentaries “Truthland” and “Fracknation”, both of which are powerful rebuttals of the misleading “Gasland” propaganda. The community needs to understand the damage the Greens and socialist left are doing to NSW.

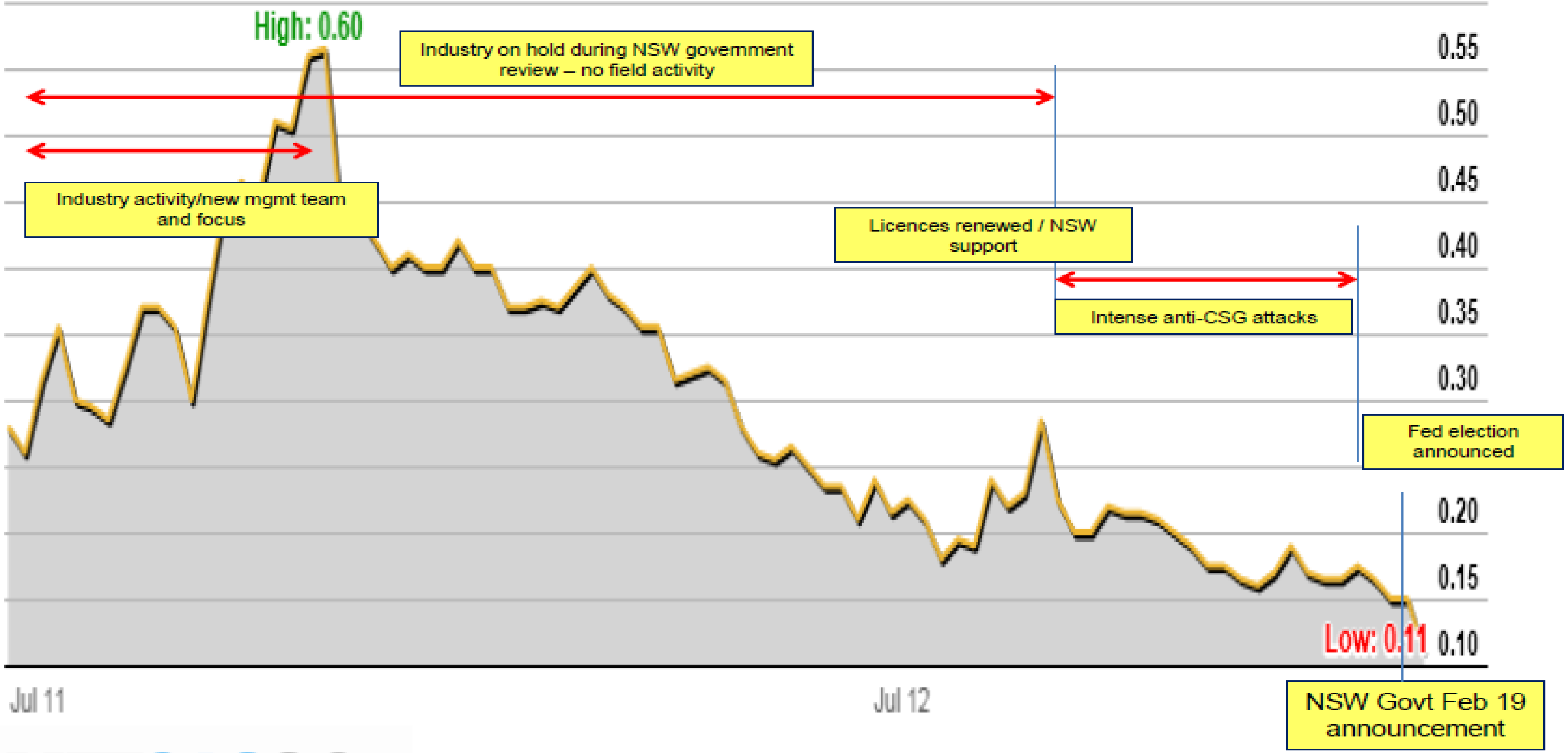
While other countries and Australian states are booming with low cost, low impact and low emission gas supplies, NSW will be left languishing.

Yours sincerely

Peter J Henderson
Managing Director & CEO

Attachment 1

Metgasco Share Price Performance



NSW Environmental Planning and Assessment Regulation 2000 – Designated Development Requirements

	Must be within	Of ..... to be DD
Helicopter facilities	1000m	Dwelling
Bitumen pre-mix and hot-mix industries	250m	Residential Zone
Cement Works	250	Residential Zone
Coal mines - blasting	1000	Residential Zone
Composting facilities	500	Residential Zone
Concrete works	100	Dwelling
Crushing, grinding or separating works	250	Residential Zone
Extractive Industries - blasting	1000	Residential Zone
Limestone mine - blasting	1000	Residential Zone
Limestone Works	250	Residential Zone
Poultry Farms	500	Residential Zone
Mineral processing facilities	500	Residential Zone
Mines	1000	Residential Zone
Railway freight works	500	Residential Zone
Waste management facilities	500	Residential Zone
Timber processing works	500	Dwelling
Wood preservation works	250	Dwelling

The Australian – 23 February, 2013

Gas price soars as Santos signs domestic deals

MATT CHAMBERS
ENERGY

SANTOS has signed east coast domestic gas deals for beyond 2015 at close to export parity as $70 billion worth of liquefied natural gas projects at Gladstone come closer to production, exposing Australian domestic gas buyers to export prices.

Santos chief David Knox, who delivered a better than expected full-year profit report yesterday, said gas deals were already being signed at the "higher end" of a $6-$9 a gigajoule range, up from current prices of $3 to $4.

"We have signed some small deals in the higher end of that range and we'll continue to sign those," Mr Knox said.

He said they were shorter-term contracts of two to three years.

Mr Knox said the prices were for gas received at a hub such as Moomba, meaning transport costs to the end user were extra.

Last year *The Australian* reported Origin Energy had signed a gas deal with Chinese-controlled, Melbourne-based miner MMG that would rise to nearly $9 a gigajoule in the latter part of the contract.

But there appear to be differences in the way the gas industry and its customers are presenting prices.

AT A GLANCE — **Santos**
Year to December 31

REVENUE	$3.2bn	▲ 18%
EBIT	$836m	▼ 30%
NET PROFIT	$519m	▼ 31%
EPS	54.4c	▼ 36%
FINAL DIVIDEND	15c	Steady

An MMG spokeswoman said yesterday the price of its gas was "substantially lower than $9" but would not say what the price was or comment on structure.

The quicker than expected jump in east coast gas prices comes as less onshore gas is being produced during the early stages of the three big LNG plants than was previously expected.

This has given Santos the confidence to base its reserves on a gas price close to $9.

This means Santos is comfortable with the prospect of booking reserves that could not be produced if gas prices stayed at present levels.

The sharply rising gas prices have spurred demands from some gas users, such as Incitec Pivot, that governments act to reserve the gas.

Santos and other producers have rejected this, saying current gas prices are not high enough to underpin new supply.

Santos yesterday said full-year net profit fell 31 per cent to $519 million but underlying profit, which excludes one-offs, rose 34 per cent to $606m, beating market expectations.

Underlying earnings were boosted by new gas projects.

Santos said the Papua New Guinea and Gladstone LNG projects were on track to start production next year and in 2015, respectively.

Chief financial officer Andrew Seaton said GLNG was not looking at selling infrastructure — a move that its two LNG rivals, BG Group and Origin Energy/ConocoPhillips, have flagged.

Santos said it increased its proven and probable (2P) reserves but was forced to almost halve contingent reserves at the GLNG project from 3.277 million barrels of oil equivalent to 1.638 million boe.

Mr Knox stressed the drop came from areas not earmarked to feed into the LNG plant until 2025 or later.

Attachment 2

Excusion Zone for Casino are based on Stage 1 residential areas.