

# CHAPTER 1

## Background to the Inquiry

### Referral and terms of reference

1.1 On 28 August 2008, the Senate referred the following matters to the Standing Committee on Economics for inquiry and report:

- (a) the economic impact of the Western Australian gas crisis, including but not limited to:
  - (i) the extent of losses faced by business and industry failing to meet production targets due to the lack of gas supplies,
  - (ii) the disproportionate disruption to industry in the south west of Western Australia, and
  - (iii) the nature of contractual arrangements forced on business and industry during the gas crisis and their status since the resumption of gas supplies from Varanus Island; and
- (b) the government response to the Western Australian gas crisis, including but not limited to:
  - (i) the adequacy of the crisis management response,
  - (ii) the adequacy of reliance on one source of supplies of gas for domestic markets,
  - (iii) the provision of reliable and affordable supplies of alternative energy,
  - (iv) the feasibility of developing emergency storage facilities of gas in depleted reservoirs or other repositories, and
  - (v) the justification for any refusals to release relevant facts and documents publicly.

1.2 Initially the report was due by 14 October 2008. However the Senate subsequently agreed to extensions of the reporting date to 3 December 2008.

### Conduct of the inquiry

1.3 The committee advertised the inquiry nationally and posted details about the inquiry on its website. In addition, it wrote to over 35 organisations advising them of the inquiry and inviting them to make submissions.

1.4 The committee received 32 submissions to the inquiry. These are listed at Appendix 1, and are available at the committee's website [http://www.aph.gov.au/senate\\_economics/](http://www.aph.gov.au/senate_economics/).

1.5 Five public hearings were held in Perth (2 October 2008), Bunbury (3 October 2008) and Canberra (28 and 29 October and 26 November 2008). Witnesses appearing at these hearings are listed in Appendix 2.

1.6 The committee thanks all those who participated in the inquiry.

### **Outline of the report**

1.7 Chapter 1 provides a brief overview of the conduct of the inquiry and details of the actual incident that occurred on Varanus Island on 3 June 2008.

1.8 Chapter 2 discusses the economic impact of the incident. An overview of the macroeconomic impact and impact on particular industries and regions is provided.

1.9 Chapter 3 examines the government response to the incident. The use of emergency powers, contingency planning (including the feasibility of some suggested contingency options), the government's consultation strategies, government involvement in the allocation of available energy, energy saving measures, the Gas Bulletin Board, government hotlines, and the role of Commonwealth Government agencies are discussed.

1.10 Chapter 4 examines the response by the energy industry to the incident. The chapter begins with an overview of the structure of the Western Australian energy industry and then considers the deployment of alternative conventional power sources, contractual arrangements and prices charged by energy retailers after the incident, and industry involvement in the allocation of available energy.

1.11 Chapter 5 examines the development of an energy security strategy and options for diversifying sources of energy in Western Australia, including the potential for increased use of alternative and renewable energy sources.

1.12 Chapter 6 outlines the committee's conclusions and recommendations.

### **The explosions on Varanus Island**

1.13 On the afternoon of 3 June 2008 a series of explosions followed by fires occurred at gas production facilities on Varanus Island, 100 kilometres west of Karratha and Dampier. There were no injuries or fatalities as a result of the explosions and fires, but approximately 30 per cent of Western Australia's gas supply (~350 terajoules per day) was lost. A report from the National Offshore Petroleum Safety Authority to the Western Australian government found that the cause of the explosions was the rupture of a corroded pipe.<sup>1</sup>

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1 National Offshore Petroleum Safety Authority, *Final Report of the Findings of the investigation into the Pipe Rupture and Fire Incident on 3 June 2008 at the Facilities Operated by Apache Energy Ltd on Varanus Island*, October 2008.

1.14 The oil and gas production facilities on Varanus Island are owned by Apache Energy. Partial production was resumed in early August, and by early October it was up to two-thirds of previous production but full production is not expected to resume until December 2008.<sup>2</sup>

1.15 As noted above, the terms of reference for this inquiry direct the committee to examine the economic impact and government response subsequent to the explosions, not the causes of the explosions.

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2 Mr Stephen Eliot, Western Australian Office of Energy, *Proof Committee Hansard*, 2 October 2008, p. 110. This timetable was generally accepted by other witnesses.

