

18 October 2013

Mr Ian Rickuss MP
Chair
Agriculture, Resources and Environment Committee
Parliament House
Brisbane QLD 4001

Email: arec@parliament.qld.gov.au

Dear Mr Rickuss,

Submission to *Protection of Prime Agricultural Land and Other Land from Coal Seam Gas Mining Bill 2013*

On behalf of Arrow Energy, I would like to thank you for the opportunity to comment on the *Protection of Prime Agricultural Land and Other Land from Coal Seam Gas Mining Bill 2013*. I would also like to thank the Agriculture, Resources and Environment Committee for undertaking a tour of Arrow's existing operations and research farm near Dalby in the Surat Basin in June.

Our submission is founded on the fundamental premise that agriculture and natural (coal seam) gas production are able to coexist. While this coexistence requires the cooperation of farmers, gas producers and the State of Queensland, it provides mutual benefit to all. Consequently, we find the draft Bill extremely concerning, proposing as it does to remove, without compensation or consideration of reputational damage to Queensland, our business foundations, including ongoing supply obligations to Queensland gas users, and deny development of a new and valuable export project. Further, it would result in immediate loss of employment for a large portion of our 1300 staff, and necessary termination of contracts for goods and services from many local and regional suppliers.

We believe that coexistence is the key to realising the full benefit of Queensland's full suite of natural resources, both above and below ground. We know that this interface must be managed carefully, as we have demonstrated clearly in our commitments to working with, and listening to the agricultural sector. As a result in 2012 we developed and made public our 12 'Coexistence Commitments' which reflect these underlying principles:

1. Minimising operational footprint – to less than 2% of total intensively farmed land (a subset of strategic cropping land) on our tenure area
2. Maximising spacing and flexibility on CSG well locations to minimise impact on farming activities (in agreement with the landholder)
3. Minimising our wells footprint eg via use of the pad drilling technique (up to 8 wells from a single surface location) where coal depth and geology allows
4. Minimising our operational impacts eg using pitless drilling technology

We believe these commitments provide practical and real examples of coexistence, founded on our understanding of farming derived through our community committees. These coexistence mechanisms are based on achieving a 'win-win' outcome, incorporating elements of compromise, flexibility, innovation, technology and practicality.

As you are aware, Arrow is working with the State and key agricultural bodies to finalise the State's Regional Planning framework. Arrow believes that the current legislative and policy framework is able to provide the protection that the draft Bill seeks. To this end, I have attached relevant extracts of our submission on the Darling Downs and Central Queensland Regional Plans.

Whilst Arrow firmly believes environmental and agricultural concerns can be properly managed, we also point out that Arrow is a significant contributor to the Darling Downs economy, employing approximately 200 local workers and approving nearly two hundred and twenty million dollars in contracts to Darling Downs businesses since May 2012. We urge the committee to work with Government to put in place a framework to ensure the continuance and further maturation of coexistence between resources and agricultural industries be the founding principle of government policy and avoid putting in place barriers or limitations to co-development.

Yours sincerely

A handwritten signature in blue ink that reads "A. Knight Ltd". The signature is written in a cursive, flowing style.

Tony Knight
Vice President Exploration

Attachment A – Extracts from Arrow Energy's submission on Regional Plans

A. Background to Arrow Energy Pty Ltd

Arrow Energy Pty Ltd (Arrow Energy) is owned by Royal Dutch Shell and PetroChina, which acquired the ASX-listed Arrow Energy in August 2010. The company is focused on the exploration, extraction and use of coal seam gas (CSG), a naturally occurring and comparatively clean burning gas that is commonly used to fuel electricity generation.

Arrow Energy's activities range from exploration to production, transportation and electricity generation. It has been operating a strong domestic gas supply business since 2004, and is currently working to explore and develop the vast and largely untapped CSG resources in Queensland. This will underpin the creation of a new and highly valuable export market, based on the conversion of CSG to liquefied natural gas (LNG) through the Arrow Energy LNG project in Gladstone.

Currently, the company produces gas from fields in the Surat Basin in south-east Queensland and the Bowen Basin in central Queensland. With about 1200 gas wells, Arrow Energy is able to supply gas to the Townsville (235MW), Daandine (33MW) and Braemar 2 (450MW) power stations, as well as local and industrial users in Townsville, Moranbah and Brisbane.

Arrow Energy estimates there is at least 70,000 petajoules of gas (which is equivalent, in energy terms, to more than 12 billion barrels of oil) contained within its portfolio of exploration tenements that cover approximately 41,000km² across Queensland.

Arrow has recently been granted State Government approval for its LNG Plant on Curtis Island and expects to receive a response on Federal Government approval by the end of November 2013. The LNG Plant is underpinned by the expansion of our fields in the Surat and Bowen basins and the State Government approvals already granted for the pipelines from both basins. The Queensland Government is currently assessing our Surat Gas Project Environmental Impact Statement (EIS) with a full report due by mid-October.

A robust case will be submitted to Arrow's shareholders in mid-2014 for a Final Investment Decision (FID) on the LNG project. The level of uncertainty created by the draft regional plans undermines Arrow's right of access to its tenure and therefore remains a source of high risk regarding the project's future.

B: Proposed Regional Plans

The draft regional plans have introduced in Queensland for the first time a land use restriction on resource activities through the state's planning scheme. Arrow believes the underlying principle of the plans i.e that agricultural activity cannot coexist with resource activity, does not take into account working examples of coexistence. This inconsistency has been highlighted throughout the regional planning process by the resource industry as a whole and while acknowledged to be an omission in drafting, was not rectified prior to the release of the draft regional plans.

Arrow believes the regional plans provide the opportunity for the State Government to identify a process through which activities on the surface can coexist with the resources that are below the ground.

Arrow is concerned that there will be a range of unintended consequences of the draft plans as there has been little contact between the drafters (the Department of Sustainable Development, Infrastructure and Planning) and other relevant departments such as the Department of Natural Resources and Mines (NRM) and the Department of Agriculture, Fisheries and Forestry (DAFF). This omission has led to a failure in creating a way forward for achieving the priorities of the Newman Government ie the drive for a four pillar economy focusing on tourism, agriculture, resources and construction. Within the plans, there is also a complete lack of reference to how both industries can work together to achieve the Newman Government's policy of 'doubling agricultural production by 2040'. Additionally, there is no recognition in the draft plans that resource activities can have a positive effect on agriculture production through a range of factors including the access to additional water in Coal Seam Gas production areas.

Throughout the process, Arrow has expressed its concern that there is very little regard as to how the goal of coexistence will be assessed ie the mechanisms that will be used to apply the coexistence criteria. The lack of information as to how existing resource legislation applies, and how the regional plans will be enforced has led to uncertainty for all projects, most especially Arrow's which is pre-Financial Investment Decision (FID) and still awaiting a number of crucial Environmental Impact Statement (EIS) approvals. The lack of certainty as to when the coexistence criteria will apply has raised the possibility of individual property veto rights, increasing the sovereign risk of companies which have and continue to invest significant money in activities that are benefiting local communities and the state as a whole. If the underpinning principle of regional planning is to ensure primary agricultural land use is maintained then it is important that companies are given the opportunity to negotiate with individual landowners with the goal being coexistence while protecting land use and the rights of resource companies.

C: Arrow's Commitment to Coexistence

Strategic Cropping Land (SCL) covers 48 per cent of Arrow's Surat Gas Project Area and with 144 existing wells located on SCL, working on farming land is not new to Arrow. Given Arrow's tenure location and the intensive cropping undertaken across our tenure, we have further identified a subset of SCL, Intensively Farmed Land (IFL) which covers some 30 per cent of our Surat Gas Project area. IFL therefore refers to land actively being used for broad acre cropping, using either dry land or irrigated farming practices and land that has been altered to suit those cropping purposes eg laser levelled, irrigation channels and existing dams.

Over recent years, in consultation with landholders and representatives from the agricultural industry, Arrow Energy has undertaken significant work in ensuring our activity can coexist with agriculture. We have achieved this primarily through the work of our Intensively Farmed Land Committee and our Arrow Surat Community Reference Group which meet regularly to share information on our current domestic activities and our work towards achieving the LNG project.

The aim of Arrow's commitment to coexistence is for region's to be able to extract the full benefit from both the agricultural and resource industries while ensuring that there will be no permanent damage to the productivity of IFL, either to the soil or to the Great Artesian Basin and that landowners are fairly compensated for our impact. Arrow demonstrates this in three ways:

1. pre-development design work with landholders to minimise our footprint
2. best practice construction management with landholders to minimise impact on soil during drilling
3. best practice operational management with landholders to minimise impact on farming practices during the operational phase.

By working with landholders we have gained a greater understanding of how we will have to use technology to adapt our activities to those that minimise our impact on farming practices. To this end, in 2012, Arrow made a number of public commitments for achieving coexistence, these being:

1. No permanent alienation
2. Minimised operational footprint – less than 2% of total IFL area
3. Flexibility on CSG well locations but all wells located by edge of farm paddocks
4. Pad drilling (up to 8 wells from a single well pad) used where coal depth and geology allows
5. Spacing between wells maximised (between 800m – 1.5km)
6. Pitless drilling only
7. No major infrastructure facilities on IFL (dams, compression stations, gas gathering stations, water treatment)
8. Treated CSG water used to substitute existing user's allocations in IFL
9. No brine/salt treatment or disposal on IFL
10. Flexibility on power supply option - above or below ground
11. Fair compensation – including elements of "added value"
12. Continued proactive engagements with community and transparency on coexistence field activities

E: Priority Agricultural Areas (PAAs)

While Arrow clearly recognises the importance and value of our natural resources as the foundation of our very important agricultural industry, we believe that this value must be holistic and include recognition of both agricultural and mineral/petroleum resources. From this perspective, Arrow believes that no area needs 'protection' or 'priority', but rather that strict co-existence criteria and tests are applied to ensure acceptable and sustainable outcomes.

In terms of their areal definition, Arrow Energy remains concerned that the proposed Priority Agricultural Areas (PAAs) incorporate land that is not considered prime cropping land. The PAAs should only apply to land with land use requiring the highest level of coexistence practices with resource activities i.e. irrigated cropping, horticulture, forestry and cropping.

F: Priority Agricultural Land Use (PALU)

The way in which Priority Agricultural Land Use (PALU) will be applied as a trigger for coexistence is not defined in the regional plans. It is still unknown what cropping history test will apply i.e. the number of years cropping has occurred on land, how future farming plans will be applied and what entity will determine these factors. The application of this trigger has the potential to be unworkable if the responsibility for this function does not rest with the State. There is the potential for unnecessary and lengthy delays to apply in this regard if the process is not clear and regulated to be undertaken in a certain timeframe. As yet undetermined, this trigger provides uncertainty to companies such as Arrow in planning its business, along with insecurity for landholders.

G: Summary

The underpinning principle of the draft regional plans is that high value agriculture must be protected from resource activities, a premise which does not take into account current coexistence practices and undermines the commitment of companies such as Arrow to working with landholders to achieve coexistence. Further, the absence of linkage to mineral and petroleum resource stewardship principles will allow for sterilisation and loss of those valuable State resources.

While Arrow notes that coexistence criteria exist only in the attachment to the draft plan, they lack detail of how they might be interpreted and applied. The key point though is that there is no need to 'protect' agricultural areas by imposing zonings, but instead to frame a system that drives outcomes based on coexistence. Additionally we would suggest that a model for negotiation and dispute resolution already exists and if the State Government is seeking to introduce such a process for regional planning, this should not be duplicated but instead adapted to this use.

In its current form, the draft plan offers little investment certainty to Arrow. It is self evident that large scale, long term investments required to develop CSG resources, particularly at the scale

contemplated by our Surat Gas Project, require reasonable certainty of access. This certainty is not helped by measures such as PLA, which would sterilise existing reserves.

Arrow strongly believes that the State Government can use the regional planning process to balance its stewardship responsibilities to both agriculture and resources, and establish co-existence as the most fundamental principle to drive co-operation, co-development and mutual benefit. Disappointingly, the plans do not recognise the number of landholders that wish to negotiate and work with resource companies, rather the plans are seemingly drafted to protect those landholders who do not wish to coexist. We also believe that the draft plans should take into account the benefits that landholders and communities can receive from having CSG activity eg secure second income stream and infrastructure.

Arrow expects to be held to account for its activities and looks to the State Government to determine regulation that balances the rights of landholders with the rights of resource companies to ensure the regional planning process is one which is flexible enough to recognise negotiated outcomes that uphold the rights of landholders and the resource industry.