

02

Background to the Proposal



Before proceeding with the federal and state regulatory environmental approvals processes, the Gorgon Joint Venturers sought from the Government of Western Australia in-principle approval for restricted access to Barrow Island for a foundation development. In a progressive step towards formally assessing the sustainability of the proposed Development, the government in consultation with the Joint Venturers developed an environmental, social and economic review and assessment process (ESE Review process).

The ESE Review process required the Joint Venturers to present a report to the government and public that examined relevant environmental, social, economic and strategic issues, and demonstrate that the proposed Development would yield net conservation benefits to the state. The process was a first in Western Australia and one of the few sustainability assessment processes documented internationally for a specific development. A key feature of the ESE Review process was a high level of public consultation to encourage all interested stakeholders to contribute to the government's decision.

In-principle approval for restricted access to Barrow Island was granted in September 2003. If full federal and state regulatory environmental approval is granted for the proposed Development, the associated terms and conditions will be governed by the Western Australian *Barrow Island Act 2003* and the *Gorgon Gas Processing and Infrastructure Project Agreement* (the State Agreement) that has been signed by the State Government of Western Australia and the Gorgon Joint Venturers.

This chapter outlines the ESE Review process, the decision by Cabinet to grant in-principle approval for restricted access to Barrow Island, and the legislation that resulted from that decision.



2.1 ESE Review Process

In 2001 Chevron Australia, on behalf of the Gorgon Joint Venturers, approached the State Government of Western Australia about the possibility of building a gas processing facility on Barrow Island (refer to Chapter 3 for an explanation of the site selection process for the proposed Development). In response, the Minister for State Development advised that the government was prepared to consider granting access to Barrow Island after all relevant environmental, social, economic and strategic issues had been examined; and provided that the proposed Development would yield net conservation benefits.

In the absence of an existing process in Western Australia, a strategic assessment process was established to allow the government to assess the environmental, social, economic and strategic costs and benefits of allowing the development of a gas processing facility on Barrow Island. The Western Australian Government developed this process, which is summarised in Figure 2-1, in consultation with the Joint Venturers. The process essentially mirrors Part IV of Western Australia's *Environmental Protection Act 1986* (EP Act) in the requirements for public comment and government agency advice and recommendations to government. A key feature of the ESE Review process was a high level of public consultation to encourage all interested stakeholders to contribute to the government's decision.

2.1.1 ESE Review Scoping Phase

In May 2002, the government released guidelines for evaluating the social, economic and strategic (SES) aspects of the proposed Development. In June 2002, the Joint Venturers published the scoping document for the review of the environmental, social and economic aspects of the proposal. This document integrated the SES requirements with the Western Australian Environmental Protection Authority (EPA) administrative requirements on environmental aspects.

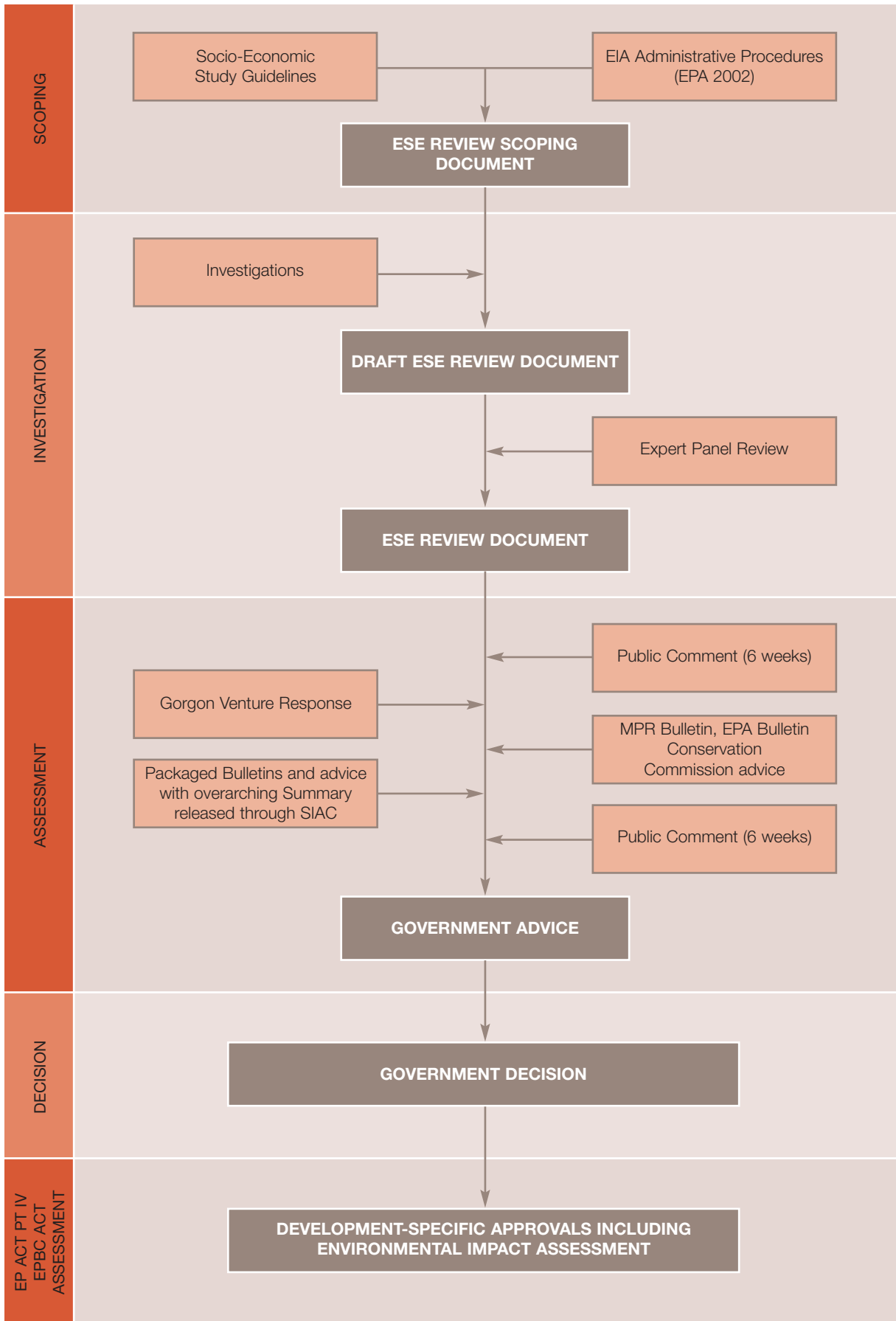
2.1.2 ESE Review Investigation Phase

After completing the scoping document, the Joint Venturers commenced the investigations required to complete the ESE Review of the proposed Development on Barrow Island. It contained:

- a study of alternative locations for the Gorgon Development
- a site selection process for where to site the facility on Barrow Island
- a review of a range of internal technical, engineering and commercial studies on the proposed Development
- specialist studies to identify and broadly quantify potential impacts
- strategies to mitigate adverse impacts and enhance positive impacts
- a net conservation benefit strategy
- a summary of stakeholder consultation

Figure 2-1:

Summary of the ESE Review Process (source: ChevronTexaco Australia 2003)



- a set of sustainability principles and measurement criteria
- a sustainability framework to integrate environmental, social, economic and strategic issues.

The factors addressed in the ESE Review were identified through consultation with stakeholders and investigated by the Joint Venturers with input from specialist consultants (refer Box 2-1) (ChevronTexaco Australia 2003).

Box 2-1

Factors Addressed in the ESE Review Process

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The ESE Review process examined, at a high level, the Joint Venturers' ability and commitment to:

- identify a development site that is commercially viable and meets technical, environmental and social criteria
- prevent accidental introductions of exotic plants, animals and diseases
- minimise vegetation/habitat loss/disturbance
- reduce disturbance to fauna by light or noise
- protect wildlife health
- avoid impacts on marine fauna
- mitigate modifications to water currents
- reduce greenhouse gas emissions
- generate economic development and employment opportunities
- protect cultural heritage sites
- maximise regional education and training opportunities
- enhance the supply of clean gas to Western Australia and Australia
- improve domestic gas competitiveness
- increase demand for local business services
- provide significant revenue to government
- develop the Gorgon gas field in a manner consistent with the Development's sustainability principles
- maintain a publicly transparent assessment process.

The objective of the ESE Review was to present information to enable government and the community to consider, at a strategic level, whether the proposed Development would:

- generate economic and social benefits for the Pilbara, Western Australia and Australia
- provide net conservation benefits
- mitigate potential on-site environmental impacts.

Prior to the distribution of the ESE Review for public comment and government assessment, the document was reviewed by an independent panel to ensure that the investigations satisfied the requirements of the ESE Review Scoping Document. Membership of the panel was determined in consultation with the EPA and Department of Industry and Resources (DoIR). The ESE Review process provided a comprehensive, open and transparent review of the Venturers' development proposal for all stakeholders.

2.1.3 ESE Review Assessment Phase

The ESE Review was released for public comment and government review in February 2003. At the end of a six-week public comment period, public submissions on the ESE Review were received by the EPA and the Department of Minerals and Petroleum Resources (MPR now the Department of Industry and Resources (DoIR)). Chevron Australia responded to all questions raised in the public submissions and the 'whole of government' evaluation commenced.

Consideration of the ESE Review was coordinated by the Standing Interagency Committee of Chief Executive Officers (SIAC). SIAC advises the Minister for State Development on whole of government strategic and approvals matters relating to major resource development projects. Members of SIAC represent the state agencies with responsibility for project assessment and decision-making (ChevronTexaco Australia 2003, p. 20). During the ESE Review process, core representatives included the Department of Land Administration (now the Department of Land Information), Department of Treasury and Finance, Environmental Protection Authority, Department of Environment, Water and Catchment Protection, Department of Indigenous Affairs and Department of Mineral and Petroleum Resources (now the DoIR).

In addition to core representatives, three additional government agencies were asked to provide independent advice on the ESE Review in accordance with their areas of expertise and responsibility. The EPA advised on the environmental aspects of the proposal; the Conservation Commission commented on biodiversity conservation; and DoIR appointed The Allen Consulting Group to advise on social, economic and strategic issues (Allen Consulting Group 2003). These reports were provided to the government in an Overview and Information Pack released by SIAC in July 2003 for a six-week public comment period (Government of Western Australia 2003a).

On environmental grounds, the EPA recommended that industrial development not be allowed to proceed on Barrow Island given the threats to the high environmental and unique conservation values of Barrow Island (EPA 2003). The EPA considered the most important potential threats to the conservation values of Barrow Island to be terrestrial and marine invasive organisms, land clearing and shifts in frequency or intensity of fire. However, in recognition that the Western Australian Government might grant in-principle approval for the proposed Development on economic and industrial development grounds, the EPA noted that if in-principle approval was granted the proponent should be required to develop standards for acceptable risk to the conservation values of Barrow Island, and they should implement a package of management plans to address those risks.

Similarly, the Conservation Commission of Western Australia advised the government, on the basis of biodiversity conservation values, that national parks and nature reserves are not appropriate places for industrial development. However, the Commission concluded that if in-principle approval for restricted access to Barrow Island were granted, further work would be required to define the necessary environmental management and risk management requirements, and to finalise an appropriate net conservation benefits package.

In its report to the Department of Industry and Resources, the Allen Consulting Group concluded that under current circumstances, Barrow Island represents the only commercial option for monetising the Gorgon gas resource which is a substantial national asset.

2.2 Cabinet Decision

On 8 September 2003, after government considered the collective agency advice and public comment, Cabinet granted in-principle approval for restricted access to Barrow Island as a foundation for the development of Gorgon gas.

A media statement released on that day by the Premier and the Minister for State Development outlined the reasons for the decision:

The approval to allow development on 300 hectares of land representing only 1.3 per cent of the island was made conditional on the Joint Venture meeting strict State and Commonwealth environmental safeguards.

This will ensure that Barrow Island's unique environment continues to be preserved.

Premier Geoff Gallop said the \$11 billion two-stage Gorgon Development had the potential to be Australia's biggest industrial project and would double the size of Western Australia's gas industry.

He said the project had significant local, national and global benefits.

'The Gorgon project has the potential to underpin Western Australia's and Australia's economic prosperity for decades to come, delivering thousands of new jobs and billions of dollars in revenue for the country,' Dr Gallop said.

In that statement, the Premier also said the world was looking increasingly towards natural gas as a clean and reliable energy source and the state government was positioning Western Australia as a major global supplier into the future (Government of Western Australia 2003b).

2.3 Barrow Island Legislation

In parallel with the ESE Review process in the months before the Cabinet decision, state agencies were instructed to prepare legislation (*Barrow Island Bill 2003*) to put into effect its decision in the event that Cabinet granted in-principle access to Barrow Island. At the same time, the terms of a State Agreement were negotiated with the Joint Venturers, who are parties to the Agreement.

The reasons for this were provided to State Parliament by the Minister for State Development on 18 June 2003:

'The Government has not said whether it will proceed with this proposal. It will make that decision in late August. If it does agree to the process, it will introduce legislation into the House. That legislation will be passed by both Houses by 31 December 2003, or the Government will not proceed with it,' (Brown 2003).

To be in a position to meet the government's timetable, detailed work on both the draft legislation and a draft agreement was completed just prior to Cabinet's considerations.

On 9 September 2003, the day after Cabinet made its in-principle decision, the Premier, on behalf of the state and representatives of the Joint Venturers signed the *Gorgon Gas Processing and Infrastructure Project Agreement* (State Agreement) (Plate 2-1).

On 16 September 2003, the *Barrow Island Bill 2003* (with the Agreement scheduled) was introduced into State Parliament by the Minister for State Development. The Bill completed its passage through both Houses of Parliament on 14 November 2003 and received assent on 20 November 2003.

2.3.1 Barrow Island Act 2003

The purpose of the *Barrow Island Act 2003* (WA) as summarised in the legislation is:

- 'to ratify, and authorise the implementation of, an agreement between the state and the Gorgon Joint Venturers relating to a proposal to undertake offshore production of natural gas and other petroleum and a gas processing and infrastructure project on Barrow Island; the agreement having been entered into having regard to the need to minimise environmental disturbance on Barrow Island (a Class A Nature Reserve) and providing for the support of conservation programs relating to Barrow Island and other parts of the state;
- to make provisions to enable land on Barrow Island (but no more than 300 ha in total of uncleared land) to be used, under the *Land Administration Act 1997*, for gas processing project purposes; and
- to make provisions as to the conveyance and underground disposal of carbon dioxide recovered during gas processing on Barrow Island.'

Plate 2-1:

Signing of the State Agreement



2.3.2 State Agreement

The State Agreement contains a range of state and proponent commitments and obligations. In terms of the timing of the Development, the Joint Venturers are required to lodge with the Minister for Development a proposal for an LNG development on Barrow Island by 31 December 2008. The proposal must include a range of detail including the proposed plant design, management of quarantine risk, disposal of CO₂, a social impact management plan, use of local labour and materials and a closure plan including rehabilitation and long-term management of disposed reservoir CO₂.

The following subsections outline the provisions of the State Agreement.

Title Area

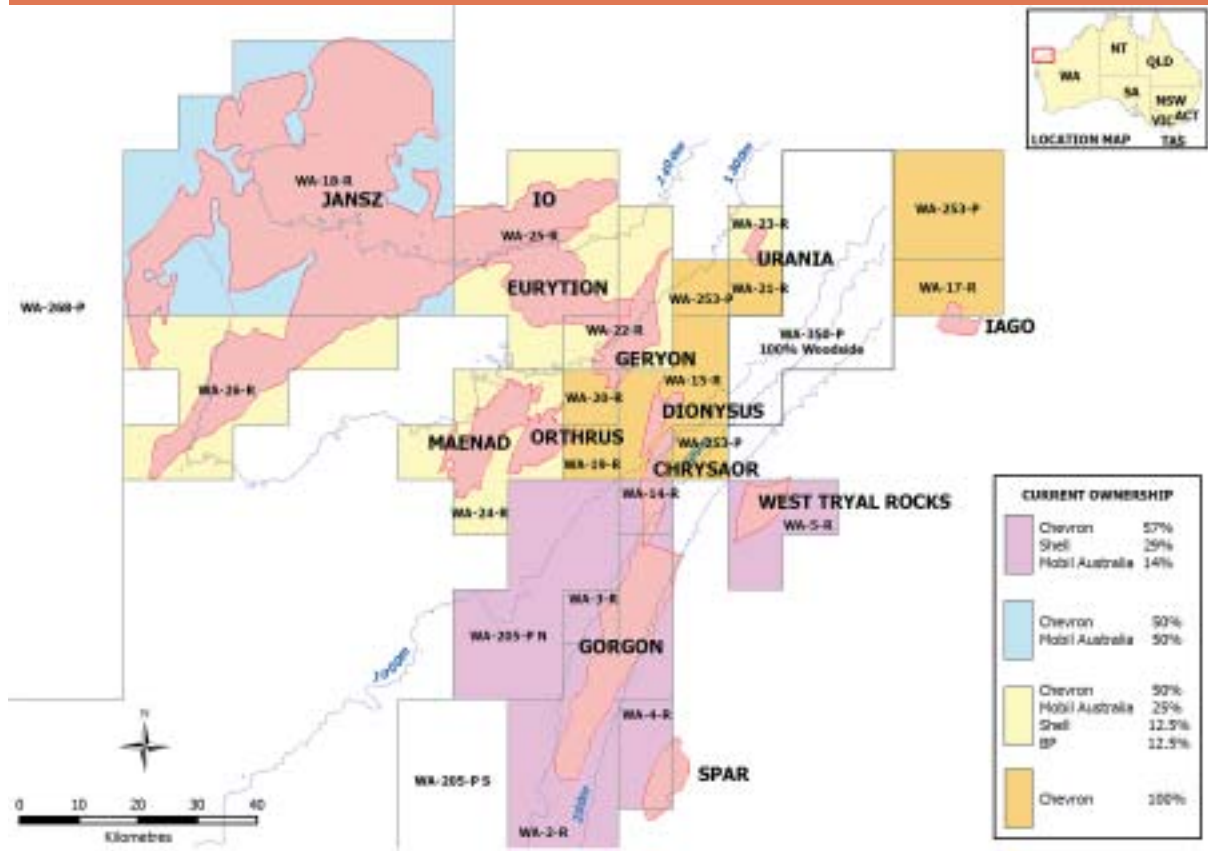
The State Agreement limits gas processing on Barrow Island to gas from the Title Areas, the Greater Gorgon area, and Barrow Island. It defines a project as processing gas from those areas to produce: (i) LNG or other petroleum products; (ii) gas for other projects on Barrow Island; (iii) domestic gas for pipeline transportation to the mainland; and (iv) all related activities including construction, operation and maintenance of pipelines, transport and CO₂ disposal.

The initial Title Areas are subject to the Retention Leases in the purple-shaded area of Figure 2-2; and the northern part of Exploration Permit WA-205-P.

The initial Greater Gorgon area is defined as the area subject to Retention Leases and Exploration Permits in the area shaded orange, yellow and blue (Figure 2-2).

Figure 2-2

Exploration Permit and Retention Lease Areas for the Title Areas and Greater Gorgon Gas Fields



NB: Ownership is subject to change pursuant to an agreement between Chevron Australia, Mobil Australia Resources Company and Shell Development Australia to align their interests on a 50/25/25 basis in certain permits. This change requires government approval before it becomes effective.

Land Tenure under the Agreement

If environmental and State Agreement approval for construction of a gas processing facility on Barrow Island is granted, the area allowed for new disturbance will be limited to a total of 300 ha. Of that area, 50 ha have been set aside for petroleum pipeline easements and 150 ha reserved until 31 December 2009 for the Joint Venturers. The remaining 100 ha is reserved for other projects to process or use gas from the Title Areas or the Greater Gorgon area. Tenure over this land will not be granted until a development proposal has been approved. The proposal could be for LNG or other petroleum-based products, processed gas for use on Barrow Island and/or a domestic gas plant for gas for the mainland.

A lease for gas processing would be granted under the *Land Administration Act 1997* for a period of 60 years but this land would remain part of the Class A Nature Reserve. Lease rent and charges would be similar to those paid by other large gas processing projects in the Pilbara region. The lease would be subject to local government (Shire of Ashburton) rates.

Gas to the Mainland

The State Agreement covers delivery of gas to the mainland. The Joint Venturers are required to submit, by 31 December 2010, a proposal for a domestic gas project to deliver gas to the mainland by 31 December 2012. This project must have the capacity to be progressively expanded to at least 300 Terajoules per day (TJ/day). If the domestic gas project is not commercially viable, the government can extend the deadline for delivering gas to the mainland. There is provision for an independent expert to advise the government on commercial viability.

The Joint Venturers are required to actively market domestic gas, including investigating proposals for using gas for petrochemical feedstock, and report annually to the government on its domestic gas marketing activities.

The Joint Venturers are obliged to reserve 2000 Petajoules (PJ) of gas for domestic gas purposes from the Title Areas and, unless the government agrees, cannot expand beyond the first phase of an LNG project until they have submitted a domestic gas proposal which has been approved by the government.

Net Conservation Benefits

In the State Agreement, net conservation benefits (NCBs) are defined as demonstrable and sustainable additions to, or improvements in, 'biodiversity conservation values' of Western Australia. As noted in the ESE Review, the key conservation values of Barrow Island are associated with its unique fauna population particularly the suite of native marsupials, migratory birds and subterranean fauna. These values are enhanced because it is an island free from introduced fauna. Where possible, NCBs should target these biodiversity conservation values on Barrow Island or in similar bioregions of Western Australia.

As outlined in the Agreement, NCBs will be delivered by the Joint Venturers by paying \$40 million (indexed) in instalments to a special purpose Barrow Island NCB Trust Account. The Trust will be administered by the Executive Director of the Department of Conservation and Land Management (CALM). An Advisory Board will be established and this Advisory Board will be entitled to receive reports on, and make recommendations about, the administration and activities of the Trust. A representative of the Joint Venturers will sit on the Advisory Board, along with nominees of the CALM Act Minister.

The first payment of \$3 million will be due once the Trust Account has been established. A further \$2 million will be payable if the first phase of the proposed Development is approved, \$5 million on approval of the second phase, or after 30 years if the second phase is not approved, and thereafter, \$1 million per year will be payable. The annual \$1 million payments are to continue until an aggregate of \$40 million (plus indexation amounts) has been paid into the Trust Account.

CALM Costs on Barrow Island

The State Agreement also sets the terms for the Joint Venturers to provide services and facilities for a permanent presence of officers from CALM on Barrow Island. The Joint Venturers are required to provide services and facilities for up to three officers during construction and for up to two officers at other times. The role of these officers may include ensuring all onsite and offsite areas are appropriately monitored, researched and managed for direct and indirect environmental impacts. They may also ensure that an ecological knowledge base of the island is being suitably developed.

The Joint Venturers will also pay certain costs CALM incurs in maintaining this presence on Barrow Island, including salaries and operating costs. These costs will be capped at \$1 million per year during construction and \$750 000 (indexed) per year at other times.

Barrow Island Coordination Council

Under the State Agreement, the Joint Venturers and the Barrow Island Joint Venture (the operator of the existing oil operations on Barrow Island) would be required to establish and fund a Barrow Island Coordination Council (BICC). Any other future holders of tenure on Barrow Island would also be required to participate in the BICC.

The BICC will:

- provide a single point of contact and interaction between CALM and the operators on Barrow Island
- liaise with CALM on the environmental management of the island
- establish, monitor and review quarantine procedures
- plan and coordinate emergency response and remediation for quarantine breaches, spills and fires.

Reservoir Carbon Dioxide (CO₂) Disposal

In addition to the environmental approvals required under the EPBC Act and EP Act (refer to Chapter 4) to develop a gas processing facility on Barrow Island, it will also be necessary to submit a separate application to the government for approval for disposal of reservoir carbon dioxide (CO₂) under the Barrow Island Act.

The application must provide technical advice and data, and explain the:

- position, size, capacity and geological structure of the underground formation
- rate of disposal, volume and composition of the CO₂ and expected duration of disposal
- method of CO₂ injection and disposal
- capability of the formation to confine the disposed CO₂.

When examining a proposal for CO₂ disposal, the Government of Western Australia will consult with other relevant parties. It may also seek advice from anyone it considers relevant and request the Joint Venturers to inform other parties of its application.

Australian Industry Participation

Western Australian Government policy requires Australian industry to be given full, fair and reasonable opportunity to participate in resource development projects. It encourages the opening of early lines of communication between contractors, service providers and resource developers.

For this reason, the State Agreement requires the Joint Venturers to adhere to Australian Industry Participation (AIP) requirements. As such, the Joint Venturers are required to:

- use Western Australian (the Pilbara region if possible or, if Western Australians are not available, Australian) labour, except where it is unreasonable or economically impractical
- use Western Australian (or if Western Australians are not available, Australian) engineers, surveyors, architects, other consultants, specialists, project managers, manufacturers, suppliers and contractors, as far as it is reasonable and economically practicable
- give due consideration, or preference where possible, to Western Australian (or, if Western Australians are not available, Australian) suppliers, manufacturers and contractors when letting contracts for placing orders for works, materials, plant, equipment and supplies where price, quality, delivery and service are equal to, or better than those obtainable elsewhere.

In cases where a contract is to be made with an international supplier, manufacturer or contractor, wherever possible preference should be given to proposals that include Australian participation where price, quality, delivery and service are otherwise equal or better. In contracts entered into with a third party, that party must be required by the Joint Venturers to adhere to AIP requirements.

Participation by Australian industry in the Gorgon Development will be monitored through regular reports submitted to the government by the Joint Venturers. These reports will be required monthly after a development proposal is submitted. Further, the Joint Venturers are required to notify the government of work, materials or equipment it proposes to obtain from outside Australia. Reporting on local content is also required during preparatory work.

2.4 Conclusion

The establishment of the strategic ESE Review process allowed the Government of Western Australia to make an informed decision on whether to grant in-principle approval for restricted access to Barrow Island to site a gas processing facility. This process was designed to review and assess the potential net conservation benefits and all relevant environmental, social, economic and strategic issues associated with the proposed Development with significant input from interested stakeholders.

After the government received and considered collective agency advice and public comment on the ESE Review document released by the Joint Venturers, Cabinet granted in-principle approval for restricted access to Barrow Island as a foundation development for Gorgon gas.

In parallel with the ESE Review process in the months before the Cabinet decision, the state prepared legislation to put into effect Cabinet's decision in the event that it granted access to Barrow Island. At the same time, the terms of a State Agreement were negotiated with the Joint Venturers.

Assent to the *Barrow Island Act 2003* saw Western Australia take the first significant steps towards unlocking the vast reserves of natural gas in the Greater Gorgon area situated some 130 km off the Pilbara coastline. However, before proceeding with the proposed Development, it is first necessary for the Joint Venturers to receive environmental approval under the Commonwealth *Environment Protection and Biodiversity Conservation Act 1999* and the Western Australian *Environmental Protection Act 1986*. Further details on the assessment process under these Acts are provided in Chapter 4 of this Draft EIS/ERMP.

