



Australian Government

**Department of Industry, Science,
Energy and Resources**

Supplementary Submission by the
Department of Industry, Science, Energy and Resources to the
Senate Economics Legislation Committee

***Inquiry into the
Offshore Petroleum and Greenhouse Gas Storage Amendment
(Benefit to Australia) Bill 2020***

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1. Overview

The Department of Industry, Science, Energy and Resources (the department) welcomes the opportunity to make a supplementary submission to the Senate Economics Legislation Committee inquiry into the *Offshore Petroleum and Greenhouse Gas Storage Amendment (Benefit to Australia) Bill 2020* (the Bill).

The department's supplementary submission provides additional information on:

- retention leases
- decommissioning costs
- offshore domestic gas supply and domestic reserve obligations.

This supplementary submission should be read in conjunction with the previous submission made to the inquiry in February 2021.

2. Retention leases

Australia's offshore petroleum regime seeks to develop offshore oil and gas resources as quickly and as safely as possible for the benefit of all Australians.

To this end, the regime recognises that developing petroleum resources can take a decade or more and that security of tenure to make significant development investment decisions is important.

Retention leases are an important mechanism in Part 2.3 of the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (the Act) to facilitate the development of petroleum discovered during exploration, which is not yet commercially viable to recover, but is likely to become commercially viable within 15 years. Commercial viability may improve over time for a variety of reasons, including:

- Changes to market demand and conditions
- Technological advances affecting the cost of production
- Access to infrastructure, including for example pipeline capacity or access, or processing infrastructure ullage
- Financial conditions, including the relative liquidity of global finance and competition for available credit.

It is the department's view that the proposed amendment would not improve the commercial viability of resources covered by retention leases, nor streamline their development.

Retention leases may be renewed every five years, and may be renewed multiple times. Each renewal assesses whether the resource will become commercially viable within 15 years, effectively 'resetting the clock' and enabling a resource to be held under retention lease for total periods exceeding 15 years, although these instances are relatively rare.

Renewal applications must be accompanied by the lessee's proposals for work and expenditure in relation to the lease area, the current commercial viability or recovery of petroleum from the lease area, and the possible future commercial viability of recovery of petroleum from the lease area. Conditions can be placed on retention leases and the Act also provides for mid-term reviews of commerciality.

If the Joint Authority is satisfied that recovery of petroleum from the lease area is commercially viable at the time of the application, then the Authority must refuse to renew the lease. The lessee may, within the twelve month period following the refusal of a retention lease, apply for a Production License, enabling the recovery of petroleum from the area.

'Warehousing' of gas

As of 6 April 2021, there were 82 Retention Leases in offshore Commonwealth Waters. Of these, only nine have been renewed more than twice. Around 90 per cent of resources are therefore developed within the 15 years of being first granted a Retention Lease in accordance with their initial assessments. The exceptions are in circumstance where the resource has had particularly intractable barriers to development such as technical challenges, and/or distance to market.

Concerns are periodically raised that petroleum companies are withholding, or 'warehousing' gas resources from development and production. These concerns were considered by the Noetic Group Review, which reported to the former COAG Energy Council in 2018. The Review found no evidence of gas warehousing in Australia. Rather, the Review found, *"It is the review's belief that given the scale and long-term nature of investment in a development, a positive investment decision will hinge on access to the necessary infrastructure and sufficient feedstock gas to maintain operations and deliver the return of and return on capital required by investors."*¹

Further, the Review found that Retention Leases played a particularly important role in Australia, due to the geographic remoteness of some gas discoveries, limited infrastructure and infrastructure capacity (such as pipelines and conditioning plants). This limitation means that discoveries were unlikely to become commercial until foundation infrastructure was in place. In contrast, in overseas jurisdictions reviewed by the Review, the development of discoveries was readily expedited through brownfield expansions at a much lower capital cost.

3. Decommissioning

Australia's offshore oil and gas industry has supported Australia's energy security and economic activity for over 50 years. It is estimated that US\$310 billion has been invested in Australia's oil and gas industry since 2010.²

Over the next 30 years, there will be an increasing numbers of offshore projects that will have exhausted its reserves and require decommissioning. During this time, new projects will also continue to be developed such as: the Scarborough development providing gas for the Pluto LNG project, the Browse project providing gas to North West Shelf LNG, the Dorado oil project offshore Western Australia and the Barossa development providing gas to Darwin LNG.

This is a normal part of the resource development lifecycle, with the frequency of decommissioning activities increasing as a resource-based industry matures and projects wind down.

Decommissioning is part of a broader concept established under the Act that deals with the removal of property and restoration of the environment. It is a normal, planned, and regulated activity.

In anticipation of an increase in decommissioning activities, the department undertook a review of the legislative, regulatory and policy framework for offshore oil and gas decommissioning. Overall, the review found the framework is robust but that enhancements are needed.

¹ Noetic Group, "Review of Petroleum Retention Lease Arrangements in Australian Jurisdictions: Report for Department of Industry, Innovation and Science", July 2018, <https://energyministers.gov.au/sites/prod.energycouncil/files/publications/documents/Noetic%20Group%20Report%20of%20Petroleum%20Licencing%20Regulations.pdf>. Viewed 13 April 2021

² Wood Mackenzie, "Australia Oil & Gas Industry Outlook Report", 9 March 2021, <https://appea.com.au/wp-content/uploads/2020/06/Australia-Oil-and-Gas-Industry-Outlook-Report.pdf>. Viewed 12 April 2021

Areas identified for enhancement can be grouped into the following three themes:

- financial oversight
- planning and management
- accountability and trailing liability.

The Australian Government has considered and endorsed an enhanced decommissioning framework. The department is now preparing to implement the framework through legislative, regulatory and policy changes.

As part of the implementation, on 8 April 2021 the government released the draft Offshore Petroleum and Greenhouse Gas Storage Amendment (Titles Administration and Other Measures) Bill 2021,³ which includes measures to:

- expand existing trailing liability provisions
- increase oversight of changes in titleholder ownership and control
- increase regulatory scrutiny of the suitability of companies operating, or looking to operate, within Australia's offshore petroleum regulatory regime
- expand information gathering powers to enable scrutiny.

The exposure draft is currently open for consultation, with public comments open until 23 April 2021.

These measures, coupled with the additional measures proposed in the enhanced framework, will strengthen the regulation of decommissioning and ensure future decommissioning challenges have effective regulatory oversight and robust financial safety nets to strengthen protections for the environment, the Australian Government and taxpayers.

4. Offshore Domestic Gas Supply and Domestic Gas Reserve Obligations

The majority of Australian domestic gas supplies come from sources in Commonwealth waters, offshore Western Australia, the Northern Territory, Victoria and Tasmania. However this proportion is decreasing because of declining production from the Gippsland Basin fields operated by the Gippsland Basin Joint Venture (a 50/50 joint venture between ExxonMobil and BHP).

Individual states have policies in place that either reserve or preference petroleum or tenements for domestic supply. Only the Northern Territory does not have some kind of policy aimed at restricting gas for domestic use. Onshore Tasmania and the ACT do not produce gas.

Western Australia

Western Australia's Domestic Gas Policy⁴ aims to secure the state's long-term energy needs by ensuring LNG export project developers make gas available to the Western Australian (WA) domestic market. The policy seeks to reserve the equivalent of 15 per cent of LNG exports for WA consumers. Currently there are four agreements in place with the Gorgon, Pluto, Wheatstone and the North West Shelf LNG project operators.

³ Department of Industry, Science, Energy and Resources. "Consultation on the Offshore Petroleum and Greenhouse Gas Storage Amendment (Titles Administration and Other Measures) Bill 2021 ", at <https://consult.industry.gov.au/offshore-resources-branch/opggs-amendment/>. Viewed 8 April 2021

⁴ WA Government. "Western Australian Domestic Gas Policy", at <https://www.wa.gov.au/government/publications/western-australian-domestic-gas-policy>. Viewed 7 April 2021

At current levels of demand, the gas supplied under the Gorgon, Wheatstone and North West Shelf domestic gas agreements will be able to meet around half of WA's gas needs over the next two decades.

In the period 1 April 2020 to 30 June 2020, the WA LNG projects provided the following amount of gas to the Western Australian domestic market on an average, daily basis:⁵

- Gorgon 144 TJ/day
- NWS 310 TJ/day
- Pluto provided 18 TJ/day
- Wheatstone 190 TJ/day.

Domestic-only producers currently supply half of the Western Australian market⁶ but the majority of this is also from offshore Western Australia through fields operated by Santos which is the largest single gas supplier in the State. Santos processes this gas through its Varanus Island and Devil Creek gas plants and the Macedon Domestic Gas Plant.⁷

The WA Government will not agree to export of "domestic gas" to the east coast other than in exceptional circumstances.

Victoria

Around 40 to 45 per cent of the gas required to meet east coast domestic demand is produced from the offshore Gippsland Basin, including from the Gippsland Basin Joint Venture. The Joint Venture between ExxonMobil and BHP is responsible for in excess of 80 per cent of gas production from south east Australia, and also owns the Longford Gas Plant. The Longford Gas Plant represents 67 per cent of installed gas processing capacity in south east Australia, with an annual processing capacity of 429 PJ per annum. It has been operating for more than forty years.

There are five other smaller gas plants in Victoria which process gas from Commonwealth offshore Victorian and Tasmanian waters:

- Orbost Gas plant (Gippsland Basin)
- Lang Lang Gas Plant (gas from the Bass basin in offshore Tasmanian waters)
- Iona Gas plant, which has a primary purpose to provide gas storage for the east coast gas market but also receives gas from the offshore Casino field.
- Otway Gas plant, which processes gas from the Offshore Otway basin in Victorian and Tasmanian waters.
- Athena Gas plant (currently being upgraded).

⁵ AEMO, "Western Australian Gas Statement of Opportunities", December 2020, https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/wa_gsoo/2020/2020-wa-gsoo-report.pdf. Viewed 13 April 2021

⁶ WA Government. "Western Australian Domestic Gas Policy", at <https://www.wa.gov.au/government/publications/western-australian-domestic-gas-policy>. Viewed 7 April 2021

⁷ Santos, "Our Operations", at <https://www.santos.com/what-we-do/five-core-assets/western-australia>. Viewed 8 April 2021

AEMO's Victorian Gas Planning Report 2021⁸ notes overall production from existing gas production facilities is forecast to decline each year between 2021 and 2025. While there is projected to be adequate supply, total Victorian available production is expected to decline around 43 per cent from 360 PJ in 2021 to 205 PJ in 2025, which mainly reflects a decline in production from the offshore Gippsland Basin Joint Venture.

Victoria's annual production surplus is expected to decline over the period to 2025, reducing from 154 PJ in 2021 to 14 PJ in 2025. Over the last five years, Victoria has supplied on average 140 PJ/year to South Australia, New South Wales, and Tasmania from its production surplus.

Section 152 of the Victorian *Offshore Petroleum and Greenhouse Gas Storage Act 2010*⁹ requires petroleum production licence holders in Victorian waters to take all reasonable steps to supply petroleum to domestic consumers first. The Victorian Government has also committed to prioritise any gas produced from future onshore production licences for the domestic market¹⁰.

Northern Territory

The Blacktip gas field, located in the Bonaparte Basin, has an estimated mid-range of 933 billion cubic feet of raw gas and 5.7 million barrels of condensate for production at the Yelcherr Gas Plant in the Northern Territory. The field is the main source of domestic gas for the Northern Territory and is expected to continue to produce into the 2030s.

The two LNG plants in the Northern Territory – Darwin LNG and Ichthys LNG have small pipelines which connect to the NT Gas network for use in an emergency or special circumstances.

5. Conclusion

In line with the department's previous submission, it remains the department's view that the goals identified in the explanatory material provided to support the Bill are unlikely to be achieved by the proposed amendments.

⁸ AEMO, "Victorian Gas Planning Report", at https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/vgpr/2021/2021-victorian-gas-planning-report.pdf?la=en. Viewed 8 April 2021

⁹ Offshore Petroleum and Greenhouse Gas Storage Act 2010 (Vic), at <https://www.legislation.vic.gov.au/in-force/acts/offshore-petroleum-and-greenhouse-gas-storage-act-2010/014>. Viewed on 8 April 2021

¹⁰ Department of Jobs, Precincts and Regions, "Restrictions on Onshore Gas", at <https://earthresources.vic.gov.au/geology-exploration/oil-gas/restrictions-on-onshore-gas>. Viewed on 8 April 2021