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Mr Mark Fitt
Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Members

Offshore Petroleum (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 and Treasury Laws Amendment (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021

Thank you for the opportunity to make a submission regarding the Offshore Petroleum (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 and Treasury Laws Amendment (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021. These bills collectively impose what is broadly referred to as the NOGA levy.

Chevron Australia ('Chevron') is strongly opposed to the NOGA levy for the following reasons:

1. The proposed levy is unreasonable as it unfairly punishes Chevron and 25-plus other offshore petroleum producers for the failures of other companies and of the regulatory regime.
2. As the largest offshore petroleum producer in Australia, Chevron would pay the greatest share of the levy, despite receiving no economic benefit from or involvement in the LamCor oil fields.
3. The nature of a levy does not provide the Government, nor its chosen execution party, with any incentive to manage the decommissioning of the FPSO and the fields in a timely and cost-efficient manner.
4. This ad hoc and arbitrary levy damages Australia's reputation as a destination for investment.
5. Several specific elements of the levy design are deficient.

1. <u>Levy is poor policy</u>

The circumstances under which NOGA was permitted to acquire ageing and late-life offshore assets, despite obviously lacking the appropriate technical or financial capability to operate those assets or meet its decommissioning obligations, is concerning. Such an outcome is inconsistent with the Commonwealth's regulatory objectives, and the expectations of industry with respect to appropriate stewardship. The circumstances behind NOGA's collapse ought to inform the Federal Government's policy with respect to the recovery of costs in decommissioning the LamCor assets.

In its current form, the levy punishes Chevron and other responsible resource holders for the failings of others. Chevron has already demonstrated its commitment to best practice decommissioning and has properly provisioned for its own decommissioning liabilities. Chevron is also being asked to pay via the levy a substantial portion of the decommissioning costs of the LamCor assets, thereby subsidising the failings of the companies that participated in and benefited from the production of that asset.

2. Levy disproportionately impacts Chevron

The NOGA levy will be imposed on offshore petroleum producers (including Chevron) which have had no interest or involvement in the Laminaria and Corallina (LamCor) oil fields and which did not profit in any way from the billions of dollars in petroleum production which were generated from these fields.

As Australia's largest offshore petroleum producer, Chevron faces a significant and disproportionate impost, estimated at more than one-fifth of the total. Chevron will be the largest payer of the levy and estimates that it will pay almost 70 percent more than Woodside, the next largest levy payer.

3. Levy provides no incentive to manage Decommissioning costs

The proposed structure and duration of the levy, as well as the lack of transparency on project cost estimation and on-going cost accruals, does not provide any incentive to manage the decommissioning in a cost-efficient manner. The levy as drafted has a nine-year term, which could result in total collections of around $3.4 billion. This is an amount well in excess of the actual decommissioning costs (currently estimated to be around $1 billion), and furthermore exceeds the timeframe needed for decommissioning activities.

The Government should be focussed on appointing an experienced proponent with the necessary asset and decommissioning expertise and experience who is motivated to complete the decommissioning works in the most efficient way (from a time and cost perspective) and in accordance with all safety and environmental requirements. The Government, the Australian taxpayer and offshore petroleum producers will all benefit from strong management of the decommissioning.

4. Investment certainty

As an investor in long-life petroleum projects around the world, Chevron puts great reliance in reasonable and stable fiscal settings. The general taxation principles that apply at the time of an initial investment decision should continue to apply over the life of the project. Arbitrary and ad hoc policy changes damage Australia's standing as an investment destination.

5. Design issues

Chevron agrees with the views expressed in the APPEA submission in relation to several design elements of the levy - term of the levy; termination; rate adjustment; reconciliation; managing overpayments; and interaction with the PRRT and corporate income tax regimes.

In addition, Chevron is concerned with how the Government is proposing to measure hydrocarbon production to calculate the levy. The proposal to measure production at the well-head is not supported by Chevron due to inherent inaccuracy of measuring at this location. The material that passes through the well-head consists of multiple streams, including liquid hydrocarbons, hydrocarbon gas, inert gases (eg, carbon dioxide and nitrogen), and water. It can also potentially include solids such as sand.

Technology for accurately measuring specific flow streams such as liquid and gas hydrocarbons is not currently available. Therefore, choosing to measure various hydrocarbon flow streams at the well-head will lead to inaccurate and potentially erratic results.

As an alternative, Chevron proposes to measure production at either rundown to the LNG/condensate storage tanks and domgas rundown, or at their respective custody transfer points or at other locations where the operator can demonstrate confidence in the accuracy of measurement. At these locations, the hydrocarbon products have been isolated into their respective streams, and impurities such as inert gases, water and solids have been removed. As a result, measurement is accurate to more than 99 percent using currently installed equipment.

Conclusion

The Government's *Global Resources Statement* promotes Australia's strong resources credentials by asserting Australia is a reliable, responsible and ready partner for resources exploration, investment and supply.

The effectiveness of these claims is challenged by an arbitrary and ad hoc levy that punishes international investors for their commitment to Australia.

To best position Australia as a resource investment destination, the Committee should recommend rejection of the NOGA levy bills.

Yours sincerely

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