# Tax plan a defining point of difference

**News:** 19-August-10 by John Phaceas

AS voters prepare to go to the polls on Saturday, taxation remains a key vulnerability for Labor in Western Australia and the main point of difference between the major parties.

Opposition leader Tony Abbott already had virtually unanimous support from the resources sector on the back of his pledge to rescind the government's proposed 30 per cent tax on coal and iron ore profits.

But he iced that backing this week by pledging additional financial support for the junior and mid-tier sector via a $150 million flow-through shares scheme granting tax credits to a company's shareholders for incurred exploration expenditure.

The scheme has long been sought by industry as a means of attracting funding for exploration and was a broken election pledge of former prime minister Kevin Rudd in 2007.

In contrast, Labor's hope that its compromise tax deal with the nation's big three miners would nobble the tax as an election issue have all but evaporated.

Junior and mid-tier miners have been vitriolic in their opposition to the plan for weeks, arguing the revised tax has made it almost impossible to raise finance, while protecting the big established producers from additional competition.

But even parts of Australia's previously silent gas sector have now started objecting to the revised tax deal.

When the original resource super profits tax was proposed, the oil and gas sector was scathing of its potential to wipe out billions in planned LNG investment, especially in Queensland's emerging coal seam gas-to-LNG sector.

The government then extended the existing offshore petroleum resource rent tax regime to all Australian oil and gas developments, on land and sea.

The revamp put Queensland's LNG sector on an even footing with conventional offshore producers in WA.

But onshore gas producers in WA now fear being subjected to PRRT will savage their industry and further discourage development of desperately needed new domestic gas supplies for local industry.

WA has only limited onshore gas supplies, which are subject to a flat 10 per cent state royalty on revenue and are not liable for PRRT.

However, the state also hosts extensive onshore gas reserves locked in 'tight' rock formations and shale that render conventional production techniques ineffective.

Consequently, the state government last year cut the royalty rate to 5 per cent for unconventional gas projects in a bid to encourage new sources of domestic supply.

The move follows the development of new drilling techniques, known as fraccing, which have made unconventional gas viable. Unconventional gas production has subsequently grown to more than 15 per cent of US domestic supplies in less than a decade.

However, such projects require a vastly greater number of wells to produce commercial gas flows, making tight gas significantly more costly to

produce.

Unlisted explorer Latent Petroleum is among those concerned about the impact of extending the PRRT onshore, most notably at its Warro gas project, 130 kilometres south-east of Dongara. The tight field is estimated to host up to 5 trillion cubic feet of gas (equal to Woodside's $13 billion Pluto project), which could potentially boost WA's domestic supplies by more than 10 per cent from 2013.

In its desperation to identify new gas supplies, alumina giant Alcoa has already pledged $40 million for exploration at the Warro field.

Latent managing director Stephen Keenihan said the impact of the PRRT on the Warro project could be devastating, and would render the state royalty concession worthless.

"We've done some modelling and we don't like it at all," he said. "The new tax regime would change our effective tax rate to 53 per cent from 30 per cent ... and would reduce the value of the project by a quarter."

Buru Energy chief executive Eric Streitberg, who also chairs the Australian Petroleum Production and Exploration Association, is another who is wary of extending PRRT onshore.

Buru, which is also backed by Alcoa, is targeting both conventional and shale gas in the onshore Canning Basin in the Kimberley.

Mr Streitberg said though the lack of detail made modelling difficult, any extra taxation would obviously have a negative impact, as would the "enormous compliance burden" for companies such as Buru.

"It'll be a complete bonanza for the top-tier accounting firms" he said.

Mr Streitberg said clarity was also needed on

whether expensive post-extraction infrastructure, such as pipelines, would be deductible. A pipeline will be vital for any development on Buru's leases.

"So that's an area we are paying particular attention to," he said.

Not surprisingly then, WA's Domgas Alliance of big gas consumers believes domestic gas producers should be exempted from the PRRT.

"Given the state's serious gas shortage, we need to encourage domestic gas production, not discourage it," Alliance chairman Tony Petersen said.

"The PRRT undercuts what the state is trying to achieve on energy security.

"The result will almost certainly be less incentive for domestic gas supply, leading to domestic supply being underdeveloped and higher gas prices."

APPEA WA director Tom Baddeley said it was vital to guard against changes that could distort industry investment decisions, and noted that smaller companies were least able to absorb added tax and compliance obligations.

"So it is important that we get it right," he said.

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