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Joint Select Committee on Northern Australia
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Joint Select Committee on Northern Australia

ConocoPhillips is pleased to provide this submission to the Joint Select Committee on Northern Australia.

ConocoPhillips is a pioneer of the energy industry in northern Australia and of joint resource development with Asia, through our Bayu-Undan and Darwin LNG projects and ongoing exploration activities.

ConocoPhillips extensive global and local expertise in oil and gas makes our company well-placed to address the challenges and opportunities of developing northern Australia's energy industry as outlined in the scope of the inquiry.

The submission consists of nine sections outlining ConocoPhillips' experience and qualifications, operations and regional benefits and the challenges brought by global competitiveness, skills shortages, local capacity and policy settings. The submission also addresses the opportunities for northern Australia presented by global energy demand, existing infrastructure and embracing emerging technologies.

In addition to this submission, we would like to extend an invitation to Joint Select Committee members for a plant tour of Darwin LNG, to view a mature large scale energy operation first hand.

ConocoPhillips looks forward to ongoing dialogue with the Federal Government on policy matters impacting the oil and gas sector and northern Australia generally.

Kind regards

Todd Creeger
President Australia-West

1 ConocoPhillips Experience and Qualifications

ConocoPhillips is the world's largest independent oil and gas exploration and production company, based on production and proved reserves. The company is headquartered in Houston and has operations and activities in 27 countries, with approximately 18,400 employees worldwide as of 31 December 2013.

ConocoPhillips explores for, produces, transports and markets energy including crude oil, natural gas, liquids and liquefied natural gas (LNG) on a worldwide basis. In Australia and Timor-Leste, ConocoPhillips has conducted exploration and production activities since the late 1980s.

ConocoPhillips is the operator of the Darwin LNG facility (Darwin LNG) in the Northern Territory and the Bayu-Undan offshore facility in the Timor Sea, holding a 56.9% interest. The company is the downstream operator of the Australia Pacific LNG project in Queensland, holding a 37.5% interest.

The company holds significant interests in northern Australia, with activities summarised below:

- It is the operator of the Caldita and Barossa exploration project located 270 kilometres offshore of northwest of Darwin, holding a 37.5% interest with co-venturers SK Energy and Santos. A drilling program will commence in the first quarter of 2014 to further evaluate and assess the various development options.
- It is the operator of the Greater Poseidon exploration project, located 480 kilometres offshore north of Broome in Western Australia, holding a 40% interest with co-venturers Karoon Gas and Petro China. Drilling operations are underway to further evaluate the area and assess the various development options.
- It holds a 30% interest in the Greater Sunrise project located offshore in the Timor Sea. Woodside is the operator. Shell and Osaka Gas are the remaining co-venturers.
- It holds a 46% interest in the onshore South Canning exploration permit located in northern Western Australia. New Standard Energy is the operator. PetroChina is also a co-venturer.

ConocoPhillips brings global as well as local expertise to oil and gas operations and is well placed to address the challenges and opportunities for northern Australia, as outlined in the scope of the Inquiry.

2 ConocoPhillips Interests in northern Australia and Regional Benefits

ConocoPhillips has been a pioneer of the energy industry in northern Australia and of joint resource development with Asia through our Darwin LNG and Bayu-Undan projects. The company's experience with these operations forms the basis of this submission.

Current exploration activities both offshore and in the Canning Basin of Western Australia have the potential to build further on our company's significant contribution to northern Australia's economic development.

The 3.7 MTPA Darwin LNG facility processes natural gas from the Bayu-Undan Field via a 502 kilometre subsea pipeline. The delivery of LNG cargoes commenced in early 2006 and as at 31 January 2014, more than 400 cargoes have been successfully and safely delivered.

At its construction peak Darwin LNG employed more than 2,500 people, of whom more than half were residents of the Northern Territory (NT). In the current steady state of operations, Darwin

LNG employs a permanent residential workforce of several hundred, implemented through the company's resident workforce policy.

In addition to direct employment, Darwin LNG and Bayu-Undan have a multiplier effect throughout the Northern Territory and Timor-Leste economies, including local capacity development across industries that service these world-class assets.

By way of example, facilities require regularly scheduled maintenance and repairs, necessitating that these facilities be shut down for a predetermined period of time. These "shutdowns" require detailed planning and utilise a wide and diverse range of services, products and personnel. The most recent shutdown occurred in 2012 and ran for a 30 day period, with an estimated inject of around \$50 million into the Northern Territory economy. The next shut down is scheduled for September 2014.

ConocoPhillips also conducts an active community investment program, providing charitable contributions and support in the areas of education, health, the arts and the environment.

3 Challenge: Global Competitiveness

A key element of the Inquiry is on establishing conducive regulatory, taxation and economic conditions to address impediments to growth in northern Australia. ConocoPhillips strongly supports this area of the Inquiry.

Regulatory burdens, costs, restrictions and legislative requirements are all crucial elements in determining whether an investment decision is made to invest in that particular jurisdiction or whether those investment dollars go elsewhere. Investment dollars are not constrained by geography. Good policy settings along with a stable, steady and predictable regulatory environment are fundamental to attracting investment.

In the NT, the two LNG projects have been significantly funded by international capital, partly due to the intensity of capital required. However, national and global competition for this capital is increasing due to exploration and petroleum activities in other parts of the world, such as:

- Unconventional/onshore petroleum discoveries in the US, Canada, Australia and China, in addition to ongoing onshore exploration buoyed by those discoveries.
- Arctic petroleum discoveries in Russia and the US.
- Deep-water petroleum discoveries in Mozambique and the Gulf of Mexico.

Over the last few years, the US has evolved from an energy importer to being energy independent and potentially an energy exporter. The US Government has granted approval for the conversion of LNG import terminals into export terminals, granted conditional approval for a total of six approvals since 2011, and is considering further applications.

Internationally, the potential oil and gas volumes onshore are large compared to existing conventional reserves. Furthermore reserves are located within existing and growing demand centres, in addition to being in close proximity to infrastructure and pipeline networks.

By global standards, Australia is a high cost LNG producing environment, which challenges Australia's attractiveness for international capital. In considering investment in the northern Australia region, the challenge of high costs must be effectively managed. The NT is well placed to leverage its existing infrastructure, such as Darwin LNG, to help maintain cost competitiveness.

4 Challenge: Skills Shortages and Labour Costs

A key challenge to development in northern Australia is the training, attraction and retention of skilled workers. The LNG sector in Australia is undergoing significant expansion, with seven LNG facilities currently under construction, creating unprecedented demand for highly skilled and specialised labour.

Exacerbated by the remoteness of many of the projects, this phenomenon of demand is causing significant upward pressure on wage costs – as newer operations source labour from a very limited pool of experienced operators.

The wage inflation impacts the viability and reputation of the whole industry, raising project costs and distorting regional economies. ConocoPhillips therefore believes that a collaborative focus on skills training by industry and government is vital to the sustainability of the northern Australia energy industry.

5 Challenges: Local Capacity

A key element in addressing the skills issues restricting northern Australia's development is building local capacity.

Since commencing operations in Darwin in 2006, ConocoPhillips' has practiced a residential workforce policy ensuring that Darwin LNG operators are residents of the Northern Territory.

This is supported by our Darwin Operations Trainee Academy (DOCTA) program, which trains NT residents with skills in related trades to be LNG plant operators. To be eligible for DOCTA, candidates must have lived in the NT for several years.

This program has proved to be a successful long-term investment for ConocoPhillips, with local recruits tending to prefer to stay in the local area and having longer term employment. By 2015, it is forecast that approximately 50% of Darwin LNG plant operators will have joined the organisation through the DOCTA operator trainee program. For the NT, it has been beneficial to the local economy, resulting in greater local investment and capacity building for NT residents.

In contrast to this approach, reliance on non-residential work arrangements (Fly-In-Fly-Out) do not generate the same economic and social benefits to local communities. Pressure to move to non-residential arrangements mounts when there is little or reduced focus to develop a local workforce, including the training requirements. A genuine focus by policymakers and industry to train local workforces is fundamental to increasing the talent pool, reducing significant wage inflation and supports the continued development in northern Australia.

6 Opportunity: Existing Infrastructure

The Bayu-Undan gas-condensate field that supplies gas to Darwin LNG is approximately halfway through its predicted lifespan. When Bayu-Undan gas supply begins to decline, capacity will become available in the pipeline and Darwin LNG.

The extensive exploration and appraisal activity across northern Australia by ConocoPhillips and other industry participants may deliver new gas discoveries to the region. This provides opportunities to encourage gas to be processed in Darwin, or at least to ensure Darwin receives a benefit from these potential gas production activities.

The appropriateness of a development option will always be considered on a project by project basis. However, in certain circumstances, existing processing infrastructure (brownfield) can be more competitive than a new development option (greenfield). In this regard, Darwin is well placed to offer a development option than can assist a project to overcome its cost challenges.

In the case of Darwin LNG, this could mean backfilling the declining gas supply from Bayu-Undan with gas from another project. Another potential cost saving measure is increasing the capacity of Darwin LNG to process gas from additional sources. At present, the constructed capacity of Darwin LNG is 3.7 MTPA, but the site is licensed for up to 10 MTPA, thus providing the potential for an expanded brownfields project.

Both of the above options would bring significant economic and social benefits to the Northern Territory.

Darwin has a unique place in the LNG world, with a fully operational LNG facility, and one under construction, which are close to a modern major city centre, with all the benefits that such a location provides – an international airport, hospitals, schools, access to key services and other essential infrastructure. This provides an advantage to attracting and retaining investment against other regional or international locations.

To develop the energy industry in northern Australia it is vital that the Northern Territory take every step to capitalise the natural advantages that existing infrastructure provides.

7 Opportunity: Growing Energy Demand and Regional Stability

The Northern Territory's energy resource potential and proximity to potential markets means it is well placed to serve energy-hungry markets such as Japan and China.

Key energy consumers have visible evidence that the Northern Territory provides a favourable investment environment, due to the success of ConocoPhillips and INPEX in delivering projects.

This position is built on, and remains dependant on, perceived regional stability with a pro-investment government offering streamlined planning and project facilitation. Set against a globally competitive market, the Australian Government must do all it can to encourage competitiveness.

8 Opportunity: Emerging Technologies

As previously noted, Australia is a high cost country in which to operate and every opportunity must therefore be considered and taken to ensure Australia remains competitive. Technological advances, maximising efficiency and increasing output from existing facilities can assist with negating the impact of higher costs.

One emerging technology is floating LNG (FLNG) – this has the potential to contribute to northern Australia's energy capability and economy by unlocking currently stranded energy sources. For certain fields, the development of offshore gas fields may well be better served by using FLNG rather than piping the gas to shore for processing.

ConocoPhillips is one of several leading oil and gas companies currently developing FLNG technology that may be suitable to access energy reserves in waters within proximity of northern Australia. Concerns have been expressed that FLNG will result in no, or minimal, returns to onshore states and territories. This is not the case and FLNG, as an emerging technology should be encouraged rather than resisted.

For example, the Northern Territory's proximity to offshore projects, expanding local capability and growing supply sector present a significant opportunity to become a global leader in FLNG development, through the delivery of support services. In addition to the direct economic benefits of using the Marine Supply Base or the proposed second port, Darwin is well positioned to create engineering and procurement centres of research excellence through the North Australian Centre for Oil and Gas (NACOG) at Charles Darwin University.

By positioning itself at the front of the approaching FLNG wave, northern Australia could further its aspiration to be an energy hub, creating high-value associated industries in service and supply, education and training.

9 Challenge: Policy Settings

In developing northern Australia, the importance of Australia's reputation as a stable region, with a pro-investment government, offering streamlined project facilitation – cannot be underestimated.

Good policy settings and stable, predictable regulation are fundamental pillars to attracting investment. On the other hand, government policies that impose artificial constraints on the cost of supply may cause less favourable reputational outcomes that impede growth.

For example, domestic gas reservation policies artificially increase the cost of projects, reduce their competitiveness and likelihood of reaching a favourable final investment decision. Numerous studies have been conducted that definitively conclude that these policies achieve an outcome inverse to their goal of energy security.

Encouraging investment through supportive policies will lead to greater development of energy resources, greater energy supply and therefore maintain Australia as a competitive and attractive investment destination.

In terms of energy security, more projects will create more opportunities for local energy utilities to take advantage of increased supply by securing long term sales contracts, which in turn could help development of other industries in northern Australia. We commend the Northern Territory Government for its constructive approach in working with industry to identify energy sources and infrastructure needs to support industry growth.

10 Summary

The Northern Territory is well positioned to develop into a major oil and gas hub, and add to the development prospects of northern Australia. For the reasons outlined in this submission, it is ConocoPhillips' view that a critical element in realising this potential is in continuing to ensure a stable, consistent and supportive regulatory regime for exploration, investment and innovation.

Additionally, the Federal and the State/Territory Governments impacted by the scope of this Inquiry should collaborate with industry on policy and initiatives, supporting skills training and building local capacity to bring costs down and attract investment.

In an increasingly competitive global energy marketplace, the jurisdictions included in the scope of the Inquiry should take every step to protect its natural advantages of existing infrastructure, location, policy stability and forward looking pro-investment environment.

Under-writing this position, Australia should avoid policies that impose artificial constraints on energy pricing or supply.

