

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Resources, Energy and Tourism Portfolio

Additional Estimates

14 February 2013

Question: AR5

Topic: Withdrawals, Extensions and Variations to Retention Leases

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Senator Siewert asked:

Senator SIEWERT: Fair enough. Over the last say three- to five-year period have any retention leases been withdrawn because lessees have not met their conditions, in particular, this sort of condition?

Ms Constable: Yes, a number have been withdrawn. I will get my colleague, Mr Squire, to go through the details.

Senator SIEWERT: Thank you. Could you tell me how many in the last three years and for what reasons they have been withdrawn, and if they have been granted extensions and have failed to meet them?

Mr Squire: You have asked a number of questions there, Senator. Can I clarify whether you are seeking just retention leases that had been terminated for any reason or retention leases that had been terminated for a failure to meet conditions?

Senator SIEWERT: For a failure to meet conditions.

Mr Squire: From memory-and I am certainly happy to take this question on notice-there has been one retention lease that was not renewed or essentially was terminated because of failure of the titleholder to meet a work program condition. Exemptions or variations to retention lease conditions are not a common feature. So we will certainly check the records, but I would be surprised if there had been any retention leases that had their conditions varied and were subsequently cancelled.

Senator SIEWERT: Thank you for that. What about extension? Have any been granted extensions?

Mr Squire: The act certainly provides for extension of time for a retention lease. It is current practice and policy of the joint authority not to grant an extension of time for a retention lease, so the five-year period applies. Obviously there is an option for titleholders to come back to seek a variation of conditions, which is what occurred in the Browse retention lease situation.

Senator SIEWERT: For a variation?

Mr Squire: Yes.

Senator SIEWERT: Okay, so how many have had a variation granted?

Mr Squire: In the period you describe-the last three years-from recollection it would only be the Browse retention lease that had a variation of conditions.

Senator SIEWERT: So that is in the last three years?

Mr Squire: Yes.

Senator SIEWERT: Can I then extend that to-I am trying to think of a realistic period-say, the last 10 years. I am trying to work out how common it is for leases to have their conditions varied.

Mr Squire: Certainly. We will have to take that on notice-both variation and suspension as well.

Senator SIEWERT: Okay, if you could, that would be appreciated. Thank you. I will not go through the details now, but could you also take on notice leases that have been withdrawn for other reasons-if there have been-for failure to comply with their conditions.

Mr Squire: Certainly.

Senator SIEWERT: You seemed to imply when you answered my question that there had been other leases withdrawn.

Mr Squire: Yes. At the expiry of the five-year term of a retention lease, titleholders can lodge a renewal application. In some circumstances, if the joint authority forms the view that the resource is currently commercial, a retention lease grant will not be offered, in which case the titleholders have the option to apply for a production licence-there are a number of those that have occurred over the last five years-and also if the application failed to demonstrate the grounds of commerciality-in other words, that it is currently not commercial but is likely to become commercial within 15 years. There are two of those from memory as well, but we will provide all those details on notice.

Senator SIEWERT: If you could. Could I just confirm Browse is the only one that has had the variation in the last three.

Mr Squire: Yes.

Answers:

In the last ten years, how many retention leases have been withdrawn for a failure to meet the conditions on the lease?

In the last ten years, no leases have been cancelled for a failure to meet conditions.

The *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (OPGGSA) provides a titleholder with the ability to lodge an application for a renewal of a retention lease within 180 days of the expiry of a five-year retention lease term. The OPGGSA also provides the Joint Authority with flexibility to refuse to grant a renewal of the retention lease if the titleholder has not complied with the conditions of the lease during the current term.

In the last ten years, the Joint Authority has refused to renew two offshore petroleum retention leases on grounds of non-compliance with lease conditions, namely a failure to drill a well and to conduct a 3D seismic survey which were required as part of the lease work program. The leases were **WA-13-R Turtle** (October 2008) and **NT/RL3 Barnett** (October 2008), which were being developed as a combined project. The blocks that comprised the lease areas reverted to vacant acreage.

In the last ten years, has an extension of the term of a retention lease been granted?

No. The OPGGSA does provide a mechanism for the extension of the term of a retention lease. This mechanism can potentially be activated following the grant by the Joint Authority of a suspension of conditions to which the lease is subject or an exemption from compliance with conditions to which the lease is subject, and only where the Joint Authority considers it reasonable to do so. However, it is long-standing practice and policy of the Joint Authority not to grant an extension of the term of a retention lease and to apply the five-year term to all leases.

In the last ten years, on how many occasions has a variation of or a suspension of the conditions on a retention lease been granted, or an exemption from compliance with conditions?

A variation of retention lease conditions is not a common occurrence. In the last ten years, the Joint Authority has on only one occasion granted a variation to lease conditions – in April 2012 in respect of the five offshore petroleum retention leases in Commonwealth waters held by the Browse Joint Venture (**WA-28-R Calliance, WA-29-R Brecknock, WA-30-R Torosa, WA-31-R Calliance and WA-32-R Brecknock**).

In the last ten years, no suspensions of conditions on a retention lease or exemptions from compliance with lease conditions have been granted.

In the last ten years, there are no recorded cases in which conditions on a retention lease were varied and the lease was subsequently cancelled.

In the last ten years, how many retention leases have been withdrawn for a failure to meet the commerciality criteria in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*?

In the last ten years, the Joint Authority has refused to renew three offshore petroleum retention leases on grounds of commerciality. Applications to renew the two retention leases **WA-10-R Egret** (July 2008) and **WA-9-R Dixon** (December 2009) were refused on the grounds that the production of petroleum in the lease areas was commercially viable. Production licences have been granted in respect of the Egret field and the National Offshore Petroleum Titles Administrator is assessing an application for a production licence over the Dixon field. The renewal of the **VIC/RL7 La Bella** (January 2010) retention lease was refused on the grounds that the resource was unlikely to become commercially viable within 15 years. The blocks that comprised the La Bella retention lease reverted to vacant acreage.

The OPGGSA provides the National Offshore Petroleum Titles Administrator with the authority to request the titleholder to undertake, during the term of the lease, a re-evaluation of commercial viability of petroleum production in the lease area. This requirement can also be a condition on a retention lease. If, based on the re-evaluation of commercial viability by the titleholder, the Joint Authority is of the opinion that the recovery of petroleum from the lease area is commercially viable, the Joint Authority can revoke the lease after consulting with the titleholder. If the lease is revoked on these grounds, the titleholder may subsequently apply for a production licence over one or more of the blocks that comprised the lease area or allow the blocks to revert to vacant acreage.

In the last ten years, no retention leases have been revoked following a re-evaluation of commercial viability.

If the titleholder submits a retention lease renewal application prior to expiry of the five-year lease term, and the Joint Authority is satisfied that the resource is either currently commercially viable or is unlikely to become commercially viable within 15 years, the Joint Authority must refuse to grant a renewal of the retention lease. Where the resource is currently commercially viable, the titleholder can either allow the lease to expire and the blocks revert to vacant acreage or apply for a production licence to commence development. Where the resource is unlikely to become commercially viable within 15 years, the lease will expire and the blocks will revert to vacant acreage.