

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Resources, Energy and Tourism Portfolio

Additional Estimates

14 February 2013

Question: AR6
Topic: Royalties from James Price Point
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Senator Siewert asked:

Senator SIEWERT: Thank you. Could you tell us what the federal royalties will be from James Price Point, please.

Ms Constable: We will have to take that one on notice.

Senator SIEWERT: Okay, thank you. Will it be the same if it was onshore or offshore?

Ms Constable: No, there are different systems. So the royalties as they stand are under two different regimes. PRRT applies, of course, offshore, and there are onshore arrangements. Are you specifically-

Senator SIEWERT: I am after the latest calculation of royalties. Could I therefore have it for offshore if it were floating and if it were onshore.

Ms Constable: Certainly.

Senator SIEWERT: Are you able to give me the magnitude of the difference between offshore and onshore?

Ms Constable: It is very hard to calculate, but we will do our best and look at the estimates. There would certainly be the estimates, but-

Senator SIEWERT: Yes, I totally appreciate that.

Mr Clarke: Part of the issue, of course, is that the projects almost by definition are not necessarily the same and the alternative project is not really developed as the onshore one is.

Ms Constable: That is correct.

Senator SIEWERT: I appreciate that too. Thank you. I appreciate what you are saying, so could you give us how it would differ if you cannot give us the full-

Mr Clarke: Probably more from first principles rather than in dollar terms.

Senator SIEWERT: Yes, that would be good.

Ms Constable: We could provide methodology to you, which I think would be more helpful.

Answer:

The Browse project is located in an area which encompasses:

- one exploration permit and five retention leases in Commonwealth waters; and
- two retention leases in Western Australian (WA) waters.

Assuming petroleum production is derived from each of these permits/leases, the Browse liquefied natural gas (LNG) development (the 'Browse project') will be subject to Petroleum Resource Rent Tax (PRRT) and WA petroleum royalties. While the question asked for federal royalties, the answer reflects Commonwealth resource taxation (PRRT) since the Commonwealth will not collect royalties from this project.

PRRT

The PRRT will apply to the upstream activities of the Browse project located in Commonwealth and WA waters. The downstream conversion of natural gas to other products, such as LNG, is not subject to the PRRT.

PRRT is levied at a rate of 40 per cent of a project's taxable profit. Taxable profit is the project's income after all project and exploration expenditures, including a compounded amount for carried forward expenditures, have been deducted from all assessable receipts.

For LNG projects where there is no commercially negotiated arms length price available for gas moving from upstream to downstream processing, the "residual price methodology" (RPM) may be used to determine the gas transfer price. This price would be used to determine the project's PRRT liability.

The RPM utilises two widely accepted formulas, including the netback and the cost plus approaches; used to determine notional gas prices for the upstream and downstream components.

The netback method identifies all the relevant costs incurred in the downstream operation, and then subtracts those costs, including an allowance for capital expenditure, from the total revenues realised from selling the liquefied product. This provides a notional maximum "arms length" price a downstream producer (liquefier) can pay for the natural gas feedstock in order to earn the minimum return necessary to continue production.

The cost plus price does not reference the final market LNG price, rather it is based on the total costs in the natural gas production process, including an allowance for capital expenditure. This provides the notional minimum price the upstream producer requires to continue supplying natural gas to the LNG plant. The RPM is the average of the netback and the cost plus prices.

With reference to the Browse Project, the PRRT liability may vary between a downstream development onshore (e.g. James Price Point) and a downstream development offshore (e.g. Floating LNG) as a result of the RPM. The Department does not possess the data required to quantify this variance or the anticipated PRRT liability of each development concept.

WA petroleum royalties

WA petroleum royalties are normally set at a rate between 10–12.5 per cent of the wellhead value of petroleum produced in WA waters.

Refer to the WA Department of Mines and Petroleum for further information regarding WA petroleum royalties.