Tenure Matters

A column by Sue Slater, Senior Advisor Petroleum, RLMS

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Welcome back. This month the discussion is centred on some of the issues associated with the trend for larger companies (such as, Origin Energy, Santos and AGL) to divest their aging "non-core" assets; and some of the implications for the new holders. The impetus is clear for both parties. For the purchaser, these types of onshore appraisal and development opportunities are seen as lower risk than true greenfields exploration (whether onshore or offshore) and perhaps offer a more certain path to commercialisation. For the seller, they believe the asset either no longer fits with their future direction or has been largely tapped, and they have an opportunity to divest some fairly significant rehabilitation liabilities.

Over the last few months there have been announcements that the Roma Shelf assets held by Origin Energy have been purchased by Armour Energy; and the Moonie, Cabawin (PL 1) and Alton (PL 2) fields held by Santos have been purchased by Bridgeport (a wholly owned subsidiary of New Hope). AGL has also been selling off some of its upstream assets; including PLs acquired from Mosaic Oil with the Silver Springs field, which is now in use for gas storage. PL 46 (Fairymount), for example, has been transferred to Ranger Energy Pty Limited. Bounty Oil & Gas also have acquired 100% of what was PL 119, now PL 441 (Downlands); together with a number of other associated Surat Basin interests. Others are rumoured to up for sale.

Some of these areas have a long record of exploration, appraisal and development, in some cases with continuous tenure able to be demonstrated back to ATP 57P, which was current in the 1960s. There are inevitably a number of legacy issues surrounding these older fields; including, but not necessarily limited to:

- Dam construction that does not meet the current legislative and policy requirements;
- Financial assurance liability that cannot be signed off without addressing dam, facility and well infrastructure condition;

- Well status is not recorded accurately in the DNRM database, and determining actual status and ownership of wells or converted water bores is not necessarily straight forward[1];
- Transfer of ownership and recommissioning of plant and infrastructure may trigger substantial administrative updates to documents including Plan of Operations, Later Development Plans, Safety Management Plans which is rarely as straight forward as it should be;
- Recalculation, and resultant increase, of Financial Assurance liability.

Careful scrutiny of these legacy type issues is important, because without that scrutiny, it will be impossible to truly gauge the value of the asset. It's in the "bargain bin" for a reason! The potential Financial Assurance (FA) liability cannot necessarily be accurately judged by what is currently held by DEHP, since the calculation methodology has been updated more than once over the last several years. The rehabilitation effort that may be required to reduce the FA could be significant; with wells likely to require plugging and abandonment as well as surface rehabilitation; along with decommissioning of evaporation ponds or other dams; and possible upgrade or decommissioning of other infrastructure. Maybe it's not such a bargain after all?

The *Mineral & Energy Resources (Common Provisions) Act 2014* introduced Chapter 2, Part 10, Division 5, sections 294A to 294F to the *Petroleum & Gas (Production & Safety) Act 2004.* These sections allow the chief executive to authorise a person to remediate (including plugging and abandonment) a bore or well, and undertake the surface rehabilitation of that bore or well. This includes:

- a bore or well posing a risk to life or property;
- a bore or well on fire or emitting gas causing a gas concentration in the surrounding air greater than the lower flammability limit (the smallest amount of gas that supports a self-propagating flame when mixed with air or oxygen and ignited); or
- a bore or well that the chief executive reasonably believes to be a legacy borehole, where a legacy borehole means a bore or well originally for exploration or production of mineral or petroleum resources and no longer used for that or another purpose[2].

Additional provisions authorise the entry to land for carrying out the remediation activities. The plugging and abandonment, or other remediation, of a legacy bore or well, has been also added to the key authorised activities for an ATP (section 32) and a PL (section 109). These amendments mean that a legacy well, where ownership has reverted to the State because the land has been vacant, can be plugged and abandoned, and rehabilitated, by a current tenure holder (either voluntarily or under direction).

The 2015 land release area PLR2015-1 in the Surat Basin, contains two petroleum wells, XLX XYL-L 1 and XLX Xylex 1 which have not been plugged and abandoned, despite the area being vacant land since the previous PL was cancelled (PL73) (see Plate 1 and 2). The Call for Tenders Addendum 3 dated 21 September 2015 described the status of each of these wells as "not producing hydrocarbons, not plugged and abandoned and not water bores!" If an ATP is granted from this

[1] I have previously discussed legacy issues around wells in Tenure Matters No. 8 available at https://www.rlms.com.au/publication_cat/publications/

[2] Full definition in Schedule 2 of the *Petroleum & Gas (Production & Safety) Act 2004*

tender area, it will be conditioned to include provisions that the wells must be either remediated (plugged and abandoned) or repurposed for petroleum and gas production. Hopefully all the bidders factored that into their work program commitments!

Interestingly the other lease area, PL 72, which was cancelled at the same time as PL 73 (around 2008 after protracted legal debate), contains the well XLX Xyloleum 1, which is shown in the departmental borehole database as suspended or shut-in. It too is on vacant land, and most likely is not plugged and abandoned. There are no records of conversion to a water bore either, although that is part of a very tangled web perhaps for a future discussion. There are probably quite a few more of these wells lurking around, where tenure has been relinquished and no checks have apparently been made on the status of the wells drilled on them. Some of them are also lurking on existing tenure!

But let's go back to the subject at hand. The Moonie Field was discovered in 1961, and became the first commercial oil field in Queensland. The other nearby discoveries that followed underpinned the development of the Moonie to Brisbane Pipeline (PPL 1), that conveyed the oil to Lytton refinery. (The processes associated with decommissioning of this pipeline have commenced.) These fields have a long history of continuous tenure; and almost certainly some challenging legacy issues. PL 1 was originally granted in January 1964 and PL 2 in December 1965; both out of Authority to Prospect 57P. Currently both PLs are still administered under the *Petroleum Act 1923* and are held by Santos QNT Pty Ltd 100%. A Sales and Purchase Agreement has been signed with Bridgeport Energy to acquire both PLs and associated exploration acreage[3]. The transfers are expected to be completed by the end of the year. Bridgeport expect the production from these fields to increase their net quarterly production by approximately 25%[4].

The Origin Roma Shelf assets have similarly been 'for sale' and on 2 September 2015 Amour Energy announced that it had entered a Sales and Purchase Agreement to acquire these oil and gas interests. These assets include the Kincora Gas and LPG Plant, currently on care and maintenance, the Newstead Gas Storage Facility; PPL 3 that connects Kincora to Wallumbilla; Emu Apple oil field (PL 264); Riverslea oil field (PL 30); and a number of other fields and associated plant (Parknook, Myall Creek, Beranga South, Washpool, New Royal, Waratah for example). Oil production can recommence without the need to bring the Kincora plant back online, but the gas assets will require the plant to be functional. Armour Energy has announced that recommissioning of plant and infrastructure is likely to take 6 to 12 months. They expect oil production to recommence within 1 month of the formal transfer of ownership, at a rate of 50 bbl/day from Emu Apple and Riverslea[5].

This could an exciting period for Queensland – the obvious slowing of greenfields exploration we have seen for the last couple of years may be displaced by new life given to old fields, and brownfields exploration around these existing fields. Let's hope that the regulation and policy framework built for better times does not strangle the life out of these projects now that companies must operate under more austere conditions. The best interests of the State are surely met by the

[3] New Hope Group Quarterly Activities Report 31 October 2015

[4] http://www.newhopegroup.com.au/content/investors/quarterly-reports

[5] http://www.armourenergy.com.au/investors/asx-announcements

continued production where this can be accomplished; but at the end of the day, the legacy rehabilitation costs need to be accounted for and the rehabilitation completed.

I am happy to hear suggestions about topics you would like covered. Feel free to email me at sue.slater@rlms.com.au with the subject heading Tenure Matters.

In the meantime, remember "Tenures make the Project; the Project doesn't make the Tenures".

Plate 1 and 2

Left, XLX XYL-L 1 and above XLX Xylex 1

Photos taken from PLR20151 Addendum 3

RLMS covers the project spectrum from planning through to State and Federal government approvals, including land access, compensation, environmental impact statements and work schedules for clients ranging from entrepreneurs to major corporations, from start-ups to government agencies, and state significant projects such as Queensland's LNG giants. Contact RLMS at:

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