



## Tenure Matters



*A column by Sue Slater, Senior Advisor Petroleum, RLMS*

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Welcome back. The petroleum exploration sector is quiet in Queensland – real exploration activity is very low and cash is drying up. The oil price is low, and companies are hunkering down to do what they can to survive. For Queensland petroleum exploration this can be difficult, as notwithstanding the insertion of sections 107A to 107D in the *Petroleum & Gas (Production & Safety) Act 2004*, which give a bit more scope for amending work programs; we are still operating within a fairly inflexible legislative and policy framework. A framework designed for the good times, when there was always another player in the wings to pick up any acreage should a holder default on their work program, is not the framework that supports an industry trying to stay the course of a sustained oil price low. Nor is it the framework that allows a quick response when the financial climate starts to improve.

Add in the uncertainty in the regulatory regime – constant changes with each change of government, and even during their terms, means the sovereign risk is high. Most of the time, Government reform processes take too long<sup>1</sup>, and reforms not completed during a term will often stall or halt whilst a new government settles in. Look at the time it has taken for some of the sections of the *Minerals & Energy Resources (Common Provisions) Act 2014* (MERCPC) to commence. The Act was passed on 1 July 2014, and the bulk of the provisions the petroleum sector have been waiting on, have not yet commenced. This includes the overlapping provisions, which themselves were in negotiation between the coal and petroleum sectors from 2011 and changes to the allowable production testing periods to 13 months for CSG. In the meantime, the government has introduced the *Mineral and other Legislation Amendment Bill 2016* (MOLA), which amends some of the amendments in MERCPC, even before they commenced! Regulations to support these provisions are still in preparation. Even policy changes that don't involve legislation changes are usually difficult to achieve in a reasonable timeframe.

If there is one thing that everyone can agree on, it is that the long-term growth of the oil and gas sector depends on the level of exploration. Drilling of exploration wells has markedly declined over

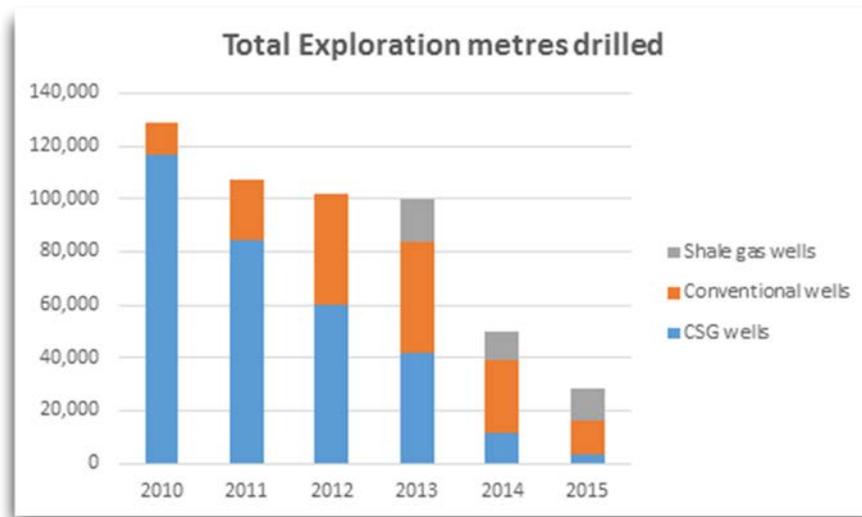
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<sup>1</sup> Except when political will is high!!

the last few years, although the cost of drilling those wells has increased markedly. Anecdotal evidence suggests that for a small to mid-sized exploration company up to one-third to one-half of the cost of drilling a well is related to access, approval and compliance issues (“finding costs”). This is clearly unsustainable.

There has been a steady decline in the total metres drilled for exploration in Queensland over the last few years, which has become precipitous since 2014, as shown in Figure 1.

**Figure 1 Total exploration metres drilled in Queensland<sup>2</sup>**



Although the number of currently granted ATPs looks to be relatively stable, see Table 1, there is an overall reduction in applications. This is most likely a combined effect of:

- the department dealing with the backlog of applications – mainly in 2014;
- less companies bidding on acreage; and
- a reduction in land made available for tender).

The area (in sub-blocks) under granted ATPs has also reduced, presumably as relinquishments have come due. Some geological areas have been harder hit than others, with much of the exploration acreage in the Galilee Basin relinquished in full over the last few years, without coming close to completing the 12 year term.

**Table 1 Summary of exploration acreage 2013-2015<sup>3</sup>**

	2013	2014	2015	2016
Number ATPs (grants and applications – removed unsuccessful applications)	222	201	261	195
Number ATPs granted	148	148	177	146
Number of applications	74	53	84	49
Number sub-blocks in granted ATPs	121,292	107,652	97,932	94,073

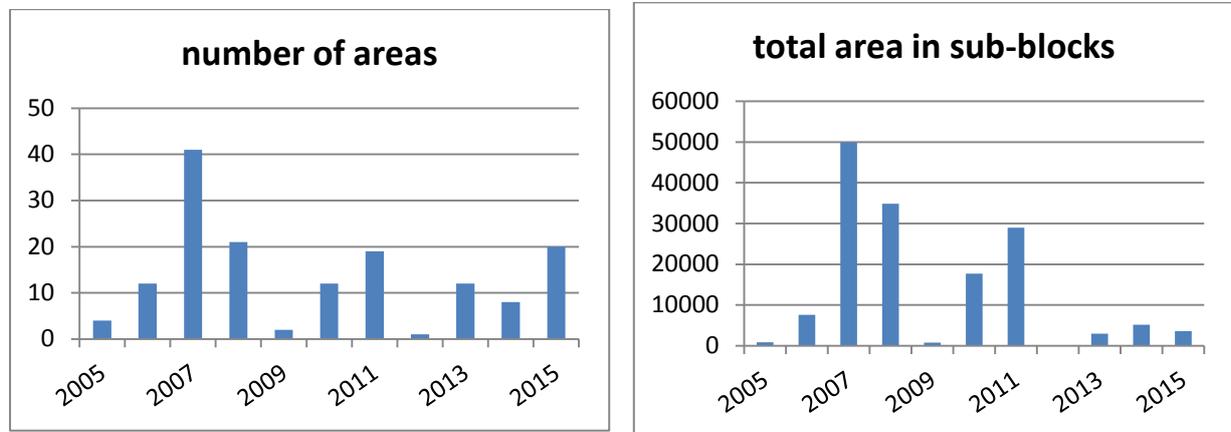
Reviewing the number of areas, and total sub-blocks, made available for application since the land release system was introduced in 2004, shows a significant variation in both the number of application areas, and the overall sub-blocks made available within those areas. Both measures

<sup>2</sup> Source Blue Energy Limited, data from GSQ

<sup>3</sup> Sourced from QSpatial data

peaked in 2007, and the total area made available has been very low (which translates to small ATP areas) for the last four years. This is shown in Figure 2.

**Figure 2 Comparison of number of land releases and area**



The introduction of the cash-bidding system in 2012 has arguably made land less accessible for the small explorer, who would generally be unable to compete in a cash-bidding regime with larger companies. Less exploration means fewer discoveries, and ultimately less production in the future.

The industry has of course experienced these dramatic declines in exploration previously, but some key differences marked the political landscape during those times. Government incentives at various times have included financial incentives (for example subsidies, tax concessions) and the provision of government acquired technical data (government funded and completed stratigraphic drilling and seismic programs). These would have arguably helped the industry to recover from previous downturns. Additionally, this is the first real slump since the introduction of the *Petroleum & Gas (Production & Safety) Act 2004*. The *Petroleum Act 1923* was a more flexible and less prescriptive beast.

The *Petroleum Search Subsidy Act 1957* (Cwth) (date of assent 21 May 1958, ceased 31 December 1973) was “an act to encourage the search for petroleum in Australia by subsidizing (sic.) stratigraphic drilling”. Many of the wells drilled in Queensland during the 1960s were beneficiaries of this Act which also subsidised geophysical surveys and wireline logging. In 1961 the Act was amended to include drilling and testing on structures under the subsidy. This program increased the quality of the exploration being carried out, made the data available relatively quickly and therefore increased the understanding of the sedimentary basins. This had a positive flow-on effect for exploration, as better technical data helps to reduce the technical risk, and positive support from the government reduces the sovereign risk. Relative stability in the legislative regime helps.

The Bureau of Mineral Resources (now Geoscience Australia) had significant projects of regional seismic acquisition and stratigraphic drilling throughout the 1960s and 1970s, which increased regional understanding of the sedimentary basins. In Queensland, the Geological Survey of Queensland had a stratigraphic drilling program which drilled deep stratigraphic bores (up to ~1300m). Between the late 1970s and throughout the 1980s this program delivered 43 stratigraphic bores each with a total depth greater than 1000m, across many basins; and if you extend the depth range to bores with a total depth of more than 500m, 91 stratigraphic bores were drilled in that time frame. The program operated mainly during the 1970s and 1980s; and during the 1980s there was

an increased focus on the Eromanga Basin, to encourage the update of exploration acreage, in the wake of the Jurassic oil discovery in 1981 at Jackson. The bores were in most cases fully-cored, wireline logged, had velocity shoots to tie in with seismic; and the core was put on display during open-days at the Exploration Data Centre. This generated a great deal of interest from the exploration companies at the time.

In the past the combination of good data, and financial incentives, has helped the exploration sector through some difficult times. There was political incentive to promote the industry, which does not seem to be the case now. It seems highly unlikely that any politician in the current anti-fossil fuels climate would make a “brave decision” (to quote Sir Humphrey Appleby) in promoting these types of, or indeed any, incentives for the industry.

We should not only be asking where is the next petroleum discovery coming from, but also how long will it take for the exploration sector to recover from the current situation? The oil price is only part of the story; sustained hits from legislative changes and administrative decisions, the poor perception of the industry in the public sector, and the success of the anti-fossil fuel groups in promoting their message have all played a role – among other things. Despite what the environmental groups would like to believe, fossil fuels, and in particular, gas, still have an important role to play in Queensland’s, and the world’s, energy mix.

The sector needs to ensure that exploration is well-placed to recover, and this means providing a means for explorers to survive the current situation without necessarily relinquishing land, so that they are able to quickly resume operations when the outlook improves. If the land is vacant, because the explorers have all had to relinquish, the time frame between a tender process and first drilling is typically in the order of five years by the time the land is released, applied for, preferred tenderer selected, native title process if required, environmental authority grant, grant of tenure, land access negotiations and so on. The economic and political landscape changes much faster than that.

Tenure Matters will return in April. I am happy to hear suggestions about topics you would like covered. Feel free to email me at [sue.slater@rlms.com.au](mailto: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”.

*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:*

*Level 14, 10 Eagle St  
BRISBANE QLD 4000  
P. +61 7 3229 8472  
E. [rlms@rlms.com.au](mailto:rlms@rlms.com.au)*