Tenure Matters

A column by Sue Slater, Senior Advisor Petroleum, RLMS

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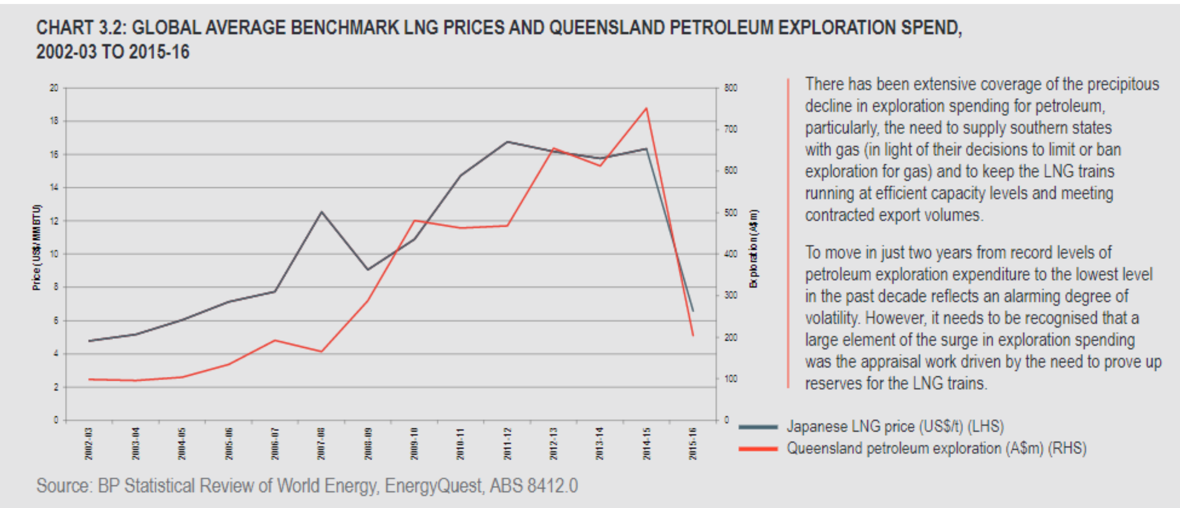
Welcome back. This month let's take a look back at the year just gone. The Queensland Exploration Council released its annual score card for 2016[1] in early December. Two clear messages were highlighted in this document as significant problems:

- application reforms are undone by compliance creep; and
- policy risk, with a range of new regulations which create policy uncertainty.

The scorecard, now in its sixth year, is developed on the assumption that increasing exploration activity is driven broadly by the state's natural resource endowment, the price of key commodities, explorer and investor confidence, and policy and regulatory stability. For all six years of the scorecard, the sentiment on Queensland's prospectivity has been consistently positive. The impact of commodity prices tracks fairly well with exploration spend, showing a precipitous decline in petroleum exploration spending to the lowest level in the past decade that corresponds to the fall in Japanese LNG price. (Extract below from p 11 of the 2016 QEC Exploration Scorecard)



[1] http://www.queenslandexploration.com.au/wp-content/uploads/2016/12/QEC-Exploration-Scorecard-2016_Final.pdf

The Fraser Institute released its annual survey on 3 March 2016, based on surveys conducted in September to November 2015. Queensland marginally improved its overall ranking to 16th from 22nd in 2015, but still sits below Western Australia, Northern Territory and South Australia (note this is across all commodities).

On top of this, the various bans, moratoriums and reviews in place in New South Wales, Victoria, Northern Territory help create uncertainty at a national level, even though Queensland is not currently subject to such bans or moratoriums. The uncertainty engendered by constantly changing policy and legislation should not be underestimated. In 2016, the sector has been impacted by the introduction or amendment of several key pieces of State legislation and the commencement of key parts of Acts which had been passed earlier (mainly the *Mineral and Energy Resources (Common Provisions) Act 2014* and the *Water Reform and Other Legislation Amendment Act 2014*).

This includes Acts that amend the *Environmental Protection Act 1994,* Acts that amend other amending Acts, Acts that amend the *Water Act 2000*[2], and Acts that amend the P*etroleum & Gas (Production & Safety) Act 2004.*

- *Environmental Protection (Chain of Responsibility) Amendment Act 2016*
- *Environmental Protection (Underground Water Management) and Other Legislation Amendment Act 2016*
- *Water Legislation Amendment Act 2016*
- *Mineral and Other Legislation Amendment Act 2016*
- *Mineral and Energy Resources (Common Provisions) Act 2014*
- *Water Reform and Other Legislation Amendment Act 2014*
- Commencement of changes to the *Waste Reduction & Recycling Act 2011*
- *Biosecurity Act 2014.*

Drilling

Petroleum exploration has been hit hard, with exploration spending almost half of the previous year. A search of the borehole database[3] has revealed only 2 conventional petroleum exploration wells drilled with a rig release date in 2016. Both, however, were drilled on Petroleum Leases. So no exploration wells were drilled on exploration permits for conventional petroleum in 2016.

There are no CSG exploration wells with a rig release date in 2016! And only 3 were drilled in 2015. This includes across all tenure types. (There were 173 development and 2 appraisal CSG wells drilled in 2016). The lack of exploration drilling is a calamity, although not unprecedented.

The trend for the last 6 years is shown below for conventional petroleum (Figure 1) and CSG (Figure 2). These show the sharp decline in all conventional petroleum drilling across the last two years, and highlight the lack of CSG exploration drilling for the last several years, with even the development drilling rate almost halved. This does not bode well.

Tenures

In 2016, the Queensland government granted just six petroleum exploration permits. Now before you get too excited about that, three of these were actually conversions from 1923 Act tenures, so

[2] I wrote about the Water Act 2000 amending Acts in Issue 28 September 2016 and the Chain of Responsibility in Issue 24 April 2016
[3] Information captured on 21 December 2016, from MinesOnlineMaps

they aren't really new at all. The other three were granted from land releases, one from 2009 and one from 2011 that were subject to Native Title agreements, and one from 2015.

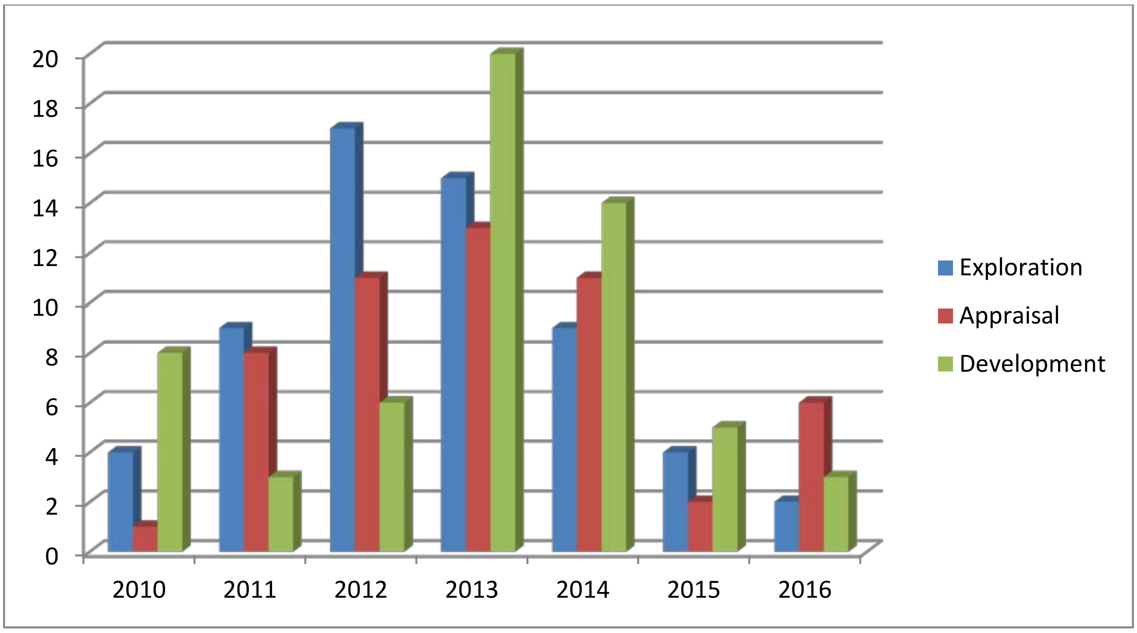


Figure 1 Conventional petroleum drilling, 2010-2016

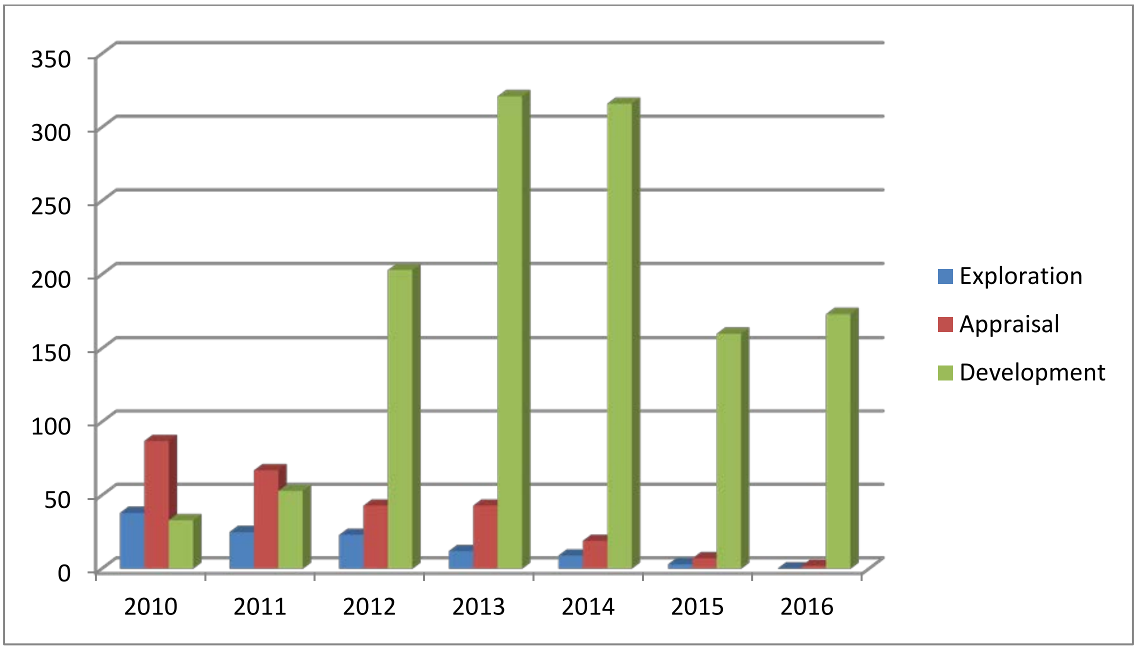


Figure 2 CSG drilling, 2010-2016

On 21 December 2016[4], a media release from the Department, reported with some hyperbole by the Courier Mail on the same day (Figure 3), announced the acceptance of an offer of three areas by Bridgeport Energy and two areas by Metgasco. These areas came from the 2015 land release, which

[4] http://statements.qld.gov.au/Statement/2016/12/21/new-wave-of-exploration-keeps-gas-industry-ticking

means that out of 20 areas made available in 2015 (mainly in the Cooper and Eromanga Basins), one has been granted (a cash-bid block in the Surat Basin) and five have reached the stage that the preferred tenderer has accepted offers. Hardly a "*new wave of exploration keeps the gas industry ticking*" especially since the Bridgeport and Metgasco blocks will be subject to a native title process which will most likely, based on past performance, delay the grant of the new ATPs until 2018 at the earliest. The 2015 bids closed on 8 October 2015, so it has taken more than 12 months to reach this stage. The lack of transparency around the applications for these blocks is also a concern; with no information available on the number of bids received for the other areas.

The release of only two relatively small areas for 2016 (PLR2016/17-1-2 which is 120 sub-blocks, and PLR2016/17-1-1 which is 28 sub-blocks) will hardly set the east coast alight (pun intended). These areas were not gazetted until 11 November 2016 and have a closing date for applications of 20 April 2017.

Figure 3 Misleading headlines?


ER 21 2016 COURIERMAIL.COM.AU

Gas rush to keep lid on power bills


Minister for State Development and Minister for Natural Resources and Mines
The Honourable Anthony Lynham

Wednesday, December 21, 2016

New wave of exploration keeps gas industry ticking

The malaise is not confined to Queensland. The 2016 release of offshore blocks by the Commonwealth resulted in just one block with one bid (W16-8). That bid is under assessment. Twelve other blocks were offered but failed to attract a bidder, although these have been re-released. Meanwhile the Commonwealth have identified 22 potential areas for 2017 release and will hope that these generate better interest.

This prompted Malcolm Roberts from APPEA to comment "*that industry needed to see governments recognise that business as usual will not deliver the new reserves needed to sustain and grow one of Australia's most important industries*". Whilst the comment was specifically addressing the off-shore exploration, it applies equally to the onshore sector[5].

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".

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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[5] *Energy News Bulletin 20 December 2016*
http://www.energynewsbulletin.net/energynewsbulletin/news/1138920/oz-orphan-exploration-dearth?utm_medium=email&utm_campaign=Slugs%202017%20optimism%20Phoenix%20South-2%20looks%20good%20Oz%20no%20orphan%20in%20exploration%20drought-122016-040905&utm_content=Slugs%202017%20optimism%20Phoenix%20South-2%20looks%20good%20Oz%20no%20orphan%20in%20exploration%20drought-122016-040905+CID_2f7c8ef9ec3d0ddea8b237021ede7891&utm_source=Campaign%20Monitor&utm_term=Oz%20no%20orphan%20in%20exploration%20drought