



Tenure Matters



A column by Sue Slater, Senior Advisor Petroleum, RLMS

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Welcome back. This month I am going to discuss the recent announcement by the Minister for Natural Resources and Mines, on January 25, regarding the release of an area which is to be conditioned for Australia-only gas sales; and some of the history behind the legislative provisions making this possible.

The *Blueprint for Queensland's LNG Industry* was released on 17 September 2009, and set out key policies that would enable the CSG-LNG industry to evolve. However, the domestic gas supply question raised its head, and has basically refused to go away since. The consultation paper stated "*the Queensland Government must be sure that there will be a sufficient supply of affordable gas*".

The ability to attach such provisions to exploration acreage was introduced into the *Petroleum & Gas (Production & Safety) Act 2004* by the *Gas Security Amendment Act 2011* (Act No. 16 of 2011). This followed long drawn-out debate with a consultation paper released in late 2009. The options that were considered for reserving CSG for domestic markets were:

1. Reservation for the domestic market of 10% to 20% of gas production; and
2. Creating a reserve of prospective land that would be released only to supply the domestic market.

Submissions, which closed on 15 October 2009, were received from a wide range of organisations, and interestingly most did not support the introduction of **any** reserve policy. In general, option 1 was completely unpalatable, especially since at the time, the major gas producers were in the midst of CSG-LNG project planning, and the retrospective conditioning of existing production tenures would have had implications for the gas supply that was underpinning those projects and investment decisions.

Nevertheless, following the consultation process, the *Gas Security Amendment Act 2011* introduced the concept of the Prospective Gas Production Land Reserve (sections 175A to 175I of the *Petroleum & Gas (Production & Safety) Act 2004*) which allow the setting of an *Australian market supply*

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condition under which gas produced from the land must not be supplied other than to the Australian market, and any contract or other arrangement for the supply of the gas must include a condition that the gas must not be further supplied other than to the Australian market.

Interestingly, in the 5 years since these provisions were inserted, they have not been utilised until now. The proposed land release, shown in Figure 1, area was released on 10 February 2017¹, and is only 58km² in the Surat Basin². This is a very small area, and even at best, will have the capacity to deliver only a comparatively small amount of gas to the Australian market. There are no existing wells in the released area, although it is surrounded by granted PLs and existing wells. The PLs to the west and north held by QGC Pty Ltd or BG International (Aus) Pty Ltd are particularly well-drilled.

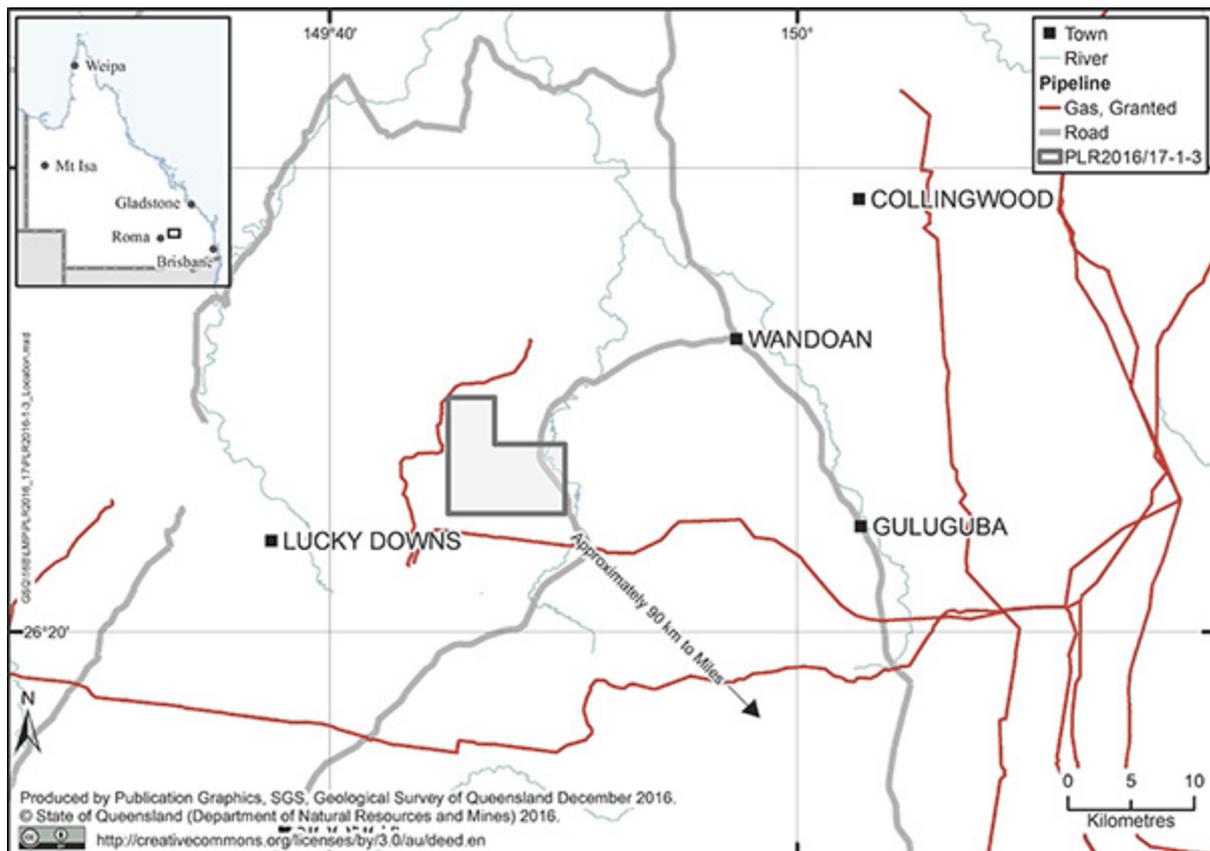


Figure 1: Land release PLR2016/17-1-C

In addition to being the first time the government has used the Prospective Gas Production Land Reserve provisions, it is also the first time that land has been released for a PL rather than an ATP. The provisions under Chapter 2, Division 3, allow the Minister to call for tenders for Petroleum Leases, and generally set out the process for the tenders, deciding the tenders, and criteria for these decisions (see section 127 to 134). Although these sections have undergone numerous minor amendments, they have been in place since the commencement of the 2004 Act.

That Queensland has a large gas resource is not in dispute – the extent to which that resource can **cost effectively** be brought to market remains to be seen, and will determine the end cost to the customer. Transmission costs are high; infrastructure development takes a long time; and generally

¹ <https://www.business.qld.gov.au/industries/invest/mining/exploration-incentives/current-tenders>

² <http://statements.qld.gov.au/Statement/2017/1/25/gas-pilot-aims-to-keep-energy-at-home>

from discovery to production takes at least 10-15 years unless existing infrastructure can effectively be utilised. Increasing regulation over the industry has increased compliance obligations and costs – and increased the time it takes to get the necessary approvals. All this increased regulatory burden impacts on both the availability and cost of gas to the market – and slows down the development of new fields.

Meanwhile, there are 20 undecided ATP applications; 35 undecided PCA applications and 74 undecided PL applications (includes 5 replacement tenure applications). It seems that a swifter avenue to address real or presumed gas supply issues would be to expedite the grant of these tenures – many of which will presumably already have at least commenced the potentially lengthy native title, environmental and land access processes. The oldest of these applications for PCAs date back to 2007, for PLs to 2001, and for ATPs to 1999!

Now, there are a number of reasons why grants might be delayed: including native title processes and environmental approvals, and at times this delay is due to company inaction, and at times government inaction. And certainly not all of these applications would be equally deserving of grant; but it is difficult to see a downside in declaring the outstanding PCAs in particular. Declarations would trigger the evaluation programs – and at the moment most of these areas are probably not being drilled due to issues around tenure security. Declarations would result in more activity and in particular more drilling.

In the whole of 2016, only two conventional exploration wells were drilled and no CSG exploration wells³. Appraisal and development drilling for both conventional and CSG had also declined from the highs experienced in 2013. The bottom line is that we can't find more gas if we aren't drilling.

The next issue will be in March.

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:

Level 14, 10 Eagle St
BRISBANE QLD 4000
P. +61 7 3229 8472
E. rlms@rlms.com.au

³ See Tenure Matters No 31 https://www.rlms.com.au/wp-content/uploads/2016/12/32-Dec-16-Tenure-Matters_No31.pdf
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