APPEA AUSTRALIAN PETROLEUM PRODUCTION & EXPLORATION ASSOCIATION

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Workers at Moura. PHOTO COURTESY ORIGIN ENERGY

FROM THE CHIEF EXECUTIVE'S DESK

Belinda Robinson
Chief Executive, APPEA

The possible should not be seen as the enemy of the perfect

Road to Utopia leads to dead end

BG Group's commitment of $15 billion to the development of the world's first LNG project to be supplied by coal seam gas (CSG) has rightly been recognised as a watershed moment for the Australian oil and gas industry.

Australia's east coast LNG province is now a reality and other CSG-fed projects are set to follow. Several are planned for Queensland and APPEA member companies are also considering a New South Wales CSG–LNG hub.

The economic rewards for Australia — and parts of regional Queensland and NSW in particular — will be enormous.

Furthermore, the growth of Australia's gas sector will slow the growth of greenhouse gas emissions in Australia and in our Asian LNG markets as further investment in greenhouse-intensive coal-fired power stations becomes increasingly unnecessary. For every tonne of greenhouse gas emissions generated by LNG production in Australia, up to nine tonnes or emissions are avoided in customer countries when this LNG is substituted for coal in electricity generation.

To most Australians this is unequivocally good news. But some Greens politicians and environmental activists are calling for moratoriums on offshore exploration, deepwater drilling and development of the CSG industry.

In fact, if the Greens had their way there would be no Australian gas industry and a coal-fired energy future would be locked in for the long term. This is because the only solution to date proffered by the Greens is solar and wind power, neither of which can provide affordable, reliable, baseload power any time soon.

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FROM THE CHIEF EXECUTIVE'S DESK continued from page 1

The growth of Australia's gas sector will slow the growth of greenhouse gas emissions.

PHOTO COURTESY QGC

In relation to CSG, concerns over aquifer depletion and contamination and water quality have been addressed by the Queensland and federal regulators, 1500 conditions have been attached to each of the first two CSG–LNG projects, adaptive management approaches applied, and make-good provisions included in the event that impacts are detected. There is no doubt regulation is stringent, but this is to be expected given that some stakeholders believe CSG is still to prove itself.

New industries and new demand breed new technologies. At the time of writing, soda ash producer Penrice Soda Holdings has developed a technology to remove salts from the CSG water stream and is expected to announce a pilot plant. The company says the pure water stream could be used for human consumption, agriculture or environment purposes, while the reject stream would be processed via a chemical plant to create saleable salt, soda ash and sodium bicarbonate.

New approaches, new technologies and some of the toughest regulatory regimes in the world are unlikely to halt opposition to our industry. But they will, I believe, see the industry continue to grow and lead all others in securing the optimal balance in responsible environmental management and national economic benefit.

In a perfect world, all forms of energy would produce zero emissions, and clearly natural gas is not perfect. But as Voltaire wrote: "perfect is the enemy of good".

This is also known as the nirvana fallacy — an error in reasoning in which an actual, achievable option is compared with an unrealistic, idealised alternative. By presenting an option that is obviously desirable while at the same time being completely implausible, any opposing idea can be attacked because it is imperfect.

But the rational choice is not between real world solutions and utopian hopes. It is a choice between two realistic but imperfect possibilities, one of which is better than the other. Holding out for perfection is irrational, irresponsible and ultimately self-defeating. It also locks in an energy future that is simply more of the same.

I am certain that we will look back, with a degree of pride, on the noughties as the beginning of the age of gas, as an important part of the continuum to de-carbonising global economies. Because for a whole pile of reasons, it is the rational choice.

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LNG

LNG18 is a great opportunity to showcase Australia's LNG industry and share knowledge with professionals from around the world.

Australia to host world's largest LNG conference

The Australian gas industry is celebrating the decision to hold the world's largest and most important liquefied natural gas conference in Perth in 2016.

Meeting in Houston, the LNG17 Steering Committee announced on 16 November that — following LNG17 in Houston in 2013 — the 2016 installment of the triennial International Conference and Exhibition on Liquefied Natural Gas will be held in Perth.

APPEA Chief Executive Belinda Robinson said the LNG conference Steering Committee's decision to hold LNG18 in Australia in 2016 reflected the international gas industry's esteem for Australia.

Ms Robinson said LNG18 would see Perth hosting more than 5000 international representatives and exhibitors from the global LNG industry.

"Given Australia's success in hosting LNG12 in 1998, I have no doubt that we will make LNG18 the best LNG conference," she said.

The International Conference & Exhibition on LNG is held every three years and alternates between producing and consuming countries. The next event (LNG17) is scheduled for Houston, Texas in 2013.

Ms Robinson said the decision to hold LNG18 in Australia reflects Australia's growing global importance as an LNG producer.

"Australia is already a world-class LNG exporter and has the most ambitious and most innovative LNG expansion plans of any country in the world," she said.

"We will be the first country in the world to develop a coal seam gas-based LNG sector and we are a strong contender to host the world's first floating LNG project. By 2016, we will be well on our way to becoming the world's top LNG producer."

Ms Robinson said LNG18 is a great opportunity to showcase Australia's LNG industry and share industry ideas and knowledge with professionals from around the world.

"LNG18 will bring thousands of business leaders to Australia, boosting not only the Australian LNG sector but also Perth's local economy and tourism," she said.

Representatives of the Australian natural gas industry in Houston to promote Australia's bid included: Ms Robinson; Envestra Managing Director and Australian Gas Industry Trust Chairman Ian Little; Origin Energy Managing Director and LNG18 Bid Advisory Committee Chairman Grant King; and Director General of the WA Department of State Development Anne Nolan.

Darwin LNG: Australia's growing importance as an LNG producer has been recognised by the decision to hold the prestigious LNG18 Conference in Perth in 2016.

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SENIOR APPOINTMENTS

APPEA makes senior appointments on two coasts

With the Australian oil and gas sector going from strength to strength — particularly in Western Australia and Queensland — the APPEA secretariat recently appointed two new directors.

NEW DIRECTOR — QLD CSG

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Recognising the growing importance of Queensland's coal seam gas sector, APPEA appointed Ross Dunn as its first Director — Queensland CSG in late September.

APPEA Chief Executive Belinda Robinson said as a long-term resident of the Darling Downs region with an extensive background in agriculture and policy development, Mr Dunn is well suited to his new role.

"Ross's experience makes him the right fit for APPEA and well qualified to work with communities and industry partners in supporting the sustainable growth of Queensland's coal seam gas industry," Ms Robinson said.

In addition to his background in agri-business, Mr Dunn is a former Policy Director with the Queensland Graingrowers Association and a senior federal political advisor.

Based in Brisbane, Mr Dunn is responsible for APPEA's engagement with regional communities, APPEA's CSG-producing members, NGOs, and senior Queensland Government representatives.

He said he was pleased to be joining APPEA at such an exciting time for the CSG industry.

"Australia has enormous coal seam gas reserves, technical know-how and proximity to the growing economies of Asia," Mr Dunn said.

"These significant advantages should see the Queensland CSG industry growing strongly in the coming decade.

"But the industry can only reach its potential if it works with local communities. The companies in this sector know their future depends upon their ability to comply with strict regulation and upon earning and retaining the goodwill and support of the communities and landholders in areas in which they operate."

NEW DIRECTOR — WA

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On Monday 15 November, former senior public servant Stedman Ellis assumed the position of APPEA Director — Western Australia.

Mr Ellis was previously the Deputy Director General, Strategic Policy, with Western Australia's Department of Mines and Petroleum.

Before joining the Department of Mines and Petroleum, he held a series of senior external affairs and communications roles over a 17-year period with BHP Billiton and, prior to that, with the WA Chamber of Minerals and Energy.

Ms Robinson said Mr Ellis brings exceptional skills and experience to APPEA.

"Mr Ellis has particular strengths in public policy and political advocacy, and is well known and highly regarded by both government and the WA oil and gas industry," she said.

"With most of Australia's oil and gas industry being on the west coast, APPEA's Perth office plays a crucial role in securing the long-term future of our industry and in progressing the collective wellbeing of APPEA members operating in Australia's premier petroleum province.

"Mr Ellis's senior public and private sector experience, and knowledge of the industry, makes him highly suited to this new role and for advancing the industry's aspirations in WA."

AUSTRALIAN EXPLORATION ACTIVITY: AUGUST–OCTOBER 2010

Pitney Bowes Business Insight

Pitney Bowes Business Insight Australian Exploration Activity Map

For a map of Australia showing the location and status of recently drilled petroleum wells, current petroleum licence coverage, including available acreage, click here.

Map provided courtesy of
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TAXATION

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Taxing times

The Australian Government's decision to extend the scope of the Petroleum Resource Rent Tax (PRRT) regime to cover onshore oil and gas projects and offshore projects not currently subject to the regime poses a number of complex problems. It is important that the government's Policy Transition Group (PTG) recommends transitional provisions that facilitate equitable and efficient outcomes.

In November, APPEA made a wide-ranging and comprehensive submission to the PTG. We argued that well designed settings could fix existing problems in the PRRT regime and deliver a workable, fair and relatively streamlined system that encourages further investment in exploration and production. But the wrong settings could do significant harm to an industry that is becoming increasingly important to Australia, discouraging further investment and perversely delivering less revenue to taxpayers.

APPEA and the industry are taking a keen interest in the PTG process. We are optimistic the group's report will address several issues of concern to the industry.

Dual tax structure

All affected projects will face technical, compliance and fiscal implications associated with moving into and operating under PRRT. Under the new system, transitioning gas projects will now face not only the PRRT but also existing state royalty regimes. Oil and condensate projects will come under PRRT, royalty and production excise systems. Even companies that are not required to pay the PRRT (because of their profitability and/or their existing royalty obligations) will face a greater administrative burden.

It is critical that companies do not face double resource taxation imposts. The dual taxation system must have clear rebate provisions that not only account for existing royalty and excise rates but adjust for future increases.

The system must also be as streamlined as much as possible in order to minimise the complexity and cost of operating within this dual tax structure.

Transitional arrangements

The definition of a 'petroleum project' must be modified so that it covers the vastly different operational structures associated with transitioning petroleum activities.

The system must also provide realistic and practical methodologies for companies to determine 'starting base values' that appropriately reflect different corporate and project structures. Valuation options must be consistent with industry practice and be flexible enough to ensure the process is efficient, robust and cost-effective.

Initial starting base values and expenditures incurred during the transition period must be fully and immediately deductible, and must be captured by the existing augmentation principles. All existing and future petroleum resource taxation payments must be fully creditable against future PRRT liabilities for each project, with augmentation at the general project cost carry-forward rate.

Clear policy guidance is also essential to ensure that all project activities associated with current and future petroleum operations are fully deductible.

Impact on small-to-mid-sized companies

Administration of the PRRT regime must reflect the nature and scale of the industry's operations. Costly and complex compliance burdens must be avoided and special care should be given to small and mid-sized entities. A tax-free threshold provides an important investment signal for many smaller companies investing in the industry.

Impact on new forms of production

Applying PRRT to operations such as coal seam gas, tight gas and shale gas must be undertaken in a manner that reflects these activities' different operational, commercial and risk structures. Inappropriate or poorly administered fiscal settings could stifle these new activities.

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TAXATION

Taxing times *(continued)*

Fix existing problems

Existing problems must also be addressed. In particular, the Australian Tax Office's approach to key interpretative and compliance processes is flawed.

The industry supports the overarching principles associated with the current PRRT framework. But concerns over the interpretation of issues such as the scope of deductible expenditure, the definition of exploration and the nature of excluded expenditure need to be addressed. We see the PTG as playing an important role in this process.

The government must also work to ensure the ATO and policy agencies fully understand not only the detail of the new laws, but also the nature of the industry's operations. APPEA is very concerned with the ATO's approach. A poor understanding of the industry has led to: unrealistic restrictions in the scope of eligibility of deductions; complex reporting and substantiation obligations that are not aligned to normal business reporting systems; and costly compliance.

Unless these issues are addressed, projects transitioning into the PRRT regime will face confusion and unnecessary costs.

The PTG's report on the revised PRRT and transitional arrangements for shifting projects from the current regime to the new system is expected before Christmas. The PTG is also concurrently examining possible exploration incentives, but it is unclear whether its findings on this subject will also be delivered in late December or if they will be released early next year. The industry is eagerly awaiting the outcome of the process.


PHOTO COURTESY SANTOS

The Australian Government intends to apply PRRT to onshore projects.

Fiscal incentives for exploration

In our submission to the Policy Transition Group, APPEA highlighted the case for the introduction of a targeted exploration incentive to assist Australia's junior explorers.

Lengthy consultation with numerous stakeholders (including investors' groups) indicates the best form of exploration incentive is through a flow-through share model.

Eligible companies would be allowed to 'flow' deductions to shareholders in return for the exploration entity relinquishing the right to claim a future income tax deduction.

The deduction would be claimed via a tax credit based on the company tax rate at the time the expenditure is incurred (similar to the principles underpinning the existing income tax franking system).

All Australian public companies would be eligible to use the mechanism for exploration undertaken in Australia, but limiting conditions could be applied to cap government outlays under the regime.

APPEA strongly believes a flow-through share initiative would assist in increasing petroleum exploration in Australia. This would not only aid Australian-based junior explorers, it would deliver economy-wide benefits, including:

- multiplier impacts on a wide range of service and supply industries
- employment
- replacing imported petroleum products with domestic production
- supplying energy for local consumers and industry
- payment of taxes, fees and charges at the national, state and local government levels
- strategic energy security.

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CSG — GUEST ARTICLE

Cr Ray Brown
Mayor, Western Downs Regional Council

Dalby, Western Downs, Queensland.

Strike the right balance and strike it rich

Striking the right balance between economic development and environment management will be the key to striking it rich from Queensland's emerging coal seam gas-to-liquefied natural gas (CSG–LNG) industry.

Adopting such an approach will allow exciting projects such as Queensland Curtis LNG, Gladstone LNG and Australia Pacific LNG to bring massive rewards to several parts of regional Queensland, including my own region, the Western Downs district.

The employment benefits alone will be substantial. The QCLNG Project promises 2500 construction jobs over the next four years, plus some 300–350 jobs directly generated in operations from 2014. Opportunities will also be plentiful for investment growth in the many business sectors needed to service the energy industry, as well indirectly generated skilled and unskilled jobs in education and training, transport and logistics, waste management, engineering and tourism.

These job opportunities, coupled with the investment in skills courses in local high schools, will keep our young people living and working in our region, and contributing to the future growth of our communities. Added to that, we can expect to see a dramatic increase in income levels in coming years. Currently, Dalby has the highest average income in the region, coming in at $38,868 per annum compared to the Queensland average of $41,911. The booming economy will also have a flow-on effect for the real estate sector, bringing continued strong growth in housing prices, which have already increased by 142 per cent in the last five years.

The challenge now for the Western Downs in particular and Queensland and Australia in general is to strike a sustainable balance between the environment and commercial enterprise to ensure that we maximise the benefits from our wealth of resources. This will take long-term integrated planning, collaboration by all levels of government and industry and timely, comprehensive research. Particularly around CSG water, beneficial use of salt waste, fraccing and the protection of our prime cropping lands.

These projects will keep our young people living and working in our region, and contributing to the future growth of our communities.

The CSG–LNG industry is already subject to the most rigorous environmental approval and monitoring processes in Queensland's history, with projects required to comply with 1200 state government conditions and a further 300 Australian Government conditions.

In addition, the *Draft Surat Basin Regional Planning Framework 2010*, now open for public consultation, offers a unique opportunity for the Western Downs region to maximise the economic benefits flowing from this new industry and to minimise any unintended consequences of rapid growth. The consultation process is giving local communities the chance to have their say in how to best manage the projected growth in population, service provision, employment, housing and community services, and infrastructure. Our infrastructure, in particular, will be placed under enormous pressure and state and federal governments must make firm commitments to provide financial assistance.

Another area where improvements have been made is in land access legislation, with the introduction of new laws last month paving the way for better relationships between local landholders and all sections of the resource industry, including the CSG–LNG sector. These laws have been designed to provide clear guidelines to companies seeking land access and to ensure fair compensation to landholders for the impact of activities on their land.

There is no doubt that the progress made to date is creating an environment that will allow the Western Downs to flourish in the future. Through an ongoing collaborative approach — by the CSG–LNG industry, federal, state and local governments and local communities — we can strike the right balance and, as a consequence, enjoy the benefits of striking it rich.

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CSG

This is an exciting time for CSG, but rapid change can make people uneasy.

Community consultation is crucial for CSG developments. PHOTO COURTESY QGC

Respectful co-existence the key to CSG boom

There have been big changes in the coal seam gas landscape in the few months since the last issue of *Flowline* was published (and since I joined APPEA as its first Director — Queensland CSG).

BG Group's final investment decision for Queensland Curtis LNG is a major milestone. This is the British corporation's big foray into an Asia–Pacific gas project and the $15 billion budgeted for this project is BG's largest-ever international commitment.

CSG–LNG is no longer hypothetical and it is almost certain that other projects will follow.

QCLNG and other major CSG projects will deliver major investment into several parts of regional Queensland, benefitting not only those regions in particular but also Queensland and Australia as a whole.

Big changes are happening in CSG and at a very fast pace. This is an exciting time for the industry, but rapid change can make people uneasy. The CSG industry is still relatively new and is not well understood by the wider community. We are vulnerable to scare campaigns and it is in our interests — and the interests of the communities in which we operate — for us to explain our operations and work to set people's minds at ease.

The Queensland CSG industry needs to co-exist with the community in general and landholders in particular. We have to treat people well and respect their rights. In my experience, landholders are usually good to deal with as long as you are on the level and treat them fairly. But if you storm onto their property, push them into a corner, wave a piece of paper under their nose and tell them you have the authority to do whatever you like on their property then you will get the reaction you deserve.

This sort of in-your-face stuff only has to happen once to put landholders and the wider community offside and undo a lot of good work. As a good friend and mentor of mine used to say, "You catch more brown bears with honey than with bad language".

Having to share the land surface with CSG bores or other production facilities will, to varying degrees, affect the day-to-day running of farms and it stands to reason the more intensive the agricultural enterprise the greater the effect will be.

Landholders also have concerns over water extraction associated with CSG production and its possible regional effects on the Great Artesian Basin. The CSG industry recognises it has a moral and a legal obligation to make good any impact on aquifers. If necessary, treated CSG production water will be injected into aquifers.

The Great Artesian Basin will be studied, monitored and analysed like never before. This information will be freely available and will underpin the two cornerstone principles of information and transparency that are essential in developing the trust necessary for CSG and landholders to co-exist.

CSG will bring money to local communities and lead to more infrastructure, jobs and services, creating opportunities and making it easier to keep young people in parts of regional Queensland.

But landholders and rural communities have genuine concerns over how our industry can affect them. It is up to us to earn their trust and allay those concerns. Once that has been done, the benefits of these projects will be more apparent to the wider community.

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CSG industry dives into watershed study

The potential for impacts on groundwater resources is a key issue in areas with coal seam gas operations. The industry is committed to transparency and increasing knowledge in this field, which is why it is strongly supporting the Namoi Water Study.

This study will provide a spatial understanding of underground and surface water flows in the Namoi catchment, as well as a strategic assessment of the likelihood of potential impacts posed by coal and gas development on the quantity and quality of surface and groundwater. The focus is on producing practical outcomes, and providing a rational and scientific basis for debate about the potential impact of the industry. Advancing community understanding is a key goal of the study.

The study is a joint initiative supported by farming and community groups, the resources industry, and the NSW and Australian Governments and is being undertaken by Schlumberger Water Services. The coal seam gas industry is providing significant funding to support the study, and will also provide access to data collected in the course of exploration. Four coal seam gas companies active in the Namoi catchment — Santos, Eastern Star Gas, Dart Energy and Apollo Gas — have contributed funds to the study.

The Namoi is a major tributary of the Darling River in inland northern New South Wales. It drains the Liverpool Plans region, which includes Gunnedah, Tamworth and Quirindi. The Namoi Water Study will cover surface and groundwater resources in the whole of the Namoi catchment, including tributaries such as the Peel and Mooki rivers, and Maules and Plan creeks.

Information generated by the Namoi Water Study will add to the community's existing knowledge and the mapping and monitoring of underground aquifers already undertaken by resources explorers. By providing scientific information on the relationship between the region's gas and coal reserves and its surface and groundwater resources, it will create an invaluable planning asset for farmers, gas companies, miners and communities.

Importantly, it will consider many aspects of water resources, including:

- spatial distribution of water resources in relation to the geological distribution of gas and coal resources
- surface water and groundwater as connected aspects of a single resource — aquifer architecture, drainage, recharge zones and discharge
- interaction between shallow and deep aquifers in a multi-layered system
- date on water use by agriculture, gas and coal activities, and town supplies
- potential impacts of gas and coal development.

Transparency and stakeholder engagement are central to the study's terms of reference and the study is supported by a Stakeholder Advisory Group. The study is directed by a ministerial oversight committee.

A precious resource: The confluence of the Namoi and Manilla Rivers at Manilla NSW.

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SKILLS AND SAFETY

Fuelling petroleum projects: skills, labour and overseas migration

Australia's petroleum industry is once again facing difficulties in filling skilled positions.

The labour and skills shortages of the last boom are fresh in the memories of most oil and gas professionals. With years of sustained growth in the resources sector expected, Australia's petroleum industry is once again facing difficulties in filling skilled positions.

This country needs more people and more skills. The oil and gas industry is doing its part by working and investing to develop and retain engineering and other skills needed to deliver further growth.

In particular, the sector is investing heavily in key pathways to employment such as cadetships, traineeships and graduate programs. The industry is also active in schools and universities, promoting maths, science and engineering to young Australians in an attempt to attract more people into our industry, and in particular into engineering disciplines.

The industry will also continue to focus and invest in a diverse workforce. Programs that enable us to tap into sectors of the population that have not traditionally played a large part in our business can help enlarge the labour pool.

But in some instances the industry must recruit overseas workers — both to meet short-term construction commitments, and to meet medium-to-longer term needs for essential skills. Highly skilled overseas oil and gas workers play a vital role in educating, coaching and training our Australian workforce so we can ultimately rely on core long-term operational skills developed and based in this country.

Migration and visa options

Lessons learnt from the last boom prompted the Australian Government to review skilled migration and visa arrangements. Changes to visa arrangements mean that with appropriate forward planning, it should now be possible to bring workers in when needed.

The Department of Immigration and Citizenship (DIAC) carries out much of its migration work on the basis of strategic plans. But these plans can come unstuck if the information provided by economic and business research is inaccurate. Industry forward planning is essential to ensure the government can to deal with labour demands. Forward planning should also determine which visa class is most advantageous for both a company and the worker. Picking the right migration option can save a company considerable time and resources.

It is important to consider the human element of employment-related migration. Many people aiming to come to Australia want to settle and may be disappointed later if they are cannot do so; but others will only come for a short term, career-enhancing move.

Sponsors of workers must understand the difference and keep in mind the cost to individuals who relinquish a job, home and other links to move to Australia. This international move can burn the bridges that would be needed if the move to Australia does not lead to permanent residence. It makes sense to manage expectations and to save time and resources by selecting the right visa option upfront.

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Department of Immigration: Industry outreach officers

DIAC provides an industry outreach officer to APPEA to provide direct advice to employers on their migration options.

For more information on the oil and gas industry's outreach officers please contact:

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Demand for skilled workers is increasing.

REGULATION

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Industry's Montara response is fuelling regulatory change

Oil and gas companies operating in Australian waters are responding strongly — both individually and collectively — to the Montara incident.

Media attention has been focused on the development and expected release of the Commission of Inquiry's report on Montara. Meanwhile, industry has been working quietly — but vigorously and productively — behind the scenes.

Companies have undertaken in-depth internal audits of their operational practices and an APPEA taskforce has been set-up to take an industry-wide approach to several key issues related to both the Montara incident and the Macondo spill in the Gulf of Mexico.

APPEA has also established two groups of industry experts to focus on drilling and emergency response issues.

The taskforce and steering committees will work proactively to identify and implement relevant cross-industry response lessons arising not only from Montara but also from the Macondo incident in the Gulf of Mexico.

Industry has undertaken comprehensive reviews of its practices and operations in response to Montara. There is a real need to understand what happened at Montara, why it happened, and what must be done to ensure such an event does not happen again.

APPEA and industry experts are tackling several areas of concern.

One group will concentrate on title holder-contractor relationships and well operations management. Building on the fundamentally sound system already in place in Australia (through the safety case and well operations management plan requirements) it will develop a self-audit template. This template will focus on communication between the title holder and the drilling contractor and emphasise consistency and rigorous implementation of the communication processes.

A second group will concentrate on the technical response to potential offshore emergencies, including guidelines for drilling-related mutual aid and indemnities and liabilities. This work will produce a memorandum of understanding that will set out the principles and framework for mutual aid.

A third group will focus on oil spill preparedness and response. This group's brief is to develop an oil spill contingency response plan template. This template must ensure that exploration and production spill response capability for the Australian offshore oil and gas industry is:

- based on risk
- compatible with the accepted 'tiered response' concept developed for surface spills and maritime protection
- scalable to take account of the actual need
- acceptable to the regulators
- capable of being integrated into E&P management systems, safety cases and operations.

Federal Resources and Energy Minister Martin Ferguson has met with APPEA representatives and members to discuss key issues related to Montara and has said he expects to release the Montara Commission Inquiry report before the end of the year.

"We need to understand what is required to ensure such an event does not happen again."

APPEA Chief Executive, Belinda Robinson

"Working together, we can reduce the number and severity of safety lapses and hydrocarbon releases."

Minister for Resources and Energy, Martin Ferguson

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EXPLORATION

Seismic aquisition. PHOTO COURTESY WOODSIDE

Time to explore the reconnaissance option

Australia is very much underexplored — with only around 20 per cent of the continent having seen any exploration work — and exploration activity and interest remain overwhelmingly concentrated around known hydrocarbon provinces. With the country's oil production steadily declining even as demand for oil gradually increases, Australia's faltering exploration effort should be a major concern for policy makers.

Oil is an expensive fuel and Australia's rapidly growing LNG export sector cannot offset the cost of oil imports. Today Australia has a trade deficit in petroleum products of some $16 billion per annum. Without major new discoveries, according to the Australian Government, this will grow to around $30 billion per annum by 2015.

Australia's current oil and gas-producing provinces were all found to be hydrocarbon-bearing by 1972. The history of hydrocarbon exploration over the past 35 years has been one of delineating these basins' full potential.

New oil fields that have come online in recent years can do nothing more than slow the decline in Australia's petroleum liquids self-sufficiency. Given the maturity of Australia's oil producing areas, only the discovery of a significant new oil province can arrest the long-term decline in Australian oil production.

Australia has more than 50 sedimentary basins, of which only 12 are producing oil and gas and four have non-commercial reserves. Many basins that could have hydrocarbons have not been drilled to any extent. Clearly more exploration is needed, but so little is known about Australia's frontier basins that would-be frontier explorers can't justify the risks to their shareholders. The only way to reduce the risk of frontier exploration is to increase knowledge about frontier basins' geology.

APPEA believes that a modified licensing system could help open up some of Australia's onshore and offshore frontiers.

eRecon — the model

The oil and gas industry believes a new form of petroleum permit could boost frontier exploration by enticing committed explorers with large acreage awards. Allocating normal-sized permits does little to help build regional geological pictures in poorly understood frontier regions. However, surveys and data collection and interpretation over large lease areas would help build genuine regional geological perspectives.

The easy reconnaissance — or eRecon — permit system would be administered under the existing work program bidding system. Permits would be nominated under existing gazettal system. They would involve competitive bidding through normal bidding rounds.

eRecon could help deliver a better understanding of Australia's unknown and hidden hydrocarbon potential. However, APPEA believes it would only it achieve its full potential when combined with a fiscal incentive for exploration, such as a flow-through share scheme. Two such schemes in tandem could possibly rein in the alarming growth in our petroleum products imports.

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CLIMATE CHANGE

Step on the gas to cut carbon

KEY FACTS

- Electricity generated using natural gas emits 50–70 per cent fewer greenhouse gases than conventional coal-fired power stations.
- By 2030 the world will need 40 per cent more energy and the energy needs of China and India will account for half the growth in world energy needs.
- 78 per cent of China's electricity and 69 per cent of India's electricity is generated from coal.
- When Australian LNG is used in place of coal to generate electricity in customer countries, 4.5 to 9 tonnes of carbon dioxide emissions can be avoided for every tonne emitted in LNG production, liquefaction and export.

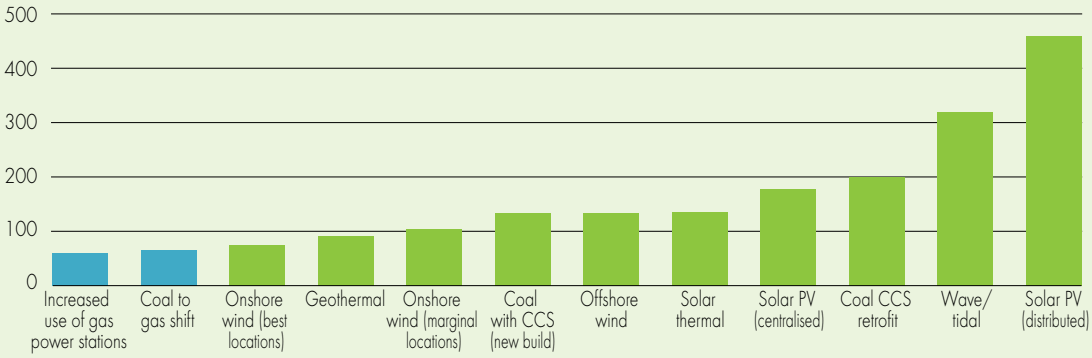
With the Australian Government having set up a Multi-Party Climate Change Committee, the development of a carbon price system is once again a live issue in national politics. Under the committee's terms of reference, a carbon price could involve a carbon levy (or tax), an emissions trading scheme, or a hybrid of both.

APPEA has welcomed the announcement of the committee and the news that the issue of carbon pricing is now being revisited. But it cautions that any policy developed must take a rational, effective and workable approach to climate change and energy policy. Such an approach must both economically and environmentally responsible and must deliver greenhouse gas abatement at least cost.

APPEA hopes that the Multi-Party Climate Change Committee — whose members include Labor, independent and Greens MPs — recognises that any credible policy to reduce Australian and global greenhouse gas emissions will involve greater use of natural gas. By gradually replacing ageing coal-fired generation, gas can deliver significant cuts to greenhouse gas emissions, both in Australia and in Asian LNG export markets, while also enhancing energy security and economic development.

Gas is the only fuel that can deliver such a result. At a time when electricity prices are rising rapidly across Australia, it is important that policymakers address climate change in a rational manner that delivers significant emissions cuts at the minimal possible cost.

Cost of abatement for alternative electrical power generation technologies ($A/tonnes CO_2-e abated)



Source: ClimateWorks Australia (2010). Note: The ClimateWorks Australia report does not consider the cost of nuclear power in Australia.

APPEA has called for the Multi-Party Climate Change Committee to help develop policies that:

- establish a long-term carbon price signal nationally across the whole economy
- recognise that Australia's domestic gas industry can help Australia move to a significantly less carbon-intensive future and Australia's gas exports can help the world move to a significantly less carbon-intensive future
- recognise cleaner global contributor exports (including the LNG industry) by minimising the costs the industry faces in the absence of a carbon price being imposed on higher-emitting energy sources in customer countries and competitors.

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Longford gas plant in Victoria

EVENTS

2011 APPEA Conference and Exhibition

Following a record turnout of 2600 at APPEA 2010 in Brisbane, APPEA is expecting an even larger attendance at the 2011 National Conference and Exhibition to be held on 10–13 April.

Momentum is building. Most technology and business papers have been confirmed with more than 130 presentations being delivered over three days.

APPEA is now putting the final touches to the keynote speaking program, having already having secured draw cards such as:

- **Hamad Rashid Al Mohannadi** Managing Director–CEO, RasGas
- **Christof Rühl** Chief Economist, BP
- **Joe Stanislaw** Independent Senior Advisor, Energy & Sustainability, Deloitte LLP
- **Don Voelte** Managing Director and Chief Executive Officer, Woodside Petroleum
- **Matt Rogers** Global Leader Oil & Gas Practice, McKinsey & Company
- **Professor Andrew Hopkins** Professor of Sociology, Australian National University

THE APPEA EXHIBITION

The exhibition is a rapidly expanding aspect of this event. This year it will occupy more than 8000m² of space. More than 150 companies have taken booths, including some major overseas players exhibiting in Australia for the first time.

Six spacious networking lounges spread throughout the conference floor will provide ideal meeting points to share industry knowledge, discuss new business opportunities and catch up with old friends.

The APPEA lounge will also provide the new 'chill zone', a custom-designed area to provide a great setting for doing business and relaxing with colleagues.

APPEA also proudly presents the new-look poster presentation area, featuring more than 50 poster presentations.

The exhibition will again offer delegates a virtual office with state-of-the-art business facilities. The technology and business centre will provide computers, laptop and battery charging facilities and wireless internet throughout the whole exhibition.

Exhibition space went on sale on 7 October and sold out before the end of that month. Interested parties are now requested to contact APPEA (email exhibition@appea.com.au or phone Julie Hood on +61 7 3802 2208) to be placed on a waitlist or discuss other promotional opportunities.

There has also been a strong take-up of sponsorship packages, but excellent opportunities are still available (contact Julie Hood to discuss further).

For a full list of exhibitors, go to www.appeaconference.com.au/exhibition.html

Registrations for APPEA 2011 open in mid-December. Conference updates are available at **www.appeaconference.com.au**

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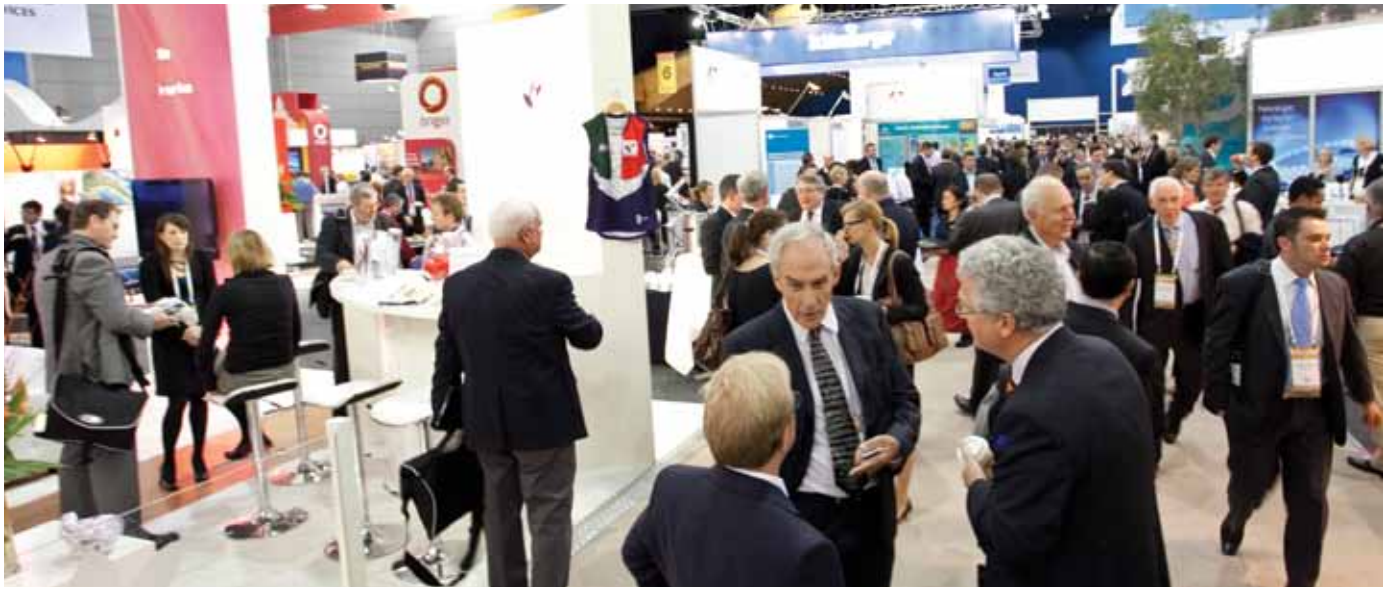
10–13 APRIL 2011 PERTH CONVENTION AND EXHIBITION CENTRE, WESTERN AUSTRALIA

APPEA 2011

CONFERENCE AND EXHIBITION



THE COUNTDOWN HAS BEGUN

TO AUSTRALIA'S PREMIER INTERNATIONAL OIL AND GAS INDUSTRY EVENT

The **2011 APPEA Conference and Exhibition** will be held at the Perth Convention & Exhibition Centre **10–13 April**

EXHIBITION SPACE SPONSORSHIPS

ON SALE NOW

For exhibition, sponsorship and registration details visit www.appeaconference.com.au

KNOW YOUR MEMBERS

Easternwell | ASSOCIATE MEMBER

An Easternwell Advantage rig

Merged entity spins the drill bit

Drilling and field services provider Easternwell is a national company offering a wide range of services for the high-growth energy and mineral sectors.

In January, Toowoomba-headquartered Easternwell Group merged with Perth-based Australian Drilling Services. Both companies were already major players in Australia's oil and gas drilling and field services sector. The merged entity has 70 rigs and 800 employees throughout Australia.

Easternwell's head office is based in Brisbane. It also has offices in Toowoomba, Perth, Melbourne and Alice Springs. Easternwell's operations span Australia, including the Surat, Bowen and Galilee Basins in Queensland, the Cooper Basin in South Australia and the Pilbara region in Western Australia, as well as Victoria and the Northern Territory.

Easternwell's contractor services for the energy and mining industries includes well servicing, drilling, camp management and utilities. It also offers support services such as training, safety and environment, aviation and corporate services.

The company is a major player in Queensland coal seam gas, Cooper Basin oil and gas and onshore WA oil and gas. Its state-of-the-art, technologically advanced Advantage Driller rigs are widely used in Surat Basin CSG drilling.

Easternwell Chief Executive Troy Campbell says the Australian oil and gas services market has a strong outlook, especially considering the recently approved and pending final investment decisions decisions for Queensland CSG-to-LNG projects. "We look forward to being a big part of this exciting growth period for the industry," Mr Campbell said.

Easternwell is targeting further growth in its current CSG operations and is expected to be a major beneficiary of impending growth in this sector.

Easternwell's most recent new major contract was a well-servicing contract awarded early this year by Chevron Australia in support of Barrow Island oil operations. The contract will see Easternwell supply, manage and maintain two well-servicing rigs on a full-time basis. The initial contract period of five years is followed by a two-year option. Total expected contract revenue is $50 million.

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KNOW YOUR MEMBERS

Metgasco | FULL MEMBER

Metgasco drilling in PEL 16, northeast NSW.

Location, location, location

Metgasco is exploring, appraising and developing coal seam gas and conventional gas in the Clarence–Moreton Basin in northeast New South Wales.

With growing certified natural gas reserves close to energy markets and plans for electricity generation, Metgasco aims to become a major supplier of gas and electricity to the burgeoning energy markets of northern NSW and southeast Queensland.

"Our acreage is close to rapidly growing markets and not far from the coast, which opens up further commercialisation options," Managing Director David Johnson said.

The company has already established certified gas reserves in its PEL 16 permit of 397 petajoules of proven and probable (2P) gas and 2239PJ proven, probable and possible (3P). While all reserves so far are from coal seam gas, this covers less than 5 per cent of the Metgasco's acreage position and the company has now begun exploring for conventional gas.

"The first conventional gas exploration well we drilled — Kingfisher E1 — has delivered a discovery," Mr Johnson said.

Metgasco has more than 20 other leads and prospects in PEL 16 to evaluate and believes these could hold up to 1.4 trillion cubic feet (tcf) of gas. It also estimates its PEL 16, 13 and 426 permits could collectively hold up to 20tcf. Metgasco has now begun work to delineate CSG reserves in these other blocks. It has also shot seismic to identify further conventional gas targets.

The company is considering various options for commercialising its gas.

The NSW Government has declared Metgasco's planned 30 megawatt Richmond Valley power station to be a major project. In June 2010, the NSW Department of Planning provided development approval for the project, which is to be sited 4km from Casino in the Northern Rivers region of NSW.

Metgasco is also proposing to build a 145km gas pipeline from Casino to Ipswich in southeast Queensland.

Liquefied natural gas is another option, according to Mr Johnson.

"Both mini-LNG for transport and industrial customers and large-scale export LNG projects are being considered," he said.

Metgasco has entered two memoranda of understanding for possible small-scale export LNG developments — one with Fishermans Landing LNG proponent Liquefied Natural Gas Limited, the other with Flex LNG, a proponent of small-scale floating LNG. If this option were pursued, gas would be piped to an LNG production vessel moored off the coast. This ship could later be deployed to other projects.

"Unlike other Australian CSG projects, our resources are close to the coast, making floating LNG a commercial possibility," Mr Johnson said.

Metgasco is expected to select a preferred LNG project option next year.

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DATES FOR YOUR DIARY

2010	Event	Location	More information/to register
1 Dec	Introduction to Petroleum seminar series	Perth	www.appea.com.au
14 Dec	Introduction to Petroleum seminar series	Adelaide	www.appea.com.au
15 Dec	Introduction to Petroleum seminar series	Melbourne	www.appea.com.au
16 Dec	Introduction to Petroleum seminar series	Brisbane	www.appea.com.au
Mid-December	Registrations open for 2011 APPEA Conference and Exhibition	Perth	www.appeaconference.com.au
2011	**Event**	**Location**	**More information/to register**
10–13 April	2011 APPEA Conference and Exhibition	Perth	www.appeaconference.com.au
August	APPEA National Safety Conference	Perth	www.appeasafetyconference.com.au

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