

QRC Submission

Petroleum & Gas Tenure Framework Industry Review

Department of Resources

February 2022

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INTRODUCTION

The expansion of petroleum and gas production is critical to Queensland's prosperity and will contribute to the State's economic recovery from COVID-19. Targeted reforms to the regulatory environment are needed to attract investment, unlock new and existing resource opportunities, and accelerate supply to market. It is in this context the Queensland Resources Council (QRC) has undertaken a review of the existing gas tenure framework.

In September 2020, the Federal Government announced a multi-pronged plan to develop more Queensland gas for market; the '[gas-fired recovery](#)' aims to unlock the existing gas supply, increase the efficiency of gas transportation and improve consumers' ability to purchase gas at a fair price. The Queensland government's [Economic Recovery Plan](#) commits to expand areas of gas production and increase the gas supply to Queensland's domestic and export markets.

Additionally, the Queensland Government has committed to developing and delivering a [Queensland Resources Industry Development Plan](#) (QRIDP), which aims to identify how to remove barriers to growth in the resources industry and unlock further resources over the next 30 years. The QRIDP will play a significant role in future-proofing the resources industry and streamlining regulatory processes to enable a more efficient and effective resource industry. The consultation process for the QRIDP is currently underway and QRC was pleased to see many of the recommendations in this submission reflected in the draft QRIDP. As part of the QRIDP consultation process, PwC's [review of resource project approval processes](#) identified a number of streamlining initiatives, several of which were recommended in both QRC's [2020 Streamlining Report](#), and this review.

This review discusses the common themes established during consultation with members and identifies options (through policy or other initiatives) which could improve efficiency in the management of petroleum and gas tenure and assist in the acceleration of petroleum and gas supply to market – a mutual benefit to industry and the Queensland Government.

THE NEED FOR CHANGE

The Queensland oil and gas industry has matured and developed significantly over the last 20 years. The industry is currently in a coal seam gas mature, post-boom phase of activity and specific consideration needs to be given to the cost, technical complexity and longer lead times required for exploring more immature unconventional resources, for example tight-gas and shale-gas. The existing regulatory framework does not adequately consider the cost, complexity and longer lead times required for exploration of unconventional resources.

Overall, companies reported the need for the Department of Resources to play a greater facilitative role to better manage the challenges companies are facing. In the 2021 Queensland Exploration Councils (QEC) [Exploration Scorecard](#), an annual measure of explorer sentiment in Queensland. The category of 'Governmental/Departmental Assistance' received a low, albeit positive, score for the year. It is the least positive sentiment seen in this category since 2013-14 and the drop in positive sentiment was driven predominately by petroleum explorers.

Beyond this, the tenure permitting structure must be more conducive to supporting exploration and accelerating new resources to market. Providing more flexibility in tenure management will ensure the acceleration and maturation of opportunities and projects. There is a need for the focus of government to shift to incentivisation, facilitation and flexibility

to better encourage resource optimisation, including encouraging further exploration and appraisal activities within existing and future resource authorities.

Companies also expressed the value in standardising processes in planning for resource development and maximising value from the life of assets through the various stages of permitting and the introduction of a whole of government approach to reporting requirements.

The adoption of the recommendations set out in this review will enable a more efficient assessment and approval systems which is supported by industry and enables an increase supply of gas to the market delivering benefits to industry, government, and consumers.

SUMMARY OF RECOMMENDATIONS

Encouraging resource optimisation

1. A greater focus on the Department of Resources' role as a facilitator to assist in progressing projects. *
2. Consider a non-tender process for land release in some areas to encourage activity.
3. In light of differences in various resource plays, introduce a degree of flexibility in the tenure progression framework, including:
 - a) Ability to adjust work programs where justified
 - b) Ability to apply conditions to approvals for transition to higher tenure e.g. PCA and PL to allow the tenure to be progressed, rather than surrendered (noting companies could be held to account in honouring work commitments in the early years of the PCA)
 - c) Review of the ATP renewal and PCA policy
 - d) Review of the two-year commencement provision and a possible need for a production tenure degression process
4. Review the two-year commencement provision and a possible need for a production tenure degression process. With consideration of project-based groupings of PLs, and in situations where a project consists of multiple tenure with some or all tenure having different tenure holders, remove the requirement for individual Environmental Authorities (EAs) for each of these tenures and truly consider a whole of project approach run by the operator of the project.
5. As above, remove the requirement for new and separate EA's to be created, solely because there is a change in equity through a new participating entrant who does not change the controlling interest.
6. Review the project-based development plan approach to truly reflect the project, not the PL level.

Standardisation for improved efficiency and certainty

7. Provide clearly defined timeframes for each phase of the application and assessment process. This would include meaningful application status tracking with expected completion dates, so companies can incorporate the timelines into their planning process. *
8. Formalise pre-lodgement meetings for PCA and PL applications and where required appoint a consistent case manager to facilitate more complex/multi-faceted approvals. *
9. Introduce an expedited process with standard criteria for more simple assessments.
10. Develop standard application templates, for example, extend the current tender template example to all applications. *

Whole of government approach to administration

11. Undertake a review of industry reporting across government departments, such as an extension of the Geoscience Data Modernisation Project. *

*Recommendation made in the PwC report ['Business process mapping of resource project approvals in Queensland'](#).

ACRONYMS

ATP- Authority to Prospect

CSG – Coal Seam Gas

DES- Department of Science

DoR- Department of Resources

DES – Department of Environment and Science

EA- Environmental Authority

EOI- Expression of Interest

EPC- Exploration Permit for Coal

GSQ- Geological Survey of Queensland

LDP- Later Development Plan

LNG- Liquefied Natural Gas

MDL- Mineral Development Licence

MMOL- My Mines Online

NROLA- *Natural Resources and other Legislation Amendment Act 2019*

PCA- Potential Commercial Area

P&G Act- *Petroleum and Gas (Production and Safety) Act 2004*

PL- Petroleum Lease

QEC- Queensland Exploration Council

QEP- Queensland Exploration Program

QRC- Queensland Resources Council

QRIDP- Queensland Resource Industry Development Plan

QRIDA – Regional Interests Development Application

SPE PRMS- Society of Petroleum Engineers Petroleum Resources Management System

1. DO QUEENSLAND'S TENURE STRUCTURES ENCOURAGE RESOURCE OPTIMISATION?

All "Tier 1" Coal Seam Gas (CSG) assets are now tied up and in production or very close to production. In addition to this, local and global market conditions have been unstable, the oil price has fluctuated (gas is sold on a discount to oil) and there are ongoing price and supply pressures domestically with regards to supplying southern jurisdictions as well as the domestic manufacturing industry.

This means the focus of government will need to shift to incentivisation, facilitation and a degree of flexibility to encourage further exploration and appraisal activities within existing and future resource authorities. Faster release of new exploration land acreage as well as a focus on greenfield areas will also need to be front and centre to ensure resources are matured and not left stranded.

1.1 Land release linked to tenure performance

There have been improvements in the Queensland land release process over the last five years with the introduction of the Queensland Exploration Program (QEP) in 2016. However, there are still a number of issues that would benefit from further investigation and improvement including:

- Long lead times between companies submitting Expressions of Interest (EOIs) and the areas being released.
- A lack of explanatory feedback as to why an EOI is not considered or rejected.
- Uncertainty as to why some areas are not released. There has been, for example, a de facto government policy position on development in the Cooper Basin for a number of years despite any formal position.
- The release of small graticular blocks which are non-contiguous. Current operational guidelines make it difficult to meet permit work commitments and mature permit status ahead of relinquishment requirements.
- Very little greenfield areas released.

The lengthy land release process makes it difficult for companies to plan projects and share resources for cost efficiencies in operational consortiums, for instance in acquiring seismic data or undertaking drilling operations. Improving clarity with clearly defined timelines for each stage of the process with departmental facilitation would improve outcomes.

The land release process issues, including the land released, is also directly linked to the issues faced by companies when progressing their tenure. The fragmented land release system is leading to difficulties further down the track when companies are seeking to move to a higher form of tenure (i.e. meeting commitments and requirements to transition to a Potential Commercial Area (PCA) or Petroleum Lease (PL) can be difficult). The previous [reform process](#) in 2015, undertaken by the Tenure reform Taskforce investigated the tenure process, however this was in isolation of the land release process. The industry view is that a holistic investigation is now needed across the land release and tenure process, in particular to answer whether the outcomes the processes are producing are conducive to development as well as in the interests of the State.

One approach that could be considered is removing the tender process for certain areas to encourage greenfield exploration or encourage activity in areas that have not been considered for some time.

Interestingly, this year's Queensland Exploration Scorecard results (figure 1) showed a particularly negative sentiment from petroleum explorers to Queensland's resource prospectivity (bringing Queensland's overall score down from last year). The sentiment score is the lowest score recorded since 2013-14. Some comments from explorers in this year's survey indicated a need for change in the land release process.



Figure 1. Chart to be included in QEC's 2021 Exploration Scorecard

1.2 Acknowledging differences in unconventional resource plays – issues identified under ATP's and PCA's

There are aspects of the tenure process, as they apply to Authorities to Prospect (ATP), that are not conducive to facilitating development progression. One example of this is that the relevant amendment provisions set out in the Natural Resources and other Legislation Amendment Act (NROLA) limits the grounds on which the holder of an ATP can apply to have the conditions of a tenement varied to 'exceptional circumstances' only which in turn are very limited in scope. As work programs, in most cases, cannot be adjusted, an alternative workable outcome that could increase activity cannot be reached. One recommendation for improvement is for the company to substitute activities in lieu of increased spending. Greater flexibility in work programs would shift efforts based on the most viable outcomes, leading in turn to a more productive outcome for government and the industry.

Another opportunity is when assessing unconventional tight gas plays. The system is too rigid to acknowledge the difference in these more challenging developments and adjusting to support their progression. The ATP renewal and PCA policy have been amended over several years, and of course this has been required to adjust to the circumstances of the day as well as support decision making through greater certainty of outcome. However, this certainty has come at the cost of insufficient differentiation in the treatment of resources for conventional (porous and permeable rock) and unconventional discoveries (CSG, tight sand, shale gas...etc). These differences and challenges are further elaborated below.

Overall, industry suggests operational policies and legislation for PCAs need to better support the tenure holder appraising unconventional tight gas (or basin-centred gas) plays. Currently, there is regulatory expectation that there needs to be contingent resources and/or gas to surface. Proving up 2C resource in tight-gas plays is a costly challenge. The plays will only work with significant length horizontal or lateral wells at an order of magnitude higher cost (~\$10M) than vertical wells. The drilling of such wells are better suited to a PCA phase of

activity but the current PCA assessment policy doesn't currently support such unconventional tight gas plays.

Two examples of scenarios not currently acceptable under existing PCA policy but which are a reality for gas explorers and developers are:

- i. Step out graticular blocks that are adjacent to a discovery that are without well control within a contiguous ATP; and
- ii. Non-contiguous blocks within an ATP that are without well control where there is sound technical evidence for the extension of a pervasive resource play – noting that unconventional resource plays and their associated geology rarely stop at tenure boundaries (acceptable within definitions and allowances of the Society of Petroleum Engineers Petroleum Resource Management System (SPE PRMS)).

Industry suggests the Department could introduce conditions to approvals for transition to higher tenure to allow the tenure to be progressed, rather than surrendered.

Given the new challenges now being faced by those resource plays, many of which are economically marginal, industry suggests there may need to be reform in how the Department determines a 'discovery'. In particular consideration needs to be given to unconventional resource discoveries.

The [SPE PRMS 2018 guidelines](#) outline that because contingent resources are defined around the well bore and that with demonstration of continuity of the play using seismic data or otherwise, a company may be able to demonstrate resources outside of the conventionally accepted well spacing with *"the extent of the discovery within a pervasive accumulation based on the evaluator's reasonable confidence based on distances from existing experience"*. In this context, given unconventional resources exist in petroleum accumulations that are typically pervasive throughout a large area, then a 'discovery' can extend well beyond the extents of a producible well bore. The same guideline reiterates *"where log and core data and nearby producing analogs provide evidence of potential economic viability, a successful well test may not be required to assign Contingent Resources"*. Effectively resources in the above scenario could be classed as either Prospective Resources or Economically Not Viable Contingent Resources, but either way are still considered a 'discovery.' In contrast, for conventional plays a prospective resource is defined by the extents of a prospect/lead and not deemed a discovery until drilled. There is a fundamental difference here that is not reflected in existing ATP and PCA policy.

Justifying pervasive resource play within contiguous blocks has proven to be challenging for a number of companies, made worse in the situation of non-contiguous blocks. If there is an offset well(s) outside of the block and/or seismic data that supports the presence and continuity of a target, then the requirement to achieve 2C or to flow gas should not be strictly enforced as this is the nature of a resource play assessment. In this context, the department should investigate alternative models to the PCA policy which could better facilitate the targeting of specific plays and address the existing confusion with overlapping work program requirements for an ATP and PCA.

1.3 Productive environment conducive to new scenarios

There are similar issues to exploration being experienced when seeking to progress to production. One issue is that significant acreage is required to commercialise resource plays

which may require maturing and amalgamating various tenure over time. The two-year production commencement provision was introduced in 2004 under the *Petroleum & Gas (Production & Safety) Act 2004* (P&G Act). Industry suggests this requirement should be reviewed in light of tight gas unconventional resources as this timeframe may not be realistic for these resources.

The other side of the two-year production commencement requirement should be to allow movement from a PL back to an appraisal phase (similar to PCA) if for example, a field is depleted but there are other targets that justifiably warrant further appraisal (and could potentially be commercialised using the existing infrastructure). Such a provision is likely the quickest route to turn around additional undiscovered resources.

From the EA side of tenure management, DES requires tenure holders and EA holders to be identical. This situation would benefit from a review as the requirement is now becoming commercially prohibitive for little environmental benefit. A single project can run across multiple PLs with different participants in each PL so the need for separate EA's for each PL makes little sense, except if it is budgeted as part of DES' income for the year.

In addition, new and separate EAs are also required if equity changes in a permit and there is a new participating entrant. With the new entrant comes the requirement for a new EA, Plan of Operations and Financial Provision/Estimated Rehabilitation Cost which can be costly and unnecessarily resource intensive. There are now provisions under the Financial Provisioning Scheme for a change in holder to be assessed if that is the result of the new entrant.

QRC understands that an Environmental Protection and Other Legislation Amendment Bill is being considered for 2022 and thinks the two scenarios above should be considered for inclusion.

Recommendation summary

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 - a) Ability to adjust work programs where justified
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Authorities (EAs) for each of these tenures and truly consider a whole of project approach run by the operator of the project.

5. As above, remove the requirement for new and separate EA's to be created, solely because there is a change in equity through a new participating entrant who does not change the controlling interest.

Review the project-based development plan approach to truly reflect the project, not the PL level.

2. STANDARDISATION FOR IMPROVED EFFICIENCY AND CERTAINTY

As mentioned in the previous section, this industry-led review highlighted the need for clear timeframes. A related consistent theme raised by industry was the need for standardised processes that would aide in gaining efficiencies and increasing transparency. Companies expressed the value of standardised processes for planning for resource development and maximising value from the life of assets through the various stages of permitting.

Overall, industry would benefit from clear timeframes for assessment processes. This was also outlined in QRC's recent [2020 Streamlining Report](#). Industry appreciates the Department of Resources leadership in developing the Tenure Performance Dashboard which has provided greater clarity of assessment timeframes; however, this is seen as an interim measure towards an integrated standard timeframe in regulation across the approvals pathway (resources and environment requirements).

One area both the industry and Department of Resources would benefit from is more and better use of pre-lodgement meetings. Industry understands this is encouraged in the Department of Resources, and is regularly part of DES' processes, however the opportunity is not always taken up by companies. This review asked why companies do not always have a pre-lodgement meeting when they are looking to submit an application. The response received by the majority of companies suggests that the pre-lodgement meeting process is ad hoc, and its usefulness varies depending on the officer assigned to the application.

Industry suggests formalising the pre-lodgement meeting process for certain applications, such as a PCA and PL application. A formalised process should include benchmarks and expectations fixed from the outset of the assessment. This would encourage companies to prepare a case for a transition between tenure types much earlier, provide a forum for information to be shared and allow the Department to advise of any upcoming policy reviews or known changes likely to impact on requirements or standards for PCA and PL assessment.

In the previous section, industry feedback outlined a greater need for department facilitation of those more complex approvals either within the department or across departments. Even though on a much larger scale, the Department of State Development used to have a project facilitation team specifically for the large CSG and Liquefied Natural Gas (LNG) projects. In the Department of Resources there was also a team of case managers assigned to large projects to assist projects through the various project pathways.

Even though industry is not progressing the same scale of projects as in previous years, there is still a need for facilitation. A consistent case manager for the life of the project process would be ideal, championing the workflows required to deliver a timely outcome for the company and the State.

Other improvement suggestions within this area of consideration include:

- Project-based development plans – even though the name suggests a 'project' approach, practically at the administration level the individual PLs are treated individually. The greatest gain for a true project approach is for those more challenging unconventional resource plays which now dominate Queensland's gas industry.
- Introduce an expedited process where an application meets key criteria. This "fast lane" process could apply, for example to urgent PL approvals that are required to start producing gas quickly or could target particular geographic locations where there is a need to connect gas to market quickly. In those circumstances, a conditional approval

would be granted based on reserves position and production value within 2 years and the remaining stages of the approval process would be worked through in parallel with operational planning, rather than delaying approval and production. This would expediate gas production without compromising the veracity of the assessment process.

- Creating templates for appropriate post-grant tenure processing rather than requiring disjointed application parts to be uploaded in MMOL as required. For example:
 - Creating ATP renewal applications and Later Work program applications that could take a simple template format and approach for approval.
 - Further, Later Development Plans (LDP) could align with the practical project working windows and reflect what activities are happening on the PL at all times. A template could be completed that primarily includes hydrocarbon production estimates for the new period, development plan activities for the new period and a review of compliance with current development plan activities and production estimates. This way no other significant information is needed to approve the LDP. Once a basic LDP template is established to be completed, modify all LDPs to follow the agreed reporting basis so that the online template can be aligned across all production tenures. This will not only improve the alignment of information flow to government but will avoid having to plan for various LDP dates and allow their completion in bulk. This could also speed up or remove the need for approval from the Department of Resources as this could be carried out as compliance inspections on the data provided in the report.

Recommendation summary

7. Provide clearly defined timeframes for each phase of the application and assessment process. This would include meaningful application status tracking with expected completion dates, so companies can incorporate the timelines into their planning process. *
8. Formalise pre-lodgement meetings for PCA and PL applications and where required appoint a consistent case manager to facilitate more complex/multi-faceted approvals. *
9. Introduce an expedited process with standard criteria for more simple assessments.
10. Develop standard application templates, for example, extend the current tender template example to all applications. *

3. WHOLE OF GOVERNMENT APPROACH TO ADMINISTRATION

There is a need for greater integration of approach between the relevant government departments involved in administering regulations of the industry. A lack of cohesion can push out assessment timeframes and create unnecessary uncertainty in the overall process. In particular, industry feedback suggests the Department of Resources take a leadership role in the facilitation of projects (as outlined in section 2).

One key example of the need for greater cohesion between the two administering departments is the online management of tenure and environmental approvals. This has been a long standing recommendation of industry going back to the [2010 QRC Streamlining Report 'Supporting Resource Sector Growth'](#).

Reporting inefficiency has been a long-standing matter. New requests for information are made by government departments when previously submitted periodic data such as tenure production and reserves data or spatial data can be readily sourced. GSQ's Modernising Geoscience Reporting Project addressed some of these issues within the Department of Resources, however, there remains ongoing issues with multiple reporting of information across government departments. This was also a recommendation of the [2020 QRC Streamlining Report](#).

Examples for improvement include:

- Financial Provisioning Scheme (Treasury) requires reserves for decision, this could be extracted from the reserves reporting to the Department of Resources.
- Safety and Health Levy - the Safety and Health form could be pre-populated before being sent to industry as the bulk of this information is collected already through existing reporting requirements.
- The Department of Resources to consider tapping into other non-confidential Government water reports through RDMW, DES, OGIA and DoR to summarise the water information that the project has already furnished.
- Remove the requirement for annual reports for Petroleum Pipeline Licenses and PFLs as it is not clear from an industry perspective that there is any meaningful use for this data.

Recommendation summary

11. Undertake a review of industry reporting across government departments, such as an extension of the Geoscience Data Modernisation Project. *

4. CONCLUSION

The gas industry in Queensland has evolved significantly over the last twenty years. Given the evolution of industry, the existing regulatory framework does not adequately consider the cost, complexity and longer lead times required for exploration unconventional resources. If the state and federal government are to maximise the potential role of the gas industry in the economic recovery from Covid-19, the regulatory framework must be fit for purpose, eliminate the existing barriers to increasing supply and support the development of resource plays. Implementing the recommendations set out in this review will promote development in the aim of increasing supply of gas to market, delivering benefits to industry, government, and consumers.

The QRIDP recognises the resources sector as fundamental to the economic success of Queensland and prosperity in our regions. It is an opportunity to ensure the whole of the resources sector can continue to play its role as a driver of the Queensland economy, particularly as the state recovers from Covid-19. As part of the QRIDP process, government will consider specific and targeted reforms to the regulatory environment the resources sector operates in and QRC encourages a closer look in particular to how the petroleum and gas industry tenure is governed and administered.