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Welcome to the General Policy Review Bulletin # 8

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Retention Lease Guidance Note

As part of the rewrite of the *Petroleum (Submerged Lands) Act 1967* a number of policy issues were identified that needed to be addressed to ensure the ongoing effectiveness of the offshore petroleum regime. One of the issues that has been identified is the need for clarification regarding the administration of Retention Leases.

A Retention Lease Guidance Note has been developed by the Upstream Petroleum and Geothermal Subcommittee (UPGS) of the Ministerial Council On Mineral and Petroleum Resources to address the issue. The Guidance Note provides clarification and guidance on the Government's approach to assessing commercial viability of Retention Leases.

The UPGS is a subcommittee that deals with the administration of petroleum legislation in Commonwealth and State/Northern Territory jurisdictions. It comprises representatives from the Commonwealth, each State, and the Northern Territory.

Note that this does not represent a change in policy. The Guidance Note provides clarification to stakeholders on how regulators administer current legislation and policy.

Guidance Note On Retention Leases Over Petroleum Fields

Issues surrounding retention leases covering gas fields have attracted considerable attention over the years with some parties recommending action to bring forward domestic gas developments. In view of this, the Upstream Petroleum & Geothermal Subcommittee of the Ministerial Council On Mineral & Petroleum Resources has prepared this guidance note. This note does not replace the comments on commercial viability found in the Guidelines for Grant and Administration of a Retention Lease, but it provides additional comments to clarify the Government's approach.

The *Petroleum (Submerged lands Act) 1967* and when it comes into force, the *Offshore Petroleum Act 2006*, require that the relevant Joint Authority assess the commercial viability of the field(s) in each retention lease application both for new applications or renewal applications. This assessment will include assessing all reasonable development options, not just the particular option the applicant favours. In order to facilitate this assessment for gas fields, applicants should thoroughly address the economics of a domestic gas development in addition to consideration of LNG and GTL developments.

In assessing commercial viability, the relevant Joint Authority will use a petroleum price appropriate to the life of the field and will not necessarily accept the price used by the applicant in its assessment. The Joint Authority will take note of third party claims that particular fields are commercially viable but the assumptions used by the third party will be tested in the same way that an applicant's claim is tested. Claims and assumptions used by applicants or third parties will not be accepted if found to be unreasonable.

The Joint Authority will usually base calculations on petroleum price projections by reputable Government bodies such as ABARE, IEA or US Department of Energy. Recoverable petroleum volumes will usually be based on P50 estimates although P90 might be acceptable for a small company totally reliant on bank finance. The discount rate used in calculations should reflect the expected cost of capital needed to fund the investment. The Joint Authority will usually consider projects which have an IRR of 12% or more as commercially viable.

Every retention lease will have a work program including marketing or technical studies relevant to addressing the commercial obstacles to the development of the field. Where there is considerable doubt about the commercial viability of a field because of uncertainty about its size or reservoir properties, the Joint Authority will expect the work program to also include field work such as drilling or seismic surveys or seismic reprocessing designed to reduce such uncertainties and move the field closer to production. Joint Authorities take work programs seriously and a renewal application may be rejected if the operator has not carried out the work program in the previous term.

The Joint Authority is obliged to reject any application where it is not satisfied the relevant field is not commercially viable at the time of the application. Applications will also be rejected where the Joint Authority is not satisfied that the field will be commercially viable within 15 years. Several applications have been rejected on commerciality grounds in the past 10 years.

Where an application is rejected on the grounds of being currently commercially viable, the applicant has 12 months to apply for a production licence.

Upstream Petroleum & Geothermal Subcommittee
Ministerial Council On Mineral & Petroleum Resources
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This occasional newsletter was prepared by the Resources Division, of the Department of Resources, Energy and Tourism.