



23 July 2020

Our Reference: APLNG - COR - 0014342

Committee Secretary  
Economics and Governance Committee  
Parliament House  
George Street  
Brisbane Qld 4000  
via email: [egc@parliament.qld.gov.au](mailto:egc@parliament.qld.gov.au)

Dear Committee Members

**Re: Economics and Governance Committee inquiry into the Royalties Legislation Amendment Bill ('the Bill')**

Australia Pacific LNG Pty Ltd ('APLNG') appreciates the opportunity to continue consultation on the proposed petroleum royalty regime for Queensland, as set out in the Bill and accompanying Explanatory Notes and first reading speech.

We welcome the improvements that the Bill provides by ensuring equity across producers in terms of overall royalty payments. Under the existing system, during the past 3 years APLNG has paid 62% of Queensland's petroleum royalties, despite only producing 44% of the State's gas. At the same time, we are the biggest provider of gas to Australia's East Coast market, supplying approximately 30% of household, business and industry needs each year.

While we welcome the Bill, we respectfully suggest that it could be improved in a number of key areas:

**1. Prevent market distortions for both export and domestic sales, by allowing an adjustment for transport costs.**

Current drafting of the Bill will cause distortion in the market, as royalties are calculated with reference to the contract sales price, with no adjustment for transport costs. For example, in relation to domestic sales, the transport costs can exceed \$2/Gj, which is factored into the contract sales price. Without a royalty adjustment for transportation costs, producers will either sell gas at a higher price when transportation is required, or alternatively sell gas close to the point of production, and let the customer pay for transport of the gas to its ultimate destination.

In relation to exported LNG, two LNG cargos that would otherwise have the same gas price if they were sold on a Free on Board ('FoB') basis at a LNG loading facility on Curtis Island, will have different royalty prices applied if one cargo is sold Free on Board ('FoB') and the other on a DES (Delivered Ex-Ship) basis. The difference in pricing is because under a DES sale, the customer takes title to the gas at its destination port in another country, which is common with spot cargo sales for LNG. In short, royalties will be payable on the international shipping costs included in the DES sale price.

**Solution:** In relation to domestic sales, minimise market distortion by ensuring producers effectively pay royalties based on actual prices received, less a benchmark transport adjustment for transport costs incurred after the Wallumbilla Hub. This will ensure greater equity between producers and can easily be achieved by allowing a benchmark adjustment based on transport prices published by third-party pipeline owners (an example is included at Appendix 1).

For export sales, distortions could also easily be minimised by allowing a deduction for shipping and LNG transport costs, to arrive at a FOB price for all LNG exports for royalty purposes. This deduction will ensure Queensland LNG producers are better able to compete on the global LNG spot cargo market (which are typically sold on a DES basis).

**2. Amendments to ensure no unintended consequences will arise from Take-or-Pay ('ToP') contractual receipts.**

Industry has commercial arrangements which involve ToP receipts. Under the proposed Bill, a ToP receipt in advance of any production could result in a spike in the quarterly price (\$/Gj) under the Volume Model, increasing the royalty payable for that quarter into a higher royalty price bracket (i.e. resulting in significantly higher royalty payments than would ordinarily be required).

**Solution:** APLNG has discussed this issue with the Queensland Office of State Revenue, and understands that this issue will be addressed. For example, if when calculating prices per Gj for royalty purposes, the notional volumes corresponding to the ToP amounts received were included, this would ensure there is no price spike in a royalty period.

**3. The treatment of sales to 'relevant entities' as defined in the Bill may distort the market.**

APLNG understands that the intention of the 'relevant entity' provisions, is to ensure that royalties are paid based on an arm's length price of gas sold. Where there are any non-arm's length sales prices to related parties, those prices are intended to be replaced with either a 'look through to ultimate third party' or a benchmark price.

The problem is that the mechanism in the Bill works so that all transactions with 'relevant entities' are assumed to be non-arm's length. In APLNG's experience, transactions with relevant entities are set on an arm's length basis, evidenced by the fact that the relevant entity is excluded from the seller's decision making process regarding the sale.

**Solutions:**

Firstly, the definition of relevant entity should be simplified, as the current definition is very broad and may unintentionally capture sales to some entities that have no control over the seller. To address this potentially unintended outcome, APLNG suggests amending the definition of "relevant entity" in section 134 of the Regulations so that it refers to "an associated entity within the meaning of section 50AAA (other than subsection 50AAA(5) of the *Corporations Act*".

Secondly, to allow efficient operation of the domestic gas market, ensure that royalties are payable on the contract price received by the producer on arm's length sales. In the case of sales between a producer and relevant entities that are otherwise at arm's length, the Commissioner should be allowed a discretion (on application by a producer) not to treat the parties as relevant entities for royalty purposes. The Commissioner's discretion could be applied on an entity basis, or in respect of individual sales contracts with particular entities.

**4. Calculation of Volumes on which royalties are payable.**

It is not clear at present how the volumes on which royalties are payable, will be determined. Accurate calculation of volumes under the proposed regime will be critical for the successful implementation of the volume model.

While it is correct that producers are already required to report production volumes to regulatory authorities, the volumes reported are difficult to accurately calculate for two reasons – firstly, when petroleum exits the wellhead it is typically mixed with impurities and is difficult to measure in isolation. Secondly, the types of meters installed at the wellhead are not designed to accurately measure the flow of gas to within a small margin of error, and differ for example, from those meters installed where gas is delivered to customers.

**Solution:** Determine the wellhead volumes using the delivered customer sales volumes (which are accurately measured), and apply a small gross-up volume as a proxy for the wellhead value. The gross-up should take into account, the existing exemptions for gas used in production, flaring and venting. APLNG considers that a gross up on sales volume of 1.5% would be appropriate.

APLNG looks forward to working with the government on the next phase of the Queensland Petroleum Royalty Regime development. APLNG's offer to provide assistance to Queensland Treasury on a confidential basis, remains open.

If you have any queries or for further information in relation to the contents of this submission you may contact Dan Clancy on [REDACTED] or [REDACTED] or myself, Warwick King on [REDACTED] or [REDACTED].

Yours sincerely,



**Warwick King**  
Chief Executive Officer  
Australia Pacific LNG Pty Limited



## Appendix 1 – Proposed transport deduction benchmarks

For detail regarding the proposed transport benchmarks that could be deducted from domestic sales to different regions, please see the following third-party websites (the information is summarised in the table below). The intention is to deduct these costs from sales, to arrive at a Wallumbilla hub gas price.

<https://www.epicenergy.com.au/moomba-to-adelaide-pipeline-system/>

<https://www.apa.com.au/our-services/gas-transmission/current-tariffs-and-terms/current-tariffs-and-terms/>

<https://jemena.com.au/documents/pipeline/queensland-gas-pipeline-tariff-schedule.aspx>

### 1. Victoria (DWGM) - \$2.56/GJ

Pipelines	GJ
Wallumbilla Compression	\$ 0.19
SWQP	\$ 1.24
MSP	\$ 1.14
<b>Total</b>	<b>\$ 2.56</b>

### 2. NSW (Sydney STTM) - \$2.56/GJ

Pipelines	GJ
Wallumbilla Compression	\$ 0.19
SWQP	\$ 1.24
MSP	\$ 1.14
<b>Total</b>	<b>\$ 2.56</b>

### 3. South Australia (Adelaide STTM) - \$2.19/GJ

Pipelines	GJ
Wallumbilla Compression	\$ 0.19
SWQP	\$ 1.24
MAPS	\$ 0.77
<b>Total</b>	<b>\$ 2.19</b>

### 4. North West Queensland (Mt Isa) - \$2.66/GJ

Pipelines	GJ
Wallumbilla Compression	\$ 0.19
SWQP	\$ 1.24
CGP	\$ 1.24
<b>Total</b>	<b>\$ 2.66</b>

**5. North East Queensland (Gladstone) – \$1.22/GJ**

<b>Pipelines</b>	<b>GJ</b>
Wallumbilla	
Compression	\$ 0.19
QGP	\$ 1.04
<b>Total</b>	<b>\$ 1.22</b>

**6. South East Queensland (Brisbane) – \$0.92/GJ**

<b>Pipelines</b>	<b>GJ</b>
Wallumbilla	
Compression	\$ 0.19
RBP	\$ 0.74
<b>Total</b>	<b>\$ 0.92</b>