



23 July 2020

Economics and Governance Committee
Parliament House
Brisbane Qld 4000

ECONOMICS AND GOVERNANCE COMMITTEE INQUIRY INTO THE ROYALTIES LEGISLATION AMENDMENT BILL 2020

Dear Committee Secretary,

Bennestar Group Pty Ltd (BG) offers the following comments on the proposed Royalty Legislation Amendment Bill 2020 (the Bill):

- BG supports the *optional* sharing of potentially commercially sensitive sales information and director penalties in relation to accurate royalty classifications and calculations. However, BG requests further detail on the process by which a benchmark is applied and how it is derived in each situation.
- BG requests the Committee consider an amnesty period for the implementation of the amendments to allow producers the ability to better understand how the amendments can be practically applied. Given the lack clarity on how 'volumes' will be calculated and any amendments to the current allowable deductions, the financial penalty of erroneously calculating applicable royalties is severe.
- BG requests further detail on any amendments to allowable transportation cost adjustments. The Amendment Bill does not detail whether there will be any amendments to the calculation of pricing or the Commissioners ability to impose a benchmark.

The reasons for BG's comments are as follows:

- BG is a newly incorporated oil and gas company focused on acquiring, appraising, producing, and developing conventional oil and unconventional gas prospects in SE QLD. The proposed amendments to the Petroleum and Gas (Production and Safety) Act 2004 and Petroleum and Gas (Royalty) Regulation 2004, make it extremely difficult for a junior such as BG to make a meaningful entry into the oil and gas industry at this time.
- BG is considering the acquisition of gas exploration assets in the Surat Basin which would be directly affected by these amendments. The impacts would be unfavourable as they directly increase the cost to appraise and develop exploration assets. Without certainty on the allowable adjustments in relation to transportation and the method for calculating royalty attracting 'volume', there is a risk that BG would be investing in exploration assets that it cannot afford to develop, let alone operate.

- BG views the proposed amendments relating to the use of benchmarks to also be unfavourable. Transitioning to the volume model and applying a reference price to the calculation of an applicable royalty, whereby the reference price is either the *actual* sale price for the petroleum or a benchmark price, is equivalent to setting a ‘ceiling’ on domestic east coast gas prices. Whilst the tiered model has benefits for the OSR, it prejudices smaller-scale operators from being able to sanction exploration projects, which often rely on favourable commercial agreements to progress.
- Additionally, although there is not yet certainty on the actual royalty rates for each of the tiers, as the volume model is based on production rather than disposed petroleum (as was used historically), there is the heightened risk of a commercial barrier preventing a smaller-scale operator from producing meaningful quantities of petroleum. When assessing the prospectively of exploration gas assets for example, BG cannot financially support the royalty regime were it to apply to any gas or condensate ‘flowed to surface’ during the appraisal phase. Margins are too lean for small-scale explorers and the lead-time to securing capital in the current market is a genuine barrier preventing new entrants such as BG. This amendment disproportionately disadvantages small-scale companies, thereby ultimately impacting the level of competition across all levels of the sector.
- BG has begun a process to acquire certain assets in SE QLD. This process has involved the offer and acceptance of a commercial arrangement which has relied on the wellhead value model continuing. Without a reasonable amnesty period for implementation, any discussions BG are progressing in relation to acquiring interests in SE QLD are put at risk of being frustrated.
- Lastly, BG would ask the Committee consider these comments in light of other small-scale exploration and production companies in the industry. There are many impediments standing in the way of a company successfully entering the oil and gas market in Australia. BG views some of the proposed amendments as adding to these impediments and in the extreme case, potentially eroding commercial incentives to be a player in the industry and a contributor to the east coast energy requirements.

The Bennestar Group team would be pleased to discuss these comments with you, as there is a strong desire to maintain the company’s focus on SE QLD.

Yours Sincerely,

Lauren Bennett
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Bennestar Group Pty Ltd
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