23 July 2020

Our Reference: ORG002

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

Dear Committee Members

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

Origin Energy Limited ('Origin) appreciates the opportunity to continue consultation on the proposed new petroleum royalty regime for Queensland, as set out in the Bill and accompanying Explanatory Notes and first reading speech.

In addition to its 37.5% interest in the Australia Pacific LNG ('APLNG') project, Origin holds acreage directly through its wholly owned subsidiaries, in five Authorities to Prospect (ATPs), 736, 737, 738, 2025 & 2026, including the ten Potential Commercial Areas (PCAs) that overlap the whole of ATP 2025 & 2026 ('the permits'). Origin is the operator and 75% owner of the permits, while Bridgeport Energy (QLD) Pty Limited ('Bridgeport') holds the remaining 25% equity interest in the permits.

Origin supports and endorses the submissions made by APLNG and by the Australian Petroleum Production and Exploration Association ('APPEA'), and in particular the likely improvement in the equitable distribution of royalties across gas producers in terms of total royalty contribution (relative to each producer's share of production) as a result of the Bill.

While we welcome the improvement in equity, we respectfully request that the Committee consider three items for review.

1. Origin is concerned that market distortions may occur, and work as a disincentive for APLNG to sell gas to Origin. The market distortion may occur if Origin is considered to be a 'relevant entity' of APLNG for royalty purposes, resulting in higher royalties being payable on gas sold to Origin, than would be payable if APLNG sold the gas to a non-relevant entity. The additional royalties may be incurred by APLNG because sales to a 'relevant entity' can be based on a benchmark gas price, as opposed to the price actually paid by Origin to APLNG for the gas. We support the proposed amendments in APPEA's submission in relation to 'relevant entities'.

2. The permits are likely to produce a range of petroleum types, which warrant special consideration. For example, in addition to sales gas, the permits have the potential to produce crude oil, condensate and LPG. Given the remote location of the permits in western Queensland, it is possible that significant

transportation fees may be incurred to get the products to an export market, potentially up to $8 to $15 per barrel for liquids, depending on the location chosen for export.

Origin considers that transport costs should be deductible from the sale price when calculating royalties, to minimise market distortions that may otherwise occur. For example, where transport costs form a significant component of the sale price, producers will be incentivised to sell petroleum close to the point of production (with purchasers arranging transport).

3. We query whether the proposed royalty rate for the middle oil tier, is appropriate? The issue is that there is little distinction between the royalty rate of 11.5% for the middle tier (which applies at prices between AUD$50 and AUD$100 per barrel), and the maximum rate of 12.5% which applies when prices exceed AUD$100 per barrel. The middle tier represents a range of approximately USD$36 to USD$72. The current Brent oil price of approximately USD$44 is at historical lows and would fall within this middle tier. However, the royalty rate for this middle tier is set only 1% less than the rate applicable to the top tier, which should be applicable to environments in which producers are experiencing significant profits. The high rate of the middle tier has the effect of moving marginal oil further up the breakeven curve, considerably increasing the risk that this oil will not be developed.

   The new royalty regime should be designed in a fashion that encourages resource extraction, even when oil prices are low as in the current environment. In this context, we consider that the rate applied to the middle tier for oil does not achieve this objective.

   By way of contrast, the royalty rate applying to the middle tier for other categories of petroleum, is set at rates that are distinguishably lower than the maximum rate and consequently more likely to encourage resource extraction at the respective sale prices. For example, while the top royalty rate for all types of petroleum is 12.5%, the middle royalty tier for Domestic Gas is only 8%, for LNG Project Gas, 9%, and for LNG supply gas, 10%, as compared to oil at 11.5%.

   Origin suggests that a rate of 9% would be more appropriate for the middle tier for oil, and that this would reflect an appropriate return to Queensland for the production of its oil resources.

Origin looks forward to working with the government on the next phase of the Queensland Petroleum Royalty Regime development.

If you have any queries or for further information in relation to the contents of this submission, please contact Dan Clancy on [redacted] or [redacted]

Yours sincerely,

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