



23 July 2020

Committee Secretary
Economics and Governance Committee
Parliament House
George Street
BRISBANE QLD 4000

Sent via email: egc@parliament.qld.gov.au

Dear Committee Secretary,

Royalty Legislation Amendment Bill 2020 – Economics and Governance Inquiry Submission

We refer to the *Royalty Legislation Amendment Bill 2020* (“the Royalty Bill”) introduced into Queensland Parliament on Thursday 16 July 2020 by the Treasurer. Arrow Energy (“Arrow”) would like to thank you for the opportunity to provide a submission to the Economics and Governance Committee (“the Committee”) on the Royalty Bill.

Arrow is a standalone onshore gas company owned jointly by Shell Energy Holdings Australia Limited (Shell) and PetroChina International Investment Australia Pty Ltd (PetroChina) (50/50). Arrow explores and develops gas fields, produces and sells coal seam gas and generates electricity. We have been safely and sustainably developing coal seam gas (“CSG”) in Queensland, Australia, since 2000 with supply from the Bowen basin since 2004 and from the Surat basin since 2006. Arrow sanctioned commencement of its Surat Gas Project (“SGP”) on 17 April 2020, following a final investment decision made by Arrow, Shell and PetroChina for phase one of the SGP. This decision by Arrow and its shareholders demonstrated a commitment to, and confidence in, Queensland and the Australian market amidst a low oil price environment and COVID-19.

Arrow has previously expressed support with the broader objectives of these reviews, being greater certainty, simplicity and equity while agreeing that Queenslanders should receive a fair return on their resources. Arrow has consistently worked with the Queensland Government in providing feedback relating to the Petroleum Royalty Framework Review and Royalty Administration Modernisation Program. Arrow wishes to highlight to the Committee its continued commitment to the consultation process despite frequently tight turnaround times for submissions that were onerous on industry. In this regard, we support in principle the key issues addressed in APPEA’s submission.

Arrow wants to ensure that the implementation of the new royalty regime provides fiscal certainty and stability for the Queensland gas industry, especially in these challenging economic times. The royalty regime in Queensland has undergone significant upheaval over the last 12 months (25% royalty rate increase and parallel royalty reviews). Considering the departure from the established wellhead value model, implementation date of 1 October 2020 and further consultation/guidance still to occur; Arrow believes it remains prudent that a penalty amnesty for **four quarters** is

required. This will allow companies to make the necessary changes to fulfil the new model requirements.

Arrow would like to specifically support the following matters relating to the Royalty Bill:

- The Government's position to exclude GST from sales price.
- The Government's commitment to the freezing of tiered royalty rates for five years.
- That swap transactions will be treated as transportation arrangements to the extent that volumes are swapped on an equal basis.
- The Government's acknowledgement of the potential complexity in implementing the volume model and agreement to an amnesty period of two quarters after the commencement date (noting our preference for a four quarters amnesty period).

Arrow would like to present the following outstanding matters for the Committee's consideration:

- The need for supporting guidance relating to measurement of volumes subject to royalty in the volume model. Arrow continues to express concern that this guidance has not yet been released to industry and is critical to the implementation of the volume model.
- Codification of the sales price being GST exclusive in the Royalty Bill. Currently, this is not referenced in the Royalty Bill or Explanatory Note and Arrow seeks greater certainty and protection of this position within the draft Royalty Bill.
- The Government's commitment to the indexation of the tiered royalty rates once the five year 'freeze' expires to avoid unnecessary bracket creep.
- In the absence of an annual return process, extension of the lodgement due date for quarterly returns to be lodged on or before 45 days (preferably 60 days) after the quarter ends to reflect the time it takes to collect the necessary information and compile the return. Arrow considers this essential to implementation of the volume model.
- Royalty payments to remain payable on the same day the quarterly return is due for lodgement and not by virtue of an exception notice (avoiding additional administration).
- Where an election to use the benchmark price has been made by a producer, clarification of whether this will apply to the entire portfolio?
- Supporting guidance as to why the daily Europe Brent Spot Price has been adopted as a benchmark price for supply gas, when the prevailing index in Queensland is generally JCC?

In closing, Arrow is genuinely committed to investing in Queensland even during the economic challenges of a low oil price environment and COVID-19. We remain committed to working together with the Queensland Government and industry to implement the volume model in a way that provides certainty for investors and benefits for Queenslanders.

Should you have any queries or wish to discuss this submission further, please do not hesitate to contact myself, Shane Simmons (Group Manager Tax & Treasury) or Michael Todd (Government Relations Manager).

Yours sincerely,



Cecile Wake (Jul 23, 2020 11:07 GMT+10)

Cecile Wake
Chief Executive Officer