

23 July 2020

Committee Secretary,
Economics and Governance Committee
Parliament House
George Street
Brisbane, QLD 4000

(Via email: egc@parliament.qld.gov.au)

Dear Committee Secretary,

Re: Royalty Legislation Amendment Bill 2020 – Bridgeport Energy Submission

Bridgeport Energy Pty Ltd, through its 100% subsidiaries (“Bridgeport”), owns and operates eight producing oil projects in Queensland. In addition, Bridgeport has a number of exploration tenements in Queensland including some that have the potential for gas and shale gas liquids production.

Bridgeport made submissions to Office of State Revenue (“OSR”) in relation the Queensland Petroleum Royalty Review Implementation Consultation Process that outlined several suggestions and recommendations. Most of these suggestions and recommendations have been responded to and some have been accepted.

Bridgeport would like to thank the committee for the opportunity to raise the following matters that remain outstanding or unresolved.

1. Royalty Rates Inconsistencies

The fact that different products have different bands is understood and accepted. However, there should not be material differences in the bracket sizes and the associated rates between the product types. The rate for liquid petroleum is set out in Division 5 s148K per the extract below:

148K Petroleum royalty for liquid petroleum

If petroleum produced by a petroleum producer in a royalty return period is liquid petroleum, the producer must pay petroleum royalty for the period on the volume of liquid petroleum produced in the period at the following rate—

- (a) if the average sales price for liquid petroleum for the producer for the period is not more than \$50 per barrel—0.03 cents per barrel for each 1 cent per barrel more than \$0 per barrel;
- (b) if the average sales price for liquid petroleum for the producer for the period is more than \$50, but not more than \$100, per barrel—\$1.50 per barrel plus 0.115 cents per barrel for each 1 cent per barrel more than \$50 per barrel;
- (c) if the average sales price for liquid petroleum for the producer for the period is more than \$100 per barrel—\$7.25 per barrel plus 0.125 cents per barrel for each 1 cent per barrel more than \$100 per barrel.

The bands or brackets seem out of balance and inconsistent across the products. It is unclear why the liquid petroleum rate jumps from 3% to 11.5% and then 12.5%. In particular, the rate of 11.5% in the middle band is inconsistent with the other products that have rates ranging from 8%-10%. This is detrimental to liquid hydrocarbons and results in an effective rate in the middle band of 3% to 7.25% which is higher than domestic gas and LNG.

The incremental rate should be amended to be consistent with the other products and a rate of 9% (0.09 cent for each 1c/barrel more than...) is recommended to be more consistent with the other product.

If this inconsistency is left unchanged then the impact could be a significant increase in the royalty payable for liquid petroleum

2. Sales Price not a proxy for wellhead value

The volume model has the benefit of being more administratively simple. However, the casualty of this administration benefit is that the new regime is no longer using a wellhead value but instead is using an actual Sale Price or Benchmark as a proxy. Sales Price is a function of the location of that "market" for that product and in almost all cases that market is in a location other than the wellhead. To move the petroleum/gas to that market involves the producer incurring transport costs (pipeline fees or trucking costs). By applying a Sales Price to a Production Volume results in effectively charging a royalty on those transportation fees. This will disadvantage producers that are further from the "market". In addition, an unintended consequence of the volume model may be to encourage producers to sell the petroleum/gas as close to the wellhead as possible which could result in increasing the already powerful leverage enjoyed by the infrastructure/pipeline owners.

Government should be aware that the proposed legislation could lead to changes in market behaviour to mitigate the risk of an impost on actual transportation costs.

Bridgeport would be happy to provide further information to support the points listed above. My contact details are tel: 02 [REDACTED], email: [REDACTED]

Yours sincerely,



Lorna Clarke

Chief Financial Officer
For and on behalf of;
Bridgeport Energy Pty Ltd and its' subsidiaries