



13 August 2009

Mr Martin Squire
A/g General Manager
Offshore Resources Branch
Department of Resources, Energy and Tourism
GPO Box 1564
Canberra ACT 2601
Via email: martin.squire@ret.gov.au

REVIEW OF POLICY RELATING TO THE GRANT AND RENEWAL OF RETENTION LEASES

Dear Mr Squire

The Australian Pipeline Industry Association (APIA) welcomes the opportunity to comment on the Review of Policy Relating to the Grant and Renewal of Retention Leases Options Paper issued by the Department.

APIA is the peak national body representing the interests of Australia's transmission pipeline sector. APIA's membership is predominantly involved in high-pressure gas transmission. The members include contractors, owners, operators, specialist advisers and engineering companies and suppliers of pipeline products and services. APIA's members own, operate and service the gas transmission pipelines that supply today's gas market; as such, they are considered the 'midstream' component of the gas supply chain. Typically, APIA members do not engage in 'upstream' activities of gas supply and are not directly affected by the *Offshore Petroleum and Greenhouse Gas Storage Act 2006 (OPGGSA)*. However, retention lease policy has the potential to impact on gas supply to domestic markets, and is therefore an issue of interest to APIA.

The conclusions of the Options Paper are a little vague. It is, therefore, difficult to determine the willingness of the Commonwealth to fundamentally overhaul the administration of retention leases. APIA considers there are two key areas in current policy that need to be reformed in order to accelerate the development of Australia's gas resources and ensure a secure, reliable and low cost supply of gas to domestic markets. These are:

1. A clear definition of commerciality; and
2. A finite limit to the total duration of a series of retention leases over a single title.

Commerciality

Under the existing system, a retention lease applicant is required to demonstrate that a petroleum discovery is not commercially viable at the time of application but will become commercially viable within 15 years. The definition of commercial is left to the discretion of the applicant.

APIA considers that the Commonwealth should apply a single reasonable definition of “commercial”, so that all retention lease applications can be assessed according to the same criteria. The definition of “commercial” can be developed through consultation with industry.

Additionally, in relation to commercial viability of a retention lease, at the first renewal of a retention lease, it may be appropriate to more formally require an applicant to demonstrate why a project is no longer commercial in the next ten year time frame (the 15 year timeframe applied to the original lease minus the five years that have passed) as originally predicted at the time of first application, and what market conditions are expected to change in the timeframe of 10 to 15 years that will make the project commercial.

Duration of Retention Leases

APIA considers the most significant problem with the current retention lease system is that it facilitates an ability to ‘warehouse’ gas reserves indefinitely through continual renewal of a lease. This allows gas title holders to delay development, perhaps longer than appropriate, until a time of their choosing.

APIA considers that is in the best interests of the development of Australia’s oil and gas reserves that a limit is set on the number of renewals a retention lease may have.

APIA does not hold a view on the appropriate total duration of a retention lease. It is reasonable to consider that a finite duration will focus a title holder’s efforts in bringing a retention lease to commercial viability; a motivation that does not exist under the current system. This is an important point, as **the commerciality of a gas reserve is not solely subject to market conditions, often it depends on a proponent’s willingness and efforts to bring it to development.**

We look forward to continuing consultation on this issue.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C. Cartwright', with a long horizontal stroke extending to the right.

CHERYL CARTWRIGHT
Chief Executive