

RESPONSE TO THE ECONOMICS AND INDUSTRY STANDING COMMITTEE INQUIRY INTO THE ECONOMIC IMPACT OF FLOATING LNG ON WESTERN AUSTRALIA

Recommendations 1–5, 23, 26 - Offshore Petroleum and Greenhouse Gas Storage Act 2006

The State has no power to compel the Commonwealth to make changes to the *Offshore Petroleum Greenhouse Gas Storage Act 2006 (Commonwealth)* (OPGGSA). The State Minister for Mines and Petroleum, under the Joint Authority arrangements, has a role in ensuring compliance with OPGGSA but has only limited powers to direct policy. Nevertheless, the State will continue to foster a constructive relationship with the Commonwealth Government through the Ministerial Council, Standing Committee on Energy and Resources and Joint Authority arrangements, while arguing robustly to achieve a fair outcome for Western Australia, including, arguing for changes to legislation where appropriate.

The Western Australian Government supports the principles of “use it or lose it” and maximum “ultimate recovery”, but is also mindful of the challenges created by commercial and operational issues in any competitive process. The assessment of commercial viability and other amendments to improve the effectiveness of the retention lease process are matters that the Minister of Mines and Petroleum will continue to pursue through the appropriate fora.

Recommendation 6

The Commonwealth Government is reviewing its industry related initiatives including the Australian Jobs Act 2013 (Act). At present the future of the Act is uncertain.

The Department of Commerce has been in regular discussion with senior Commonwealth Government officials regarding the application of the Act to Western Australian projects, including Australian Industry Participation Plan (AIPP) templates, exemptions, and the role and function of the Australian Industry Participation Authority.

More broadly, the State Government continues to urge the Commonwealth Government to complete its review (which began in 2013) of the Australian Industry Participation National Framework Agreement.

Recommendations 7, 8 - State Agreements

State Agreements are facilitative mechanisms whose primary aim is the development of the projects which are the subject of the State Agreement. They are used on a case-by-case basis giving due consideration to the stage of development of the project, the specific circumstances of the project, whether associated matters may be dealt with under laws of the land, and also Government policy considerations and objectives.

The Department of State Development manages State Agreements on behalf of Government. The status of State Agreements is reported regularly to the public and to Parliament through the Department of State Development's Annual Report which has a 95% Key Performance Indicator for all reporting obligations under State Agreements. This measure has been consistently met.

The Annual Report also provides information on any new State Agreements that have been entered into, the termination and repeal of various Agreements, as well as any variations to State Agreements, which are ratified by Parliament. New and additional projects developed under State Agreements are reported publicly through company announcements and also media statements by the Minister for State Development on a regular basis, through the Department of State Development's publications such as "Prospect", and its Annual Report.

Recommendation 9, 12 - Local Content

State Agreements generally have clear reporting requirements for local content. Local Content Reports are reviewed by the Department of Commerce and aggregate data is reported to Parliament, through the Minister for Commerce, on a 6 monthly basis.

Tabled Local Content Reports include aggregate data on projects reporting under State Agreements. Tabling more specific company data risks the disclosure of commercial in confidence information

Local Content reporting primarily assists the Department of Commerce to monitor trends in the construction and operational phase of projects and/or for benchmarking local content for particular commodities.

There are a number of initiatives under the Western Australian Government Local Industry Participation Framework that seek to identify and address contract opportunities and challenges. These include project Industry Participation Plans, Department of Commerce organised supplier briefings, project specific local content steering committees and regular formal dialogue with project proponents.

Recommendation 10 - Support for Aboriginal Communities

The Government of Western Australia is committed to ensuring Aboriginal people benefit from the opportunities presented by major resource projects. Outcomes are typically pursued through Native Title and Indigenous Land Use Agreements, facilitated by the Department of State Development and negotiated between Native Title parties and project proponents. The particulars of such Agreements vary according to the nature of the project. The future act provisions of the *Native Title Act 1993 (Cth)* apply to all new land tenure and petroleum titles.

The development of the Browse LNG Precinct, and the Wheatstone and Anketell Projects, are examples of the Department of State Development working with proponents and Aboriginal people to realise benefits from resource development and to mitigate potentially negative impacts on communities.

There is a \$4.5 million funding allocation over the next three financial years for regional buy local initiatives in the Department of Commerce budget. Consideration will be given to utilising part of this funding for specific programs aimed at raising the capability and the competitiveness of regionally based Aboriginal organisations. The Department of Commerce also continues to liaise with key stakeholders regarding the application of targeted industry assistance, such as the Industry Facilitation and Support Program (IFSP).

Recommendation 11

The Department of Commerce has established the Browse Local Content Steering Committee and is participating in a Local Content Roundtable with Shell with regard to the Prelude project. These initiatives provide scope for formal dialogue regarding opportunities and challenges and can inform local content policies.

Recommendation 13 - Lead Agency Framework

The Western Australia Government, through the Lead Agency Framework, assigns major projects to responsible lead agencies that work with project proponents to manage all Government interactions and statutory approvals, helping to improve efficiency and reduce the time taken to deliver projects, while maximising opportunities for the State. Lead agencies engage with proponents in rigorous upfront scoping processes to develop agreed working arrangements among the lead agency, proponents and regulators, and timeframes for the completion of processes.

The Department of Commerce is the lead State Government Agency for local industry participation issues. It liaises with DSD regarding the inclusion of local content clauses in State Agreements and State Development Agreements, the monitoring of these clauses and more recently, the inclusion of a requirement for project proponents to submit Industry Participation Plans for new Agreements.

Recommendation 14

See comments made under recommendation 18.

Recommendation 15 - Browse LNG Precinct

The Western Australian Government is committed to the development of the Browse LNG Precinct for the purpose of LNG production, as defined in the Strategic Assessment Report produced in accordance with the State *Environmental Protection Act 1986* and Commonwealth *Environment Protection and Biodiversity Conservation Act 1999*.

The Department of State Development also continues to work with marine services companies and oil and gas companies to investigate opportunities to establish supply facilities in Western Australia to service the offshore and onshore oil and gas industry.

Recommendation 16

The National Floating Systems Research Centre was linked to the establishment of the Oil and Gas Industry Innovation Precinct. The Commonwealth Government, in the 2014/15 budget, announced that it will not continue with the precinct proposal.

The Commonwealth Government has indicated that oil and gas equipment and services is one of the growth sectors it will focus on. The Department of Commerce is working with the Commonwealth Government to identify opportunities to build oil and gas technology capabilities in Western Australia.

See also recommendation 17.

Recommendation 17

The Commonwealth Government has announced the establishment of an Entrepreneurs Infrastructure Program, which will include initiatives to encourage research partnering, support for targeted research and assessing business research needs. This will assist local companies in accessing other Commonwealth research and development investments such as the CSIRO facilities and University based research. It should be noted that one of the key areas identified by the Commonwealth as a priority under the program is oil and gas.

Recommendation 18

The previous Minister for Commerce and the Department of Commerce discussed the report with the Association of Professional Engineers, Scientists and Managers Australia (APESMA) and Engineers Australia in 2013. Some of the recommendations of the report are being progressed under the Western Australian Government Local Industry Participation Framework. In addition, APESMA were requested to put forward specific proposals on other recommendations, directly to government.

Recommendations in the report that require forms of mandating to achieve outcomes are not supported.

It should also be noted that the report preceded developments at the Commonwealth level, particularly in relation to the Oil and Gas Industry Innovation Precinct proposal. Although the precinct proposal will not be progressed, the Department of Commerce will continue to encourage the Commonwealth Government to support oil and gas design and technology development, particularly through initiatives such as the recently announced Entrepreneurs' Infrastructure Program.

In relation to recommendation 4 of the APESMA report, refer to recommendation 19 below.

Recommendation 19

At present, formal registration of engineers under existing legislation, such as the Building Act 2011 is not envisaged. It is noted that in Australia, engineers in all jurisdictions, other than Queensland, currently operate under the National Professional Engineers Register, operated by the National Engineering Registration Board.

Consideration of a State or Commonwealth Government registration system for engineers would need to be based on a cost benefit analysis and clear articulation of advantages over existing requirements.

Recommendation 20

The May State Budget listed \$15 million in funding for the construction of a new Specialist Engineering Training Centre at Challenger Institute of Technology's Australian Centre for Energy Process Training. With work now commencing on the design, it is expected that training will commence in the new facilities in early 2017

Recommendation 21, 32 - Commonwealth Energy Policy

The Commonwealth has the power to facilitate access to gas reserves for domestic consumers through its management of offshore production leases, but has chosen not to support policies such as gas reservation. The Western Australian Government will engage with the Commonwealth Government's Energy White Paper process and other national policy development initiatives to promote the State's energy security.

Recommendations 22, 24, 25 - Domestic gas policy

The Western Australian Government is committed to ensuring Western Australia has sufficient energy supplies through the application of the domestic gas policy to LNG projects. The intent of the Domestic Gas Policy is that exporters of LNG also make gas available to the domestic market. This is the case whether processing of the gas for export occurs in conventional shore-based facilities or on offshore vessels using floating LNG technology.

As a result of the Domestic Gas Policy, and Agreements with the companies concerned, gas made available to the State from the new Gorgon and Wheatstone LNG facilities currently under construction will add to current supplies and help secure the State's energy needs. The Government is in continuing discussions with the LNG industry on the application of the Domestic Gas Policy as projects progress. The State is committed to its continued regulation of the petroleum industry in State coastal waters.

Recommendation 27, 28, 29 - Browse Retention Leases

The Western Australian Government will negotiate a revenue sharing arrangement with the Commonwealth in accordance with s54 of the OPGGSA in the event that the Browse Retention Leases are developed. The detail of that negotiation is a matter for the Minister for Mines and Petroleum.

Recommendation 30 - Economic implications of State Agreements

Western Australian Government agencies provide advice to Government on the economic implications of different development options based on the information available. In many cases, detailed information and advice on development options cannot be provided until proponents decide a project's level of investment and workforce (which are also subject to change over the life of a project).

Recommendation 31 - Economic modelling of FLNG

The recommendation presupposes that there is a loss of revenue from the introduction of Floating LNG technology. The introduction of Floating LNG may mean fewer onshore developments, but it may also lead to the development of some projects which otherwise would not have gone ahead.

Recommendation 33 - Streamlining of Approvals Processes

Over the past five years, the Western Australian Government has undertaken a significant regulatory reform program to improve assessment and approvals processes for major projects, including implementing Policy and Legislative reforms to streamline environmental approvals processes in Western Australia.

The Commonwealth and Western Australian Governments are also working to establish Bilateral Agreements covering environmental assessment and environmental approval as an effective way to minimise regulatory duplication and streamline processes.

The Western Australian Government's Lead Agency Framework achieves these recommendation aims through the coordination of project approvals rather than the proposed single approval body model. In effect, the Lead Agency Framework creates functional coordination offices across Government.

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Table of Recommendations

#	Recommendation
1	<p>The Western Australia Government negotiate with the Commonwealth Government to amend the <i>Offshore Petroleum Greenhouse Gas Storage Act 2006</i> (Cth) to change the assessment of Retention Leases to include providing:</p> <ul style="list-style-type: none"> • the Joint Authority with the ability to invite competitive development proposals for the resource being considered; and • the title holder with the opportunity to match any alternative development proposal or else surrender the title.
2	<p>The Minister for Mines and Petroleum and the Minister for State Development urge the Commonwealth Government to specify the criteria for assessing that Retention Leases granted under the <i>Offshore Petroleum and Greenhouse Gas Storage Act 2006</i> (Cth) are held for a legitimate need to secure gas for long-lived production projects and not to obtain a competitive commercial advantage.</p>
3	<p>The Western Australia Government urge the Commonwealth Government to review the <i>Offshore Petroleum Greenhouse Gas Storage Act 2006</i> (Cth) to reflect the need for more robust assessment of commercial viability, and as more thorough assessment of applications will be required, appropriate staff resources should be made available.</p>
4	<p>The Minister for State Development takes whatever action is appropriate to ensure the Commonwealth Government complies not only with the <i>Offshore Petroleum Greenhouse Gas Storage Act 2006</i> (Cth) and the Joint Authority Guidelines, but with the established working arrangements between Joint Authority members. This may include, but not be limited to:</p> <ul style="list-style-type: none"> • referring the matter to the Ministerial Council; • developing changes to the Joint Authority Guidelines so that they better reflect established working arrangements; and/or • seeking legal advice as to the lawfulness of the Commonwealth Minister's unilateral decision relating to the Browse Retention Leases.
5	<p>Given the unilateral decision made on the Commonwealth Browse Retention Leases, and the risk this poses for Western Australia, the Minister for Mines and Petroleum takes the necessary steps to effect the amendment of the <i>Offshore Petroleum and Greenhouse Gas Storage Act 2006</i> (Cth) to ensure greater transparency of, and adequate consultation time in, the Joint Authority process.</p>
6	<p>The Western Australia Government encourage and work with the Commonwealth Government to provide certainty for project proponents in relation to the <i>Australian Jobs Act 2013</i> (Cth) and its implementation.</p>
7	<p>Department of State Development advises Parliament of its approach to evaluating State Agreement performance and its efforts to improve reporting on State Agreement performance and status.</p>
8	<p>Department of State Development undertake an assessment of the effectiveness of State Agreements in achieving the government's stated aims and objectives, and report the results to Parliament.</p>
9	<p>State Agreement local content reporting requirements include project proponents providing further relevant detail about decisions impacting local</p>

#	Recommendation
	content, with this information being made in a transparent manner and subject to greater public scrutiny, including the tabling of information in Parliament.
10	The Western Australia Government work with all project proponents, including Woodside, to ensure that Aboriginal communities benefit from resource developments in the state.
11	As a matter of priority, the Minister for Commerce review and amend Western Australia's local content policies to ensure their relevance to Floating LNG developments in coastal waters.
12	The Western Australia Government clarify and detail the reporting requirements for State Agreements, and ensure that reporting is through a transparent process to Parliament.
13	The Western Australia Government ensure that through its Lead Agency Framework one agency, from a project's earliest concept development through to its implementation, works to maximise the opportunities for the state. This would include coordination with the Commonwealth Government.
14	The Western Australia Government work with the engineering representative organisations to develop strategies that will broaden, promote and retain the engineering skills base in Western Australia.
15	The Western Australia Government establish James Price Point as the site for a regional supply base and approach the Commonwealth Government for infrastructure funding.
16	The Western Australia Government urge the Commonwealth Government to recommit to the previously promised funding for the National Floating Systems Research Centre and the Oil and Gas Industry Innovation Partnership.
17	The Western Australia Government pursue a greater contribution of research funding from the Commonwealth, particularly as PRRT revenue from offshore Western Australia flows to the Commonwealth.
18	As part of his response to this Economics and Industry Standing Committee report, the Minister for State Development include a government response to the report titled, <i>Report to the Western Australia Government on local engineering issues and policy</i> .
19	The Western Australia Government work with the relevant engineering representative bodies to investigate the merits of a registration system for engineers— similar to that operating in Queensland—and the amendments to the Australian and Western Australia standards required for such registration to be recognised.
20	As a matter of priority, the state government should approve the Australian Centre for Energy and Process Training's funding application for \$14 million to allow it to proceed to Phase 2 of its development.
21	Given the emergence of Floating LNG, the Western Australia Government work with the Commonwealth Government to develop an energy policy that secures domestic gas supply.
22	The Western Australia Government retain its Policy on Securing Domestic Gas Supplies (the Reservation Policy).

#	Recommendation
23	<p>The Western Australia Government urge the Commonwealth Government to increase the transparency of the Retention Lease renewal process through measures including, but not limited to:</p> <ul style="list-style-type: none"> • developing specific criteria for the assessment of future compliance with Retention Lease obligations; • clarifying the specific meaning of the term 'commercially viable' in section 142 of the <i>Offshore Petroleum and Greenhouse Gas Storage Act 2006</i> (Cth); • acknowledging the commercial viability of the development of gas fields for supply into the domestic market rather than for LNG exports; • allowing third-party submissions in the process of determining an application to renew a Retention Lease; and • requiring the Commonwealth to undertake due diligence on the proposal.
24	<p>The Western Australia Government urgently review its energy policies to reflect the existence of commercially viable Floating LNG technology.</p>
25	<p>The Western Australia Government continue to play an active role in energy regulation in Western Australia.</p>
26	<p>The Western Australia Government urge the Commonwealth Government to re-examine the tax treatment of the development costs of Floating LNG and the valuation of the vessel.</p>
27	<p>The Department of Mines and Petroleum provide their minister with a technically robust assessment of the proportion of the Torosa field resources that reside in Western Australia waters.</p>
28	<p>In the event that a single project proponent develops the seven Browse Retention Leases, the Western Australia Government negotiate a unitisation agreement with the Commonwealth Government.</p>
29	<p>The Western Australia Minister for Resources advocate the installation of compression equipment as part of the field development plans during the appraisal by the Joint Authority where appropriate. This would oblige project proponents proposing to utilise Floating LNG technology, and in particular for Browse resources, to demonstrate in their project proposals and field development plan that the technology will optimise resource recovery.</p>
30	<p>Western Australia Government agencies amend their model of advice to government to ensure the responsible ministers are fully aware of the economic implications before the State enters into any agreements.</p>
31	<p>The Western Australia Government, as a matter of priority, undertakes economic modelling of the loss of petroleum industry revenue to the State resulting from the introduction of Floating LNG, including, but not limited to, payroll taxes.</p>
32	<p>The Western Australia and Commonwealth Governments examine, as a matter of priority, the sharing of offshore gas field infrastructure to maximise the efficiency of resource development returns to Australia.</p>
33	<p>The Minister for State Development, as a matter of priority, work with the Commonwealth Government to expedite the reduction in the regulatory burden on resource projects, including the establishment of a single approval body.</p>