



**Australian Government**  
**Department of Resources, Energy  
and Tourism**

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## **COST RECOVERY IMPACT STATEMENT**

**JANUARY 2012 TO OCTOBER 2013**

**National Offshore Petroleum Titles Administrator (NOPTA)  
- Transitional Arrangements for Annual Title Administration Levy  
(ATA Levy) and  
Offshore Petroleum and Greenhouse Gas Storage Miscellaneous Fees**

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# 1. Overview

## 1.1 Purpose

As part of the regulatory reform of the offshore petroleum sector, the Australian Government is establishing the National Offshore Petroleum Titles Administrator (NOPTA) as a branch of the Department of Resources, Energy and Tourism (the Department).

NOPTA will operate on a full cost recovery basis from 1 January 2012 and will be funded through the imposition of an Annual Titles Administration Levy (ATA Levy) provided under the *Offshore Petroleum and Greenhouse Gas Storage (Regulatory Levies) Act 2003* and other miscellaneous fees provided under the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (OPGGSA). The ATA Levy will be imposed on titleholders who hold an exploration permit, retention lease, or infrastructure, production or pipeline licence. The miscellaneous fees mainly comprise application fees for titles.

NOPTA's legislative obligations under the OPGGSA include:

- advising the Joint Authorities<sup>1</sup> and the responsible Commonwealth Minister on title decisions;
- providing information, assessments, analysis, reports, advice and recommendations to members of the Joint Authority and the responsible Commonwealth Minister;
- the administration of titles and data relating to offshore petroleum, minerals and greenhouse gas storage activities in Commonwealth waters;
- assessment, approval and registration of transfers and dealings; and
- resource management activities previously undertaken by the Designated Authorities.<sup>2</sup>

During the transitional period (January 2012 to October 2013) which is covered in this Cost Recovery Impact Statement (CRIS), over 90 percent of NOPTA's costs will be recovered from the ATA Levy and the remainder will be recovered by retaining the existing offshore petroleum and greenhouse gas storage miscellaneous fees. Prior to the expiry of the current CRIS, NOPTA will undertake a full cost recovery review of its activities, with any resulting changes to charging structure documented in the new CRIS expected to commence on 1 November 2013. Industry stakeholders will be consulted on NOPTA's cost recovery model prior to the new CRIS being finalised.

## 1.2 Background

On 26 March 2008, the Council of Australian Governments (COAG) announced the commencement of a Productivity Commission (the Commission) *Review of the Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector*. The Commission was requested to consider Australia's framework for upstream petroleum regulation and consider opportunities for streamlining regulatory approvals, providing clear timeframes and removing duplication across jurisdictions.

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<sup>1</sup>The Joint Authorities comprise the responsible Commonwealth Minister and the relevant State and Northern Territory Ministers. The role of the Joint Authorities is to make key decisions regarding offshore petroleum titles.

<sup>2</sup>The Designated Authorities are the State and Northern Territory Ministers who administer day-to-day petroleum activities relating to the offshore jurisdiction adjacent to their State or Territory. The Designated Authorities will no longer exist upon commencement of NOPTA and the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA).

COAG committed in-principle to broad reform of the upstream petroleum sector by signing the *National Partnership Agreement to Deliver a Seamless National Economy* in December 2008. COAG identified the upstream petroleum sector as one of 27 deregulation priorities to reduce the level of unnecessary regulation and inconsistent regulation across jurisdictions.

On 30 April 2009, the Commission presented the final report of its *Review of the Regulatory Burden on the Upstream Petroleum (Oil & Gas) Sector* to all Australian governments. The report found that duplication, overlap and inconsistent administration of the 22 petroleum and pipeline laws and more than 150 statutes governing offshore and onshore upstream petroleum activities, regulated by over 50 agencies at the national and state-territory level impose significant unnecessary burdens on the sector and raise international competitiveness concerns.

The Commission further found that the regulatory burdens on industry could be reduced through new institutional arrangements – principally the establishment of a national regulator for offshore petroleum – as well as, implementation of best practice regulatory principles in all jurisdictions. The Commission, therefore, recommended that a new regulator for offshore petroleum be established on a full cost recovery basis.

On 5 August 2009 the Minister for Resources and Energy, the Hon Martin Ferguson AM MP, announced the Australian Government's intention to establish the national offshore regulator for petroleum, mining and greenhouse gas storage activities in Commonwealth offshore areas by 1 January 2012. Implementation of a national offshore petroleum regulator was suspended pending the outcomes of the Commission of Inquiry into the Uncontrolled Release of Hydrocarbons from the Montara Wellhead.

Minister Ferguson released the *Report of the Montara Commission of Inquiry* and a draft Government response on 24 November 2010. The Montara report recommended that the Commission's proposal to establish a national offshore petroleum regulator should be pursued at a minimum. At the same time, Minister Ferguson reiterated the Australian Government's commitment to a single national regulator by proposing to:

- expand the role of the National Offshore Petroleum Safety Authority (NOPSA) to include regulation of well integrity, environmental management and day-to-day operations (NOPSEMA); and
- establish NOPTA to be responsible for title decisions and administering of titles and related data.

### **1.3 Establishment and operational costs**

This CRIS outlines the transitional cost recovery arrangements for NOPTA's operational costs for the first 24 months of operation. For this period, costs will be recovered through the ATA Levy and the retention of existing offshore petroleum and greenhouse gas storage miscellaneous fees. In estimating the costs of delivering its activities, NOPTA has used its own estimates where available and also drawn upon information provided by the relevant state and NT government authorities, which have been performing these activities prior to handover to NOPTA. NOPTA will use the transitional period to monitor actual expenses incurred in delivering its regulatory activities which will enable the development of an updated activity based costing model. This model will underpin new cost recovery arrangements for recovery of NOPTA's operational costs which will be put in place after the full cost recovery review takes place before the expiry of the current CRIS. A new CRIS covering NOPTA's ongoing operational costs will be developed during 2013.

As an aside, NOPSEMA has also prepared a separate CRIS that outlines arrangements for recovery of its operational costs for the regulation of the environmental management of offshore petroleum and greenhouse gas storage operations through an Environment Plan Levy.

The Australian Government provided the Department with \$6.703 million in 2010-11 and \$3.397 million in 2011-12 to cover the cost of establishing NOPTA by 1 January 2012.

|           | 2010-11 | 2011-12 |
|-----------|---------|---------|
| Operating | \$0.303 | \$1.899 |
| Capital   | \$6.400 | \$1.498 |

Recovery of the establishment costs, as opposed to the operational costs, is through the Commonwealth retaining the registration fees paid by industry, from 1 November 2011 to 31 October 2013 or until the establishment costs have been recovered<sup>3</sup>. The establishment costs of expanding NOPSA to become NOPSEMA are also being recovered by this mechanism and were the subject of a separate CRIS which was published on the Department's website in October 2011<sup>4</sup>.

## 1.4 Australian Government cost recovery policy

In December 2002, the Australian Government adopted a formal cost recovery policy to improve the consistency, transparency and accountability of its cost recovery arrangements and promote the efficient allocation of resources. The underlying principle of the policy is that entities should set charges to recover all the costs of products or services where it is efficient and effective to do so, where the beneficiaries are a narrow and identifiable group and where charging is consistent with Australian Government policy objectives. Cost recovery policy is administered by the Department of Finance and Deregulation and outlined in the *Australian Government Cost Recovery Guidelines* (Cost Recovery Guidelines).

The policy applies to all *Financial Management and Accountability Act 1997* (FMA Act) agencies and to relevant *Commonwealth Authorities and Companies Act 1997* (CAC Act) bodies that have been notified. In line with the policy, individual portfolio ministers are ultimately responsible for ensuring entities' implementation and compliance with the Cost Recovery Guidelines.

## 2. Policy review

On 15 September 2011 the *Offshore Petroleum and Greenhouse Gas Storage Amendment (National Regulator) Act 2011* was passed by both houses of Parliament. This Act established NOPTA and expanded NOPSA to become NOPSEMA on a date to be proclaimed (1 January 2012).

The new legislative arrangements provide for NOPTA to impose an ATA Levy and to retain existing miscellaneous fee revenues in order to recover from industry the regulatory costs associated with undertaking its functions in relation to day-to-day titles administration. The existing annual fees will be abolished.

<sup>3</sup> Refer Page 16, Portfolio Additional Estimates Statements 2011-12, Resources, Energy and Tourism Portfolio

<sup>4</sup> <http://www.ret.gov.au/Department/Documents/MIR/CertifiedUPRR-InterimCRIS.pdf>



NOPTA will commence operations on 1 January 2012 on a full cost recovery basis. The role of NOPTA is to advise the Joint Authorities on title decisions and administer titles and data relating to offshore petroleum, minerals and greenhouse gas storage activities in Commonwealth waters. Its primary objectives are to:

- ensure nationally consistent and streamlined administrative processes;
- reduce unnecessary regulatory burden on the offshore industry; and
- provide timely advice and project approvals.

## 2.1 Description of activities

The specific activities to be undertaken by NOPTA include:

- reporting to the Joint Authorities and responsible Commonwealth Minister on the issuing of exclusive rights and privileges (e.g. rights to explore and produce);
- technical assessments and analysis of applications, work programs and field development plans;
- registration and approvals of titles, and dealings in titles;
- dissemination of information;
- data management – receive, assess and manage access to data generated by industry as a result of activities undertaken;
- monitoring and enforcement of compliance with work program commitments and regulations;
- technical assessments of bids received for acreage; and
- provision of other advice to the Joint Authorities, industry and stakeholders.

The range of activities outlined above, are usually relevant to all titles in varying degrees in any given year. However, the effort involved in undertaking these activities for a given year will vary depending upon the nature of the title, its stage of development, the underlying geological features of the area, and the maturity of the region in which a permit is located. Therefore, not only may the activities that occur vary between titles, but the effort in undertaking a particular activity may vary between titles. Activities that will be undertaken by NOPTA in any given year for each permit type are summarised below.

|                        |   |
|------------------------|---|
| Exploration Permit     | Bid assessment (technical), issuing of title, assessing work program commitments & associated activities, registration of dealings & transfers, data management, dissemination of information, compliance.          |
| Retention Lease        | Technical assessment of application, issuing of title, assessing work program commitments & associated activities, registration of dealings & transfers, data management, dissemination of information, compliance. |
| Production Licence     | Technical assessment of application, field development & decommissioning plans, issuing of title, registration of dealings and transfers, data management, dissemination of information, compliance.                |
| Infrastructure Licence | Technical assessment of application & proposed location of infrastructure, issuing of title, registration of dealings & transfers, data management, dissemination of information, compliance.                       |
| Pipeline Licence       | Technical assessment of application & pipeline route, issuing of title, registration of dealings & transfers, data management, dissemination of information, compliance.  |

## 2.2 Complexity of activities by title type

The complexity of activities can be ranked into **high**, **medium** and **low** depending on the nature of the activity and the individual tasks involved.

**High** ranked activities involve complex and/or competing applications that require significant technical and financial assessment in order to determine the issuing of exclusive rights to explore and/or produce petroleum. Examples of highly complex activities include understanding geology, scrutinising technical and/or financial reports, maps diagrams, complex technical and/or financial information and compliance with statutory obligations.

**Medium** ranked activities involve predominantly compliance work and minor assessments. Compliance work involves ensuring titleholders have met their statutory obligations ie work program commitments (exploration permits and retention leases) - not meeting these commitments in the guaranteed three year period can result in cancellation of the title. Other statutory obligations include submission of reports, data and compliance with regulations and directions.

**Low** ranked activities, such as the actual issuing of rights are ranked accordingly because all the assessment, outlined above, has been undertaken prior to the issuance stage.

The complexity of activities is summarised below and the complexity of activities by title type is summarised in Table 1.

|               |  |
|---------------|--|
| <b>High</b>   | Assessment of close competing bids, some title type renewals, assessment of location applications, assessment of retention lease applications, assessment of production licence applications and associated field development plans, assessment of infrastructure licences, assessment of pipeline licence applications, associated reporting and recommendations to Joint Authorities and responsible Commonwealth Minister.                          |
| <b>Medium</b> | Assessment of most bids, most title type renewals, compliance to regulations, compliance to work program commitments (exploration permits and retention leases), assessment of suspension and extension to work program commitments, variation to work programs, assessment of pipeline variations and assessment of draft decommissioning plans, associated reporting and recommendations to Joint Authorities and responsible Commonwealth Minister. |
| <b>Low</b>    | Administration of titles (including grant of titles on behalf of Joint Authorities and responsible Commonwealth Minister and maintaining register of titles).  |



*Table 1 – Estimated complexity of activities by title type*

| <b>Title Type</b>      | <b>Activities</b>   | <b>Overall Complexity</b> |
|------------------------|---|---------------------------|
| Exploration Permit     | Administration of exploration permits involves some complex activities (eg assessment of location, rare complex technical assessment of bids) and predominantly medium to low complex activities (eg assessment of most bids, issuing of rights, monitoring work program commitments) | Low to Medium             |
| Retention Lease        | Administration of retention leases involves some high complex activities (eg assessment of commercial recovery) and some medium to low complex activities (eg issuing of rights, monitoring of work program commitments)  | Medium                    |
| Production Licence     | Administration of production licences involves predominantly complex activities (eg assessment of field development plans, decommissioning plans) and some medium to low complex activities (eg issuing of rights)  | High                      |
| Infrastructure Licence | Administration of infrastructure licences involves some complex activities (eg assessment of plans) and some medium to low complex activities (eg issuing of rights)  | Medium to High            |
| Pipeline Licence       | Administration of pipeline licences involves some initial complex activities (eg assessment of pipeline route) and thereafter predominantly medium to low complex activities (eg assessment of variations and issuing of rights)  | Low to Medium             |

## 2.3 Transitional cost recovery arrangements

It is difficult to determine with accuracy the degree that each activity will occur for particular titles due to the lack of data currently available to the Commonwealth and the volatility in industry demand. For this reason, it would be impractical to recover the NOPTA's costs by attaching a fee to each activity. To do so would result in significant revenue variability for the NOPTA. Therefore, the ATA Levy will be attached to each title according to the overall level of complexity of the activities involved in administering each title. This is the same charging structure as currently exists for the Annual Fees that will be abolished from 1 January 2012. A new charging structure will not be introduced at this stage, but the transitional period will be used to monitor the actual expenses incurred in delivering title administration related activities.



The bulk of the NOPTA's expenses will be recovered through the ATA Levy applied to each category of title at varying levels that broadly reflect the complexity of the activities involved in administering those titles. As the number of titles is relatively stable from one year to the next, this will provide relative revenue stability for NOPTA. However, NOPTA's actual expenses and revenues may still vary with the degree of industry activity.

The initial ATA Levy is to be set at the same amounts as the existing Annual Fees for the respective category of title.

NOPTA will also maintain existing miscellaneous fees for activities that are:

- unrelated to a title, such as an application for a special prospecting authority;
- unrelated to existing titles, such as an application for a new title;
- related to applications for existing titles that may or may not be renewed; and
- related to applications from non-title holders (e.g. inspection of register, document certification, etc).

It should also be noted that these fees have been reset on 1 November 2011. They will remain unchanged for the duration of this CRIS. These fees are expected to raise about \$300,000 per annum. The levy and fee structure and quantum will be reviewed by NOPTA prior to the expiry of the current CRIS. If the review results in changes to the levy and miscellaneous fee structure and quantum, these changes will be documented in a new CRIS expected to commence in November 2013.

## **2.4 Stakeholders**

The main stakeholders affected by these cost recovery arrangements are the offshore petroleum industry operating in Commonwealth waters. The industry is represented by the peak petroleum industry body, the Australian Petroleum Production and Exploration Association (APPEA).

There has been extensive consultation with industry on the development of the new offshore petroleum regulatory arrangements. Stakeholders were consulted in the Commission's *Review of Regulatory Burden on the Upstream Petroleum (Oil & Gas) Sector* (April 2009) which recommended the establishment of a national offshore petroleum regulator on a full cost recovery basis. Industry was consulted in the Montara Commission of Inquiry process that recommended that a national offshore petroleum regulator be pursued at a minimum.

Industry was also consulted during the Government's response to both those reviews and on the design of the new regulatory arrangements. APPEA did raise concerns at this time as to NOPTA operating on a full cost recovery basis.

The Government's Cost Recovery Guidelines recommend cost recovery of government products and services, including regulation, from those groups of firms or individuals that use the products or services or create the need for regulation. The Government has decided that NOPTA will operate on a full cost recovery basis from levies and fees imposed on industry. Further, as mentioned earlier, the ATA Levy applying to each title and the miscellaneous fees will be reviewed prior to the expiry of the current CRIS to ensure that the revenue amounts reflect the cost of the activities involved and allow NOPTA to operate on a full cost recovery basis.

### **3. Design and Implementation**

#### **3.1 Basis of charging – fees or levies**

There are currently a number of different fees and levies in place under the OPGGSA and associated Acts. Since the commencement of NOPSA's operations in 2005, there has been a move towards more transparent and consistent cost recovery arrangements. These arrangements have involved the imposition of the following levies under the *Offshore Petroleum and Greenhouse Gas Storage (Regulatory Levies) Act 2003*: Safety Case Levy and Safety Investigation Levy since 2005, Annual Well Levy, Well Activity Levy and Well Investigation Levy since June 2011 and Environment Plan Levy from 1 January 2012. The ATA Levy will also be imposed under the Regulatory Levies Act.

Currently, there are also two main categories of fees under the OPGGSA and associated Acts. These categories of fees are non-registration fees and registration fees and apply to all title types, both petroleum and greenhouse gas.

Non Registration Fees include:

- annual fees (per title); and
- miscellaneous fees (applications or registration linked – i.e. name change, searches etc)

Registration Fees include:

- minimum fees for transfer and dealings;
- fees for transfer and dealings relating to the reorganisation of corporations; and
- ad valorem fees (1.5% of the consideration) for transfer and dealings.

The *Offshore Petroleum and Greenhouse Gas Storage Amendment (National Regulator) Act 2011* abolishes the existing annual fees from the commencement of NOPTA and NOPSEMA and enables the Commonwealth to retain the registration fee revenues from 1 November 2011 for a period of at least two years to recover the establishment costs of NOPTA and NOPSEMA.

##### **3.1.1 ATA Levy**

The cost recovery arrangements impose an ATA Levy per title type to be applied to all titleholders under the OPGGSA to cover the costs of maintaining the regulatory framework and supporting industry compliance with the scheme.

Given the activities undertaken by NOPTA apply to each title type, it is considered appropriate to keep the ATA Levy structure similar to the existing annual fee regime in order to alleviate confusion to industry and facilitate a smooth hand over during the transition period. The existing annual fees also broadly reflect the complexity of activities involved in administering each category of title. However, a greater assessment of the degree of activity relating to each title type will be undertaken as more data becomes available to the Commonwealth through the operations of the NOPTA.

##### **3.1.2 Miscellaneous Fees**

There are a number of existing miscellaneous fees for petroleum and greenhouse gas storage titles that raise a relatively small amount of revenue, about \$300,000 per year in total. It is proposed that these fees remain in-force in their current form, until a broader review is undertaken in 2013 once the cost recovery arrangements for NOPTA establishment costs have been completed. These fees relate to a

number of applications for activities that are closely related to the registration of documents (e.g. entry into the register, register inspection, document certification) and will continue to apply until the abolition of the registration fees.

### **3.1.3 Registration Fees**

It should be noted that the registration fees currently paid by industry will remain in force until the costs of establishing the NOPTA and NOPSEMA are recovered. It is expected that this will occur in late 2013 and the registration fees will then be abolished and replaced by cost recovery registration fees calculated using an activity based costing model. At that time, both the ATA Levy and the miscellaneous fees will be reviewed to take account of the abolition of the registration fees. The registration fees are not included in NOPTA's current charging model, as their inclusion would result in double charging.

### **3.1.4 Greenhouse Gas Titles**

As the greenhouse gas storage regime is relatively new and no titles have been granted to date there is no activity related cost data available to assess. Therefore, the existing fees for greenhouse gas titles remain unchanged until the cost recovery review in 2013. No revenues are expected from greenhouse gas titles during the period covered in this CRIS.

## **3.2 Legal authority for the imposition of fees and levies**

On 25 May 2011, the Government announced its final responses to the Productivity Commission *Review of Regulatory Burden on the Upstream Petroleum (Oil & Gas) Sector* and the *Report of the Montara Commission of Inquiry*. Those responses included expanding the functions of NOPSA to become NOPSEMA and creating NOPTA, with both regulators operating on a cost recovery basis.

The legal authority to impose an ATA Levy is contained in Part 4 of the recently amended *Offshore Petroleum and Greenhouse Gas Storage (Regulatory Levies) Act 2003*. These amendments received the Royal Assent on 14 October 2011 and will commence on a date to be proclaimed (that date will be 1 January 2012).

The existing miscellaneous fees are provided for in the OPGGSA and Part 11 and Schedule 6 of the *Offshore Petroleum and Greenhouse Gas Storage (Resource Management and Administration) Regulations 2011*.

## **3.3 Costs to be included in charges**

NOPTA's operating costs are to be recovered by the ATA Levy and miscellaneous fees. The establishment costs are to be recovered by the Commonwealth retaining registration fee revenues and are covered in a separate CRIS available on the Department's website. As such, establishment costs are excluded from this CRIS.

The operating costs include staffing costs (including superannuation and on-costs), accommodation in Perth and Melbourne, information and communication technology running costs of the National Electronic Approvals and Tracking System (NEATS), travel, staff training and development, legal, organisational service costs, and property operating expenses. Costs are also included for the purchase of related services from state agencies, NOPSEMA inspectors and external service providers, which are explained in more detail below.



Table 2 provides an estimate of the cost of performing the regulatory functions during the period from the commencement of the NOPTA on 1 January 2012 until the anticipated new cost recovery arrangements come into effect after October 2013. NOPTA's operational costs are estimated at approximately \$8.5 million per annum. A further explanation of these costs is outlined below.

*Table 2 – Estimated operating costs per annum*

|                                       | 2011/12<br>From 1 Jan<br>2012 | 2012/13        | 2013/14<br>Until 31 Oct<br>2013 |
|---------------------------------------|-------------------------------|----------------|---------------------------------|
|                                       | '000s                         | '000s          | '000s                           |
| <i>Expenses</i>                       |                               |                |                                 |
| Titles Staff                          | 2,073                         | 4,178          | 1,404                           |
| Accommodation                         | 436                           | 908            | 315                             |
| Legal                                 | 316                           | 316            | -                               |
| NEATS (ongoing operational costs) (a) | 425                           | 1,020          | 340                             |
| Services from the States              | 383                           | 710            | 237                             |
| NOPSEMA Inspectors                    | 116                           | 231            | 77                              |
| Operating costs (b)                   | 568                           | 1,164          | 397                             |
| <b>Total Expenses</b>                 | <b>\$4,316</b>                | <b>\$8,527</b> | <b>\$2,770</b>                  |

a) NEATS start up expected 31 January 2012.

b) Operating costs include corporate staff, staff training and development costs, human resources support costs, organisational services costs, and workers compensation.

### 3.3.1 Legal Services

Ongoing legal advice will be required by NOPTA regarding the operation of the OPGGSA, as well as the preparation of drafting instructions to implement the remaining aspects of offshore petroleum regulatory reform which have not yet been considered by the Parliament including amendments to the *Offshore Minerals Act 1994*.

### 3.3.2 NEATS

NEATS is an online petroleum titles management system that allows companies to lodge and pay for applications via an online portal. Existing state and territory data on titles will also be uploaded into NEATS which will then provide NOPTA with a titles register.

### 3.3.3 Services from the states and territories

The states and territories will provide services to NOPTA on an ongoing basis under service level agreements. Performance against these agreements will be reviewed against NOPTA's expected costs if it performed the activities. The services will include the management and storage of physical samples such as cores and cuttings taken during drilling oil and gas wells, that industry is required to submit under legislation and which is then made available to sampling for industry after a period of confidentiality.

Currently the Designated Authorities and Geoscience Australia (GA) each receive half of the physical samples provided by industry. GA operates a custom built facility in Canberra to store this material which is now close to capacity (90%) full and is not capable of accepting the material currently held by the States-NT. It is proposed to consolidate existing State-NT holdings in Victoria and Western

Australia to minimise costs associated with transporting material and maintain a presence close to industry to allow for future sampling. Both Victoria and Western Australia have existing facilities designed specifically for the storage of this material and discussions are in progress to establish service level agreements for each state or territory to continue to provide these services and absorb existing material.

NOPTA does not have the necessary funds to establish the required infrastructure to operate facilities such as these and is seeking to work with the states and territories to use existing infrastructure. It has been estimated that a replacement to the existing Victorian facility would be in the order of \$5 million in capital expenditure, with a similar or greater amount required in Western Australia, as such outsourcing the provision of these services is the most efficient and effective approach.

#### **3.3.4 NOPSEMA Inspectors**

NOPTA will have a duty to ensure that inspections of offshore facilities occur as part of its broader role. The nature of these inspections will be to ensure that any conditions associated with the award of a permit are being complied with and to ensure the validity of reporting and data submitted to NOPTA for a titleholder to meet its legislative obligations. The volume of activity in any particular year will vary with work program obligations to be undertaken by industry. Future work program commitments and industry activity in recent years provide an indication of the level of activity that can be expected in future years.

These activities will be a relatively minor component of NOPTA's overall function, therefore, it is considered unjustifiable to engage a resource with the appropriate qualifications, plus provide training to maintain those qualifications, on an ongoing basis. NOPSEMA will be engaged to undertake these activities on behalf of the NOPTA as part of its broader inspection duties. The allowed cost assumes NOPSEMA will cost recover for providing these services which include transport and accommodation to enable inspections in remote offshore locations.

### **3.4 Outline of charging structure**

The structure of cost recovery arrangements documented in this CRIS is similar to the existing annual title fee framework within the OPGGSA. The Department considers it appropriate to retain the existing structure during the transition period to take account of transition issues and to collect necessary cost data for NOPTA's regulatory activities. At this time, detailed information is not available to the Commonwealth to assess the effort required in delivering each of NOPTA's activities.

The ATA Levy will be set as a single amount (fee) per block or kilometre (km) per title type, as appropriate. In order to provide the greatest certainty to industry around the ATA Levy during the establishment of NOPTA and transition from the existing arrangements, the existing annual fee amounts have been used as the basis for determining the ATA Levy amounts to apply to each title.

The existing approach to applying annual fees is based upon the number of blocks in each title and the nature and complexity of activity undertaken within those titles. The level of fee associated with each type of title reflects both the number of blocks which normally make up a title and the nature and complexity of activity undertaken within those titles. For example, an exploration permit can be made up of up to 400 blocks but the complexity of activity is generally not high (so the fee per block is not high); whereas a production licence may comprise as little as one block and on average only three blocks but the complexity of activity is high (so the fee per block is high). As mentioned earlier, there will be a broader cost recovery review of NOPTA's charging structure prior to the expiry of the current CRIS when the full establishment costs have been recovered, to account for the abolishment of the registration fees.

### 3.5 Summary of charging arrangements

Tables 3 and 4 respectively provide estimates of annual revenues from the ATA Levy and miscellaneous fees to be collected to cost recover NOPTA's expenses. Total revenues are currently estimated at around \$8.6 million per annum, noting that these are likely to vary depending on the level of industry activity within any particular twelve month period.

*Table 3 – ATA Levy - Total revenue per annum*

| <b>Title</b>            | <b>No. of titles</b> | <b>No. of blocks or kms</b> | <b>Levies amount</b> | <b>Estimated revenue</b> |
|-------------------------|----------------------|-----------------------------|----------------------|--------------------------|
| Exploration Permits     | 218                  | 9,500                       | \$65 per block*      | \$617,500                |
| Retention Leases        | 45                   | 134                         | \$7,755 per block    | \$1,039,170              |
| Production Licences     | 83                   | 276                         | \$23,265 per block   | \$6,421,140              |
| Infrastructure Licences | 2                    | n/a                         | \$15,510 per title   | \$31,020                 |
| Pipeline Licences       | 69                   | 2,230                       | \$105 per km         | \$234,150                |
| <b>TOTAL</b>            |                      |                             |                      | <b>\$8,342,980</b>       |

\* A minimum fee of \$1,290 applies to exploration permits that comprise less than 20 blocks.

*Table 4 – Miscellaneous fees – total revenue per annum*

| <b>Miscellaneous title application fees</b>                  | <b>Estimated number of applications</b> | <b>Fee per application</b> | <b>Estimated revenue</b> |
|--|---|----------------------------|--------------------------|
| Exploration Permit Application                               | 40                                      | 5,220                      | 208,800                  |
| Exploration Permit Application (cash bid)                    | 0                                       | 2,090                      | 0                        |
| Special Exploration Permit Application                       | 0                                       | 2,090                      | 0                        |
| Renewal of Exploration of Permit                             | 15                                      | 2,090                      | 31,350                   |
| Retention Lease  | 6                                       | 2,090                      | 12,540                   |
| Renewal Retention Lease                                      | 4                                       | 2,090                      | 8,360                    |
| Petroleum Production Licence Application                     | 4                                       | 2,090                      | 8,360                    |
| Petroleum Production Licence Application (single block)      | 0                                       | 1,050                      | 0                        |
| Petroleum Production Licence Application (surrendered block) | 0                                       | 5,220                      | 0                        |
| Renewal Production Licence                                   | 3                                       | 2,090                      | 6,270                    |
| Infrastructure Licence                                       | 1                                       | 2,090                      | 2,090                    |
| Pipeline Licence   | 3                                       | 5,220                      | 15,660                   |
| Variation to Pipeline Licence                                | 1                                       | 1,050                      | 1,050                    |
| Special Prospecting Authority                                | 6                                       | 1,050                      | 6,300                    |
| <b>TOTAL</b>   | <b>83</b>                               |                            | <b>300,780</b>           |



It should be noted that the revenue estimates reflect recent industry activity levels, which have been relatively high. The expense estimates have been based on slightly lower industry activity to reduce the risk of any overestimation of revenue. If high industry activity levels continue, and higher revenue is achieved, NOPTA will review whether any resulting surplus may be used in funding its ongoing operational activities and the potential to reduce fees in the future periods. However, it is not expected that there would be significant surplus revenue at the end of the period covered by this CRIS. As mentioned, the ongoing revenues and operating expenses of the NOPTA will be subject to review prior to the expiry of the current CRIS and any changes will be documented in the new CRIS expected to commence in November 2013.

*Table 5 – Summary of NOPTA's estimated expenses and revenue*

|            | 2011-12<br>From 1 Jan 2012<br>'000s | 2012-13<br>'000s | 2013-14<br>Until 31 Oct 2013<br>'000s |
|------------|-------------------------------------|------------------|---------------------------------------|
| Expenses   | \$4,316                             | \$8,527          | \$2,770                               |
| Revenue    | ...                                 | ...              | ...                                   |
| - ATA levy | \$4,172                             | \$8,343          | \$2,781                               |
| - Fees     | \$151                               | \$301            | \$100                                 |
| Balance    | \$7                                 | \$117            | \$110                                 |

## 4. Ongoing Monitoring

### 4.1 Monitoring mechanisms

NOPTA's cost recovery arrangements will be monitored on a monthly basis in line with the Australian Government's monthly reporting requirements. It is anticipated that additional reporting will also be generated to demonstrate to industry that the fees are used in an efficient, effective, economical and ethical manner, and achieve value for money.

A new CRIS in accordance with Australian Government Cost Recovery Guidelines will be prepared when the fees are to be reviewed in 2013. Any material increase or decrease in charging levels or changes to cost recovery structure prior to the expiry of a current CRIS will trigger preparation of a new CRIS.

Key performance indicators (KPIs) covering both the qualitative and quantitative elements of NOPTA's functions and responsibilities are currently in development and will be published externally once in place. NOPTA's performance will then be measured and monitored against these KPIs.

## 4.2 Stakeholder Consultation

Stakeholders were provided with an opportunity to comment on NOPTA's operating cost recovery arrangements. On 28 October 2011, the Department released a draft CRIS for a short stakeholder consultation period for 12 days (including two weekends).

APPEA was briefed on the consultation draft of the CRIS on 31 October 2011. At the briefing session, APPEA reiterated its opposition to full cost recovery from industry as APPEA believes there is a valuable public good component in regulation of the industry. APPEA requested information about NOPTA's proposed staffing levels and the current staffing levels of the states and the NT engaged in regulating offshore areas. The Department provided this additional information on 31 October.

Only one submission was received from industry by the end of the consultation period on 9 November. That submission, from an international company with significant interests in the Australian oil and gas industry, expressed its support for the proposed transitional NOPTA cost recovery arrangements.

## 4.3 Periodic review

In line with the Australian Government Cost Recovery Guidelines a review must be undertaken at intervals of not less than once every five years.

This CRIS is expected to be in place until 31 October 2013. At this time it is also intended that the registration fees will be abolished and a new charging structure introduced. Following the initial review in 2013, NOPTA's cost recovery arrangements will be reviewed no less frequently than every five years.

## 5. Certification

I certify that this Cost Recovery Impact Statement complies with the Australian Government decision in relation to cost recovery of NOPTA advising the Joint Authorities on title decisions and administration of titles and data.



.....  
Secretary

Department of Resources, Energy and Tourism

Date: 16 / 11 / 11 .....

## 6. Links

The Australian Government Cost Recovery Guidelines and the accompanying Finance Circular can be found at: <http://www.finance.gov.au/financial-framework/financial-management-policy-guidance/cost-recovery.html>

For proposals that involve regulation or amendment to regulation that affects business, a Regulation Impact Statement is required. Contact the Office of Best Practice Regulation for further information below <http://www.finance.gov.au/obpr/index.html>