

Financial Capacity of Titleholders to meet Obligations under the OPGGS Act

June 2023

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Executive Summary

The National Offshore Petroleum Titles Administrator (**NOPTA**) has undertaken an assessment of the financial capacity of titleholders to meet their obligations under the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (**OPGGS Act**) including:

- A sector wide, high level risk assessment of the financial capacity of Australia's offshore petroleum titleholders; and
- Detailed analysis of specific titleholders that are considered to present a higher risk of not meeting their obligations under the OPGGS Act.

In undertaking this assessment NOPTA has consulted the National Offshore Safety and Environmental Management Authority (NOPSEMA) on the operational activities of titleholders to gain an understanding of any potential or emerging risk that could be relevant.

It is NOPTA's view that financial capacity to meet decommissioning obligations represents the most significant financial risk under the offshore petroleum regulatory regime. **s 47C**

Over the next 15 years NOPTA has identified ^{s.22} projects operated by smaller companies which present a higher risk of not having the financial capacity to meet their obligations under the OPGGS Act when they occur. (**Table 1**).

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NOPTA's ability to monitor the financial capacity of titleholders is limited under existing regulatory arrangements. This report has relied heavily upon publicly available information. **S.47E**

NOPTA has established a formal process for the ongoing monitoring of the financial capacity of titleholders using methodologies based on the work presented in this report and will provide an update at least annually or where significant events impact on the risk presented by specific titleholders.

Relative risk of key projects and companies

1. Background

In March 2023 the Minister for Resources requested advice from the National Offshore Petroleum Titles Administrator (**NOPTA**) regarding titleholders that are at risk of not meeting their obligations under the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (**OPGGs Act**).

NOPTA was requested to, in consultation with the National Offshore Petroleum Safety and Environmental Management Authority (**NOPSEMA**), regularly assess, monitor and report on the financial capacity of titleholders to meet their obligations under the OPGGS Act, and for the assessment to specifically include:

- Detailed analysis of specific titleholders that NOPTA assess are at a higher risk of not meeting their obligations under the OPGGS Act; and
- A sector wide, high level risk assessment of the financial capacity of Australia's offshore petroleum titleholders, and the ability of those titleholders to meet their obligations under the OPGGS Act and for the assessment to consider information from NOPSEMA relating to operational or safety matters that could have a material impact on a project or titleholder.

This report provides an overview of NOPTA's current understanding of the financial capacity of Australia's offshore petroleum titleholders with a particular focus on the holders of petroleum production licences and petroleum pipeline licences that represent the most significant decommissioning, and associated financial, obligations under the OPGGS Act.

It is NOPTA's intention that this report be updated on an annual basis, and higher-risk titleholders will be subject to more regular monitoring to enable timely advice in the event of a significant change in circumstances or financial position.

2. Obligations under the OPGGS Act

2.1. Overview

The OPGGS Act imposes a range of obligations on titleholders that create financial obligations over the duration of a title's life. The quantum and implications of these obligations vary depending on the nature of the title and the petroleum activity being undertaken. Obligations under the OPGGS Act with financial implications for titleholders include requirements to:

- complete guaranteed work program commitments,
- maintain in good repair, and eventually remove from a title area, all structures equipment and property used in connection with the operations authorised by the permit, lease, licence or authority, and
- maintain financial assurance sufficient to meet costs associated with activities in title areas. Financial assurance will not be covered in this report.

NOPTA assesses the sufficiency of an applicant's financial resources to carry out the operations and works that are authorised by the title and discharge obligations that will be imposed under the OPGGS Act and associated legislative instrument in considering a range of applications including: the grant and renewal of titles, the transfer of titles, and for changes of control of existing titleholders.¹ However, any assessment of financial resources is undertaken at a point in time and does not

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guarantee a titleholder will maintain sufficient financial capacity to be able to meet its future obligations under the Act.

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2.2. Work program obligations

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Exploration permits and retention leases give titleholders the right to explore for and recover petroleum on an appraisal basis and are granted and renewed subject to minimum work requirements. The work program commitments are the key financial obligation associated with these titles and failure to complete a work program commitment will result in non-compliance with the title conditions and grounds for cancellation of the title by the Joint Authority. s

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Generally, these titles do not authorise the installation of infrastructure in the title area other than that associated with exploration and appraisal drilling. s 47C

NOPTA monitors the status of wells and is actively working with NOPSEMA to ensure any outstanding obligations in relation to historic wells is completed in a timely manner to remove any potential risk to the Commonwealth.

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2.3. Decommissioning obligations

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The OPGGS Act (Section 572 (3)) requires that a titleholder must remove from the title area all structures that are, and all equipment and other property that is, neither used nor to be used in connection with the operations in which the titleholder is or will be engaged; and that are authorised by the permit, lease, licence or authority.

While this requirement applies across all petroleum titles and activities it has the greatest relevance to production licences, infrastructure licences and pipeline licences where a titleholder is required to remove property and equipment brought into the title at the end of a project's producing life. This process is commonly referred to as decommissioning or abandonment and will usually represent the final obligation under the OPGGS Act before a title can be relinquished. The magnitude of the

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financial obligation associated with decommissioning will depend upon the nature of the project and its associated infrastructure.

As decommissioning occurs after a titleholder has recovered all commercial volumes of petroleum and received the associated revenue, the Commonwealth is reliant upon the titleholder continuing to have the financial capacity and willingness to meet the financial obligation associated with decommissioning once petroleum recovery operations have ceased.

3. Magnitude and distribution of decommissioning obligations

The cost of offshore decommissioning has been estimated to be in the order of US\$40 billion for the full removal of infrastructure.

Australia's decommissioning liabilities are extremely concentrated amongst a small number of titleholders, [s 47C](#)

The Centre of Decommissioning Australia's (CODA) 2020 report, *A Baseline Assessment of Australia's Offshore Oil and Gas Decommissioning Liability*, estimates a combined liability of US\$40.5 billion (real 2020) for complete removal of all oil and gas infrastructure in offshore areas over the next 50 years as per Section 572 of the Act. In general, industry is not planning on being required to undertake full removal which will have an impact on the overall cost of decommissioning, however deviations from Section 572 requirements will require the approval of NOPSEMA.

To better understand the timing and companies that have responsibility for decommissioning NOPTA has used Wood Mackenzie data to analyse the expected timing of decommissioning, and internal data to understand the proportion of liabilities by titleholder. A breakdown of all titleholders and their interests in currently producing projects is provided [s.22](#)

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While the overall estimate for the cost of decommissioning varies between s. 47G and s. 47G the data provides an insight into the magnitude and distribution of decommissioning obligations across the industry.²

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The majority s.22) of Australia's estimated decommissioning liabilities (s.22 s.22) relates to LNG projects, s 47C

LNG projects are generally owned and operated by Joint Ventures comprising larger companies which are predominantly foreign owned.

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4. Structure and composition of Australia's offshore petroleum titleholders

Of the 96 production licences, 77 are owned by multiple titleholders s. 47C
A significant portion of titleholders are ultimately owned by foreign entities s. 47C

There are currently 354 active titles under the OPGGS Act with 159 unique registered titleholders. The majority of these titles are exploration permits, retention leases and production and pipeline licences (Figure 4). A single title may be held completely by one titleholder with a 100% interest, or by multiple different titleholders through a joint venture arrangement where each titleholder may hold a differing percentage interest. In some instance there may be more than one subsidiary of the same corporate group registered on a title.

Relative risk of key projects and companies

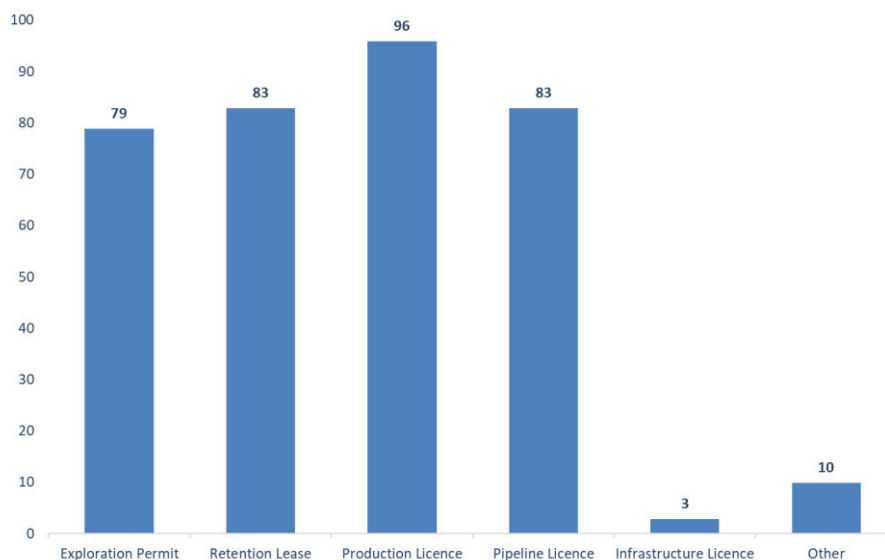


Figure 4. Number of titles by title type. (Source: NOPTA).

4.1. Country of registration

The majority of individual titleholders are Australian registered entities (**Figure 5 LHS**) but when subsidiaries are rolled up to the corporate group level more than half of the unique corporate groups are foreign registered entities (**Figure 5 RHS**). Subsidiary companies generally rely on parent entities for funding, and as such a view of unique corporate groups is useful in assessing financial risk.

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Relative risk of key projects and companies

4.2. Diversity of titleholder base

The number of different corporate groups on a title reduces the risk of obligations not being fulfilled due to insufficient financial capacity.⁴ s 47E

Figure 6 shows the number of unique corporate groups registered on exploration permits, retention leases and production licences. Typically, exploration permits are held by a single corporate group (67%). As the financial commitment associated with titles increases, the number of corporate groups tends to increase, either through sale of title interest following a discovery or through farming out of work program commitments (usually drilling commitments) to larger corporate entities. Only 20% of production licences are held by a single corporate group.

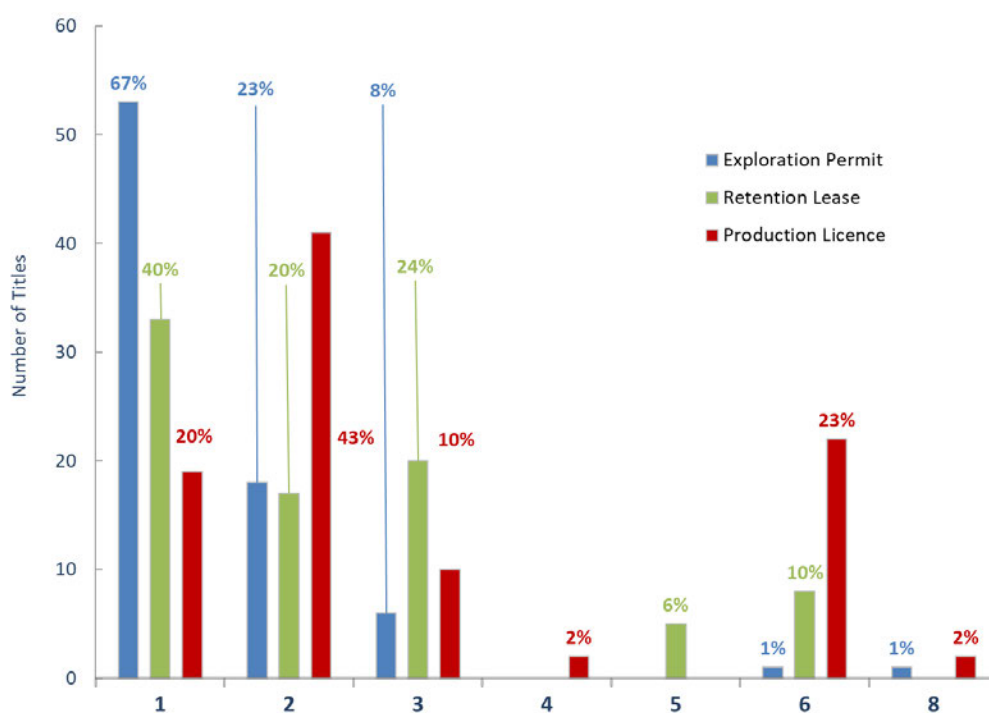


Figure 6. Number of Corporate Groups by title type. (Source: NOPTA).

As shown in **Figure 7**, of the 66 corporate groups:

- 17 are exploration focussed, holding only exploration permits and 3 hold retention leases as well as exploration permits, but no Production Licences;
- 16 hold exploration permits, retention lease and production licences (exploration and development);
- 21 hold only production licences (development only); and
- nine hold only retention leases.

⁴ Under s.775D of the OPGGS Act, if there is an obligation on the registered holder of a petroleum title and there are 2 or more registered holders of the petroleum title, the obligation is imposed on each of the registered holders but may be discharged by any of the registered holders.

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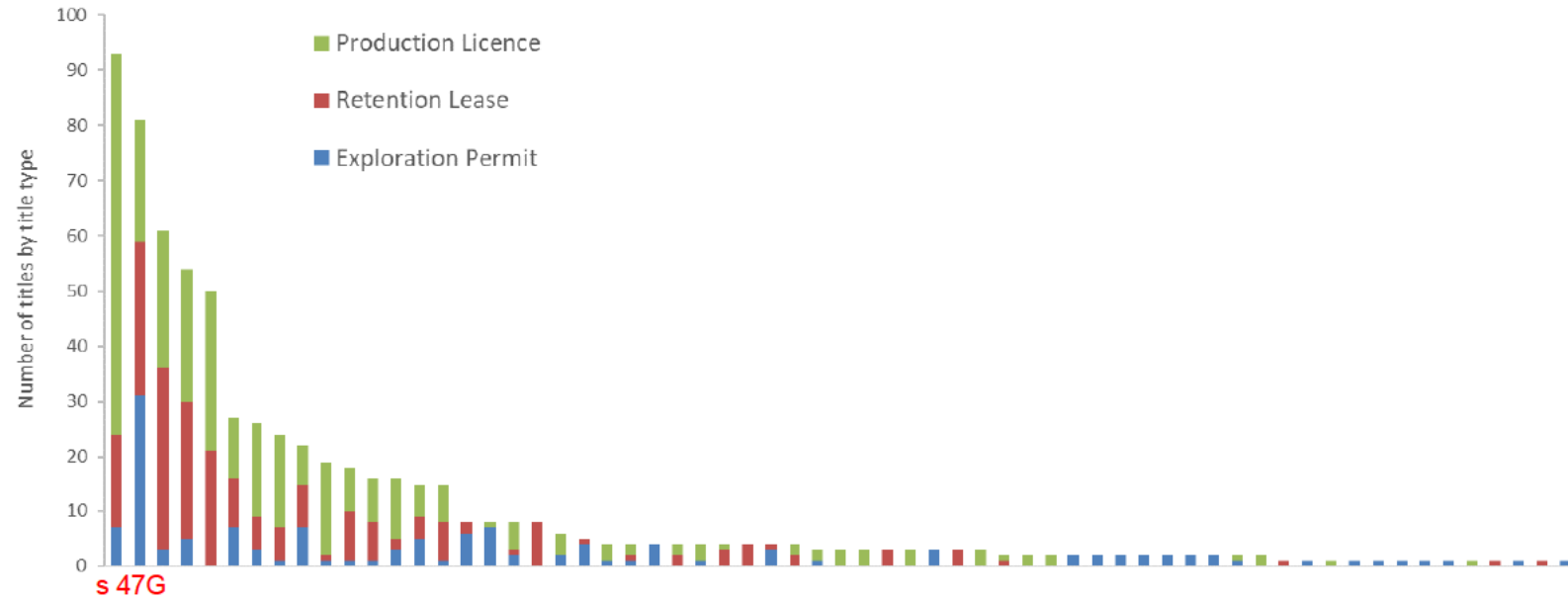


Figure 7. Number of titles held, by corporate group and by title type. (Source: NOPTA).

Relative risk of key projects and companies

5. Risk screening

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NOPTA has used a number of techniques to identify titleholders that may present a greater risk of not having the financial capacity to meet decommissioning obligations. Further detailed analysis has been undertaken based on the outcomes of the risk screening process.

The risk screening methods that have been used are:

- Consultation with NOPSEMA;
- Exploration permit and retention lease holders with obligations to decommission wells;
- Ceased projects with outstanding decommissioning obligations;
- Production licences operated by sole or small titleholders;
- Ratio of a companies' decommissioning liabilities to net assets; and
- Titleholder strength and the financial capacity of projects.

5.1. Input from NOPSEMA

NOPSEMA has provided a range of data to support the assessment of the financial capacity of titleholders presented within this report. Information provided by NOPSEMA has included:

- Details of titleholders subject to higher regulatory oversight (Tier one and Tier Two) in relation to decommissioning;
- Decommissioning environment plans in-force or under assessment;
- Details of enforcement actions over the last five years;
- Details of in-force well operation management plans; and
- Commentary on the performance of specific titleholders, including those identified as presenting increased risk.

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. The information provided by NOPSEMA has been used to inform the risk screening process and detailed assessment undertaken on specific companies.

5.2. Exploration permit and retention lease obligations to decommission wells

The key financial risk to the Commonwealth from exploration permit and retention lease holders relates to the potential failure to decommission an exploration or appraisal well to the satisfaction of NOPSEMA. s 47C

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5.3. Ceased projects with outstanding decommissioning obligations

There are s.22 projects under active titles that are currently not producing and have either ceased production permanently or temporarily ceased with the intention to restart production in the future (**Table 3**). Of the s.22 projects:

- s.22 has been fully decommissioned;
- s.22 are held by joint ventures that include large companies with financial capacity to meet the obligations; and
- s.22 are held by single titleholders.

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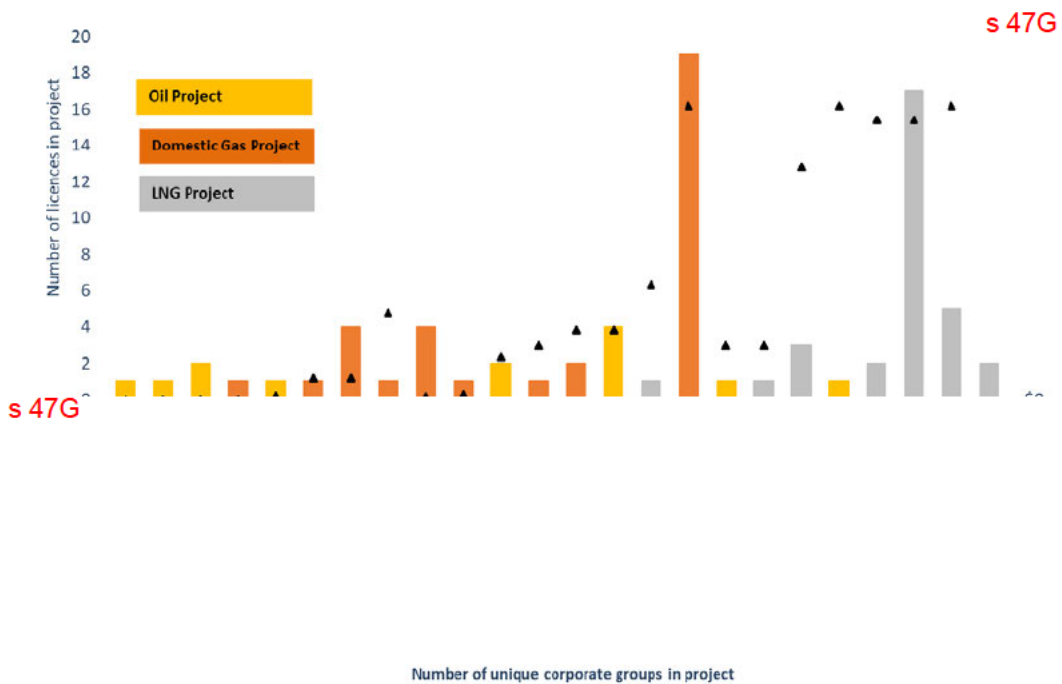
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5.4. Production licences operated by sole or small titleholders

There are 24 projects (at the facility level) currently producing from one or more production licences. The coloured bars in Figure 8 indicate the number of production licences associated with a project,

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. Eight of the projects are held by a single corporate group and 16 are held by two or more unique corporate groups.



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Figure 8. Number of participants by producing project and number of titles in a project. (Source: NOPTA).

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5.5. Ratio of company decommissioning liabilities to net assets

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5.6. Titleholder strength and the financial capacity of projects

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8. Conclusions

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8.2 Ongoing Monitoring

In accordance with your request for NOPTA to regularly assess, monitor and report on the financial capacity of titleholders to meet their obligations under the OPGGS Act, NOPTA proposes to implement a structured approach to monitoring the financial capacity of titleholders to complement existing activities. This process will include:

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⁶ More information on NOPTA's approach to financial capacity assessments is provided in the appendix.

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Appendix B

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Appendix C

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