ECONOMICS AND GOVERNANCE COMMITTEE

Members present:

Mr LP Power MP (Chair)
Mr RA Stevens MP (via teleconference)
Mr ST O'Connor MP
Mr TR Watts MP (via videoconference)
Ms KE Richards MP
Mr LR McCallum MP

Staff present:

Ms L Manderson (Committee Secretary)

PUBLIC BRIEFING—INQUIRY INTO THE ROYALTY LEGISLATION AMENDMENT BILL 2020

TRANSCRIPT OF PROCEEDINGS

TUESDAY, 28 JULY 2020

Brisbane

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The committee met at 10.30 am.

CHAIR: Good morning. I declare this public briefing open. Today's proceedings are being conducted using videoconference and teleconference facilities, so I ask all of our participants and anyone watching on the live broadcast to please bear with us if we encounter any technical issues. I begin today's proceedings by acknowledging the traditional owners of the land on which we participate today and pay my respects to elders past and present.

My name is Linus Power. I am the member for Logan and chair of the committee. The other members of the committee are: Ray Stevens, the member for Mermaid Beach and deputy chair, who is joining us via teleconference; Trevor Watts, the member for Toowoomba North, who is joining us via videoconference; Lance McCallum, the member for Bundamba; Sam O'Connor, the member for Bonney; and Kim Richards, the member for Redlands.

The purpose of today's briefing is to assist the committee with its examination of the Royalty Legislation Amendment Bill 2020. This briefing is a proceeding of the Queensland parliament and is subject to the standing rules and orders of the parliament. It is being recorded and broadcast live on the parliament's website. I remind committee members that officers appearing today are here to provide factual or technical information. Any questions about government or indeed opposition policy should be directed to the responsible minister or shadow minister or left to debate on the floor of the House. Before we proceed, I ask all those present and participating to please ensure mobile phones are switched off or turned to silent mode.

DALY, Ms Melissa, Director, Strategic Policy Projects, Queensland Treasury (via videoconference)

FIELDING, Mr Daniel, Director, Royalty, Queensland Treasury (via videoconference)

GASTALDELLO, Ms Rosemarie, Special Policy Adviser, Queensland Treasury (via videoconference)

KROSS, Ms Melinda, Acting Deputy Commissioner, Office of State Revenue, Queensland Treasury (via videoconference)

McKEE, Mr Simon, Acting General Manager, Office of State Revenue, Queensland Treasury (via videoconference)

CHAIR: Good morning and thank you for the written briefing that you have provided to the committee. That briefing has now been published on the committee's inquiry webpage. In view of today's briefing being broadcast via videoconference and given the more limited visual cues and the absence of nameplates, I ask that you please identify yourselves when speaking for the first time or when responding to a question that was directed to another. Committee members will also endeavour to clearly identify themselves when asking questions and I will certainly help with that. That will assist our Hansard reporters and committee members participating via teleconference as well as minimise any confusion for members of the public watching the broadcast online. I now invite you to make an opening statement, after which committee members will definitely have some questions for you.

Ms Kross: Good morning, Mr Chair and members of the committee. Thank you very much for the opportunity to brief the committee on the Royalty Legislation Amendment Bill 2020 this morning. The bill does two main things. The first is that it implements a new basis for imposing petroleum royalty following recommendations from an independent review chaired by the Hon. Jay Weatherill, former premier of South Australia. Secondly, the bill reforms royalty administration by applying the Taxation Administration Act to mineral and petroleum royalties.

Currently, petroleum royalty is imposed based on the wellhead value of that petroleum. Following broad consultation with petroleum producers, industry bodies, industry executives and experts, the review found that the current regime was no longer suitable for the existing configuration of the Queensland gas industry and recommended adoption of a volume model. On 8 June 2020 the government announced its decision to adopt this volume model. Accordingly, from 1 October 2020 petroleum royalty liability will be determined by applying a prescribed royalty rate to the volume of petroleum produced in a period. The royalty rate payable is dependent upon the type of petroleum and its use, with gas used by Queensland's LNG projects being liable for royalties at a higher rate than gas used for the domestic market.

The Office of State Revenue has worked closely with industry on implementation issues since the government's announcement, including undertaking consultation prior to finalising the Royalty Legislation Amendment Bill. A number of issues raised during consultation have been addressed in the bill where those are consistent with the model's principles. These include allowing arm's-length sales revenues rather than the benchmark price to be used for determining a producer's royalty rate where appropriate, disregarding gas swaps and removing a legislative obligation for the sharing of confidential sales information for determining the producer's royalty rate. In addition, all amounts will be determined on a GST-exclusive basis.

Industry also requested that non-tenure holders involved in a joint venture be able to elect to be treated as if they were a petroleum producer, thus allowing them to lodge returns and pay royalty on their share of petroleum produced from the tenure. This avoids the need for producers to share confidential sales information for determining liability. Changes requested by industry that are considered inconsistent with the review's objectives or the volume model itself or that would raise revenue risk were not adopted by government. These include using actual sales prices from related party transactions and deducting expenses from sales prices in setting the royalty rate. The OSR has issued a detailed response to industry on all of those issues.

The OSR will continue to work with industry to assist it to implement these new arrangements. This will include publishing royalty rulings on issues identified by industry, such as the basis for measuring liable petroleum. In addition, arrangements will be implemented to ensure producers can move to the new volume model without penalty and interest risks for the first six months.

In tandem with these reforms, the application of the Taxation Administration Act to mineral and petroleum royalties from 1 October 2020 will move royalty administration into line with the administration of the state's taxes, delivering several benefits for royalty payers. These include access to full merits review for royalty assessments and royalty valuation decisions, replacing the current judicial review process. Royalty payers will be able to challenge decisions by objection to the commissioner initially and then followed either by review to QCAT or by Supreme Court appeal if dissatisfied with the objection decision. Additionally, the time frames for making reassessments to increase or decrease royalty liability will be made consistent at five years. Currently, there is an unlimited time for increasing liability.

Mr STEVENS: This bill is based on a review that was held last year. The Treasurer stated that that review was allocated $100,000 to meet costs associated with the former South Australian Labor premier, Jay Weatherill. Noting that the review was extended beyond what was originally indicated to come up with this bill before the House, can you provide the updated figure for the actual expenditure of that review in getting this bill to the House?

Mr Fielding: If we may, we will find out the exact figure for you and report back to the committee.

Mr WATTS: I am sorry, Chair, that is not clear. I cannot hear the response.

Mr STEVENS: I cannot hear it either.

CHAIR: I might have to relay some of the answer. Mr Fielding, can you speak up a touch?

Mr Fielding: We will get back to the committee with the figure, if that is acceptable, Mr Chair?

Mr STEVENS: Is it taken on notice?

Mr Fielding: Yes.

CHAIR: They are going to get back to us. The usual process is that at the end of the session I note every question that is taken on notice. We do not have the process that we have in the parliament.

Mr STEVENS: That is fine, Chair. We will move along. Many submitters have raised a concern about the lack of clarity regarding how volume will be measured, noting that it is not provided for in the bill at this stage. In your response to submissions you have indicated that the OSR will be developing a royalty ruling to set out guidelines for measuring the volume of liable petroleum. Can you comment on how you will be engaging with the industry in this matter in proper consultation regarding the development of that ruling and the planned timeline for its development, noting that the first quarterly return of the new model will be due on 31 January 2021?

Mr Fielding: With the implementation consultation that took place, it was made clear to industry and was contemplated that a ruling would follow the submissions received during consultation. The OSR did receive a number of submissions during consultation, which included suggestions on how industry proposed that the volume should be measured. It is also the case that industry is already required to report to the Department of Natural Resources, Mines and Energy on the volume of petroleum produced. There are also some further details provided in committee submissions, which have been noted by the Office of State Revenue.

In terms of the process moving forward, to formulate information for industry and to provide guidance and clarification the OSR has also noted all the information that has been presented in the submissions during the royalty review that took place, led by Mr Jay Weatherill. There were some initial discussions on the measurement of volume as well to make it clear that it was feasible and could be done. That included consultation with the Department of Natural Resources, Mines and Energy in terms of the information that is provided to them by industry. In terms of moving forward, this afternoon the OSR has a meeting with the Department of Natural Resources, Mines and Energy to further discuss the suggestions that were put forward by industry in submissions. In terms of our internal time lines, we will analyse those submissions and the suggestions put forward to then provide guidance to industry.

In terms of our own internal process, we hope to have our internal process wrapped up within the next 2½ weeks. The extent of further consultation—and by that I mean the form of the consultation—will depend on our analysis and the direction that is taken. To give an example of what I mean by that, if the position going forward is that the details provided to the Department of Natural Resource, Mines and Energy are sufficient then there may be limited need for consultation if industry simply continues to do what they currently do. If a different direction is taken, that would necessitate further consultation with industry. In terms of the guidance and clarification that the OSR will give, industry has made it very clear that it is their top priority, and it is our top priority to provide them with that guidance and clarification.

Mr McCALLUM: The explanatory notes highlight that the Royalty Administration Modernisation Program's application of the Taxation Administration Act will deliver some benefits for industry in terms of reviews and appeal rights. Could you explain what those potential improvements are?

Ms Gastaldello: Yes, we can. In terms of the benefits, it is probably worthwhile looking at what can happen at the moment if you are a royalty payer and you are dissatisfied with an assessment or a royalty valuation decision. At the moment, all that you are pretty much limited in doing if you are not happy with the commissioner's decision that has been made is exercise rights under the Judicial Review Act to go to the Supreme Court and ask a Supreme Court judge to look at the decision that has been made. In terms of that decision, there are very limited grounds on which that decision can be challenged, based upon administrative law principles.

Once the TAA applies, it will be a completely different environment for a royalty payer. What they will be able to do—and it is very similar to what happens at the moment for a duties payer, a land tax payer, a payroll tax payer or someone who pays betting tax—is, if they get an assessment or if they are the subject of a royalty valuation decision, object to that decision that has been made, and that will happen under part 6 of the Taxation Administration Act. The objection itself is decided internally within the Office of State Revenue, but, in saying that, whoever has made the original decision is certainly not going to be the person who looks at the objection and determines the objection as such. We have a completely separate area of the office that is quite independent of the administrative areas of the office that will consider that objection and make a decision.

In terms of looking at that, with regard to the grounds you can raise when you are looking at an assessment or a royalty valuation decision that you are not happy with, you can raise effectively any grounds whatsoever in terms of that decision as to why you are not happy with it. Comparing that to what happens under the JR Act at the moment, that is a big change and it is a big benefit for royalty payers. It puts them on the same footing as other revenue payers within Queensland. All going well, most people are usually satisfied with the objection outcome. If you are still not satisfied with your objection outcome, under part 6 of the TAA you then have two options. You can appeal to the Supreme Court and just go through the standard Supreme Court appeal process—and, again, you raise whatever grounds are relevant to your particular circumstances. Alternatively, you may feel that, based upon the circumstances, you do not want to go to the Supreme Court. Instead, you will be able to go to QCAT and have that reviewed by one of the members of QCAT.

Hopefully you can see that that is quite different from what royalty payers are currently subject to. I can assure you that, through consultation that we conducted with industry last year, that was one aspect of the consultation process that they were very happy about in terms of the benefits that the RAM program delivers. I hope that has answered that question in that respect. Do you have any other questions?

Mr McCALLUM: No, that was excellent. Thank you.

CHAIR: I would have assumed, or it seems common sense, that wellhead value is something that is quite complex—with interrelated parties, sales information, spot prices, timing and contracts—whereas wellhead volume is something that is a lot simpler and clearer and provides greater clarity and probably would be subject to a lot less disputation.

Ms Gastaldello: I could anticipate that that would be the case. In terms of the review itself, it looked at certain principles that the new model had to achieve and simplicity was one of them. Looking at the legislation, I think that would hopefully reduce the number of instances where matters would have to go to review, certainly compared to the system that we have in place now.

Mr O'CONNOR: How much additional revenue will be raised by these royalty changes? Could we have that broken down over the forward estimates?

Mr Fielding: I understand that those details will be provided in the government's update as part the COVID financial statements in September.

Mr O'CONNOR: So the details are not available at the moment?

Mr Fielding: That is correct, yes.

CHAIR: We had one submission where one of the companies said that they are paying 62 per cent of Queensland petroleum royalties despite only producing 44 per cent of the state's volume of gas. If we were to lock in a system of revenue for an extended period of time, we would lock in that company continuing to pay considerably more than the share of royalties than the share of gas that they produce. Would that be true?

Mr Fielding: If the current arrangements were kept in place—

CHAIR: If it was locked in place for a long time, we would continue to see a company paying 62 per cent of petroleum royalties despite only producing 44 per cent of the state's gas.

Mr Fielding: In terms of the review by Mr Weatherill, one of the findings was that there is not currently a level playing field in terms of the amount of royalty that producers are paying based on the volume of gas they are producing. I cannot comment on individual producers and their specific royalty obligations, but the new volume model will provide equity across all the royalty payers in that the royalty will be calculated in the same way for each royalty payer.

CHAIR: Member for Toowoomba North, I might be putting you on the spot here, but do you have a question? Member for Toowoomba North, are you there?

Mr WATTS: Yes. To be honest, Chair, I have tried to go online now because I have been struggling to hear anything, so if someone else has a question please let them go while I try to sort out my technical issue.

CHAIR: Yes, we all have to bear with it. It is just one of those things. With the COVID inquiry we are also doing, we have to bear through these issues.

Ms RICHARDS: Could you provide us with a little bit of information in terms of the volume model by comparison to other royalty regimes engaged in Australian jurisdictions?

Ms Daly: Queensland's move to implement the volume model will place us in a unique position compared to other Australian jurisdictions. Across the rest of the country the wellhead value is the model that is implemented, but as the independent review undertaken by Mr Weatherill made clear there are particular issues certainly with the Queensland coal seam gas to LNG industry that in effect said that the current wellhead value model within Queensland was no longer fit for purpose and the recommendation was to adopt a volume model. As we have noted, one of the key outcomes sought to be achieved is simplicity and equity across all of the coal seam gas/LNG projects. While Queensland is adopting a unique approach, the review's recommendation was that it was an appropriate approach.

Mr O'CONNOR: The QRC in its submission pointed out that it received an advance copy of the bill, I think, the evening before it was tabled. This was announced in the last budget. Why was it not brought forward sooner and why are we now going ahead with an urgent bill so long after that? What was the delay?

CHAIR: It might be worth going through some of the consultation process that happened previous to releasing the bill.

Mr Fielding: In terms of the timing of the bill, that is a matter for government. I would note that there was consultation as part of the review that followed the announcement by government in the last budget. That review, which was chaired by Mr Jay Weatherill, delivered its final report at the end of February. That report was being considered. Then the COVID-19 pandemic hit and there was also a change of treasurer, so that did affect the timing of proceeding and going ahead. The actual government announcements of the new model were on 8 June this year. Implementation consultation proceeded on 10 June with an implementation consultation paper that was provided to industry, and the submissions that were received as part of that consultation were incorporated in the bill that was introduced into parliament. In terms of timing, that consultation process finished. Written submissions were due by 1 July and the actual consultation finished around 3 July. Then there was the usual briefing of government on its submissions which dictated timing, so the advance copy was as soon as an advance copy could be provided. It was not intended to be a consultation piece because the implementation consultation paper that was provided by OSR set out the framework for the volume model and how it would apply. The implementation consultation paper that was put out is broadly similar to what is in the legislation, subject to some changes having been incorporated based on submissions received as part of the implementation consultation.

Mr O'CONNOR: Noting the earlier answer that we will not have an idea of the additional revenue raised until September, was there any economic modelling that Treasury can share with us that was undertaken looking at what rates to set for the royalty tiers or any other modelling with regard to the impact that these changes will have?

Mr McKee: There was modelling undertaken that was necessary to establish the rates and tiers. That was undertaken by State Revenue. We did that in consultation with industry.

Mr O'CONNOR: Can you share some of those findings?

Mr McKee: Yes, we did. Sorry, I thought you said, 'Did we share it with industry?' Yes, we did but, again, the purpose of that modelling was to determine whether the mechanics of the rates and tiers worked, not to set necessarily the rates or the revenue outcomes. As Daniel Fielding indicated earlier, that is a matter for the government to establish in the COVID update.

Mr O'CONNOR: And the second part of my question on the impact of the changes?

CHAIR: Member for Bonney, this is a long train of questions. This is the fifth question you have asked in a row. We do have other members who wish to—

Mr O'CONNOR: Okay. It was just the second part of my question on the impact of the changes.

Ms Kross: Can we just clarify you referencing the impact—

Mr O'CONNOR: The economic impact of the changes proposed. Do we have any modelling on that?

Mr McKee: Again, as Daniel Fielding said earlier, that is a matter for government to establish at the COVID update in September, the budget update.

Mr McCALLUM: I imagine that the vast majority of petroleum royalty payers are corporations, but are you aware of any instances where there might be individuals who are paying petroleum royalties?

Mr Fielding: There is one individual who has an authority to prospect. I cannot comment on that individual's personal affairs, but I can confirm there is one individual. The rest are corporations or joint ventures.

CHAIR: I note that the member for Toowoomba North is online. Member for Toowoomba North, do you have a question?

Mr WATTS: Yes, I do. I wonder if anybody there at Treasury could comment on the changes in transportation deductions and how that might impact the small and medium operator, particularly around petroleum extraction.

Ms Daly: As we set out in our submission, currently the relevance of transportation deductions for the wellhead value model is that it is a value based model, and the intention and the way in which royalty is currently imposed is to look at the amount that is received—the revenue received—for the sale of the petroleum and deduct certain expenses between the wellhead and that point of sale, so costs such as transportation are highly relevant. In moving to a volume model, which is imposing a rate of royalty on the volume produced, transportation costs and costs or expenses generally are no longer relevant. It is purely the volume of petroleum, and that obviously was one of the issues that was considered in the independent review undertaken of moving to a more simple model because the wellhead value model raises a number of complexities, particularly given the vertically integrated nature of the CSG/LNG industry and the related party arrangements between the petroleum producers and their downstream entities. Again, we made a note in our submission that, in considering setting the rates, particularly in the oil industry, most of which is produced out in the remote Cooper Basin, the rates have had regard to the transportation costs in setting an appropriate rate for the payment in relation to the liquid petroleum products.

Mr WATTS: I have a follow-up question that relates to transportation, particularly out of the Cooper Basin. My concern is that, for the smaller players who maybe do not have access and need to use road transport, the structure of not being able to deduct means in fact they will be paying a much higher rate and therefore the resource may well stay in the ground. I am trying to understand how that model was arrived at and the actual impact that will have on the profitability of the organisation, because of course nobody gets any royalty if the profitability is gone.

Ms Daly: When the volume model was initially being developed in consultation with industry, the initial intention was to impose a benchmark price based rate on the volume of petroleum produced. Following submissions to government, government ultimately decided that there would be an alternative method for producers to work out their royalty rate. Basically, in setting an almost individualised benchmark price they can have regard to the revenues they earn in a royalty return period, so basically dividing revenues by the volumes gives them a dollar per gigajoule reference price. That then feeds into the royalty rate tiers that would apply, but it remains open to any producer who considers it more appropriate to use the benchmark price, which is an industry based index.

In relation to the oil industry it is the Brent spot price. If in a particular producer's circumstances they consider that using their own sales revenues—particularly if they might have a high cost structure—would not produce an appropriate outcome for them in relation to their royalty liability, they may elect to use the benchmark price. As I mentioned, that benchmark price is neutral so it is does not have regard to cost. It is being set to basically take that out of play as far as working out your royalty liability.

Mr WATTS: What I am concerned about is where they sit on the cost curve and how this will impact their ability to actually make a dollar. If I am clear as to what you are saying, you are saying they can use a benchmark price. Is that benchmark price an average price? If they sit on the wrong side of that then it is going to mean the resource stays in the ground.

Ms Daly: In relation to oil, for example, and setting a royalty rate for a quarterly return period, the Brent spot price is averaged over that period. If in a quarter the Brent price moves up and down it is averaged, and that averaged benchmark price is then applied to work out which of the royalty rate tiers the producer will fit into. It is like a marginal kind of rate arrangement.

Mr McKee: Going back to what Melissa Daly indicated at the beginning of what she said, there is also consideration in that the costs of that built into the rates and tiers of the particular types of petroleum. It would be ultimately a lower rate that oil producers in the Cooper would be paying relative to, say, a producer feeding gas into the LNG projects.

Mr McCALLUM: Can you explain how the new volume model is going to improve equity, simplicity and transparency for producers and how it is going to encourage the low-cost production of gas?

Ms Daly: As I mentioned earlier, the CSG to LNG industry in particular is highly vertically integrated. What happens in practice is that the producer will often sell to a related party, who then might sell to another related party to produce the LNG, which is then sold. Because the wellhead value model currently requires that an equivalent arm's-length price be used to work out the wellhead value, the Office of State Revenue needs to make what are called petroleum royalty decisions. That is a decision made producer by producer to determine a commercial value for the petroleum they have sold so we can work out the wellhead value. Because it is an individual decision, different factors can come into play. The decision might be made at a different point in time, so there may not necessarily be complete consistency in the way decisions are made or all the factors that are taken into account, or particular circumstances that may exist within a particular project could influence the way that value is determined.

In contrast, because the volume model is imposing a royalty on the volume produced, it does not any longer need to have regard to the commercial equivalent value of the petroleum or the commercial equivalent value of deductions that might also be paid to related parties. That is broadly where the equity is going to be achieved—by taking those individual petroleum royalty decisions and the need for them out of the liability imposition model.

CHAIR: The member for Toowoomba North spoke about small players. Small players and smaller investments are much less likely to have interrelated parties, usually overseas, with which to do complex, interrelated financial mechanisms and are therefore—all things being equal—at a given rate to pay a lesser proportion than some of those big companies that have those interrelated parties.

Ms Daly: Yes, that is correct. Certainly the smaller producers who are probably selling into the domestic market, for example, if you are talking about gas—you would anticipate they would be paying royalty on a very consistent basis as across their competitors because, as I said, it is based on the volume. Obviously they pay more royalty if they produce more petroleum, clearly, but, as for the rates that are payable, that individualised effect of what they sell for can be smoothed to make the playing field more level.

Mr STEVENS: The royalty review has an additional stated objective: to identify opportunities to strengthen domestic supply. If I am a producer of gas or petroleum, what is to stop me from saying that in production terms it is 70 per cent domestic and 30 per cent export, when in reality it is 30 per cent domestic and 70 per cent export? What mechanisms are involved in the policing of the sales point of produced petroleum?

Ms Daly: The legislation sets out all classes of petroleum. There is liquid petroleum, which is your oil and condensates, and there are three classifications of gas: domestic gas, LNG project gas—which is the gas produced by the LNG projects and liquefied—and then there is gas that is sold into an LNG project. The legislation sets out very clear criteria around what each of those classifications is and how to determine it. For example, to be domestic gas it has to meet certain criteria. If the gas is flared or vented, which is obviously necessary for safety reasons particularly, if it is sold to anybody other than an LNG project and if it is stored et cetera it will be domestic gas. If it is not domestic gas then we look at whether it meets one of the other criteria.

Broadly, if it is gas produced by an LNG project that is not domestic gas as defined then it is project gas and the higher rate applies to it. We have two aspects: one is the legislative clarity that sets out and will provide guidance to the industry on the system to make those determinations themselves about what gas is. The Office of State Revenue has a compliance program where we can review the way petroleum producers are implementing legislation and accounting for their royalty, and we will be working with the industry through the early stages of implementation to assist. We also mentioned in our submission that another aspect of that to assist industry to move towards the new volume model is for the first six months—for the first two return periods—if there is a mistake made in classification et cetera we can make reassessments and there will be no interest or penalties. They will be fully remitted.

Mr McCALLUM: Just so I have interpreted this correctly, under this legislation there is a lower rate for domestic gas as opposed to export?

Ms Daly: That is correct, yes. For gas there are three different rates: domestic gas is the lowest; the gas that is converted to LNG is the highest of the rates; and in between there is gas that is supplied by an independent producer into one of the LNG projects. There are three different rate scales that apply.

CHAIR: Domestic gas suppliers selling within our own jurisdiction would have a lot greater transparency about who they are selling to and the possibility of interrelated parties and the final price. In that way, domestic consumers of gas and those who supply to the domestic market, all things being equal, are likely to benefit as well?

Ms Daly: That would be the intention of the lower rates for domestic gas. As you note, Mr Chair, the legislation also does impose an obligation on anybody from an LNG project who is buying gas to advise the producer they are buying it from so they can be clear they are selling it to an LNG project. If they do not receive that notification, they can assume it is being sold domestically and apply the lower rate.

Mr O'CONNOR: Treasury does have an estimate for how much additional revenue these changes will raise but we will not know until September, which is potentially after the parliament has considered these changes?

Mr McKee: What I said earlier was that modelling was undertaken to determine the appropriate tiers and rates to establish, consistent with what Melissa Daly was saying. The actual modelling for the purposes of the budget will be undertaken, as we said, in September in the COVID update.

Mr O'CONNOR: Released or undertaken in September? Released as far as the update?

Mr McKee: As part of the budget update, correct.

Mr O'CONNOR: As a separate line item within that?

Mr McKee: That has not been established yet. The parameters of the budget settings have not been established yet—as far as we are aware, anyway.

Ms RICHARDS: Can you elaborate on the benefit of non-tenure holders in petroleum joint ventures being able to elect to be treated as petroleum producers?

Ms Daly: This was an issue that came up specifically on request from industry during our consultation process. It is an issue that industry has been talking to us about for a little while. In moving to the volume model there was an opportunity to implement some quite significant changes for non-tenure holders, which we have taken the opportunity to do. What happens in practice is that there are some of the larger producers who are involved in joint ventures but they are not actually the tenure holder themselves. They may have provided the capital for the project and the other joint venture participant might hold the tenures. In practice, though, the petroleum that is produced they commercialise, sell it separately. For all intents and purposes, post production they are operating autonomously from that perspective.

The request that we received was to allow somebody who is not actually a tenure holder but is involved as if they were—undertaking production activity and selling petroleum—to elect to be treated as if they are a petroleum producer. While on one hand that is an unusual thing to request to do in that they are voluntarily taking on the obligation to pay royalty, lodge returns and be accountable for the royalty that is referable to the petroleum produced, as I said, it is something they have sought. OSR cannot require somebody to do that; it is something that will be done by election. If a producer forms a view that it is in their interest to lodge royalty returns and pay royalty on their share of the petroleum from the joint venture, they may do so. It enables them to lodge returns and pay royalty, and the tenure holder will then pay just for their share.

Importantly though, while that produces benefits for the non-tenure holder, the legislation also ensures that the right revenue risks are raised by these changes and ensures that if, for any reason, the non-tenure holder defaults the tenure holder will remain liable as if that election had never been made. That ensures the government will not be out of pocket from the election, but it also—while everything is going well, as it is expected to—suits the producers. It means that they do not have to share their confidential sales information, which otherwise the non-tenure holder would have to provide to the producer to lodge one royalty return for the whole joint venture.

Mr McKee: As we spoke about earlier, this is a manifestation of the highly integrated arrangements in CSG to LNG projects. We have joint venture project owners who do not necessarily want to share confidential information about their part of the project, what gas they are taking and selling. They know how much gas they are taking, obviously, but not necessarily the prices they are selling it for. This was requested by industry to address that, and that has been the response in the legislation.

Ms RICHARDS: Does that potentially drive more competitiveness into the market and the pricing market?

Ms Daly: I am not sure that would necessarily be the case. The driver for the OSR and the government in making this change was that industry saw it as being highly beneficial to them, and they felt it would make the volume model more appropriate, more equitable and easier for them to implement and adopt.

CHAIR: Thank you. We appreciate your time. The time having expired, we will now conclude the briefing. Thank you for the information you provided, and thank you especially to our Hansard reporters. A transcript of these proceedings will be available on the committee's webpage in due course.

I understand that some information was to be provided. Because the consultation process through the comprehensive review was expanded to do further consultation with industry, the question is whether there were any costs on that expanded consultation process.

Mr McKee: That is right. We took that on notice. There were expanded costs.

CHAIR: We note that you have taken that on notice. We ask that your response be provided by 12 pm on Friday, 31 July 2020. With that, I declare this public briefing closed.

The committee adjourned at 11.18 am.