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12 February 2009

Mr Philip Weickhardt  
Commissioner  
Productivity Commission  
Locked Bag 2  
Collins Street East  
MELBOURNE VIC 8003

Dear Commissioner Weickhardt

**REVIEW OF REGULATORY BURDEN ON THE UPSTREAM PETROLEUM (OIL AND GAS) SECTOR  
– DRAFT RESEARCH REPORT**

Woodside welcomes your comprehensive draft research report and the manner in which you and your researchers have listened to industry concerns and adopted a thoughtful and robust approach to proposing solutions.

Woodside has contributed to a detailed response to your report by APPEA. This submission will therefore focus on some specific issues of importance to Woodside and where our view may not mirror that of the wider APPEA membership.

Broadly, Woodside is supportive of the vast majority of draft recommendations and is particularly pleased to note the emphasis on practical actions to streamline processes and improve clarity.

**Feedback on specific draft recommendations**

Of the 25 detailed recommendations made in the draft research report, there are two that Woodside does not support, Draft Recommendations 5.2 and 10.9.

Draft Recommendation 5.2 calls for the extension of retention leases from an initial 5 years to 15 years, with renewals for a period of 10 years. You suggest this will reduce uncertainty and enhance the incentive to invest in exploration.

Woodside does not believe this Recommendation will result in increased exploration or development and questions the idea that industry suffers from uncertainty in respect to the retention lease system, which has in the past been less than robustly implemented. Instead, it is our fear that relaxation of the lease system will result in less timely development of Australia's gas reserves as leaseholders, particularly those with a broad international portfolio, focus on other assets which might be perceived as more profitable. There is a history of companies holding Australian reserves undeveloped for a long time, a history which has led to the current Government's push for a more robust implementation of the existing lease legislation – the concept of "use it or lose it" – which Woodside supports.

In very recent times the Federal Resources Minister, the Hon Martin Ferguson has called on industry to work more co-operatively together to bring forward developments to help deliver much needed jobs and economic stimulus. This is a call that Woodside supports given the development of new gas processing infrastructure at the Burrup and possibly in the Kimberley and the existence of a number of potentially economic fields in close proximity to this infrastructure.

Extending the time available to retention lease holders will do nothing to encourage development which benefits the Australian economy, and worse, could act as a disincentive to further exploration as companies with existing undeveloped assets simply hold them within their portfolio.

There are other forces within the Australian context working against the stimulation of the industry. The implementation of Australia's Carbon Pollution Reduction Scheme (CPRS) for example will introduce new costs and incentives not borne by our competitors.

Draft Recommendation 10.9 suggests the use of the NOPSA full cost recovery model for any new regulatory agency. As a result of our experience with the NOPSA model, Woodside would only support a partial cost recovery model, as full cost recovery models can lead to regulatory creep and inequities. In addition, any cost recovery model requires close scrutiny and regular review, which in turn creates additional government and industry workload and costs. The NOPSA cost recovery model has been far from supported by industry and in the recent review by the Department of Resources, Energy and Tourism, considerable concern was expressed at the effectiveness and fairness of this model.

Draft Recommendation 10.6 suggests the establishment of a new national offshore petroleum regulator. Woodside can see considerable merit in this suggestion, although we note that the success of any such agency would be in its capacity to attract and retain high quality staff and access to sufficient resources. We agree with APPEA that more specific feedback cannot be provided without further detail on this proposal.

#### **Additional Information Requests**

##### **Offshore block gratifications:**

Woodside considers this an important issue, and a live example of increased regulatory burden for little genuine benefit. We raised our concerns in our initial submission to the Commission and are pleased to see our feedback reflected in the report. We have provided extensive input to the APPEA submission (Attachment A) on this point.

##### **Model OH&S legislation to deal with offshore petroleum sector:**

In principle, Woodside would support the concept of a single model rather than a series of industry specific acts. However, while streamlining legislation is important, we should not lose sight of the fact that the effectiveness of the application is often determined by the clarity of the drafting within the legislation and the relevance and detail within the guidance notes. Therefore, emphasis should be placed on the value of the quality of drafting as well as the consolidation of the legislation.

##### **Examples of duplicated reporting requirements:**

There are regular examples of government agencies requesting annual or summary data which has already been provided to them via regulatory reporting requirements. For example, in recent months Geoscience Australia and the Northern Territory Government have requested summary well and seismic data for 2007 and 2008. However, it is our view that with few exceptions, that data has already been provided to Geoscience Australia as part of our reporting requirement as each activity is undertaken. While it may be that the section of the agency seeking the data is different to the one which received it initially, we believe agencies have the capacity to improve internal communications rather than require industry to resubmit data.

In conclusion, we are pleased to have this opportunity to respond to your draft research report and look forward to continuing to contribute to the work of the Review, including at the forthcoming Perth Roundtable.

Yours sincerely



**Rob Cole**

Executive Vice President  
Corporate Centre and General Counsel