

Offshore Exploration Policy Reforms

Proposal for comment

May 2018

<https://consult.industry.gov.au/>

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Acreage Release Optimisation

1. Executive Summary

The case for action

Australia's Offshore Petroleum Exploration Acreage Release (acreage release) has provided a functional basis for facilitating access to new exploration opportunities for over 30 years. The regular release of acreage provides explorers with new opportunities to invest in Australia and enables industry to undertake longer term business planning.

While this system has been working well, it is prudent to regularly review policies in the spirit of continuous improvement, to ensure the system remains leading practice and continues to attract new investment in offshore exploration in a changing global environment.

In late 2017, the Department of Industry, Innovation and Science (the department) consulted on a series of models for reform of the acreage release process through the *Offshore Exploration Policy Reform: Discussion paper for consultation* (discussion paper). Overall feedback on the discussion paper demonstrated broad support for the current annual acreage release system and indicated that major reforms to the system were unlikely to stimulate additional exploration activity without changes to taxation arrangements and financial incentives.

However, feedback highlighted that the current system could be improved in relation to the range of acreage available, the timing of processes, the role of consultation activities, and increasing transparency to enhance the overall efficiency of the system.

Proposed Acreage Optimisation Model

The department, in conjunction with Geoscience Australia, has developed a model that would retain and build upon the best aspects of the current acreage release system while optimising elements which could work more effectively or efficiently. The National Offshore Petroleum Titles Administrator (NOPTA) was consulted on the possible implementation of the Acreage Optimisation Model. Key elements of this reform are:

- Nominations can be submitted at any time
- More nominated areas are expected to be released
- More transparent consultation
- One round of bidding only
- Bidding by work program only
- Improved feedback and communication throughout the process, including:
 - feedback to companies whose nominated areas were not selected for release
 - information on the number of bids received in a release made publicly available shortly after bidding closes (this may include the total number of bids across the release, areas that received no bids, and areas that were highly sought after), and
 - communicating estimated bid assessment and permit offer timeframes soon after close of bids.

Next steps

The department is seeking feedback on the proposal to inform the implementation stage.

Please consider if this proposal will be a workable system for your organisation. Feedback is requested via email to petroleum.exploration@industry.gov.au by **21 June 2018**.

Factoring in feedback from this consultation process, the department will provide final recommendations to the Minister for Resources and Northern Australia. Subject to ministerial approval, work would be undertaken in the second half of 2018 to implement the revised model during 2019.

2. Background

2.1 Feedback on discussion paper models

Between October and December 2017 the department publicly consulted on the *Offshore Exploration Policy Reforms: Discussion paper for consultation* (the discussion paper). The discussion paper considered a number of key issues for offshore exploration, in particular efficacy of the acreage release process and how to attract exploration outside established hydrocarbon provinces. Four models (three on reform of the acreage release and one on reforms to stimulate exploration in frontier areas) were put forward for feedback as well as inviting new ideas.

A range of stakeholders representing oil and gas companies, service providers and individuals participated in the consultation. Consultation comments broadly indicated support for making some changes, but there was also consistent messaging supporting the foundations of the current acreage release system (this process is outlined at **Appendix A**).

Responses indicated that while there were some strengths to each model described in the discussion paper, all models raised implementation and operational problems that did not have any clear resolution. A summary of feedback for each model is provided at **Appendix B**.

2.2 Other discussion paper feedback

In addition to feedback on the individual models, stakeholders also provided suggestions and ideas on the broader key issues raised in the discussion paper. Analysis of the stakeholder feedback highlighted a number of outcomes that most stakeholders would seek from any future reforms to the acreage release process:

- Ensuring the range of acreage available better reflects market demand.
 - the current shortlisting process may at times exclude areas of genuine interest.
- Ensuring all steps in the acreage release process occur in a timely manner.
 - reduce the time of government processes/involvement prior to the acreage release.
 - ensure timeframes for preparing bids are more than 6 months from the time of gazettal.

- Making the role of consultation in the process clearer for all stakeholders.
 - consider the role for government in highlighting social and environmental challenges to future exploration activity.
 - proactively and routinely inform communities about government’s plans for inviting exploration¹.
- Increase transparency across the process.
 - currently the process to shortlist nominations down to a number of final release areas is opaque and the criteria should be more clearly communicated.
 - information flow to nominators and bidders needs to be enhanced – e.g. advising the number of bids received at the close of each round and giving clearer public guidance on the timeframes for assessment.
- Cease offering areas for cash bidding as it continues to raise equity and efficiency concerns.
- Review good standing policy.
 - Improved transparency in how the current policy is administered. Consideration of strengthening the policy to be a more effective deterrent to defaults.

2.3 Proposed new model

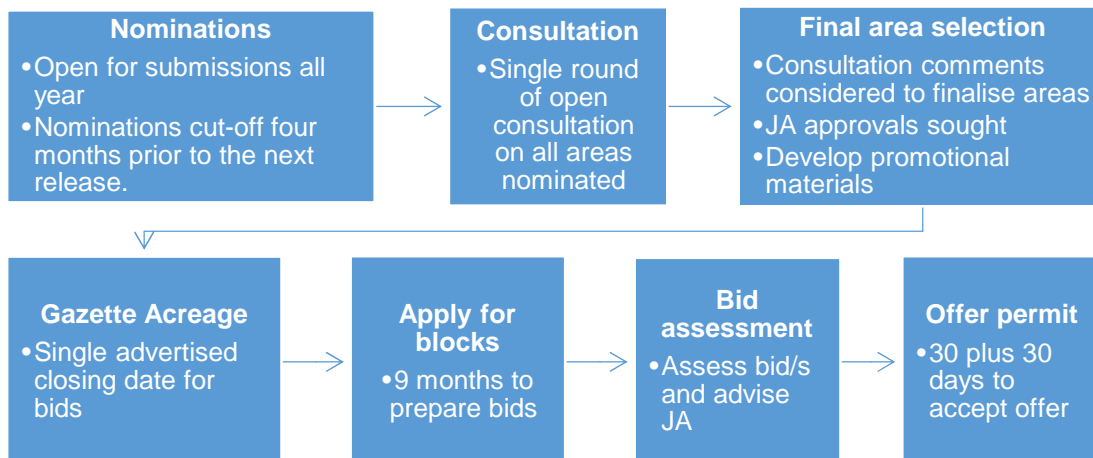
In response to the feedback outlined above, and taking into account findings from the Consultation and Transparency Review and the Offshore Petroleum Resource Management Review, the department has developed a proposal to streamline the current acreage release process - the ‘Acreage Optimisation Model’. The model is designed to ensure that the system remains fit-for-purpose and provide for efficient management of the exploration sector going forward. Details of the proposal are outlined below.

¹ This is in line with findings from the government’s review of consultation and transparency requirements for offshore petroleum activities
<https://industry.gov.au/resource/Upstreampetroleum/OffshorePetroleumEnvironment/ImprovingConsultationandTransparency>

3. Acreage Optimisation Model

The government's goal for offshore exploration is to ensure that the offshore acreage release system remains fit-for-purpose, by maximising opportunities for investment while facilitating efficient and appropriate exploration activity.

The proposal to implement the Acreage Optimisation Model outlined below would facilitate this goal by maintaining effective elements of the current annual process of acreage release (as outlined further at **Appendix A**) and optimising elements which have become inefficient or less effective. This model factors in the views expressed during public consultation and proposes targeted changes to improve the efficiency and transparency of the acreage release system.



Expected outcomes

- **Streamlined and more responsive version of current process** – reduction in time from close of nominations to bidding, from currently up to 21 months down to 16 months due to rationalised government processes.
- Maintain a **predictable annual process** – reliable fixed timing for bidding on **defined areas**
- Release areas that better **respond to market demand** through more efficient nomination processes
- More open and **transparent consultation**
- Maintain the **competitive** tension to **encourage comprehensive work programs**
- **Simple process** – one bidding round, one permit allocation system and one permit type only (no cash bidding)
- Detailed regional basin geological information on **prospective offshore basins** available online
- The Joint Authority's² focus continuing to be on seeking exploration strategies that lead to the **best exploration of areas**
- Continue to have opportunity for promotion of **specific defined release areas**

²Section 56 of the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (OPGGGS Act) establishes a Joint Authority for each offshore area. Part 1.3 of the OPGGS Act (sections 56 to 69) establishes the functions and procedures of the Joint Authorities.

3.1 Operational Detail

The following pages describe how the key elements of the Acreage Optimisation Model are expected to work.

3.1.1 Scheduling

The length and timing for each phase has been designed to maximise the time for industry to prepare bids and to allow the results of one round to be known prior to bids closing for the next round. The proposed timing will also ensure that critical processes like consultation, finalisation of bids and the period for offer and acceptance are away from peak holiday periods - to achieve this, the release date will no longer align with the annual APPEA conference.

	Release Year 1	Release Year 2	Release Year 3		
February	Nominations close				
March		Nominations			
April	Consultation and Government Prep				
May					
June					
July	Gazettal and Bidding (9 months)				
August					
September					
October					
November					
December					
January					
February					
March			Nominations		
April	Assessment (minimum 3 months)	Consultation and Government Prep			
May					
June					
July		Gazettal and Bidding (9 months)			
August	Offer and award				
September					
October					
November					
December					
January					
February					
March					
April		Assessment (minimum 3 months)	Consultation and Government Prep		
May					
June					
July			Gazettal and Bidding (9 months)		
August		Offer and award			
September					
October					
November					
December					
January					
February					
March					
April			Assessment (minimum 3 months)		
May					
June					
July				Offer and award	
August					
September					
October					
November					

3.1.2 Nominations

The nomination process allows stakeholders to identify areas that may be attractive for exploration and which they wish to see released for bidding in the next acreage release.

Nominations for the next annual acreage release may currently be made during a designated window, usually of 2-3 months duration. Under the Acreage Optimisation Model nominations could be registered at any time throughout the year rather than restricted to a limited period.

Overview

- Nominations can be registered at any time, using an online form
- Nominations should include:
 - block listing
 - rationale for inclusion in the release
- A cut-off date for potential inclusion in the upcoming release would be set four months prior to scheduled release, however nominations would remain open at all times and nominations received after the cut-off date would be considered for the next round
- The department and Geoscience Australia will review nominations and propose areas for consultation, with a view to including as many of the areas as possible. This process will include:
 - ensuring that nominated areas do not cross into highly protected marine parks etc.
 - shaping area boundaries to accommodate multiple nominations where partially overlapping nominations occur
 - preparing maps for consultation

3.1.2.1 Timing for nominations

A key aspect of the reform would be to allow industry to submit nominations at any time. A cut-off date for potential inclusion in a given release year would be set at approximately four months prior to scheduled release and clearly communicated on the website and via the Australian Petroleum News³. Any nominations received after the advertised cut-off date would be included for consideration in the subsequent year.

3.1.2.2 Government shortlisting

As part of the revised process there would no longer be a significant government shortlisting step prior to consultation. Shortlisting currently occurs prior to government consultation on proposed areas. Currently this process cuts out a large number of nominated areas based on both prescribed reasons (e.g. legislated marine parks) as well as a wide range of policy factors including but not limited to bidding history, exploration activity and perceived prospectivity.

Instead, government processes would focus on prescribed reasons including known safety considerations and marine parks, as well as shaping nominated areas into manageable exploration blocks that accommodate overlapping nominations as best as possible.

³ Australian Petroleum News is an occasional newsletter prepared by the Offshore Resources Branch of the department, concerning offshore petroleum matters in Commonwealth waters. Interested parties can [subscribe to the newsletter](https://industry.gov.au/AustralianPetroleumNews) - <https://industry.gov.au/AustralianPetroleumNews>

3.1.2.3 Genuine intent to explore

It is anticipated that the combination of a longer nomination period and government commitment to cutting fewer nominated areas will result in a release that is more closely aligned to market demand. There will be an expectation from government that nomination is an indication of the nominator's genuine intention to explore.

- For an exploration and production company, it would generally be expected that nomination will be followed by participation in the bidding process.
- For a geophysical company, it would be expected that new data is being acquired and made available.

The department proposes that there would continue to be no restrictions on the number of nominations put forward by an individual or organisation. However the department reserves the right to review this position if nominated areas are routinely not bid on and/or if nominations are consistently lacking in detailed rationale.

3.1.2.4 Feedback

Shortly after gazettal of the final areas, feedback will be provided to nominators of excluded areas, to explain the reasons for their exclusion. Generally, exclusion would occur on the basis of known safety implications, incompatibility with current policy settings or as a result of information raised through consultation.

3.1.3 Consultation

Consultation prior to acreage release recognises the multi-use nature of the marine environment and seeks to ensure that areas nominated for exploration are presented to communities and other marine users prior to release.

Consultation prior to the acreage release forms only the first component of consultation undertaken throughout the lifecycle of a petroleum activity. This consultation process is in addition to the requirements for titleholders to carry out appropriate consultation before submitting an environment plan for assessment to NOPSEMA at both the exploration and development stages of the petroleum lifecycle

Currently consultation prior to acreage release is undertaken in two phases; first with government agencies to identify possible areas of conflicting interests, and secondly a public consultation period to collect information from a broader group of stakeholders including the public and groups with direct interests in pursuing activities in the marine environment. This two-stage approach can take about seven months.

The Acreage Optimisation Model will seek to undertake consultation with all stakeholders concurrently and in a timeframe of approximately four months. This is in an effort to make the process to refine areas for release more transparent and also to reduce the time between nomination and release of areas.

Overview

- Maps of areas nominated for inclusion in the upcoming acreage release will be made available online for comment by all stakeholders
- The consultation period is expected to be between 4-6 weeks
- Stakeholders will be asked to comment on specific areas of concern and will be given the choice to have their comments made public
- Stakeholder comments will be taken into account by the Joint Authority in deciding the final areas for release

- Where permission has been given, stakeholder comments will be published on the acreage release website to be taken into account by potential bidders and future explorers

3.1.3.1 Release-specific stakeholder consultation

All stakeholders will be asked to provide feedback at the same time through a consultation process that will jointly consider the views of government agencies and other stakeholders. This would condense the current two-stage consultation process which seeks government endorsement of areas prior to the public comment period.

Consultation will continue to occur via the department's Consultation Hub website.

Where permission has been given and it is deemed appropriate to do so, stakeholder comments will be made publicly available to ensure transparency and that potential explorers are aware of issues that should be considered when planning activities. The exact format for this is to be determined however it is expected that comments will be available via the acreage release website and organised according to region.

Following the consultation period, the relevant Joint Authorities will review stakeholder comments and determine the areas to be released via formal gazettal.

3.1.3.2 Broader policy consultation

Please note that the consultation processes in the context of acreage release relate specifically to the areas being considered for release for bidding. This is not the only opportunity for stakeholders to communicate their views on offshore exploration policy.

In particular, significant stakeholder engagement is planned around reforms to consultation and transparency in environmental approval processes. Please see <https://industry.gov.au/resource/UpstreamPetroleum/OffshorePetroleumEnvironment/ImprovingConsultationandTransparency/> for more information. In particular, a program of community information sessions is planned for regions that might be affected by offshore exploration activity.

Consultation on other policies relating to offshore exploration is communicated through the Australian Petroleum News. Interested parties are invited to subscribe to the mailing list at <https://industry.gov.au/AustralianPetroleumNews>

3.1.4 Invitation to apply

The *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (OPGGGS Act) requires written notice in the gazette⁴ to invite applications and to specify the period for applications to be made.

Currently there are three rounds of bidding, which includes two work program rounds under which there are approximately 5-6 months and 9-10 months to prepare bids, as well as one cash bidding round for areas that meet the cash bidding criteria.

To improve efficiency of the system and limit delays in accessing acreage, the new model proposes consolidation to one work program bidding round.

⁴ The Government Notices Gazette is the record of proclamations and notices required under Commonwealth law, which is published on the Federal Register of Legislation website at <https://www.legislation.gov.au/>

Overview

- Usually in July each year, the Joint Authority will invite applications for bidding on defined areas
- All areas will be available in one round with approximately nine months to prepare bids
- Areas will be available for work program bidding only (no cash bidding)
- The invitation to apply will be supported by the acreage release website which provides explorers with information to support preparation of bids and exploration work programs
- The invitation to bid will be promoted domestically and internationally

3.1.4.1 Gazettal

At a set time each year, the Joint Authority will invite applications over specified release areas by way of written notice in the gazette. Individual release areas will be defined by graticular blocks and be limited to 400 contiguous blocks⁵.

3.1.4.2 Number of areas and rounds

The number of areas included in the release will be driven by nominations. It is possible that the number of areas included in a release will fluctuate significantly from year to year.

There will be only one round of bidding per annual release. Usually, a period of nine months will be provided for preparation of bids.

All areas available for bidding will be announced at the same time and bids for all areas will close at the same time. This will allow potential bidders to consider an appropriate portfolio of bids, best reflecting their overall capacity and willingness to explore. It will also enable bidders to consider any offers for exploration permits alongside each other, ensuring that decisions to accept offers can be made with more information available.

A single round of bidding should also allow for the outcomes of one year's process to be known before bids close for the next year's process, again supporting informed bidding in subsequent releases.

One consequence of a single round is expected to be that more permits will be awarded on or around the same date which could create some peaks in permit administration requirements going forward (annual titles administration reports etc.).

3.1.4.3 Bidding method

As part of the Acreage Optimisation Model, it is proposed areas will no longer be offered for cash bidding. Focussing on a single permit allocation mechanism will support administrative efficiency and ensure fair and equitable access to acreage for all companies.

The current cash bidding policy settings were introduced in 2014. 14 areas have been made available for auction since that time and cash bidding has thus far led to the award of only one cash bid permit (W16-7 as WA-526-P). This result has fallen significantly short of expected permit allocations by cash bidding. In the same period, 31 new permits have been awarded through work program bidding.

The current cash bidding policy has also imposed significant constraints on the flexibility of the Joint Authority in regard to decisions to allocate areas for either cash bidding or work program bidding. Current policy settings indicate that release areas located in highly mature areas or with known accumulations should be offered for cash bidding instead of work program bidding. Unless the prospectivity of an area changes due to new information, an

⁵ The existing provisions will be maintained and permits continue to be limited to a maximum of 400 graticular blocks in accordance with s104(4) of the OPGGS Act.

area that has been a cash bid area once would only be released via cash bidding in future. Consequently areas become 'sterilised' if they are unsuccessful as part of a cash bid auction as the current policy settings prevent release of the area at a later time for work program bidding – which may yield different bidding results.

Work program bidding, by contrast, supports the government objective of stimulating private exploration activity in Commonwealth waters. This stems from the fundamental difference between work program bidding and cash bidding in respect of the exploration activity that occurs after a permit is awarded. While titleholders of a cash bid permit may undertake exploration activity, the guidelines stipulate that titleholders of a work program exploration permit must complete the guaranteed work program. As a result of this difference, work program bidding is considered to be a more effective means of protecting against the risk of acreage warehousing (in which titleholders bid on acreage with limited or no commitments to exploration activity and with no clear path to future progress towards extraction).

By encouraging higher levels of exploration activity, work program bidding is also considered to deliver more positive outcomes than cash bidding in increasing knowledge of Australia's offshore oil and gas resources, and supporting progress towards the production of recoverable resources.

3.1.4.4 Online information

Under the Acreage Optimisation Model the annual release will continue to be supported by online information relevant to nomination and bidding.

Online information will be focussed on those areas where government can add the most value. The aim is to reduce the administrative timeframe of the annual acreage release preparation and to provide access to the most relevant geological information and data sets.

The following information will be available online:

- Maps and shapefiles of areas currently available for bidding
- Regional, basin-scale information on the geology of Australia's offshore basins
- Links to information about other users of the marine environment
- Links to relevant policies and regulatory information
- Links to nomination and consultation processes
- Results of consultation processes

Detailed basin-scale geoscience information will be included on all prospective offshore basins, rather than limited to basins included in the annual release. This will support development of nominations as well as consideration of release areas for bidding. There will also be a commitment from Geoscience Australia for regular and ongoing management of this content.

Consistent with reducing the time spent on government preparations, there will be a reduction in the analysis (geological description) of individual release areas currently undertaken by Geoscience Australia in preparation for the annual release. This shift in work priorities is considered to better align with Geoscience Australia's strategic priority of building Australia's resource wealth and utilise the agency's core capabilities.

3.1.4.5 Promotional activities

The department and Geoscience Australia, together with Austrade, will continue to promote Australia as an investment destination and promote the annual acreage release in Australia and overseas.

Under this proposed model, the launch of the annual acreage release is likely to no longer coincide with the Australian Petroleum Production and Exploration Association (APPEA) annual conference in May. This change in timing is not expected to diminish the involvement of government agencies at the conference; rather than promoting a new acreage release, the conference will provide another avenue for consultation and discussions about the areas proposed for inclusion in the next release.

It is expected that the invitation to bid will be promoted via media release and advertising in the Australian Petroleum News. Interested parties will be directed to the www.petroleum-acreage.gov.au website for information on the areas available and how to bid. Hard copy promotional booklets will no longer be printed however a 'print-at-home' pdf will be available online as a quick reference to maps of the release areas and timing for bids.

3.1.5 Bids

The gazettal will continue to detail the requirements and date for bids – usually bids will close approximately 9 months after gazettal. Bids will continue to be restricted to release areas specified in the gazettal.

A work program and indicative expenditure will be required as well as technical and financial information in accordance with s104(3) of the OPGGS Act and the existing guidelines.

There will be no limit on the number of applications that could be made. Each application will be treated separately. Applications will continue to be accompanied by the fee set under regulations⁶.

3.1.6 Bid assessment

No changes are proposed to the current assessment process or any substantial changes to the considerations outlined in the guideline. However to increase transparency, bid numbers and expected assessment timeframes will be announced shortly after the close of each bidding round.

Overview

- Bids close
- Information on the number of bids received and expected assessment timeframes made publicly available shortly after bidding closes (this may include the total number of bids across the release, areas that received no bids, and areas that were highly sought after)
- NOPTA requests further information from bidders where relevant
- NOPTA conducts bid assessment and provides advice to the Joint Authority

NOPTA will continue to assess bids⁷ and advise the Joint Authority of its recommendations on whether to offer the grant of an exploration permit.

To increase transparency, assist industry to manage internal expectations and allow informed nominations for subsequent releases, information on the number of bids received

⁶ Application fees under the OPGGS Act are outlined in schedule 6 of the *Offshore Petroleum and Greenhouse Gas Storage (Resource Management and Administration) Regulations 2011*.

⁷ Bid assessment is undertaken in line with section 1 of the [Offshore Exploration Guideline: Work-bid](#)

and expected assessment timeframes will be made publicly available shortly after bidding closes. This may include the total number of bids across the release, areas that received no bids, and areas that were highly sought after (for example, those areas that received three or more bids).

Bid assessment will take a minimum of three months however this timeframe will be highly dependent on the number and quality⁸ of bids received. The proposal to link the release areas more closely to nominations may result in a greater fluctuation in the number of release areas and subsequently high variation in timeframes to assess and make permit offers from each round.

To assist stakeholders to understand the likely timeframes for bid assessment, NOPTA and the department will communicate estimated timeframes shortly after close of bids.

Announcements of bid round results and expected assessment timeframes are likely to be made in the [Australian Petroleum News](#).

3.1.7 Permit offer

The current process for offering permits will be maintained.

Overview

- The Joint Authority considers NOPTA's advice and makes a decision on the most deserving applicant for each area
- When decisions are made on all permit areas, offers are made
- 30 day period to accept the offer or seek an additional 30 days
- Resultant permits published in the gazette

As is currently the case, the relevant Joint Authority will consider NOPTA's advice and make a decision to make an offer to grant a petroleum exploration permit.

The Joint Authority and NOPTA will endeavour to communicate the offers to successful bidders within a several business day window in recognition that not all bidders will accept all offers and to facilitate informed decision making.

Successful bidders have a 30 day period to accept the offer and can seek an additional 30 day consideration period.

⁸ Bid quality varies from company to company and from bid to bid. The process of requesting further information from companies adds significantly to the timeframe for bid assessment. To ensure fair and appropriate assessment NOPTA does not commence its assessment of release areas with multiple bids until all relevant material has been received.

4. Other proposed changes

4.1 Re-release

The proposed new acreage release model would remove the need for 're-releasing' areas. Currently, areas that did not attract bids may be selected by government to be re-released – effectively extending the time to bid and providing companies a second chance to consider exploring these areas. Re-release has been an important feature under the current system given the length of time it can take for an area to be made available for bidding in a future acreage release via the nomination and shortlisting processes.

Under the optimised acreage model, there will be a shorter period between nomination and release of areas. This shorter timeframe reduces many of the problems with protracted timeframes under the current release process. In addition the reduction in government shortlisting should mean that more areas progress each year from nomination to release and increases the likelihood that areas can be made available again in subsequent years, more efficiently than under the current release process.

Bidding on re-release areas is currently one of the mechanisms available for companies to satisfy good standing agreements by directing funds to new offshore exploration investments. To compensate for this option no longer being available for holders of Good Standing Agreements, there will be minor amendments to the guideline to clarify that a wide range of projects may be considered under the “regional study” category (see below).

4.2 Good standing

As noted in section 2, during the public consultation process many stakeholders highlighted concerns with the transparency and efficacy of the Good Standing Agreement (GSA) policy. The department recognises that a broader review of the policy settings for addressing work program defaults is required. The review will consider alternative approaches to managing and responding to work program defaults, including those used in other regulatory regimes around the world such as bonds and default payments. The department is planning to commence work on this review in the second half of 2018.

In the interim, minor consequential changes to industry guidance will be required to ensure the GSA policy settings remain compatible with the other changes outlined in this paper. The *Offshore Petroleum Exploration Guideline: Work-bid* will be updated to:

- remove re-release as an option for satisfying a GSA – this follows from re-release no longer being a feature of the optimised acreage release, and
- clearly articulate that a wide range of projects could be considered by the Joint Authority as “regional studies”. “Regional studies” may be more clearly defined as studies or projects that may be focused onshore or offshore but must be of broad relevance to the Australian petroleum industry and the Australian community and be aligned with government priorities.

5. Next Steps

The aim of the proposed Acreage Optimisation Model is to deliver increased efficiency and maximise the opportunities for exploration investment in Australia's offshore areas and is aligned with feedback from earlier consultation activities.

Pending this phase of consultation and ministerial agreement, the new model is proposed to commence in 2019.

This phase of consultation is seeking to highlight any unintended consequences and/or issues that need to be considered during the implementation phase.

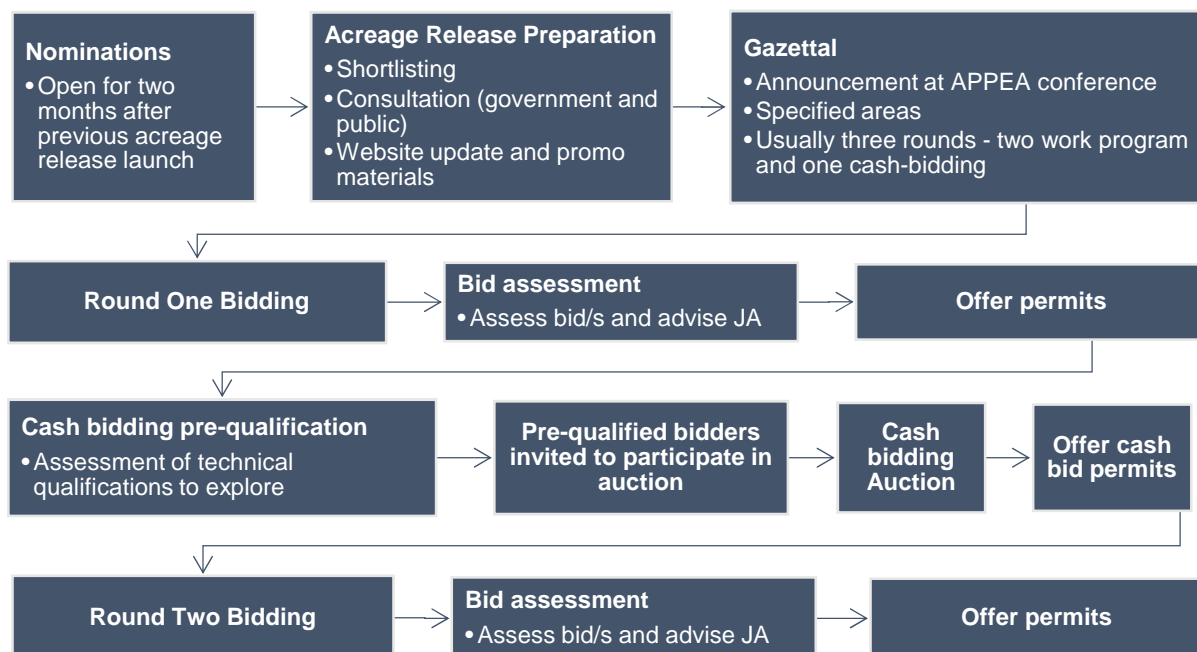
In your feedback you may wish to consider the following:

- Does the proposed timing for consultation/bidding/considering offers pose any concerns for you/your business?
- What is the best way to communicate the opening of consultation processes and dates for bidding etc. with you/your business?
 - Do you subscribe to the Australian Petroleum News?
- Is the likely variability of the number of areas available for bidding in each release a concern for managing workload within your business/organisation?
- Will information such as the total number of bids received, areas that were highly sought after, and areas that received no bids be useful for you/your business?
 - Is there additional information that could be made publicly available that would be useful? Are there any risks in providing that information?

Your feedback on the proposal is invited via email to petroleum.exploration@industry.gov.au by **21 June 2018**.

Appendix A – Current Acreage Release Process

The current acreage release process is outlined below.



Nominations

Concurrent with the announcement of a release at the annual APPEA conference, nominations are invited for areas for the next release. Nominations are usually open for a 2-3 month period and can be made through the acreage release website: <http://www.petroleum-acreage.gov.au/>. The objective of the nomination process is to ensure the final release contains areas that are of interest to potential bidders. Under the current nominations process approximately 90 individual nominations are received each year which usually equates to 40-50 discrete areas when overlapping nominations are taken into account.

Acreage Release Preparation

Currently significant time (upwards of 8 months) is directed towards Acreage Release preparation processes in the lead up to the gazettal. This involves:

Shortlisting

Under the current process, significant work is undertaken following nominations to shortlist areas. Following the close of nominations, the Department of Industry, Innovation and Science collates nominations and in cooperation with Geoscience Australia reviews each submitted nomination to group overlapping nominations and remove nominations for areas that are already under title.

Discrete areas are then subjected to a rigorous assessment and shortlisting process by the department and by Geoscience Australia. In this process the following factors are taken into consideration:

- Previous interest and exploration undertaken in the nominated area – to examine the existing understanding of the prospectivity of release areas.
- Australian marine parks (formerly Commonwealth marine reserves) – to ensure none of the nominated areas overlap with marine park zones in which petroleum exploration is prohibited.
- Relevant international maritime boundaries – to ensure that areas abutting maritime boundaries are only released consistent with Australia’s international obligations.
- Whether there is new data, a new geoscientific story or market development, such as domestic demand changes or an opportunity for early commercialisation of finds that might generate the interest of potential bidders – to ascertain whether current economic conditions and access to information support the release.
- Ongoing pre-competitive studies by Geoscience Australia – as it is government practice to allow pre-competitive geoscientific data collection programs to conclude prior to the release of acreage.

As a result of shortlisting a number of nominated areas are included in the shortlist for consultation. On average this ranges from 20-30 areas. While the department is undertaking consultation on the shortlisted areas, work commences concurrently on other elements of the acreage release such as developing the website and updates to pre-competitive interpretative data by Geoscience Australia at both a basin level and specific to the release areas.

Consultation

Since the 2016 acreage release, consultation has occurred in two stages. Recognising the multi-use nature of the marine environment, the first stage involves the department consulting on the areas with other agencies in Commonwealth, state and territory jurisdictions who have responsibility for managing the marine environment.

There are two major objectives in this stage. The first is to identify critical issues for other users of the marine environment such as fishing, defence, maritime, tourism and Native title interests that may impact on the inclusion/size of an area in final areas. The second is to seek information from other agencies that may assist potential explorers when developing a work program bid or exploring the area in the future. This information is currently provided publicly through either the supporting information or special notices sections of the acreage release website.

In the second stage of consultation, areas are consulted on publicly through the department’s Consultation Hub website (<https://consult.industry.gov.au/>). This process aims to increase community awareness of the acreage release process and of the proposed release areas, prior to a title being awarded. It also enables persons with a specific interest in an area to provide information that may be relevant to include in special notices for reference by potential explorers when applying for the release area or when undertaking exploration activities.

Sensitivities identified through both consultation phases are considered as part of the decision-making process on the final release areas.

Final area approval

Following the consultation process, the members of the Joint Authority then make a decision on the final areas to be released in the relevant offshore area.

To facilitate this decision, the department advises the relevant Joint Authorities of the outcomes of the nomination, shortlisting and consultation processes. The relevant Joint Authorities can then make an informed decision on the final areas to be included in the acreage release.

Gazettal

Final areas are generally announced by the Commonwealth Minister Responsible for Resources at the annual APPEA Conference and Exhibition. From the time of announcement, potential explorers are formally invited to place bids on the release areas through an invitation in the Australian Government Gazette, with bidding currently occurring over three rounds - two work program and one cash bid. Generally the closing date for each round proceeds as follows:

- Work program bidding Round One – Approximately 5 to 6 months after release (generally late October each year)
- Cash bidding Round – Occurs over a two stage process generally prequalification in October and an auction in February
- Work program bidding Round Two – Approximately 9 to 10 months after release (generally late March in the year following the announcement.)

Assessment and offer

Bids on the release areas are assessed by the National Offshore Petroleum Titles Administrator, which provide advice to the relevant Joint Authority. This assessment is based on considerations under the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* and as contained in the *Offshore Petroleum Exploration Guideline: Work-bid*. This assessment is provided as advice to the Joint Authority to inform decisions on whether to offer an exploration permit over a release area. The Joint Authority will review the advice and any additional policy considerations and determine the most deserving applicant to offer the award of an exploration permit to.

Exploration permits are awarded to the bidder who proposes an exploration strategy and work program that will significantly advance the assessment and understanding of the petroleum potential of the area and who has a satisfactory record of past performance.

Appendix B – Feedback on previous models

The *Offshore Exploration Policy Reforms: Discussion paper for consultation* (the discussion paper) proposed three alternative models for acreage release as well as an additional renewal term for consideration by stakeholders. Feedback received through consultation is summarised below:

Competitive over-the-counter

Model which would gazette all vacant blocks and invite companies to submit a bid at any time. Bid areas advertised by government to seek competitor bids before awarding.

Companies appreciated the opportunities for flexibility and responsiveness that this option could provide, however, this model was considered by many stakeholders to not be workable:

- for larger companies, in particular, internal approval processes would prevent being able to produce meaningful counter-bids within the timeframes proposed.
- some smaller companies were also concerned that it may alert larger companies to new ideas they are exploring, which they could be out-bid on.

There was also concern that an over-the-counter system could lead to an increased risk of acreage warehousing by titleholders, potentially leading to reduced exploration activity and increased work program defaults in the intermediate term.

Set-time bidding

Model which would gazette all vacant blocks and invite companies to bid at set times during the year with current assessment and offer processes to be maintained.

Several companies liked the idea of an open gazettal and set-time bidding, noting that this would improve access to acreage while maintaining the reliability of a set date for preparing bids.

However a significant problem was raised in how decisions would be made on the most deserving bid in situations where bids are submitted over areas that partially overlap. The following options were explored without success in identifying a suitable path forward:

- Forced “marriages” (joint ventures) – would require a significant cultural change for the industry in how business relationships are built and maintained. There was perceived to be a risk that this could lead to inequitable business partnerships.
- Re-bidding the overlap – would in practice lead to further inefficiencies in the system as further stages of assessment and offers would be required. Business strategies and investment time could inadvertently wane through this process.
- Prescriptive criteria for assessment – such as using a point award system (in which each type of exploration activity is assigned a particular point value in bid assessments). This would see a significant shift away from the current approach whereby permits are awarded to the applicant who proposes an exploration strategy and work program that best ‘has the potential to significantly advance the assessment and understanding of the

petroleum potential of the release area'. A prescriptive criteria model could run the risk of promoting over-bidding which could in turn lead to increases in defaults on work program commitment. Prescriptive criteria could also be overly simplistic in favouring the bidder with the largest work program regardless of its proportionality to the identified prospectivity of a release area.

Single round acreage release

Maintaining all elements of the current acreage release system but including all areas in one bidding round.

Most participants did not support the single round acreage release model as described in the discussion paper. Participant concerns with the model as drafted were:

- the timeframes for each stage of the process did not appear appropriate for commercial realities:
 - long timeframes between nomination, release, and award of permits can risk loss of potential investment
 - a six-month period to prepare bids is too short for many companies to generate comprehensive bids with executive support for commitment to significant new programs of exploration (in particular well commitments)
- nominated areas could still be excluded during the shortlisting process without adequate transparency of the justifications for this exclusion.

Frontier exploration – additional renewal term

Factors limiting frontier exploration were discussed including options to address the perceived need for additional time – specifically an additional renewal term at the discretion of the Joint Authority.

Several participants stated that the decision to explore frontier areas is more about the broad strategy of the company rather than policy settings in any given market. Most explorers consider that the time provided in the Australian regime is sufficient, particularly when considered alongside the flexibility of the regime (through suspension and extensions particularly). Improving the availability of pre-competitive seismic data in frontiers and providing fiscal incentives for exploration in these areas were seen as the only effective solutions to support exploration in these higher risk areas in the current operating environment.