

# Offshore Exploration Policy Reforms

Discussion paper for consultation

October 2017

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

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# Exploration Policy Reforms

## 1. Executive Summary

The Offshore Petroleum Resource Management Review (the Review) considered whether the current regulatory environment adequately reflects the realities of offshore exploration in the 21st century – including the challenges of operating in lightly explored or frontier areas. Although Australia’s annual offshore petroleum exploration acreage release process has worked well for over 30 years, industry feedback through the Review suggested that it may be a good time to investigate opportunities for improvements.

The goal of exploration policy reform is to ensure that Australia remains competitive as an investment destination for the global petroleum industry. Some of the issues with the current offshore exploration regime identified through the Review include non-financial barriers such as accessibility to areas for bidding, permit size, permit length/time, work program expectations and work program flexibility.

This discussion paper will primarily focus on possible mechanisms to improve accessibility to exploration acreage, addressing the issues identified in the Review, and ensure that the needs of frontier exploration are considered.

Proposals for reform of the acreage release process offer various combinations of features including:

- replacing the industry nomination stage by an open gazettal of vacant blocks - trimming at least a year off the current timeframes.
- unrestricted bidding timing – an over-the-counter option is considered as well as set-time bidding options.
- maintaining an annual process but with only one round and rationalising government preparation activities.
- improved transparency in consultation processes to switch focus from only consulting on nominated areas—that may or may not attract bids—to consulting after bids have been received. It is considered that this will offer a meaningful consultation opportunity, particularly for community stakeholders.

An open gazettal would be a new concept for the Australian offshore area but may be familiar to industry participants operating in other jurisdictions such as New Zealand. In Australia it is envisaged that if an open gazettal were to be adopted, the states and the Northern Territory would work together with the Commonwealth to determine areas to include in an open gazettal. Broadly it is anticipated that all basins where there is petroleum potential and no other factors that would preclude safe and responsible exploration would be included.

Based on industry consultation through the Review, three acreage release mechanisms are proposed for consultation and feedback including an over the counter model and a variation on an annual acreage release model outlined below:

## Competitive Over-the-Counter Bidding

- Vacant blocks in basins where the Joint Authorities are willing to accept exploration proposals are gazetted<sup>1</sup> long-term
- Companies apply for a number of contiguous<sup>2</sup> blocks at any time with a proposed work program
- After a compliance check against minimum bid expectations, the area is advertised for consultation comments and counter bids
- The original bid and any subsequent competitor bids are assessed by the National Offshore Petroleum Titles Administrator (NOPTA) against published guidelines
- A permit offer is made between three and seven months after application (depending on consultation comments and counter bids)

## Set-Time Bidding

- Vacant blocks in basins where the Joint Authorities are willing to accept exploration proposals are gazetted several times per year – nominally twice per year
- Bid date is set to maintain predictability in Australia's acreage release process
- Companies bid at the pre-determined time for a number of contiguous blocks with a proposed work program – bids are for areas of bidders' choosing
- After a compliance check against minimum bid expectations, the area is advertised for consultation comments
- All bids are assessed by NOPTA against published guidelines
- Permit offers are made approximately five-months after bidding

## Single Round Annual Acreage Release

- Acreage nominations can be made at any time
- Government shortlisting and consultation
- Public consultation on proposed areas
- Annual gazettal of selected areas and launch at APPEA conference
- Companies bid at the single pre-determined time for specified gazettal areas
- All bids are assessed by NOPTA against published guidelines
- Permit offers are made approximately 17-months after nominations close

The benefit of competitive over-the-counter bidding would be that industry can apply at any time and it has potential to award permits in as little as three-five months. It is not however fully flexible as companies are limited to counter-bid on exactly the same area as the original application.

The set-time bidding model is much closer to the current system of acreage release but without nominations and with the addition of community consultation after a bid is submitted. To allow for the period of consultation, the time from bidding, to offer of permit, may need to be longer than the current process. However, there will be a significant time saving overall from the current nomination to permit offer time of ~18-30 months, down to ~11 months.

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<sup>1</sup> Gazetted or gazettal means the invitation to apply for blocks per section 104 of the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (OPGGGS Act).

<sup>2</sup> Contiguous blocks are such that each graticular section (OPGGGS Act s33) in that area has a side in common with at least one other graticular section in that area (OPGGGS Act s104(8)).

The Single Round Annual Acreage Release model is the same as the current system of acreage release but with companies able to lodge nominations all year and only one round of bidding. A small time saving is achieved by putting all areas in one round for bidding, but companies are still limited to bid only on areas that have been selected by government.

All options have advantages and complexities which are discussed further in the body of the paper. Ideally only one model will be implemented to ensure the regime is simple and efficient. Any decision on whether to implement any of the proposed models will be based on the outcomes of consultation through this discussion paper.

## Frontier exploration

The Review highlighted access to acreage and sufficient time for exploration as factors that may be limiting frontier exploration in Australia. The competitive over-the-counter or the set-time bidding options could significantly improve accessibility for frontier exploration. The overall time allowed for exploration of a title area may still be an issue to be addressed. This paper will explore potential options for providing more time – specifically an additional renewal term at the discretion of the Joint Authority.

## Next steps

The Department of Industry, Innovation and Science has worked with NOPTA and Geoscience Australia to develop these proposals.

Although this paper puts forward a number of ideas for reforms; industry is encouraged and welcome to both provide feedback on the ideas presented and offer other suggestions for consideration.

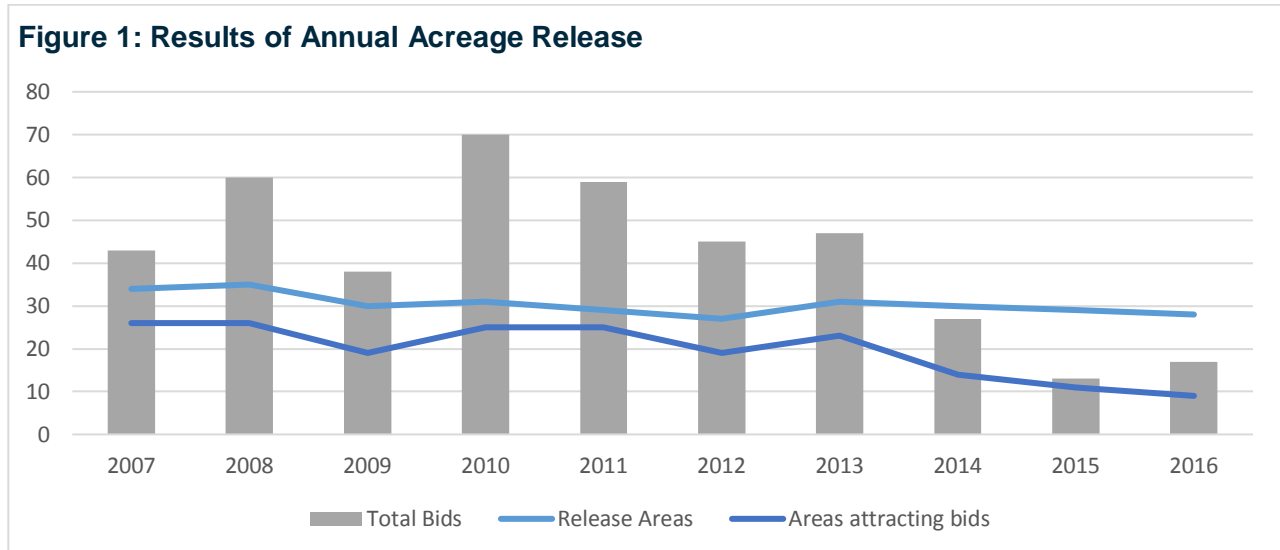
Submissions are requested via email to [petroleum.exploration@industry.gov.au](mailto:petroleum.exploration@industry.gov.au) by **8 December 2017**.

While the Review suggested several areas for improvement to offshore exploration policy and the government is committed to exploring these, it is possible that the current framework may be deemed the most appropriate and no or minimal changes made.

If following consultation changes appear to be warranted, a proposal may be taken forward to feasibility assessment and further consultation may be required.

## 2. Issues

While the annual Offshore Petroleum Exploration Acreage Release (Acreage Release) has served Australia well for more than 30 years, there is no denying that the number of bids for exploration acreage is on a downward trend. Bidding trends for the annual Acreage Release show diminishing interest in exploration investment in recent years; with the total number of bids dropping significantly from 70 bids on the 2010 release to 13 bids and 17 bids for the 2015 and 2016 releases respectively.



Although market drivers are likely the main reason for this drop-off, the question should be asked: if Australia had a more flexible and responsive acreage release mechanism, could additional exploration permits have been awarded, even during a low oil price market?

The Offshore Petroleum Resource Management Review (the Review) highlighted that there may be room for improvement in Australia's mechanisms for attracting offshore exploration investment. In particular, feedback indicated that there is an industry interest in streamlining the acreage release processes and reducing the delays industry experiences in accessing acreage and obtaining exploration permits. In considering proposals for change, the Australian Government will seek to preserve elements of the current system that work well, and build on these with fresh approaches to promoting safe and responsible exploration the 21<sup>st</sup> century.

The key issues to be discussed in this paper are:

- overall **attractiveness** of the regime
- reducing the overall period of **time** from industry interest in an area to permit award
- considering how to promote acreage uptake in both **frontier and mature** areas
- the role of **cash-bidding**
- **availability** of areas for bidding
- role of pre-competitive **data**
- usefulness of **consultation**

### Overall attractiveness of the regime

Offshore exploration exists in a global marketplace. Australia is competing for exploration capital that could be invested anywhere from the mature regions of Norway, UK and North America to the up-and-coming regions of west-Africa and Southeast Asia. Exploration capital is

often not even earmarked for on or off-shore. The decision on where to invest may be influenced by a variety of considerations including the likelihood of a commercial hydrocarbon discovery, timeframes for commercial returns, proximity to markets, cost of infrastructure, tax and royalty regimes, foreign investment policy, stability of government and risk profile of the company to name a few.

The Fraser Institute's Global Petroleum Survey ranks global petroleum producing regions on their attractiveness for investment and is a useful tool for governments to measure the success of policy changes. The annual report is based on a survey of petroleum industry executives regarding barriers to investment in oil and gas exploration and production facilities in various jurisdictions around the globe.

The [2016 Survey](#), ranked the Australian offshore area's attractiveness for investment as 26<sup>th</sup> out of 96 global regions. In the same survey competitor regions with similarly stable governments scored: Norway - North Sea, 16<sup>th</sup>; New Zealand, 17<sup>th</sup>; UK – North Sea, 20<sup>th</sup>; US Offshore Gulf of Mexico, 28<sup>th</sup>. Judging by these numbers Australia is not far off the pace but there is room for Australia to improve its overall ranking on the policy perception index in future years. As a result of policy changes, it is hoped to improve Australia's policy perception index score, which is currently 77.59 out of a possible 100.

## Time

*What is a reasonable timeframe between a company expressing an interest in an area and subsequently being awarded a permit?*

The current acreage release system is split into the following stages (See [Figure 2](#) overleaf):

1. Nominations from industry (2 months)
2. Assessment and selection by government (2 months)
3. Consultation on proposed areas and development of pre-competitive information and guidance (8 months)
4. Annual release of new areas for bidding
5. Bidding rounds usually close 6, 8 and 12 months after launch
6. Award of permits, up to six months after bidding – to allow for assessment and decision-making by government

There is a long lead time between nominations and bidding, currently 18-24 months, and permit award may occur a further six-months later. Often interest in areas has waned by the bidding stage, exploration capital is no longer available or has been invested elsewhere, so despite industry nominations, areas do not receive bids.

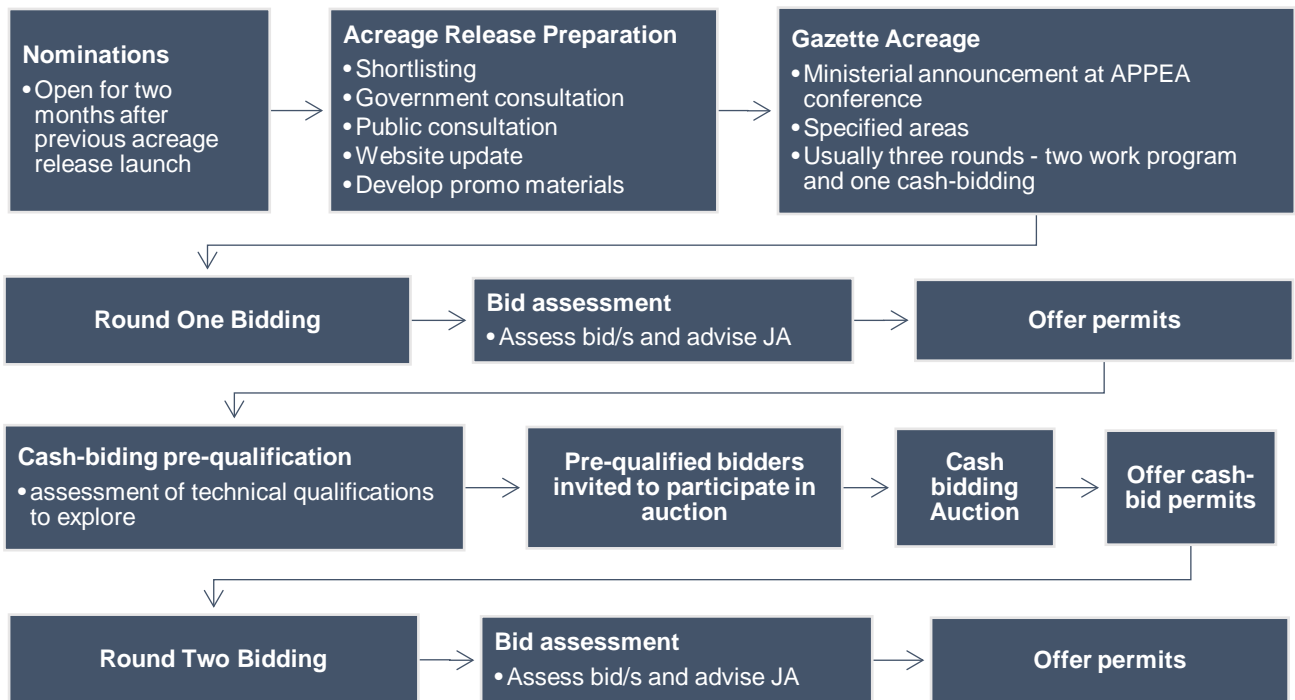
A time consuming part of the current process is development of updated geological information and specific guidance to industry to support industry's assessment of the areas and bidding. This includes identification of matters that may need to be taken into consideration by explorers. According to the [petroleum-acreage.gov.au](http://petroleum-acreage.gov.au) website-use statistics guidance information is accessed regularly but it remains difficult to quantify the value of this information to industry.

Industry has expressed strong interest in reducing the overall length of time from industry interest in an area to awarding a permit. Given this interest, some of the elements to consider may be:

- value of nominations and shortlisting process
- value of pre-competitive analysis and other tailored guidance to bidders (adds 9-10 months to the process)

- efficiencies that could be made in consultation, bidding and assessment stages of the process.

**Figure 2: Current Acreage Release process**



## Frontier vs Mature Areas

*Is there a need to treat mature and frontier areas differently?*

Much of the Review consultation focussed on what policy settings would support increased exploration in frontier areas – conclusions were drawn that making areas readily available is important, as is allowing reasonable time to explore.

Many of Australia’s offshore regions close to market and in shallow water have already been explored leaving higher-risk frontier areas as the next regions for exploration. Exploring in frontier regions often brings with it additional challenges such as greater water depth, remoteness, lack of support services and infrastructure making the cost, risk and time associated with exploration activities significantly higher than in other areas. In the past explorers have taken advantage of financial incentives to promote invest in these regions – however financial incentives were out of scope for the Review.

Through the Review the Department of Industry, Innovation and Science heard industry views that availability of areas for bidding, permit size, permit length/time, work program expectations and work program flexibility are non-financial levers that could impact on decisions to invest in frontier exploration.

Through further discussion and investigation, it became clear that the regime effectively provides for frontier exploration in terms of title parameters (size, work program, flexibility etc.), however the existing flexibility could be communicated better. In response, lightly explored areas were identified in the 2017 Acreage Release. This was aimed at ensuring the Joint Authority’s expectations for those areas was clear, to assist companies when developing a forward work plan and proposing a work program.



The 'time' question remains: Is the overall exploration tenure period of 16 years (6-year initial permit plus two 5 year renewals) limiting decisions to invest in frontier exploration? Arguably the overall title term may have little bearing on investment decisions compared to global availability of capital, costs of exploration, corporate risk profile and timings for return on investment. Also the existing exploration framework already allows for additional time to be granted where technical grounds or force majeure circumstances apply. Nevertheless, a proposal to introduce a discretionary additional renewal term is discussed further in Section 4.

## Work-program vs Cash-Bidding

*Does Australia need more than one exploration permit allocation mechanism?*

Currently, gazettal areas are split across three Acreage Release rounds: two work-program rounds and one cash-bidding round. The majority of areas are awarded via work program bidding. The work program bidding system is essentially a 'tender system' whereby the Joint Authority awards exploration acreage to the explorer who will undertake the most comprehensive program of exploration. Areas are selected for cash-bidding when they have either a known accumulation or are mature and appear on-trend with known accumulations. Cash bid areas are awarded in return for a cash payment and do not require an exploration work program to be completed.

Despite the Joint Authority successfully awarding an area via cash-bidding in February 2017 (from the 2016 Acreage Release), the industry is still generally unsupportive of the use of cash-bidding as an allocation mechanism. Specifically industry has criticised the government's choice of areas to be gazetted for cash-bidding noting that some of these areas still require significant geotechnical and prospectivity assessment work before they can be brought to development concept stage.

The regime could benefit from simplification; arguably it is less efficient to have more than one type of exploration permit or more than one way to assign it. It may be preferable to design one permit system which can meet the needs of all types of exploration and for applicants to be able to access a permit on the area of interest in a timely fashion. Ideally this would also result in a system that supports periods of high industry investment as well as soft times in investment cycles.

Both work program bidding and cash bidding respond to market pressures. In the peak of an investment cycle, the competitive nature of work program bidding often means more ambitious work programs are proposed and similarly, cash-bids would be expected to be more competitive. Conversely, both would be expected to be lower in softer investment environments. The difference between the two mechanisms comes in the exploration activity that occurs after permit award. While titleholders of a cash-bid permit may undertake exploration activity, titleholders of a work program exploration permit must complete the guaranteed work program.

In a circumstance where an open gazettal or over-the-counter mechanism is in place, work program bidding would provide protection against the risk of acreage warehousing practices<sup>3</sup>, i.e. - titleholders would be held to a guaranteed program of exploration activities under a work program bid, whereas, under cash bidding, permits would be awarded for a cash-payment only without commitment to any exploration activities.

At the time of bidding the Joint Authority makes a decision to award a permit based on the technical evaluation and qualifications, exploration strategy and proposed work program as well as financial capacity and past performance of applicants. If a proposed work program is not consistent with the technical evaluation and exploration strategy or the proposed work program

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<sup>3</sup> Warehousing occurs when industry participants bid on acreage with limited or no commitment to exploration activity.

is not considered to be sufficiently advancing the exploration of the area, a permit may not be offered. It is the Joint Authority's role to ensure opportunities for exploration investment are maximised and that policy and regulatory settings encourage comprehensive exploration.

## Availability

*Is access to more acreage better? Is there an argument to support limiting the areas available for exploration?*

On occasion companies have a time sensitive opportunity to invest in exploration and Australia competes in an international marketplace to secure that capital. There have been several recent instances of companies wishing to bid on areas not included in an acreage release and under the current policy there is no way to respond to these requests outside of a subsequent formal acreage release gazettal.

Areas for bidding are currently offered to industry in a moderated manner through bidding rounds, where the government has assessed those areas as worthy of inclusion. This model assumes that government wishes to control access to acreage and is better placed than the global exploration industry to assess which areas are the most prospective for exploration.

Due to data confidentiality provisions and access, industry participants are often 3-15 years ahead of government agencies in their understanding of petroleum basins – particularly in producing basins. This can mean that nominations for certain areas may be excluded through the shortlisting process as a result of this information asymmetry, leading to industry disappointment and reducing the opportunities for exploration in those areas until inclusion in a future Acreage Release.

Tightly controlled release of acreage to the market could risk misalignment with industry exploration strategies and development needs. It is unclear whether there remains any appropriate basis on which government should continue to limit the number of areas available for exploration at any given time.

## Role of pre-competitive data

### Data analysis

Australia's Acreage Release regime is well respected internationally and has been replicated by many jurisdictions across the world. The key reason for this regard is open data availability and pre-competitive data acquisition and analysis by Geoscience Australia.

In the 1990s and early 2000s, Geoscience Australia was able to acquire new data and conduct studies with the aim of understanding the petroleum prospectivity of underexplored regions. Exploration investment in the Browse Basin is a good example, where in 1996 Geoscience Australia acquired \$3 million worth of geological data in the basin. That data suggested that the area had the potential for gas, and part of the basin was subsequently included in the annual acreage release. INPEX Corporation acquired an exploration permit over the area in 1998 and discovered the Ichthys gas field in 2000. Ichthys was Australia's largest liquid petroleum discovery in 40 years. Geoscience Australia's initial investment of \$3 million leveraged a \$37.4 billion, 40-year project.

However, not all new work has resulted in immediate success. In 2013 the Acreage Release featured two large areas in the North Perth Basin supported by data and studies from Geoscience Australia, but no bids were received in the first bidding round.

In recent times, Canada, Ireland and the UK have all undertaken government funded precompetitive data acquisition, with the intent of supporting new industry exploration activity, with reasonable success.

Over time, Australian Government funding in support of precompetitive geoscience for the offshore area has diminished as other priorities have emerged. As a result, the pre-competitive work from which results are provided each year on the [www.petroleum-acreage.gov.au](http://www.petroleum-acreage.gov.au) website is dominated by adding analytical and interpretive value to existing publicly available data.

The prevalence of multi-client seismic surveys and attached long confidentiality periods of these data has also had an impact on Geoscience Australia's work as it endeavours to maintain its currency with industry knowledge.

## Data delivery

In the past, Geoscience Australia played a very important role in providing dedicated Acreage Release data packages, including seismic, well-log and other relevant petroleum data at the cost of transfer and delivery (~\$1,500). This was a service highly valued by industry as the data was formatted to be 'workstation-ready' to the users' specific requirements and saved significant time in requesting data on an ad hoc basis. Despite the pre-prepared package, the transfer of data to users was still very labour and time intensive and took several months to meet all data requests. This was also a reason for longer periods of time necessary to prepare bids.

With the introduction of National Offshore Petroleum Information Management System ([NOPIMS](#)) in 2015 and its subsequent update in 2017, explorers have been able to access an online data discovery and delivery system for all Australian offshore petroleum wells and seismic surveys. This advance in technology opens up many possibilities for changing the way acreage release is delivered and opening up more areas for bidding.

## Website

The annual Acreage Release has always been supported by an information package that includes:

- an overview of the regime
- information on how to bid
- data availability
- geological analysis at a regional and sub-basin level (basins included varies from year to year), and
- guidance and advice to explorers relating to specific areas

This information is particularly useful to new-entrants who have not previously participated in the Australian regime.

Currently this information is presented on a website ([www.petroleum-acreage.gov.au](http://www.petroleum-acreage.gov.au)) which is refreshed each year. Previous Acreage Release websites are archived but remain accessible as a historical record so that explorers can access geological summaries from basins not featured in the current release.

It may be possible to deliver much of this information in a more efficient way. The website could be redesigned to offer varying levels of information about all basins and be updated regularly as new data becomes available. The role of Geoscience Australia could change to ongoing content management and information from Geoscience Australia's basin studies would continuously support the website updates.

Such a change would forego the specificity of the information to particular release areas but would provide as much relevant information as possible for each basin. A website restructure like this would support a model that gazettes a much larger range of areas for industry to choose and design their own areas.

In terms of information specific to individual release areas usually delivered via the special notices, the government would be required to change its approach. Information relating to navigation, treaties, fishing and environmental considerations etc. would still be provided at a general level on the website. Additional consultation at the time of bidding may provide an opportunity for information on specific bid areas to be highlighted.

## Consultation

*When is the right time to consult?*

Under the current framework, consultation is undertaken as part of planning the annual acreage release and again after permit award - at the time of planning an activity as part of the Environment Plan.

The consultation and transparency review commenced by the Department of Industry, Innovation and Science in 2016 highlighted that the community wants to be consulted before acreage release i.e. before the government gives any tacit approval that properly managed exploration activities could be acceptable in a given region. Other evidence suggests that it is frustrating for stakeholders to be consulted when activities do not eventuate. The message is that consultation needs to occur with the right people at the right time, with the right information.

Over the last decade, an average of 64 per cent of release areas have received bids. This means that over a third of the consultation undertaken could be deemed unnecessary. Is it a burden to our stakeholders to comment on areas that never eventuate into a permit?

Consultation at time of acreage release is also of limited use to explorers to help with identifying interested parties for environment plan consultation as it usually happens too far in advance of activities.

In addition to consultation before acreage release, would consultation after bids be useful? i.e. at the point there is a firm intention to explore and activities could be expected to occur within three years.

## Implementation date

The proposals discussed in this paper are targeted towards commencement in 2019.

If it is determined that no changes should be made, this will be communicated in early 2018.

# 3. Acreage Release Reforms

## 3.1 Proposal 1 – Competitive Over-The-Counter Bidding

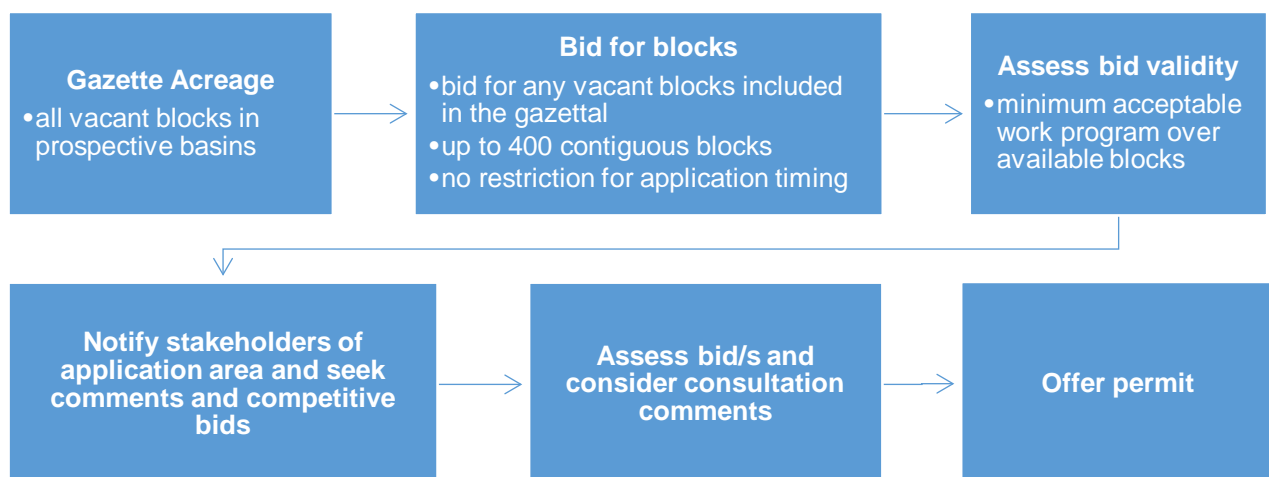
The competitive over-the-counter approach would save time by removing the need for industry to nominate areas. Instead the Joint Authorities would gazette all areas that governments are willing to accept applications over.

Rather than companies being restricted to bidding on the small number of areas available in each Acreage Release, explorers would be able to design their own ideal permit areas in an open timeframe.

The competitive nature would be maintained by making application areas public and allowing other companies to bid over the same areas in an advertised time frame.

More meaningful consultation would be supported by consulting on actual application areas rather than proposed release areas which may or may not attract future bids.

**Figure 3: Proposed competitive over-the-counter bidding process**



### Expected outcomes

- **Fast turn-around** from application to award of permit - expected to be 5-8 months
- **Market-driven** – industry would be able to apply when and where there is an interest to explore – **capitalise on willingness to invest**
- Allows for **meaningful consultation** on areas proposed for exploration
- Maintains the **competitive** tension to **encourage comprehensive work programs**
- Expectation of the Joint Authority remain focussed on an exploration strategy that leads to the **best exploration of an area**
- **Simple** - one permit allocation system and one permit type only
- Existing legislation and guideline features would continue to apply including technical and financial assessment of the bids, permit terms, primary and secondary work programs, and halving on renewal etc.
- Existing guidelines would need minor tweaks only

## Other Considerations

- Best supported by an integrated online portal for application and consultation – this would need to communicate with registered stakeholders when applications are made
- Geoscience Australia's role would evolve to developing real-time updates to basin by basin online information (rather than a static annual process)
- Promotional activity would re-focus to a message about Australia as an investment destination and an overview of hydrocarbon prospectivity in various offshore provinces (rather than promoting specific areas)
- Activity would be more challenging to predict – may have resourcing implications for NOPTA, the Offshore Resources Branch and Joint Authorities
- Consultation for agencies and other stakeholders would be more ad hoc
- Guidance for bidders becomes more general

## Operational Detail

A flow chart of a draft process can be found on page 28. The following paragraphs describe how the key stages might work.

### Gazettal

By way of written gazettal, the Joint Authorities would invite applications over blocks in basins with petroleum potential. The invitation to bid would be for an extended period, perhaps 2-3 years. During the course of that period, supplementary gazettals may add extra blocks as blocks under title at the time of initial gazettal are surrendered or relinquished etc.

Any supplementary gazettals would all have the same closing date as the initial gazettal for operational simplicity i.e. to ensure single blocks are not gazetted twice - *Offshore Petroleum and Greenhouse Gas Storage Act 2006* (OPGGS Act) s104(2). A full gazettal refresh could then be undertaken at the end of the end of the initial gazettal period.

State, Northern Territory and Commonwealth agencies would be involved with the selection of areas and the decision to gazette. States and territories would be encouraged to include as much acreage as possible without including basins where there may be limited social license to operate. Additionally basins without petroleum potential would also be excluded.

It is broadly intended that blocks included in the gazettal would be all vacant blocks (in prospective basins) with the exception of those blocks excluded for environmental (IUCN Ia, II, IV marine reserves) or safety reasons (e.g. ports and mandatory traffic separation schemes).

The gazettal might need to call on OPGGS Act s104(7) to allow applications for fewer than 16 blocks to be considered.

Areas that Geoscience Australia is actively studying to stimulate competitive bidding interest in the near future could also be excluded. The aim of Geoscience Australia's pre-competitive regional petroleum geological studies is to freely provide data to stimulate interest and competitive bidding. Areas that Geoscience Australia conducts studies over could be kept for special acreage releases with fixed bidding timeframes.

### Applications

The gazettal would detail the requirements for applications. Applications could be for up to 400 contiguous blocks - OPGGSA Act s104 (4) and (8).

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

There would be no limit on the number of applications that could be made. Each application would be treated separately. Applications would be accompanied by a fee.

Applications would need to make a serious bid in terms of the work program, it is envisaged that no opportunity would be provided to revise the work-program if a counter bid were made unless bids are equal – OPGGS Act s106(6).

## Minimum Compliance Check

*Around four weeks is proposed for the compliance check (depending on number of applications)*

On receipt of the application a minimum compliance check would be performed by NOPTA to ensure a valid application over vacant and gazetted blocks. A minimum work program check may also be performed.

If the minimum requirements are met, the applicant would be advised that the application will progress to public consultation and an invitation for counter-bids.

## Stakeholder communication

*Two to four months is proposed for the stakeholder communication phase.*

The stakeholder communication stage would serve two purposes:

1. to tease out any concerns from other marine users and communities (consultation), and
2. to advise the exploration industry and provide the opportunity for counter bids to be lodged.

As with current consultation, the Department of Industry, Innovation and Science would consider and act on consultation comments and advise NOPTA if any blocks should be removed from the application area to inform bid assessment.

The stakeholder communication process would be best facilitated by an online tool which can display application areas on a map and act as a public register of consultation comments.

Ideally the map tool would be able to display layers of related information including: existing permits, other application areas, commonwealth marine reserves, maritime boundaries, oil and gas fields and existing infrastructure.

The online tool should have a subscriber feature so stakeholders can register and be notified when applications are made in their areas of interest.

### **Time period for a counter bid?**

It would be necessary to determine a reasonable time period to develop a counter bid; 2-4 months has been suggested.

Another approach could be to provide for a, 'expression of interest' which sets a later deadline for a counter bid. Under such an approach, companies could flag within two months that they intend to submit a counter bid in the next two months, but if after the initial period no interest is received, the area could progress to the assessment phase, and if approved by the Joint Authority, a permit be awarded without further delay.

### **Areal extent of counter bids**

It is envisaged that counter bids would be accepted over the same application area only. If a counter bidder was also interested in additional blocks a second application would need to be made. In such a scenario there could potentially be delays in the award of permits if the bidder

needs to know the outcome of the extension area application before accepting an offer over the initial counter-bid area for example.

## Bid assessment

*Up to eight weeks proposed for bid assessment.*

NOPTA would assess bids (including any counter bids received) and advise the Joint Authority.

## Permit offer

*Approximately 10-15 business days.*

The Joint Authority would make its decision and advise NOPTA.

Offers might not exactly match the application – the Joint Authority would reserve the right to re-shape the areas. In the case of significantly revised area size, the applicant may need to be given an opportunity to revise the work program.

NOPTA would then make a written offer to the successful bidder.

## Market comparison

Research to date shows that no other market is offering a competitive over the counter model.

# 3.2 Proposal 2 – Set-Time Bidding

The overall premise of the set-time bidding approach is that vacant blocks would be gazetted twice per year, inviting bids at the end of a six-month period (could be shorter if desired). As soon as practicable after bids close from one round, a new gazettal would be published inviting bids over vacant areas except those with bids under consideration.

Companies could design their own permit areas however would be restricted in when bids are assessed. By setting the date for receipt of bids, competitive tensions are maximised, Australia has an 'acreage offering' that explorers can focus on, fairness issues that might emerge from the perceived 'race to apply' in the competitive over-the-counter approach are removed, overlapping bids can be fairly assessed and meaningful consultation can occur.

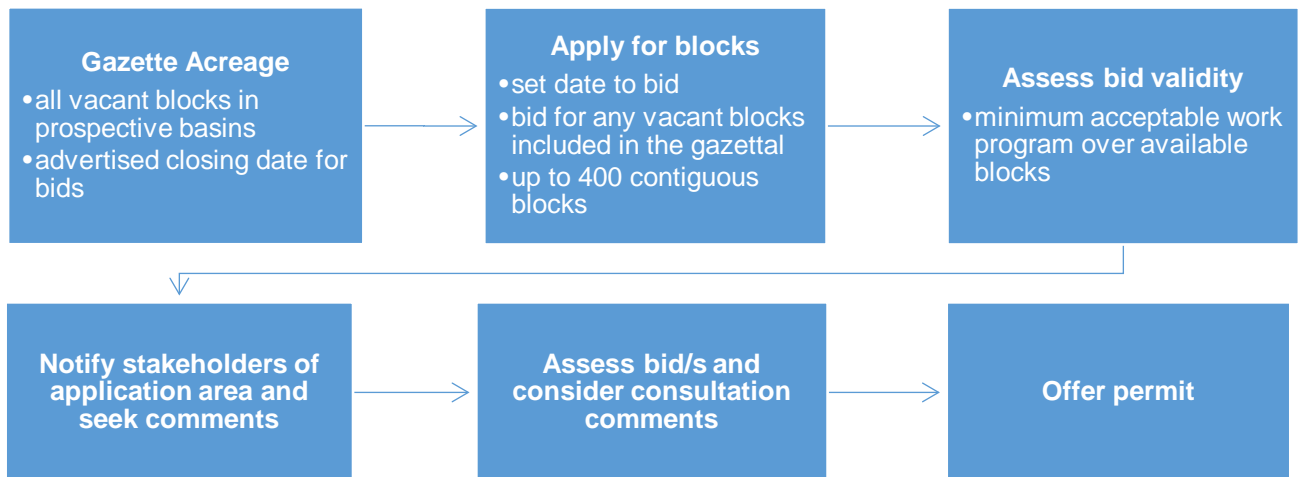
The set-time bidding model would take approximately seven-months from bidding to award.

This model, like competitive over-the-counter bidding, would save time by removing the need for industry to nominate areas. Instead the Joint Authorities would gazette all areas with petroleum potential that governments are willing to accept applications over.

Meaningful consultation would occur in a coordinated and predictable fashion twice per year.



**Figure 4: Proposed set-time bidding process**



## Expected outcomes

- **Maximises competitive tension to encourage comprehensive work programs**
- Set bidding times create a **fair and even bidding market**
- Similar to existing and **understood process**
- **Over-all faster timeframes** than annual acreage release with nominations - Permit offers would be made approximately five-months after bidding (approximately 11 months after gazettal)
- **Explorer-driven** – industry would be able to apply where there is an interest to explore
- Allows for **meaningful and predictable consultation** on areas receiving bids
- Expectations of the Joint Authority remain focussed on an exploration strategy that leads to the **best exploration of an area**
- **Simple** - one permit allocation system and one permit type only
- Allows for a **definite outcome in an overlapping bid situation**
- **Activity would be predictable** for industry and government agencies as well as other stakeholders
- Existing legislation and guideline features would continue to apply including technical and financial assessment of the bids, permit terms, primary and secondary work programs, and halving on renewal etc.
- Existing guidelines would need minor tweaks only

## Other Considerations

- Geoscience Australia's role would evolve to developing real-time updates to basin by basin online information (rather than a static annual process)
- Promotional activity would re-focus to a message about Australia as an investment destination and an overview of hydrocarbon prospectivity in various offshore provinces (rather than promoting specific areas)
- Guidance for bidders becomes more general

## Operational Detail

A flow chart of a draft process can be found on page 29. The following paragraphs describe how the key stages might work.

### Gazettal

By way of written gazettal, the Joint Authorities would invite bids over blocks in basins with petroleum potential. The gazettal of blocks will invite bids at a set date.

As soon as practicable, after bids close from one round, a new gazettal would be published inviting bids over all vacant areas except those with bids under consideration.

It is proposed that the gazettal process would happen relatively automatically with set bidding dates a number of times per year – initial proposal is twice per year for a period of approximately six-months but this is open for discussion.

States, Northern Territory and Commonwealth agencies would be involved with the selection of areas and decision to gazette. The Joint Authorities will be encouraged to include as much acreage as possible without including areas where there may be limited social license to operate or areas without petroleum potential.

It is broadly intended that blocks included in the gazettal would be all vacant blocks with the exception of those excluded for environmental (IUCN Ia, II, IV marine reserves) or safety reasons (e.g. ports and mandatory traffic separation schemes).

Areas that Geoscience Australia is actively studying to stimulate competitive bidding interest in the near future could also be excluded. The aim of Geoscience Australia's pre-competitive regional petroleum geological studies is to freely provide data to stimulate interest and competitive bidding. Areas that Geoscience Australia conducts studies over could be kept for special acreage releases with fixed bidding timeframes.

The gazettal might need to call on OPGGS Act s104(7) to allow applications for fewer than 16 blocks to be considered.

### Bids

The gazettal would detail the requirements for applications. Applications could be for up to 400 contiguous blocks - OPGGSA Act s104(4) and (8).

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

There would be no limit on the number of applications that could be made. Each application would be treated separately. Applications would be accompanied by a fee.

### Minimum Compliance Check

*Up to four weeks is proposed for the compliance check*

On receipt of bids a minimum compliance check would be performed by NOPTA to ensure all bids are validly made over vacant and gazetted blocks. A minimum work program check may also be performed.

### Stakeholder Consultation

*Approximately two months is proposed for the stakeholder consultation phase.*

The stakeholder consultation stage would serve to tease out any concerns from other marine users and communities.

As with current consultation processes, the Department of Industry, Innovation and Science will consider and act on consultation comments and advise NOPTA if any blocks should be removed from the bid area to inform bid assessment.

The stakeholder consultation process would be best facilitated by an online tool which can display bid areas on a map and act as a public register of consultation comments.

Ideally the map tool would be able to display layers of related information including, existing permits, all bid areas under consideration, commonwealth marine reserves, maritime boundaries, oil and gas fields and existing infrastructure.

The online tool should have a subscriber feature so stakeholders can register and be notified when bids are made in their areas of interest.

## Bid assessment

*Up to eight weeks proposed for bid assessment.*

NOPTA would assess bids and advise the Joint Authority.

## Permit offer

*Approximately 10-15 business days.*

The Joint Authority would make its decision and advise NOPTA.

Offers might not exactly match the bid area – the Joint Authority would reserve the right to re-shape the areas. In the case of significantly revised area size, the applicant may need to be given an opportunity to revise the work program.

NOPTA would then make a written offer to successful applicants.

## Market comparison

This model is very close to New Zealand's annual block offer. Key differences are that New Zealand bases its release areas on industry nominations and only accepts bids once per year. It is similar in that areas gazetted are large, and companies bid for a contiguous group of blocks of their own design. New Zealand has clear guidance on how overlapping bids are managed.

# 3.3 Issues relating to proposals 1 & 2

## How would gazettal blocks be determined?

At the commencement of a new framework, the following process is proposed as a method to determine the extent of areas acceptable for exploration under an open gazettal and in the first invitation to bid.

1. The Department of Industry, Innovation and Science would work with Geoscience Australia to develop an initial proposal of regions considered to be prospective and/or worthy of exploration. (Both vacant and currently titled areas would be identified at this stage)
2. This proposal would be discussed with other Australian government agencies to ensure support at the Commonwealth level.

3. States and the Northern Territory would then be asked to review the proposal and engage with state agencies as appropriate to agree the regions intended for future exploration.
4. The Department of Industry, Innovation and Science would publicly announce the areas intended for future exploration and invite comment.
5. The Joint Authority (or delegates) would formally agree to the gazettal of vacant blocks and an invitation to bid (Commonwealth Gazettal) will be published.

It is expected that a similar process to the above would be followed when new regions are proposed to be included in future releases.

After the initial gazettal, it is anticipated that the block listing would be updated regularly to add blocks that have been relinquished or surrendered within the accepted exploration envelope. The process for interim updates to the gazettal could be as follows:

1. NOPTA would advise the Joint Authority delegates of blocks within the agreed exploration envelope that have become vacant (surrendered/relinquished/cancelled permits).
2. The Joint Authority delegates would formally agree to publish a supplementary invitation to bid (Commonwealth Gazettal).

Under a competitive over-the-counter model, the gazettal could be updated as needed, under a set-time bidding model, it is anticipated that the gazettal would be updated after each round of bidding.

## Managing the risk of companies seeking to control large areas

As with the current acreage release system, in either proposal 1 or 2, the role of the Joint Authority would continue to be ensuring that exploration permits are only offered to explorers who indicate—via their technical evaluation, exploration strategy and work program—a genuine intention to explore an area.

Explorers would not be limited in the numbers of areas they can have under title at any one time however the current financial assessment methodology would continue to apply ensuring that a company has demonstrated its capacity to finance its planned activities across all title interests.

Any new policy would need to be supported by a mechanism to ensure comprehensive work programs are proposed over the entire area. It would be intended that as part of its assessment, NOPTA would be able to recommend to the Joint Authority to offer a smaller permit area where an applicant's work program proposal does not adequately cover the proposed permit area. Guidance would need to be clear that blocks with no clear exploration strategy would not be offered – providing flexibility for future relinquishment strategies would not be a reason to offer large areas.

## Is permit size a problem?

Frontier regions can often be explored more efficiently in large areas. It is true that some companies may not have the financial means to compete with work programs over big areas. However, in a partially overlapping bid situation, it could be possible to offer a small area to a company if it is deemed to be a superior work program than that of another company's bid over a larger area. Or conversely the Joint Authority could decide it is in the best interest of the community to gain a general understanding of the larger area.

Ultimately permit award decisions under either proposal 1 or 2 would be made based on the most comprehensive overall exploration strategy and work program.

Given companies would be able to design their own areas under either proposal 1 or 2, it would be expected that the area is explored in its entirety. The Joint Authority would reserve the right not to offer blocks if they do not feature in the planned work program.

Feedback during the review indicated that existing limits for permits to be up to 400 graticular blocks, approximately 32,000 km<sup>2</sup> in size is more than reasonable. As such, it is intended that existing provisions would be maintained and permits continue to be limited to a maximum 400 graticular blocks – OPGGS Act 104(4).

## Are there issues with taking a more open approach to exploration?

It is acknowledged that with the right market settings, either proposed model could see increased exploration activity, over and above past high levels.

However a number of questions remain unanswered in considering whether there is a role for government intervention to restrict a laissez faire acreage market:

1. Are there any unintended consequences from opening up more exploration potential? Will stakeholders view the change in the government's approach to making areas available, as opening up large areas of the marine estate?
2. Is there an energy security, labour or other policy argument that might suggest that we need to stem the flow of exploration investment and/or activity over a longer period of time?
3. Noting that the Joint Authority would only invite applications of blocks it is willing to see explored, is there a need to control how much exploration is concentrated in an area or region?
4. Are there infrastructure, labour, supply or environmental reasons to limit the number of exploration permits active in an individual basin?

## Impact on geophysical industry

Currently many geophysical companies nominate areas for inclusion in the acreage release that correlate to an existing data set available for sale or a planned survey. The proposed options 1 and 2 would remove this opportunity for input. However, given that these proposals seek to markedly increase the number of vacant blocks to be gazetted, there may no longer be a need for the seismic industry to seek to influence the acreage release areas. It is hoped that gazettal of more areas for bidding could stimulate speculative survey activity by the seismic industry and have the added benefit of making the existing catalogues of data over vacant areas more saleable.

## Need to focus industry attention

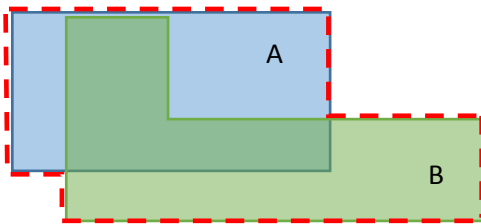
It has been suggested by some companies that Australia's current system of set rounds with specific areas on offer, is helpful to focus attention on Australian opportunities. It has also been suggested that a release model that separates regions by bidding date might also assist in focussing attention – i.e. all southern margin areas bids close at x date, western areas bids close at y date, north western areas bids close at z date. It could be argued that this is an unnecessary limitation on bidding opportunities however, if this is a necessary driver for industry it could easily be worked into a set-time bidding model if adopted.

## Treatment of overlapping bids

Both competitive over-the-counter bidding and set-time bidding are based on the premise of applicants defining their own permit area at the time of making an application/bid.

Under competitive over-the-counter bidding, a competitor counter bid would be restricted to bid on exactly the same area as the original application – e.g. blue area A in the diagram below. If a second bidder wanted the green area B, a counter-bid for area A would need to be made as well as a separate application for the area that extends beyond area A. Depending on timing of applications, a permit offer on area A may be made before consultation/assessment on an application for the extension, area B, is complete.

**Figure 5: Overlapping bids**



Set-time bidding would be a sealed-bid application process and would allow for completely overlapping and partially overlapping bids to be considered. For example bids for both area A and area B would be eligible. The Joint Authority would make a decision on how to make an offer for the overlapping area with advice from NOPTA – clear criteria would be required if this option is adopted.

The reason for the difference is the government's need to consult on the areas before awarding. Under competitive over-the-counter bidding the consultation would happen on an ad hoc basis as applications arrive – so any applications for graticular blocks extending beyond an advertised application area would require a new consultation process. Whereas, under set-time bidding, consultation could be completed on the complete polygon (red dashed shape) regardless of how many bids are received on the area or proposed individual permit shapes.

## Supporting policy considerations and projects

### Promotion

The role of promotion would shift from promotion of the geological merits of the specific acreage release areas to more general messaging about Australia as an investment destination and an overview of hydrocarbon prospectivity in various offshore provinces. When there is a new geological story to tell, this could prompt specific promotional activity. An annual launch of acreage at the APPEA conference would no longer be the key platform to promote the acreage; rather it would be an opportunity to highlight exploration trends, results and the ongoing opportunity to invest in Australia.

### Pre-competitive data

Where Geoscience Australia is able to undertake pre-competitive studies this could hopefully serve to stimulate bidding activity and interest.

### Petroleum-Acreage website

The existing website would need to be updated to have summary information on all basins included in the gazette and will be supported by NOPIMS for data discovery. The site would no longer be static for a year, Geoscience Australia would have an ongoing content management role.

## Consultation platform

Ideally the consultation on application/bid areas would be done on an online platform which could show the application areas spatially on a map and be searched by region/basin/state. Consultation responses should also be publicly available on the site for the information of all stakeholders as a register of issues.

The platform should have a user registration which would allow stakeholders to be notified of new applications in their area/s of interest to save the need for constant monitoring.

The department's [consultation hub](#) could continue to be used for fixed time consultations – like the proposed areas in the current annual acreage release – and could be used with reasonable effectiveness for set-time bidding consultation. However, for competitive over-the-counter bidding, a fully interactive system would be needed.

## Online application platform

Competitive over-the-counter bidding would be best delivered with an online application platform that allows the user to see what graticular blocks are available and what other applications are under consideration. Ideally such a platform would be integrated with the consultation platform.

An online application process could also improve the efficiency of set-time bidding but is not crucial.

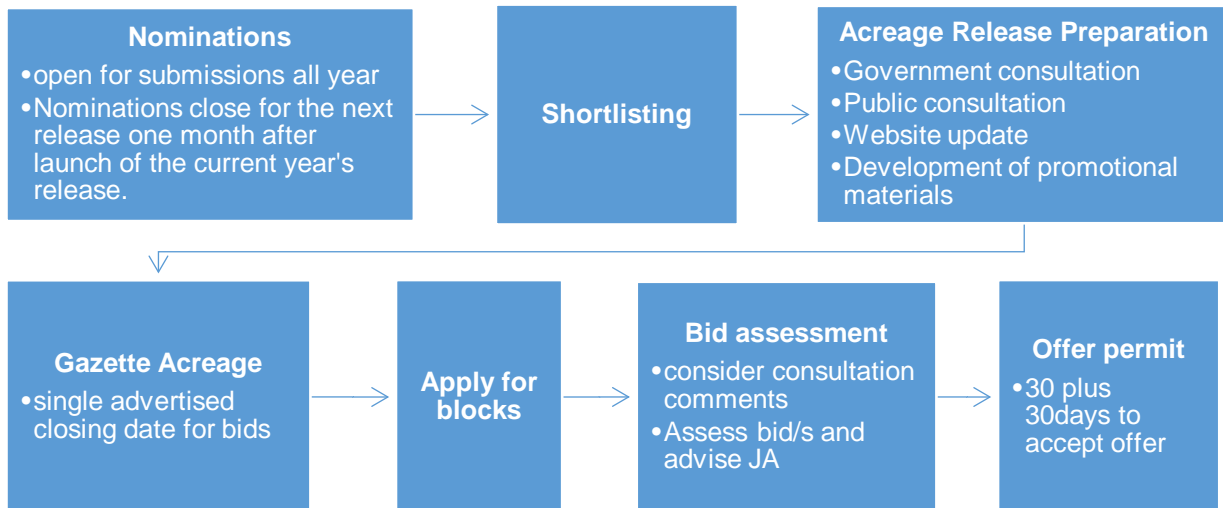
## Guideline update

A guideline update would be need to be undertaken including noting the impacts of any policy changes for future good standing arrangements and what constitutes contiguous blocks etc.

## 3.4 Proposal 3 – Single Round Annual Acreage Release

A Single Round Annual Acreage Release would continue the well understood annual process of acreage release that industry has been working within for over 30 years. Only minor changes would be made to improve the process for nominations and all release areas would open for bidding in one single round.

**Figure 6: Proposed single round annual acreage release process**



The timing of the release could shift through the year as required however it is recommended that a single round annual acreage release provides a good opportunity to continue to launch and promote the annual acreage release at the APPEA conference in May each year – see [Figure 7](#) overleaf.

Consultation would occur in a two phased approach, 1. consultation with governments and 2. public consultation – both would occur prior to release of areas for bidding.

The single round annual acreage release model would take approximately 17 months from close of nominations to offer, plus 2 months consideration.

### Expected outcomes

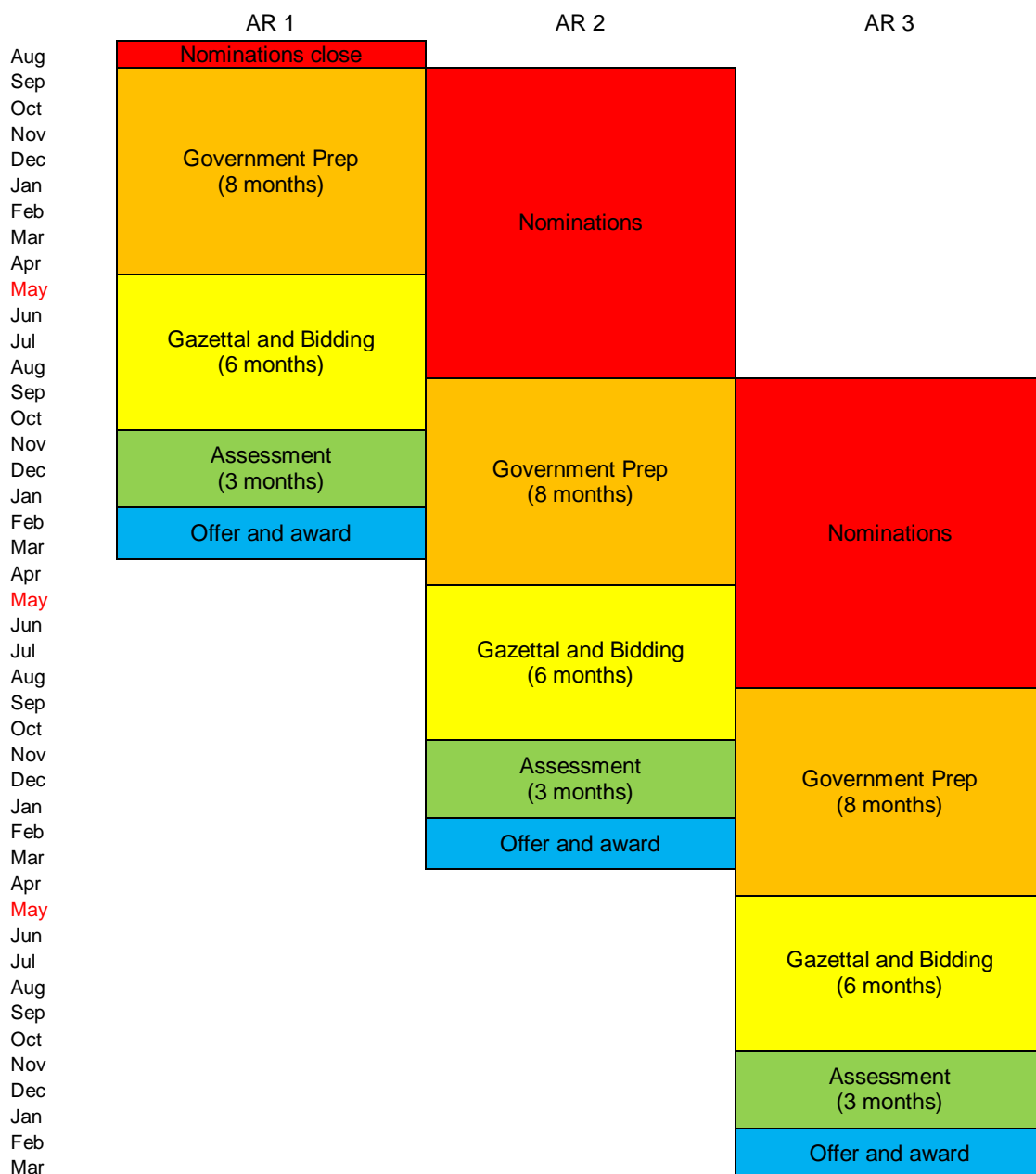
- **Streamlined version of current process** - from close of nominations to offer expected to be 17 months.
- Maintain **predictable annual process**
- Deliverable for **Ministerial announcement at APPEA**
- Maintains the **competitive** tension to **encourage comprehensive work programs**
- Expectation of the Joint Authority remain focussed on an exploration strategy that leads to the **best exploration of an area**
- Flexible for the joint authority to continue **cash-bidding if desired**
- Continue to have opportunity for Government to **promote specific release areas – focus industry attention**
- Maintain **specific release area guidance**



## Other Considerations

- This model assumes that the government remains well positioned to shortlist areas.
- Geoscience Australia and the Offshore Resources Branch would have a fixed timeframe to deliver pre-competitive information
- Does not provide an opportunity to capture investment outside of annual acreage release - does not help in availability of areas
- Limited time saving and still not condensed to one year
- Consultation would continue to be on all areas rather focussed on areas receiving bids
- No opportunity to offer a different number of graticular sections/blocks based on the comprehensiveness of the bid

**Figure 7 – Example of how the stages of a single round annual acreage release might be scheduled**



## Operational Detail

A flow chart of a draft process can be found on page 30. The following paragraphs describe how the key stages might work.

### Nominations

Industry would be invited to submit nominations at any time (as opposed to limiting the nomination period to 2-3 months as it is currently). A cut-off date would be set for consideration of nominations in the next acreage release.

### Shortlisting

The Department of Industry, Innovation and Science would work with Geoscience Australia to shortlist nominations. The shortlisting process aims to deliver a selection of release areas that vary in size, water depth, region and level of geological understanding to offer a range of exploration investment opportunities.

### Consultation

Consultation on shortlisted areas would be undertaken in two stages:

- Phase 1 - a consultation process with agencies in Commonwealth and state/territory jurisdictions with direct responsibility for managing the marine environment. This phase would help to shape the proposed areas and balance the competing interests at a government level.
- Phase 2 - the proposed areas, including maps, would be made available for public comment on the department's consultation hub and other government channels including the Australian Petroleum News.

Following consultation, the relevant Joint Authority would determine the 'final' areas to be released.

*The acreage release preparation stage (shortlisting, consultation and preparing pre-competitive data) would take approximately 8 months.*

### Gazettal

At a set time each year the Joint Authority would invite applications over specified release areas by way of written gazettal. The gazettal would invite bids at a set date.

Individual release areas would be specified by graticular blocks and be limited to 400 contiguous blocks.

The Gazettal would be supported by an updated package of pre-competitive data from geoscience Australia relating to the specific bid areas. This material would be delivered by website.

### Bids

*Bids will close approximately 6 months after gazettal.*

The gazettal would detail the requirements and date for bids. Bids would be restricted to release areas specified in the gazettal only.

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

There would be no limit on the number of applications that could be made. Each application would be treated separately. Applications would be accompanied by a fee.

## Bid assessment

*Up to three months proposed for bid assessment.*

It is not proposed to make changes to the current process; NOPTA would assess bids and advise the Joint Authority

## Permit offer

*Approximately 10-15 business days.*

It is not proposed to make changes to the current process; the Joint Authority would make its decision and advise NOPTA.

NOPTA would then make a written offer to the successful applicant.

The bidder would have a 30 day period to accept the offer or seek an additional 30 days.

## Market comparison

This model would be only a slight departure from Australia's existing process.

# 3.5 Issues relating to proposal 3

## Limited time saving

As noted above, one of the key objectives of this paper is discuss possible options for addressing the time lag between industry interest in an area and bidding. A single round annual acreage release would do little to alleviate this issue. While the timeframes appear shorter overall, this would be achieved only through dropping the second round of bidding. The time between nominations closing and the bidding date would remain almost the same as the period from close of nominations to bidding in round one of the current annual process.

## Availability

This proposal would continue to see the government set the areas available for bidding – based on nominations from industry. To be able to produce pre-competitive geological overviews, areas would need to be limited to a manageable number of areas/basins.

The single round format would also limit the opportunities to bid to a single time each year.

Is the limitation of areas and opportunity to bid outweighed by the value to industry of the pre-competitive geological overviews of the areas available for bidding?

# 3.6 Draft Process Flow Charts

Figure 8: Competitive Over-The-Counter Bidding

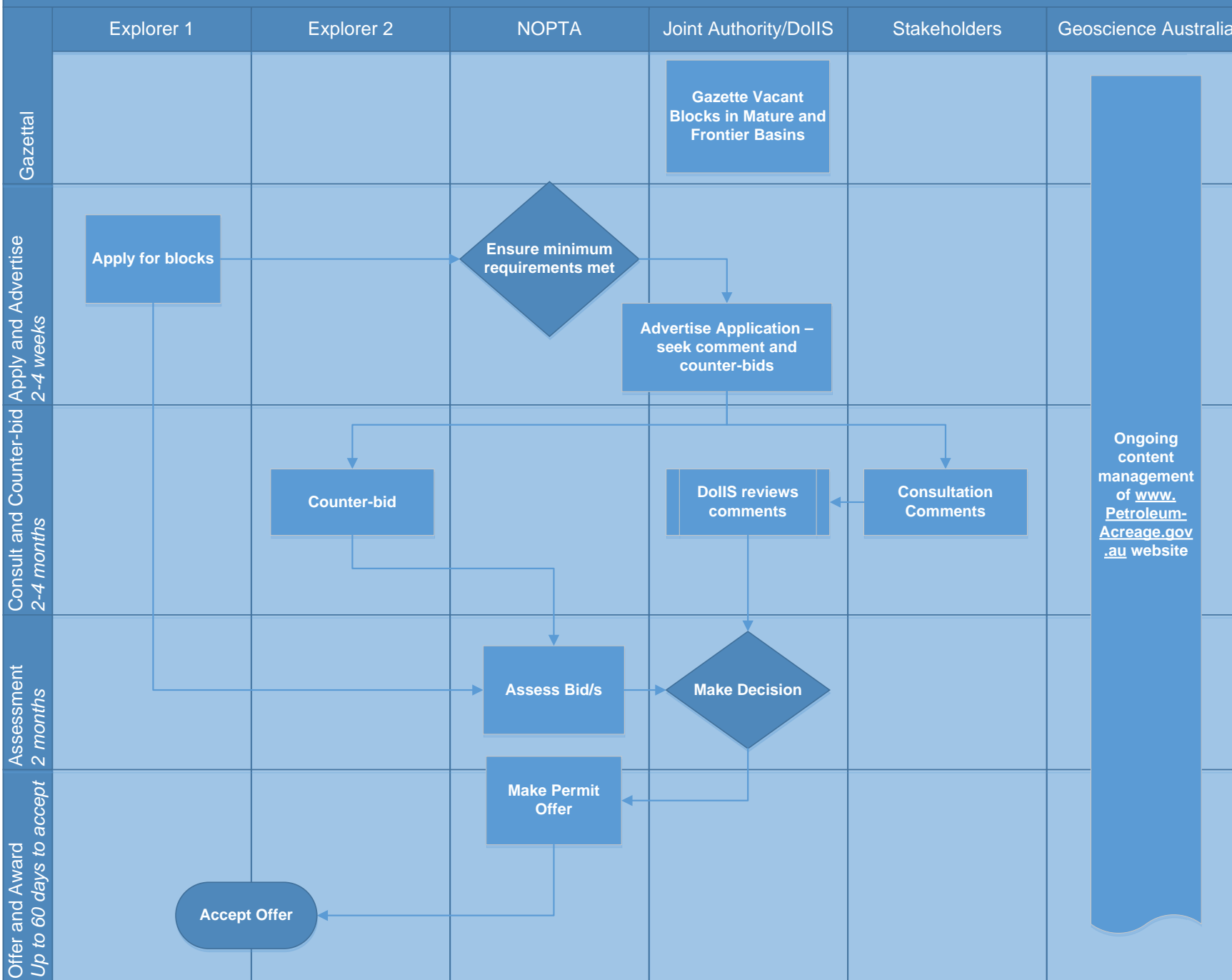


Figure 9: Set-Time Bidding

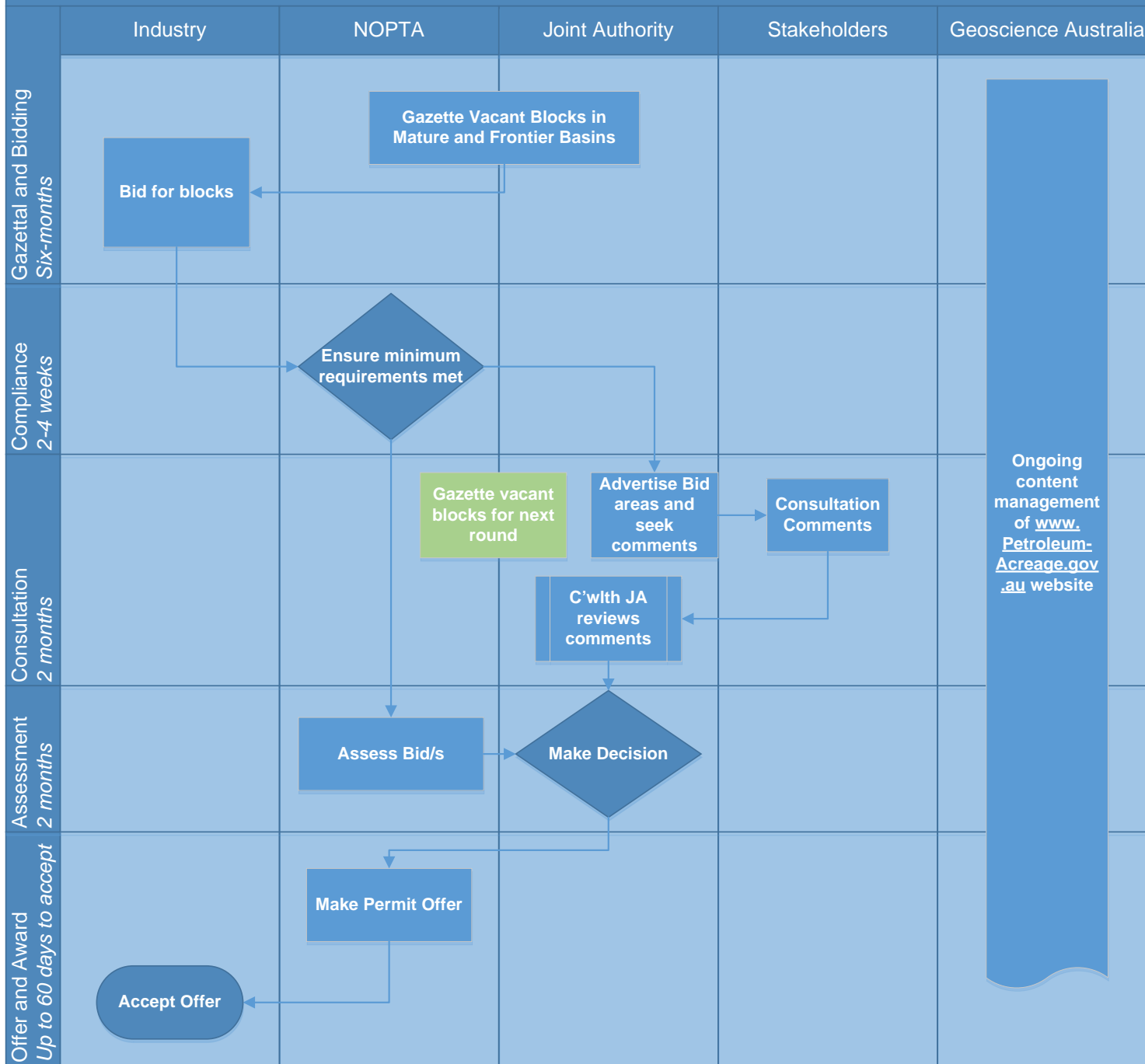
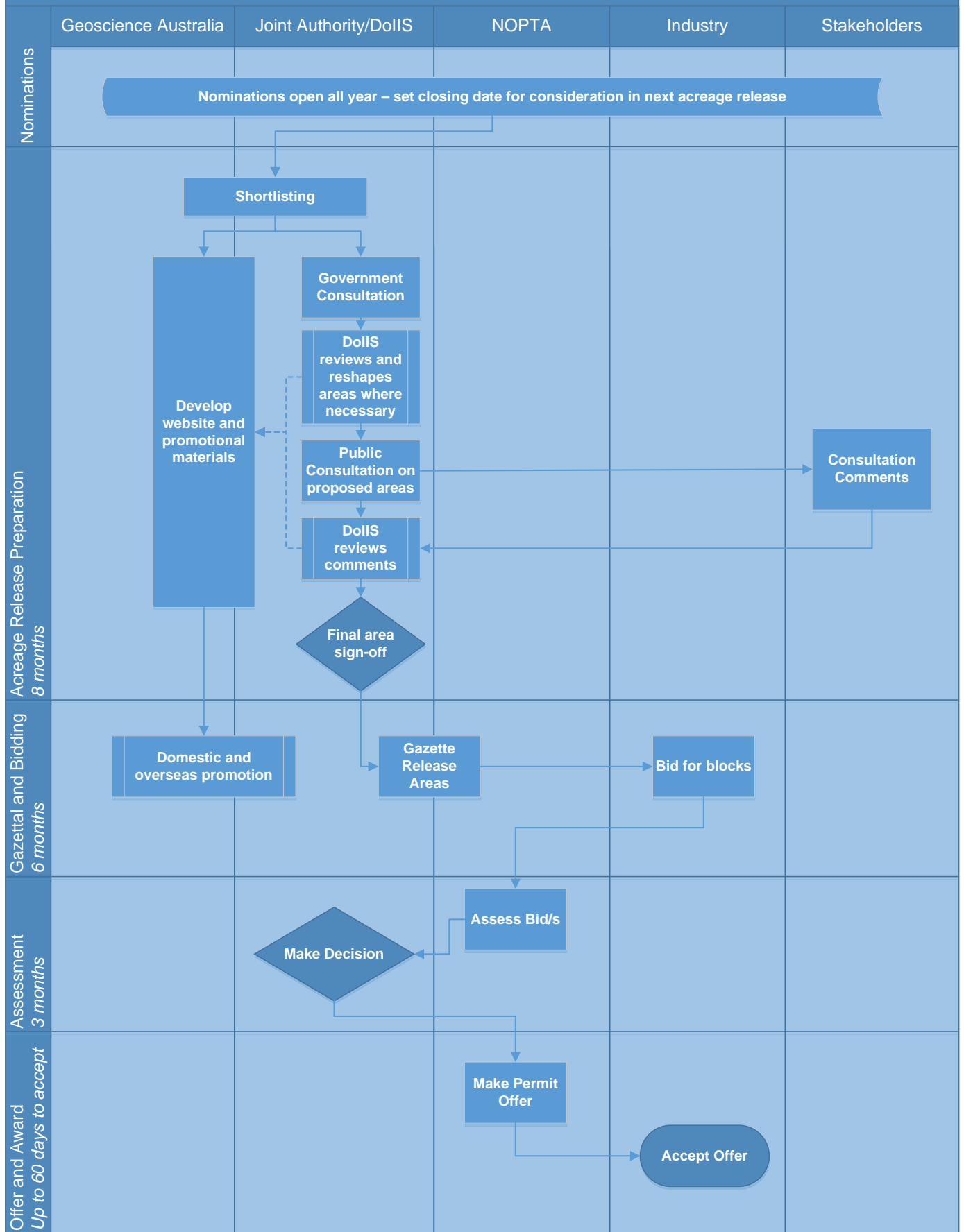


Figure 10: Single-round Annual Acreage Release



## 4. Stimulating Frontier Exploration

The competitive over-the-counter and set-time bidding proposals could both lead to large frontier areas being available for bidding if implemented. However, it is noted that increasing the availability of areas would address only part of industry's identified needs in frontier exploration, reasonable time to explore is also an important factor.

### 4.1 Proposal – Make provision for a Discretionary Renewal Term

Additional time for exploration was highlighted through the Review as a factor that could help attract frontier exploration in Australia. To date there is insufficient evidence that additional time to undertake exploration activities would translate into an increased industry interest in frontier exploration.

The overarching government policy for the offshore oil and gas regime is to attract and retain investment and ensure resources are brought to development in a timely and efficient way.

The requirements for the timely commercial development of offshore petroleum resources are defined through the interaction of the exploration permit, retention lease and production licencing systems. This provides for companies to progressively discover and move resources through to production with predictability and security over title. These commercial imperatives need to be balanced with Australia's resources potential can be explored and developed in a timely manner by industry participants who bring innovative ideas and approaches to the process of discovery.

If evidence can be provided to support the argument for more time in the exploration phase, this could be achieved through a restricted third renewal term i.e. an additional 5-year renewal term awarded at the discretion of the Joint Authority.

Such a renewal would differ from the standard renewal which the OPGGS Act requires 'must' be offered if the titleholder has complied with the permit conditions.

Rather than designate this as a specific 'frontier renewal' it could be an additional renewal granted by the Joint Authority when a titleholder provides appropriate justification – strict guidance would be required if this proposal were to be implemented.

Establishment of an additional renewal would require legislative amendment to the OPGGS Act.

**Figure 11 – Proposed sequence of an exploration permit with an additional renewal**



## Operational Detail

The following paragraphs describe how the key stages might work, which is very similar to the way renewal applications are managed now.

### Application

Titleholders of exploration permits awarded after 2003 and nearing the end of a second renewal term could apply to NOPTA for a discretionary renewal.

The renewal application would include:

- blocks to be renewed/retained under a location/relinquished – in accordance with the standard halving rules - OPGGS Act s123
- proposed work program
- reason for needing to continue exploring (i.e. why the permit is not ready for retention lease/production licence and/or why the permit is worthy of continued exploration rather than surrender the blocks)

An application fee would apply.

### NOPTA Assessment

NOPTA would assess the application against the OPGGS Act and published guidelines and make a recommendation to the Joint Authority.

### Joint Authority Decision

This Joint Authority would consider NOPTA's advice and the application and make a decision by exchange of letters.



## Gazetta

A notice of renewal of an exploration permit would be published in the [Commonwealth Gazette](#) by the Titles Administrator.

## Implementation

If this option is considered warranted, amendments would be made with a view to commencement in 2019.

# 4.2 Issues relating to discretionary renewal

## Guidelines

Clear public guidelines for applicants would reflect published criteria that the Joint Authority would use in assessing applications. Decision-making criteria for the Joint Authority might include themes such as:

- Compliance and performance over the previous three permit terms
- Reasons for continuing to explore rather than progressing to a retention lease
- Impact of technology changes

## Impact on pace of exploration

In a political environment where energy security is front of mind and expeditious progress towards development is encouraged, is additional time for exploration warranted?

## Can existing extension provisions achieve this outcome?

The OPGGS Act and existing guideline currently provide for additional time for exploration to be granted where technical grounds or force majeure circumstances apply. There have been examples of a single exploration term lasting for 12-years<sup>4</sup> with variations and extensions granted in recognition of the challenges and realities of operating in frontier areas. Is there a clear need for an additional renewal if the exploration term including extensions and renewals can already continue for 20 years or more?

# 4.3 Other options considered during the Review

Throughout the period of the review from 2014 to 2017 submissions, discussions and workshops with stakeholders provided the opportunity to explore many proposals for stimulating frontier exploration. Proposals that have been considered but are not deemed feasible at this time are recorded below for completeness:

## • New longer title

Several industry participants have previously suggested a new longer permit of 8-10 years could incentivise exploration in lightly explored areas.

The current exploration title allows for exploration to occur in 5-6 year blocks with a 50 per cent relinquishment at the end of that period. The relinquishment cycle helps to encourage continuing exploration so that informed decisions can be made about what to relinquish. A significantly

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<sup>4</sup> Q/23P offshore Queensland in the Carpentaria Basin

longer exploration permit term reduces the motivation to continue actively exploring and could allow extended periods of inactivity.

The existing suspension and extension provisions allow for titleholders to apply for extra time where needed. A new permit type would also add unnecessary complexity to the regime.

## • New scanning/prospecting title

The desire for a screening title has been raised on several occasions—often in conjunction with conversations about the use of Special Prospecting Authorities—as a title that allows for a light program of exploration before progressing to more significant and costly exploration strategies.

The Department of Industry, Innovation and Science considers that the existing title structure adequately meets this need, noting that the work programs at the bid stage are expected to be commensurate with the perceived prospectivity of the area.

The primary term (first three years) of an exploration program is the only commitment required by an explorer. The titleholder then has a choice at the end of the third year to either progress with further exploration or surrender the permit without penalty. Before entering the secondary term, or a new permit year, the guidelines also provide opportunity to vary the work program. The Department of Industry, Innovation and Science is working on communication tools to promote the flexibility within the current regime.

## • Unstructured six-year term

Industry suggested that an unstructured six-year term could provide more flexibility. The department considers a six-year term may provide less flexibility, rather than more.

Under the current system, applicants are able to surrender a permit at the end of the primary term (3 years) without penalty if initial screening has indicated no prospectivity in the permit area. By contrast, if a work-bid exploration permit with an unstructured six-year term were implemented, it would require an applicant to commit to the full six year work program at the time of the grant with no clear opportunity to reduce the work program or surrender the permit before its end date if initial screening activities indicated no prospectivity in the permit area.

## • Cash-bid frontier areas

A flexible six-year term could be delivered under a cash-bid model. A cash-bid title is awarded without any work program commitment and the exploration strategy is managed by the titleholder/s without Joint Authority involvement. Cash-bidding would provide a truly flexible frontier title model, however has been dismissed for frontier areas as:

- under the current cash-bidding methodology reserve prices would be very low (given they are derived from minimum guaranteed work program expenditure in surrounding permit areas); and
- it would provide little incentive for exploration activities to be conducted (given the absence of work program commitments).

Cash-bidding also only allows for one renewal and an 11-year term (6-year initial permit plus one 5 year renewal) is deemed insufficient time to explore a large frontier area.

## • Increasing Permit Size

The OPGGS Act provides for exploration permits up to a maximum size of 400 graticular blocks (32,000 km<sup>2</sup>). Discussion with industry through the course of the review showed that government and industry are broadly aligned that this maximum permit size is adequate. Large areas allow for efficient exploration while areas any larger than 32,000 km<sup>2</sup> may be too vast to complete initial screening studies over the whole area in the first six year term to adequately inform a 50 per cent relinquishment strategy for renewal.

Depending on outcomes from the proposal to reform Acreage Release, either the government will continue to make release areas in lightly explored areas as large as possible or industry will be in a position to apply for areas of their own design.

# 5. Consultation questions

This paper has put forward several ideas for reforms to offshore exploration policy, other suggestions and ideas are welcome.

The Department of Industry, Innovation and Science is keen to receive feedback on all elements covered in this paper. Particular areas requiring industry discussion and feedback are:

1. Is the pre-competitive information on the current [acreage release website](#) useful? Do you refer to the geological summaries of release areas in making a decision to bid? How could this information be improved to make it more useful?
2. Competitive over-the-counter bidding would allow industry to bid at any time and award of permits could occur very quickly. The downsides are that industry would need to remain vigilant to monitor application activity in case applications are made over areas of interest, and companies would be limited to counter-bid on exactly the same area as the original application.
  - a. A subscription service is proposed to assist in monitoring applications. With a notification service, could an ad hoc application process be manageable?
  - b. Noting the goal of creating a quicker process, would four months be enough time to prepare a counter-bid? (Including internal approvals to place the bid etc.). What timeframe would you recommend?
  - c. Is the proposed requirement for counter-bids to be over the exact same application area too limiting?
3. Set-time bidding is similar to the current acreage release model in that it maintains set times for bidding, however bidders will be able to design their own application areas.
  - a. Is bidding at a set time more manageable than over-the counter bidding?
  - b. Are you concerned about how partially overlapping bids might be assessed? Are there any particular aspects that you would like NOPTA to consider in providing advice to the Joint Authority on the most deserving applicant for partially overlapping bids?
  - c. It is noted that some countries ask companies with partially overlapping bids to negotiate amongst themselves to determine the way forward for an overlapping part. Do companies have an opinion on how/if that would work in Australia?
  - d. Do you have any other suggestions or comments on how this process could work?
5. Is an open gazettal too broad? The department's view is that an open gazettal reduces limitations on bidding and allows a company to consider areas that fit with its existing portfolio interests without delay. However, some companies have suggested that an open gazettal may be overwhelming and that companies would prefer the government to focus companies' attention on the most prospective areas.
  - a. Does your organisation struggle to gain executive attention to exploration acreage opportunities?
  - b. Is an open gazettal likely to have a positive, negative or nil impact for your company?
  - c. Does a set-time for bidding help to capture the attention of executives?

- d. If an open-gazettal set-time-bidding model is progressed, would a regional focus for each round be preferred over the option to bid on any area each round? (Noting that a regional approach may mean that 12 months or more may pass between opportunities to bid on the same region again).
6. A single round annual acreage release would continue to provide the reliability of an annual release with a pre-selected range of areas for bidding but shorten the process by making all areas available in one single bidding round. This approach would enable the government to maintain the ability to identify areas it considers prospective and prepare tailored pre-competitive geological descriptions of the release areas.
    - a. The time from gazettal to bidding is proposed as six-months. Is this a reasonable time to assess and prepare bids on 30 areas for example?
    - b. The single round format would limit the opportunities to bid to a single time each year on specified areas. Is the limitation on areas and opportunities to bid outweighed by the value to industry of the pre-competitive geological overviews (compared to competitive over-the-counter bidding or set-time bidding which would see the government take a different approach to pre-competitive information)?
    - c. Is a single round process preferable to the current two round (plus cash-bidding process)?
  7. Is there a case for change at all? Should the government simply maintain the current annual, two work-bid round acreage release, plus cash bidding?
  8. Is there another bidding process that you would prefer to the current or proposed bidding processes? What are the advantages of this process?
  9. Would the potential of an additional renewal term (at the discretion of the Joint Authority) make a difference to a decision to invest in frontier exploration?
  10. What, if anything, would motivate your company to invest in frontier exploration?