PETROLEUM (MISCELLANEOUS) AMENDMENT BILL – 15 July 09

Mr PEDERICK (Hammond) (16:22): I rise as the lead speaker on this bill. I note from the briefings which I received and which the Hon. David Ridgway received in the other place that this does not seem to be a controversial piece of legislation. I have only just gained access to the second reading explanation, but, be that as it may, I will make a few comments in regard to the bill. The proposal of the bill is to:

- enhance the provisions of the Petroleum Act to strengthen provisions for gas storage;
- create greater security of tenure and flexibility in the licensing and activity approval provisions;
- provide for enhanced competition in relation to minerals processing;
- enhance landowner notice of entry and compensation provisions;
- refine royalty payment provisions; and
- reinforce the one window to government concept and streamline data submission requirements.

Overall, the bill seems to be streamlining all the processes involved with geothermal and petroleum industries. The background to this bill is that in March 2005 Primary Industries and Resources South Australia released the Petroleum Act 2000 implementation issues. The initial four year operation of the act had understandably presented some implementation problems. This discussion paper attempted to identify those issues and suggest appropriate solutions. A green paper on proposed amendments to the act followed at the end of 2006. This bill is a response to the issues initially identified and the proposed amendments which followed.

The name change from the Petroleum Act to the Petroleum and Geothermal Energy Act reflects the changing face of the mining sector, and this is supported by an addition to the objects of the act of regulating the exploration of geothermal resources and natural reservoirs for storage and production.

The definition of 'petroleum' is extended to cover the product of coal gasification, which is an emerging technology and a process used to produce synthetic petroleum. Other substances occurring as a result of petroleum storage in underground reservoirs are covered as 'regulated substances'. Clause 7 of the bill clarifies that petroleum that is produced and reinjected into natural reservoirs is owned by the licensed producer, not the Crown.

In regard to competitive tender regions in the bill, the minister is already able to designate a highly prospective region under the act. Such areas at present are the Cooper Basin and Otway Basin, and the minister is required to give out acreage by tender. These areas, seen to be highly prospective for petroleum exploration, will be replaced by the term 'competitive tender region'.

Market supply, proximity to infrastructure and technological innovations (among other things) all contribute to the suitability of an area for the competitive tender process, and this change highlights that geological prospectivity is only one contributing factor. This change is predominantly for marketing purposes, and it is important to highlight the fact that areas outside these regions are not necessarily low prospect. Clause 19 of the bill grants that exploration licences in these areas will be renewable twice, rather than once, and the maximum area for a petroleum exploration licence will be extended to 10,000 square kilometres.

Under landowner rights, the definitions of 'owner' and 'occupier' of land are amalgamated as 'owner of land' for the purpose of avoiding unintended consequences such as the occupier only being notified but the landowner, who is entitled to compensation for entry, not being given a notice for a right to consent. Currently, pastoralists are the only type of landowner or occupier who cannot object to a notice of entry. This restriction has been removed and the new definition is extended and will cover all persons who may be directly affected by activities.

Under clause 44 of the bill, an owner of the land may now be compensated for reasonable costs incurred in relation to negotiation or dispute relating to access to land and the activities carried out on the land. Compensation will also be provided for devaluation in land caused by the development of permanent facilities by the licensee.

There are some significant licence changes. Currently, under section 13 of the act, the following licence classes exist: (a) preliminary survey licence; (b) speculative survey licence; (c) exploration licence; (d) retention licence; (e) production licence; (f) pipeline licence; and (g) associated facility licence. The exploration, retention and production licences will each be broken into three subcategories—namely, petroleum, geothermal and gas storage. Other changes will occur to the remaining licence classes, and I will elaborate.

Preliminary survey licences (PSL) permit the preparatory work necessary prior to mining activities. The bill will allow the minister to vary the area upon application to which that licence relates, which is already the case for a pipeline licence for the operation of a transmission pipeline. Further, there will no longer be a maximum aggregate five year term for a PSL. This is already the case for speculative survey licences which allow exploratory operations.

As stated, the exploration licence class is divided into three categories and, depending on the category, the licensee may carry out exploratory operations, operations to establish the nature and extent of a discovery, and to establish the feasibility of production and appropriate production techniques. The holder of an exploration licence will be entitled to the grant of the corresponding retention or production licence for a regulated resource discovered in the licensed area. That shows the significance of the division of licence categories.

Clause 17 of the bill provides that the maximum licence area for a gas storage licence will be 2,500 square kilometres. The rights under the licence will continue after the exploration and production licences have extinguished. Royalties will not be payable for gas storage. The maximum licence area for a geothermal exploration licence will be increased from 500 square kilometres to 3,000 square kilometres.

Clause 45 of the bill creates a provision for the precedence of exploration licence applications, and applications will be dealt with in the order of receipt unless the minister has called for tenders for an exploration licence under section 22 of the act.

In regard to retention licences, clauses 21, 22, 23 and 24 protect the interests of a licensee in a discovery of a regulated resource until they have properly evaluated the productive potential and/or carried out that work necessary to bring the discovery to commercial production. Once again, the licence is divided into three. For a gas storage retention licence it will facilitate the testing of a natural reservoir for storage suitability. The area of a petroleum retention licence will be limited to up to 100 square kilometres, and, for geothermal retention or gas storage, 1,000 square kilometres.

Currently, the minister is able to renew a retention licence if satisfied that the relative project is likely to be commercially feasible within 15 years. Under this bill, the probable 15-year period will not apply to gas storage retention licences unless the natural reservoir is likely to be used in connection with the production of petroleum.

There will be three categories of production licences, and this is in clauses 26, 27, 28, 29 and 30. The main purpose of this is to cover in situ gasification and coal seam methane as part of the petroleum production process and cover storage or withdrawal of petroleum as part of ensuring its supply and delivery to the market.

Under clause 31, the minister will be able to cancel production licences or convert them to retention licences if they have not been used for 24 months. This will be the same for gas storage facilities.

An associated facility licence allows the operation of facilities outside a licensed area that are reasonably necessary for, or incidental to, the primary operations. This definition will be divided into either an associated activities licence or a special facilities licence. Currently, only a petroleum production licensee or an associated facilities licensee can build or operate a processing facility. The new SFL will allow third parties—non-primary licence holders—to construct and operate processing facilities.

The current act has created unnecessary impediments to entrepreneurial investment in the searching and processing of minerals and production of geothermal energy. The

potential for third-party ownership and operation of processing facilities to service licensees now exists.

Shared facilities will create economies of scale in order to commercialise small discoveries. The area for such activities will be limited to 5 square kilometres for permanent facilities and, otherwise, 1,500 square kilometres. For a temporary facility, the minister will determine the licence term necessary and may renew them as he or she deems necessary, or cancel them if it is decided that it is no longer being used for the purpose for which it was granted.

Under new applications to all licence holders, which is covered in clause 33 of the bill, it provides that licensees will have to lodge monthly returns showing quantities of substance or energy produced, sold, etc., and royalties payable. The minister can gazette particular licences or categories of such where this does not apply. This will assist the government in creating a more accurate projection of royalty receipts.

Clause 55 of the bill will require a licensee to carry out a fitness-for-purpose assessment of facilities operated on land within their area at prescribed intervals. This will be to assess risk to public health and safety, the environment and the security of production or supply of natural gas, if relevant. A report of such will need to be prepared by the licensee, who must also promptly carry out any remedial action that is necessary or appropriate in view of that report. Failing to comply attracts a maximum penalty of $120,000. A licence application requires a work program to be submitted for the minister's approval. Under clause 18, the minister will no longer have to approve the acceleration of work under a work program.

In regards to other items related to this bill, amendments to the Development Act 1993 will facilitate a practice by which a proposed statement of environmental objectives under the Petroleum and Geothermal Energy Act 2000 may be, and must be in prescribed circumstances, referred to the minister under the Development Act 1993 for advice. The amendment to the Mining Act 1971 will ensure that the production of petroleum—or another substance under the Petroleum and Geothermal Energy Act 2000—is excluded from the operation of the Mining Act 1971 as is presently the case in relation to recovery. Transitional provisions relate to the status of existing licences and applications under the new regime.

The Liberal Party has consulted widely and has contacted 19 stakeholders directly. These include the Aboriginal Legal Rights Movement, Adelaide Energy Pty Ltd, the Australian Coal Association, the Australian Compliance Institute, the Australian Pipeline Industry Association, Beach Petroleum Ltd, BHP Billiton, EnergyQuest, Flinders Power, Geothermal Resources Ltd, Heathgate Resources Pty Ltd, and Hybrid Energy SA Pty Ltd. Also consulted were Origin Energy CSG Ltd, Origin Energy Retail Ltd, Petratherm, Santos, SAPEX, Torrens Energy, and Stuart Petroleum. The feedback we have received indicates that people are supportive of the bill and supportive of the changes.

I note that it brings these industries—gasification, petroleum, energy, geothermal—all moving forward. I note that there are quite a few companies moving on with the proving up geothermal work in the Far North, in the Cooper Basin, in the Flinders Ranges, and other areas. I also note the longstanding exploration and oil and gas work that has been conducted in the Cooper Basin. In fact, I worked there for two years in 1982 through to 1984. It has been a very productive area for South Australia and it has employed thousands of South Australians over many years.

I note that this bill embraces the technology of capturing gas. Let us hope that that gets proved up successfully. A lot of work has been done internationally and I would like to see many successes, especially in the synthetic fuel department where fuel will be extracted from coal. Whereas in the past coal may have been mined, I think the way of the future will be to turn it into synthetic fuel.

With those few words I indicate that the Liberal Party supports the bill. I understand that it will bring many advances and it will make it a lot easier for third parties to coinvest with other parties to get these technologies moving forward. Let us hope that the technologies and the production can coexist well together. I commend the bill to the house.