

BEST PRACTICE IN ROYALTY ADMINISTRATION

The South Australian Government Experience



Government of South Australia
Department of the Premier
and Cabinet

Royalty Collection

ROYALTY SPLIT:

FY2016/17 TOTAL ROYALTY: \$214.1M

MINERALS: 66.6% PETROLEUM: 33.4%

Royalty 2016-17



■ Major Minerals (47.47%) ■ Petroleum (31.31%)
■ All others (21.21%)

THE BIG FOUR

Of the \$214.1m royalty collected in 2016-17
78.65% (\$168.3m) is paid by just four
companies:



2 mineral producers - 47.36%
of total royalty revenue



2 petroleum producers - 31.28%
of total royalty revenue



SA Royalties Team: 2013-2017

Completed
over 250
audits



Recovered
over \$6.9m in
unpaid royalty



Site visits to
develop an
understanding of
mineral &
petroleum
operations

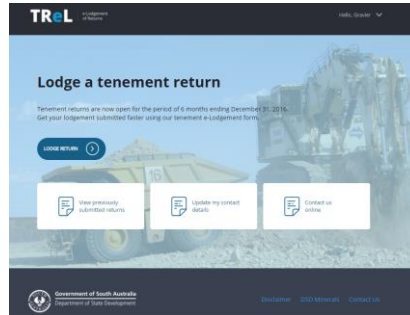
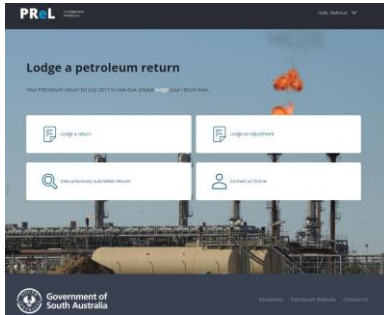


Systems for Royalty Collection

Online Return Submission

PReL (Petroleum) & TReL (Minerals)

- ✓ Easy to use
- ✓ Able to review previous submissions
- ✓ Print reports
- ✓ Auto calculates to avoid errors
- ✓ Reduced number of late submissions



E-Lodgement of returns 2016-17



■ e-Lodgements (86.76%) ■ Paper returns (13.24%)

*50% of returns submitted online in 2015-16



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Our Resources Approach

A Productivity Commission review back in 2009 concluded:
One-Stop-Shops are the most efficient regulatory approach when well managed.



Review of
Regulatory Burden on
the Upstream Petroleum
(Oil and Gas) Sector

Productivity Commission
Research Report

April 2009

“Recommendation – Establish lead agencies”

“South Australia is widely seen as a model for other jurisdictions to emulate”.

“With appropriate governance, experience in South Australia suggests that such an agency can achieve an appropriate balance between enforcing legislative provisions and expediting approvals”.



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One-Stop-Shop for Resources Companies

One Window to Government



DPC as a 'Lead Agency' for Energy & Mineral Resources



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Engagement & Education

- Actively engage with industry and producers to ensure understanding, accuracy and the timely submission of royalty returns.
- Undertake regular audits of returns to ensure appropriate royalty paid and assist with any queries
- Provide 1 on 1 education programs to assist royalty payers
- Provide feedback and information to producers/ industry



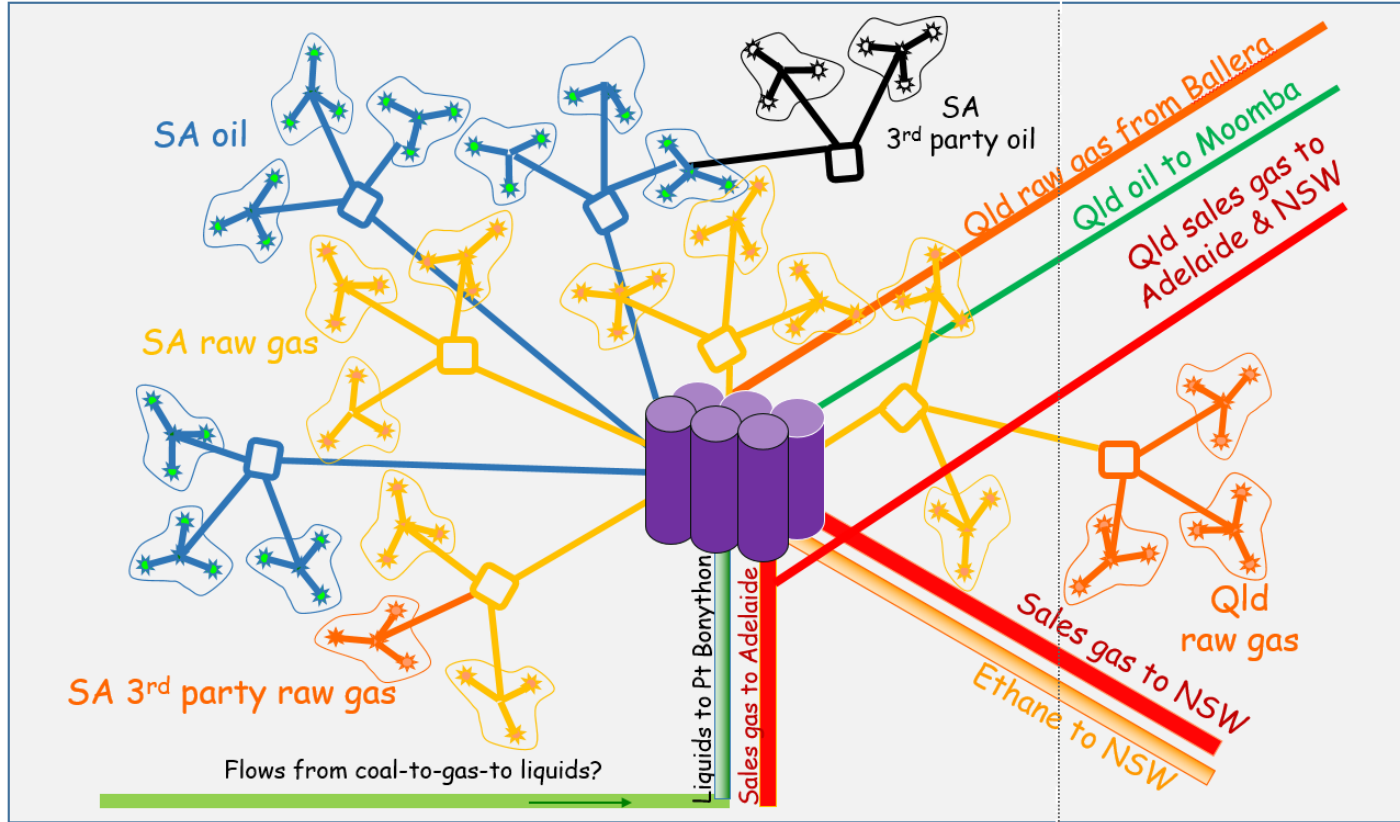
Understanding Royalty – Increasingly Complex

Understanding royalty is more than numbers...

- Requires both engineering and financial expertise
- Requires knowledge of changes in physical flows
- Comprehension of petroleum production & processing
- Legislative understanding
- Royalty return submission processes
- Auditing of royalty returns
- Compliance policy and enforcement understanding
- Commodity markets and forecasting skills
- Regular liaison with operators, building relationships



Cooper Basin – An Engineer's View



Royalty Audit



Since 2013 the Team have travelled across the state meeting with producers & establishing valuable relationships. Typically and in particular for Oil and Gas field trips will be undertaken with engineers/geophysicists/geologists.

The team have worked closely with industry and producers to clarify and resolve issues, taking an educational approach over punitive measures to encourage compliance with legislation.

Our focus is always to be pro-active and when there are challenges, in the first instance we always try to discuss and resolve issues.

Royalty audits have identified the following example issues:

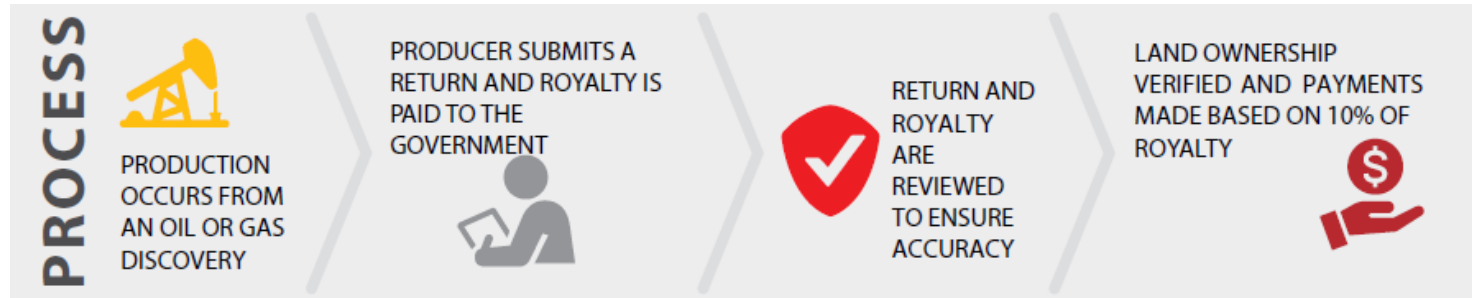
- Missing sales revenue
- System related errors
- Tolling expense interpretation
- Apportioning exploration and production expenses
- Deducting down hole expenses



SA Energy Plan: PACE Landowner Royalties

The **PACE Royalties Return** provides 10% of the State's take of royalties to freehold landowners and perpetual leaseholders with properties that overlay the extent of relevant petroleum discoveries.

- A 'no worse off' policy prevails. Existing private party compensation agreements will remain a requirement.
- Relevant land title and entitlement to a share of the State royalty cannot be separated.
- Where a PGE Act licensee or an affiliate is (or becomes) the property owner, the royalty sharing arrangement does not apply (or will cease).



SA Energy Plan: PACE Gas Incentives

\$48m PACE Gas Grants

The Grants are aimed at securing new gas supplies to South Australian customers by end 2019 (R1) and 2020 (R2); and accelerating new technology deployment to lift productivity

R1 – Grants \$24m

- Senex-Santos Cooper Basin pipelines **\$5.82m**
- Beach Energy Otway Basin exploration well **\$6m**
- Santos Cooper Basin re-frac stimulation **\$3.96m**
- Santos Cooper Basin underbalanced drilling **\$6m**
- Strike Energy Cooper Basin deep coal pilot **\$2m**



R2 – Grants \$24m

- 15 Applications
- From 11 Companies
- Final Decision Dec17

OUR VISION

TO SOURCE, GENERATE AND CONTROL
MORE OF SOUTH AUSTRALIA'S POWER
SUPPLY IN SOUTH AUSTRALIA SO WE
CAN INCREASE SELF-RELIANCE AND
PROVIDE RELIABLE, COMPETITIVE AND
CLEAN POWER FOR ALL INTO THE FUTURE.

