

Security Deposits for licences under the Petroleum Act, 2000

Objectives

An important part of the previous *Petroleum Act, 1940* and the new *Petroleum Act, 2000* has been the requirement for licensees to deposit a security against the potential failure to meet obligations arising under the licence.

This security has two main objectives, both as an enforcement tool to encourage compliance with legislative obligations, and to minimise the chance that the State is burdened with financial liabilities from operators who become insolvent. More specifically it aims to:

- Ensure compliance with the Act, regulations and Licence conditions, including a Statement of Environmental Objectives (SEO's);
- Minimise the potential financial liability of the State arising from financial failure of licensees who have undertaken petroleum or geothermal exploration and production activities, and also from the transport of raw petroleum;
- Encourage compliance with SEO requirements for facility abandonment and decommissioning, and to encourage progressive rehabilitation;
- For exploration licences, encourage fulfilment of work program obligations ;

If a licensee is not sufficiently capitalised to be able to provide a minimum security, then it must be considered that the risk to the State is unacceptable, and therefore the activity will not be approved.

Legislative provision

Under Section 66, the Minister may impose licence conditions that require the Licensee to lodge a security to cover obligations arising under the Licence at the time of grant or renewal of the licence.

All licences issued since the *Petroleum Act, 2000* was proclaimed have, as a matter of policy, included a condition similar to the following:

"The Licensee shall during periods determined by the Minister lodge and maintain with the Minister in the form acceptable to the Minister, for the satisfaction of obligations arising under the Act or this licence, a security of \$50,000 or such greater amount as specified by the Minister from time to time."

Insurance vs. Security

It should be understood that the requirement to lodge a security is in addition to the requirements for adequate insurance. It is PIRSA's understanding that insurance would not normally cover the risk of default on land rehabilitation

obligations. Insurance in general appears to cover public liability and well control (due to blowout) only.

Assessment of appropriate security

A minimum security of \$50,000 is to be maintained per licence, subject to the provisions below.

Speculative Survey and Exploration licences

The security will be required to be lodged prior to entering any guaranteed period in which seismic acquisition, well drilling or other significant on-the-ground activities are planned.

Where field activities are:

- Planned in the first year of the licence or
- A number of licence years of the work program have been defined as “guaranteed” in the licence conditions, and any one of these contains field activities (even if not the first year of the licence), the security will be required upon acceptance of the licence, and before the licence is granted.

For all other exploration or survey licences, security will be required prior to entering any year in which field work is planned.

Operators with between 2 and 5 licences will have an option to consolidate securities to a ‘floating’ minimum of \$100,000 - provided that the licensee agrees that the full \$100,000 may be used against any one default. Additional security will be required above 5 licences on the same basis, i.e. that a further \$100,000 is maintained for up to 5 additional licences, floating over all.

Production, Retention and Pipeline licences

The security will be required to be lodged at grant of the licence. Where more than one licence is operated by the same licensee, the security will be \$50,000 per licence, but will be required to be a floating security (eg if 1 PPL is held the security is \$50,000, if 3 licences held the security will be \$150,000 applicable to any one of the licences). Where the number of licences exceeds 30, the floating security will be capped at \$1.5 million. If a PPL has no wells (eg the PPL has been issued to satisfy a licence boundary issue), then no security will be required.

The above are minimum securities for low risk licensees/operators. PIRSA may request higher securities where the risk of default is considered higher.

No additional security would be required for Associated Facilities Licences; however the security held for the primary licence would be required to be used for the AFL (i.e. floating security)

No security will normally be requested for Preliminary Survey Licences, as these do not authorise significant impact activities.

In line with the principles of transparency under the Act, a summary of the securities currently held against each licence may be made publicly available.

Future capacity to comply with requirements under the Petroleum Act, 2000 will always be a consideration when PIRSA assesses applications to transfer Titles of any Licence. PIRSA may not approve Title transfers until an appropriate security is lodged.

Form of security

PIRSA will accept a security deposit in any one of the following forms:

- Unconditional bank guarantee
- Cash (for which interest does not accrue)

PIRSA may also request that licensees demonstrate that the appropriate rehabilitation liability has been allowed for in their company accounts.

Security deposit retirement before licence expiry

If the licensee progressively rehabilitates to the satisfaction of PIRSA, securities may be released, to reflect the reduction in risk to the state.