

15 March 2019

Ms Nicole Ross  
Gas Inquiry Unit  
Australian Competition and Consumer Commission  
GPO Box 520  
MELBOURNE VIC 3001

(via e-mail to: [gas.inquiry@acc.gov.au](mailto:gas.inquiry@acc.gov.au))

Dear Ms Ross

**RE: *FRAMEWORK FOR THE CONSISTENT REPORTING OF NATURAL GAS RESERVES AND RESOURCES CONSULTATION PAPER: APPEA COMMENTS***

Since 1959, the Australian Petroleum Production & Exploration Association (APPEA) has been the peak national body representing the upstream oil and gas exploration and production industry. APPEA has around 60 member companies that explore for and produce Australia's oil and gas. In addition, APPEA's more than 140 associate member companies provide a wide range of goods and services to the industry. Further information about APPEA can be found on our website, at [www.appea.com.au](http://www.appea.com.au).

APPEA welcomes the opportunity to provide comments on the *Framework for the consistent reporting of natural gas reserves and resources* Consultation paper (the Consultation paper), released by the Australian Competition and Consumer Commission (ACCC) and Gas Market Reform Group (GMRG) on 19 February 2019 for comment by 12 March 2019.

In addition to the APPEA submission, a number of APPEA members have made individual submissions to the Consultation Paper.

The timeframe for comments on this paper, which raises a series of complex technical, commercial and legal questions is inappropriately short, given these issues have been under consideration by the ACCC and GMRG for some time. Such a short timeframe does little to engender faith in the consultation process.

That said, in the very brief period available for comments, APPEA's submission addresses specific aspects of the Consultation paper, focussing on those areas that are particularly important for the upstream oil and gas industry.

As requested in the Consultation paper, APPEA's comments are focused on the questions set out in the proposed Response Template.

## GENERAL COMMENTS

As APPEA has noted in response to numerous reviews and inquiries since at least 2014<sup>1</sup>, APPEA members and other gas producers have been reporting reserve and resource estimates (including, in many cases, 3P + 2C resources) to the Australian Securities Exchange and to various national and State/Territory regulatory and geoscience agencies for decades and these estimates are available publicly.

These reporting and publication arrangements are longstanding and underpinned by years of regulatory and reporting experience.

Reserve and resource estimates are also produced on a regular basis by consultants, such as Core Energy and EnergyQuest.

Rather than add a new and duplicative reporting arrangement, **APPEA again recommends the ACCC, GMRG and regulatory agencies work through the COAG Energy Council to put in place an appropriate data sharing arrangement to utilise the information that is already reported.**

To the extent this information is fragmented and inconsistent, responsibility for that outcome rests not with the industry but with the lack of coordination between relevant agencies. Making a serious effort to streamline reporting arrangements and to enhance coordination would be an appropriate first step to improving reporting arrangements and information provision. In many cases, it is the publication and availability of reported data that is fragmented and lacking coordination, rather than the reporting itself.

Once this work is completed, the resulting improved information could then be placed on the Gas Bulletin Board to provide a streamlined, coordinated and readily available 'one-stop shop' for those interested in reserve and resource information.

Following this, the industry would be happy to work with the COAG Energy Council on additional reporting that may serve to useful supplement the data that is already reported.

In this way, the availability of information to the market and to interested gas market participants and observers could be enhanced, meeting the aims articulated in the Consultation paper, while reducing the compliance, regulatory and reporting burden facing gas producers.

As they stand, the proposals in the Consultation paper will add to compliance and reporting and will in many cases directly and unnecessarily duplicate reporting arrangements and associated costs while proposing little additional information or in some cases inconsistent and confusing information to the market.

In addition, focussing solely on incremental costs is inappropriately narrow and inconsistent with good regulatory practice. The aim of this process should be to enhance information for relevant parties while reducing total costs for those providing the information.

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<sup>1</sup> For example, in submissions to the Australian Government in 2014, to the Australian Energy Market Commission in 2015 and to the ACCC in 2015.

**SPECIFIC COMMENTS**

APPEA's comments on each of the relevant questions posted in the Consultation paper are set out in [Attachment 1](#).

We would welcome the opportunity to discuss these comments with you. Please feel free to contact Mr Damian Dwyer on (02) 6267 0902 or at [ddwyer@appea.com.au](mailto:ddwyer@appea.com.au) if you have any queries.

Yours sincerely



Dr Malcolm Roberts  
**Chief Executive**

Copy to: Mr Stuart Richardson, Department of the Environment and Energy  
Dr James Johnson, Geoscience Australia



Framework for the consistent reporting of natural gas reserves and resources – Consultation Paper

**Attachment 1: Response template**

**Stakeholder name: Australian Petroleum Production & Exploration Association (APPEA)**

	Questions	Feedback
<b>Box 2.2 Questions on categories of reserves</b>		
1.	<p>Do you agree that producers should be required to report on their 1P, 2P and 3P reserves estimates?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p>Producers <u>already report</u> 1P and 2P reserves to the ASX and to a range of regulatory agencies across the Commonwealth and to various state regulatory agencies. These reporting arrangements are longstanding and underpinned by years and regulatory and reporting experience.</p> <p>Rather than add a new and duplicative reporting arrangement, APPEA again recommends the ACCC, GMRG and regulatory agencies work through the COAG Energy Council to put in place an appropriate data sharing arrangement to utilise the information that is already reported.</p> <p>As noted below, APPEA recommends reporting of 3P reserves remain optional, as it is under the ASX Listing Rules and in other jurisdictions. The 3P estimate represents the high side estimate that should over time converge with the 2P. This could introduce additional complexity to a lay investor who may not fully understand nor appreciate this aspect of reserves migration.</p>
2.	<p>Do you agree that producers should be required to break down their 1P, 2P and 3P reserves into developed and undeveloped reserves?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p>Producers should only be required to break down and report their 1P and 2P reserves into Proved Developed Producing (PDP) and Proved Undeveloped (PUD). Breakdown of 3P into developed and undeveloped reserves will significantly increase the reporting burden on many producers and in many cases is the basis and assumptions used to develop these estimates may not be consistent across companies.</p>
3.	<p>Should it be mandatory for producers to develop 3P reserves estimates, or should the reporting of this information be optional as it is under the ASX Listing Rules and in other jurisdictions?</p>	<p>As noted above, APPEA recommends reporting of 3P reserves remain optional, as it is under the ASX Listing Rules and in other jurisdictions. The 3P estimate represents the high side estimate that should over time converge with the 2P. This could introduce additional complexity to a lay investor who may not fully understand nor appreciate this aspect of reserves migration.</p>
<b>Box 2.3 Questions on categories of resources</b>		
4.	<p>Do you agree that 1C and 2C contingent resources should be reported?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p>APPEA recommends reporting of this information remain optional as it is under the ASX Listing Rules and in other jurisdictions. As contingent resources covers a broad spectrum of maturities, a high potential exists for misinterpretation by investors. In addition, some Producers report to the SEC, reporting uneconomic reserves is not allowed</p>



	Questions	Feedback
		and reporting of contingent resources and prospective resources are prohibited by the SEC.
5.	Do you think it should be mandatory for producers to develop 1C and 2C contingent resource estimates, or should the reporting of this information be optional as it is under the ASX Listing Rules and in other jurisdictions?	APPEA commends reporting of this information remain optional as it is under the ASX Listing Rules and in other jurisdictions. As contingent resources covers a broad spectrum of maturities, a high potential exists for misinterpretation by investors. In addition, some Producers report to the SEC, reporting uneconomic reserves is not allowed and reporting of contingent resources and prospective resources are prohibited by the SEC.
6.	Do you think any other resource categories (e.g. 3C contingent resources or prospective resources) should be reported? If so, please explain how you would use this information and the benefit it would provide.	Additional information (3C contingent resources or prospective resources) should not be reported by producer. Given the levels of uncertainty involved, such information could provide a misleading picture of the status of resource estimates, particularly if a range of important contextual background information cannot be included with the estimates.  Such information is best reported, <u>as is the case at the moment</u> , at a broader level through Geoscience Australia's <i>Australian Energy Resource Assessment</i> (AERA) <sup>1</sup> or through state regulatory/geological agencies.
<b>Box 2.4 Questions on gas field information</b>		
7.	Do you agree that information on the field's stage of development, the type of gas and the nature of the gas field should be reported? (a) If so, please explain how you would use this information and the benefit it would provide. (b) If not, please explain why.	Development status information is generally reported by companies in their annual reports, investor briefing materials and in reports to regulatory agencies. These additional disclosures will significantly increase the reporting burden on producers.
8.	Do you agree with the categories that have been proposed for the field's stage of development, the type of gas and/or the nature of the gas field? If not, please explain why and what alternatives you would suggest.	Disclosure around stage of development or nature of field will not provide any additional information to the market and will significantly increase the reporting burden on producers.
9.	Is there any other gas field information that you think should be reported? If so, please explain why you think this is consistent with the objectives of the reporting framework.	No additional information is required.
<b>Box 2.5 Questions on movement in 2P reserves</b>		
10.	Do you agree that annual movements in 2P reserves should be reported? (a) If so, please explain how you would use this information and the benefit it would provide. (b) If not, please explain why.	Yes. Tracking movements provides important information to the investor on the monetisation of gas reserves.

<sup>1</sup> As noted, this information is already available through AERA. See [aera.ga.gov.au/#!/gas](http://aera.ga.gov.au/#!/gas) for more information. If information provided through AERA is thought to be detailed enough, or prepared in a timely enough fashion, the opportunity exists for the Government, through Geoscience Australia, to improve the detail and timely of the information and analysis provided through AERA. A directly link to AERA can be provided through the GBB. This will avoid the need for costly and inappropriate duplication of effort.



	Questions	Feedback
11.	Do you agree with the categories that have been proposed for the breakdown of movements in 2P reserves? If not, please explain why.	Yes. These are consistent with the categories widely used for proved reserves.
12.	Do you think there would be value in also requiring producers to report on annual movements in 2C resources? (a) If so, please explain how you would use this information and the benefit it would provide. (b) If not, please explain why.	There would be little value in require reporting on annual movements in 2C resources. Given the levels of uncertainty around such estimates, such information could at best provide a meaningless and at worst a misleading picture of the status of these estimates. In addition, some producers report to the SEC - reporting uneconomic reserves is not allowed and reporting of contingent resources is prohibited by the SEC.
<b>Box 2.6 Questions on contracted 2P reserves</b>		
13.	Do you agree that if the ACCC and GMRG's recommendation on contracted 2P reserves is implemented that: (a) producers should be required to report the total quantity of 2P reserves that they are contracted to supply as total contract quantities under GSAs at a basin level? If not, please explain why. (b) AEMO should be required to further aggregate the information if there are less than three producers operating in the basin? If not, please explain why.	<p>No. These additional disclosures will significantly increase the reporting and compliance/reporting burden on producers.</p> <p>In addition, reporting the total quantity of 2P reserves that are contracted may be misleading to market participants because:</p> <ul style="list-style-type: none"> <li>• Many producers production is expected to extend well beyond the period when existing contracts expire. Thus when calculating uncontracted reserves, it will not be possible to determine the level each year as a large portion of the uncontracted reserves are far outside our contracting window.</li> <li>• In addition, the timing of the development of reserves can be variable. As fields are developed and the reserves are realised or not, producers adjust their development plans annually to match current contracts to actual production.</li> <li>• 2P reserves still have an amount of uncertainty so a producer is unlikely to commit to contracts equivalent to 100% of the 2P reserves to be produced each year.</li> <li>• Many producers have a large amount of infrastructure such that at any one time, a percentage will be down for planned/unplanned maintenance. This would require a producer to maintain a buffer of uncontracted production to provide certainty that all contractual commitments will be fulfilled.</li> </ul> <p>Many producers do not designate a supply basin for its contracts but utilises their entire portfolio to supply their customers.</p>
<b>Box 2.7 Questions on other information</b>		
14.	Is there any other information that you think should form part of the reporting framework? If so, please set out: (a) what the information is (b) how you would use the information and the benefit it would provide (c) why you think the inclusion of this information would be consistent with the objectives of the reporting framework.	No additional information is required.



	Questions	Feedback
<b>Box 2.8 Questions on reporting standard</b>		
15.	Do you agree that the PRMS classification system should be used in the proposed reporting framework? If not, please explain why.	Yes – PRMS is the appropriate classification system.
16.	Do you agree that the PRMS definitions set out in Box 2.1 should be used in the proposed reporting framework? If not, please explain why.	Yes – the PRMS definitions are the appropriate definitions to use. Note that in Box 2.1, the definition of 3C contingent resource is incorrect <i>“there should be at least a 10% probability the quantities actually recovered will equal or exceed the high estimate”</i> .
17.	Are there any other reporting standards or definitions that you think should be reflected in the reporting framework?	No – PRMS is the appropriate classification system.
<b>Box 2.9 Questions on quantities and analytical methods</b>		
18.	Do you agree that reserves and resources should be reported on the basis of sales quantities? If not, please explain why.	Yes in principle, but follow the PRMS guidance allowing amounts consumed in operations to be included and separately reported.
19.	Do you agree that reserves and resources should be reported on a net revenue basis? If not, please explain why.	
20.	Do you agree that producers should be required to disclose the analytical method they have used to estimate their reserves and resources? If not, please explain why.	This information is already generally reported by producers in their annual reporting.
<b>Box 2.10 Questions on reserves and resources reporting level</b>		
21.	Do you agree that the reserves and resources information set out in sections 2.2.1-2.2.4 should be reported at a field level? (a) If so, please explain how you would use this information and the benefit it would provide. (b) If not, please explain why and set out what reporting level you think should be adopted.	Should the reference here be to 2.3.1 – 2.3.4?  As many producers do not commit to contracts based on a specific field, having to report reserves/resources by field will dramatically increase the level of detail required and the cost to report. No other reporting framework requires this level of detail. APPEA believes that reporting similar to the ASX reporting requirements should be sufficient.
<b>Box 2.11 Questions on the frequency and timing of reporting</b>		
22.	Do you agree that the frequency of reporting should be annual? If not, please explain why.	Yes – information should be reported annually. Furthermore, reporting should be consistent with the producer’s annual financial reporting.
23.	Do you agree that producers should also be required to report on any material changes in reserves and resources estimates that occur within the year? (a) If so: i. do you think there should be any limitation on the requirement to report changes (for example, should the requirement be limited to changes in reserves and resources that are advised to the ASX and/or government agencies, or should it be limited to material changes in reserves and resources)?	Any material changes in reserves and resources estimates should be reported in line with reporting to the ASX and/government agencies.  Such reporting could be made available to the GBB through appropriate data sharing arrangements (as outlined above).



	Questions	Feedback
	<p>ii. do you think the threshold for material changes should be set at +/-10% or do you think another threshold would be more appropriate?</p> <p>(b) If not, please explain why.</p>	
24.	Do you think that all producers should be required to report their reserves and resources as at a fixed date? If not, please explain why and the option you believe should be employed.	No. Reporting should be consistent with a producer's annual financial reporting.
<b>Box 2.12 Questions on evaluation requirements</b>		
25.	Do you agree that reserve and resource estimates should be required to be prepared by, or under the supervision of, an independent qualified evaluator? If not, please explain why.	Reserve and resource estimates should continue to be prepared in line with longstanding industry practice, which is underpinned by decades of industry and regulatory experience.
26.	Do you think that any other evaluation requirements (e.g. a requirement to obtain an independent audit) should be implemented?	Reserve and resource estimates should continue to be prepared in line with longstanding industry practice, which is underpinned by decades of industry and regulatory experience.
<b>Box 2.13 Questions on compliance costs</b>		
27.	What incremental costs do producers expect to incur in complying with the reporting requirements proposed in sections 2.3 and 2.4?	<p>Please see responses from individual producers. APPEA notes these estimates run into many millions of dollars per producer per year.</p> <p>In addition, focussing solely on incremental costs is inappropriately narrow and inconsistent with good regulatory practice. The aim of this process should be to enhance information for relevant parties while <u>reducing</u> total costs for those providing the information.</p>
28.	Do you think there are any refinements that could be made to the proposed reporting requirements in sections 2.3 and 2.4 to further reduce compliance costs or the regulatory burden, whilst also ensuring the requirements are fit for purpose and achieves the objectives set out in section 1?	See answer to question 1.
<b>Box 3.1 Questions on the manner in which reserves are to be estimated</b>		
29.	Do you agree that producers should be required to estimate their reserves on the basis of forecast economic conditions? If not, please explain why.	
<b>Box 3.3 Questions on gas price assumptions to be used for uncontracted reserves</b>		
30.	<p>Do you think that:</p> <p>(a) Producers should be responsible for determining the forecast gas prices they will assume when estimating uncontracted reserves and required to disclose these assumptions (i.e. Option 2)?</p> <p>i. If so, please explain why.</p> <p>ii. If not, please explain why.</p> <p>(b) Producers should be required to use a mandated common gas price assumption when estimating uncontracted reserves (i.e. Option 1)?</p>	<p>(a) Producers should be responsible for determining their own forecasted prices for estimating uncontracted reserves and disclosing the assumptions. Because of differences in development costs, field location, and contractual terms, only producers should be able to determine their forecasted gas prices assumed when estimating uncontracted reserves. However, they should not be forced to disclose the discrete price forecast relating to their price assumptions. Having to disclose their discrete forecasted prices for uncontracted reserves would also not necessarily provide clarity to other market participants because of the historic volatility in gas</p>





	Questions	Feedback
	<ul style="list-style-type: none"> <li>i. If so, please explain why and set out:               <ul style="list-style-type: none"> <li>a. the benefits you think this would provide over the producer-determined assumptions?</li> <li>b. how you think the forecast common gas price assumption should be determined?</li> </ul> </li> <li>ii. If not, please explain why.</li> <li>(c) Producers should be responsible for determining the forecast gas prices they will assume when estimating uncontracted reserves and not required to disclose their assumptions (i.e. Option 3)?               <ul style="list-style-type: none"> <li>i. If so, please explain why and set out how do you think this option would address the concerns outlined in section 3.1?</li> <li>ii. If not, please explain why.</li> </ul> </li> </ul>	<p>prices in the short-term. Regardless of the price assumptions utilised, producers would still be subject to price volatility for uncontracted future production and the resulting reserve adjustments.</p> <p>(b) If producers were to use a common reference price, each producer would have to keep a separate reserve reports for the ACCC and have the additional justification of reconciling them to the other reserve reports which will only add to market confusion and producer's costs. This common price may not reflect that producers investment criteria (which PRMS requires) for development costs, or contractual options. Thus, these reserves will become contingent resources leading to very different reserve numbers not compliant to reporting required by other regulator agencies/jurisdictions. Contingent resources from this price set would drop out of the development plan and thus would not be considered reserves.</p> <p>(c) Option 3 would provide the least compliance costs to producers based on their forecasted expectations and would be compliant with PRMS, which dictates that producers use their own investment criteria to determined reserves. These investment criteria utilise the producer's price in determining their reserves.</p>
31.	<p>If Option 2 is implemented, do you think that the disclosure requirements in section 3.6 will impose sufficient discipline on producers, or do you think the gas price assumptions used by producers should be required to satisfy a test that would be overseen by the AER? If you think the gas price assumptions should be subject to a test, please set out:</p> <ul style="list-style-type: none"> <li>(a) what form you think the test should take and if the test should apply to the gas price assumptions or the method used to determine the gas price assumptions</li> <li>(b) how you think the test should be enforced by the AER (for example, should the AER have the power to require producers to re-estimate their reserves using an alternative price assumption).</li> </ul>	<p>No test is required. As noted in the consultation paper, there is no reason to assume the AER will be in a better position to assess the rigour of gas price estimates used by producers (who have significant direct commercial incentives to apply as high as possible level of rigour to any gas price estimate used to underpin reserve and resource estimates, estimates that underpin a range of commercial decision-making).</p> <p>Indeed, almost certainly the opposite is true. The AER does not possess the expertise required for such an activity. Developing or acquiring the required specialist expertise (assuming it could be developed or acquired) would not be a productive use of the AER's resources.</p>
<b>Box 3.4 Questions on gas price assumptions to be used for contracted reserves</b>		
32.	Do you agree that the gas price assumptions underpinning contracted reserves should be based on the prices specified in the relevant GSAs? If not, please explain why.	Yes.
33.	Do you agree with the ACCC's proposal to allow producers to account for the operation of:	(a) and (b) Yes on the proviso that the GSA specifies the escalation mechanism and there is reasonable certainty in the same terms being applied to an extension (some GSAs have auto extension clauses that apply the same terms).



	Questions	Feedback
	<p>(a) price escalation mechanisms when determining the prices to apply under the relevant GSAs over the forecast period? If not, please explain why.</p> <p>(b) contract extension provisions if the GSAs are likely to be extended and the prices (or pricing mechanisms) to apply in this period have already been determined? If not, please explain why.</p>	
<b>Box 3.5 Questions on the disclosure requirements for gas price assumptions</b>		
34.	<p>Do you agree that producers should be required to disclose the following information when reporting their reserves estimates?</p> <p>(a) The gas price range within which there would be no material change in the 2P reserves estimates, which is to be reported at a basin level for each of the following five years and generally for subsequent periods (with the range to be based on the price assumptions used to estimate uncontracted reserves).</p> <p>(b) The sensitivity of the 2P reserves estimates to a +/-10% change in the gas price range reported under (a).</p> <p>(c) A description of the method used to determine the gas price range and any other assumptions that have been made when determining the price range.</p> <p>(d) An explanation of any changes that have been made to the gas price assumptions from the previous year and why the changes were made.</p> <p>If not, please explain why.</p>	<p>No. These additional disclosures will significantly increase the reporting burden on producers and may result in competitive harm.</p>
35.	<p>Do you agree with the proposal to require producers to report the gas price range:</p> <p>(a) for each year over a five-year period and generally thereafter? If not, please explain why.</p> <p>(b) for uncontracted reserves only? If not, please explain why.</p> <p>(c) at a basin level? If not, please explain why.</p>	<p>No. These additional disclosures will significantly increase the reporting burden on Producers.</p>
36.	<p>If producers are required to report the gas price range within which there would be no material change in 2P reserves, what materiality threshold do you think should be adopted for this purpose and why?</p>	<p>APPEA does not support disclosing the gas price range impacting 2P reserves. These additional disclosures will significantly increase the reporting burden on producers.</p>
37.	<p>Do you agree that the threshold for measuring the sensitivity of the reserves estimates should be 10%? If not, please explain why and what alternative threshold you think should be applied.</p>	<p>APPEA does not support disclosing the gas price range impacting 2P reserves. These additional disclosures will significantly increase the reporting burden on Producers. Suggest that a threshold of 15% be used since 10% may represent the limit of accuracy for estimates.</p>



	Questions	Feedback
38.	Is there any other information that you think should be disclosed about the gas price assumptions? If so, please explain what the information is and why it is required to meet the objectives set out in section 1.	No.
<b>Box 3.6 Questions on compliance costs</b>		
39.	What incremental costs do producers expect to incur in complying with the proposed reporting requirements set out in sections 3.4-3.6?	<p>Please see responses from individual producers. APPEA notes these estimates run into many millions of dollars per producer per year.</p> <p>In addition, focussing solely on incremental costs is inappropriately narrow and inconsistent with good regulatory practice. The aim of this process should be to enhance information for relevant parties while <u>reducing</u> total costs for those providing the information.</p>
40.	Do you think there are any refinements that could be made to the proposed reporting requirements in sections 3.4-3.6 to further reduce compliance costs or the regulatory burden, whilst also ensuring they are fit for purpose and achieves the objectives set out in section 1?	<p>As noted in the answer to question 1, producers <u>already report</u> 1P and 2P reserves to the ASX and to a range of regulatory agencies across the Commonwealth and to various state regulatory agencies. These reporting arrangements are longstanding and underpinned by years and regulatory and reporting experience.</p> <p>Rather than add a new and duplicative reporting arrangement, APPEA again (a recommendation APPEA has been making since 2014) recommends the ACCC, GMRG and regulatory agencies work through the COAG Energy Council develop and agree an appropriate inter-agency data sharing arrangement to utilise the information that is <u>already reported</u>. This would be key way to minimise or even reduce, rather than add to or duplicate, the significant regulatory burden that would be imposed by the ACCC-GMRG proposals.</p>