



Queensland

# **Petroleum and Gas (Production and Safety) Amendment Regulation (No. 1) 2013**

**Regulatory Impact Statement for SL 2013 No. 195**

made under the

*Petroleum and Gas (Production and Safety) Act 2004*

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# Petroleum and Gas Safety and Health Fee Decision Regulatory Impact Statement

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## Executive summary


The Queensland Government is committed to adopting best practice regulatory principles and to ensuring regulation is developed in a rigorous and transparent manner. To help achieve this, a regulatory impact statement (RIS) is required for all proposals that may have significant impacts upon business, community and government. The purpose of this Decision RIS is to recommend amendments to the regulations for the Petroleum and Gas Safety and Health Fee (P&G Safety and Health Fee) following a Consultation RIS where proposed amendments were explored and made available to stakeholders for feedback and consultation.

In 2010 there was a revision of the way the Petroleum and Gas Inspectorate (the Inspectorate) recovered its costs from industry. The unprecedented growth in the size and complexity of Queensland's onshore petroleum industry required the regulator to extend its regulatory operation to keep pace. A full cost recovery model, called the P&G Safety and Health Fee, was introduced on 30 June 2010 with new fees applying from 1 October 2010. A condition of its introduction was the commencement of a post implementation review (PIR) within two years.

A discussion paper was circulated to stakeholders in early 2012 to allow industry to provide preliminary comment on whether there were any unintended overlaps in the fees, whether the fee system covered all industry sectors effectively and whether the fees could be more efficiently applied or administered.

Subsequently a Consultation RIS was released on 23 May 2013 for public comment. This Consultation RIS proposed changes to the fee system to address stakeholder feedback from the discussion paper. As a result of analysis of feedback, it is recommended to further amend the fee system as follows.

1. Remove the requirement for industry to provide quarterly returns setting out their liability for the fee and replacing it with a requirement to report annually in order to reduce the administrative burden on business and government.
2. Amend the reporting requirements for several fee categories to better reflect the purpose of gathering the information and to reduce administrative burden on business and government.
3. Amend certain fee related provisions of the Petroleum and Gas (Production and Safety Regulation) 2004 (P&G Regulation) in order to make it easier to understand.
4. Amend several of the fee categories in regard to the quantum of the fee or the units upon which it is based. This will clarify how the fee is calculated, from those segments of the industry, in proportion to the level of regulatory intervention required.
5. Introducing a capping mechanism on several fee categories to control the costs of what will be growing industry sectors.

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6. Abolish a fee category (Category 9: LPG delivery network that is an operating plant, if *Petroleum and Gas (Production and Safety) Act 2004* (P&G Act), s. 675A(1), applies) to reduce administration costs to industry and government. This fee affects numerous small businesses operating liquefied petroleum gas (LPG) delivery networks who collect, transport and fill gas containers (refer to P&G Regulation, Chapter 1, Part 3).

It is intended that the proposed fee changes will be effective from the October 2013 invoicing period. The P&G Safety and Health Fee will be reviewed regularly to ensure it is equitable and the fee is limited to recovery of the costs of the Inspectorate.





# 1. Issues statement

## 1.1 Background

The Inspectorate provides regulatory services to the petroleum and gas industry. The Inspectorate undertakes compliance audits, inspections and investigations of safety and health matters in the petroleum and gas industry including exploration and production, petroleum pipelines, distribution, automotive LPG, gas users and licensing for the installation and servicing of domestic, commercial and industrial gas devices. The P&G Safety and Health Fee collected, is used to fund the services provided by the Inspectorate.

The Queensland petroleum and gas industry has long been required to pay fees related to its legislative safety and health obligations and the associated compliance services. Initially, the Inspectorate was funded from those who sell, supply, use and consume gas via a fee levied under s. 10B of the *Gas (Residual Provisions) Act 1965*. From 1 January 2005 until October 2010 the functions of the Inspectorate were substantially funded by the Audit and Inspection Fee established under the *Petroleum and Gas (Production and Safety) Act 2004* (P&G Act) and the P&G Regulation.

The Audit and Inspection Fee structure was reviewed again in 2009–10. This review was triggered by unprecedented growth in the size and complexity of the onshore industry activity. The main objective was to re-evaluate the adequacy and appropriateness of current resources to effectively regulate a rapidly expanding industry. In January 2010 there were just 15 Petroleum and Gas inspectors in Queensland who were being supported by six licensing and administrative staff.

For the financial year 2009–10 an understaffed Inspectorate incurred costs of \$3.3 million and the Audit and Inspection Fee was only able to provide \$2.5 million. The fee system had to be substantially amended to increase the revenue base for the Inspectorate to adequately continue its regulatory role. The P&G Act and Regulation were amended to replace the Audit and Inspection Fee with a full cost recovery model, called the P&G Safety and Health Fee.

This new fee model sought to recoup from industry all of the funds needed to employ new inspectors, up-skill existing inspectors, and effectively administer the activities of the Inspectorate (including meeting all overhead costs). The new fee system was directed at all organisations with petroleum and gas operating plant requiring a safety management plan under Chapter 9 of the P&G Act. It was divided into 15 categories in line with the major areas of the industry where there are particular safety risks that need to be addressed through the development of a safety management plan.

The amending legislation (the *Petroleum and Gas (Production and Safety) Amendment Regulation (No. 2) 2010*) was enacted on 30 June 2010, and the new fees applied from 1 October 2010. Table 1 shows a brief description of the

15 categories of fee and details for each category are outlined in section 3.2 of this document.

**Table 1:** Categories of the P&G Safety and Health Fee

Category		Persons liable for the fee
1	Drilling wells	Operators of plant used to drill the well
2	Well completion or maintenance work	Operators of work-over rigs
3	Exploration	Principal exploration tenure holders
4	Producing petroleum under a petroleum lease	Principal production lease holders
5	Petroleum facilities (seven types)	Operators of petroleum facilities
6	Greenhouse gas (GHG) storage projects	Operators of GHG storage facilities
7	Pipelines	Operators of pipelines
8	Operating a distribution system	Operators of a system that distributes fuel gas
9	Operating LPG delivery network plant, if P&G Act, s. 675A(1) applies	Operators of a network to which s.675A(1) of the P&G Act and other conditions apply
10	Operating other LPG delivery network plant	Operators of a network to which s.675A(1) of the P&G Act does not apply
11	Product supplier of automotive LPG	Persons who supply LPG to the owner or operator of an automotive LPG site on any commercial basis
12	Tanker delivery carrier	Persons (other than those in Category 11) who deliver in bulk automotive LPG by tanker
13	Major gas consumers	Operators of a site where gas devices have a total gas capacity of 50 gigajoules per hour or more
14	Biogas or gas derived from a waste disposal tip or during sewage treatment	Operators of a facility that produces, processes or uses the gas
15	Entertainment events	Operators of a gas system used for special effects for entertainment or amusement purposes

## 1.2 The role of the Petroleum and Gas Inspectorate

The petroleum and gas industry is generally a high risk specialist working environment that requires the services of an expert inspectoral service. Queensland has had its share of serious incidents as demonstrated by the following examples.

In 1987 twenty-five people were injured, five of them seriously, and hundreds evacuated when an explosion rocked the Cairns Gasworks. One person died as a result of their injuries. The explosion smashed windows in adjacent buildings. The Cairns incident was a boiling liquid expanding vapor explosion (BLEVE). More recently there were two fatalities in the upstream sector in 2009–10 from two separate incidents. These incidents required extensive investigation by the Inspectorate and were also the subject of Coroner’s inquests.

Major safety incidents in Victoria (1998 at Longford Gas Plant) and in Western Australia (2008 at Varanus Island Gas Plant) further demonstrate the potential dangers involved and the economic consequences of loss of major sources of energy supply.

Table 2 shows the number of accidents / incidents and injuries as well as details on investigations of these incidents since 2008–09. All of these incidents were associated with one or more of the following safety issues:

- leaks resulting in explosions and fires, causing fatalities, injuries and damage to property
- uncontrolled release of high pressure gas from cylinders causing considerable damage and injuries
- injuries, including loss of limbs and severe hand and feet injuries, caused by rotating machinery and the lifting of heavy equipment in the drilling sector
- asphyxiation and poisoning caused by the use of faulty appliances in enclosed spaces
- incidents associated with the use of gas appliances by members of the public with little or no knowledge of LPG and other petroleum products
- incidents associated with an influx of unapproved appliances from other countries.

**Table 2:** The Inspectorate's compliance services data

Performance measure	2008–09	2009–10	2010–11	2011–12	2012-13
Number of accidents / incidents	616	525	588	528	577
Number of injuries	121	63	49	53	80
Number of fatalities	0	1	0	0	1
Staff days on investigations	480	745	624	452	600
Number of audits and inspections	2164	2730	3605	3494	2707
Staff days on audits and inspections	940	793.5	1126	1144	879

In addition to these overall compliance challenges, there has also been an increase in community concerns regarding the safety of coal seam gas (CSG) wells. As a result a Well Head Safety Program was undertaken during 2010 to investigate potential leaks from CSG wells. The program involved inspections of 2719 wells. It identified five leaks where a flammable environment existed and action was promptly taken to fix these affected wells. A further 29 leaks were identified below the flammable limit, but above a level where best practice dictates that action should be taken. All of these leaks were repaired, and the full report can be found on the Department of Natural Resources and Mines (DNRM) website [www.dnrm.qld.gov.au](http://www.dnrm.qld.gov.au).

The amount collected from the P&G Safety and Health Fee for the 2012–13 financial year was \$6.2 million as shown in Table 3. Seventy per cent of the total revenue was used primarily to fund employee costs. To cover the costs for the 2013–14 financial

year, the forecasted revenue required to fully fund the Inspectorate is around \$7.1 million. This approximate \$880 000 increase in revenue from the 2012–13 financial year will provide a full cost-recovery fee framework that will enable an optimum level of regulatory services for the petroleum and gas industry sectors.

**Table 3:** Petroleum and Gas Safety and Health Fee, 1 July 2012 to 30 June 2013 financial estimates

Income	Amount	Expenses	Amount
Administered Revenue	\$6 215 000	Employee expenses	\$4 230 000
Total Income	\$6 215 000	Supplies and services	\$1 975 000
		Grants and subsidies	\$5000
		Depreciation and amortisation	\$5000
		Total expenses	\$6 215 000

## 2. Policy objectives

The current framework for the categories of fees was implemented on the condition a PIR had commenced by October 2012. As part of the PIR stakeholders were consulted and an analysis of their feedback resulted in proposed changes to make the fee more equitable, efficient and with less burdensome reporting requirements on industry. The proposed changes are detailed in the Consultation RIS and are listed in section 3 of this document.

### 2.1 Implement full cost recovery fees

The policy objective for implementing the P&G Safety and Health Fee is to recover costs of the activities of the Inspectorate in a way that keeps pace with the growth in the petroleum and gas industry. From 2005 the industry was paying the Audit and Inspection Fee designed to cover the operating costs of the Inspectorate. However, it was not able to provide increased revenue in line with relevant industry growth. For example, between the financial periods 2005–06 to 2008–09 the amount of well drilling increased from 457 kilometres to 816 kilometres a year but the fees paid by the drilling sector remained fixed at \$146 000. Similarly, in the same period, petroleum producers paid a fixed fee of \$219 000 despite substantial increases in production. In addition, growth in other sectors (such as underground coal gasification (UCG), compressed natural gas and biogas) within the industry increased the workload for the Inspectorate.

These issues, coupled with the inability of the Inspectorate to adequately service the industry within its allocated budget, supported the case for the implementation of a full cost recovery model. The new fee model ensures the fee base and revenue increase in proportion to industry growth (see section 3.2 for fee details). As a result of the new fee, the Inspectorate now has 28 inspectors (field staff) and seven support staff.

At present, the P&G Safety and Health Fee is the primary funding source for the Inspectorate. The funding model has achieved its policy objective, linking expansion

of industry to the Inspectorate's revenue base, achieving full cost recovery through fees.

## **2.2 Improve fairness and reduce administrative burden**

As demonstrated above, it is clear the P&G Safety and Health Fee, in the two and a half years since it commenced, has achieved the policy objective of providing adequate funding for the Inspectorate. As part of the PIR, consultation with stakeholders regarding the fee system was undertaken in 2012 to address the following three questions.

1. Are the categories of fee proportionate to the level of regulatory intervention required by the Inspectorate?
2. Is the quantum of fees payable by each category equitable?
3. Is the administrative burden that is created by the imposition of these fees reasonable?

The consultation considered the degree of liability of the fee system on industry and the effectiveness in administering the new model by government since commencement in 2010.

The outcome of this consultation was to propose minor amendments to the existing fee system through a Consultation RIS. These amendments addressed concerns raised; ensuring an ongoing, proportionate and reasonable cost-recovery fee system that relates to the services provided and the revenue needed to fund the Inspectorate. The impact of both the initial introduction of the fee and the amendments are discussed in section 4.

## **3. Options**

The cost recovery system in place, prior to the commencement of the P&G Safety and Health Fee in 2010, did not increase in proportion to industry growth and did not include a number of industry sectors that are high risk working environments requiring specialist services by the Inspectorate.

The 2010 cost-recovery regime was introduced on the condition a PIR be commenced within two years of implementation of the P&G Safety and Health Fee. The 2012 consultation with stakeholders revealed that certain amendments to the fee structure are needed. The options available are to:

- a. keep status quo
- b. cease full cost recovery and seek an allocation from Treasury to fund the Inspectorate  
or
- c. review and amend the P&G Safety and Health Fee based on an analysis of stakeholder feedback.

DNRM prefers Option c as it is the most cost-effective, provides an opportunity to improve the administration of the fee system and decreases regulatory burden for both industry and government, while ensuring a system to fully funding the Inspectorate's services.

The 2012 consultation focused on issues raised since the P&G Safety and Health Fee system was introduced in 2010. Initial proposed changes to the P&G Regulation discussed in the Consultation RIS are detailed in the following sections and have been supported with information gathered during the 2012 consultation.

### **3.1 Initial general proposals**

#### **3.1.1 Structure of legislation**

Sections 135(2) and 139(2) of the P&G Regulation will be restructured so that the categories align with the category listing in Schedule 9 of the P&G Regulation.

#### **3.1.2 Definition**

Section 135 of the P&G Regulation identifies who is liable to pay a P&G Safety and Health Fee. Currently, this referenced the person liable for the fee, and is supported by the identification of the 'operator' of each category of operating plant being a single person. The definition under the P&G Act makes it clear that the operator is an individual, which is consistent with the aim of identifying who is responsible for safety and health under the P&G Act.

In contrast, it is neither necessary nor appropriate to make an individual operator liable for payment of the P&G Safety and Health Fee. Therefore, the regulation will be amended to make it the responsibility of the 'operating entity'. The policy intention is to make the organisation managing the safety operations of the operating plant liable for the fee and not an individual.

#### **3.1.3 Reporting**

The P&G Safety and Health Fee is charged on an annual basis and companies liable for payment of the fee have advised the requirement to lodge a quarterly P&G Safety and Health Fee return poses an unnecessary administrative burden. Industry has suggested the returns could also be provided annually without any loss of required information.

To further reduce the administrative burden, specific reporting requirements will be amended for several of the fee categories to better reflect the purpose of gathering the information. These changes are set out for the relevant categories in section 3.2. Overall this amendment will significantly reduce the administrative burden on business and government.

Further, a proposal is being developed to audit the P&G Safety and Health Fee. The audit proposal will include objectives such as examining the efficiency and effectiveness of the application of the fee, identifying processes that require



improvement, assessing and verifying compliance with reporting requirements, identifying reporting inaccuracies and discrepancies. The audit function cost is included in the estimates in this document.

## **3.2 Initial category specific proposals**

### **3.2.1 Category 1: Drilling wells**

The operating entity for operating plant used to drill a prescribed well, geothermal well, greenhouse gas (GHG) well or UCG well will be liable for the Category 1 fee. A prescribed well includes any well authorised under the P&G Act (including CSG wells) and any well authorised under the *Petroleum Act 1923*. For this category the liable entity must advise the number of kilometres drilled for each well.

The fee method for this category will continue to be a charge for each kilometre drilled (see Table 4 for current, projected and proposed fees).

At this time no compelling reason to change the method for setting this category of fee has been identified. While it was suggested that the holder of the petroleum authority (Authority to Prospect or Petroleum Lease) could be made liable for the fee, this would be inconsistent with the principle of charging the fee to the entity associated with the development of a safety management plan for operating the operating plant.

### **3.2.2 Category 2: Well completion or maintenance work**

The operating entity for a work-over rig that performs well completion or maintenance work for any prescribed well, geothermal well, GHG well or UCG well will be liable for the Category 2 fee.

The fee method for this category will continue to be a charge for each well for which completion or maintenance work was done during the year (see Table 4 for current, projected and proposed fees).

At this time no compelling reason to change the method for setting this category of fee has been identified. While it was suggested that a lower fee could apply for well completion other than for well maintenance work, the levels of risk are not substantially different and a similar safety management plan needs to be in place for both types of activity. Also, any limited benefit of improved equity from basing the fee on the type of operation conducted would be outweighed by the increase in administrative burden for both operators and the government through the creation of further fee subcategories.

### **3.2.3 Category 3: Exploration**

The operating entity for an authority to prospect, a geothermal exploration permit or a GHG permit will be liable for the Category 3 fee.

The fee method is currently a charge for each square kilometre to which the authority or permit applies (see Table 4 for current, projected and proposed fees). It is

suggested the fee should be based on the number of sub-blocks for consistency and to make reporting and calculating fee liability easier.

This current use of square kilometres to calculate the fee is problematic because authorities or permits are based on the number of sub-blocks held and sub-blocks consist of fractions of a square kilometre. The total area under exploration is calculated based on the number of sub-blocks held. To calculate the P&G Safety and Health Fee involves further administration work to calculate square kilometres. The sub-block is also the basis for all other required reporting relating to tenure management.

An alternative suggestion is that the fee is charged as a proportion of the estimated cost of exploration activity reported as required under s. 48(1)(b)(iii) of the P&G Act. While this second option might more closely link the fee to the level of activity that poses a potential health and safety risk, it was rejected because it would make the calculation more complex and increase the administrative burden for both industry and the government.

The basis for charging the Category 3 fee will be amended to be based on the number of sub-blocks of tenure held in order to reduce the administrative burden. The fee will be amended from \$0.69 square kilometres to \$2.07 for each sub-block of the authority or permit to ensure the fees charged for a given tenure will remain approximately the same. This fee calculation is based on the sub-block size of 2.998 square kilometres, and rounded down to achieve a revenue equivalent to the current fee value that is based on square kilometres.

### **3.2.4 Category 4: Producing petroleum under a petroleum lease or 1923 Act lease**

The principal holder of a petroleum lease under the P&G Act or a lease under the *Petroleum Act 1923* was liable for the Category 4 fee, and that holder was required to report the total amount of petroleum produced in terajoules (TJ) for all leases. The fee method is currently a charge for each TJ of petroleum produced (see Table 4 for current, projected and proposed fees).

It is proposed that charging the tenure holder on the basis of production levels rather than the well operator on the basis of the operating plant is inconsistent with this fee model. This amendment will be consistent to the policy intention for the fee system that the well is the operating plant for which a safety management plan has to be in place.

Therefore, as discussed in section 3.1.2 the operating entity for the petroleum or gas well will become liable for the payment of the fee. The fee would be based on the number of wells that are producing petroleum at \$1318 per well (based on a figure of



1960 wells<sup>1</sup>), irrespective of the amount of petroleum that is produced by each well. A draft definition of 'producing well' has been drawn up for consultation.

"A 'producing well' is a well drilled under the *Petroleum Act 1923* and petroleum well drilled under the *Petroleum and Gas (Production and Safety) Act 2004* (P&G Act). Also, it may only be a well or petroleum well (well) that is within the area of a petroleum lease administered under the *Petroleum Act 1923* or the P&G Act.

Also, petroleum must be continuously produced from the well. However, a well is still a producing well if the production of petroleum from the well is stopped so that:

- an operation may be carried out on the well and
- after the operation, production of petroleum is resumed."

It is predicted that the CSG-LNG industry will be responsible for the greatest proportion of operating petroleum wells in Queensland in the coming years. However, that industry is likely to involve only a small number of large companies due to the scale of investment that is required to access the LNG export market. A mechanism will be developed to cap the fees applying to those companies to ensure they are not being charged an unreasonable amount. The policy intention is to cap the amount of funding derived from this cost recovery regime to be at a level that supports an Inspectorate for the regulation of safety; with a particular emphasis on those segments of the industry where the hazards and potential harm to persons and property are greatest.

At this time it is difficult to predict the future size and composition of the industry accurately over the long term. What is clear is that the CSG-LNG industry will be significant and it will have to be a major compliance focus for the Inspectorate. A cap on Category 4 may be necessary to ensure that the costs recovered are equal to the budget for Petroleum and Gas safety regulation. Consideration will be given to the development of a mechanism to cap the fee following feedback from industry on the changes to this category.

The P&G Safety and Health Fee payable for a financial year by each operating entity producing petroleum will be \$1318 for a producing well (that is a CSG or conventional well). The basis for setting the Category 4 fee is further discussed in section 4.1.4.

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<sup>1</sup> sourced from six monthly reports released by the Geological Survey of Queensland [www.mines.industry.qld.gov.au/mining/production-reserves-statistics.htm](http://www.mines.industry.qld.gov.au/mining/production-reserves-statistics.htm)

### 3.2.5 Category 5: Petroleum facilities

The operator for a petroleum facility will be liable for the Category 5 fee, with the amount of the fee dependent on the type of facility involved. If more than one facility is operated at the same site, then the operator pays only one fee, being the highest of the fees that are due to be paid.

The fees that currently apply to the following classes of petroleum facility are:

- (a) for the operation of a major processing facility (i.e. one that processes more than 2000 million cubic metres of petroleum during a financial year) – \$10 660
- (b) for the operation of a facility that produces syngas – \$5330
- (c) for the operation of a facility that produces LPG from petroleum – \$7995
- (d) for the operation of a facility that produces LNG and is not a major hazard facility under the Work Health and safety Regulation 2011 and must operate under a safety management plan – \$7995
- (e) for the operation of a facility that produces CNG and must operate under a safety management plan – \$3731
- (f) for the operation of a facility that produces an underground gasification product – \$10 660
- (g) for the operation of a petroleum facility on an area to which a petroleum facility licence applies that is not included in paragraphs (a) to (f) – \$10 660.

Concerns were raised that the one company currently subject to subcategory (g) was paying too high a fee because it is the same as that applying to a major processing facility and this did not reflect their relative impact on the Inspectorate. The option of reducing the category (g) fee was not supported as it is intended this category will cover one-off types of facility that could have a disproportionate impact on the Inspectorate. Instead facility type (b) will be expanded to cover the range of current processes for producing synthesised petroleum products as these have a similar compliance cost for the Inspectorate. All other facility types will remain unchanged (for a list of current, projected and proposed fees, see Table 4).

Stakeholders have suggested that the reporting requirements associated with this category of fee are unclear. Section 139(2)(c) of the P&G Regulation required the amount of petroleum processed to be reported, but there was no clear obligation to report on the number and type of facilities that were being operated on the one site. This will be amended to require the amount of petroleum processed by **each** petroleum facility that was operated during the year to be reported. This will clarify the obligation to specify which subcategory of fee applies if more than one facility is operated at the same site.

### 3.2.6 Category 6: Facility used to carry out GHG storage activity

The liable entity for a GHG project will be liable for the Category 6 fee. A GHG project is a group of facilities used to carry out GHG injection activities that are located in the same geographic area and operated under a single safety management plan. This includes all wells and associated storage and injection

equipment used to carry out injection of a GHG stream into the same or associated reservoirs that are part of one project.

At this time no compelling reason to change the method for setting this category of fee has been identified (see Table 4 for current, projected and proposed fees).

### **3.2.7 Category 7: Pipelines**

The liable entity for a pipeline under a pipeline licence, the operating entity for a GHG stream pipeline under the *Greenhouse Gas Storage Act 2009* or the liable entity for a distribution pipeline that is not part of a distribution system will be liable for the Category 7 fee. A pipeline that distributes fuel gas (being LPG, or processed natural gas) is covered by Category 8. The fee will be applicable as soon as the pipeline is commissioned (that is, once hydrostatic testing commences) and remain until the pipeline is decommissioned (that is, gas free and purged).

The fee method for this category will continue to be a charge for each pipeline index (PI) (see Table 4 for current, projected and proposed fees) for the pipeline, where PI is a function of the diameter and length of the pipeline, calculated by using the following formula:  $PI = L \times D^2$

Where –

**L** means the length (kilometres) of the pipeline.

**D** means the diameter (millimetres) of the pipeline.

A stakeholder sought exclusion of looped sections of pipelines from the formula on which the fee is based. It was decided to retain the current formula as it is an accurate and simple measure of the length of the pipeline asset used to transport gas which includes looped sections.

However, regulation will be amended to clarify that the fee does not have to be paid on an uncommissioned (that is, being constructed) or decommissioned pipeline, or in a year when no gas is being transported.

### **3.2.8 Category 8: Operating a distribution system**

The liable entity for a fuel gas distribution system as defined under the P&G Act, which includes LPG reticulation networks supplying to more than one customer, will be liable for the Category 8 fee.

The fee method for this category will continue to be a charge for each kilometre of pipeline in the distribution system that was used to distribute fuel gas, or was commissioned, during the year (see Table 4 for current, projected and proposed fees).

At this time no compelling reason to change the method for setting this category of fee has been identified. Suggestions regarding looping were addressed as per above

Category 7. The regulation will however be amended to clarify that the fee does not have to be paid on an uncommissioned (that is, being constructed) or decommissioned pipeline (that is, gas free and purged), or in a year when no gas is being distributed.

### **3.2.9 Category 9: Operating LPG delivery network plant, if Act, 675A(1) applies**

To be liable for the Category 9 fee a person has to:

- 1) Operate an LPG delivery network that is an operating plant; and
- 2) Store, fill or deliver cylinders supplying the network that have (i) a water capacity of more than 30 litres; or (ii) a total capacity of the cylinders stored for the network of more than 5000 litres but no more than 12 000 litres; and
- 3) Adopt the generic safety management plan 'the LPG Australia Safety management plan for Gas Supply and Cylinder Distribution Business', revision 1 July 2007, produced by the Australian Liquefied Petroleum Gas Association Ltd.

The fee is currently \$479.70 for each LPG delivery network (see Table 4 for current, projected and proposed fees).

There has been a strong opinion expressed by industry that the Category 9 fee should be removed or replaced. The rationale for creating this category in 2010 was that the businesses involved were often found to be non-compliant when inspected, and therefore significantly impacted the resources of the Inspectorate. It seemed appropriate that these businesses should contribute towards meeting these costs. However, for the 2012-13 year the Category 9 fees accounted for a little over \$18 000 of revenue raised and the annual cost associated with administering this fee is significantly more than this.

It is considered that the most cost effective approach is to absorb the Inspectorate's costs associated with this category. Therefore this category of fee is being removed.

### **3.2.10 Category 10: LPG delivery network that is an operating plant**

This category includes LPG delivery networks where s. 675A(1) of the P&G Act does not apply. The fee method and will continue to be a charge on the container index (CI) (see Table 4 for current, projected and proposed fees). The application of minimum and maximum fees payable will remain at \$3731 and \$533 025 respectively. The index is calculated using the following formula:

$$CI = D/40 + (E \times 2) + (G \times 5) + (H \times 25)$$

Where – *D* is the number of fuel gas containers with a capacity less than 50 litres.

*E* is the number of fuel gas containers 50 litres or more but less than one kilolitre.

**G** is the number of fuel gas containers one kilolitre or more but less than eight kilolitres.

**H** is the number of fuel gas containers with a capacity of eight kilolitres or more.

Currently the P&G Regulation requirement for Category 10 is for *owners* of fuel gas containers (s. 139(2)(f) and part 8 of schedule 9). It is proposed that the liable person for this category will be the entity operating the LPG delivery network that *utilised* rather than, *owned* the fuel gas containers. This will remove possible duplication of liability and place responsibility on the operator of the network.

Stakeholder feedback has suggested that identifying who is liable for the fee does not correspond to the current reporting requirements by liable entities in legislation. Currently the operator is liable for the category 10 fee when s. 675A(1) of the P&G Act does not apply. Therefore, to provide clarity in administering Category 10 fee, it is proposed to amend s. 135(2)(h) of the P&G Regulation to make the entity liable for Category 10 fee when the liable entity utilises (rather than owns) more than the prescribed maximum capacity any time during a reporting period, that is, for s. 675A(2) to apply.

### **3.2.11 Category 11: Product supplier of automotive LPG**

A product supplier of automotive LPG is liable for the Category 11 fee. This will apply to any liable entity that sells, or otherwise supplies on a commercial basis, automotive LPG to the owner or operator of an automotive LPG site.

The fee method will continue to be a charge for each time the product supplier supplied automotive LPG to an automotive LPG site during the year (see Table 4 for current, projected and proposed fees).

A product supplier has a key and specific obligation for safety management systems for automotive sites under the *LPGA Automotive Code of Practice* which is called up by s. 88D of the P&G Regulation. The reporting requirement is to report on the number of deliveries made to an automotive LPG site to calculate the liability for the fee. Category 11 fee will remain unchanged.

### **3.2.12 Category 12: Tanker delivery carrier**

A tanker delivery carrier other than a product supplier of automotive LPG, is an operating entity that delivers by tanker automotive LPG in bulk to an automotive LPG site. Such entities will be liable for the Category 12 fee. An operating entity transporting products to their own automotive LPG sites is not liable for the fee as they fall within Category 11. The purpose of this category is to capture third party delivery providers, who do not own the petroleum product that is being delivered.

The fee method will continue to be a charge for each site the tanker delivery carrier delivered to (see Table 4 for current, projected and proposed fees).

There are currently only a small number of companies who pay a relatively small fee that is commensurate with the extent of regulatory intervention required. At this time no compelling reason to change the method for setting this category of fee has been identified.

The current requirements to report the number of deliveries and the volume delivered are not needed to calculate the liability for the fee and are therefore proposed be removed from the P&G Regulation (s. 139(2)(h)(i) and (ii)). This will remove an administration burden on the industry in unnecessary reporting.

### **3.2.13 Category 13: Major gas consumers**

The operator of a site where the gas devices at the site have a total gas capacity of 50GJ/hr or more and gas has been consumed by one or more of the devices in the year will be liable for the category 13 fee.

It was suggested through the review that the cost recovery model had resulted in a financial burden on larger gas consumers that was disproportionate compared to other downstream users. The percentage of the total fees that these major consumers were paying remained about the same, while the upstream sector was generally contributing a larger proportion of the total fees. This meant that other downstream operators were paying proportionately less than major gas consumers. To adjust for this difference the fees for the three categories of major consumers will each be reduced by approximately 25 per cent (see Table 4 for current, projected and proposed fees).

The fee levels will be as follows:

- (a) For a site that has a total gas capacity of not more than 150 gigajoules for each hour – \$6,000 (currently \$7995 in the 2012–13 financial year)
- (b) For a site that has a total gas capacity of more than 150 gigajoules but not more than 500 gigajoules for each hour – \$9500 (currently \$13 325 in the 2012–13 financial year)
- (c) For a site that has a total gas capacity of more than 500 gigajoules for each hour – \$11 500 (currently \$15 990 in the 2012–13 financial year).

It is proposed that current requirements to report the total amount of gas consumed and the actual maximum consumption rate of each device to calculate the liability for the fee be removed from the P&G Regulation. It is further proposed that the fee be based only on the maximum gas capacity of **each** device that is used at the site. This will reduce the overall administrative burden for both industry and government.

### **3.2.14 Category 14: Biogas or gas from a waste disposal tip or sewage**

The operator of a facility that produces, processes or uses biogas, gas derived from a waste disposal tip or gas derived during the treatment of sewage is currently liable



for the Category 14 fee. It is proposed that s. 139(2)(o) and s. 139(2)(q) of the P&G Regulation be amended to refer to the operating entity and to remove reference to the 'use' of biogas (restricting it to biogas producers/processes only). This will ensure that consumers using relatively small quantities of biogas are not inadvertently made liable for the fee. This change is consistent with consumers of Natural Gas under Category 13 who are not charged for use until they use more than 50 gigajoules per hour. Major users of biogas, where the devices at the site can consume over 50 gigajoules per hour, would therefore remain appropriately liable for the Category 13 fee.

Further, additional requirements will be inserted to clarify that facilities that are passively venting the gas they produce to the atmosphere for safety purposes (for example a rubbish tip site with a simple atmospheric vent), or produces or processes gas for research and / or trial purposes will not be liable for the fee for a period of time as approved by the Chief Inspector, Petroleum and Gas Inspectorate of DNRM.

The fee method will continue to be a charge for each site operated by the operating entity during the year (see Table 4 for current, projected and proposed fees).

Prior to the introduction of the P&G Safety and Health Fee in 2010 this sector was not liable to pay a fee. This category was introduced because the fee is aimed at the operating plant level where safety management plans are required. The fee is commensurate with the regulatory intervention required.

### **3.2.15 Category 15: Entertainment events**

The operating entity for a gas system used for special effects for entertainment or amusement purposes will be liable for the Category 15 fee.

The fee method will continue to be a charge for each gas system operated by the operating entity during the year (see Table 4 for current, projected and proposed fees).

Prior to the introduction of the P&G Safety and Health Fee in 2010 this sector was not liable to pay a fee. This category has been introduced because the fee is aimed at the operating plant level where safety and health management plans are required. DNRM is aware that there are a number of entities that may be liable for this fee. However, there is difficulty in capturing and identifying these entities under current legislation. The fee is commensurate with the extent of regulatory intervention required and no compelling reason to change this category has been identified.

## **4. Initial impact assessment**

The RIS process considers the impacts of the P&G Safety and Health Fees upon industry, government and the community. Since the introduction of the P&G Safety and Health Fee in 2010, the aligned growth in revenue with industry's growth rates has funded the Inspectorate to regulate for a rapidly expanding industry. Further, the fee system is aligned to the associated risks involved in each industry sector and is proportionate to cost-recover the regulatory intervention activity involved.

The outcomes of the 2012 consultation of the P&G Safety and Health Fee, proposed to stakeholders in the Consultation RIS, address post-implementation issues to refine and improve administration of the fee system for industry and government. Generally, the adopted options are those that wholly fund the Inspectorate, impose the least administrative burden on the industry and meet the information requirements to apply the fee accurately. The benefits of these adopted options include:

- Provision of a streamlined, single reporting period within the financial year relative to the current quarterly reporting process
- Improved understanding and administration of the fee system
- Adequate funding of regulatory resourcing requirements aligned with industry growth.

It is anticipated, once implemented, that the Inspectorate will provide industry assistance to clarify key changes with the fee system to minimise incorrect interpretations in reporting requirements. As a result, the outcomes expected are that government achieve administrative efficiencies in managing the fee; the fee factors are a reflection of the relevant petroleum and gas activities; and industry will deliver accurate information that will correspond to the correct category fee to be charged.

## **4.1 Impacts on industry**

The administrative burden caused by quarterly reporting will be reduced by the proposed change to annual reporting. This was raised as a major concern by industry. The estimated reform saving from moving to annual reporting for industry is around \$671 000. These benefits will vary within and between fee categories on the basis of business structures, however, it is clear that industry overall will benefit from this change.

The proposed amendments in this RIS identify that the factors used by the fee system are linked to the increasing industry activity. It is therefore expected that government revenue will increase and as a consequence financially impact industry as detailed in Table 5. It is important to note that, the majority of amendments proposed involve amending provisions of reporting requirements and providing clarity in the intent of the category of fees and the liable person to pay the relevant fees.

Table 5 provides an outline of the revenue that the Inspectorate received from 2009–10 to 2012–13 financial periods and displays the impact of the introduction of the P&G Safety and Health Fee on industry. Regulatory fees and charges are reviewed annually under the standing government policy of applying a 3.5 per cent indexation increase. Table 4 details the current, projected and proposed fee schedule for the P&G Safety and Health Fee.



**Table 4: P&G Safety and Health Fee Schedule**

Category	Sub Category / Min Max	Current 2012–13 Fees	Projected 2013–14 Fees	Proposed 2013–14 Fees
1		\$1236.00	\$1279.00	\$1279.00
2		\$232.30	\$240.40	\$240.40
3		\$0.69*	\$0.71	\$2.07*
4		\$5.50#	\$5.65	\$1318.00#
5	(a)	\$10 660.00	\$11 033.00	\$11 033.00
	(b)	\$5330.00	\$5516.00	\$5516.00
	(c)	\$7995.00	\$8274.00	\$8274.00
	(d)	\$7995.00	\$8274.00	\$8274.00
	(e)	\$3731.00	\$3861.00	\$3861.00
	(f)	\$10 660.00	\$11 033.00	\$11 033.00
	(g)	\$10 660.00	\$11 033.00	\$11 033.00
6		\$10 660.00	\$11 033.00	\$11 033.00
7		\$0.00031	\$0.00032	\$0.00032
8		\$162.00	\$167.60	\$167.60
9		\$479.70	\$496.40	N/A
10		\$0.74	\$0.76	\$0.76
	Minimum	\$3731.00	\$3861.00	\$3861.00
	Maximum	\$533 025.00	\$551 680.00	\$551 680.00
11		\$3.65	\$3.75	\$3.75
12		\$0.37	\$0.38	\$0.38
13	(a)	\$7995.00	\$8274.00	\$6000.00
	(b)	\$13 325.00	\$13 791.00	\$9500.00
	(c)	\$15 990.00	\$16 549.00	\$11 500.00
14		\$3731.00	\$3861.00	\$3861.00
15		\$1066.00	\$1103.00	\$1103.00

\*2012-13 fee is based on per square kilometre, and 2013-14 proposed fee is based on per sub block

#2012-13 fee is based on Terajoules produced, and 2013-14 proposed fee is based on producing wells

As it can be seen in Table 5, the top three category contributors to the total fee revenue over the financial periods have consistently been Category 4, Category 8 and Category 10. As listed in the last three financial years, the three categories have made up a significant proportion of the P&G Safety and Healthy Fee that averaged around 58.8 per cent of the fee revenue over the last three financial years. Categories 4, 8 and 10 are expected to continue to increase. Table 5 provides 2013–14 projections for both the current and proposed structures for each category of fee based on the 2011–12 data. The key differences between 2013–14 projections for the proposed structure and the 2013–14 projections for the current structure are Category 4 increasing by around 50 per cent; Category 9 to be abolished thus removing all of the fee revenue of just under \$19 000; and Category 13 will be decreasing by over \$260 000 because of the reduction in fee for each subcategory by approximately 25 per cent. Overall the 2013–14 financial year projections for the proposed structure will be an 8 per cent increase in revenue accumulating to \$7 112 693. Projections beyond 2013–14 have not been attempted however regular reviews of fee will be conducted.

Specific issues for each industry sector are discussed separately below. Subsequent amendments to the original fee levels, or the way in which the fee is calculated as a result of the recent review, are also noted where applicable. Reference is generally made not only to fees paid by particular industries but also to the proportion of the total amount of fees charged, and why this may have changed.

**Table 5: P&G Safety and Health Fee liability of P&G industries in 2009-10 to 2013-14\***

Category	Previous Fee Structure Revenue 2009–10	Per cent of Total 2009–10 Rev	Current Fee Structure Revenue 2010–11	Per cent of Total 2010–11 Rev	Current Fee Structure Revenue 2011–12	Per cent of Total 2011–12 Rev	Current Fee Structure Revenue 2012–13	Per cent of Total 2012–13 Rev	Projected Current Fee Structure Revenue 2013–14#	Per cent of Total 2013–14 Rev	Proposed Fee Structure Revenue 2013–14#	Per cent of Total 2013–14 Rev
	Audit & Inspection Fee		Introduced P&G S&H Fee		CPI Increase		Current P&G		Current P&G		Proposed amendments	
1	\$147 148	5.9%	\$771 100	13.84%	\$540 634	9.39%	\$769 296	12.07%	\$796 059	12.09%	\$796 059	11.19%
2	N/A	0%	\$110 526	1.98%	\$127 516	2.21%	\$228 815	3.59%	\$236 794	3.60%	\$236 794	3.33%
3	N/A	0%	\$246 028	4.42%	\$325 005	5.64%	\$303 477	4.76%	\$312 274	4.74%	\$303 680	4.27%
4	\$219 000	8.8%	\$1 626 735	29.20%	\$1 653 609	28.71%	\$1 705 905	26.76%	\$1 752 429	26.61%	\$2 583 280	36.32%
5	\$34 548	1.4%	\$42 000	0.75%	\$38 110	0.66%	\$57 564	0.90%	\$59 576	0.90%	\$59 576	0.84%
6	N/A	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%
7	\$209 074	8.4%	\$192 189	3.45%	\$214 877	3.73%	\$307 039	4.82%	\$316 944	4.81%	\$316 944	4.46%
8	\$668 648	26.9%	\$899 905	16.15%	\$947 790	16.46%	\$993 215	15.58%	\$1 027 548	15.60%	\$1 027 548	14.45%
9	N/A	0%	\$13 950	0.25%	\$20 857	0.36%	\$18 228	0.29%	\$18 863	0.29%	\$0.00	0%
10	\$761 000	30.6%	\$785 633	14.10%	\$872 397	15.15%	\$918 661	14.41%	\$947 972	14.40%	\$947 972	13.33%
11	\$104 000	4.2%	\$132 715	2.38%	\$155 756	2.70%	\$151 296	2.37%	\$155 441	2.36%	\$155 441	2.19%
12	\$11 516	0.5%	\$542	0.01%	\$721	0.01%	\$1025	0.02%	\$1053	0.02%	\$1053	0.01%
13	\$328 206	13.2%	\$692 500	12.43%	\$787 950	13.68%	\$839 475	13.17%	\$877 083	13.32%	\$616 500	8.67%
14	N/A	0%	\$56 000	1.01%	\$72 100	1.25%	\$78 351	1.23%	\$81 081	1.23%	\$65 637	0.92%
15	N/A	0%	\$2000	0.04%	\$2060	0.04%	\$2132	0.03%	\$2206	0.03%	\$2206	0.03%
<b>TOTAL</b>	<b>\$2 483 140</b>	<b>100%</b>	<b>\$5 571 823</b>	<b>100%</b>	<b>\$5 759 382</b>	<b>100%</b>	<b>\$6 374 479</b>	<b>100%</b>	<b>\$6 585 323</b>	<b>100%</b>	<b>\$7 112 690</b>	<b>100%</b>

\* All government fees may be subject to an annual government index increase.

# These figures have been calculated using 2011–12 data and the proposed 2013–14 fees (annual government index increase of, on average, 3.5 per cent).

#### 4.1.1 Category 1: Drilling wells

The fee incurred by the drilling sector has fluctuated from 2010–11 to 2012–13. This is owing to the significant increase in activity levels primarily due to the expansion in the CSG industry.

No changes to the basis of the fee will be made as a result of the 2012 consultation, so no additional impacts will occur.

#### 4.1.2 Category 2: Well completion or maintenance work

This activity was not previously captured by the Audit and Inspection Fee. This was inappropriate given the requirement for a safety management plan and the significant level of activity undertaken in these operations. The sector incurred a P&G Safety and Health Fee liability of \$110 526 in the 2010–11 financial year and has on average increased around 2.59 per cent growth per financial year up to 2012–13. The total fee liabilities reflect the very high activity levels in this sector, primarily as a result of the expansion in the completion of CSG wells. No changes to the basis of the fee will be made as a result of the 2012 consultation.

#### 4.1.3 Category 3: Petroleum explorers

This sector was not previously liable for safety fees under the Audit and Inspection Fee. Exploration companies are required to have safety management plans for

operating plants within their tenure, which is why they are now liable for the fee. The sector incurred a P&G Safety and Health Fee liability of \$246 028 in the 2010–11 financial year, \$325 005 in the 2011–12 financial year and \$303 477 in the 2012–13 financial year, the majority of this revenue came from Authority to Prospect holders.

The proposal to change the basis of the fee so that it is charged per sub-block held, rather than based on square kilometres of tenure under an authority or permit, will reduce the administrative burden for exploration entities. This will also make the fee reporting requirements consistent with other reporting needs. The proposed quantum of the fee remains relatively similar to the fee revenue before this change so that there will be minimal financial impact on industry.

#### **4.1.4 Category 4: Petroleum producers**

This category currently calculates the fee on total terajoules (TJ) produced. The fee is charged at \$5.50 for each TJ. For the 2011–12 financial year, industry was liable for around \$1.653 million for wells that produced over 309 000 TJ. In the 2012–13 financial year, industry was liable for around \$1.705 million for around 1960 producing wells that produced over 310 000 TJ.

The current Category 4 does not align with the policy intention of linking the fee to regulating the safety management plan for an operating plant. The proposed option of basing the fee on the number of wells that are producing petroleum, as discussed in section 3.2.4, will better meet this policy intention.

Category 4 covers the majority of industry activity and corresponding regulatory activity. Therefore, the proposed fee of \$1381 per well will result in an increase of approximately 50% in liability for this sector as demonstrated in Table 5.

#### **4.1.5 Category 5: Petroleum facilities**

As a result of the introduction of the Safety and Health Fee in 2010 the total contribution from operators of petroleum facilities has increased from \$34 548 to \$42 000. This is largely as a result of expanding the categories of facility captured to reflect changes that occurred in the industry since the Audit and Inspection Fee was introduced.

The proposed change to include shale oil and coal to liquids production and processing into subcategory (b) (the operation of a facility that produces syngas) will reduce the fees payable by liable entities processing shale oil and coal to liquids to \$5330.

The amended requirement for reporting will not impose any additional record keeping burden on industry, but will clarify the reporting requirements where two facilities are operated on one site. No other changes to the basis of the fee will be made as a result of the 2012 consultation.

#### **4.1.6 Category 6: Facility used to carry out GHG storage activity**

This fee was introduced (and will be retained) in anticipation of development in the sector, however, no facilities currently fall within this category.

#### **4.1.7 Category 7: Pipelines**

There are no changes to the basis of the fee proposed however, it is proposed to amend the regulation to clarify that the fee does not have to be paid on uncommissioned or decommissioned pipeline, or in a year when no gas is being transported.

#### **4.1.8 Category 8: Operating a distribution system**

There are no changes to the basis of the fee proposed however, as with Category 7, it is proposed to amend the regulation to clarify that the fee does not have to be paid on uncommissioned or decommissioned pipeline, or in a year when no gas is being distributed.

#### **4.1.9 Category 9: LPG delivery network, if P&G Act s. 675A(1) applies**

Category 9 consists of smaller LPG delivery networks and has provided small contributions of around 0.3 per cent of total revenue over the last three financial years. Abolishing the Category 9 fee will therefore have a positive impact on this sector (see section 3.2.9) While there may be some concern that other sectors will be effectively subsidising this sector, the cost of administering the fee is more than the amount collected. The cost implications are further discussed in Section 4.2.

#### **4.1.10 Category 10: LPG delivery network**

The amendments propose to clarify who is liable for the fee under s. 135(2)(h) of the P&G Regulation and will also ensure that the reporting for Category 10 is based on fuel gas containers *utilised* rather than *owned* in the financial year under s. 139(2)(f) and part 8 of schedule 9. This will provide clarity in administering this fee for both the industry and government.

#### **4.1.11 Category 11: Product supplier of automotive LPG**

The increase in fee liability for this sector since the P&G Safety and Health Fee was introduced has been small. No changes to the basis of the fee will be made as a result of the 2012 consultation.

#### **4.1.12 Category 12: Tanker delivery carrier**

The fee liability for Category 12 operators has reduced significantly since the P&G Safety and Health Fee was introduced. No changes to the basis of the fee will be made as a result of the 2012 consultation.

The legislative amendments proposed will remove the requirement to report on the number of deliveries by the person of automotive LPG to automotive LPG sites, and remove the requirement to report on the volume of automotive LPG delivered by the

person (s. 139(2)(h)(i) and (ii)). This will remove the administration burden on the industry of this unnecessary reporting.

#### **4.1.13 Category 13: Major gas consumers**

The fees for Category 13 are based on a three tier approach to reflect the size and complexity of the operating plant. The liability of this sector rose to \$692 500 in the 2010–11 financial year as a result of the introduction of the P&G Safety and Health Fee and further increased in the 2011–12 and 2012–13 financial years (\$787 950 and \$839 475 respectively).

Major gas consumers have expressed concerns about paying a disproportionate amount of the fees paid by the downstream sector. To address this issue, the fee liability of each of the three tiers of major gas consumers will be reduced by approximately 25 per cent. This will be a savings to industry of approximately \$217 000.

#### **4.1.14 Category 14: Biogas or gas from a waste disposal tip or sewage**

Prior to the revision of the fee system in 2010 this sector was not liable to pay a fee. However, these facilities have been subject to safety management plan requirements since the introduction of the P&G Act in 2005. This category was introduced because the fee is aimed at the operating plant level where safety management plans are required. Further, the Inspectorate has been spending considerable time inspecting these sites which typically have limited safety systems in place. The sector was liable for total fees of \$56 000 in 2010–11, \$72 100 in 2011–12 and \$81 093 in the 2012–13 financial year.

The amendment to remove reference to the use of biogas from the category will mean some small operators of biogas fuelled devices will no longer be liable to pay the fee if they are not otherwise engaged in producing and processing the gas. Further, additional requirements will be inserted to clarify that facilities under Category 14 passively venting the gas they produced (for example a rubbish tip site with a simple atmospheric vent) or produces or processes for research and or technology trial purposes will no longer be liable for the fee. Routine biogas collection installations would remain subject to the fee.

#### **4.1.15 Category 15: Entertainment events**

The operator of a gas system used for special effects for entertainment or amusement purposes is liable for the Category 15 fee. Only two operators currently fall within this category and they paid a contribution of \$2000 in the 2010–11 financial year, \$2060 in the 2011–12 financial year and \$2132 in the 2012–13 financial year. No changes to the basis of the fee will be made as a result of the 2012 consultation.



## 4.2 Impacts on government

The full cost recovery model provides funding for the Inspectorate in a way that keeps pace with industry growth. This P&G Safety and Health Fee has funded the employment of additional inspectors and administrative staff, and additional inspectors will be recruited as the industry grows. The total figure for operating expenses for the Inspectorate, including salaries and wages was in excess of \$4.5 million for 2010–11 and in excess of \$6.2 million for 2011–12. Table 1 in section 1.1 details how the revenue is being utilised in the 2012–13 financial year. Section 2.1 details how the Inspectorate has grown with the employment of additional inspectors and administration staff.

There will be some positive impacts for government with the proposed changes to the fee reporting requirements, and in how the fee is calculated. These changes will reduce administration burden and simplify the process overall. Removing Category 9 will save the government in excess of \$30 000 per annum in administration costs. It is estimated the total reform saving to government from the proposed amendments (including removing Category 9) will be in excess of \$88 000 in the first year and \$89 000 per annum in the years following.

## 4.3 Impacts on the community

The P&G Safety and Health Fee provides for a robust and well-resourced Inspectorate to regulate the safety of the petroleum and gas industry and ensure it meets community expectations. An adequately resourced Inspectorate can take proactive measures to prevent incidents, and provide responsive services when incidents occur, ensuring minimal safety risks to the community, people and property.

## 5. Consultation

On 23 May 2013 the Consultation RIS was released for public consultation. The consultation document was released publically by Media Release and available on the Queensland Government 'Get Involved' website at [www.getinvolved.qld.gov.au](http://www.getinvolved.qld.gov.au) and the DNRM website at [www.mines.industry.qld.gov.au/safety-and-health/petroleum-gas-safety-health-fee.htm](http://www.mines.industry.qld.gov.au/safety-and-health/petroleum-gas-safety-health-fee.htm).

Written submissions were accepted from 23 May 2013 to 20 June 2013 with extensions granted to stakeholders upon request. The 'Get Involved' website invited stakeholders to make online submissions and also participate in a question poll. Through this website and the DNRM's website, stakeholders were invited to attend an information session scheduled for 31 May 2013.

Meetings with stakeholders were held with DNRM to address issues when requested and targeted telephone and email discussions were conducted by the Safety and Health Levy Unit (S&H Levy Unit).



## 5.1 Summary of consultation

DNRM received eight RIS Submissions. seven responses were received via email/mail directly to the S&H Levy Unit and one response was received through the 'Get Involved' website.

Informally there were more responses to the RIS through email and telephone correspondence with the S&H Levy Unit and through the Information session held on the 31 May 2013.

Two meetings were had with industry stakeholders and DNRM to address issues / concerns with two separate categories.

In order to encourage more feedback, the S&H Levy Unit engaged with industry through telephone conversations inviting them to submit feedback on their specific category.

In summary the response from industry has been limited, irrespective of the communication management strategy employed, with interest mainly confined to a few stakeholders or stakeholders with particular issues.

### 5.1.1 2013 industry Information session

The 2013 industry information session following the release of the Consultation RIS was attended by nine industry representatives. Table 6 details the comments made by the industry representatives in this session and the response given / how the comments have been addressed by DNRM.

**Table 6:** 2013 industry information session outcome

<b>Comments made by industry</b>	<b>How the comments have been addressed</b>
<p><b>Category 4: Producing petroleum under a petroleum lease</b></p> <ul style="list-style-type: none"> <li>▪ Moving the fee factor from terajoules (TJ) to number of wells is an unnecessary burden on wells that produce less petroleum.</li> <li>▪ What is the definition and difference between CSG and conventional wells.</li> <li>▪ It might be hard to match the fees of TJs produced to a fee for number of wells with production from wells going up and down on a year to year basis</li> </ul>	<p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ The purpose of changing the fee factor from TJ to number of wells is to align the fee Category to the definition of what is an operating plant under s670 of the P&amp;G Act. The inspection process on a well does not change depending on the amount of TJs produced. This is the same for the differences between CSG and conventional wells (<i>See section 6.2.4</i>).</li> <li>▪ Capping options have been discussed / considered with an appropriate model being proposed (<i>See section 6.1.5</i>).</li> </ul>
<p><b>Category 5: Petroleum facilities</b></p> <ul style="list-style-type: none"> <li>▪ What is the definition of Major Processing Facility?</li> <li>▪ Are Compressed Gas Processing Facilities included in subcategory (a)?</li> </ul>	<p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ One that processes more than 2000 million cubic metres of petroleum during a financial year.</li> <li>▪ It depends on the size of the plant and whether it falls under the definition of major processing facility above.</li> </ul>

Comments made by industry	How the comments have been addressed
<b>Category 13: Major Gas Consumer</b> <ul style="list-style-type: none"> <li>Is consumption of your own gas part of the count for 50GJ/hr and over?</li> </ul>	<i>Noted</i> <ul style="list-style-type: none"> <li>Yes this is all counted as per s135(2)(k) of the P&amp;G Regulation.</li> </ul>

## 5.1.2 Consultation RIS submissions

Eight written submissions on the Consultation RIS were received by DNRM. Table 7 details the comments made in the written submissions and the comments have been addressed by DNRM.

**Table 7:** Consultation RIS submissions

Comments made by industry	How the comments have been addressed
<b>Funding Options</b> <ul style="list-style-type: none"> <li>Two stakeholders preferred option b to seek Treasury funding for the activities of the Inspectorate's services. The P&amp;G Safety and Health Fee is another form of tax burden. Suggested a mix of Treasury funding plus a fee for service provided to industry.</li> <li>Proposal for a flat administration fee across all categories to cover the 'administration' component of the Inspectorate which would be irrespective of the level of regulation required.</li> </ul>	<i>Noted</i> <ul style="list-style-type: none"> <li>The Inspectorate has had a cost recovery fee in place in some form or another under the P&amp;G Act and the Gas (Residual Provisions) Act 1965. The P&amp;G Safety and Health Fee was introduced as a full cost recovery model. DNRM introduced this new fee system in order to meet the unprecedented growth in the size and complexity of Queensland's onshore petroleum industry.</li> <li>Proposal for a flat administration fee has been considered for all categories and DNRM will review this option again in a subsequent review of this fee.</li> </ul>
<b>Reporting requirement</b> <ul style="list-style-type: none"> <li>Support and agreement to change to annual reporting.</li> </ul>	<i>Agreed</i> <ul style="list-style-type: none"> <li>Changing to annual reporting will simplify reporting and reduce burden for both industry and government (See section 6.1.3).</li> </ul>
<b>Introduction of 'Operating Entity'</b> <ul style="list-style-type: none"> <li>Does this change transfer responsibility to the contractor that operates the operating plant?</li> <li>The definition contradicts what has been outlined in s. 673 of the P&amp;G Act</li> </ul>	<i>Noted</i> <ul style="list-style-type: none"> <li>The policy intent was not to transfer responsibility of the management of safety and health to contractors or subcontractors.</li> <li>The issues of safety responsibilities are a separate matter to who is liable to pay the fee. DNRM's view is that s. 673 of the P&amp;G Act refers to an individual person who is responsible for the safe management of the Operating Plant.</li> </ul> <p>Refer to section 6.1.2 for the recommendation by DNRM on this issue following stakeholder feedback.</p>
<b>Introduction of an audit regime</b> <ul style="list-style-type: none"> <li>The possible introduction of an audit regime is supported. It will ensure that any fee inaccuracies and discrepancies are avoided.</li> </ul>	<i>Agreed</i> <ul style="list-style-type: none"> <li>An audit regime will help DNRM examine the efficiency and effectiveness of the application of the fee and will also allow the clients to avoid overpayment or under payment of fees due to incorrect reporting (See section 6.1.6).</li> </ul>



Comments made by industry	How the comments have been addressed
<p><b>Category 3: Exploration</b></p> <ul style="list-style-type: none"> <li>▪ Support and agreement for the change from km<sup>2</sup> to sub-block.</li> </ul>	<p><i>Agreed</i></p> <ul style="list-style-type: none"> <li>▪ This will simplify reporting requirements to both industry and government (<i>See section 6.2.3</i>).</li> </ul>
<p><b>Category 4: Producing petroleum under a petroleum lease</b></p> <ul style="list-style-type: none"> <li>▪ There was consensus around concern of the new fee per producing petroleum well figure of \$1318. There was concern that with the expected growth in number of producing petroleum wells there would be a disproportionate fee liability for this category.</li> <li>▪ Support and agreement that a cap is required for this category. A sliding scale capping option was suggested.</li> </ul>	<p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ It is noted and agreed that large growth could mean more revenue is collected than is needed, therefore a capping model has been proposed (<i>See section 6.1.5 and 6.2.4</i>).</li> </ul> <p><i>Agreed</i></p> <ul style="list-style-type: none"> <li>▪ The policy intent of changing the fee factor calculation for this category was not to collect fees over and above what is needed to fund the Inspectorate. See section 6.1.5 for our capping model.</li> </ul>
<p><b>Category 7: Pipelines</b></p> <ul style="list-style-type: none"> <li>▪ Supportive of the proposal to exempt pipelines that 'are not transporting gas throughout the reporting year' from a fee.</li> <li>▪ A pro-rata calculation is suggested for pipelines which are commissioned or decommissioned part-way through the year.</li> </ul>	<p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ Further assessment of this proposed policy issue was conducted by the P&amp;G Inspectorate. It was found that pipelines that remain as operating plant, i.e. from point of commissioning to after decommissioning will be subject to the fee as they require a safety management plan and need to be regulated. Even if gas is not being transported gas throughout the reporting year there is still a significant safety risk as gas is still in the pipeline. They should therefore still be liable for the fee (<i>See section 6.2.7</i>).</li> <li>▪ Pro-rata fee calculations have been considered for this category and DNRM will review this option again in a subsequent review of this fee (<i>See section 6.2.7</i>).</li> </ul>
<p><b>Category 9: LPG Delivery Network (s. 675A(1))</b></p> <ul style="list-style-type: none"> <li>▪ The abolishment of this category is not supported by two stakeholders. They believe the abolishment of this category will not encourage these small businesses to invest in reducing risks and improving safety.</li> </ul>	<p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ DNRM is abolishing the fee because managing the collection of the fee from this category is administratively burdensome. However, regulatory activity will not be compromised at these premises and they are still required to follow safety standards and codes when managing and handling gas containers (<i>See section 6.2.9</i>).</li> </ul>
<p><b>Category 10: LPG Delivery Network</b></p> <ul style="list-style-type: none"> <li>▪ There was no definition or explanation of how the change from 'owned' to 'used' will be calculated and this change will cause duplication.</li> <li>▪ Will authorised distributors be exempt or will they now be required to pay the fee?</li> </ul>	<p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ The policy intent of changing from 'owned' to 'used' is to better align this category of fee to the definition of an LPG Delivery Network. The fee will still be charged against the container index of client. However, steps have been taken to ensure that companies are not paying excessive fees (<i>See section 6.2.10</i>).</li> <li>▪ The legislation relates to LPG Delivery Networks. If an entity is conducting a business selling gas to its own</li> </ul>

Comments made by industry	How the comments have been addressed
<ul style="list-style-type: none"> <li>▪ What is the definition of ‘used’ for Category 10?</li> <li>▪ s. 88G(b)(i) could also apply to Category 10 clients and would therefore make them Category 9 instead.</li> <li>▪ The proposed change could result in an unacceptable increase in the Category 10 fee. The following suggestions were made on fee alternatives in order to control the costs: <ul style="list-style-type: none"> <li>○ Reduce the rate in the fee calculation or amend the container index calculation e.g. Do not multiply E by 2.</li> <li>○ Base the fee on a facility or premise.</li> </ul> </li> </ul>	<p>customers then it will be liable for this category of fee (<i>See section 6.2.10</i>).</p> <ul style="list-style-type: none"> <li>▪ This refers to the maximum number of cylinders that are part of the network at any one point in time (from depot to customer) (<i>See section 6.2.10</i>).</li> <li>▪ Amendments will be made to this section to clarify that this is in reference to those LPG Delivery Networks who have less than a total water capacity of fuel gas cylinders stored of 5 000 litres (<i>See section 6.1.4</i>).</li> <li>▪ As mentioned in point 1 steps have been taken to ensure that companies are not paying in excess (<i>See section 6.2.10</i>).</li> </ul>
<p><b>Category 13: Major Gas Consumer</b></p> <ul style="list-style-type: none"> <li>▪ Supportive of the proposal to remove reporting requirements for the total amount of gas consumed and the actual consumption rate of each device. Supportive of the fee being based only on the maximum gas capacity of each device that is used at the site as this will reduce administration burden.</li> <li>▪ A pro-rata calculation is suggested for gas devices which are commissioned or decommissioned part-way through the year.</li> </ul>	<p><i>Agreed</i></p> <ul style="list-style-type: none"> <li>▪ Reduction in reporting requirements will ease administrative burden on industry and government (<i>See section 6.2.12</i>).</li> </ul> <p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ Pro-rata fee calculations have been considered for this category and DNRM will review this option again in a subsequent review of this fee (<i>See section 6.2.12</i>).</li> </ul>
<p><b>Category 14: Biogas</b></p> <ul style="list-style-type: none"> <li>▪ Welcome the proposal to remove the reference of ‘use’ in order align with major gas consumers.</li> <li>▪ Welcome the fee exemption on liable entities that passively vent biogas, or produce or process biogas for research and / or technology trial purposes.</li> </ul>	<p><i>Agreed</i></p> <ul style="list-style-type: none"> <li>▪ This change will create consistency with Category 13.</li> <li>▪ Operators that passively vent biogas, or produce or process biogas for research and / or technology trial purposes will be exempted from the Category 14 fee (<i>See section 6.2.13</i>).</li> </ul>

### 5.1.3 Other consultation

As part of the Consultation RIS consultation process, informal feedback was received from industry through email / telephone correspondence and meetings with DNRM. Table 8 details these comments made informally and how the comments have been addressed by DNRM.

**Table 8:** Other consultation

Comments made by industry	How the comments have been addressed
<p><b>Reporting requirement</b></p> <ul style="list-style-type: none"> <li>▪ It was requested that the reporting period be changed from 20 calendar days from the end of reporting period to be either within 60/90/120 days from the end of the reporting period.</li> </ul>	<p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ The reporting period has been set in order to allow for the S&amp;H Levy Unit to validate the data prior to invoices being sent. However the reporting period has been increased from 20 calendar days to 31 calendar days to allow clients more time to collate data. There is also currently flexibility for clients to request for an extension to this time on a case by case basis (<i>See section 6.1.3</i>).</li> </ul>
<p><b>Category 7: Pipelines</b></p> <ul style="list-style-type: none"> <li>▪ When will a pipeline be commissioned? Is it in relation to hydrostatic testing?</li> </ul>	<p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ A pipeline is commissioned in accordance to relevant Australian Standard.</li> </ul>
<p><b>Category 10: LPG Delivery Network</b></p> <ul style="list-style-type: none"> <li>▪ One company expressed concern with where DNRM is heading with this fee and is worried that the fees will increase. It also paid rent to another entity for the containers and believed it had already incorporated the Category 10 fees in the rental fee. It believed it might be paying double due to the rental fee and the P&amp;G Safety and Health Fee.</li> <li>▪ There is concern that duplication will occur.</li> <li>▪ It was suggested that the fee would be better calculated by volume of gas not number of cylinders.</li> </ul>	<p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ The policy intent of changing from 'owned' to 'used' is to better align this category of fee to the definition of an LPG Delivery Network. Steps have been taken to ensure that companies are not paying in excess (<i>See section 6.2.10</i>).</li> <li>▪ The operating plant is the LPG Delivery Network and the Container Index is used to determine the size of the network. Duplication will not occur as the containers are used within two LPG Delivery Networks (<i>See section 6.2.10</i>).</li> <li>▪ The Container Index is used to determine the size of the network and therefore suitable for Category 10 (<i>See section 6.2.10 for information new fee structure</i>).</li> </ul>
<p><b>Category 13: Major Gas Consumer</b></p> <ul style="list-style-type: none"> <li>▪ There is a grey area with this category in reporting. Is it 50GJ per site or 50GJ per device?</li> </ul>	<p><i>Noted</i></p> <ul style="list-style-type: none"> <li>▪ Reduction in administration burden has been recommended which clarify this grey area and will ease administrative burden on industry and government (<i>See section 6.2.12</i>).</li> </ul>

## **6. Recommendations following consultation process**

Following the 2012 consultation with stakeholders, in which required amendments to the P&G Safety and Health Fee were revealed, DNRM had three options to move forward (see section 3 of this document). These options were explored in the Consultation RIS and available for public comment. DNRM had preferred option c which was to review and amend the P&G Safety and Health Fee based on an analysis of stakeholder feedback and as per section 3.1 and 3.2 amendments to the P&G Safety and Health Fee were proposed.

Most stakeholders were accepting of the general and category specific amendments (see section 5 for consultation feedback) under option c while others suggested further change to general or category specific amendments. Two stakeholders preferred option b, to seek Treasury funding, stating that the P&G Safety and Health Fee is another form of tax burden. They also suggested a mix of Treasury funding and a fee for service provided to the industry.

Option c is the most cost-effective option as the Inspectorate has had a cost recovery fee in place in some form of another since the Gas (Residual Provisions) Act 1965. To request Treasury allocation to fund the Inspectorate and its activities (option b) would limit the Inspectorates capabilities to meet the growth of the industry. It is also not appropriate for the petroleum and gas industry to be supported by Treasury at the expense of the broader community.

Therefore option c is the preferred option with general and category specific amendments implemented as recommended below.

### **6.1 General amendments**

The feedback received from industry on proposed general amendments was generally supportive. The following sections detail recommendations on the proposals made through the Consultation RIS and from the feedback received.

#### **6.1.1 Structure of legislation**

There was no opposition to restructuring sections 135(2) and 139(2) of the P&G Regulations to align with the category listing in schedule 9, part 8 of the P&G regulation (see section 3.1.1). One industry stakeholder supported the intentions for amendments as it would provide clarity in understanding between the respective sections.

#### ***Regulation amendment outcome following consultation:***

- Sections 135(2) and 139(2) of the P&G regulation will be restructured so that the categories align with the category listing in schedule 9, part 8 of the P&G Regulation.



## 6.1.2 Definition

As per section 3.1.2 the initial proposal in the Consultation RIS was to, for s. 135 of the P&G Regulation, identify the liable person for respective fee(s) as the organisation managing the safety operations of the operating plant, that is, the 'operating entity'.

One industry stakeholder was concerned that the amendment will shift responsibility from them as the 'operator' to their contractor who is contracted to undertake the operations for their operating plant. This is not the policy intent of this proposed change; the 'operating entity' would be the organisation of the 'operator' as per s. 673 of the P&G Act.

Furthermore, another stakeholder expressed concerns that this proposed change to add 'operating entity' for the purposes of the P&G Safety and Health Fee may contradict the definition of 'operator' under s. 673 of the P&G Act. The issues of safety responsibilities are a separate matter than who is liable to pay the fee. DNRM's view is that s. 673 of the P&G Act refers to an individual person who is responsible for the safe management of the Operating Plant.

### ***Regulation amendment outcomes following consultation:***

- Stakeholder feedback strongly supported the retention of the operator provision without change. DNMR recommends that the operator provision remain.

## 6.1.3 Reporting

As per section 3.1.3 the initial proposal in the Consultation RIS was to move from quarterly reporting to annual reporting. The feedback received from stakeholders is that they welcome and support the reduction in reporting requirements and resulting relief in administrative burden.

Feedback from one stakeholder requested a change to the reporting timeframe from 20 days to within 60 / 90 or 120 days. The reporting period has been set in order to allow for the S&H Levy Unit to validate the data prior to the invoices being sent. There is currently the flexibility for clients to request an extension on this time if required with requests being assessed by DNRM on a case by case basis. Furthermore, certain categories will have particular reporting requirements removed resulting in a reduced amount of data to be produced.

Following discussions on the feedback received from stakeholders it was agreed to move the reporting timeframe out to a 31 day turn around instead of the 20 day timeframe.



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***Regulation amendment outcome following consultation:***

- The P&G Safety and Health Fee sections of the P&G Regulation will be amended to replace quarterly reporting with annual reporting.
- S. 139 (1) of the P&G Regulation will be amended to require the person to lodge a return by 31 July following the close of the financial year.

#### **6.1.4 Clarification of fee liability in relation to LPG Delivery Networks**

For section 88G(b)(i), feedback from stakeholders on the Consultation RIS identified that this section is open to confusion. From their viewpoint it suggests that Category 10 LPG Delivery Networks, operating 12 000L (and above) total water capacity of fuel gas cylinders and operating a container with a water capacity of 30L, may fall under s. 88G(b)(i). This would therefore make them eligible to be Category 9 clients who require a generic safety management plan.

However, the intent of s. 88G(b)(i) is to capture those who have less than a total water capacity of fuel gas cylinders stored of 5 000L.

***Regulation amendment outcome following consultation:***

- S. 88G(b)(i) of the Regulation will be amended to clarify that smaller LPG delivery network operators that have less than 5000L total water capacity of fuel gas cylinders are not classified as operating plants unless there is a LPG filling container within the network of a total water capacity of 30L or more. These operators will then be prescribed as operating plants and be obligated to develop a generic safety management plan.

#### **6.1.5 Capping options**

Stakeholders of Category 4 expressed concern in the proposed changes to their category. While they supported the proposal to move the fee method from a fee on terajoule's (TJ's) produced to a fee on producing petroleum wells, they had reservations on the proposed fee of \$1318 per producing petroleum well. Their concern derived from the expected growth in producing petroleum wells and current well numbers which would result in a disproportionately high fee liability (See section 6.2.4). They did welcome the proposal of a cap on Category 4.

Further work was conducted on this matter and a number of different methodologies were considered including sliding scale and tax scale style option. Ultimately to ensure the best alignment with regulator costs, two capping options that aligned to the Inspectorate's estimates for the planned cost of regulatory activity were considered adequate. They are discussed further below against status quo.

1. Status quo (not preferred)
  2. Capped aggregate (not preferred)
- or
3. Split fee framework (preferred option)

### 6.1.5.1 Option 1 – Status Quo

Status quo, or no capping, would leave the P&G Safety and Health Fee with no way to control the anticipated substantial increase in fee revenue received following significant growth in petroleum and gas activity in the upstream industry. The P&G Safety and Health Fee would therefore not align to the policy objective of recovering the costs of the activities of the Inspectorate.

Status quo is not preferred by DNRM. Options 2 and 3 are proposed to address stakeholder concern and effectively manage and align the fees with recouping only regulatory activity costs. Table 9 provides the projected 2013-14 financial year with capping option 1 and 2 and Table 12, in section 6.1.5.3, provides the projected 2013-14 financial year for capping option 1 and 3.

**Table 9: P&G Safety and Health Fee liability of P&G industries - Options 1 and 2**

Category	Current Fee Structure Revenue 2012–13	Per cent of Total 2012–13 Revenue	Proposed Fee Structure Revenue 2013–14*	Per cent of Total 2013–14 Revenue	Proposed Fee Structure Revenue 2013–14*	Per cent of Total 2013–14 Revenue
	Current P&G		Option 1 – no cap		Option 2	
1	\$769 296	12.07%	\$1 334 688	15.62%	\$796 059	11.19%
2	\$228 815	3.59%	\$354 350	4.15%	\$236 794	3.33%
3	\$303 477	4.76%	\$273 418	3.20%	\$303 680	4.27%
4	\$1 705 905	26.76%	\$3 295 000	38.56%	\$2 583 280	36.32%
5	\$57 564	0.90%	\$56 265	0.66%	\$59 576	0.84%
6	\$0	0%	\$0	0%	\$0	0%
7	\$307 039	4.82%	\$308 271	3.61%	\$316 944	4.46%
8	\$993 215	15.58%	\$1 044 665	12.23%	\$1 027 548	14.45%
9	\$18 228	0.29%	N/A	N/A	N/A	N/A
10	\$918 661	14.41%	\$1 068 798	12.51%	\$947 972	13.33%
11	\$151 296	2.37%	\$120 102	1.41%	\$155 441	2.19%
12	\$1025	0.02%	\$608	0.01%	\$1053	0.01%
13	\$839 475	13.17%	\$640 500	7.50%	\$616 500	8.67%
14	\$78 351	1.23%	\$46 332	0.54%	\$65 637	0.92%
15	\$2132	0.03%	\$2 206	0.03%	\$2206	0.03%
<b>TOTAL</b>	<b>\$6 374 479</b>	<b>100%</b>	<b>\$8 545 203</b>	<b>100%</b>	<b>\$7 112 690</b>	<b>100%</b>

\*These figures have been calculated using 2012–13 data and the proposed 2013–14 fees (annual government index increase of, on average, 3.5 per cent).

### 6.1.5.2 Option 2 – Capped aggregate

This capping option proposes that all 15 categories are capped according to a calculation of costs of planned activities based on the proportion of costs to be allocated to planned regulatory effort against each of the 15 categories.

The focus of this option is to cap the fee per unit of measure relative to the total numbers reported for the annual period. In other words, when numbers are reported they are applied to the formula and the fee will rise and fall from a baseline fee per unit of measure for each category. For example, if the total numbers reported when multiplied by the baseline fee result in a value more than the calculated costs, the fee liability for all categories will be discounted to equal the budget. This option therefore achieves the policy objective of implementing the P&G Safety and Health Fee to recover the cost of activities of the Inspectorate and will not collect more than required.

However, if the annual numbers reported increases in some categories and decreases in other categories, there would be increases in the amount payable by some stakeholders. Although this option would ensure that costs recovered are capped, it is not preferred because of the possibility of disadvantaging certain stakeholders with fees for a particular unit of measure potentially rising and falling from year to year.

Table 9 in section 6.1.5.1 provides the revenue that the Inspectorate received from the 2012-13 financial year for each category and the projected 2013-14 financial year for capping option 1 and 2.

### **6.1.5.3 Option 3 – Split fee framework**

Through discussion regarding capping solutions, it became apparent that certain upstream categories had the potential to grow rapidly, for example categories 1, 2 and 4.

A resulting split fee framework capping option was developed. This option groups the 15 categories into two separate sectors, the upstream sector and the downstream sector, with a category threshold and capping calculation for the upstream categories. These category thresholds are to be based on the Inspectorate's estimates for the planned cost of regulatory activity. In other words, the current Petroleum and Gas Inspectorate forecasted revenue of \$ 7.1M will be split in two. Category 5, while part of the upstream sector, has been exempt from this capping option as their fee is a fixed rate regardless of usage. Tables 10 and 11 below separate the categories under the upstream and downstream sectors and show the corresponding contribution to the cost of regulatory activity involved.



**Table 10: Categories under the upstream sector**

Categories under the upstream sector		Calculated Costs	Contribution to the costs of upstream regulatory activity	Contribution to the cost of all regulatory activity
1	Drilling wells	\$796 059	18.53%	11.19%
2	Well completion or maintenance work	\$236 794	5.50%	3.33%
3	Exploration	\$303 680	7.07%	4.27%
4	Producing petroleum under a petroleum lease	\$2 583 280	60.13%	36.32%
5	Petroleum facilities (seven types)	\$59 576*	1.39%*	0.84%*
6	Greenhouse gas (GHG) storage projects	\$0	0%	0%
7	Pipelines	\$316 944	7.38%	4.46%
Totals		\$4 296 333	100%	60.40%

\*Category 5 figures are there as a representation only and amounts have been derived from table 4 to display its contribution to the cost of all regulatory activity.

**Table 11: Categories under the downstream sector**

Categories under the downstream sector		Contribution to the cost of all regulatory activity
8	Operating a distribution system	14.45%
10	Operating other LPG delivery network plant	13.33%
11	Product supplier of automotive LPG	2.19%
12	Tanker delivery carrier	0.01%
13	Major gas consumers	8.67%
14	Biogas or gas derived from a waste disposal tip or during sewage treatment	0.92%
15	Entertainment events	0.03%
Total		39.60%

Within the upstream sector, each category will have a set threshold corresponding to the contribution to the cost of regulatory activity (excluding Category 5). Table 10 displays these estimated thresholds for each of the upstream categories. These thresholds will be controlled by a capping calculation set within each category; the category fee rate will not change. This capping calculation would trigger should there be a growth in a category over and above the threshold. The calculation works to determine the proportional unit of measure contribution to the overall unit of measure amount for any one category in the upstream sector:

$$\text{CT} \times (\text{entity UOM no.} / \text{UOM total for category})$$

Where—

**CT** means the category threshold

**UOM** means unit of measure

For example: Category 4 has a proposed threshold of \$2 583 280 and the total number of prescribed wells reported for the year is 2500. A client in this same year reported they had 758 prescribed wells out of the 2500.

Without the capping calculation the revenue received for Category 4 would be \$3 295 000 and the client would be liable for \$ 999 044 (758 wells x \$1318). With the capping calculation the client is only liable for \$783 250. The formula applied for the client would be–

**\$2 583 280 x (entity’s prescribed wells no. / total prescribed wells no. for Category 4)**

or

**\$2 583 280 x (758 / 2500)**

However, should there be a decline in industry activity for any category and the revenue collected falls below the threshold set then the cap calculation will not trigger and the operating entities will only be liable for the nominal fee liability.

Table 12 provides the revenue that the Inspectorate received from the 2012-13 financial year for each category and the projected 2013-14 financial year with this capping methodology in place for upstream categories.

**Table 12: P&G Safety and Health Fee liability of P&G industries – Options 1 and 3**

Category		Current Fee Structure Revenue 2012–13	Per cent of Total 2012–13 Revenue	Proposed Fee Structure Revenue 2013–14*	Per cent of Total 2013–14 Revenue	Proposed Fee Structure Revenue 2013–14*	Per cent of Total 2013–14 Revenue
		Current P&G		Option 1 – no cap		Option 3	
Upstream	1	\$769 296	12.07%	\$1 334 688	15.62%	\$796 059	10.76%
	2	\$228 815	3.59%	\$354 350	4.15%	\$236 794	3.31%
	3	\$303 477	4.76%	\$273 418	3.20%	\$273 418	3.82%
	4	\$1 705 905	26.76%	\$3 295 000	38.56%	\$2 583 280	36.13%
	5	\$57 564	0.90%	\$56 265	0.66%	\$56 265	0.879%
	6	\$0	0%	\$0	0%	\$0	0%
	7	\$307 039	4.82%	\$308 271	3.61%	\$308 271	4.32%
Downstream	8	\$993 215	15.58%	\$1 044 665	12.23%	\$1 044 665	14.61%
	9	\$18 228	0.29%	N/A	N/A	N/A	N/A
	10	\$918 661	14.41%	\$1 068 798	12.51%	\$1 068 798	14.95%
	11	\$151 296	2.37%	\$120 102	1.41%	\$120 102	1.68%
	12	\$1025	0.02%	\$608	0.01%	\$608	0.01%
	13	\$839 475	13.17%	\$640 500	7.50%	\$640 500	8.96%
	14	\$78 351	1.23%	\$46 332	0.54%	\$46 332	0.65%
	15	\$2132	0.03%	\$2 206	0.03%	\$2 206	0.03%
<b>TOTAL</b>		<b>\$6 374 479</b>	<b>100%</b>	<b>\$8 545 203</b>	<b>100%</b>	<b>\$7 150 598</b>	<b>100%</b>

\*These figures have been calculated using 2012–13 data and the proposed 2013–14 fees (annual government index increase of, on average, 3.5 per cent).



#### **6.1.5.4 Preferred option**

The preferred option is option 3, the split fee framework. While this capping methodology is splitting the categories into two sectors, upstream and downstream, the focus is on the upstream sector which is where the industry growth will be. The category thresholds and the capping calculation will enable control of the revenue received from this sector on a whole. The downstream sector is forecasted to remain relatively stable with only conservative growth rate.

Splitting the sectors will also enable better management of fee contributions by these categories, particularly in the growth categories of the upstream sector, and allow the Inspectorate to plan specialist regulatory activity that differs between the upstream and downstream sectors. This option also should enable DNRM to meet its policy objective of recovering costs of the activities of the Inspectorate.

For both options 2 and 3, if the Inspectorate does not expend the full cost recovery forecasted revenue for the financial year the unused funds will be carried forward in the subsequent financial year's forecasted revenue.

Under option 3 the calculated costs of each category, under the upstream sector (excluding Category 5), will be published in March each year to indicate where activities are planned and the calculated costs of these activities.

#### **6.1.6 Audit regime**

A review of the current audit requirements was conducted following the release of the Consultation RIS and found to be adequate for the purpose of the P&G Safety and Health Fee.

#### **6.1.7 Change to invoice period**

DNRM is proposing to amend the invoicing cycle from October to November each year. This will allow the S&H Levy Unit to verify annual data provided following the move from quarterly returns.

### **6.2 Category specific amendments**

The feedback received from industry on category specific amendments centred on Category 4 and 10 with stakeholders being generally supportive of the other category specific changes. The following sections detail recommendations on the proposals made through the Consultation RIS and from the feedback received from stakeholders.

#### **6.2.1 Category 1: Drilling wells**

There was no initial proposal for amendments in the Consultation RIS (see section 3.2.1) and no feedback regarding this category from the RIS submissions. The fee method will continue to be a charge for each kilometre drilled. However, as per

section 6.1.5 this category will be subject to a capping model in order to limit the collected revenue.

***Regulation amendment outcome following consultation:***

- Following feedback on a required cap for Category 4, all categories will be split into upstream and downstream sectors with a category threshold and capping calculation applied to the upstream categories in order to limit the collected revenue received should industry activity increase. Category 1 will be under the upstream sector.

## **6.2.2 Category 2: Well completion or maintenance work**

There was no initial proposal for amendments in the Consultation RIS (see section 3.2.2) and no feedback regarding this category from the RIS submissions. The fee method will continue to be a charge for each well for which completion or maintenance work was done during the year. However, as per section 6.1.5 this category will be subject to a capping model in order to limit the collected revenue.

***Regulation amendment outcome following consultation:***

- Following feedback on a required cap for Category 4, all categories will be split into upstream and downstream sectors with a category threshold and capping calculation applied to the upstream categories in order to limit the collected revenue received should industry activity increase. Category 2 will be under the upstream sector.

## **6.2.3 Category 3: Exploration**

As per section 3.2.3, the initial proposal in the Consultation RIS for Category 3 was to change the fee factor from a fee charge for each square kilometre to which the authority or permit applies to a fee charge per sub-block. A fee of \$2.07 per sub-block was proposed in the Consultation RIS. Stakeholder feedback on this proposal was supportive.

Furthermore, as per section 6.1.5 this category will be subject to a capping model in order to limit the collected revenue.

***Regulation amendment outcomes following consultation:***

- The fee method will be amended to be a charge of \$2.07 per sub-block in schedule 9, Part 8 of the P&G Regulation.
- Following feedback on a required cap for Category 4, all categories will be split into upstream and downstream sectors with a category threshold and capping calculation applied to the upstream categories in order to limit the collected revenue received should industry activity increase. Category 3 will be under the upstream sector.

## 6.2.4 Category 4: Producing petroleum under a petroleum lease or 1923 Act lease

The initial proposal for Category 4 in the Consultation RIS was to change the fee factor from \$5.65 per TJ of petroleum produced to \$1318 per producing petroleum well (see section 3.2.4).

While stakeholders were accepting of the proposed change from a fee based on TJ's produced to a fee based on producing petroleum wells, there was concern on the figure of \$1318 per well. The reason for this concern was due to the expected growth of numbers of producing petroleum wells in the years to come and the resulting disproportionately high revenue that would be collected. Stakeholders however were supportive and welcoming of a capping mechanism. As per section 6.1.5, a capping mechanism has been developed.

The Consultation RIS offered a definition for 'producing petroleum well' to stakeholders for feedback (see section 3.2.4 for the definition). Following further discussions around a definition for 'producing petroleum well' it was decided instead to charge the fee per prescribed well that produces petroleum during the year and therefore referencing the definition of when petroleum is produced as per s. 15 of the P&G Regulation:

### **15 When Petroleum is produced**

(1) *Petroleum is produced when it is—*

(a) *recovered to ground level from a natural underground reservoir in which it has been contained; or*

(b) *for each petroleum well drilled for the purpose of producing coal seam gas within the area of the lease, each of the following for associated water taken from the well under the lease during the 6 month period—*

(2) *If, under the Mineral Resources Act a coal or oil shale mining lease holder mines coal seam gas, for this Act, the lease holder produces it.*

Wells that are suspended for the full financial year are not included.

### **Regulation amendment outcomes following consultation:**

- The fee method will be amended to be a charge of \$1318 per prescribed well that produces petroleum during the year in schedule 9, Part 8 of the P&G Regulation.
- Section 139(b) will be amended to replace TJ's produced to prescribed well that produces petroleum during the year.
- Following feedback on a required cap for Category 4, all categories will be split into upstream and downstream sectors with a category threshold and capping calculation applied to the upstream categories in order to limit the collected revenue received should industry activity increase. Category 4 will be under the upstream sector.

## 6.2.5 Category 5: Petroleum facilities

There was no initial proposal to change to the fee method in the Consultation RIS (see section 3.2.5) and no change to the fee method is recommended in this Decision RIS. However, there were two other amendments proposed for this category.

The first proposed amendment was to expand sub category (b) to cover the range of current processes for producing synthesised petroleum products. The inspectorate resources required to regulate these activities is more closely aligned with Part 8 Schedule 9 s. 5 (1)(b) syngas at a rate of \$5516. It was proposed that petroleum facilities producing shale oil and coal to liquids be aligned with the syngas fee.

The second proposed amendment is to amend the reporting requirement under s 139(2)(c) following stakeholder feedback from the 2012 discussion paper suggesting that the reporting requirements for this category are unclear. The amendment proposed is to require the amount of petroleum processed by **each** petroleum facility that was operated during the year. The change will clarify which subcategory fee applies if more than one facility is operated at the same site as per Part 8 Schedule 9 s. 5(2).

No feedback regarding this category was received from the RIS submissions.

Furthermore, as per section 6.1.5 this category will be excluded from the upstream capping calculation.

### ***Regulation amendment outcomes following consultation:***

- Section 135(2)(c) and Part 8 Schedule 9 s. 5(1) will cover the range of current processes for producing synthesised petroleum products under a reduced fee of \$5516.
- Section 139(2)(c) will be amended to require the amount of petroleum processed by **each** petroleum facility that was operated during the year to be reported.

## 6.2.6 Category 6: Facility used to carry out GHG storage activity

There was no initial proposal for amendments in the Consultation RIS (see section 3.2.6) and no feedback regarding this category from the RIS submissions as there are currently no clients liable for this fee. However, as per section 6.1.5 this category is part of the upstream sector of the P&G Safety and Health Fee.

### ***Regulation amendment outcome following consultation:***

- Following feedback on a required cap for Category 4, all categories will be split into upstream and downstream sectors with a category threshold and capping calculation applied to the upstream categories in order to limit the



collected revenue received should industry activity increase. Category 6 will be under the upstream sector.

### **6.2.7 Category 7: Pipelines**

There was no initial proposal to change to the fee method in the Consultation RIS (see section 3.2.7) and no change to the fee method is recommended in this Decision RIS. However, the Consultation RIS proposed to amend the P&G Regulation to clarify that the fee does not have to be paid on an uncommissioned or decommissioned pipeline, or in a year when no gas is being transported. Further assessment of the proposed policy to exempt pipelines in a year when no gas is being transported by the P&G Inspectorate found that the pipeline still poses a significant safety risk as gas is still in the pipeline. The decision was made to limit exemption of the fee on uncommissioned or decommissioned pipelines only.

Feedback was received from stakeholders requested that this Category include a pro-rata calculation for pipelines which are commissioned or decommissioned part-way through the year. Pro-rata calculations have been considered for this Category and DNRM will review this option again in a subsequent review of this fee.

Furthermore, as per section 6.1.5 this category will be subject to a capping model in order to limit the collected revenue.

#### ***Regulation amendment outcomes following consultation:***

- Amendments will be made to the P&G Regulation to clarify that pipelines are exempt from the fee if they have been uncommissioned or decommissioned for the entire financial year.
- Following feedback on a required cap for Category 4, all categories will be split into upstream and downstream sectors with a category threshold and capping calculation applied to the upstream categories in order to limit the collected revenue received should industry activity increase. Category 7 will be under the upstream sector.

### **6.2.8 Category 8: Operating a distribution system**

There was no initial proposal to change to the fee method in the Consultation RIS (see section 3.2.8) and no change is recommended in this Decision RIS. However, the Consultation RIS proposed to amend the P&G Regulation to clarify that the fee does not have to be paid on an uncommissioned or decommissioned pipeline, or in a year when no gas is being transported. Further assessment of the proposed policy to exempt pipelines in a year when no gas is being transported by the P&G Inspectorate found that the pipeline still poses a significant safety risk as gas is still in the pipeline. The decision was made to limit exemption of the fee on uncommissioned or decommissioned pipelines only.

No feedback was received from stakeholders on this category.

***Regulation amendment outcome following consultation:***

- Amendments will be made to the P&G Regulation to clarify that pipelines are exempt from the fee if they have been uncommissioned or decommissioned for the entire financial year.

### **6.2.9 Category 9: Operating LPG delivery network plant, if Act s675A(1) applies**

The initial proposal for Category 9 in the Consultation RIS was to abolish this Category of fee (see section 3.2.9). This was due to the administration burden put on government to administer this fee category.

Feedback from two stakeholders was not supportive of the abolishment of this category as they believed abolishment would not encourage these small businesses to invest in reducing risks and improving safety. However, Category 9 clients will still remain Operating Plants as per s. 670 of the P&G Act, hence this fee abolishment will not compromise regulatory activity.

***Regulation amendment outcome following consultation:***

- Category 9 of the P&G Safety and Health Fee will be abolished.

### **6.2.10 Category 10: LPG delivery network**

The Consultation RIS proposed a change to the requirements of Category 10 (see section 3.2.10). Currently the requirement is to pay a fee on the fuel gas containers 'owned' by the operating entity. Those clients who rent the containers from other suppliers and do not own the containers do not pay the fee. However, they still operate an LPG delivery network and are obliged to have a safety management plan which the Inspectorate regulates. Therefore, the proposal was made to change the requirement to pay a fee on fuel gas containers 'used' by the operating entity as distinct from 'owned'. This change would align closer with the definition of LPG Delivery Network as per schedule 2 of the P&G Act:

***LPG delivery network–***

- (a) *means the supply of LPG in fuel gas containers that are owned or provided (other than being sold) by a person (a **product supplier**) to a consumer or another person in the business of distributing LPG; and*
- (b) *Includes any part of the supply, or an activity incidental to the supply, that is carried out by an agent of the product supplier.*

Stakeholders had some reservations with the change to this category and raised concerns that the change would result in a large increase in fees payable as each company would be including more containers and subsequently have a higher container index (CI). They also questioned how the change from 'owned' to 'used'

would be calculated. The fee method will still remain the container index (CI) and this figure will be used to determine the size of the network:

$$CI = D/40 + (E \times 2) + (G \times 5) + (H \times 25)$$

Where – **D** is the number of fuel gas containers with a capacity less than 50 litres.

**E** is the number of fuel gas containers 50 litres or more but less than one kilolitre.

**G** is the number of fuel gas containers one kilolitre or more but less than eight kilolitres.

**H** is the number of fuel gas containers with a capacity of eight kilolitres or more.

It is anticipated that there will also be a greater contribution to Category 10 on the whole as clients previously not subject to the fee, because they did not own but rented the containers in their LPG Delivery Network, will now be liable.

In response to stakeholder concerns, changes in the fee methodology will be put in place to ensure there is no excessive increase in fees payable by the liable persons in this category due either to an increase in liable clients or an increase in the CI of those clients currently liable. The policy intent of the proposed change was not to increase the fees collected but to align the category to the definition of operating plant and of LPG Delivery Network.

Because of the disparate size of the networks it is proposed to split the networks into three categories based on size of networks (small, medium and large). The CI will need to be reported by all parties but only used in the fee calculation for the large suppliers (essentially three major supply entities). The medium and small suppliers will be charged a flat fee. The changes to the fee methodology are listed below:

- A reduction in the minimum fee from \$3861 to \$2500 which will be liable to operating entities that have a CI of 10 000 or less.
- A median fee of \$6000 will be introduced which will be liable to operating entities that have a CI between 10 001 and up to 50 000
- The entities with a CI above 50 000 will remain liable for the CI fee of \$0.76 per CI unit until they reach the maximum charge
- The maximum charge will remain at \$551 680.

This change in fee methodology will ensure that costs to clients remain at an appropriate level.

***Regulation amendment outcomes following consultation:***

- Amendments will be made to s. 139(2)(f) and Schedule 9, Part 8 of the P&G Regulation to remove reference to 'owned' and replace with 'used'.
- Reduce the minimum fee to \$2500 for operating entities that have a CI of 10 000 or less.
- Insert provisions for a median fee of \$6000 for operating entities that have between 10 001 and 50 000 CI.

### **6.2.11 Category 12: Tanker delivery carrier**

There was no initial proposal to change to the fee method in the Consultation RIS (see section 3.2.12) and no change is recommended in this Decision RIS. The amendment proposed through the Consultation RIS was to remove the reporting requirement for reporting the number of deliveries and the volume delivered as they are not needed to calculate the liability for the fee. It is proposed that liable persons will be required to report on the number of sites to which deliveries are made.

No feedback was received from stakeholders on this category.

#### ***Regulation amendment outcome following consultation:***

- The requirement to report the number of deliveries and the volume delivered will be removed from s. 139(2)(h)(i) and (ii) of the P&G Regulation.

### **6.2.12 Category 13: Major gas consumers**

Through the PIR it was suggested that entities under this category of fee are liable for fees that are disproportionate compared to other similar operating plants (such as processing facilities) in relation to the regulatory effort required. This means that other operators are paying proportionately less than major gas consumers. Major gas consumers may also be subject to other regulatory fees so a reduction was considered appropriate. The Consultation RIS proposed a reduction of these fees by approximately 25 per cent. Furthermore, it was proposed that the certain current reporting requirements be removed (see section 3.2.13). Feedback on these two changes by stakeholders was supportive.

Feedback was received from stakeholders requesting that this Category include a pro-rata calculation for gas devices which are commissioned or decommissioned part-way through the year. Pro-rata calculations have been considered for this Category and DNRM will review this option again in a subsequent review of this fee.

Some operators under this category are also charged a licence fee by the Department of Justice and Attorney-General (DJAG) as a major hazard facility (MHFs) under the Work Health and Safety Regulation 2011 (WHS Regulation). While there has been discussion as to any possible duplication of fees, it should be clear that DNRM regulates different aspects of the MHFs business than what DJAG regulate. No consultation was received on this matter.

.....

***Regulation amendment outcomes following consultation:***

- The fee levels of Category 13 will be reduced to the follow:
  - a) For a site that has a total gas capacity of not more than 150 gigajoules for each hour - \$6000 (which was \$7995 for the 2012-13 financial year)
  - b) For a site that has a total gas capacity of more than 150 gigajoules but not more than 500 gigajoules for each hour - \$9500 (which was \$13 325 for the 2012-13 financial year)
  - c) For a site that has a total gas capacity of more than 500 gigajoules for each hour - \$11 500 (which was \$15 990 for the 2012-13 financial year)
- The requirement to report the total amount of gas consumed and the actual maximum consumption rate of each device will be removed from s. 139(2)(i)(i) and (iii) of the P&G Regulation.

**6.2.13 Category 14: Biogas or gas from a waste disposal tip or sewage**

As per section 3.2.14 there were two amendments initially proposed for this category of fees through the Consultation RIS.

The first proposed amendment was to remove the reference of ‘use’ of biogas which would restrict this category to producers / processes only.

The second proposed amendment was to provide an exemption for those facilities that are passively venting the gas they produce to the atmosphere for safety purposes, or produce or process gas for research and / or trial purposes.

Feedback from stakeholders welcomed and supported these proposals. Further to these changes, the Consultation RIS did not propose changes to the fee method for this category and no change is recommended in this Decision RIS.

***Regulation amendment outcomes following consultation:***

- Remove the reference of ‘use’ of biogas under s. 135(q) and s. 139(o) of the P&G Regulation.
- Add an exemption under s. 135 of the P&G Regulation for facilities that are passively venting the gas they produce to the atmosphere for safety purposes, or produces or processes gas for research or trial purposes.

## 7. Changes to initial impacts

### 7.1 Impacts on industry

The change in impacts to industry discussed in the Consultation RIS and section 4.1 will be minor as most of the proposals in the Consultation RIS were supported.

The biggest change will be the introduction of a capping model for the upstream budget as detailed in section 6.1.5 and this impact will be a positive one for the industry. In response to feedback from industry voicing concerns on the change to Category 4 due to potentially high revenue that may be collected in this category as industry growth continues, a capping model has been formulated. This capping model will ensure that industry is paying no more than required to fund the Inspectorate proportionate to contribution to the cost of regulatory activity.

Some Category 10 clients, who do not own the LPG containers, will also be impacted by the introduction of a median fee which has been introduced as a response to the anticipated rise in CI per client. The minimum fee of this category has also be reduced in response to the greater in total contribution to Category 10 by clients, previously exempted as they did not own the containers in their LPG Delivery Network, now being liable for the fee (see section 6.2.10).

Table 13 details the current and proposed fee schedule for the P&G Safety and Health Fee for the 2013-14 financial year.

**Table 13: P&G Safety and Health Fee Schedule<sup>^</sup>**

Category	Sub Category / Min Max	Current 2012–13 Fees	Current 2013–14 Fees	Proposed 2013–14 Fees
1		\$1236.00	\$1279.00	\$1279.00
2		\$232.30	\$240.40	\$240.40
3		\$0.69*	\$0.71*	\$2.07*
4		\$5.50#	\$5.65#	\$1318.00#
5	(a)	\$10 660.00	\$11 033.00	\$11 033.00
	(b)	\$5330.00	\$5516.00	\$5516.00
	(c)	\$7995.00	\$8274.00	\$8274.00
	(d)	\$7995.00	\$8274.00	\$8274.00
	(e)	\$3731.00	\$3861.00	\$3861.00
	(f)	\$10 660.00	\$11 033.00	\$11 033.00
	(g)	\$10 660.00	\$11 033.00	\$11 033.00
6		\$10 660.00	\$11 033.00	\$11 033.00
7		\$0.00031	\$0.00032	\$0.00032
8		\$162.00	\$167.60	\$167.60
9		\$479.70	\$496.40	N/A
10		\$0.74	\$0.76	\$0.76
	Minimum	\$3731.00	\$3861.00	\$2500.00
	Median	N/A	N/A	\$6000.00
	Maximum	\$533 025.00	\$551 680.00	\$551 680.00



Category	Sub Category / Min Max	Current 2012–13 Fees	Current 2013–14 Fees	Proposed 2013–14 Fees
11		\$3.65	\$3.75	\$3.75
12		\$0.37	\$0.38	\$0.38
13	(a)	\$7995.00	\$8274.00	\$6000.00
	(b)	\$13 325.00	\$13 791.00	\$9500.00
	(c)	\$15 990.00	\$16 549.00	\$11 500.00
14		\$3731.00	\$3861.00	\$3861.00
15		\$1066.00	\$1103.00	\$1103.00

<sup>a</sup>Revision on Table 4 following feedback from Consultation RIS

<sup>\*</sup>2013-14 current fee is based on per square kilometre, and 2013-14 proposed fee is based on per sub block

<sup>#</sup>2013-14 current fee is based on Terajoules produced, and 2013-14 proposed fee is based on producing wells

## 7.2 Impacts on Government

The impacts on government listed in the Consultation RIS and section 4.2 have not changed following the recommendations in this Decision RIS.

## 7.3 Impacts on the community

The impacts on the community listed in the Consultation RIS and section 4.3 have not changed following the recommendations in this Decision RIS.

# 8. Consistency with other policies and regulation

## 8.1 Competition principles agreement

The cost recovery options will not restrict competition in the upstream, midstream or downstream petroleum and gas industry as the fees do not represent a barrier to entry. They generally apply equally to all participants in comparable industry sectors. Where differential fees have been applied within one fee category this has only been done to ensure all similar industry participants are treated fairly. The use of fee subcategories reflects the categories being quite broad. While this could be addressed by introducing a greater number of categories it would make the system more complex and ultimately increase the administrative burden, with costs needing to be recovered from industry. The fees imposed do not represent a significant proportion of the total costs that are incurred by each sector of the industry, which is consistent with Clause 5 of the *Competition Principles Agreement*.

## 8.2 Fundamental legislative principles

Regard has been given to the rights and liberties of individuals and the institutions of Parliament in developing these options. The regulatory amendments do not breach any fundamental legislative principles set out in section 4 of the *Legislative Standards Act 1992*.



## **9. Implementation, evaluation and compliance support strategy**

The P&G Safety and Health Fee is already in place. Amendments to the current regulation, specific to sections 134A to 144 and schedule 9, part 8, are required to address the issues in this RIS. All operating entities liable for the payment of the fee will be informed of the changes through direct correspondence and the DNRM website.

It is intended that the proposed fee changes will be effective from the October 2013 invoicing period. The benefits of a reduced administrative load as a result of making reporting requirements apply annually would however begin to accrue as of the first quarter of the 2013–14 financial year (i.e. from September 2013). Because the fee system is based on liability established in the year prior to the billing year, the amended fees would first be payable in October 2013.

The Inspectorate operates under an annual compliance program plan that identifies the areas where compliance efforts will be invested. The plan is reviewed every 12 months to ensure targets are appropriate and in line with risk and compliance issues identified, or it is revised to meet changing priorities. This ensures efforts are focussed on areas of greatest compliance need. In addition, this compliance data is available for use in determining whether the level of fees paid by each sector, is commensurate with the level of attention it is receiving.



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