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Australian oil and gas producers hit by levy for Timor Sea decommissioning



FPSO Northern Endeavour. (Courtesy Northern Oil & Gas Australia)

Offshore staff, May 12, 2021

LONDON – [Australia](#)'s latest Budget announcement on the upstream sector included a temporary decommissioning levy, which will be imposed on the country's offshore producers.

According to Wood Mackenzie research analyst Shaun Brady, this is designed to cover the government's decommissioning costs for the 274-m (899-ft) long [FPSO Northern Endeavour](#) and the Laminaria/Corallina fields in the [Timor Sea](#).

The *Northern Endeavour* is permanently moored between the two oil fields at a location 550 km (342 mi) northwest of Darwin.

The program, to be spread over several years, includes rehabilitation of, and the removal of risks to, the surrounding marine environment.

In February 2020, the government took action to ensure safety and security of the FPSO when the Northern Oil & Gas Australia group of companies, which owned and operated it, was placed into liquidation.

These were extraordinary circumstances, the government pointed out, and does not reflect requirements for how other projects offshore Australia are to be decommissioned.

"The policy is still light on detail, with the exact costs and terms still to be negotiated between the government and industry," Brady said. "Depending on how the levy is designed, it is likely the bigger Australian producers will bear the brunt."

"What could be more concerning for producers will be the precedent this may set – will Australian producers be held to account in the future if another player encounters financial difficulties and can't meet its commitments?"

Australia hits oil producers with levy to decommission abandoned Timor Sea field

Reuters May 11, 2021 By Sonali Paul

Australia has stunned the oil industry with a levy to cover the estimated \$200 million cost of removing facilities and cleaning up the area around an oil field off northwest Australia after the small company that owned the project collapsed.

The move, announced in the government's 2021-22 budget on Tuesday night, came as a surprise as it was not flagged in a proposed new framework for decommissioning rules set out last month.

The government was left with the task of removing the massive floating production storage and offloading (FPSO) vessel and rehabilitating the Laminaria-Corallina oil fields in the Timor Sea after the fields' owner, Northern Oil & Gas Australia (NOGA), went into liquidation in 2019.

The oil industry's lobby group had pushed the government to find other ways of recovering the estimated A\$250 million (\$196 million) decommissioning costs and said the levy could deter new investment in the oil and gas industry.

"Tonight's announcement of a new levy on the entire (offshore) oil and gas industry is a terrible precedent and could have serious repercussions to Australia's economy and to jobs," Australian Petroleum Production and Exploration Association Chief Executive Andrew McConville said.

The government did not provide an estimate of how much decommissioning would cost as the work has yet to go out to tender, but said the levy would remain in place until all costs have been recovered.

"This will ensure taxpayers are not left to pay for the decommissioning and remediation," the budget papers said. Further information on how the levy will be collected would be announced after consultation with the industry, the papers added.

NOGA bought the ageing Laminaria-Corallina oil fields from Woodside Petroleum ([WPL.AX](#)) and Talisman Energy in 2016.

Problems with corrosion on the Northern Endeavour FPSO and worries about the owner not having the right financial assurance for potential oil spill liabilities prompted Australia's offshore regulator to shut down the operation in 2019. As income evaporated, NOGA went into liquidation.

Regulator calls time on delays to \$52B offshore oil and gas decommissioning

Regulator NOPSEMA has wrested control of the schedule for cleaning up Australia's offshore oil and gas fields from tightfisted operators in a move that may result in an offshore jobs boom later this decade.

By Peter Milne.

Boiling Cold, 21 April 2021

Northern Endeavour floating production storage and offloading oil vessel in the Timor Sea. Source: Anon.



Operators will be required to remove all equipment floating in the ocean within 12 months of a permanent end of operations at a facility, according to a new [decommissioning compliance strategy](#) released by the offshore environment and safety regulator NOPSEMA.

Operators must plug wells within three years of operation ending and remove all structures on the seabed by two years after that.

The cost to clean up after Australia's offshore oil and gas industry is estimated to be about \$52 billion over the next three decades.

It has been common practice for the industry to delay decommissioning rather than spend money on an activity that does not increase revenue.

Chevron is seeking permission to [leave a wellhead on the seabed](#) where it drilled a well in 1974 into the West Tryal Rocks field. The 47-year-old well has been plugged.

NOPSEMA's move to expedite decommissioning is motivated by concern that "the ability to decommission appropriately is [increasingly at risk the longer the period of time](#) between cessation of production and completion of decommissioning activities."

The industry has until the end of 2023 to have decommissioning plans in place for all fields that have ceased production.

Decommissioning work likely to boom

The new deadlines for completing decommissioning and a backlog of delayed work could prompt a massive surge in offshore activity once NOPSEMA accepts the decommissioning plans.

The waters off WA are expected to account for about 60 per cent of the \$52 billion decommissioning bill estimated by Advisian in a report for National Energy Resources Australia.

Work on about half the total scope is estimated to start this decade, with ExxonMobil's ageing Bass Strait facilities likely to feature heavily.

The Northern Carnarvon Basin off WA has about 225 subsea wells to plug and abandon and more than 300 subsea structures to be removed.

In contrast to large LNG projects like Barossa and Scarborough, decommissioning expenditure is likely to have a much higher level of Australian content.

Offshore oil and gas producers have minimised decommissioning expenditure by selling out, continual delays, or justifying leaving the equipment on the seabed.

Selling is now less attractive as under legislation proposed by the Federal Government; the original owner will retain last resort liability if the new owner cannot pay for decommissioning.

[ExxonMobil](#) and ENI have recently cancelled attempts to sell Australian assets.

Oil and gas lobby APPEA is strongly opposed to the introduction of these trailing liabilities.

NOPSEMA's stricter stance on the timely completion of decommissioning takes the option of continual delay away from operators. However, game playing is likely over what constitutes the permanent end of operations that triggers NOPSEMA's regulatory clock.

The final offshore decommissioning battle between regulators and industry is likely to be about under what circumstances operators can leave equipment on the seabed.

The Australian offshore oil and gas industry is required by law to remove all equipment from the ocean and plug all wells to prevent future unless NOPSEMA approves an alternative. An exemption relies on the high bar of achieving "[equal or better environmental outcomes](#)" compared to complete property removal."

The industry has heavily promoted so-called rigs-to-reef where structures remain on the seabed to support the marine life that has developed on and around them.

The Australian offshore oil and gas industry is now more exposed to decommissioning costs than many companies had planned for. The main reason is a cost-saving decision made on a relatively minor Woodside facility six years ago.

Tougher rules a Coleman legacy

NOPSEMA announced its new decommissioning strategy on April 19, Peter Coleman's last day as Woodside chief executive.

Many in the offshore industry believe the Federal Government's recent tough stance on offshore decommissioning, in contrast to its other policies affecting fossil fuels, is largely due to the mounting costs of managing the

Northern Endeavor oil vessel in the Timor Sea.

Woodside sold the Northern Endeavour to a new, small, inexperienced company Northern Oil and Gas Australia in 2015 after reversing its own plans to decommission the vessel.

NOGA was liquidated in early 2020 after a series of technical and financial issues, and the cost to the Federal Government to decommission the vessel and oil field has been put [as high as \\$1 billion](#) by independent Senator Rex Patrick.

"Let's be clear, Woodside doesn't have an issue on Northern Endeavour," Coleman told the media last week.

"It was sold as an ongoing business, so I think we need to move away from that.

"We sold it two years before there was an issue, and at the time, the company that purchased it, NOGA, had the liquidity to complete all of their abandonment requirements.

"Now what happened in that intervening two years, of course, we can't speak to and at the same time recall that the Government themselves looked at that transaction and approved it."

The transaction was not subject to a substantial review by regulators because it involved the sale of the subsidiaries that owned the Northern Endeavour. As no new companies appeared on the title, the regulations in place did not allow the National Offshore Petroleum Titles Administrator to intervene.

Proposed legislation will introduce change of control provisions that will allow regulatory scrutiny when there is a significant change of ownership of a company that controls an entity named on a title document.

"If we move beyond that (the Northern Endeavour), we actually have an excellent relationship with the Government in this area," Coleman said.

Boiling Cold understands Woodside's standing with the Federal Government has significantly deteriorated due to the Northern Endeavour.

Coleman said Woodside supported the Federal Government's assessment of what to do with the Northern Endeavour "because we just think it's the right thing to do."

Woodside was [paid \\$7.3 million for the advice](#).

"We've also set up a special decommissioning group in the company to focus on this area."

Woodside previously had a decommissioning team during Coleman's 10-year tenure leading the company, but it was disbanded in about 2017.

"The first major decommissioning we do will be the Enfield project," Coleman said.

In February 2021, NOPSEMA ordered Woodside to remove all equipment from the Enfield oil project by a fixed schedule and said it would investigate whether Woodside broke the law by not properly maintaining equipment.

Woodside was a member of the APPEA working group that advised the Federal Government on the decommissioning legislation.

"We're quite comfortable with where that has got to, understanding where the law is and understanding where best practice is globally," Coleman said.

Coleman said the \$US2.1 billion abandonment liability on Woodside's books reflected where the company believed the legislation was going.

"The external auditors have been through this in quite a lot of detail over the last 12 months and have come back and said to us that Woodside is the gold standard in the industry," Coleman said.