Workshop Agenda
31 July 2013

1. Introduction
2. Sources of NOPSEMA revenue
3. Reason for review
4. Terms of Reference
6. Questions/comments
• Welcome and thank you
• Review of regulatory levies – ongoing since the consolidation of three separate Cost Recovery Impact Statements into a single NOPSEMA CRIS in June 2012
• Annual Meeting 19 December 2012 – Advised levy payers:
  – “current levies did not reflect the level of cost recovery needed”
  – NOPSEMA likely to seek approval to increase levies from July 2013
• 2013 Review of Cost Recovery Arrangements announced on 29 May, seeking input by 30 June
• Draft Report and Draft Cost Recovery Impact Statement released 18 July, updated on 25 July
• Consultation period closes on 19 August 2013
Sources of NOPSEMA revenue

- Safety case levies (introduced 1 Jan 2005)
  - One SMS Amount per Operator per calendar year
  - Facility Amount – unit value X facility rating
  - Pipeline SMS and Pipeline Amount – “one-off payment” on acceptance and subsequent major revision
- Investigation levy
- Fee for assessing Safety case – for proposed new technology facilities
- Well levies (introduced 17 June 2011)
  - Annual levy per eligible well based on prior year - $2,600 per well
  - Well activity levy
    - Application for acceptance of a well operations management plan (WOMP)
    - Application for approval to commence an activity relating to a well
- Environment plan levy (introduced 1 January 2012)
  - Activity amount payable on submission of an Environment plan
  - Compliance amount payable on submission for the first year and annually in advance thereafter
  - Activity rating/compliance rating X $3,000
- Interest equivalency payment from Government (<1% of revenue)
• NOPSEMA CRIS expires on 30 June 2014

• Current levies do not recover NOPSEMA costs
  • NOPSEMA previously notified levy payers at its annual meeting with industry on 19 December 2012

• Adjustment to levies by 1 January 2014
  • Levies are based on a calendar year

• Cash management
  • Peaks and troughs - levies paid in advance/arrears
  • Manage cash flows in a financially responsible manner

• Chart showing cash forecast without changes to levies
Reason for review

Cash Forecast Without Changes to Levies

$ Million

Cash Outflows
Cash Inflows
Cash Balance - NO CHANGE

31 July 2013
• Principles of Cost Recovery Impact Statement
  - Activities and costs 1 July 2012 to 30 June 2013
  - Administration and structure of the levies
  - Allocation of corporate overheads
  - Retained earnings and cash balances
  - Varying levy ratings, unit values and amounts
  - Timing of levy payment
  - Minimum level of cash required

• Effectiveness of ongoing monitoring mechanism (cost effectiveness review)

• Action status of recommendations from previous reviews

• Cost recovery issues raised by key stakeholders

• Any need for legislative amendments
Activities and costs 2012-13

• Safety case levies
  • At 30 June 2013, 38 operators were charged safety case levies:
    • 12 operators of 48 other than mobile facilities
    • 21 operators of 27 mobile facilities
    • 5 operators of 7 pipeline facilities

• Well levies
  • Titleholders were charged well levies on:
    • 792 eligible wells as at 31 December 2012
    • 19 applications for acceptance of a well operations management plan (WOMP)
    • 113 applications for approval to commence an activity relating to a well

• Environment plan levy
  • Titleholders were charged the environment plan levy on:
    • 169 new activities pertaining to environment plan submissions
    • 51 ongoing compliance amounts on 1 January 2013
Activities and costs 2012-13

- **Total operating expenditure was $28.4 Million**
  - $20.3M Regulatory
  - $2M NOPSEMA implementation
  - $6.1M Corporate

- **Revenue from Levies was $26.1 Million**
  - Safety case levies $15.7M
  - Well levies $3.5M
  - Environment plan levy $6.9M

- **Other revenue was $4.2 Million**
  - Government appropriation $3.8M for NOPSEMA implementation
  - Other $0.4M

- **Surplus of $1.9M [26.1 + 4.2 - 28.4]**
  - Includes $1.8M of NOPSEMA implementation revenue to be expensed in 2013-14 and beyond, including depreciation charges

- **Ratio of administrative staff cost supporting the regulatory function is down from 34 % in 2011-12 to 22%**

31 July 2013
Three separate sources of levies

- OHS
- Wells
- Environment

Corporate and technical services overheads distributed to each regulatory function

- Head count is the primary driver
- Excludes overheads otherwise recovered

Estimated distribution for CRIS:

- OHS 44%
- Wells 9%
- Environment 47%

31 July 2013
Retained earnings and cash balances

- Steps have been taken and agreed with facility operators to:
  - Reduce the retained earnings accumulated in the early years of NOPSA
  - By limiting any safety case levy increases to the minimum required
  - To maintain NOPSEMA’s operational capability

- Safety Case related retained earnings reduced from $5.6M in 2007/08 to $1.2M in 2011/12

- Retained earnings at 30 June 2013 - $9.8M
  - $5.4M attributable to government appropriation for NOPSEMA implementation in 2011-12 and 2012-13

- Written down value of fixed assets - $5.5M

- Cash balance - $2.8M
  - Includes $1.2M of NOPSEMA implementation cash to be spent in 2013-14
Safety case levies

- Recommended for consideration after January 2014
  - Safety case levy is currently payable after a safety case is accepted (safety case in force)
  - Assessment of a safety case that is rejected or withdrawn before a decision is made by NOPSEMA, is not subject to any levy
  - Consider legislative amendment to enable NOPSEMA to recover costs

Well levies and Environment plan levy

- No change is recommended
  - NB: Legislative obligation to pay Well and EP levies on submission – payment due within 30 days
  - Accepted practice is for NOPSEMA to send out levy notifications based on information supplied by titleholders – levy amount and due date stated on notification
Safety case levies

• Recommended changes:
  • Floating liquefied natural gas (FLNG) facility
  • Vessel for doing work on an existing pipe
  • Vessel or structure not otherwise listed
  • Definition of mobile Facilities

• Recommended for consideration after January 2014
  • Consider legislative amendment to include as separate categories a complex facility and large complex facility

Well levies and Environment plan levy

• No change is recommended
Safety case levies

- Recommend 13% increase for mobile and other than mobile facilities from 1 January 2014:
  - Unit value to $35,000 (from $31,000)
  - SMS mobile to $113,000 (from $100,000)
  - SMS non mobile to $170,000 (from $150,000)

- Increase slightly above CPI (calculated from 2005) but well below NOPSEMA market-driven cost increases

- Recommend increases for pipeline facilities from 1 January 2014:
  - Unit value to $14,000 (from $10,000 since 2005)
  - SMS amount to $56,000 (from $40,000 since 2005)
• Well levies
  • No change recommended

• Environment plan levy
  • Recommend 20% increase from 1 January 2014:
    » Activity amount to $3,600 (from $3,000)
    » Compliance amount to $3,600 (from $3,000)
  
  • Recommend re-alignment of the activity and compliance rating amounts to better reflect cost recovery principles for different activities within an environment plan
    » Previously estimated in 2011
    » Experience with 140 EPs, spanning 185 activities
    » Larger proportion of EPs than estimated required multiple opportunities to modify and resubmit
    » Higher demand for operator liaison meetings – more than 160 meetings in 2012
• Recommended for consideration after January 2014
  • Consider indexation formula, linked to NOPSEMA cost drivers

• Future variations
  • To be discussed with operators and titleholders at annual meetings on cost effectiveness
  • In accordance with Government Cost Recovery Guidelines
Timing of levy payments

• Safety case levies
  • Payable quarterly in arrears
  • No change currently recommended

• Well levies
  • Payable on application
  • Annual levy due on 1 January

• Environment plan levy
  • Payable on submission of EP
  • EP compliance levy paid in advance
  • Annual compliance amount due on 1 January for EPs of more than 12 months duration

31 July 2013
• NOPSEMA needs to retain a minimum cash balance of approximately $7M at the end of each month to:
  • Offset peaks/troughs due to timing of revenue and expenditure
  • Meet operational liabilities
  • Replace and/or upgrade assets as required
  • Meet unexpected contingencies
  • Maintain 10% of annual budget

• Chart showing estimated impact of levy increases on cash balance
  • Biggest challenge between November and January prior to receiving annual levies
Minimum level of cash

Cash Forecast After Changes to Levies

Minimum Cash Balance

Cash Outflows

Cash Inflows

Cash Balance End of Month

31 July 2013
Effectiveness of ongoing monitoring mechanism

• In accordance with Regulations 61-63
  • CEO must conduct periodic reviews of cost-recovery
  • Comparison of fees and levies with regulatory activities
  • Audited financial report that assesses the cost-effectiveness of NOPSEMA operations each financial year
  • Meet industry representatives each year to discuss cost-effectiveness
  • Present costs, budget projections and operating budget for following year

• This mechanism is considered an appropriate monitoring tool to assess NOPSEMA’s cost effectiveness

• Report is published on NOPSEMA’s website following the meeting and includes key discussion items
The 2012 Review made 8 recommendations

• Recommendations implemented
  ✓ Consolidated CRIS
  ✓ Comprehensive review in 2013/14 – current 2013 review
  ✓ Each facility/structure to be assessed individually
  ✓ Continuation of stepped increases to safety case levies
  ✓ Initiate a separate CRIS – as part of the current 2013 review process

• Recommendations subject to consideration after January 2014
  o Well and environment plan levies notification process
  o Safety case levy when safety case is rejected or withdrawn
  o Annual increase in levies via indexation formula
Proposed legislative amendment
1 Jan 2014

• Safety case levies:
  • Unit value for mobile and other than mobile facilities $35,000
  • SMS mobile $113,000
  • SMS other than mobile $170,000
  • Unit value for pipeline facility $14,000
  • SMS for pipeline facility $56,000
  • New facility categories:
    – FLNG - rating of 25
    – Vessel for doing work on an existing pipe (amendment of Item 5A) – rating of 3
    – Vessel or structure not otherwise listed – rating of 3
  • Definition of mobile facilities to include vessel for doing work on a pipe

• Environment plan levy:
  • Activity value $3,600
  • Compliance value $3,600
  • Activity ratings – as per Table 9 of 2013 Report
  • Compliance ratings – as per Table 10 of 2013 Report

31 July 2013
Thank You

Questions/comments