

# Workshop Agenda

## 31 July 2013

### 2013 Review of Cost Recovery Arrangements and Cost Recovery Impact Statement 2014 - 2016

1. Introduction
2. Sources of NOPSEMA revenue
3. Reason for review
4. Terms of Reference
5. Draft Report and Cost Recovery Impact Statement (CRIS)
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

- 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
- } Payable quarterly
- 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

### Cash Forecast Without Changes to Levies



- 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

- 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%



- 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%

- 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

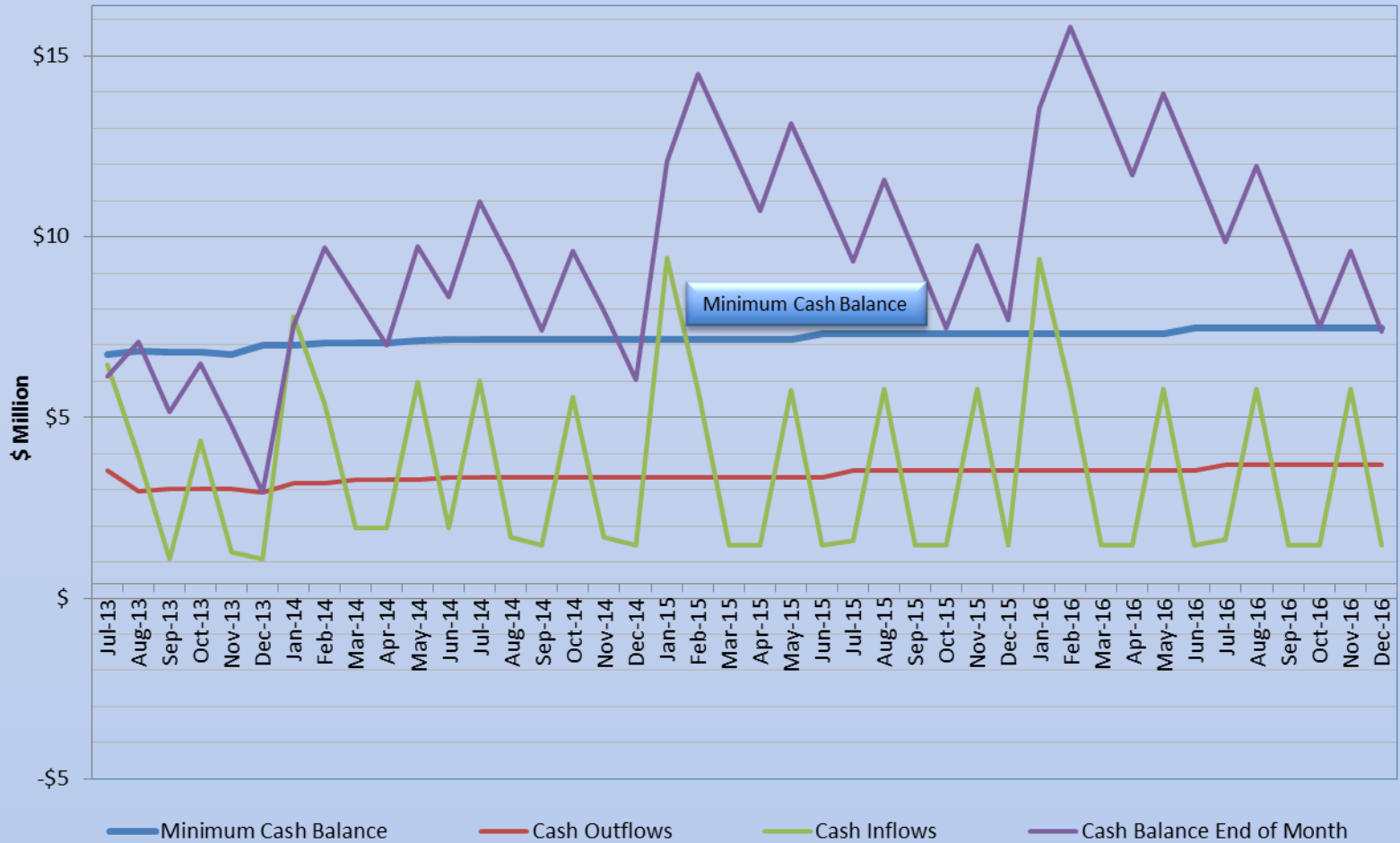
- Recommended for consideration after January 2014
  - Consider indexation formula, linked to NOPSEMA cost drivers
  
- Future variations
  - To be discussed with operators and titleholders at annual meetings on cost effectiveness
  - In accordance with Government Cost Recovery Guidelines

- 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



- 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

## Cash Forecast After Changes to Levies



- 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
  - Well and environment plan levies notification process
  - Safety case levy when safety case is rejected or withdrawn
  - Annual increase in levies via indexation formula

- 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

Thank You

Questions/comments