

Agenda

2012 Cost Recovery Impact Statement (CRIS) Workshop

1. Introduction
2. NOPSA – 3Year Independent Review
3. Legislative Developments 2011-12
4. Sources of NOPSEMA Levies
5. Terms of Reference for CRIS Review
6. CRIS Review

Introduction

Promote

Investigate

Co-operate

Report

Monitor &
Enforce

Advise

Second 3-Year Operational Effectiveness Review of NOPSA (November 2011) Overall Assessment

- The period since the 2008 operational review of NOPSA has been one of consolidation.
- Ongoing legislative change, significant reviews and inquiries requiring resource intensive operational and policy responses.
- This year, NOPSA has had to plan and prepare for significant structural change with the passage of legislation to create NOPSEMA, which is to commence at the start of 2012.
- NOPSA has firmly established itself as a respected and competent safety regulator among stakeholders and peers in both the domestic and international offshore petroleum and gas industry.

Legislative Developments 2011-12

- October 2011: *OPGGS Amendment (National Regulator) Act 2011*
 - NOPSEMA to replace NOPSA, with environmental protection role
 - Power to enter into contracts for regulatory services to foreign Govt agencies and to States or the NT for both offshore and onshore
 - Administration of safety zones around facilities
 - Power to give directions
 - Appointment of petroleum project inspectors
 - Well regulations become 'listed OHS laws' under s.638 of OPGGS Act
 - Functions include compliance and enforcement in relation to all obligations of persons under the OPGGS Act and regulations

Legislative Developments 2011-12

- October 2011: *OPGGS Regulatory Levies Legislation Amendment (2011 Measures No.2) Act 2011*
 - Provision for cost-recovery levies on titleholders for environment plans
- December 2011: *OPGGS (Environment) Regulations 2009* to be amended
 - NOPSEMA to be provided with environmental management regulatory functions and powers

Sources of NOPSEMA Levies

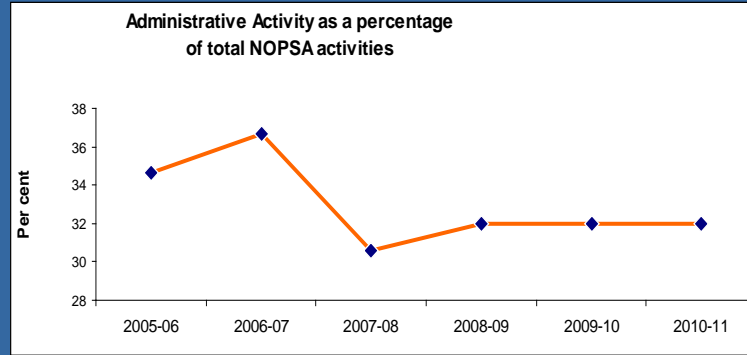
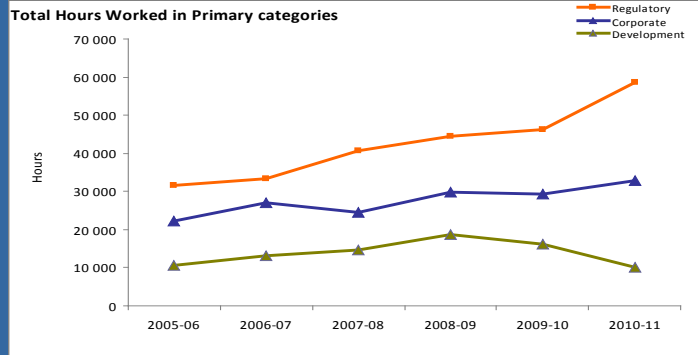
- Safety Case Levies (introduced Jan 2005)
 - One SMS Amount per Operator per calendar year
 - Facility Amount – unit value X facility rating
 - Pipeline SMS and Pipeline Amount – “one-off payment”

Payable quarterly
- Investigation Levy
- Fee for Assessing Safety Case
- Well Levies (Introduced 17 June 2011)
 - Annual Levy per eligible well -\$2,600
 - 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 thereafter
 - Activity rating/Compliance rating X \$3,000
- Interest Equivalency Payment from Government (<1% of revenue)

Terms of Reference

- Principles of Cost Recovery Impact Statements
 - Actual activities and costs 1 Jan 2008 to 30 June 2012
 - Administration and structure of the levies
 - Allocation of corporate overheads
 - Retained surpluses and cash balances
 - Varying levy ratings, unit values and amounts
 - Timing of levy payment
 - Minimum level of cash required to meet contingencies
- Effectiveness of ongoing monitoring mechanism (cost effectiveness review)
- Action status re: previous reviews
- Cost recovery issues raised by key stakeholders
- Any need for legislative amendments

Activities and Costs July 2005 to June 2011



Comparison of Levies Collected with Regulatory Activities Undertaken from 2005-06 to 2010-11

	2005-06 Actual	2006-07 Actual	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Actual
Regulatory hours worked	41 975	46 555	55 448	63 322	62 583	68 840
Fees and Levies collected	\$9.4 million	\$10.3 million	\$11.8 million	\$12.0 million	\$12.9 million	\$12.6 million
Regulatory hours worked per \$1 million collected	4 465	4 520	4 699	5 277	4 851	5 463
Expenditure	\$6.7 million	\$9.6 million	\$11.4 million	\$12.3 million	\$13.9 million	\$14.8 million
Regulatory hours worked per \$1 million expenditure	6 265	4 849	4 864	5 148	4 502	4 651

Estimated Activities and Costs 2011-12

- YTD 31 March 2012 – 94,000 hours
 - 53,000 Regulatory
 - 7,500 Development
 - 5,000 NOPSEMA Implementation
 - 28,500 Corporate
- Administrative activity as percentage of total NOPSEMA activities down from 32 % to 30%
- YTD 31 March 2012 - \$17 Million expenditure
 - \$10.4M Regulatory
 - \$3.0M NOPSEMA Implementation
 - \$3.6M Corporate
- Corporate cost as a percentage of total NOPSEMA cost down from 32% to 21%

- YTD 31 March 2012 - \$4M Cash balance
 - Unearned revenue from levies \$2M
 - Sale of fit-outs at Enex100 \$1.9M

- Forecast expenditure 2011-12 - \$23M
 - Includes \$4.0M NOPSEMA Implementation expenditure
- Forecast revenue 2011-12 - \$27M
 - Includes \$8.5M NOPSEMA Implementation funding
- Forecast operational deficit of \$0.5M (Levy related)
 - Net Surplus of \$4M due to NOPSEMA Implementation (capital expenditure depreciation)

Administration and Structure of Levies

- No changes to levy administration
 - Note that legislative obligation for Well and EP levies is on submission – payment due within 30 days
 - Accepted practice is for NOPSEMA to send out Levy Notifications – due date stated on Notification
 - May need to tidy up legislation
- Structure for Safety Case Levies to consider:
 - Currently the levy is 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 currently subject to any levy.
 - Consider extending Regulation 60 to include any facility instead of being limited to a “proposed facility”.
 - A “proposed facility” defined as proposed to be or being constructed at a place outside NOPSEMA waters.
 - Refer recommendation 3 c) of the 3Year Independent review.

Allocation of Corporate Overheads

- Three separate sources of Levies
 - OHS
 - Wells
 - Environment
- Corporate Overheads include:
 - Chief Executive Office
 - Office Administration and Accommodation (including depreciation charges)
 - Communications
 - Finance
 - Human Resources
 - Information Technology
 - Legal Services

Allocation of Corporate Overheads

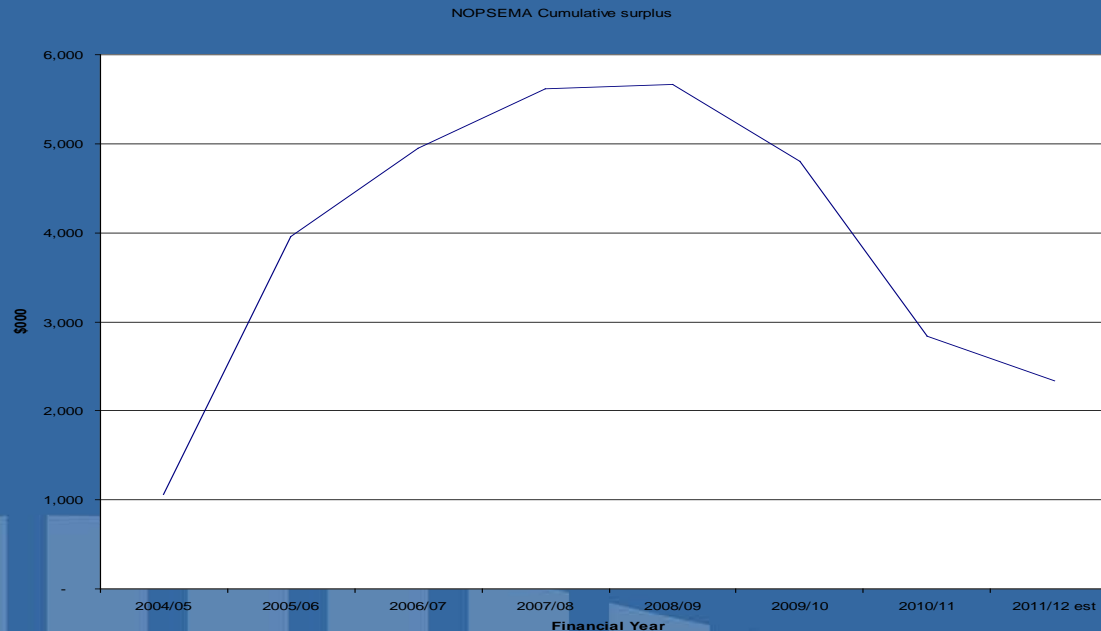
- External advice sought for distribution of overheads to each Regulatory function

Principles agreed:

- Allocate by head count:
 - Utility costs
 - Property related costs including lease, outgoings, cleaning
 - Telephone/Mobile services
 - IT outsourced technical provider/service desk
 - Insurances
 - Property depreciation charges
 - Directly allocate expenses and depreciation charges relating to Regulatory Management System
 - Exclude overheads otherwise recovered. E.g. NOPSEMA implementation and fees for assessing safety case (proposed facility)
 - Allocate balance of overheads based on Regulatory hours
- As at 31 March 2012, the proportion was:
 - OHS – 71%
 - Wells – 11%
 - Environment – 7%
 - Other – 11%

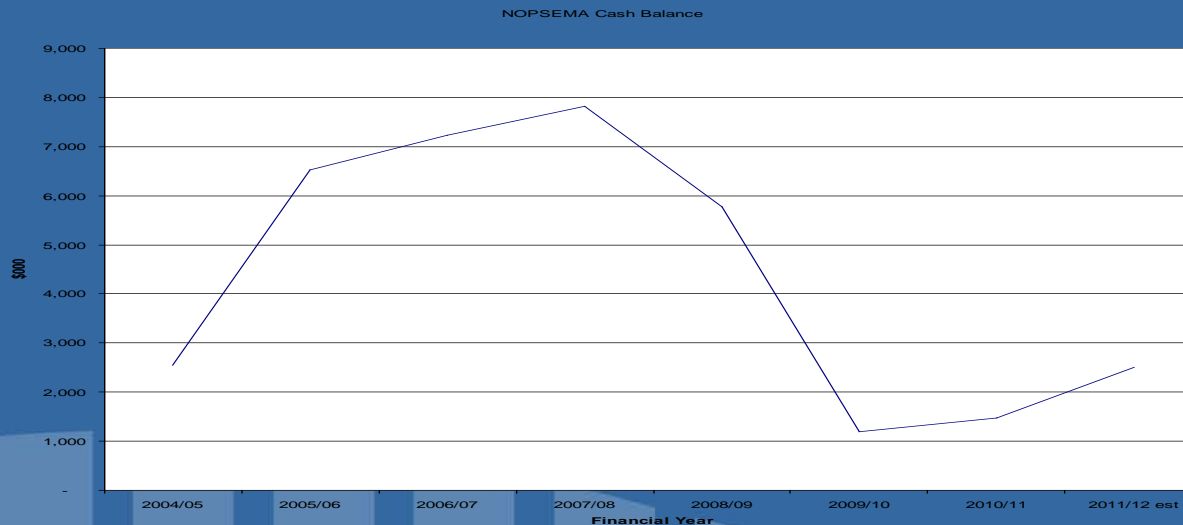
Retained Surpluses and Cash Balances

- Steps have been taken and agreed with Operators to reduce the surpluses accumulated in the early years of NOPSA operations by generating deficits and limiting any levy increases to maintain operational capability.
- Surplus reduced from \$5.6M 2007/08 to \$2.8M 2010/11



Retained Surpluses and Cash Balances

- Timing of Safety Case Levy payments changed from “in advance” to “in arrears” for facilities classified as “other than mobile” from 1 January 2010.
- Minimum mobile facility levy payment reduced from 2 to 1 quarter.
- Cash balance reduced from \$7.8M 2007/08 to \$1.5M 2010/11



Varying Levy Ratings, Unit Values and Amounts

- Well and Environmental Plan Levies
 - New levies with limited time to assess effectiveness
 - Consider link to CPI and NOPSEMA wages increase (driven by market) in revised CRIS
- Safety Case Levies
 - Unit value increased from \$25,000 to \$26,000 January 2010
 - Unit value increased to \$29,000 January 2011
 - SMS – Mobile facilities increased from \$80,000 to \$90,000
 - SMS – Non Mobile facilities increased from \$125,000 to \$140,000
 - Consider separate treatment of each “facility” where Operator combines several facilities in a single Safety Case – direct relationship with regulatory resources
 - Consider link to CPI and NOPSEMA wages increase (driven by market) in revised CRIS
 - Recommend 5% increase from 1 January 2013 to meet 2012/13 OHS related regulatory expenditure:
 - » Unit value to \$31,000
 - » SMS Mobile to \$100,000
 - » SMS non mobile to \$150,000
 - Increase below CPI and NOPSEMA market-driven wage increase since January 2011
- Any future levy increases to be discussed with Operators and Titleholders at Annual Meeting on Cost Effectiveness

Timing of Levy Payments

- Well and Environmental Plan Levies
 - Payable on submission
 - Compliance levy paid in advance
 - Annual well levy due 1 January
 - Annual compliance levy due 1 January
 - Review payment cycle, “on submission” and “due 1 January” problematic for Titleholders and NOPSEMA
- Safety Case Levies
 - Payable quarterly in arrears
 - No change recommended

Minimum level of Cash

- NOPSEMA aims to retain a minimum of 10% of budgeted annual expenditure
 - Previously discussed with industry
 - Documented in previous reviews of cost recovery arrangements and discussed with stakeholders
 - To meet unexpected contingencies and for replacement and upgrade of assets
- Expenditure Budget for 2012/13 is \$27M
- Forecast cash balance 30 June 2012 is \$2.5M

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

Action Status re: Previous Reviews

- The 2008 CRIS Review addressed Safety Case Levies
- Recommendations were actioned
- The following items are highlighted:
 - Facility rating for large production platforms changed from 9 to 12.
 - Facility rating changed from 5 to 3 for those facilities deemed as a “vessel or structure used for the erection, dismantling or decommissioning of a facility or for the provision of accommodation for persons working on another facility”.
 - Reducing the accumulated retained surplus.
 - All operators to be invoiced quarterly in arrears.
 - In 2011-12 or earlier, amend the unit values to reflect relevant risks and appropriate regulatory activity by category.
 - Process of reviewing the unit values on a yearly basis.
 - Reduce minimum levy payment for mobile facilities from two to one quarterly instalment.

Cost Recovery Issues Raised by Stakeholders

- No issues raised to date

Any Need for Legislative Amendment

- Well and Environment Plan levy due dates
- Extend Regulation 60 of OPGGS (RL) Regulations 2004 to enable NOPSEMA to recover costs associated with safety case assessment where the safety case is rejected or withdrawn before a decision is made by NOPSEMA – Based on actual hours worked X hourly rate (2011-12 \$305)
- Deem each structure combined into a single Safety Case to be multiple facilities and rated accordingly; E.G. two platforms in one safety case should trigger two facility amounts
- Link \$ values to CPI and NOPSEMA market-driven wages increase
- Revise Safety Case Levy values from 1 January 2013 to meet operational requirements, as follows:
 - Unit value \$31,000
 - SMS Mobile Facility \$100,000
 - SMS Other than Mobile Facility \$150,000