



15 March 2019

Ms Nicole Ross
Gas Inquiry Unit
Australian Competition and Consumer Commission
GPO Box 520
Melbourne VIC 3001

Submitted online: gas.inquiry@acc.gov.au

Dear Ms Ross

Framework for the consistent reporting of natural gas reserves/resources – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Competition and Consumer Commission's (ACCC) Framework for the consistent reporting of natural gas reserves and resources Consultation Paper. Origin holds a 37.5 per cent interest in Australia Pacific LNG (APLNG) – a joint venture between Origin, ConocoPhillips and Sinopec – and is the operator of the upstream coal seam gas (CSG) exploration, development and production activities associated with that project. We also have a 70 per cent interest in exploration permits covering over 18,500 km² in the Beetaloo Basin.

Origin supports the ACCC's underlying objective for a consistent and transparent approach to the reporting of reserves/resources estimates to help inform the outlook for gas supply in the market. In our view, these objectives are largely satisfied by existing requirements under the Australian Securities Exchange (ASX) reporting framework, which should therefore form the basis for the Gas Bulletin Board Reporting (GBB) reporting regime.

Ultimately, any new reporting requirements should provide a net benefit by adding value to the market and minimising the cost of compliance. While the ACCC's approach maintains some level of consistency with the ASX regime, we are concerned some of the options for new areas of reporting could prove misleading for market participants and policy makers, or be of limited usefulness. We are primarily concerned with the suggestions for the use of common gas price assumptions; and the requirement to distinguish between contracted and uncontracted 2P reserves.

- Gas price assumptions. Given differences in development costs, field locations and contractual terms/conditions, producers are best placed to determine forecast gas prices associated with their reserves estimates. Mandating the use of common gas pricing assumptions would notionally improve the comparability of estimates across different producers. However, the resultant set of estimates would be misleading and provide no clear value, as producers would continue to base planning and investment decisions on their own view of a reserves/resources development economics. Creating a disconnect between market expectations and actual reserves development in this way is inconsistent with the overarching objectives guiding the ACCC.

Option 2 proposed in the Consultation Paper is therefore the most appropriate approach. It will allow producers to determine their own gas price assumptions while also requiring some information disclosure to assist stakeholders with understanding the sensitivity of reserves estimates.

- Contracted and uncontracted 2P reserves: Origin does not estimate 2P reserves on a contracted/uncontracted basis. Rather, total 2P reserves are based on an estimated underlying price that would be required to make the reserves economic. It is unclear how Origin would be expected to allocate contracted supply to particular 2P reserves or determine a price range for the uncontracted portion of 2P reserves, in any meaningful way. Given there is still some level of uncertainty associated with 2P reserves, seeking to match gas volumes under a supply contract by designating some reserves as being contracted is likely to be of limited usefulness. It would also not be appropriate to require the disclosure of pricing information for total 2P reserves, given the commercial sensitivity of such information.

It is essential the ACCC is cognisant of the above issues as it evaluates the merits of any new reporting requirements that deviate from the existing and well established ASX framework. Our detailed views on the issues discussed in the Consultation Paper are set out in Attachment 1.

If you wish to discuss any aspect of this submission further, please contact Shaun Cole at shaun.cole@originenergy.com.au or on 03 8665 7366.

Yours Sincerely,



Steve Reid
Group Manager, Regulatory Policy

ACCC response template

	Questions	Feedback
Box 2.2 Questions on categories of reserves		
1.	<p>Do you agree that producers should be required to report on their 1P, 2P and 3P reserves estimates?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why.</p>	Origin is supportive of producers reporting on 1P, 2P and 3P reserves, broken down by developed and undeveloped reserves quantities, consistent with current ASX reporting standards.
2.	<p>Do you agree that producers should be required to break down their 1P, 2P and 3P reserves into developed and undeveloped reserves?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why.</p>	See response to Question 1 above.
3.	Should it be mandatory for producers to develop 3P reserves estimates, or should the reporting of this information be optional as it is under the ASX Listing Rules and in other jurisdictions?	See response to Question 1 above.
Box 2.3 Questions on categories of resources		
4.	<p>Do you agree that 1C and 2C contingent resources should be reported?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why.</p>	<p>Given the complexities associated with developing contingent resources, resource estimates are highly speculative and provide limited insight into the outlook for supply (e.g. there is no certainty that a contingent resource will be economic). Further, Australia's gas reserves alone represent the equivalent of approximately 47 years¹ of gas at current production rates, so there is limited merit in seeking more precise estimates of contingent resources.</p> <p>Reporting on contingent resources (including 1C and 2C) should therefore remain optional, consistent with ASX reporting requirements.</p>
5.	Do you think it should be mandatory for producers to develop 1C and 2C contingent resource estimates, or should the	See response to Question 4 above.

¹ Australian Energy Resources Assessment, <https://aera.ga.gov.au/#!/gas>, accessed 15 March 2019.

	Questions	Feedback
	reporting of this information be optional as it is under the ASX Listing Rules and in other jurisdictions?	
6.	Do you think any other resource categories (e.g. 3C contingent resources or prospective resources) should be reported? If so, please explain how you would use this information and the benefit it would provide.	See response to Question 4 above.
Box 2.4 Questions on gas field information		
7.	Do you agree that information on the field's stage of development, the type of gas and the nature of the gas field should be reported? (a) If so, please explain how you would use this information and the benefit it would provide. (b) If not, please explain why.	Origin already provides information on the type of gas and nature of the field for all reserves and is therefore comfortable with any such reporting requirement. However, we believe mandatory reporting on a field's stage of development against defined categories would provide limited benefit, since projects can still be delayed regardless of their development status (e.g. a project approved for development could be delayed due to expected changes in commodity prices and development costs).
8.	Do you agree with the categories that have been proposed for the field's stage of development, the type of gas and/or the nature of the gas field? If not, please explain why and what alternatives you would suggest.	See response to Question 7 above.
9.	Is there any other gas field information that you think should be reported? If so, please explain why you think this is consistent with the objectives of the reporting framework.	No additional information is required.
Box 2.5 Questions on movement in 2P reserves		
10.	Do you agree that annual movements in 2P reserves should be reported? (a) If so, please explain how you would use this information and the benefit it would provide. (b) If not, please explain why.	Reporting on annual movements in 2P reserves, consistent with existing ASX reporting requirements, is appropriate.
11.	Do you agree with the categories that have been proposed for the breakdown of movements in 2P reserves? If not, please explain why.	Origin does not consider a separate category is required for 'reserves reassessments', noting it should be sufficient to include the first five sub-categories listed in under Section 2.3.4 of the Consultation Paper, along with an 'other revisions' category.
12.	Do you think there would be value in also requiring producers to report on annual movements in 2C resources?	As discussed in response to Question 4, Origin considers reporting on contingent resources should remain optional. However, we are supportive of the existing ASX

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	(a) If so, please explain how you would use this information and the benefit it would provide. (b) If not, please explain why.	reporting framework which specifies that where a producer has optionally reported 2C resource information, they must also provide information on movements in those resources.
Box 2.6 Questions on contracted 2P reserves		
13.	Do you agree that if the ACCC and GMRG's recommendation on contracted 2P reserves is implemented that: (a) producers should be required to report the total quantity of 2P reserves that they are contracted to supply as total contract quantities under GSAs at a basin level? If not, please explain why. (b) AEMO should be required to further aggregate the information if there are less than three producers operating in the basin? If not, please explain why.	Origin does not estimate 2P reserves on a contracted/uncontracted basis. Rather, total 2P reserves are determined on the basis of an underlying price estimate that would be required to make the reserves economic. Origin also uses a portfolio approach in supplying customers and does not designate a supply basin to particular contracts. It's unclear therefore, how Origin would be expected to allocate contracted supply to particular 2P reserves in any meaningful way. Origin is also concerned the provision of such information, when read in conjunction with total 2P reserves estimates, may give a misleading view of the availability of 2P reserves for contracting at a given point in time. Producers are unlikely to commit to contracting the equivalent of 100 per cent of 2P reserves for production, given: there is still uncertainty associated with 2P reserves estimates; and producers must maintain a buffer of uncontracted production to provide certainty that all contractual commitments will be fulfilled, noting the impact of planned/unplanned maintenance on production levels. Given these factors, Origin believes the reporting of contracted 2P reserves would likely be of limited value.
Box 2.7 Questions on other information		
14.	Is there any other information that you think should form part of the reporting framework? If so, please set out: (a) what the information is (b) how you would use the information and the benefit it would provide (c) why you think the inclusion of this information would be consistent with the objectives of the reporting framework.	No additional information requirements have been identified. Any new reporting requirements should also ensure consistency with the existing ASX framework.
Box 2.8 Questions on reporting standard		
15.	Do you agree that the PRMS classification system should be used in the proposed reporting framework? If not, please explain why.	Any reporting framework should be consistent with the PRMS classification system and also maintain consistency with reporting standards and definitions associated with ASX

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		reporting requirements. This will minimise the complexity and costs associated with reporting.
16.	Do you agree that the PRMS definitions set out in Box 2.1 should be used in the proposed reporting framework? If not, please explain why.	Agree.
17.	Are there any other reporting standards or definitions that you think should be reflected in the reporting framework?	See response to Question 15 above.
Box 2.9 Questions on quantities and analytical methods		
18.	Do you agree that reserves and resources should be reported on the basis of sales quantities? If not, please explain why.	Agree – this is consistent with the PRMS.
19.	Do you agree that reserves and resources should be reported on a net revenue basis? If not, please explain why.	Agree – this is consistent with the PRMS.
20.	Do you agree that producers should be required to disclose the analytical method they have used to estimate their reserves and resources? If not, please explain why.	Agree, noting this is an existing ASX reporting requirement.
Box 2.10 Questions on reserves and resources reporting level		
21.	<p>Do you agree that the reserves and resources information set out in sections 2.2.1-2.2.4 should be reported at a field level?</p> <p>(a) If so, please explain how you would use this information and the benefit it would provide.</p> <p>(b) If not, please explain why and set out what reporting level you think should be adopted.</p>	<p>Origin does not support requiring the provision of the reserves and resources information set out in 2.3.1-2.3.4 at a field level. While the Queensland Department of Natural Resources, Mines and Energy (DNRME) requires reporting at a reservoir level (within each field), this detailed reporting requirement is limited to 2P reserves estimates only. Reporting the equivalent information across all reserves/resources would significantly increase our cost of reporting for an unclear benefit.</p> <p>As noted in response to Question 13, Origin also uses its entire portfolio to supply its customers. It's therefore unclear on what basis we would be expected to allocate specific contracts to particular fields under the 2P reserves reporting requirement.</p> <p>Noting the above, we believe that reporting by asset area (e.g. Beetaloo) would be sufficient. It would also maintain consistency with ASX reporting requirements.</p>
Box 2.11 Questions on the frequency and timing of reporting		
22.	Do you agree that the frequency of reporting should be annual? If not, please explain why.	Yes – annual reporting would maintain consistency with ASX reporting requirements.

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23.	<p>Do you agree that producers should also be required to report on any material changes in reserves and resources estimates that occur within the year?</p> <p>(a) If so:</p> <p>i. do you think there should be any limitation on the requirement to report changes (for example, should the requirement be limited to changes in reserves and resources that are advised to the ASX and/or government agencies, or should it be limited to material changes in reserves and resources)?</p> <p>ii. do you think the threshold for material changes should be set at +/-10% or do you think another threshold would be more appropriate?</p> <p>(b) If not, please explain why.</p>	<p>Only revisions required to be reported to the ASX or other government agencies should be required to be reported. Origin's process for estimating reserves/resources currently spans close to seven months. Any requirement to update estimates on a regular basis would therefore pose significant challenges. Further, requiring frequent updates may not actually facilitate more efficient investment decisions, given such decisions are generally based on a longer-term view of the market.</p> <p>Where a different requirement for reporting revisions is applied, this would create further reporting inconsistencies and potentially lead to confusion for those parties seeking to interpret the available information.</p>
24.	<p>Do you think that all producers should be required to report their reserves and resources as at a fixed date? If not, please explain why and the option you believe should be employed.</p>	<p>The ASX regime allows for annual reporting, consistent with an organisations financial reporting. It would be useful to maintain consistency with this approach to avoid creating a misalignment between different sets of information reported across the various regimes.</p>
Box 2.12 Questions on evaluation requirements		
25.	<p>Do you agree that reserve and resource estimates should be required to be prepared by, or under the supervision of, an independent qualified evaluator? If not, please explain why.</p>	<p>Agree – this is consistent with ASX reporting requirements.</p>
26.	<p>Do you think that any other evaluation requirements (e.g. a requirement to obtain an independent audit) should be implemented?</p>	<p>Additional evaluation requirements are not warranted. They would unnecessarily add to costs and provide no additional benefit, since estimates are already subject to supervision by an independent evaluator.</p>
Box 2.13 Questions on compliance costs		
27.	<p>What incremental costs do producers expect to incur in complying with the reporting requirements proposed in sections 2.3 and 2.4?</p>	<p>Origin is yet to fully evaluate the costs that would be incurred in complying with the proposed reporting framework. However, our preliminary view is that at least two full time employees (FTEs), operating over a period of two months, would be required to assist with disaggregating the proposed reserves/resources information at a field level as we do not currently report information on that basis (see response to Question 21).</p>

	Questions	Feedback
28.	Do you think there are any refinements that could be made to the proposed reporting requirements in sections 2.3 and 2.4 to further reduce compliance costs or the regulatory burden, whilst also ensuring the requirements are fit for purpose and achieves the objectives set out in section 1?	As articulated throughout our submission, the regulatory burden and associated compliance costs would be reduced by maintaining consistency with the existing ASX reporting framework.
Box 3.1 Questions on the manner in which reserves are to be estimated		
29.	Do you agree that producers should be required to estimate their reserves on the basis of forecast economic conditions? If not, please explain why.	Estimating on the basis of forecast economic conditions is appropriate.
Box 3.3 Questions on gas price assumptions to be used for uncontracted reserves		
30.	<p>Do you think that:</p> <p>(a) Producers should be responsible for determining the forecast gas prices they will assume when estimating uncontracted reserves and required to disclose these assumptions (i.e. Option 2)?</p> <p>i. If so, please explain why.</p> <p>ii. If not, please explain why.</p> <p>(b) Producers should be required to use a mandated common gas price assumption when estimating uncontracted reserves (i.e. Option 1)?</p> <p>i. If so, please explain why and set out:</p> <p>a. the benefits you think this would provide over the producer-determined assumptions?</p> <p>b. how you think the forecast common gas price assumption should be determined?</p> <p>ii. If not, please explain why.</p> <p>(c) Producers should be responsible for determining the forecast gas prices they will assume when estimating uncontracted reserves and not required to disclose their assumptions (i.e. Option 3)?</p>	<p>Given differences in development costs, field locations and contractual terms/conditions, producers are best placed to determine forecast gas prices associated with their reserves estimates. Requiring a producer to apply common gas price assumptions that are inconsistent with the producer's own view of development economics would simply result in the disclosure of a misleading set of estimates, as they would have no relevance to the producers' planning and investment decisions. Creating a disconnect between market expectations and actual reserves development in this way is inconsistent with the overarching objectives guiding the ACCC.</p> <p>Origin believes Option 2 is the most appropriate approach, as it will allow producers to determine their own gas price assumptions while also requiring some information disclosure to assist stakeholders with understanding the sensitivity of the reserves estimates.</p>

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	<ul style="list-style-type: none"> i. If so, please explain why and set out how do you think this option would address the concerns outlined in section 3.1? ii. If not, please explain why. 	
31.	<p>If Option 2 is implemented, do you think that the disclosure requirements in section 3.6 will impose sufficient discipline on producers, or do you think the gas price assumptions used by producers should be required to satisfy a test that would be overseen by the AER? If you think the gas price assumptions should be subject to a test, please set out:</p> <ul style="list-style-type: none"> (a) what form you think the test should take and if the test should apply to the gas price assumptions or the method used to determine the gas price assumptions (b) how you think the test should be enforced by the AER (for example, should the AER have the power to require producers to re-estimate their reserves using an alternative price assumption). 	<p>Origin does not believe a test is required. Forecasting gas prices is inherently difficult and it is not clear the AER would be better placed to assess the adequacy of reserves estimates than a producer that bases commercial decisions on those estimates. Developing a new test would also add to the complexity of reporting by creating further disparity between the proposed framework and existing ASX and government agency reporting requirements.</p>
Box 3.4 Questions on gas price assumptions to be used for contracted reserves		
32.	<p>Do you agree that the gas price assumptions underpinning contracted reserves should be based on the prices specified in the relevant GSAs? If not, please explain why.</p>	<p>Agree.</p>
33.	<p>Do you agree with the ACCC's proposal to allow producers to account for the operation of:</p> <ul style="list-style-type: none"> (a) price escalation mechanisms when determining the prices to apply under the relevant GSAs over the forecast period? If not, please explain why. (b) contract extension provisions if the GSAs are likely to be extended and the prices (or pricing mechanisms) to apply in this period have already been determined? If not, please explain why. 	<p>Agree. This will ensure estimates reflect the producer's development economics over time.</p>
Box 3.5 Questions on the disclosure requirements for gas price assumptions		

	Questions	Feedback
34.	<p>Do you agree that producers should be required to disclose the following information when reporting their reserves estimates?</p> <ul style="list-style-type: none"> (a) The gas price range within which there would be no material change in the 2P reserves estimates, which is to be reported at a basin level for each of the following five years and generally for subsequent periods (with the range to be based on the price assumptions used to estimate uncontracted reserves). (b) The sensitivity of the 2P reserves estimates to a +/-10% change in the gas price range reported under (a). (c) A description of the method used to determine the gas price range and any other assumptions that have been made when determining the price range. (d) An explanation of any changes that have been made to the gas price assumptions from the previous year and why the changes were made. <p>If not, please explain why.</p>	<p>As discussed in response to Question 13, Origin does not estimate 2P reserves on a contracted/uncontracted basis. Rather, total 2P reserves are determined on the basis of an underlying price estimate that would be required to make the reserves economic. It is therefore unclear how Origin could determine a price range based on uncontracted 2P reserves that is relevant in the context of our planning and investment decisions. We would also not support the disclosure of a price range that is based on total 2P reserves, as this information is commercially sensitive.</p> <p>Given these concerns, we believe an appropriate first step could be to require the disclosure of information relating to the underlying price assumptions, as discussed in response to Question 30.</p>
35.	<p>Do you agree with the proposal to require producers to report the gas price range:</p> <ul style="list-style-type: none"> (a) for each year over a five year period and generally thereafter? If not, please explain why. (b) for uncontracted reserves only? If not, please explain why. (c) at a basin level? If not, please explain why. 	<p>See response to Questions 30 and 34. Origin also manages its gas contracts at a portfolio-wide level, therefore reporting a gas price range at the basin level would require changes to existing processes.</p>
36.	<p>If producers are required to report the gas price range within which there would be no material change in 2P reserves, what materiality threshold do you think should be adopted for this purpose and why?</p>	<p>As discussed, Origin does not support the disclosure of a gas price range impacting 2P reserves. However, if a materiality threshold is applied, it would need to be set at a level that accounts for volatility in commodity prices (e.g. oil price), otherwise the threshold will be frequently triggered for limited benefit.</p>
37.	<p>Do you agree that the threshold for measuring the sensitivity of the reserves estimates should be 10%? If not, please explain why and what alternative threshold you think should be applied.</p>	<p>See response to Question 36.</p>

	Questions	Feedback
38.	Is there any other information that you think should be disclosed about the gas price assumptions? If so, please explain what the information is and why it is required to meet the objectives set out in section 1.	Origin does not recommend further information disclosure requirements.
Box 3.6 Questions on compliance costs		
39.	What incremental costs do producers expect to incur in complying with the proposed reporting requirements set out in sections 3.4-3.6?	Origin is yet to fully evaluate the costs that would be incurred in complying with the proposed reporting framework. However, as discussed in response to Question 27, our preliminary view is that at least two FTEs, operating over a period of two months, would be required to assist with disaggregating reserves/resources information at a field level alone. We estimate the staffing requirements would likely increase by around two weeks for every additional change that represents a significant deviation from existing reporting practices.
40.	Do you think there are any refinements that could be made to the proposed reporting requirements in sections 3.4-3.6 to further reduce compliance costs or the regulatory burden, whilst also ensuring they are fit for purpose and achieves the objectives set out in section 1?	Any new reporting requirements should ensure consistency with the existing ASX regime. To this end, we do not believe it is appropriate to introduce requirements that would simply mandate the provision of variations of the same data sets, as this will lead to additional compliance burden/costs for producers, noting our current systems and processes would need to be redesigned to meet the new minimum compliance standards. It could also lead to the disclosure of information that has no relevance to the producers' planning investment decisions. Creating a disconnect between market expectations and actual reserves development in this way is inconsistent with the overarching objectives guiding the ACCC.