

12 March 2019

Gas Unit
Australian Competition and Consumer Commission
2 Lonsdale Street
Melbourne VIC 3000

By Email: gas.inquiry@accc.gov.au

Dear Ms Ross

Australian Competition and Consumer Commission (“ACCC”) Framework for the consistent reporting of natural gas reserves and resources Consultation Paper (“Consultation Paper”)

Thank you for providing Arrow Energy Pty Ltd (“Arrow”) with the opportunity to provide feedback on the Consultation Paper. Arrow agrees with the need for a framework for the consistent reporting of natural gas reserves and resources.

Arrow’s feedback on the Consultation Paper is attached to this letter. As requested by the ACCC it is set contained in the template being “attachment 1” to the Consultation Paper. In line with the ACCC’s guidance Arrow has addressed the matters in the template of particular interest and/or concern to it.

Yours sincerely



Edwin Kunkels
Chief Financial Officer

Encl

ATTACHMENT 1

Arrow Energy Pty Ltd’s feedback on the Australian Competition and Consumer Commission’s framework for the consistent reporting of natural gas reserves and resources consultation paper dated 12 March 2019

	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>	<p>Arrow has no objection to being required to report on its 1P, 2P and 3P reserves estimates.</p>
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>	<p>Arrow has no objection as part of the above reporting to breaking down its 1P, 2P and 3P reserves into developed and undeveloped reserves. However, while the Petroleum Resources Management System (“PRMS”) provides for the breaking down of 2P and 3P reserves into developed and undeveloped, section 8.5.7 of the “Guidelines for Application of the PRMS” dated November 2011, states that the current practice for coal seam gas (“CSG”) is that “all Developed reserves are Proved”. Accordingly, while it is current practice for 1P reserves to be broken down into developed and undeveloped, 2P and 3P reserves for CSG may not be broken down into these categories consistently across CSG projects.</p>
3.	<p>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?</p>	<p>It should be optional to develop 3P reserves estimates as it is under the ASX Listing Rules and in other jurisdictions (see also feedback on question 2 above).</p>

ATTACHMENT 1

Box 2.3 Questions on categories of resources		
4.	Do you agree that 1C and 2C contingent resources 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.	Arrow has no objection to being required to report its 1C and 2C contingent resources.
5.	Do you think it should be mandatory for producers to develop 1C and 2C contingent resource estimates, or should the reporting of this information be optional as it is under the ASX Listing Rules and in other jurisdictions?	It should be optional to develop 1C and 2C contingent resource estimates 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.	No, given the higher level of uncertainty of those resource categories.
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.	Arrow has no objection to being required to report the field's stage of development, the type of gas and the nature of the gas field being reported.
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.	Arrow has no objection to 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.

ATTACHMENT 1

Box 2.5 Questions on movement in 2P reserves		
10.	<p>Do you agree that annual movements in 2P reserves 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>Arrow has no objection to being required to report annual movements in 2P reserves.</p>
11.	<p>Do you agree with the categories that have been proposed for the breakdown of movements in 2P reserves? If not, please explain why.</p>	<p>Arrow has no objection to the categories that have been proposed for the breakdown of movements in 2P reserves.</p>
12.	<p>Do you think there would be value in also requiring producers to report on annual movements in 2C resources?</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>No, given the nature of 2C resources (see also feedback on question 5 above).</p>
Box 2.6 Questions on contracted 2P reserves		
13.	<p>Do you agree that if the ACCC and GMRG's recommendation on contracted 2P reserves is implemented that:</p> <p>(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.</p> <p>(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.</p>	<p>Arrow has no objection to being required to provide AEMO with information on the volume of 2P reserves that have been contracted under existing GSAs at a basin level.</p> <p>Arrow understands that under the relevant ACCC and GMRG's recommendation, AEMO will then determine whether there are at least three producers operating in the basin before publishing any information on the Bulletin Board and, if there aren't three producers operating in the basin, AEMO will further aggregate the data (e.g. by region) to ensure this threshold is met.</p> <p>However, in Arrow's view even if there were three or more producers operating in a particular basin, AEMO should be required to have regard to the proportion of the total volume of 2P reserves that have been contracted to each producer before making a decision to publish any information on the Bulletin Board.</p>

ATTACHMENT 1

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.
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.	Yes.
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.	Yes.
17.	Are there any other reporting standards or definitions that you think should be reflected in the reporting framework?	No.
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.	Subject to the feedback on the questions in Box 2.3 on resources ("Box 2.3 Feedback"), Arrow has no objection to being required to report on the basis of sales quantities.
19.	Do you agree that reserves and resources should be reported on a net revenue basis? If not, please explain why.	Subject to the Box 2.3 Feedback and the feedback on question 28 below, Arrow has no objection to being required to report on a net revenue basis.
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.	Subject to the Box 2.3 Feedback, Arrow has no objection to being required to disclose whether it has used a deterministic or probabilistic method.

ATTACHMENT 1

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>Subject to the Box 2.3 Feedback, Arrow has no objection to the information set out in sections 2.2.1-2.2.4 being reported at a field level.</p>
Box 2.11 Questions on the frequency and timing of reporting		
22.	<p>Do you agree that the frequency of reporting should be annual? If not, please explain why.</p>	<p>Subject to the Box 2.3 Feedback, Arrow has no objection to being required to report annually and it is Arrow's preference to report annually.</p>
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> <ol style="list-style-type: none"> 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)? 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>(b) If not, please explain why.</p>	<p>Subject to the Box 2.3 Feedback, Arrow has no objection to being required to report on material changes that occur within the year, where it is also currently a requirement at law to report such changes to other government agencies (e.g. DNRME).</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>Subject to the Box 2.3 Feedback, Arrow has no objection to being required to report as at a fixed date if it aligns with its existing obligations at law to report to other government agencies (e.g. DNRME). Arrow's preference is to report year end numbers (i.e. 31 December.) on or before 30 April of the following year.</p>

Arrow Energy Pty Ltd's feedback on the Australian Competition and Consumer Commission's framework for the consistent reporting of natural gas reserves and resources consultation paper dated 12 March 2019

ATTACHMENT 1

Box 2.12 Questions on evaluation requirements		
25.	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.	Subject to the Box 2.3 Feedback, Arrow has no objection to its reserves estimates being prepared by, or under the supervision of, an independent qualified evaluator.
26.	Do you think that any other evaluation requirements (e.g. a requirement to obtain an independent audit) should be implemented?	No.
Box 2.13 Questions on compliance costs		
27.	What incremental costs do producers expect to incur in complying with the reporting requirements proposed in sections 2.3 and 2.4?	Arrow appreciates that the ACCC is seeking to minimise the compliance costs and regulatory burden associated with the proposed framework. However, at this stage it is difficult to assist the ACCC in a meaningful way as to the “incremental costs” which will be incurred by Arrow.
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?	Where there is an unincorporated joint venture, non-operating participants may not have all of the information necessary to comply with reporting obligations under the proposed reporting framework. In Arrow’s view to further reduce compliance costs and the regulatory burden, the “operator” of the unincorporated joint venture in those circumstances should have sole responsibility to comply with the reporting obligations under the proposed framework. If the ACCC was minded to adopt this approach, reporting would need to be done on a gross basis as opposed to a net revenue basis (see feedback on question 19 above).
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.	Yes.

ATTACHMENT 1

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 style="margin-left: 20px;">i. If so, please explain why.</p> <p style="margin-left: 20px;">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 style="margin-left: 20px;">i. If so, please explain why and set out:</p> <p style="margin-left: 40px;">a. the benefits you think this would provide over the producer-determined assumptions?</p> <p style="margin-left: 40px;">b. how you think the forecast common gas price assumption should be determined?</p> <p style="margin-left: 20px;">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 style="margin-left: 20px;">i. If so, please explain why and set out how do you think this option would address the concerns outlined in section 3.1?</p> <p style="margin-left: 20px;">ii. If not, please explain why.</p> <p><i>Provide greater clarity on the manner in which reserves are to be estimated and how the gas price assumptions used in the estimation of reserves are determined. Provide greater transparency of the gas price assumptions underpinning reserves estimates and the sensitivity of these estimates to the price assumptions.</i></p>	<p>It is Arrow's view that it should be responsible for determining the forecast gas price it assumes when estimating uncontracted reserves and it should not be required to disclose those assumptions, being Option 3.</p> <p>This approach is consistent with the PRMS; it does not increase compliance costs or the existing regulatory burden which would arise from dual reporting (i.e. under the PRMS for DNRME and based on a mandated common gas price assumption under the proposed reporting framework); it does not mandate common gas price assumptions where different geographic regions may give rise to different assumptions and it does not require the disclosure of assumptions which may be commercially sensitive information.</p>

ATTACHMENT 1

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> <p>(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</p> <p>(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>	<p>Arrow does not support the implementation of Option 2. It is also Arrow's view that a gas price assumptions test should not be overseen by the AER. In Arrow's view the use of an independent qualified evaluator as part of the preparation of reserves estimate provides sufficient "discipline" (see also feedback on question 25).</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>Yes.</p>
33.	<p>Do you agree with the ACCC's proposal to allow producers to account for the operation of:</p> <p>(a) price escalation mechanisms when determining the prices to apply under the relevant GSAs over the forecast period? If not, please explain why.</p> <p>(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>	<p>Yes with respect to both questions 33(a) and (b).</p>

ATTACHMENT 1

Box 3.5 Questions on the disclosure requirements for gas price assumptions		
34.	<p>Do you agree that producers should be required to disclose the following information when reporting their reserves estimates?</p> <p>(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).</p> <p>(b) The sensitivity of the 2P reserves estimates to a +/-10% change in the gas price range reported under (a).</p> <p>(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.</p> <p>(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> <p>If not, please explain why.</p>	<p>No with respect to each of questions 34(a) to (d). In Arrow's view the gas price range referred to may be commercially sensitive information. In addition as the ACCC would be aware, reserves estimates are the outcome of a number of interrelated technical and commercial factors of which price may not be the primary driver.</p>
35.	<p>Do you agree with the proposal to require producers to report the gas price range:</p> <p>(a) for each year over a five year period and generally thereafter? If not, please explain why.</p> <p>(b) for uncontracted reserves only? If not, please explain why.</p> <p>(c) at a basin level? If not, please explain why.</p>	<p>No with respect to each of questions 35(a) to (c) for the reasons provided in the feedback on question 34 above.</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>Given Arrow's feedback on question 34 above, Arrow does not have a view on the materiality threshold.</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>No, given Arrow's feedback on question 34 above.</p>

ATTACHMENT 1

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.	No.
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?	See response to questions 27 above.
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?	See response to question 28 above, which equally applies to the reporting requirements in sections 3.4-3.6 of the Consultation Paper.

Note: Arrow has answered the above questions on the basis that any proposed requirement (e.g. to report, to disclose, to develop, to provide information etc.) would be required by law.