Level 10
60 Waymouth Street
Adelaide SA 5000
Australia

GPO Box 1819
Adelaide SA 5001

Tel (Aust.): +61 8 8100 4900
Fax (Aust.): +61 8 8100 4997

customerservice@cooperenergy.com.au
www.**cooperenergy**.com.au

17 February 2017

Mr Michael Callaghan AM
PRRT Review
The Treasury
Langton Crescent
PARKES ACT 2600
Via email: PRRTReview@treasury.gov.au

Dear Mr Callaghan

RE: Review of the Petroleum Resource Rent Tax - Issues Note

Cooper Energy welcomes this opportunity to respond to the "Review of the Petroleum Resource Rent Tax - Issues Note" (PRRT Review).

The company appreciates the significance of PRRT for both the industry and the community who, in particular, benefit from the development of natural resources through employment, flow-on economic benefits and fiscally through royalties, and in the case of PRRT, through taxation of 'super' profits where they occur.

The backdrop to this review is noteworthy and relevant to the PRRT Review.

Shortfalls between forecast south east Australia gas demand and contracted supply has resulted in substantial increases to gas prices and highly publicised concern about the adequacy of supply and broader economic impacts. The increase in gas prices is encouraging the development of gas resources which were previously considered uneconomic where this is possible. It is important to bear in mind the distinction between price and profit; the higher prices do not represent higher profits, for hitherto undeveloped projects they offer the prospect of finally earning an acceptable return.

Cooper Energy is the 100% owner of the most advanced of these newly economic projects, the Sole gas field located offshore Victoria. The company expects that a formal commitment to the project will be considered by its board of directors in the coming months; a decision made some 44 years after the field was discovered and which will entail a 10 year production/revenue exposure for the owners. The work invested to bring the project to this point relies critically on assurance about the taxation of the income stream from the project.

Cooper Energy submits this context highlights the importance that PRRT is supportive of the development of petroleum resources through offering reliable certainty across the life of projects and the assurance that an acceptable return, commensurate with the risk involved, is earned prior and subsequent to its application.

As stated in the accompanying submission, Cooper Energy believes the overall performance of the PRRT is as intended. More specifically we believe any reduction in augmentation rates will be detrimental to development of all but low risk projects, with consequent loss of income and resource availability to the community. Moreover, given the distances and associated economic hurdles associated with the development of new gas resources to supply south east Australia, it is appropriate and timely that PRRT encourage sharing of infrastructure and collaboration that in turn can support development for the greater benefit of the community.

We welcome the opportunity to address any queries regarding the content of this submission, or on PRRT and resource development more generally and can be contacted through the address details above.

Yours sincerely,

David P. Maxwell

David Maxwell
Managing Director

Attachment

Submission by Cooper Energy Limited
The Review of the Petroleum Resource Rent Tax (PRRT)
February 2017

Company overview

Cooper Energy is an Australian ASX listed oil and gas company that produces, and develops, gas for supply to south-east Australia and produces oil from the Cooper Basin. The company is one of the larger acreage and resource owners in the south-east Australian gas sector, with a mix of onshore and offshore assets in Victoria and onshore exploration acreage in South Australia.

The company's interests are broadly located in 3 regions: the Otway, Gippsland and Cooper Basins and include producing, exploration and infrastructure assets:

- 50% interest in the producing Casino Henry gas fields, and adjacent exploration acreage offshore Victoria in the Otway Basin
- 10% interest in the producing Minerva gas field[1] (inclusive of the onshore plant)
- 100% ownership of the Sole and Manta gas fields offshore Victoria.
- onshore and offshore gas exploration acreage in the Otway Basin: and
- oil production interests in the Western Flank of the Cooper Basin, including a 25% interest in the PEL 92 Joint Venture.

Cooper Energy is working to commercialise the Sole and Manta gas resources (offshore Gippsland Basin) to help meet south-east Australia's need for new domestic gas supplies. Gas from the first project, Sole, has been contracted to a portfolio of gas buyers including AGL Energy, EnergyAustralia, Alinta Energy and O-I Australia. The company is preparing for a final investment decision on Sole in March 2017 to commence supply from 2019. Manta is being prepared for development after Sole.

Cooper Energy expects to produce approximately 1 million barrels of oil equivalent (boe) in 2017 and its existing projects, which are predominantly gas, provide for a 5 year growth profile to exceed 10 million boe per annum by 2020.

The company's oil and gas are subject to PRRT.

Cooper Energy relevance to the PRRT review

Public debate concerning PRRT has generally focussed on large, high profile established projects. However, it is potentially of greater significance to the smaller projects and operators that contribute to, and promote, market diversity and increased competitive supply. This is of particular relevance in the Australian domestic gas market. Cooper Energy submits its background is instructive in this respect.

The last twelve months have seen the market capitalisation of Cooper Energy rise from approximately $50 million to $250 million. The increase in market value, and the accompanying institutional investment, has been generated by the company's progress in implementing a 5 year strategy to supply gas to market opportunities foreseen emerging in south-east Australia.

[1] Subject to completion of the purchase announced on 24 October 2016

Cooper Energy views

The current Cooper Energy position highlights the need for the PRRT review process to ensure that the certainty of commercial rates of return necessary for resource development are retained.

When the company launched its gas strategy 5 years ago it held no gas interests and its Australian operations were focussed on Cooper Basin oil. However, having concluded that the commencement of LNG production in Queensland would bring tightening of gas supply to south-east Australia, Cooper Energy commenced a process of identifying the most competitive source of supply and securing resources in those regions.

As events have transpired, the strategy has proven prescient, although the supply tightness has developed earlier, and more significantly, than originally anticipated. The tight gas supply outlook has been exacerbated by public policy decisions in Victoria and New South Wales which have obstructed the identification and development of onshore gas supplies.

Within March 2017 Cooper Energy expects to consider and approve a final investment decision proposal for a project requiring capital expenditure exceeding $550 million to develop the Sole gas field as the first new source of supply for south-east Australia for some time. An affirmative decision represents a 10 year commitment; involving 2 years of construction and some 8 years of operation.

Strong support from gas buyers (a mixture of utilities and industrial users including AGL Energy, EnergyAustralia, Alinta Energy and O-I Australia) and investors has been instrumental in the project's progress to this point. Cooper Energy has been able to secure the necessary gas offtake commitments for financing support and two capital raisings have attracted greater institutional demand than could be accommodated.

However, it is relevant to note that Sole is not a new discovery, having been drilled initially in 1973 and successfully appraised in 2002. The field was not previously developed as it was uneconomic at the then prevailing gas prices. Sole has only recently qualified as a commercial project because of the stronger prices brought by the tightening of gas supply to south-east Australia.

Of course Cooper Energy, and the field's previous owner Santos Limited, began their economic analysis of the field several years ago, well before higher prices became apparent. The project's passage through this period from an uneconomic resource to that of 'next new gas development' has occurred as market forces have been able to operate and offer the prospect of economic returns and the confidence of investors, customers and suppliers has been won and retained.

The stability of the fiscal settings has been critical in making this opportunity for new gas supply possible.

The reliability with which project returns can be forecast is fundamental for the confidence required so that project developers, investors and customers can embrace new projects. Confidence in the PRRT regime is implicitly germane to this confidence.

Commercialisation of gas projects (such as Sole) is a long term proposition involving significant analysis and commitments that often extend over decades. Australia needs to attract increased gas and oil exploration and development to meet forecast demand. Sustained fiscal stability is required to support this. The fiscal regime (including PRRT) must enable and protect the realisation of returns that are economic and commensurate with the risk and inherent value of the resource in question.

Within this context Cooper Energy makes the following specific comments.

The overall performance of the Petroleum Resource Rent Tax has operated as intended. We understand this review of the PRRT is to establish whether it and other taxes levied on oil and gas projects are operating as intended. It is anticipated that the review is being conducted with a measured outlook that recognises investment risk and return as well as return to the community and economic conditions over time and has been effective in this respect.

The PRRT is a profit-based tax. It was designed to provide a fiscal regime that encourages the exploration and production of petroleum products while ensuring an adequate return to the community. The PRRT was designed to capture the economic rent associated with the development of petroleum projects.

To encourage investment and development, the returns to investors need to be commensurate with the risk undertaken. Oil and gas projects in Australia often require significant upfront capital investment and have long lead times before production begins. By their very nature, resource projects are risky without guaranteed success and return. The PRRT was introduced due to inherent limitations in excise and royalties regimes that deterred investment as they were based on volume or value of production rather than profitability. The PRRT is an effective mechanism that taxes profitable outcomes where a liability will depend on several factors, including commodity prices, exchange rates and project costs.

Cooper Energy believes that it was never the intent of PRRT to ensure PRRT is paid or received when projects are earning an unacceptably poor return. It is a design feature of the regime that it captures profit after a reasonable return on the costs of development have been realised. It is effectively a tax on super profits, which allows for an uplift on carried forward expenditure thus encouraging investment over the long lead times required prior to first revenue.

The reduction in receipts from PRRT in recent years is a reflection of lower oil and gas prices (including LNG prices) and lower profits/earnings from oil and gas projects. The combination of many existing fields being in the mid/late life phase and the current oil and gas economic climate, means that the PRRT returns have been lower than forecast a few years ago.

A lowering of the augmentation rates would likely lead to investment only in lower risk projects and the deferral of the development of otherwise economic ventures. Oil and gas exploration is a relatively high risk investment. Currently, the tax regime allows uplift of expenditures by augmentation rates which are set to maintain a reasonable value for undeducted expenditure over time as an alternative to the provision of refunds in situations of tax loss. The existing augmentation rates provide for the risk that PRRT losses may never be used if the project does not proceed.

The operation of the PRRT needs to encourage and support optimal economic decision making which includes the sharing of infrastructure and collaboration where this is cost effective. Of interest to Cooper Energy, is the transferability of eligible deductible expenditure between projects. Currently, the PRRT regime allows for some categories of deductible expenditure (e.g. exploration) to be transferred between projects, if certain conditions are met, with the intention to provide an exploration incentive for companies managing a portfolio of projects. Transferable expenditure is currently restricted to exploration expenditure post July 1990. It is clear that in order to facilitate such economies of scale a case for increased transferability of expenditure and the combining of projects is appropriate and required.

Instability in Australia's taxation regime as it relates to oil and gas project development will hinder exploration and development as it reduces Australia's competitiveness by increasing uncertainty and risk for investors. Cooper Energy welcomes the opportunity to review taxation regimes in an ever-changing economic and energy climate. It is important that changes do not detract from the initial purpose of the PRRT as reaction to short term changes to economic outlook and decreasing taxation revenues. Of particular relevance to Cooper Energy is the ability to continue its work in developing the Gippsland and Otway Basin gas projects offshore Victoria thus increasing the gas supply to the constrained south-east Australia gas market from 2019.