

# Operational policy

## Application for declaration of a potential commercial area

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Version 2.02

### Purpose

Pursuant to section 3 of the *Petroleum and Gas (Production and Safety) Act 2004* (P&G Act), the main purpose of the P&G Act is to facilitate and regulate the carrying out of responsible petroleum activities and the development of a safe, efficient and viable petroleum and fuel gas industry in various ways, including to:

- manage the State's petroleum resources for the benefit of all Queenslanders;
- enhance knowledge of the State's petroleum resources;
- encourage and maintain an appropriate level of competition in the carrying out of petroleum activities; and
- optimise coal seam gas production and coal or oil shale mining in a safe and efficient way.

The purpose of this policy is to inform industry of certain matters that will be considered by the Minister (or authorised delegate) when deciding whether to declare a potential commercial area (PCA) under section 90 of the P&G Act.

The department is committed to respecting, protecting and promoting human rights. Under the *Human Rights Act 2019*, the department has an obligation to act and make decisions in a way that is compatible with human rights and, when making a decision, to give proper consideration to human rights. To the extent an act or decision under this document may engage human rights under the *Human Rights Act 2019*, regard will be had to that Act in undertaking the act or making the decision.

The holder of an authority to prospect (ATP) can apply, under section 89 of the P&G Act, for a declaration of a PCA over all or a part of the area of the ATP. In that regard, applicants are referred to the [Potential Commercial Area Application Guideline](#).

### Policy determination

The purpose of a PCA is to enable an ATP holder (the holder) who discovers petroleum or a natural underground reservoir suitable for the storage of petroleum that is not currently commercially viable, to retain an interest in and later develop that discovery. A PCA is not intended to be used as a means of retaining an interest in an ATP if such a discovery has not been made.

A PCA is a statutory declaration over an existing ATP area, which can affect the relinquishment requirements for the ATP. In particular, sub-blocks covered by a PCA are not required to be relinquished by an ATP holder (although, they can be). A PCA declaration can therefore operate to preserve areas of an ATP which would otherwise need to be relinquished. The purpose of this is to allow for appraisal and other activities to prove up the commerciality of the petroleum discovery.

When declaring a PCA, the Minister (or authorised delegate) must be satisfied the decision criteria in section 90 of the P&G Act have been met. While this operational policy focuses on

the decision criteria in section 90(1) of the P&G Act, it should be noted that other requirements also apply.<sup>1</sup>

Each PCA application is to be assessed on a case-by-case basis and on the basis of the legislation in force at the relevant time.

## **Decision criteria in section 90(1) of the P&G Act**

### **1. The area of the PCA is no more than is needed**

The Minister (or authorised delegate) may declare an area of an ATP to be a PCA only if satisfied that the area is no more than is needed to cover the maximum extent of a natural underground reservoir identified in the report accompanying the application for the PCA declaration.<sup>2</sup>

When declaring a PCA, the Minister (or authorised delegate) will therefore consider what area is reasonable for the resource type being targeted, taking into account the extent of the relevant natural underground reservoir.

The applicant must have identified in the report accompanying the PCA declaration application, each relevant natural underground reservoir. If the area being applied for is greater than the relevant reservoir, the applicant will need to demonstrate why the greater area is appropriate.

### **2. Petroleum production or storage in the proposed PCA is not, and will not soon be, commercially viable, but is likely to become viable within 15 years**

The Minister (or authorised delegate) may declare an area to be a PCA only if satisfied that petroleum production or storage in the area to be declared is not, and will not soon be, commercially viable, but is likely to become viable within 15 years.<sup>3</sup>

The applicant must have lodged a report with its PCA declaration application which, among other things:

- states whether, in the applicant's opinion, it is commercially viable to produce or store petroleum in the proposed area;
- if the applicant's opinion is that it is **not** commercially viable to produce or store petroleum in the proposed area, states whether, in the applicant's opinion, it will, within the next 15 years, be commercially viable to produce or store petroleum in the proposed area; and
- gives data, and an analysis of the data, that supports each opinion.

The supporting data and analysis provided must cover relevant:

- technical and geological issues; and
- market and financial issues.

A PCA declaration application must also have been accompanied by an evaluation program relating to the potential petroleum production or storage in the proposed PCA and associated market opportunities.

Although not mandatory, the department recommends the data and analysis contained in the report accompanying the PCA application is independently prepared and certified. The report

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<sup>1</sup> See, for example, *Petroleum and Gas (Production and Safety) Act 2004*, sections 89, 90(2) and (3).

<sup>2</sup> *Petroleum and Gas (Production and Safety) Act 2004*, s90(1)(a).

<sup>3</sup> *Ibid* s90(1)(b).

should detail the factors affecting the commerciality of the proposed PCA and, in appropriate cases, assess the commerciality of alternative development scenarios or pathways to market.

The department recommends petroleum discoveries within a proposed PCA area be evidenced and classified in accordance with the [Society of Petroleum Engineers - Petroleum Resources Management System](#) (PRMS) as approved by the Society of Petroleum Engineers (SPE) in June 2018. The potential resource classifications, and their likely treatment by the Minister (or authorised delegate) are summarised in the table below.

Resource Classification	Commerciality status	Definition	Recommended Resource Authority
<b>Prospective Resource</b> (1U; 2U; 3U)	<u>Not commercial</u>	<p>“Prospective resources” –</p> <ul style="list-style-type: none"> <li>are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from <b>undiscovered</b> accumulations by application of future development projects;</li> <li>have both an associated chance of geologic discovery and a chance of development;</li> <li>are further categorized in accordance with the range of uncertainty associated with recoverable estimates, assuming discovery and development, and may be sub-classified based on project maturity.</li> </ul>	<p>Any “prospective resources” should be further evaluated by carrying out authorised activities under the ATP.</p> <p>Prospective resources do not represent a petroleum discovery and are <b>unlikely to support a PCA application</b>.</p>
<b>Contingent Resource</b> (1C; 2C; 3C)	<u>Potentially commercial</u>	<p>“Contingent resources” -</p> <ul style="list-style-type: none"> <li>are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from <b>known</b> accumulations, by the application of development project(s) not currently considered to be commercial owing to one or more contingencies;</li> <li>have an associated chance of development;</li> <li>may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality;</li> <li>are further categorized in accordance with the range of uncertainty associated with the estimates and should be sub-classified based on project maturity and/or economic status.</li> </ul>	<p>Contingent resources can only be booked where a petroleum discovery has been made.</p> <p>If “contingent resources” are identified, they <b>may be suitable for a PCA application</b>.</p> <p>The report supporting the PCA application will need to identify the “contingent resource” and demonstrate that the proposed PCA is not now, and will not soon be, commercially viable, but it is likely to become viable within 15 years.</p>

Resource Classification	Commerciality status	Definition	Recommended Resource Authority
Reserves (1P; 2P; 3P)	<u>Commercial</u>	<p>“Reserves” -</p> <ul style="list-style-type: none"> <li>are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to <b>known</b> accumulations from a given date forward under defined conditions;</li> <li>reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of a given date) based on the development project(s) applied.</li> </ul>	<p>If estimates indicate that the area of the ATP contains 2P reserves of petroleum, <b>a PCA is unlikely to be considered appropriate.</b></p> <p>A PL application is likely to be considered more appropriate for the area.</p>

## Determining the term of a declared PCA

A PCA may be declared for a period of up to 15 years. The Minister may declare a PCA for a shorter term, if the timing and circumstances around a petroleum discovery and the content of the commercial viability report warrant a shorter term. Applicants should consider only applying for a term that is required to commercialise the resource.

## Other matters

### PCA and PL applications over the same area

The department notes it is possible for an application for a PCA and an application for a PL to be lodged over the same area by the same ATP holder.

Before lodging both a PCA application and a PL application over the same area, the department recommends the applicant consider whether the information provided in support of those applications could conflict in any way, noting a PCA is intended to support activities which relate to a currently uncommercial discovery and a PL will generally support activities associated with petroleum production.

If conflicts exist, they may need to be considered and resolved:

- before a particular application is accepted for consideration; or
- before a particular application is decided.

On the acceptance of the later PCA or PL application, the department will expect the ATP holder to withdraw the application that does not comply with the requirements for grant under either section 90 (for PCA applications) or section 121 (for PL applications) of the P&G Act.

**Important Note:** The department’s policy position is that a holder of an ATP cannot make an application for a PL or PCA after the 12 year term of the ATP. This is despite the ATP continuing past the 12 year term because of previously lodged PL or ATP renewal applications that have yet to be decided. An ATP holder is encouraged to engage with the department prior to the end of the 12 year term of the ATP, to discuss any concerns they may have in regards to the development of a discovery within the ATP area.

## Document information

**Availability:** External

**Location:** Business Industry Portal

**Owner and approver:** Deputy Director-General, Georesources Division

**Review date:** 25 May 2022

**Related documents:** This policy should be read in conjunction with the Potential commercial area application guideline and the Society of Petroleum Engineers – Guidelines for Application of the Petroleum Resources Management System 2018.

**Contact:** For help and information contact the Petroleum Assessment Hub on (07) 3199 8118 or email [petroleumhub@dnrme.qld.gov.au](mailto:petroleumhub@dnrme.qld.gov.au).

## Disclaimer

The purpose of this policy is to provide a framework for consistent application and interpretation of the legislation administered by the department. Policies may be applied flexibly where individual circumstances require an alternative application of policy. Where this policy, or part of this policy, is inconsistent with relevant legislation, the legislation will prevail to the extent of the inconsistency. While this document has been prepared with care it contains general information and does not profess to offer legal, professional or commercial advice. The Queensland Government accepts no liability for any external decisions or actions taken on the basis of this document. Persons external to the Queensland Government should satisfy themselves independently and by consulting their own professional advisors before embarking on any proposed course of action.