# Submission

## Treasury Review into Petroleum Resource Rent Tax Design Issues

# Contents

# Chevron in Australia

Chevron is the developer of two of the largest resources projects in Australia's history. The Chevron-operated Gorgon and Wheatstone projects represent over $80 billion of investment, delivering vast benefits to the Australian economy – 19,000 workers employed; 1,000 contracts with local industry; and $50 billion in Australian content.

Projects the size and scale of Gorgon and Wheatstone have long lifecycles. The Gorgon field was discovered in 1982. The final investment decision was made in 2009. Construction commenced in December 2009 and full production capacity will not be realised until at least the second half of 2017. It is expected Gorgon, a legacy project, will produce LNG for over 40 years.

Fiscal stability has been a key factor underpinning Australia's success attracting major LNG investment. Tax policy settings continue to have a crucial role to play driving future petroleum investment.

# PRRT Review

Chevron welcomes the findings of the Callaghan PRRT Review and commends the Government for endorsing the Review's primary recommendation to retain a profits-based regime.

The Review highlights the strengths of a profits-based tax model. The PRRT has supported a $200b petroleum investment boom, while also maximising the long-term tax revenue for Australia. The Review's modelling shows that, for the period to 2050, the current regime will deliver the Australian community $19b more in tax revenue than if a new royalty was imposed. While a royalty would deliver short term revenue spikes, it would erode Australia's budgetary position in the long term.

This modelling revalidates the findings of the Henry Tax Review and the rationale of the Hawke Government when introducing the PRRT – a profits-based tax will ultimately collect more revenue.

Further, Chevron welcomes the recommendations to quarantine existing projects from any changes to PRRT design features and to undertake further consultation with industry.

The Treasury Consultation Paper has raised questions and alternative options in relation to certain PRRT design features. We welcome the opportunity to make a submission to Treasury on these options.

# New Projects

The PRRT will be a key factor in future investment decisions by Chevron.

Chevron currently has two major future opportunities for new investment in Australia:

- the next wave of LNG projects in Western Australia; and
- exploration and potential development in the Great Australian Bight.

Chevron submits that any changes proposed in relation to new projects must meet a strict test that ensures future investment is encouraged, existing project economics are not retrospectively undermined and Australia's international competitiveness is not further compromised.

If PRRT charges are proposed, it is important that the definition of 'new project' does not retrospectively undermine existing project economics, including future extensions to existing projects.

For a range of commercial and administrative reasons, it is common in LNG developments for projects to be sanctioned with the initial development base case including an area that has both production licences and retention leases. The intention is that the retention leases provide backfill to maintain supply to the LNG plant for its expected life. The retention leases will convert to production licences closer to the time that the resource will be processed. It is important that the definition of existing project is defined with these commercial arrangements in mind.

The PRRT law currently includes a process whereby an application can be made to treat production licences as a combined PRRT project where certain requirements are satisfied. We submit that where new production licences (which issue from pre-30 June 2018 exploration permits or retention leases) satisfy the requirements under the existing PRRT law to combine with a pre-30 June 2018 production licence or pre-30 June 2018 combined PRRT project, these production licences should be treated as existing projects.

# Uplift Rates, Ordering of Deductions and Transferability

The Treasury Consultation Paper raises questions and alternative options in relation to uplift rates, ordering of deductions, transferability of exploration deductions and the Gas Transfer Pricing Regulations with any changes applying to new projects from a date to be specified.

The PRRT is an integrated tax by its design and a change to any of these options cannot be considered in isolation. Individual PRRT design features should not be considered on a stand-alone basis.

## Uplift Rates

Chevron submits that the current exploration and general uplift rates reflect the risk of the activities undertaken.

Further, the GDP factor 5 year rule sets a limit on the degree to which new projects can receive transfers of exploration expenditure at the LTBR+15% rate.

If there is a change to the exploration uplift rate it should follow the existing formulaic approach of LTBR plus an uplift rather than introducing new concepts such as investment allowances or allowing for different uplift rates for different periods.

## Transferability

Exploration expenditure must continue to be transferred from new to existing projects and vice versa consistent with the principle that there should be no retrospective changes.

For new projects, FEED and other feasibility studies which do not qualify as exploration expenditure, should be a separate category of expenditure which is transferable to reflect the high-risk nature of these activities. Under the current rules these costs become "blackhole" where projects do not go ahead. The uplift for this category should be maintained at the current rate of LTBR+5%.

## Ordering Rules

Ordering rules are part of the integrated PRRT package and should remain as designed.

## Gas Transfer Pricing Regulations

Chevron submits that more time is required to consider any changes to the Gas Transfer Pricing Regulations for new projects.

Chevron supports APPEA's submission that the Residual Pricing Methodology (RPM) provides the most workable, accurate and robust approach for determining the value of petroleum at the project ringfence. The RPM is well understood by industry and the Australian Taxation Office and is not overly complex.

If there is a change to the Gas Transfer Pricing Regulations, any further consultation should focus on the RPM and not the proposals around the CUP or netback or PRRT ringfence for LNG.

## Administration of the PRRT

The PRRT Consultation Paper identifies administrative changes for both new and existing projects.

Subject to final detailed design, Chevron supports the following proposals in the Treasury Consultation Paper:

- The recognition of partial closing down expenditure as a legitimate general project expense.
- The lodgement of Annual PRRT Returns for exploration permits, retention leases and production licences. However, this must be accompanied by a similar provision to that which accompanied the introduction of the starting base deductions, whereby the ATO has a statutory period to dispute deductions. This would benefit both the ATO (who would have more information above potential deductions) and taxpayers (who would have increased certainty about future deductions.)
- The ability to adopt substituted accounting periods.
- The ability for the Commissioner of Taxation to exempt non-paying projects from PRRT obligations.

Chevron also recommends that there is an administrative change to allow further time to lodge PRRT returns given the challenges in meeting the current 60 day deadline.