

28 July 2017

Manager, Large Corporates Unit
Corporate and International Tax Division
The Treasury
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Via email: prrt@treasury.gov.au

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Dear Manager

RE: Petroleum Resource Rent Tax (PRRT) Consultation Paper: Design Issues

Senex Energy Limited (**Senex**) welcomes the opportunity to provide a submission to Treasury in relation to the "Options to address the design issues identified in the Petroleum Resource Rent Tax Review" (**the Paper**).

The Australian Petroleum Production and Exploration Association (APPEA) has undertaken consultation with industry in relation to the PRRT Review and the Paper, and Senex fully supports and endorses the views expressed in its submissions.

General Comments

We reiterate the comments in our submission dated 3 February 2017 in relation to the PRRT Review. We believe the PRRT regime is operating as intended and that Australian independent companies such as Senex contribute to Government revenue in many other ways, including through the payment of state-based royalties. From an onshore perspective, we understand it was recognised at the time of the extension of the PRRT to onshore activities in 2012 that the royalty regime would continue to be the primary resource taxation mechanism for onshore petroleum production. We therefore strongly encourage Treasury to leave the PRRT regime unaltered.

As an ASX listed small-medium Australian oil and gas exploration and production company operating onshore in both South Australia and Queensland, we see a clear need for Treasury to continue to focus on stabilising the fiscal compliance environment. In a challenging macro-economic environment, Senex remains focused on delivering oil and gas to market and providing returns to our investors, which in turn will generate revenue for governments. Project economics and investor returns are heavily dependent on fiscal parameters. That is, fiscal stability will enable small-medium companies such as Senex to continue oil and gas exploration and development in Australia, and in particular to deliver additional gas into the structurally short east coast gas market. We note the Federal Government is placing a high priority on ensuring sustainable and reliable gas supplies are available to Australian manufacturers and households – tax settings will be critical in meeting this objective.

Fiscal stability will also assist in easing the regulatory burden on small-medium companies such as Senex.

If implemented, a number of the options raised in the Paper would have retrospective implications on our existing investments. Any retrospective implications will significantly impact the economic feasibility or return on investment of in-progress and proposed projects and the compliance burden for small-medium companies like Senex. This will impact the ability of small-medium companies like Senex that have discretionary funds for developing future resources, further impacting future revenue returns to government.

The short time between the release of the Paper on 30 June 2017 and the closing of submissions on 28 July 2017 has not allowed Senex to fully assess the impacts of the options on our current and

proposed projects. However, we have highlighted our specific areas of concern below. We look forward to explaining the impacts on small-medium companies operating onshore, like Senex, at the Treasury/APPEA meeting scheduled for 2 August 2017.

Access to Starting Base Deductions

Senex relies on combination certificates to treat multiple production licences as a single project, which aligns our PRRT management with our operational approach. Any change that removes our ability to combine production licences based on a project's lifecycle status, the timing of the combination application and a legislation date of any change would be retrospective in nature and impact on integrated investment decisions Senex has already made.

In addition, any change to the ability to combine certain tenements based on whether or not they have a starting base will result in increased modelling complexity for investment decision purposes and administrative compliance for a small-medium company like Senex.

Augmentation (Uplift) Rates

The current PRRT augmentation rates appropriately reflect the level of risk associated with the relevant category of expenditure and the timing of when expenditure is incurred in the asset lifecycle. The Paper's focus appears to be on the Class 2 Exploration Expenditure category (with an augmentation of LTBR plus 15%). Senex does not allocate expenditure incurred during the period and as classified in our books and records as exploration expenditure directly to the Class 2 Exploration Expenditure category for PRRT purposes. Instead, to comply with the specific requirements of the PRRT legislation and associated guidance, Senex makes significant adjustments to determine the expenditure eligible to be classified as Class 2 Exploration Expenditure for PRRT purposes. That is, expenditure classified as exploration for accounting purposes is often re-categorised as Class 2 General Expenditure (with an augmentation of LTBR plus 5%) or GDP Exploration Expenditure (with an augmentation based on the GDP factor) for PRRT purposes.

Any change to augmentation rates would represent a retrospective change that would impact on investment decisions Senex has already made.

Ordering of Deductions

A change in the ordering of deductions will materially impact the timing and level of payments of PRRT for existing Senex projects for which investment decisions have been made based on full economic modelling, including the PRRT. Such a change would, in effect, be a retrospective one.

Further, the Australian Accounting Standards Board guidance states that PRRT is an income tax for tax effect accounting disclosure purposes and once recognised is a non-cash tax expense in the net profit after tax calculation. In the absence of formal guidance in the accounting standards on how to specifically calculate and recognise a deferred tax asset on the expected use of carry forward balances for PRRT projects, individual oil and gas companies liaise with their external financial auditors to determine the most appropriate approach to comply with the accounting standards.

Companies like Senex, with guidance from their external financial auditors, analyse the PRRT tax effect accounting position in line with the ordering of deductions for the PRRT taxable profit calculation. This means any change to the ordering of deductions will impact both the non-cash aspects of the net profit after tax of oil and gas companies and the accounting disclosures in relation to the tax effect of carry forward PRRT deductions.

New Projects

The PRRT legislation adopts a narrow definition of the term "PRRT project". In the asset lifecycle of an oil and gas company, the project life usually commences at the acquisition stage, which could be as early as applying for an exploration licence. A change to the linkage between an exploration licence application through the lifecycle to the production licence would represent a significant retrospective change, which would impact on investment decisions Senex has already made.

Reflecting the importance of regulatory stability to confidence for making future investments, Senex strongly encourages Treasury to consider the broader fiscal impacts of any changes in the PRRT design whilst ensuring that any potential changes are prospective only and involve consultation with small-medium onshore oil and gas companies like Senex.

We would be happy to discuss these matters further and should you have any questions in relation to this submission, in the first instance please contact Justine Neep, Corporate Performance and Tax Manager, on 07 3335 9849.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Davies', with a horizontal line extending to the right.

Ian Davies
Managing Director and
Chief Executive Officer