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18 December 2015

Dr Kathleen Dermody
Committee Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Dr Dermody

Senate Economics References Committee - Responses to Questions on Notice

Please find attached responses to questions on notice following our appearance before the Committee on 18 November 2015.

Following our review of the Hansard, we have also taken the opportunity to clarify some of the comments made during our hearing.

Please contact me if you would like further information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. J. Krzywosinski'.

Roy J. Krzywosinski
Managing Director

APPENDIX I – Additional Comments

1. Chevron Australia Transport Pty Ltd

During the hearing, Senator Dastyari asked a question regarding Chevron Australia Transport Pty Ltd ('CAT') and suggested that it was owned by a Bermudan company with the same name. To clarify, CAT is an Australian company that is 100% owned by Chevron Australia Holdings Pty Ltd ('Chevron Australia') and is a member of Chevron Australia's income tax consolidated group.

CAT owns a one sixth interest in North West Shelf Shipping Services Company Pty Ltd ('NWSSSC'), an Australian company which is jointly owned by all of the foundation participants in the North West Shelf ('NWS') Project. CAT's only income is the receipt of fully franked dividends from NWSSSC.

NWSSSC is responsible for providing operational, commercial, marine assurance and technical expertise to support International Gas Transportation Company Limited ('IGTC').

As discussed in our appearance before the Committee, IGTC is the only Bermudan entity that has direct operational links to the Chevron Australia group. IGTC is owned equally by the six foundation participants in the NWS Project.

IGTC is responsible managing the NWS Project's fleet of seven owned LNG carriers and additional time chartered vessels to ensure the safe, efficient and reliable transportation of LNG from the NWS to the Project's long term customers in Japan, South Korea and China. Income earned by IGTC from transporting LNG from the NWS Project to long term customers is subject to tax in Australia in accordance with section 129 of the *Income Tax Assessment Act 1936*.

Again, there is no Bermudan company called Chevron Australia Transport Pty Ltd. CAT had permission to trade in Bermuda under the Bermudan *Companies Act 1981* and was therefore registered as a foreign company on the Bermudan Register of Companies ('ROC'). CAT has not traded in Bermuda. At our request, this registration was cancelled in November 2013 but the ROC website has yet to be updated to reflect this.

2. ACIL Allen Consulting Modelling

As discussed in our appearance before the Committee, the independent modelling undertaken by ACIL Allen Consulting has included the impact of Chevron Australia's debt deductions on total estimated Government revenues. No amounts have been included in respect of funding costs of other joint venture participants in the WA Oil, North West Shelf, Gorgon or Wheatstone Projects as we do not have this information.

Further, as indicated during the hearing, the economic impact of these projects is highly dependent on commodity prices and a change in oil price assumption would have a far greater impact on total estimated Government revenues than any tax deductions relating to funding.

3. Mr Richard Gross

During the hearing, Senator Dastyari alleged that Mr Richard Gross, the expert witness that provided evidence to the Federal Court on Chevron Australia's behalf, had "admitted receiving bribes in Nicaragua."

Our lawyers have been in touch with Mr Gross and he has indicated that no such allegation was ever brought against him nor has he ever had any business dealings in Nicaragua. We understand that Mr Gross may be seeking a formal apology from Senator Dastyari as well as a retraction of those statements.

APPENDIX II – Responses to Questions on Notice

1. Senator DI NATALE: Can I ask about the \$2.2 billion of shares in the Australian company that were issued to the parent company in Delaware. What was the commercial purpose of that transaction?

Mr Macfarlane: At which point are you talking about?

Senator DI NATALE: There was a \$2.2 billion share transaction where there was a transfer to the parent company in Delaware. I am just trying to understand what the purpose of that was.

...

Senator BACK: If you are saying that information needs extending, Mr Macfarlane, you might be kind enough to take it on notice.

As we are yet to receive a time reference for the share issue, we have assumed that Senator Di Natale was referring to the share issue referenced in Chevron Australia's Annual Report for the Year Ended 31 December 2014.

The purpose of this share issue was to raise working capital to fund Chevron Australia's ongoing operations in Australia, which includes the construction of the Gorgon and Wheatstone Projects.

As with any businesses, Chevron Australia has the option to select a funding structure that best suits its commercial needs. Our significant investment in developing the Gorgon and Wheatstone Projects has required greater funds than our existing operations in Australia are able to generate. As such, a commercial decision was made to use a mix of debt, surplus cash and equity.

2. Senator McALLISTER: What percentage of the value of sales for you from the North West Shelf project is then paid out to transportation costs?

...

Senator McALLISTER: Could I ask you to provide on notice what the total value of sales in that same period was and then we could get an indication of what percentage of that were shipping costs.

Detailed below is the relevant information requested by Senator McAllister:

Chevron Australia	2010	2011	2012	2013	2014	TOTAL
North West Shelf (NWS) LNG sales revenue	\$1,617	\$1,640	\$1,787	\$1,798	\$1,960	\$8,802
Transport costs paid	\$52	\$57	\$71	\$60	\$69	\$309
Transport costs as a percentage of NWS LNG sales revenue	3.2%	3.5%	4.0%	3.3%	3.5%	3.5%

As noted during the hearing, the transportation of LNG is a relatively expensive undertaking, given the cost of constructing the dedicated LNG vessels and the requirement to keep the LNG refrigerated at -160 degrees Celsius during transportation. Further, some of the LNG being transported is lost during transportation, as there is a slight amount of natural gas that 'boils off' and is used as burning fuel for the engines.

3. Senator DASTYARI: Sure, and the committee will write to you more formally with the question. The question is this: for the \$24 billion in debt that is held by the global parent—the US debt—what were the different rates at which that debt was borrowed? I assume you will find the more recent debt accumulation was at a lower rate than the older debt, just by the nature of how markets have moved recently.

An extract of Chevron Corporation's Annual Report for 2014 which contains this information is included below:

Note 17

Long-Term Debt

Total long-term debt, excluding capital leases, at December 31, 2014, was \$23,960. The company's long-term debt outstanding at year-end 2014 and 2013 was as follows:

	At December 31	
	2014	2013
3.191% notes due 2023	\$ 2,250	\$ 2,250
1.104% notes due 2017	2,000	2,000
1.718% notes due 2018	2,000	2,000
2.355% notes due 2022	2,000	2,000
4.95% notes due 2019	1,500	1,500
1.345% notes due 2017	1,100	—
2.427% notes due 2020	1,000	1,000
2.193% notes due 2019	750	—
0.889% notes due 2016	750	750
Floating rate notes due 2016 (0.332%) ¹	700	—
Floating rate notes due 2017 (0.402%) ¹	650	—
Floating rate notes due 2019 (0.642%) ¹	400	—
Floating rate notes due 2021 (0.762%) ¹	400	—
8.625% debentures due 2032	147	147
8.625% debentures due 2031	107	107
8.0% debentures due 2032	74	74
9.75% debentures due 2020	54	54
8.875% debentures due 2021	40	40
Medium-term notes, maturing from 2021 to 2038 (5.83%) ²	38	38
Total including debt due within one year	15,960	11,960
Debt due within one year	—	—
Reclassified from short-term debt	8,000	8,000
Total long-term debt	\$ 23,960	\$ 19,960

¹ Interest rate at December 31, 2014.

² Weighted-average interest rate at December 31, 2014.

As reflected in the table above, Chevron holds external long-term debt with interest rates ranging from 0.12% on short-term commercial paper to 9.75% on debentures due in 2020. Chevron Australia's debt is longer term and therefore would have the higher end of the interest rate range noted above.

