



Finance Minute on
Report 190—
Petroleum Royalties
and Excise

Report

215

Joint Committee of
Public Accounts

DEPARTMENT OF THE SENATE	
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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

215TH REPORT

FINANCE MINUTE ON THE COMMITTEE'S 190TH REPORT -
PETROLEUM ROYALTIES AND EXCISE

Australian Government Publishing Service
CANBERRA 1983

JOINT COMMITTEE OF PUBLIC ACCOUNTS

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DUTIES OF THE COMMITTEE

Section 8.(1) of the Public Accounts Committee Act 1951 reads as follows:

Subject to sub-section (2), the duties of the Committee are:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the Audit Act 1901;
- (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of intergovernmental bodies to which this Act applies;
- (ab) to examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

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PREFACE

Following the creation of the Department of Finance in 1976, it was agreed that the 'Treasury Minute' arrangements for ensuring that appropriate action is taken in response to Committee recommendations, should continue. These procedures then became known as the 'Department of Finance Minute'.

Although these arrangements are periodically reviewed, they have been in operation, in more or less their current form, since 1952, when the Public Accounts Committee was re-established.

The Finance Minute procedures, as they now stand, are as follows:

1. The Report of the Committee is tabled in both Houses of the Parliament and motions are moved in both places that the Report be printed as a Parliamentary Paper.
2. The Chairman of the Committee thereafter forwards a copy of the Report to the responsible Minister and to the Minister for Finance with a request that he give the Report his consideration and inform the Chairman of the action taken to deal with the Committee's conclusions.
3. The reply which is in the form of a Department of Finance Minute, is then examined by the Committee and, together with the conclusions of the Report to which it relates, is submitted as soon as possible as a Report to the Parliament.
4. Should the Committee find during its examination of a Department of Finance Minute that certain recommendations are not fully dealt with or are subject to a further Minute, it holds an exploratory discussion with officers of the Department of Finance prior to the submission of the Minute to the Parliament.
5. In reporting a Minute to the Parliament, the Committee, except in special cases does not usually make any comment other than to note recommendations not fully dealt with or subject to a further Minute.


6. When the Committee next examines the Department concerned the Department of Finance Minute is considered by the Committee if applicable.
7. The Department of Finance furnishes the Committee with a half-yearly report on outstanding Minutes, indicating the progress made in dealing with the Committee's comments.

In accordance with the procedures outlined above, this report documents the Department of Finance Minute which was submitted in response to the Committee's 190th Report.

For and on behalf of the Committee.



Senator G. Georges
Chairman



M.J. Talberg
Secretary
Joint Parliamentary Committee of Public Accounts
Parliament House
Canberra
16 November 1983

CHAPTER 1

INTRODUCTION

1.1 The Committee's 190th Report, which examined the collection of petroleum royalties and excise, was tabled on 27 October 1981. A summary of that report appears in Chapter 2. The recommendations together with the Department of Finance Minute appear in Chapter 3.

1.2 The Committee recognised that the issues identified in its 190th Report were complex and involved policies and administrative procedures at both State and Federal Government level. As a result, the Committee anticipated the significant delay in the finalisation of the Finance Minute on this Report. In any case the Committee was provided with an interim progress report during 1982.

1.3 The Committee is pleased to note the considerable effort which has been directed towards carrying out most of its recommendations. Overall, therefore, the Committee is satisfied with the timing and content of this response to its 190th Report.

1.4 The main responses to the Committee's inquiry have been as follows:

- An independent firm of consultants was commissioned to undertake a review of the sampling techniques employed for obtaining compositional data for the material balance program used in the calculation of royalties and excise payable to the Commonwealth and Victorian Governments. The recommendations resulting from that review have been implemented.
- The following four sets of detailed procedures for the collection and verification of royalties and excise for the Bass Strait producing fields either have been developed, or are being developed:
 - Producers procedures
 - State procedures
 - Customs procedures
 - Department of Resources and Energy procedures
- Legislation has been amended to ensure the immediate payment to the Commonwealth, of its share of royalties.

Audit, by the Victorian Department of Mines and Energy, of royalty payments, on the basis of wellhead values, is progressing in consultation with the Department of Resources and Energy.

1.5 Since the preparation of this Finance Minute the Committee has been informed that all the procedures, outlined on page 10 of this Report, except for those of the Department of Resources and Energy, are complete and in place. The latest advice is that the Department of Resources and Energy has completed six out of the seven chapters of their procedures.

1.6 In view of the response to recommendation 7, concerning the simplification of taxation arrangements, the Committee intends to review progress in this area in approximately twelve months time.

CHAPTER 2

SUMMARY OF THE COMMITTEE'S 190TH REPORT

2.1 The Committee's inquiry into this matter commenced as part of its examination of the Auditor-General's 1977-78 Report. As a result, the Committee decided to examine separately the matters concerning offshore petroleum royalties and excise, which were again referred to in the Auditor-General's 1979-80 and 1980-81 Reports.

2.2 The importance of this inquiry is demonstrated by the significance of Commonwealth receipts from Petroleum Royalties and Excise (in excess of \$180m in 1980-81).

2.3 The Report highlighted some of the many complex legal issues in this area involving both Federal and State Governments as well as oil producers. The Report also identified many serious deficiencies in the verification and collection of Petroleum Royalties and Excise:

- The Committee was concerned that the Designated Authority was not responsible to the appropriate Commonwealth authorities for the procedures adopted for royalty collection. It was recommended that discussions take place between the respective Commonwealth and State authorities and between Auditors-General to ensure that royalty collection procedures, compatible with the requirements of both governments, are implemented under the existing legislation and under the 1980 Commonwealth legislation when proclaimed.
- The Committee was strongly of the view that new methods must be implemented to make officials involved in the administration of offshore matters accountable to both the Commonwealth and State Parliaments. It believes that a suitable means of achieving this accountability is for the relevant Commonwealth and State Parliamentary Committees to conduct future inquiries into offshore matters jointly.
- The Committee regarded the delay of approximately 12 years in determining the wellhead value of the petroleum produced as completely unsatisfactory, and considered that this left unresolved the value of payments to be made by the producers. The Committee was convinced that this episode reflects unfavourably on the administration of offshore petroleum development in Australia, and on the attitude of the Commonwealth Department involved.

- The Committee recommended that the Department of National Development and Energy and the Auditor-General's Office should be involved, in co-operation with the Victorian Auditor-General, in ensuring the correctness of the procedures to arrive at the royalty payments.
- The Committee considered that arrangements should be made for the Commonwealth share of royalties to be paid immediately it is received by the State, with any adjustments being made in the following month's payment.
- The Committee recommended that the Department of National Development and Energy, and the Department of Business and Consumer Affairs treat finalisation of the documentation of procedures as a matter of urgency.

CHAPTER 3

DEPARTMENT OF FINANCE MINUTE ON THE 190TH REPORT

3.1 This Minute has been prepared on the basis of responses received from the Minister for Resources and Energy, the Department of Industry and Commerce and the Auditor-General. This Minute incorporates and supercedes the interim response sent to the Committee on 16 October 1982.

3.2 It will be noted that some administrative matters remain to be finalised and that responses to two recommendations are dependant on the outcome of the Government's review of the offshore petroleum legislation and arrangements for the taxation of resource projects. The Minister for Resources and Energy has however suggested that it does not seem necessary to delay the response to the Committee further while these matters are finalised.

GENERAL COMMENT BY DEPARTMENT OF RESOURCES AND ENERGY

Introduction

3.3 From the commencement of production in Bass Strait until 14 February 1983, royalties were assessed and collected, in accordance with the provisions of the Victorian Petroleum (Submerged Lands) Act 1967, by the Victorian Department of Minerals and Energy. The responsibilities of the Victorian Designated Authority included negotiation with the producers on the wellhead value of production for royalty purposes and the development of the back allocation program under which production is identified with individual fields. The former Department of National Development and Energy and its predecessors were informed by the State from time to time of progress in the negotiations with the producers but were not invited to participate in the negotiations, which were concluded in 1980.

3.4 Notwithstanding the 1975 High Court decision which established the Commonwealth's constitutional responsibility in matters of offshore jurisdiction, it was decided that the existing formal arrangements relating to the assessment and collection of royalties would continue until agreement had been reached with the States on amended arrangements and legislation had been enacted. This agreement was reached at the Premiers' Conference on 29 June 1979 as part of the Offshore Constitutional Settlement. The 1980 amendments to the Commonwealth Petroleum (Submerged Lands) Act and associated legislation, and complementary State legislation, which were proclaimed to come into effect on 14 February 1983, give legislative effect to the settlement.

3.5 Under the new legislation, royalties are assessed and calculated in accordance with the Commonwealth Act. The Commonwealth has a direct involvement through the Joint Authority arrangements in decisions on a range of matters, including royalties, relating to petroleum exploration and development activities beyond the territorial sea.

3.6 The basis of calculation of royalties on offshore petroleum production beyond the territorial sea and the arrangement for sharing royalty payments with the States are set out in the Petroleum (Submerged Lands) Act and the Petroleum (Submerged Lands) (Royalty) Act. State legislation applies similar provisions to petroleum production within the territorial sea area beyond the baselines.

Measuring Production: The Back Allocation System

3.7 Excise on indigenous crude oil was introduced in 1975 to apply on a flat rate basis. A more direct Commonwealth interest in the procedures for allocating production to individual fields in Bass Strait arose in 1978 with Budget initiatives to set levels of excise which would vary according to the annual production of each field. The excise levy was introduced in the knowledge that the system for back allocation of production to individual fields developed and then operating for the collection of royalties, could also be used and was appropriate for field production measurement required for excise assessment.

3.8 The basic issue, for both royalty and excise purposes, is the accuracy of this system of measurement of production volumes and the full wellstream composition from each of the various producing fields - which may attract royalties and excise at different rates. Royalties are assessed on the net wellhead value of all petroleum production and excise on the volume of stabilised crude oil and LPG produced from each field.

3.9 Crude oil produced at the wellhead must be treated to remove volatile gases and water before accurate volume measurement can be undertaken. The various producing fields in Bass Strait use common pipelines to transfer raw crude oil and natural gas streams for treatment and processing at Longford and/or Long Island Point into the final products of natural gas, ethane, LPG and crude oil prior to custody transfer and sale. The most accurate volume measurement of total production of each final product is only possible after this onshore treatment and processing has taken place. The raw crude oil and natural gas streams from each field contain different proportions of the component hydrocarbons. Therefore, to achieve the most accurate measure of production from individual fields, it is necessary to back allocate the total volume of each final product in each field on a basis that reflects the mass composition of each field's production. A system-wide mass balance technique is used for this purpose. The mass balance accounts for all system inputs (field production) and outputs (final products, fuel, flares and

reinjecting LPG) for each of eight hydrocarbon components (C1 through C6+) and two other gases (N₂ and CO₂). The back allocation and mass balance exercises employ a computer program developed by the producers in consultation with the Victorian Department of Minerals and Energy.

3.10 Following the changes introduced in 1978 to the excise arrangements, the former Department of National Development obtained the back allocation computer program from the producers, checked all of its component equations and instructions, and converted the program so that it could run independently on a Commonwealth computer facility. Since then, the Department has run the program to check the producers' allocation of production to particular fields, monitor changes in production levels and provide information to the Department of Industry and Commerce (Australian Customs Service).

3.11 In addition, the Department has worked towards ensuring that comprehensive procedures exist to permit verification of the measurement data necessary for the back allocation program. The steps taken by the Department and its predecessors are discussed in some detail in the responses below to the Committee's recommendations.

3.12 The work undertaken by the Department and the information available to it indicate that the procedures and standards used by the producers are consistent with internationally accepted practices. There is no evidence to suggest that the payments made to the Commonwealth have been anything other than its legal entitlements to royalty and excise for production from the Bass Strait fields or that the system of measurement, compositional analysis and the associated procedures and standards are in any way biased towards the interests of the producers, the State or the Commonwealth.

RECOMMENDATION 1

...the terms of the 1980 legislation be discussed with the States with a view to having the legislation amended prior to being proclaimed, to empower the Joint Authority established under the Petroleum (Submerged Lands) Amendment Act 1980 to function in relation to the territorial sea as well as the adjacent areas.

Response

3.13 The legislation giving effect to the Offshore Constitutional Settlement between the Commonwealth and the States was proclaimed to come into effect on 14 February 1983. The legislation comprises the Coastal Waters (State Powers) Act, the Coastal Waters (State Title) Act and, and so far as offshore petroleum activities are concerned, the following Acts:

- . Petroleum (Submerged Lands) Act
- . Petroleum (Submerged Lands) (Exploration Permit Fees) Act
- . Petroleum (Submerged Lands) (Pipeline Licence Fees) Act
- . Petroleum (Submerged Lands) (Production Licence Fees) Act
- . Petroleum (Submerged Lands) (Registration Fees) Act
- . Petroleum (Submerged Lands) (Royalty) Act.

3.14 In accordance with the Settlement, the Commonwealth legislation, based on section 51(38) of the Constitution, gives each State the same powers with respect to the adjacent territorial sea (including the seabed) as it would have if the waters were within the limits of the State. The legislation also vests in each State proprietary rights and title in respect of the seabed of the adjacent three nautical mile territorial sea.

3.15 Under the agreed arrangements petroleum exploration and development within the three mile territorial sea is regulated under complementary State legislation and administered by State authorities. Outside the territorial sea, Commonwealth offshore petroleum legislation applies and, although day to day administration continues to be the responsibility of the State authorities, major matters are decided by Joint Authorities comprising the Commonwealth Minister and the State Minister.

3.16 As indicated in the Governor-General's speech at the Opening of Parliament on 21 April 1983, the Government is reviewing the operation of the Commonwealth and State legislation covering offshore petroleum and mining activities. The issue raised by the Committee will be a matter for consideration in the context of the review.

RECOMMENDATIONS 2 AND 3

discussions take place between the respective Commonwealth and State authorities and between Auditors-General to ensure that royalty collection procedures compatible with the requirements of both Governments are implemented under the existing legislation and under the 1980 Commonwealth legislation when proclaimed;

the Department of National Development and Energy and the Auditor-General's Office should be involved, in co-operation with the Victorian Auditor-General, in ensuring the correctness of the procedures to arrive at the royalty payments.

Response

3.17 Procedures for the collection and verification of royalties, fees and other moneys were agreed between the Commonwealth and the States prior to proclamation of the Petroleum (Submerged Lands) Act and associated legislation. These procedures were approved by the Commonwealth Minister in accordance with section 129 of the ACT. A copy of the procedures is attached (Attachment A). For the Bass Strait producing fields procedures for the collection and verification of royalty payments and arrangements for the conduct of audits are the subject of continuing discussion and consultation between Commonwealth and Victorian authorities. These discussions and consultations involve the Commonwealth Departments of Resources and Energy, Industry and Commerce (Australian Customs Service) and Finance and the Commonwealth Auditor-General's Office, and the Victorian Departments of Minerals and Energy, Treasury and the Victorian Auditor-General's Office.

3.18 Three complementary sets of procedures are being finalised: the producers' procedures, Victorian procedures and Commonwealth procedures will be completed by the end of July and August 1983, respectively.

3.19 Producers' procedures. A comprehensive review of the producers' procedures has been completed by a working group comprising Commonwealth and State officers and producer representatives. The procedures, which are documented in the producers' Petroleum Measurement and Accounting Manual, have been formally approved by the Victorian Designated Authority. The producers have undertaken to update the manual annually. All proposed changes will be discussed at the monthly Royalty Committee meetings between producer representatives and Commonwealth and State officers and agreed changes will be submitted to the Designated Authority for approval.

3.20 The review and approval of the producers' procedures encompassed the registration of Esso's Gippsland Area Metering System by the National Association of Testing Authorities (NATA) in April 1982. The system approved for registration covers offshore and onshore measurement of oil and gas produced from the Gippsland Basin and includes custody transfer measurements and calibration of master meters, offshore meter provers, positive displacement meters, turbine and orifice meters.

3.21 As part of the review, an international firm of petroleum consultants, Gaffney, Cline and Associates, undertook a comprehensive study of the producers' offshore and commercial product sampling procedures. The sampling and analysis of offshore and commercial product streams forms an integral part of the mass balance and back allocation program.

3.22 In summary, the consultant concluded that the sampling procedures, standards and techniques used for petroleum accounting purposes in regard to the calculation of royalty and excise payments for the Bass Strait area are carried out in accordance with accepted international practice and that, in a few cases where industry recognised standards do not exist, internal standards and procedures developed and used are comprehensive and in accordance with good oil field practice. The consultant considered the statistical basis of calculations for the full wellstream compositions to be sound, the accuracy of the results to be as good as is currently possible in the petroleum industry and that the continued use of the calculation procedures is justified.

3.23 All of the consultant's recommendations have now been implemented by the producers to the satisfaction of the consultancy steering committee, which comprised representatives of the Department of Resources and Energy, the Australian Customs Service and the Victorian Department of Minerals and Energy.

3.24 A summary paper prepared by the Department of Resources and Energy (Attachment B) sets out the background to the appointment of the consultants and the consultants' conclusions and recommendations.

3.25 The Commonwealth and State audit arrangements relating to the monthly material balance review and the verification undertaken by the Sub-collector of Customs were also examined in the review of procedures by Gaffney, Cline and Associates referred to above. The consultants found the arrangements to be adequate and recommended that they be continued.

3.26 Victorian and Commonwealth Procedures. Detailed procedures, for the Bass Strait producing fields, are being prepared to supplement the procedures outlined in the paper at Attachment A.

3.27 The procedures and audit arrangements of the Victorian Department of Minerals and Energy are presently being finalised following review and comment by the Department of Resources and Energy of a detailed draft of the procedures. These procedures are expected to be finalised by the end of July 1983. Completion of documentation of the procedures of the Department of Resources and Energy and the Australian Customs Service is dependent on finalisation of the Victorian Department's procedures. Drafting of the procedures is at an advanced stage and it is expected that they will be complete by the end of August 1983.

3.28 The procedures of the Commonwealth and State authorities will be reviewed, as necessary, in the context of the annual audit meeting, the ongoing audit program and monthly Royalty Committee meetings.

RECOMMENDATION 4

arrangements be made for the Commonwealth share of royalties to be paid immediately it is received by the State, with any adjustments being made in the following month's payment.

Response

3.29 This recommendation has been fully implemented. The amended Commonwealth legislation makes it clear that all moneys collected under the Act are Commonwealth moneys. The receipt and payment procedures now in place (see Attachment A) provide for the immediate payment to the Commonwealth of all royalties, fees and other moneys received by the Designated Authority on behalf of the Commonwealth. Royalty payments to the States are authorised by the Department of Resources and Energy following each monthly Royalty Committee meeting.

RECOMMENDATION 5

officers of the Department of National Development and Energy, and the Auditor-General's Office actively participate in the final verification of royalty calculations which should be completed as soon as possible.

Response

3.30 The Department of Resources and Energy is being kept fully informed on the progress of the ongoing audit of royalty payments by officials of the Victorian Department of Minerals and Energy. The Department is also being consulted by the Victorian Department in the audit of royalty payments prior to the 1980 agreement between the producers and the Victorian Designated Authority on the basis of calculating wellhead values. This task is expected to be completed by December 1983.

3.31 The Auditor-General's Office is being kept informed of progress in the matter.

RECOMMENDATION 6

the Department of National Development and Energy and Business and Consumer Affairs treat finalisation of the documentation of (excise) procedures as a matter of urgency and will expect to see substantial progress in this area in the near future.

Response

3.32 The procedures adopted to allocate and verify production from the various Bass Strait fields for excise purposes are the same as those used in the royalty calculation.

RECOMMENDATION 7

the Department examine those procedures (used in the United Kingdom for the calculation of royalties) further with a view to adopting a much simpler and administratively satisfactory solution which will satisfy the requirements for maximisation and accountability of revenue.

Response

3.33 The Government is presently reviewing taxation arrangements applying to resource projects including the arrangements applying to offshore petroleum developments.

OFFSHORE PETROLEUM PRODUCTION BEYOND THE THREE MILE TERRITORIAL SEA - PROCEDURES FOR THE COLLECTION AND VERIFICATION OF ROYALTIES, FEES AND OTHER MONEYS

1 The following procedures have been prepared recognising that by agreement the State and Northern Territory Designated Authorities will be responsible for the day to day administration of offshore petroleum activities and that this administration will be carried out under the provisions of Commonwealth offshore petroleum legislation and, because of the collection of moneys on behalf of the Commonwealth, the Commonwealth Audit Act. The relevant requirements of the Audit Act are set out in Appendix 1.

2 The Department of Resources and Energy has overall responsibility for actions taken under Commonwealth offshore petroleum legislation and will need to satisfy itself in regard to the adequacy of the administrative arrangements.

3 In order to fulfill these responsibilities, it will be necessary for:

- (i) each licensee and each relevant State/Territory Department to adequately document the procedures which are to be followed in the measurement of production and the assessment/verification of royalties payable. These procedures are to be agreed with the Department of Resources and Energy;
- (ii) each Designated Authority to provide agreed regular reports, statements, etc to cover production and financial aspects. By arrangement, the State/Territory Auditor-General will provide to the Commonwealth an appropriate audit certificate concerning the financial information provided in the reports and statements prepared by the Designated Authority;
- (iii) the Department of Resources and Energy to make such checks and take such action as it considers necessary from time to time; and
- (iv) the Department of Resources and Energy to be represented, when it considers it appropriate, at royalty meetings attended by representatives of the Designated Authority and the licensee.

ROYALTIES

4 Checking and verification of production and product sales data for each royalty period will be carried out by the relevant State/Territory Department (hereafter referred to as the Mines Department). Prior to the royalty meeting each Mines Department will advise the Department of Resources and Energy

(DRE) by telex that checks have been carried out in accordance with the agreed procedures. The telex will note any discrepancies in the data for the royalty period and indicate the remedial action taken. Whether or not the Commonwealth is represented at a royalty meeting, each Mines Department will advise DRE by telex after the meeting the royalty payable for each allocation base point, the total amount of royalty payable and the total net wellhead value.

5 The procedures for royalty payment are as follows:

- the licensee will make each royalty cheque payable to the Commonwealth of Australia and forward it to the Designated Authority.
- the Mines Department will maintain a Remittance Register on behalf of the Commonwealth recording the following details:
 - (i) date of receipt of cheque
 - (ii) cheque number
 - (iii) amount of cheque
 - (iv) drawer
 - (v) postal address
 - (vi) bank
 - (vii) type of payment (royalty, non-refundable fee, etc)
 - (viii) initials of the person responsible for opening of mail (which includes such cheques) and the person responsible for transmitting cheques to the Commonwealth Department of Finance Accounting Office (hereafter referred to as the Accounting Office).
 - (ix) initials of the Receiver of Public Moneys (RPM) of the Accounting Office.
 - (x) number of the receipt provided to the Mines Department by the RPM in respect of each cheque.
- on receipt of each royalty cheque the Mines Department will arrange for details (i) to (viii) to be entered into the Remittance Register.
- the Mines Department will immediately* deliver to the RPM of the Accounting Office each cheque together with the

* Reference to "immediately" in these instructions means the same day or, should this not be possible, the next working day.

Remittance Register and an authorized statement that each amount has been verified in terms of the agreed production and accounting procedures.

- the RPM will initial the relevant entries in the Remittance Register accordingly and will prepare a receipt to the relevant licensee for each cheque delivered.
- the RPM will record the receipt number in the Remittance Register before forwarding the receipt to the licensee.
- DRE will send, following each royalty meeting, and prior to the end of each month, an authorising telex to the Accounting Office detailing the amount to be paid. Upon receipt of this telex and the royalty payment the Accounting Office will immediately remit to the State/Territory Treasury the amount due to the State/Territory.
- the Accounting Office will send a confirming telex each month to DRE stating the total amount of royalties received during that month and the amount remitted to the State/Territory Treasury.
- the Mines Department will forward to the Accounting Office at the end of each month a certified copy of the relevant pages of the Remittance Register which cover that month's royalty (and other) collections.

NON-REFUNDABLE FEES

6 The procedures for dealing with non refundable fees are as follows:

- individuals/companies paying non-refundable fees are to make cheques payable to the Commonwealth of Australia and forward them to the Designated Authority.
- on receipt of each cheque for non-refundable fees the Mines Department will arrange for the necessary details ((i) to (viii) of second dot point under royalties heading) to be entered in the Remittance Register.
- the Mines Department will immediately deliver to the RPM of the Accounting Office each cheque together with the Remittance Register and an authorised statement providing verified details of each payment.
- the RPM will initial the relevant entries in the Remittance Register accordingly and will prepare a receipt to the individual/company making a fee payment.
- the RPM will record the receipt number in the Remittance Register and forward the receipt to the individual/company.
- the Accounting Office will telex DRE stating collection details and requesting authorisation for payment of the fees to the Designated Authority immediately.

REFUNDABLE FEES AND DEPOSITS

7 The procedures for the collection and verification of refundable fees and deposits are as follows:

- individuals/companies paying refundable fees or deposits are to make cheques payable to the Commonwealth of Australia and forward them to the Designated Authority.
- on receipt of each cheque for a refundable fee or deposit the Mines Department will arrange for the necessary details ((i) to (viii) of second dot point under royalties heading) to be entered into the Remittance Register.
- the Mines Department will immediately deliver to the RPM of the Accounting Office each cheque together with the Remittance Register and an authorised statement by the Department of Mines providing verified details of the individual/company's name, the amount and nature of the payment.
- the RPM will initial the relevant entries in the Remittance Register accordingly and will prepare a receipt to the individual/company paying a refundable fee or deposit for each cheque delivered.
- the RPM will record the receipt number in the Remittance Register and forward the receipt to the individual/company.
- the Accounting Office will telex DRE stating collection details and, in the case of refundable fees, seek authorisation for the immediate payment of 10% of the fees to the Designated Authority.
- the deposits and the balance of the refundable fees will be held in the Commonwealth Public Account under the appropriate head of revenue until the Mines Department provides an appropriately authorised and verified statement indicating the successful and unsuccessful applicants.
- on receipt of this statement, the Accounting office will telex DRE for authorisation to immediately pay the Designated Authority the deposit and the balance of the successful applicant's fee and refund the deposit and balance of refundable fees to the unsuccessful applicants.
- the Accounting Office will arrange refunds to the unsuccessful applicants on the basis of the DRE authority. (The Accounting Office Certifying Officer would then be in a position to be satisfied that the refund payment could properly be made).

LODGEMENT OF SECURITY

8 The procedures for dealing with the lodgement of security are as follows:

- individuals/companies lodging security in the form of securities will make them out in the name of the Commonwealth of Australia. A security in the form of moneys will be lodged by cheque made payable to the Commonwealth of Australia. In either case the security will be sent to the Designated Authority.
- on receipt of moneys lodged as security the Mines Department will arrange for the necessary details ((i) to (viii) of second dot point under royalties heading) to be entered in the Remittance Register. Where another form of security is lodged the Mines Department will issue a letter of acknowledgement.
- the Mines Department will immediately deliver moneys or other forms of security to the RPM of the Accounting Office together with the Remittance Register as necessary and details regarding the purpose, etc of the securities.
- in the case of a moneys lodged as security the RPM will initial the relevant entry in the Remittance Register accordingly and will prepare a receipt made out to the individual/company concerned. The RPM will pay the moneys the Commonwealth Public Account under the appropriate head of revenue pending further advice from the Mines Department.
- the RPM will record the number of the receipt in the Remittance Register and forward the receipt to the individual/company concerned.
- where a security is in the form of securities, the RPM will provide a certificate acknowledging receipt of the security, enter the details in an appropriate Securities Register and hold the security in a secure place pending further advice from the Mines Department.
- the Accounting Office will telex details to DRE on receipt of any form of security.
- when a security is to be realised the Mines Department will advise the Accounting Office by an authorised statement providing verified details of the security together with the reason for the action.
- the Accounting Office will advise DRE by telex of these details and seek authorisation to proceed with realising the security and to pay the sum realised to the Designated Authority immediately after realisation.

- where authorised advice is received from the Mines Department to release a security, whether in the form of moneys or securities, the Accounting Office will seek authorisation from DRE to return to the applicant moneys provided as security, the proceeds of realisation of relevant securities made out in the name of the Commonwealth of Australia or, where appropriate (eg in the case of a bank guarantee), a letter of discharge from the requirement to provide security.

CASH PAYMENTS OF FEES AND OTHER MONEYS

9 The procedures for dealing with cash payments of fees and other moneys are as follows:

- where payments are received or deposits or securities are lodged in the form of cash an appropriate annotation should be made in the Remittance Register maintained by the Mines Department on behalf of the Commonwealth.
- a letter acknowledging the payment, deposit etc will be issued by the Mines Department stating that a formal receipt will be provided by the Commonwealth Department of Finance Accounting Office.

INFORMATION FOR ESTIMATES PURPOSES

10 During the course of each year DRE will request the Designated Authority to provide information for the purpose of preparing annual, revised and forward estimates of fees and other moneys. The annual and revised estimates are required for special appropriation purposes and the forward estimates are necessary for budgetary planning purposes.

PROCEDURES FOR THE COLLECTION AND VERIFICATION OF ROYALTIES PAID IN RESPECT OF PETROLEUM PRODUCTION WITHIN THE THREE MILE TERRITORIAL SEA

11 As stated in the introduction, State legislation will apply to all petroleum activities within the three mile territorial sea. DRE, as the Commonwealth Department responsible for offshore petroleum royalties, will need sufficient information from each Mines Department to be able to verify the correctness of the Commonwealth's share of royalties according to the arrangements agreed in 1979 by the Prime Minister and State Premiers and will make such checks as it considers necessary to fulfill its responsibility. The information will include agreed regular reports, statements etc provided by the Mines Department to cover production and financial aspects.

By arrangement, the State/Territory Auditor-General will provide an appropriate audit certificate to the Commonwealth concerning the financial information provided in the reports and statements prepared by the Designated Authority.

12 Procedures for the payment of royalties will be:

- the licensee will make all payments to the Designated Authority for transmission to the State/Territory Treasury.
- the State/Territory Treasury will promptly remit the Commonwealth's share to the Accounting Office, supported by an appropriately checked and authorised statement prepared by the Designated Authority indicating that the amount has been calculated in terms of acceptable production and accounting procedures.
- the Accounting Office will send details of the payment together with a copy of supporting documents, certificates, etc to DRE.

13 During the course of each year the State/Territory Department of Mines will provide DRE with appropriate information for the purpose of preparing annual, revised and forward estimates of royalties to be collected.

Commonwealth of Australia
August 1983

APPENDIX 1

COMMONWEALTH AUDIT ACT 1901

SECTION 2(1)

In this Act, unless the contrary intention appears -
"accounting officer" means a person who -

- (a) is charged with the duty of collecting, receiving or accounting for, or collects, receives or accounts for, public moneys;
- (b) is charged with the duty of disbursing, or disburses, public moneys; or
- (c) is charged with the receipt, custody or disposal of, or the accounting for, or receives, has in his custody, disposes of or accounts for, stores.

SECTION 16

Every accounting officer shall be subject to the provisions of this Act and the regulations and shall perform such duties keep such records and render such accounts as are prescribed by this Act or by the regulations or as the Minister may direct.

SECTION 22

Except as otherwise provided in this Act, every accounting officer shall, in accordance with directions of the Minister, transmit or pay, daily or at such other intervals as the Minister directs, all public moneys collected or received by him -

- (a) to the Minister;
- (b) into the Commonwealth Public Account;
- (c) to such person as the Minister directs; or
- (d) to the credit of another account with a bank as directed by the Minister.

SECTION 24(1)

Every accounting officer transmitting or paying any moneys collected or received by him to the Minister or to any person as aforesaid shall at the same time transmit or deliver to the Minister or to such person a statement signed by him of the

days of the month on and the particular heads of receipt under which such money came to his possession or control with such other particulars as may be prescribed.

SECTION 24(2)

Every accounting officer at the time of paying any money into the Commonwealth Public Account shall obtain from the manager or person in charge of the bank into which such money is paid (who is hereby required to give the same) an accountable receipt in duplicate for such money; and shall forthwith after such payment transmit to the Minister or a person appointed by the Minister for the purposes of his sub-section one of the said duplicate accountable receipts and also a statement signed by him of the days of the month on and the particular heads of receipt under which such money came to his possession or control with such other particulars as may be prescribed.

SECTION 26

Each accounting officer shall, daily or at such other intervals as the Minister directs, transmit all bonds, debentures or other securities collected or received by him in the course of carrying on the duties of his office to the Minister or to such person as the Minister directs in such manner as the Minister directs.

NOTE:

Reference to the Minister refers to the Commonwealth Minister for Finance.

VERIFICATION OF BASS STRAIT PETROLEUM PRODUCTION

In September 1981, the firm Gaffney, Cline and Associates, was retained by the Department of National Development and Energy to undertake a review of the sampling techniques and standards employed by Esso Australia Ltd for petroleum production in Bass Strait related to the calculation of excise and royalty payments. This paper outlines the background to the engagement of the consultant and summarises the conclusions and recommendations contained in the report of the consultant.

Background

The procedures for the measurement and verification of petroleum production in Bass Strait are the subject of review by the Department of National Development and Energy, the Department of Industry and Commerce (formerly the Department of Business and Consumer Affairs) and the Victorian Department of Minerals and Energy.

The sampling procedures which are the subject of the consultant's review are an important element of these procedures.

Petroleum production in Bass Strait is derived from several fields and different rates of excise and royalty are applicable to production from these various fields. Royalty is calculated on the basis of the wellhead value of production and excise is calculated on the quantity of stabilised crude oil and LPG. However, the wellhead value for royalty purposes and the quantity for excise purposes can only be determined after the crude oil has been processed into petroleum product streams. For economic and technical reasons, this processing takes place onshore. Therefore in calculating excise and royalty payments, the quantity of the petroleum products must be "back allocated" to individual field sources for the application of appropriate rates of payment. This back allocation is achieved by a system necessitating the measurement of various stream flows, the

sampling and analysis of chemical compositions at the points of production and sale, and the carrying out of material balance calculations.

In view of the complexity of petroleum flowstreams and the desirability of obtaining the best possible advice (drawing on relevant international experience and practice) it was decided to engage a firm of international consultants for this aspect of the Commonwealth/State review of procedures.

Terms of Reference

The terms of reference of the assignment required the consultant to examine and assess the sampling procedures, to report on controls within the system and to recommend any changes considered necessary to ensure the accuracy of the results obtained from the various procedures carried out. The full terms of reference for the study are set out in Attachment 1.

Conduct of the Consultancy

In undertaking the assignment, the consultant met with representatives of the interested Commonwealth and State departments and authorities, the producers, officers of the National Association of Testing Authorities and Mr George Bell, an Australian measurement specialist. The consultant visited all relevant sampling points, both offshore and onshore, and sampling techniques were observed. The consultant was supervised by a steering committee comprising representatives of the Departments of National Development and Energy and Industry and Commerce (formerly Business and Consumer Affairs) and the Victorian Department of Minerals and Energy.

The Consultant's Report

The consultant's report was provided to the Department of National Development and Energy in May 1982. Much of the material contained in the report is of a "commercial-in-confidence" nature and accordingly the report is not publicly available.

In summary, the consultant concluded that the sampling procedures, standards and techniques used for petroleum accounting purposes in regard to the calculation of royalty and excise payments for the Bass Strait area are carried out in accordance with accepted international practice. The consultant concluded that, in a few cases where industry recognised standards do not exist at present, internal standards and procedures developed and used are comprehensive and in accordance with good oil field practice.

The consultant notes that the method used for determining the field by field basis for calculating royalty and excise payments was developed specifically for the Bass Strait situation. The method has subsequently been adopted elsewhere in the world, following its successful application in Australia.

The consultant considered the statistical basis of calculations for the full well stream compositions to be sound, the accuracy of the results to be as good as is currently possible in the petroleum industry and that the continued use of the calculations procedures is justified.

The Commonwealth and State audit arrangements relating to the monthly material balance review and the verification undertaken by the Sub-Collector of Customs were reviewed by the consultant. These arrangements were found to be adequate and the consultant has recommended that they be continued. Other recommendations by the consultant refer to the frequency of

sampling, some additional checks and controls to be included in the producers' procedures and the continued use of the Governments' annual audit of input data for the royalty and excise payment calculations.

The conclusions and recommendations of the consultant are set out in Attachment 2.

Implementation

Some of the consultant's recommendations confirm action already taken by the producers. A number of the other recommendations have already been implemented by the producers and the consultancy steering committee is presently examining the remaining recommendations. This examination will include discussion with the producers. When the examination has been completed the steering committee will be reporting to the responsible Commonwealth and State Ministers on proposals for further action where considered necessary.

Department of National Development
and Energy
June 1982

Attachment 1

TERMS OF REFERENCE - VERIFICATION OF BASS STRAIT PETROLEUM PRODUCTION CONSULTANCY

The terms of reference for the study were to:

- (i) examine, assess and report on the sampling procedures and standards used by Esso for petroleum accounting purposes in regard to the calculation of royalty and excise payments on Bass Strait production with particular emphasis on the existence or otherwise of effective in-built controls which ensure that the procedures and standards are always correctly applied;
- (ii) recommend changes (if any) considered necessary to bring the sampling procedures to internationally accepted standards and to ensure that the accuracy of the results obtained is consistent with "good oil-field practice";
- (iii) recommend any changes considered necessary to ensure that the documentation of the sampling procedures and the decision making processes, including in-built controls, are adequate from an audit point of view;
- (iv) make recommendations concerning the form and frequency of verification considered necessary in order to protect the Governments' interests on an on-going basis; and
- (v) consider the implications of mass (eg density contribution to quantitative measurement) during the assessment of the sampling procedures.

CONCLUSIONS AND RECOMMENDATIONS - VERIFICATION OF BASS STRAIT
PETROLEUM PRODUCTION CONSULTANCY

CONCLUSIONS

1. The sampling procedures and standards used by Esso Australia Limited for petroleum accounting purposes in regard to the calculation of royalty and excise for the Bass Strait area, as witnessed by the consultants and described in the operator's manual, are carried out in accordance with accepted international standards and procedures, wherever applicable. In the few cases where industry recognised standards do not exist at present, internal standards and procedures developed by Esso for use in the area are comprehensive and in accordance with good oil field practice.
2. Sampling points for the taking of samples used for royalty and excise purposes are all suitably located for obtaining single phase samples, representative of the relevant metered stream.
3. The calculation procedures used for the determination of royalty and excise are able to fairly allocate commercial products back to individual production sources. The accuracy of the results derived from these calculations is considered to be as good as is currently possible in the industry. The component balances achieved each month justify the continued use of these procedures.
4. Sampling of commercial products is carried out according to normal industrial practice.
5. Changes in the location of sampling points, made from time to time for operational reasons, are not adequately documented.

6. The reasons for the rejection of samples taken for royalty and excise purposes are not adequately reported to the Designated Authority.

RECOMMENDATIONS

1. The sampling program should require that flow-streams, the compositions of which are used for the calculation of royalty and excise, be sampled at least once during the fiscal year. Flow-streams from new fields should be sampled at quarterly intervals to establish an adequate compositional data base.
2. The sampling program should continue to be reviewed and approved annually by the Designated Authority.
3. The Designated Authority should exercise the option to have a representative witness the taking of samples for royalty and excise purposes from time to time. The option to take duplicate samples for independent analysis should also be exercised.
4. A proper register of Royalty and Excise sampling points should be maintained by the Operator. The sampling points should be properly identified and any changes in the location of sample points should be approved by the Designated Authority.
5. The rejection, for whatever reason, of any sample taken for royalty and excise purposes should be notified to the Designated Authority.
6. The notification of any changes in the Material Balance computer Program to the Oil Industry Policy Branch, DNDE by Esso should be formalised.

7. The Draft Petroleum Measurement and Accounting Manual prepared by the Operators should be formally recognised to be used for royalty and excise purposes in the Bass Strait area. Any agreed changes in procedures should be formally approved and the Manual amended whenever they occur.
8. The statistical technique used in 1980 and 1981 to analyse compositional and metering data for Halibut, Mackerel and Kingfish fields should be carried out on an annual basis for all appropriate well and platform streams to evaluate the validity of data used in the Material Balance calculations.
9. The annual audit of input data to the Material Balance carried out by VDME and the Auditor General-Victoria with observers from DNDE and Customs should be continued.