

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 3-5 June 2008

Question: bet 52

Topic: Petroleum Resource Rent Tax - Revenue

Hansard Page: E96

Senator Cormann asked:

Senator CORMANN -In your experience, has there been any project since the PRRT arrangements have been in place that paid PRRT sooner than five years?

Mr Ray—I think I would need to take that on notice.

Senator CORMANN—In 2007-08 revenue from PRRT is expected to increase by \$250 million, but then in 2008-09 the PRRT revenue is expected to increase by \$1.1 billion, which I assume reflects recent rises in the price of oil and related energy resources, and by a further \$500 million in 2009-10. Can you tell me which projects that expected increase in revenue will mainly be coming from?

Mr Ray—Your assumption about the reason for the rise is correct; it reflects rises in the price of oil and other energy resources. I am not sure that I can tell you exactly which projects it is from.

Senator CORMANN—Can you provide us with that information on notice?

Mr Ray—I can take the question on notice.

Senator CORMANN—Can you take on notice which projects that additional revenue from 2007-08 to 2008-09 and 2009-10 will be coming from—\$1.1 billion and \$500 million respectively. I note that in 2010-11 and—

Mr Ray—We think it is the existing projects that are paying now, so from the existing payers. This information we get from our colleagues in resources and energy we will check.

Senator CORMANN—I asked the same question yesterday of Mr Hartwell. Mr Hartwell says this is administered by Treasury and that I should ask you. So you tell me that—

Mr Ray—He is correct to say that the budget estimates are ours, but the information that we get on projects for PRRT we get from the department of resources and energy.

Senator CORMANN—Why was the resources department not in a position to answer that question?

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Mr Ray—Because they are not responsible for the revenue estimate. As I have said, the reason for the change to the revenue estimate is oil and other energy price changes. But, if you want us to see what we can provide on a specific project basis, we will need to go back to them.

Senator CORMANN—I would very much like you to do that. I would be very grateful if you could provide me with that information. Related to this, I note that in 2010-11 and 2011-12 the PRRT revenue drops off significantly. Can you indicate to me why that is? Are there not new projects coming on stream?

Mr Ray—There are new projects coming on stream, but what has been happening in the older fields is that production volumes have been falling.

Senator CORMANN—Again, can you provide us some detail on that, like which projects you are assuming will lead you to reduction in revenue and which projects you expect to come on stream?

Mr Ray—The short answer to the first bit about the loss is Bass Strait. But we will take it on notice.

Senator CORMANN—Woodside, again in my home state of Western Australia, has a major gas project expected to come on stream towards the end of 2010 beginning of 2011 at the latest. Why are there no PRRT or expected PRRT payments from the crude oil projects in the forward estimates?

Mr Ray—We would need to check whether there are not, first, which is the answer to your earlier question, but it would depend on the sort of discussion you were having with Mr Brown about what time after a project comes on stream it starts paying PRRT. We will need to check all of that.

Senator CORMANN—I will conclude on those questions, which I would ask you to take on notice. Do the 2010-11 or 2011-12 forward estimates include provision for a PRRT revenue from crude oil—yes or no? If yes, how much? If no, when do you expect PRRT payments from Pluto to start flowing to the Commonwealth? These are my additional questions on notice.

Mr Ray—We will take them on notice.

Answer:

Timing of PRRT payments after production begins

Treasury does not normally have access to details of the PRRT payments of petroleum projects as this information is taxpayer-in-confidence. However, information on the public record indicates that PRRT has been paid within five years of a project starting production. The judgement in a Federal Court case involving

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Woodside¹ states that the Laminaria Project, which commenced production in 1999, was assessed as having a taxable profit for the year ended 30 June 2002.

Changes in PRRT estimates

The \$250 million increase in PRRT in 2007-08 and \$1.1 billion increase in 2008-09 is mainly due to rises in prices of oil and related energy resources. Production recovery in some fields also contributed to the increase in PRRT in 2008-09. The \$500 million increase in PRRT in 2009-10 reflects the expected commencement of payment of PRRT from production in newer fields.

The fall in PRRT revenue in 2010-11 and in 2011-12 is mainly due to the general decline in crude oil production as older fields mature.

There are 17 projects that are currently paying PRRT. A small number of newer projects are currently producing but are not expected to pay PRRT for a few years due to accumulated deductible expenditures. In addition, there are another small number of projects that are expected to begin production during the forward estimates period. It is also possible that additional projects will proceed to an investment decision and commence production between now and 2012.

Companies provide the Department of Resources, Energy and Tourism with production and other information that are inputs into the PRRT estimates on a commercial-in-confidence basis so it is not possible to identify individual projects.

PRRT from Pluto gas project

The PRRT forward estimates do not include revenue from the Pluto project. We would not expect the Pluto project to begin paying PRRT until several years after commencing production, which could be in late 2010 at the earliest. This is because accumulated exploration and project development costs incurred in the set-up phase are deductible and it usually requires several years of production before total revenues outweigh these accumulated costs (and hence a tax liability is generated). Production volumes and prices received on production of petroleum products are additional factors that will determine when the project begins payment of PRRT.

¹ *Woodside Energy Ltd (ABN 63 005 482 986) v Commissioner of Taxation (No 2) [2007] FCA 1961 (10 December 2007)*