Level 10
60 Waymouth Street
Adelaide SA 5000
Australia

GPO Box 1819
Adelaide SA 5001

Tel (Aust.): +61 8 8100 4900
Fax (Aust.): +61 8 8100 4997

customerservice@cooperenergy.com.au
www.**cooperenergy**.com.au

Manager, Large Corporates Unit
Corporate and International Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600
Via email: prrt@treasury.gov.au

28 July 2017

RE: Options to address the design issues identified in the Petroleum Resource Rent Tax Review

Cooper Energy welcomes this opportunity to comment on the issues and options raised in the Consultation Paper regarding 'Options to address the design issues identified in the Petroleum Resource Rent Tax Review' (**PRRT Consultation Paper**).

As flagged in the Government's Issues Note released on 20 December 2016, the purpose of the Review is to ''ensure that the PRRT provides an equitable return to the Australian community from the recovery of petroleum resources without discouraging investment in exploration and development that is vital to the industry.'

Cooper Energy agrees with the intent behind the Review, and submits that to balance these objectives, it is important to look through cyclical issues so that any changes to the PRRT:

► recognise the long term nature of oil and gas investments and the role that exploration and development plays in delivering petroleum and gas resources locally for the benefit of Australian manufacturing and other industries, households and the community more broadly;

► adequately address the different challenges faced by different industry participants; and

► are drafted in a manner that provides sufficient integrity and minimises avoidance opportunities without compromising the position for participants who respect the policy and intent behind the PRRT and fulfil their PRRT obligations accordingly.

Cooper Energy has only responded to some of the questions posed in the Consultation Paper and our views are set out in the attached submission, which calls for:

► the date for effect for any changes to existing projects to be 4 years after amending legislation is enacted, so that the impact on existing investment decisions is minimal and, in particular, there is no negative impact on projects currently underway to increase domestic gas supply;

- targeted changes to uplift rates that take into account the size of the relevant taxpayer and the impact this has on the likelihood of utilising PRRT deductions; and

- retention of the transferability of expenditure, with the combination of “new” and “existing” projects permitted so as not to artificially quarantine projects and expenditure.

We would be happy to address any queries regarding the content of this submission or the application of the PRRT more generally and can be contacted at the above address.

Yours sincerely

David P. Maxwell

David Maxwell
Managing Director

Submission by Cooper Energy Limited

Options to address the design issues identified in the Petroleum Resource Rent Tax Review
July 2017

Company overview

Cooper Energy is an Australian ASX listed oil and gas company that produces, and develops, gas for supply to south-east Australia and produces oil from the Cooper Basin. The company is one of the larger acreage and resource owners in the south-east Australian gas sector, with a mix of onshore and offshore assets in Victoria and onshore exploration acreage in South Australia.

The company's interests are broadly located in 3 regions: the Otway, Gippsland and Cooper Basins and include producing, exploration and infrastructure assets:

- 50% interest in the producing Casino Henry gas fields, and adjacent exploration acreage offshore Victoria in the Otway Basin;
- 10% interest in the producing Minerva gas field (inclusive of the onshore plant);
- 100% ownership of the Sole and Manta gas fields offshore Victoria;
- onshore and offshore gas exploration acreage in the Otway Basin; and
- oil production interests in the Western Flank of the Cooper Basin, including a 25% interest in the PEL 92 Joint Venture.

Cooper Energy is working to commercialise the Sole and Manta gas resources (offshore Gippsland Basin) to help meet south-east Australia's need for new domestic gas supplies. Gas from the first project, Sole, has been contracted to a portfolio of gas buyers including AGL Energy, EnergyAustralia, Alinta Energy and O-I Australia. The company is now finalising the debt funding to support the full funding for the Sole gas project which is scheduled to commence supply from 2019. Manta is being prepared for development after Sole.

Cooper Energy produced approximately 1 million barrels of oil equivalent (boe) in 2017 and its existing projects, which are predominantly gas, provide for a 5 year growth profile to exceed 10 million boe per annum by 2020.

The company's oil and gas projects are subject to PRRT.

Cooper Energy's relevance to the PRRT review

Public debate concerning PRRT has generally focussed on large, high profile established projects. However, it is potentially of greater significance to the smaller projects and operators that contribute to, and promote, market diversity and increased competitive supply. This is of particular relevance in the Australian domestic gas market. Cooper Energy submits its background is instructive in this respect.

The last twelve months have seen the market capitalisation of Cooper Energy rise from approximately $50 million to $400 million. The increase in market value, and the accompanying institutional investment, has been generated by the company's progress in implementing a 5 year strategy to supply gas to market opportunities foreseen emerging in south-east Australia.

Context of Review

It is important that any changes to the PRRT are made in full appreciation of the relevant context in which they are made.

Cooper Energy acknowledges the importance of ensuring that the community receive an appropriate return on their petroleum resources. It is also important to consider the significance to the community of securing adequate gas supply.

In recent times shortages between forecast demand for gas on the east coast of Australia and contracted supply levels have become an increasing focus, with rising prices contributing to concerns for household and business consumers alike. While these price increases have enabled some previously uneconomic gas resources to be developed, higher prices do not provide higher profits for these projects, and it is important that these development projects remain economically viable.

As a supplier of gas to the east coast, Cooper Energy submits that any changes to the PRRT must ensure that investment in future supply in this region will not be adversely affected, so that any current supply shortfall can be addressed as early as possible. Further, it is important that domestic suppliers are protected as they play a critical role.

Cooper Energy's views on the key parameters required to achieve this outcome are set out in this Submission.

Uplift rates

The PRRT Consultation Paper outlines a number of options for changes to the uplift rates that apply to both exploration and general expenditure, based on the Review's conclusion that uplift rates should reflect 'a rate commensurate with the risk of unutilised PRRT deductions'.

Cooper Energy reiterates its submission that, consistent with the views of industry more generally, the uplift should represent a reasonable rate of return for the risk borne in carrying on a project. Further, even if the intent above be accepted, Cooper Energy submits that the size and number of projects of a taxpayer has a significant impact on the risk of unutilised PRRT deductions, both because:

- larger projects are more likely to produce income to which deductions can be applied over the life of the project; and
- transferability between projects provides further basis for utilising expenditure, further reducing this risk.

Cooper Energy therefore suggests that uplift rates should distinguish between "large" and "small" industry participants based on a reasonable rate of return for the risk borne by the individual participant in carrying on a project. One option for achieving this distinction could be to use project value. It is acknowledged that "project value" may be hard to define on a perfect and consistent basis. However, this should not be a deterrent for identifying the most appropriate measure to achieve the balance between providing effective support for industry to develop the resources needed by the community and providing a fair return for the community.

Cooper Energy submits that any change should only apply to "new projects" (as outlined in greater detail below). Further, any changes should not reduce uplift rates so as to reduce the number of economically viable projects, particularly in light of the domestic gas supply issues which have been widely canvassed in public debate.

Changes to the ordering of deductions

The PRRT Consultation Paper also outlines a number of options relating to the order in which deductions can be claimed.

Cooper Energy does not have any specific comments on the potential changes to sequencing identified in the PRRT Consultation Paper, other than to submit that any changes should apply only to "new projects" (as discussed further below).

Transferability

The PRRT Consultation Paper outlines several issues identified in the Review in relation to the transferability of expenditure, with a key focus being the vastly different outcomes that can arise as between participants to a joint venture (**JV**). Additionally, the PRRT Consultation Paper raises questions regarding how any combination between “new projects” and “existing projects” should be dealt with.

Cooper Energy submits that the delineation between “large” and “small” industry participants outlined above could go some way to addressing the different outcomes between JV participants, given that the uplift rate for a particular participant should reflect the likelihood that it may lose the deduction. This should achieve a fairer result than the other options considered, being a single uplift rate for transferred expenditure or a revised exploration uplift setting.

On the question of what may happen when “new” and “existing” projects are combined – Cooper Energy submits that new and old expenditure be deducted in the manner allowed under the respective regimes.

How to define “new projects”

Consistent with the recommendations of the PRRT Review, Cooper Energy submits that any changes should be limited to new projects so that historical investment decisions are not affected. How this should be defined is a critical issue, and one that is complicated by the long lead times frequently associated with oil and gas projects – and in particular large gas projects.

For example, Cooper Energy is in the process of finalising a commitment to the development of the Sole gas field that is located offshore Victoria, some 44 years after the discovery of the field. Sole is what may be defined as a medium-sized gas project. Following a development commitment decision and 2 years of construction there will be a further 8 to 10 years of production/revenue exposure for the owners. These long-term investment decisions are made based on assumptions regarding taxation of the income stream for the project at the time the investment is committed, and fundamental changes to the way that these projects are taxed will very likely affect the viability of these projects.

Cooper Energy acknowledges that any changes to the PRRT would have limited impact if their application were limited to only resources that were discovered after any legislation is enacted. However, equally, Cooper Energy submits that substantial resources are committed to assessing the technical, regulatory and economic viability of a project before a commitment to develop is made.

Instead, Cooper Energy submits that the distinction between “new” and “existing” projects should be based on a period from when any new legislation is enacted. Cooper Energy suggests that an appropriate timeframe for defining a “new project” be one that is committed at least 4 years after the legislation is enacted. Four years strikes the right balance between being short enough to encourage investment, including potentially some acceleration of investment decisions, and long enough to allow for an assessment of the technical, regulatory and economic viability of projects.