

29 November 2013

Attention: Julia Knight
Committee Secretary, Committee on the Northern Territory's Energy Future
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Committee on the Northern Territory's Energy Future: Inquiry into Key Challenges and Opportunities

ConocoPhillips is pleased to provide this submission to the *Committee on the Northern Territory's Energy Future Inquiry into Key Challenges and Opportunities*. We also note our support for the submission made by the Australian Petroleum Producers and Exploration Association (APPEA).

ConocoPhillips is a pioneer of the energy industry in the Northern Territory, as the operator of the Darwin LNG facility at Wickham point for more than a decade.

ConocoPhillips brings extensive global and local oil and gas expertise to the Northern Territory. We hold the view that we are well placed to address the challenges and opportunities for the Northern Territory, as outlined in the scope of the Committee Inquiry.

The submission is comprised of seven sections outlining our experience and qualifications, NT operations and regional benefits and the challenges brought by global competitiveness and policy settings. The submission also addresses the opportunities for the Territory delivered by existing infrastructure and embracing emerging technologies.

In addition to this submission, we would like to extend an invitation to Committee members for a plant tour of Darwin LNG, to view a mature large scale energy operation first hand.

ConocoPhillips looks forward to ongoing dialogue with the Northern Territory Government on policy matters impacting the oil and gas sector.

For further information about this submission or to arrange a plant tour, please contact the General Manager of Government and Public Affairs Robin Antrobus on (08) 9423 6679 or email him directly at robin.antrobus@conocophillips.com.

Kind regards



Todd Creeger
President Australia-West

1 ConocoPhillips Experience and Qualifications

ConocoPhillips is the world's largest independent exploration and production company, based on production and proved reserves. The company is headquartered in Houston and has operations and activities in 29 countries, with approximately 18,000 employees worldwide as of 30 September 2013.

ConocoPhillips explores for, produces, transports and markets energy including crude oil, natural gas, liquids and liquefied natural gas (LNG) on a worldwide basis. In Australia and Timor-Leste, ConocoPhillips has conducted exploration and production activities since the late 1980s.

ConocoPhillips is the operator of the Darwin LNG facility (Darwin LNG) at Wickham point and the Bayu-Undan offshore facility in the Timor Sea, holding a 56.9% interest. The company is the downstream operator of the Australia Pacific LNG (APLNG) project in Queensland, holding a 37.5% interest.

The company holds additional significant interests in northern Australia, with activities summarised below:

- It is the operator of the Caldita and Barossa exploration project located 270 kilometres offshore of northwest of Darwin, holding a 37.5% interest with co-venturers SK Energy and Santos. A drilling program will commence in the first quarter of 2014 and will better delineate the hydrocarbon resource and support the evaluation of project development options.
- It is the operator of the Greater Poseidon exploration project, located 480 kilometres offshore north of Broome in Western Australia, holding a 40% interest with co-venturers Karoon Gas and Petro China. Drilling operations are underway to further evaluate the area and assess the various development options.
- It is a non-operator of the Greater Sunrise project located offshore in the Timor Sea. Woodside is the operator, with ConocoPhillips holding a 30% interest with co-venturers Shell and Osaka Gas.
- It is a non-operator of the onshore South Canning exploration permit located in northern Western Australia. New Standard Energy is the operator, with ConocoPhillips holding a 46% interest with co-venturer PetroChina.

ConocoPhillips brings global as well as local expertise to oil and gas operations and is well placed to address the challenges and opportunities for the Northern Territory, as outlined in the scope of the Committee Inquiry.

2 ConocoPhillips NT Operations and Regional Benefits

The 3.7 MTPA Darwin LNG facility located at Wickham Point processes natural gas from the Bayu-Undan Field via a 502 kilometre subsea pipeline. The delivery of LNG cargoes commenced in early 2006 and as at 30 September 2013, more than 380 cargoes have been successfully and safely delivered.

Darwin LNG also plays a key role in assisting Power and Water Corporation's Channel Island electricity facility, providing back-up gas supply during maintenance shutdowns and emergencies.

At its construction peak Darwin LNG employed more than 2,500 people, of whom more than half were local Territorians. In the current steady state of operations, Darwin LNG employs a permanent residential workforce of several hundred, implemented through the company's resident workforce policy.

In addition to direct employment, Darwin LNG and Bayu-Undan have a multiplier effect throughout the Territory and Timor-Leste economies, including local capacity development across industries that service these world-class assets.

By way of example, the facilities require regularly scheduled maintenance and repairs, necessitating that these facilities must be shut down for a predetermined period of time. These "shutdowns" require detailed planning and utilise a wide and diverse range of services, products and personnel. The most recent shutdown occurred in 2012 and ran for a 30 day period, with an estimated inject of around \$50million into the Northern Territory economy. The next shut down is scheduled for September 2014.

An example of indirect benefits includes the ConocoPhillips community investment program. This provides charitable contributions and support in the areas of education, health, the arts and the environment.

3 Challenge: Global Competitiveness

The Terms of Reference of the Inquiry are broad, but key elements focus on incentives and initiatives to improve productivity, cost effectiveness, energy efficiency and participation in the Northern Territory. ConocoPhillips strongly supports this area of the Inquiry.

Regulatory burdens, costs, restrictions and legislative requirements are all crucial elements in determining whether an investment decision is made to invest in that particular jurisdiction or whether those investment dollars go elsewhere. In other words, all the elements of one particular jurisdiction must be competitive and compare favourably with other potential projects in other jurisdictions. Investment dollars are not constrained by borders and good policy settings and a stable steady and predictable jurisdiction are fundamental to attracting investment.

In the Northern Territory, the two LNG projects have been significantly funded by international capital, partly due to the intensity of capital required. However, national and global competition for this capital is increasing due to exploration and petroleum activities in other parts of the world, such as:

- Unconventional/onshore petroleum discoveries in the US, Canada, Australia and China, in addition to ongoing onshore exploration buoyed by those discoveries.
- Arctic petroleum discoveries in Russia and the US.
- Deep-water petroleum discoveries in Mozambique and the Gulf of Mexico.

Over the last few years, the US has evolved from an energy importer to being energy independent and potentially an energy exporter. The US Government has granted approval for the conversion of a LNG import terminals into an export terminal, granted conditional approval for a further three, and is considering further applications.

Internationally, the potential oil and gas volumes onshore are large compared to existing conventional reserves. Furthermore reserves are located within existing and growing demand centres, in addition to being in close proximity to infrastructure and pipeline networks.

By global standards, Australia is a higher cost LNG producing environment, which reduces Australia's attractiveness for international capital. Fortunately, the Northern Territory is well placed to leverage its existing infrastructure, such as Darwin LNG, to help maintain competitiveness.

4 Opportunity: Existing Infrastructure

The Bayu-Undan gas-condensate field that supplies gas to Darwin LNG is approximately halfway through its predicted lifespan. When Bayu-Undan gas supply begins to decline, capacity will become available in the pipeline and Darwin LNG.

The extensive exploration and appraisal activity across northern Australia by ConocoPhillips and other industry participants may deliver new gas discoveries to the region. This provides the Northern Territory with the opportunity to encourage gas to be processed in Darwin, or at least to ensure it receives a benefit from these potential gas production activities.

The appropriateness of a development option will always be considered on a project by project basis. However, in certain circumstances, existing processing infrastructure (brownfield) can be more competitive than a new development option (greenfield). In this regard, Darwin is well placed to offer a development option than can assist a project to overcome its cost challenges.

In the case of Darwin LNG, this could mean backfilling the declining gas supply from Bayu-Undan with gas from another project. Another potential cost saving measure is increasing the capacity of Darwin LNG to process gas from additional sources. At present, the constructed capacity of Darwin LNG is 3.7 MTPA, but the site is licensed for up to 10 MTPA, thus providing the potential for an expanded brownfields project.

Both of the above options would bring significant economic and social benefits to the Northern Territory.

Darwin has a unique place in the LNG world, with a fully operational LNG facility, and one under construction, which are close to a modern major city centre, with all the benefits that such a location provides – an international airport, hospitals, schools, access to key services and other essential infrastructure. This provides an advantage to attracting and retaining investment against other regional or international locations.

5 Opportunity: Growing Energy Demand and Regional Stability

The Northern Territory's energy resource potential and proximity to potential markets means it is well placed to serve the energy-hungry markets such as Japan and China.

Key energy consumers have visible evidence that the Northern Territory provides a favourable investment environment, due to the success of ConocoPhillips and INPEX in delivering projects.

This position is built on, and remains dependant on, perceived regional stability with a pro-investment government offering streamlined planning and project facilitation. Set against a globally competitive market, the Northern Territory must do all it can to remain competitive.

6 Opportunity: Emerging Technologies

As noted above, Australia is a high cost country in which to operate and every opportunity must therefore be considered and taken to ensure Australia remains competitive. Technological advances, maximising efficiency and increasing output from existing facilities can assist with negating the impact of higher costs.

One emerging technology is floating LNG (FLNG) – this has the potential to contribute to the Northern Territory's energy capability and economy by unlocking currently stranded energy

sources. For certain fields, the development of offshore gas fields may well be better served by using FLNG rather than piping the gas to shore for processing.

Concerns have been expressed that FLNG will result in no, or minimal, returns to onshore States and Territories. This is not the case and FLNG, as an emerging technology should be encouraged rather than resisted.

The Territory's proximity to offshore projects, expanding local capability and growing supply sector present a significant opportunity for the NT to become a global leader in FLNG development, through the delivery of support services. In addition to the direct economic benefits of using the Marine Supply Base or the proposed second port, Darwin is well positioned to create engineering and procurement centres of research excellence through the North Australian Centre for Oil and Gas (NACOG) at Charles Darwin University.

By positioning itself at the front of the approaching FLNG wave, the Northern Territory could further its aspiration to be an energy hub, creating high-value associated industries in service and supply, education and training.

ConocoPhillips is one of several leading oil and gas companies currently developing FLNG technology that may be suitable to access energy reserves in waters within proximity of the Northern Territory.

7 Challenge: Policy Settings

The importance of the Northern Territory's reputation as a stable region, with a pro-investment government, offering streamlined project facilitation – cannot be underestimated.

Good policy settings and stable, predictable regulation are fundamental pillars to attracting investment. On the other hand, government policies that impose artificial constraints on the cost of supply may cause less favourable reputational outcomes for the Northern Territory.

For example, domestic gas reservation policies artificially increase the cost of projects, reduce their competitiveness and likelihood of reaching final investment decision. Numerous studies have been conducted that definitively conclude that these policies achieve an outcome inverse to their goal of energy security.

Encouraging investment through supportive policies will lead to greater development of energy resources, greater energy supply and therefore maintain Australia as a competitive and attractive investment destination.

In terms of energy security, more projects will create more opportunities for local energy utilities to take advantage of increased supply by securing long term sales contracts. We commend the Northern Territory Government for its constructive approach in working with industry to identify energy sources and infrastructure needs to support industry growth.

8 Summary

The Northern Territory is well positioned to develop into a major oil and gas hub, as a gateway to northern Australia. It is ConocoPhillips' view that the single most important element of the Northern Territory's energy future lies in continuing to ensure a stable, consistent and supportive regulatory regime for exploration, investment and innovation.

As a developing jurisdiction in an increasingly competitive global energy marketplace, the Northern Territory should take every step to protect its natural advantages of existing infrastructure, location,

policy stability and forward looking pro-investment environment. Furthermore the Northern Territory should avoid policy setting seeking to impose artificial constraints on energy pricing or supply.

We encourage the Northern Territory Government to maintain pragmatic policy settings, which will continue to attract investment, without compromising high safety and environmental standards.

