Royalties from development of onshore petroleum resources

This fact sheet supports the implementation recommendations of the *Scientific Inquiry into Hydraulic Fracturing in the Northern Territory*.

What are royalties, why are they collected and who does this?

In Northern Territory the Northern Territory Government owns mineral and petroleum resources on land and in coastal waters. Royalties compensate both the Northern Territory Government on behalf of all Territorians and traditional land owners for allowing the extraction of the Northern Territory's non-renewable resources. The royalty regime that applies to petroleum resources in the Northern Territory is defined in the *Petroleum Act 1984*. Under the Act, a party seeking to extract a petroleum resource must enter a written agreement with the Treasurer. Annual statement on returns must be provided by the party that includes information for calculating the amount of royalties owed for that year.

For petroleum resources the Northern Territory Government applies a royalty of 10% of the estimated sales value of the raw product (oil or gas). Royalties are charged on the gross value of the gas at the wellhead. The value of petroleum at the wellhead is a gross value that has not had additional costs such as transportation, storage, and processing costs included. Figure 1 outlines the supply chain of petroleum from extraction through to retailer, royalties are charged at extraction. Royalties are charged at the wellhead to ensure a constant and stable revenue for the extraction of Territory resources.

Royalties are only paid for petroleum product that are sold. Petroleum products that are extracted from a well during the exploration phase, not suitable for sale, or disposed of (including flaring onsite) are not subject to royalties. The petroleum royalty applies to both conventional and unconventional petroleum deposits, and to all products sold from these resources.

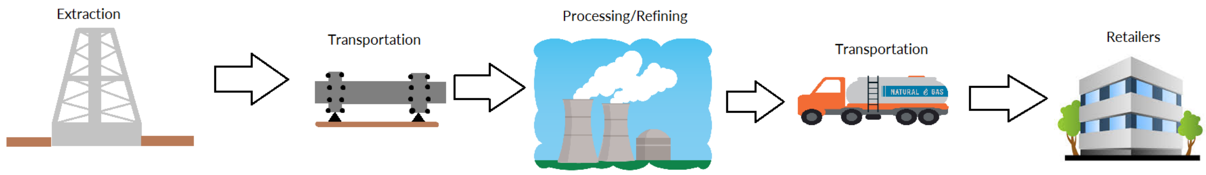

Figure 1. Supply chain of petroleum.

How are petroleum royalties calculated in the Northern Territory?

There are three methods used to determine 'gross value at wellhead', they are:

- Using actual sales (preferred method)
- Using comparative sales (when actual sales are not available)
- Using the net-back or work-back method.

Using actual sales or comparative sales to determine 'gross value at wellhead' is administratively simple and minimises the potential for uncertainties in valuing the petroleum at precise points in time. When actual and comparative sales are not available the net-back method is used. This method essentially works backwards to determine the gross value at wellhead, starting from the product's market price.

The net-back method subtracts post-wellhead costs from the actual sales price/market value. Post-wellhead costs are normal operating costs which generally include field gathering costs (running of petroleum from wellhead to processing facility), processing, storage, pipeline tariffs and transportation costs.

Where do the royalties go and how do they benefit Territorians?

Income from current petroleum royalties to the Northern Territory Government is treated as general revenue and makes a contribution towards paying for a range of government services required by all Territorians. Royalties received from petroleum operations on ALRA land are given to the appropriate Land Council.

The Inquiry included two recommendations addressing royalties. Recommendation 13.1 (see below) addresses the opportunity royalties present for both the local community and more broadly Territorians as a whole. The second recommendation, Recommendation 14.9, suggests royalties could be a used as a means of compensating pastoral lease holders.

Recommendation 13.1 of the Final Report states:

> *"That in developing its budget, the Government must have regard to the source of royalty revenue and must ensure that regions that are the source of taxation revenue benefit from any onshore shale gas extraction activity that has occurred in their region.*
>
> *That the Government works with local government, stakeholders, Land Councils, and local communities in the design and implementation of all such programs."*

The government can expect to receive increased royalty and tax revenue from an onshore gas industry. The Department of Treasury and Finance is investigating options for allocating royalty revenues that facilitate economic, business and social development in the regions and the Northern Territory more broadly.

Recommendation 14.9 of the Final Report states:

> *"That the Government considers whether a royalty payment scheme should be implemented to compensate Pastoral Lessees prior to any further production approvals being granted."*

The Northern Territory Government is considering whether a royalty scheme is appropriate for compensating pastoral lease holders affected during the production phase.

Further Information

Where can I get more information?

A more detailed technical explanation is available from the Northern Territory Department of Treasury and Finance here.

More information, including implementation detail for each of the recommendations, is available at www.hydraulicfracturing.nt.gov.au

To read the Inquiry report and recommendations, visit frackinginquiry.nt.gov.au