



**NOPSEMA**

Australia's offshore  
energy regulator

## **Cost Recovery Implementation Statement 2022–23**

**Regulation of occupational health and safety, well integrity, and environmental management of the Australian offshore petroleum and greenhouse gas storage industries under the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.**

Cost recovery involves government entities charging individuals or non-government organisations some, or all, the efficient costs of a specific government activity. This may include goods, services or regulation, or a combination of them. The Australian Government Charging Framework, which incorporates the Cost Recovery Guidelines (the CRGs), sets out the overarching framework under which government entities design, implement and review regulatory charging activities. For more information see [finance.gov.au](http://finance.gov.au).

**Certification**

NOPSEMA is a Corporate Commonwealth Entity and the Chief Executive Officer of NOPSEMA is the accountable authority under the *Public Governance, Performance and Accountability Act 2013*.

As the accountable authority, I certify that this Cost Recovery Implementation Statement complies with the Australian Government Cost Recovery Guidelines.



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Stuart Smith  
Chief Executive Officer of NOPSEMA

10 AUGUST 2022  
Date

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## 1 Introduction

### 1.1 Purpose and scope

This Cost Recovery Implementation Statement (CRIS) provides information on how the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) implements cost recovery for the offshore petroleum and greenhouse gas storage industries in Commonwealth waters, and in state and Northern Territory waters where powers and functions have been conferred.

This CRIS contains financial and non-financial performance information and financial estimates for the period 2022–23 to 2024–25. It excludes cost recovery for NOPSEMA's role and functions as the Offshore Infrastructure Regulator under the *Offshore Electricity Infrastructure Act 2021*, which is subject to a separate CRIS process.

The process for this CRIS has been undertaken in accordance with Australian Government Cost Recovery Guidelines and is subject to the oversight by the Department of Finance.

### 1.2 Cost recovery changes proposed in this CRIS

In September 2021, the then Minister for Resources and Water approved a 10% increase to regulatory levies, following consideration of the previous CRIS and other factors. The increase took effect on 1 January 2022. While the additional funding is welcome, it is below the 20% sought by NOPSEMA to respond proactively to Australian Government priorities, future industry activity and performance, and other issues.

This CRIS seeks a 10% increase to address:

- the impact of the 2020 levy freeze
- a projected deficit in 2022–23
- absent or underfunded cost recovery for regulatory effort or expertise
- inflationary pressures on longer term-IT contracts
- increasing effort in resourcing legal challenges to NOPSEMA's decisions
- the need to build the necessary capability to meet rising government and community expectations and evolving industry needs.

NOPSEMA is still working through the impacts flowing from the COVID-19 pandemic, including the freezing of levies in 2020. During this challenging time, NOPSEMA increased scrutiny of the risks and impacts of COVID-19 while the then low oil price environment reduced exploration activity and associated NOPSEMA revenue. NOPSEMA considered how the industry was (and still is) working to ensure effective protection of workforce health and safety (including psychological health), structural and well integrity, and the environment. In 2021–22, NOPSEMA worked closely with the industry to identify opportunities to support a return to COVID-19 normal operations, which is now in a high oil price environment.

An increasing focus on decommissioning by NOPSEMA and policy agencies has resulted in staff contributing more of their time to engage on the policy, legal, operational and compliance dimensions of decommissioning and related financial assurance regulatory and policy settings. Additionally, decommissioning is driving elevated levels of compliance activity, including the use of General Directions.

The Offshore Greenhouse Gas Storage Acreage Release 2021 process is likely to result in the award of up to five greenhouse gas storage (GHG) assessment permits to successful bidders. This has

resourcing implications for NOPSEMA, as we anticipate undertaking assessments of permissioning documents for GHG exploration activities. Proponents are examining a range of concepts that include re-use of exhausted petroleum reservoirs or the identification of other reservoirs for GHG storage potential.

While the *Offshore Petroleum and Greenhouse Gas Storage (Regulatory Levies) Act 2003* provides for GHG levies to be charged, the current settings in the OPGGS (Regulatory Levies) Regulations 2004 do not enable GHG environment plan levies to be calculated and set GHG well levies at a unit value of zero. To ensure NOPSEMA can cost recover the imminent workload, this CRIS has support from the Department of Industry, Science and Resources (DISR) to charge GHG levies commensurate with petroleum levies. DISR will lead on the development of regulatory amendments to enable this.

The principle to charge GHG levies, commensurate with petroleum levies, is consistent with NOPSEMA's early observations that proponents of GHG storage activities are highly represented by existing oil and gas titleholders. The GHG levy increase is also consistent with the broader interests of industry in pursuing GHG storage and other decarbonisation efforts. These GHG levy amounts will be reviewed in the future once NOPSEMA has an evidence-base for the regulatory effort, complexity and any additional capability required.

The recommendations of the 2020 independent operational review of NOPSEMA operations canvassed a range of issues. It recommended that NOPSEMA take on additional responsibilities, like an expanded financial assurance function. NOPSEMA will be responsive to any potential Australian Government response to the recommendations of the review. The design, consultation, and implementation of changes may result in additional pressure on NOPSEMA's finances and staff resourcing.

Further details on the review of the NOPSEMA levies is at section 4.3.4 of this CRIS (pg. 21).

## **2 Description of the regulatory charging activity**

### **2.1 Policy background**

NOPSEMA's policy outcome is outlined in the Portfolio Budget Statements 2022–23 for the Industry, Science, Energy and Resources Portfolio and is as follows:

Promote and enforce the effective management of risks to the workforce, the environment and the structural integrity of facilities, wells and well-related equipment of the Australian offshore petroleum and greenhouse gas storage industries through regulatory oversight.

### **2.2 Description of the activities**

NOPSEMA regulates OHS, well integrity, and environmental management for all offshore energy facilities and activities in Commonwealth waters and OHS and well integrity in Victorian coastal waters where powers and functions have been conferred.

NOPSEMA's legislated functions are detailed in section 646 of the OPGGS Act and are summarised as follows:

- to promote the OHS of persons engaged in offshore petroleum operations or offshore greenhouse gas storage operations
- to develop and implement effective monitoring and enforcement strategies to secure compliance by persons with their OHS, structural integrity of facilities, wells and well-related equipment, and environmental management obligations under the OPGGS Act and regulations
- to investigate accidents, occurrences and circumstances relating to OHS, structural integrity of facilities, wells and well-related equipment, and environmental management
- to advise persons on matters relating to OHS, structural integrity of facilities, wells and well-related equipment, and environmental management
- to make reports, including recommendations, to the responsible Commonwealth minister and each responsible state and Northern Territory minister
- to cooperate with other Commonwealth and state or Northern Territory agencies or authorities having functions relating to regulated operations

NOPSEMA fulfill its legislated functions through assessment, inspection, investigation, compliance and enforcement, and promotion and advisory activities.

### **2.3 Appropriateness of cost recovery**

The Australian Government's overarching cost recovery policy is that, where appropriate, recipients of government activities should be charged the costs of those activities. As such, the offshore energy industry is charged the costs attributable to the activities NOPSEMA undertakes in meeting its policy outcome and legislated functions. NOPSEMA undertakes these activities as a Corporate Commonwealth Entity on a not-for-profit basis.

### 3 Policy and statutory authority to cost recover

#### 3.1 Australian Government policy approval to cost recover

On 1 January 2005, the Australian Government established the National Offshore Petroleum Safety Authority (NOPSA) under the OPGGS Act to regulate OHS for the offshore petroleum and greenhouse gas storage industry in Commonwealth waters and state/Northern Territory waters where powers and functions are conferred. NOPSA's regulatory activities were delivered on a cost recovery basis through safety case levies which came into effect on 1 January 2005.

In 2010, the Australian Government announced it would establish a single national regulator for OHS, well integrity, and environmental management. In 2011, the regulation of the structural integrity of wells and well-related equipment was added to NOPSA's functions, and well levies came into effect on 17 June 2011 to allow NOPSEMA to cost recover for this new function. In 2012, NOPSA was renamed NOPSEMA when the regulation of environmental management was added to the authority functions. Environment plan levies came into effect on 1 January 2012 to allow NOPSEMA to cost recover for this new function.

In 2014, the Australian Government streamlined environmental approvals under the OPGGS Act and *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) by endorsing NOPSEMA as the sole environment regulator for offshore petroleum and greenhouse gas storage activities in Commonwealth waters. Regulatory activities to perform this new role are fully cost recovered through the charging of a fee for the assessment of offshore projects proposals, which came into effect on 28 February 2014, and through the existing environment plan levies.

In 2019, the OPGGS Act was amended to appoint NOPSEMA as the regulator for carbon capture storage activities. Regulatory activities to perform this new role are to be fully cost recovered through the existing safety case, well and environment plan levies for GHG activities.

#### 3.2 Statutory authority to charge

The following legislation provides NOPSEMA the statutory authority to charge levies and fees to cost recover its regulatory activities:

- *Offshore Petroleum and Greenhouse Gas Storage Act 2006*
- *Offshore Petroleum Greenhouse Gas Storage (Regulatory Levies) Act 2003*
- *Offshore Petroleum Greenhouse Gas Storage (Regulatory Levies) Regulations 2004*
- *Offshore Petroleum and Greenhouse Gas Storage (Environment) Regulations 2009*



## 4 Cost recovery model

### 4.1 Activity outputs

The regulatory activities NOPSEMA undertakes to meet its legislated functions are funded through the following costs recovery charges:

Occupational health and safety	Well integrity	Environment management
Safety case levies relate to the number of facilities and pipelines in a safety case when it is accepted and the number of facilities in accepted and in force safety cases each year	Well levies relate to the number of well operations management plans (WOMP) submitted and the number of eligible wells in accepted and in force WOMPs each year	Environment plan levies relate to the number of activities in an environment plan when it is submitted and the number activities in accepted and in force environment plans each year  Offshore project proposal assessment fees relate to the costs incurred in the assessment of an offshore project
Safety investigation levies relate to the recovery of costs incurred in the investigation of contraventions of an operator's legislative duties	Well investigation levies relate to the recovery of costs incurred in the investigation of contraventions of a titleholder's legislative duties	

### 4.2 Costs of activity outputs

NOPSEMA's estimated costs for 2022–23 to perform its regulatory activities and meet its legislated functions are as follows:

**Table 1: Budgeted cost of activity outputs for 2022–23**

Activity outputs	Direct costs (\$000's)	Indirect costs (\$000's)	Total costs (\$000's)
OHS	12,152	2,310	14,461
Well integrity	5,248	893	6,140
Environment management	11,530	2,289	13,818
Regulatory support	2,572	1,910	4,481
Corporate support	7,335	3,777	11,112
<b>Total</b>	<b>38,835</b>	<b>11,178</b>	<b>50,014</b>
	78%	22%	100%

#### 4.2.1 Cost drivers

In 2022–23, employee expenses are expected to account for 73% of the total cost of NOPSEMA. These are fixed costs based upon the projected resourcing requirements to carry out legislated functions.

Property relating to NOPSEMA offices in Perth and Melbourne represents 6% of total expenses compared to 8% in 2021–22 due to reduced lease payments associated with moving the Perth office. The Perth and Melbourne offices are leased on long-term fixed cost leases. Depreciation and amortisation costs account for 3% of total expense and relate to NOPSEMA's Regulatory Management System software together with office fit-out and equipment.

Minor cost categories include information technology and communications costs (8%), professional services (5%), recruitment and training costs (2%), travel costs (2%), promotion costs (1%) and administration and office costs (1%).

According to Australian Bureau of Statistics the Consumer Price Index (CPI) for the 12 months from March 2021 to March 2022 was 5.1%. NOPSEMA has applied 5% CPI to the budgeted contracted costs in 2023.

#### 4.2.2 Cost driver assumptions

##### Employee

There are many activities required to be undertaken to achieve NOPSEMA's legislated functions. These activities include the assessment of submissions from duty holders which can be variable in quantity and complexity. There is also ongoing compliance monitoring through inspections, investigations, and enforcement, that must be undertaken throughout the life of an offshore petroleum and greenhouse gas activity. Workload can vary with the level of industry activity and performance, but overall, it is consistent and historical employee expenses tend to be a reasonable predictor of future expenses.

##### Building costs

NOPSEMA expects to continue with the long-term building leases in Perth and Melbourne as they support the estimated employee requirements in the current market conditions.

##### Direct costs

All direct costs are charged against Occupational, Health and Safety, Well Integrity and Environment Management outputs. They include:

- Employee expenses, to include superannuation, allowances, memberships and leave entitlements of NOPSEMA safety and integrity, and environment specialists.
- Recruitment, training, equipment, and travel costs of regulatory employees.
- External consultants and experts engaged for regulatory purposes.
- Workshop expenses incurred for regulatory purposes.

##### Indirect costs

All indirect costs are allocated on a full-time equivalent (FTE) basis across the Occupational, Health and Safety, Well Integrity and Environment Management outputs. NOPSEMA commissioned a review by external audit consultants to review this approach who confirmed that it is the most appropriate method for the allocation of indirect costs. Indirect costs include:

- Employee expenses for the human resources, information technology and communications, finance, and administrative functions.
- Recruitment, training, and travel costs of these functions.
- All expenses relating to the Perth and Melbourne offices.

The allocation of indirect costs for 2022–23 are as follows:

**Table 2: FTE allocation of indirect costs in 2022–23**

Output	FTE	Indirect cost %
OHS	44.4	27.3%
Well integrity (WI)	17.2	10.6%
Environment management (EM)	44.0	27.0%
Regulatory support	25.7	15.8%
Corporate support	31.5	19.4%
<b>Total</b>	<b>162.8</b>	<b>100%</b>

**Table 2a: FTE allocation of NOPSEMA outputs 2022–23**

Output	OHS	WI	EM	Total
Direct FTE of regulatory specialists	44.4	17.2	44.0	105.6
Allocation of regulatory support by FTE	10.8	4.2	10.7	25.7
Allocation of corporate support by FTE	13.2	5.1	13.1	31.5
<b>Total</b>	<b>68.4</b>	<b>26.5</b>	<b>67.8</b>	<b>162.8</b>
Total %	42%	16%	42%	100%

#### Capital costs

Capital costs include:

- Depreciation and amortisation of assets consists primarily of office fit-out costs plus the standardised employee workstations.
- Development and maintenance of the Regulatory Management System.
- Upgrade and replacement of end user audio-visual equipment.

### 4.3 Cost recovery design

#### 4.3.1 Changes to regulatory levies

The following table outlines NOPSEMA's proposed 10% increase to levy unit values to be charged for petroleum and GHG storage activities. No changes are proposed to levy ratings.

**Table 3: Breakdown of change to levy unit values for petroleum and GHG storage activities**

Levy type	Levy item	Current unit value to 31 Dec 2022 (\$)	Unit value from 1 Jan 2023 with 10% increase (\$)
Safety case levy	Safety management system – Mobile	136,700	150,400
	Safety management system – Non-mobile	205,700	226,300
	Safety management system – Pipeline	67,800	74,600
	Facility – Mobile	42,400	46,600
	Facility – Non-mobile	42,400	46,600
	Facility – Pipeline	16,950	18,600
Annual well levy	Eligible wells	5,000	5,500
Well activity levy	Well operations management plan	42,400	46,600
Environment plan levy	Activity	4,400	4,800
	Compliance	4,400	4,800

#### 4.3.2 Regulatory levies and fees

##### Safety case levy for a facility

The safety case levy for a facility is made up of a facility amount and a safety management system (SMS) amount.

The facility amount is payable when a safety case is accepted, and then for each subsequent year the safety case is in force in quarterly instalments. To work out the facility amount, the facility unit value is multiplied with the applicable facility rating (see Table 4).

The SMS amount is payable when a safety case is accepted, and then for each subsequent year the safety case is in force in quarterly instalments. A facility operator is only required to pay one SMS amount year regardless of the number of facilities they operate. The SMS amount is a unit value applied to mobile and non-mobile facilities, respectively.

Recognising that mobile facilities (e.g., mobile offshore drilling units, pipelay vessels) operate on an intermittent basis, the remittal of part of the safety case levy for a mobile facility is provided, subject to a minimum payment of one quarterly instalment in any four consecutive quarters.

As noted in Table 3, a 10% levy increase will mean the unit value for a facility in 2023 will be \$46,600, the unit value for the SMS of mobile facility will be a \$150,400 and for the SMS of a non-mobile facility the unit value will be \$226,300. NOPSEMA is not proposing any change to the applicable facility ratings outline in Table 4.

**Table 4: Applicable facility rating**

Item	Facility or proposed facility	Facility rating
1	Floating liquefied natural gas facility	25
2	Large platform with drilling or workover capability	12
3	Platform, other than a platform mentioned in item 2 or 10, with accommodation facilities when drilling or workover facilities are in commission	8
4	Platform, other than a platform mentioned in item 2 or 10, with accommodation facilities when drilling or workover facilities are not in commission	5
5	Floating production storage and offloading facility	6
6	Mobile offshore drilling unit or drill-ship	6
7	Vessel for laying pipes for a petroleum or a greenhouse gas substance	5
8	Vessel or structure used for: (a) doing work on an existing pipe; or (b) the erection, dismantling or decommissioning of a facility; or (c) the provision of accommodation for persons working on another facility	3
9	Floating storage unit linked to a production platform	3
10	Monopod, well head platform or other small production or injection facility with no accommodation	1
11	Vessel or structure not otherwise listed above	3

#### **Safety case levy for a pipeline**

A safety case levy for a pipeline is made up of a pipeline amount and a SMS amount.

The pipeline and SMS amount is payable when a pipeline safety case is accepted, this includes the initial acceptance and the acceptance of each five-year revision. To work out the pipeline amount, the pipeline unit value is multiplied by the applicable pipeline rating (see Table 5) for each pipeline in the safety case and then added together. A facility operator is only required to pay one SMS amount in any one year regardless of the number of pipelines they operate.

As noted in Table 3, a 10% levy increase will mean the unit value for a pipeline will be \$18,600 and the unit value for the SMS of a pipeline will be \$74,600. NOPSEMA is not proposing any change to the applicable pipeline ratings outlined in Table 5.

**Table 5: Applicable pipeline ratings**

Item	Description of sub-sea development	Pipeline rating
1	No sub-sea development or manifold connected to the pipeline	1
2	One or 2 sub-sea developments or manifolds connected to the pipeline	2
3	More than 2 sub-sea developments or manifolds connected to the pipeline	3

**Safety investigation levy**

The safety investigation levy is charged for a compliance investigation where NOPSEMA incurs reasonable costs above \$30,000. The levy is worked out by calculating the cost of the compliance investigation and subtracting the threshold amount.

**Estimated cost recovery revenue from safety case levies**

Based on the number of facilities operating in 2021–22 and forecast GHG activities for 2022–23, the estimated cost recovery revenue in 2022–23 from safety case levies is set out in the tables below.

**Table 6: Estimated revenue from safety case levies 2022–23, inclusive of GHG activities at table 6a**

Safety case levy	Estimated revenue with no increase (\$000's)	Estimated revenue with 10% increase (\$000's)
SMS amount – Mobile	1,172	1,238
Facility amount – Mobile	2,623	2,766
SMS amount – Non-mobile	3,445	3,618
Facility amount – Non-mobile	10,017	10,513
SMS amount – Pipeline	203	214
Facility amount – Pipeline	136	142
<b>Total safety levy revenue</b>	<b>17,597</b>	<b>18,491</b>

**Table 6a: Estimated revenue from safety case levies for GHG activities 2022–23**

Safety case levy	Estimated revenue with no increase (\$000's)	Estimated revenue with 10% increase (\$000's)
SMS amount – Mobile	137	150
Facility amount – Mobile	254	280
<b>Total GHG safety case levy revenue</b>	<b>391</b>	<b>430</b>

**Annual well levy**

The annual well levy is payable each year. To work out the annual well levy amount, the well unit value is multiplied by the number of eligible wells in a title area in the preceding year. Eligible wells are those that have not been safely abandoned and therefore require ongoing regulatory oversight.

As noted in Table 3, a 10% levy increase will mean the unit value for a well will be \$5,500.

**Well activity levy**

The well activity levy is payable when a well operations management plan (WOMP) is submitted. The well activity levy is only payable for the initial submission and for each five-year revision of the WOMP.

As noted in Table 3, a 10% levy increase will mean the unit value for the well activity levy will be \$46,600.

**Well investigation levy**

The well investigation levy is charged for a compliance investigation where NOPSEMA incurs reasonable costs above \$30,000. The levy is worked out by calculating the cost of the compliance investigation and subtracting the threshold amount.

**Well levies in relation to a well in a GHG title**

The unit value for well levies in relation to wells in a GHG title are currently set at zero in the OPGGS (Regulatory Levies) Regulations. NOPSEMA proposes to charge levies for wells in a GHG title commensurate with the levies used for wells in a petroleum title, as outlined above.

**Estimated cost recovery revenue from well levies**

Based on the number of eligible petroleum wells and petroleum well activities in 2021–22, and GHG activities forecast for 2022–23, the estimated cost recovery revenue in 2022–23 from well levies is set out in the tables below.

*Table 7: Estimated revenue from well levies for 2022–23, inclusive of GHG activities at table 7a*

Well levies	Estimated revenue with no change (\$000's)	Estimated revenue with change (\$000's)
Annual well levy	4,685	5,159
Well activity levy (WOMPs)	1,187	1,293
<b>Total estimated well levy revenue</b>	<b>5,872</b>	<b>6,452</b>

**Table 7a: Estimated revenue from well levies for GHG activities 2022–23**

Well levies	Estimated revenue with no change <sup>1</sup> (\$000's)	Estimated revenue with change (\$000's)
Annual well levy	0	6
Well activity (WOMPs)	0	47
<b>Total GHG well levies revenue</b>	<b>0</b>	<b>52</b>

**Environment plan levy**

The environment plan levy is payable when an environment plan is submitted. The levy is made up of an activity amount and compliance amount.

The activity amount is payable for the initial environment plan submission and for each five-year revision of the environment plan. To work out the activity amount, the environment plan unit value is multiplied by the applicable activity rating (see Table 8) for each individual activity in the environment plan and then added together.

The compliance amount is payable for the initial environment plan submission and for each five-year revision of the environment plan. It is also payable each calendar year the environment plan is in force in annual instalments. To work out the compliance amount, the environment plan unit value is multiplied by the applicable compliance rating (see Table 8) for each individual activity in the environment plan, multiplied by the number of calendar years the individual activity will take place, then added together.

As noted in Table 3, a 10% levy increase will mean the unit value for the environment plan levy will be \$4,800.

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<sup>1</sup> No change refers to this CRIS not receiving approval.



**Table 8: Applicable activity and compliance ratings**

Item	Petroleum activity	Activity rating	Compliance rating
1	Operation of a facility that is used for the recovery or processing of petroleum	25	22
2	Operation of a facility that is used for the storage of petroleum but not for the recovery or processing of petroleum	14	9
3	Recovery of petroleum using a subsea installation that: (a) is not by itself a facility mentioned in item 1; and (b) is not connected to a facility mentioned in item 1 or 2 that is located in the same production licence area; and (c) is not connected to a licensed pipeline that is located in the same production licence area	12	6
4	Operation of a licensed petroleum pipeline	6	3
5	Construction or installation of a facility mentioned in item 1 or 2	25	18
6	Construction or installation of a licensed petroleum pipeline	16	13
7	Decommissioning, dismantling or removing a facility mentioned in item 1 or 2	22	14
8	Decommissioning, dismantling or removing a licensed petroleum pipeline	16	14
9	Significant modification of a facility mentioned in item 1 or 2	23	17
10	Significant modification of a licensed petroleum pipeline	16	13
11	Drilling	27	14
12	Seismic survey	17	9
13	Other survey	10	3
14	Any other petroleum-related operations or works carried out under an instrument, authority or consent granted or issued under the OPGGS Act	9	3
15	Any other activity relating to petroleum exploration or development which may have an impact on the environment	9	3

**Environment plan levy for GHG activities**

The activity and compliance ratings used to calculate the environment plan levy is currently set in the OPGGS (Regulatory Levies) Regulations for petroleum activities only. NOPSEMA proposes to use the same ratings and unit value for GHG activities as used for petroleum activities and outlined above.

**Estimated cost recovery revenue from environment plan levies**

Based on the number of petroleum activities in 2021–22, and GHG activities forecast for 2022–23, the estimated cost recovery revenue in 2022–23 from environment plan levies is set out in the tables below.

**Table 9: Total estimated revenue from environment plan levies and offshore project proposal assessment fees 2022–23, inclusive of GHG activities at Table 9a**

	Estimated revenue with no change (\$000's)	Estimated revenue with change (\$000's)
Environment plan levy – Activity levy	8,936	9,506
Environment plan levy – Compliance levy – New submission	2,694	2,903
Environment plan levy – Compliance levy – Deferred revenue	1,958	1,958
Environment plan levy – Compliance levy – Annual	6,877	7,503
Offshore petroleum project assessment fee <sup>2</sup>	420	420
<b>Total environment plan levy and OPP assessment fee revenue</b>	<b>20,886</b>	<b>22,289</b>

**Table 9a: Estimated revenue from environment plan levies for GHG activities 2022–23**

Environment plan levies	Estimated revenue with no change <sup>3</sup> (\$000's)	Estimated revenue with change (\$000's)
Activity levy	0	163
Compliance levy – New submission	0	86
<b>Total GHG environment plan levy revenue</b>	<b>0</b>	<b>250</b>

**Fees for assessing offshore project proposals**

NOPSEMA has the authority under regulation 32 of the OPGGS (Environment) Regulations to:

(1) charge a fee for the consideration of an offshore project proposal in accordance with Part1A of the Regulations.

(2) The fee is the total amount of the expenses incurred by NOPSEMA in considering the proposal.

<sup>2</sup> This CRIS does not propose any change to the offshore project proposal assessment fee.

<sup>3</sup> No change refers to this CRIS not receiving approval.

*(3) However, NOPSEMA may remit the whole or a part of an amount of the fee if NOPSEMA considers that there are good reasons for doing so.*

*(4) The fee is:*

*(a) due when NOPSEMA issues an invoice for the fee to the person who submitted the proposal; and*

*(b) payable in accordance with the requirements of the invoice.*

The NOPSEMA CEO determines the amount or rate of the fee, normally based on average NOPSEMA rates. However, if an activity can be allocated to a specific function or area, then a different rate may apply to reflect the cost of that activity incurred by the relevant area.

#### **Fees for assessing financial assurance arrangements**

Under regulation 33 of the OPGGS (Environment) Regulations:

*(1) For section 685 of the OPGGS Act, a fee is payable to NOPSEMA by the titleholder for a petroleum activity if NOPSEMA assesses financial assurance arrangements, proposed by the titleholder in relation to the activity, for the purposes of regulation 5G.*

*(2) The amount or rate of the fee is an amount or rate determined by the Chief Executive Officer of NOPSEMA and must not exceed the total of the expenses incurred by NOPSEMA for the purpose of assessing the proposed financial assurance arrangements.*

*(3) The fee is payable at the time or times agreed in writing between the Chief Executive Officer of NOPSEMA and the titleholder.*

The ability to cost recover under regulation 33 for any potential expanded scope of financial assurance is discussed section 4.3.4.

#### **Fee for assessing a safety case for a proposed facility**

A fee is payable to NOPSEMA by the operator of a proposed facility if NOPSEMA assesses a safety case submitted to it by the operator. The amount or rate of the fee is an amount or rate determined by the NOPSEMA CEO and must not exceed the total of the expenses incurred by NOPSEMA for the purposes of assessing the safety case. The amount or rate of the fee is normally based on average NOPSEMA rates. NOPSEMA has previously calculated a rate of \$330 per hour. This rate was applied to actual time recorded against a specific activity and charged to the relevant recipient of the service provided by NOPSEMA. The fee is payable at the time or times agreed in writing between the CEO and the operator.

**4.3.3 Estimated revenue from cost recovery**

To refine revenue estimates, NOPSEMA assesses petroleum and greenhouse gas storage activity and performance as part of its annual business planning cycle. For example, the number of facilities that may enter or leave the jurisdiction, the number of eligible wells, and the number of likely safety case, WOMP and environment plan submissions.

**Table 10: Estimated cost recovery revenue 2022–23, inclusive of GHG activities**

Revenue stream	Item	Total revenue with no change (\$000's)	Total revenue with change (\$000's)	Output
<b>Regulatory levies<sup>4</sup></b>				
Safety case levy	Safety management system	1,172	1,238	OHS
		3,445	3,618	
		203	214	
	Facility	2,623	2,766	OHS
		10,017	10,513	
		136	142	
Annual well levy	Eligible wells	4,685	5,159	WI
Well activity levy	Well operations management plan	1,187	1,293	WI
Environment plan levy	Activity	8,936	9,506	EM
	Compliance	2,694	2,903	EM
	Compliance (Deferred revenue)	1,958	1,958	EM
	Compliance (Multi-year)	6,877	7,503	EM
<b>Fees and charges</b>				
Offshore project proposal assessment fee	Offshore project proposals	420	420	EM
Contract for services	-	541	541	EM
Other revenue	Interest & cost recharges	1,200	1,200	Other
Government appropriations	Corporate revenue	448	448	Other
<b>Total revenue</b>		<b>46,544</b>	<b>49,420</b>	

<sup>4</sup> Estimated revenue includes levying for forecast GHG activities.

#### 4.3.4 Review of NOPSEMA levies

As noted in 1.2, NOPSEMA is responding to rising government and community expectations as well as industry changes. NOPSEMA's capacity and capability resourcing requires a sound cost recovery basis to ensure NOPSEMA can meet the challenges ahead. This is the broad context in seeking a 10% levy increase from 2023.

After operating with small surpluses over recent years, NOPSEMA is forecasting a budget deficit of \$3.7m<sup>5</sup> for 2022–23. The forecast deficit is due to increased costs for existing regulatory functions and new functions that are currently not cost recovered. Approval of this CRIS for a 10% increase effective 2023, would significantly improve this position. It is also acknowledged that variations in activity levels and regulatory effort could result in either under or over recovery from year to year. Should the levy values result in cash reserves which are likely to be significantly higher than required, NOPSEMA will discuss strategies to reduce the surplus at the annual cost effectiveness review.

Stakeholder and community scrutiny of decommissioning is rising. Wood Mackenzie have modelled the Australian petroleum industry decommissioning liability (both onshore and offshore) to be more than A\$60 billion over the next 30 years. The implications of industry failing to decommission infrastructure adequately and appropriately at the end of its useful life are substantial – and pose safety, environment, and financial risks to the community – if not effectively regulated. However, decommissioning also represents an opportunity for Australia's offshore oil and gas industry, and may result in the creation of new niche industries, specialist decommissioning capabilities and potential benefits to some areas of the broader community. To meet the expectations of communities, industry, and government effective regulation by NOPSEMA is critical.

NOPSEMA continues to maintain a heightened focus on ensuring titleholders are appropriately planning for and carrying out decommissioning of facilities and equipment that are no longer in use. To date, NOPSEMA has released several guidance documents to assist industry in complying with their decommissioning obligations. These documents include a regulatory policy outlining requirements and expectations for the maintenance and removal of property. NOPSEMA has also published a decommissioning compliance strategy and plan to clarify how we work with duty holders to assist them in complying with their decommissioning obligations and the types of compliance actions they can expect where compliance cannot be demonstrated.

NOPSEMA has issued several General Directions related to decommissioning, under the OPGGS Act. Broadly, the directions request titleholders to demonstrate how they are planning for their decommissioning obligations under the OPGGS Act and set timeframes in which decommissioning work must be carried out. This approach represents a proactive response by NOPSEMA and is likely to result in additional assessments, including safety case and WOMP revisions which are not currently levied, as well as increased compliance monitoring activities and ongoing work with affected titleholders.

Additionally, DISR is considering a potential expanded role for NOPSEMA in the application of s571 of the OPGGS Act. This would include the monitoring of industry financial assurance for ordinary costs, including decommissioning obligations, in addition to extraordinary costs such as marine oil pollution. Currently, NOPSEMA applies financial assurance provisions consistent with the

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<sup>5</sup> NOPSEMA's forecast deficit for 2022–23 excludes the costs of undertaking the role and functions of the Offshore Infrastructure Regulator.

Explanatory Memorandum<sup>6</sup> – which limits financial assurance to extraordinary costs. For NOPSEMA to implement an expanded approach to financial assurance, significant resourcing with highly specialised staff is likely to be required. NOPSEMA has already invested significant resources to supporting DISR's work with industry to investigate regulatory models. Further resourcing will be required to establish capability for ongoing regulatory effort. Additional staff with the appropriate skill sets are required by NOPSEMA ahead of any policy or legislative changes for financial assurance. This requirement will arise irrespective of a final model for financial assurance or how it is implemented.

NOPSEMA also notes that any potential legislative amendments flowing from the Offshore Oil and Gas Safety Review Policy Framework, available on the DISR website, is subject to policy authority from the Australian Government. NOPSEMA notes that framework foreshadows potentially introducing a definition of health to be both 'physical and psychological health' to better support the well-being of the offshore workforce. NOPSEMA is proactively engaging on some of the key issues identified in the framework where appropriate. For example, relevant NOPSEMA staff will be required to undertake additional training and/or additional suitably qualified staff may be required to ensure the appropriate identification and handling of psychosocial hazards, including reports of sexual harassment.

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<sup>6</sup> Explanatory Memorandum to the Offshore Petroleum and Greenhouse Gas Storage Amendment (Compliance Measures No. 2) Act 2013.

## 5 Charging Risk Assessment

In accordance with the Australian Government's Charging Framework, Charging Risk Assessment – Existing Regulatory Activity (CRA), published by the Department of Finance, the following implementation risks have been assessed as high, medium, or low:

1. Changes in total annual revenue

The proposed change in total annual revenue after the proposed changes is 10%, this is a **low**-risk rating according to the CRA.

2. Expected change in total annual revenue

The CRIS results in a change in total annual revenue of \$2.876m as detailed in Table 10. According to the CRA, as this is between 0 to \$10m it results in a **low**-risk rating.

3. Highest percentage increase in price

This CRIS seeks a 10% increase in levies, this is a **medium**-risk rating according to the CRA.

4. Types of charges that are changing

This CRIS only impacts levies, this is a **medium**-risk rating according to the CRA.

5. Scope of the revised proposal

This CRIS results in changes in the level of existing regulatory charges only, this is a **low**-risk rating according to the CRA.

6. Legislative change required

As existing legislative (OPGGs Act) mechanisms are in place and only requires a change to subordinate regulations, this is a **low**-risk rating according to the CRA.

7. Impact on payers

Based on the nature of who will be charged this is a **low**-risk rating according to the CRA.

8. Proposal relation to other Commonwealth, State/Territory and/or local government entities

As this proposal does not involve working with these entities, this is a **low**-risk rating according to the CRA.

9. Consultation with other payers and other stakeholders

This CRIS included a consultation period from 19 July 2022 to 2 August 2022, during which written submissions could be provided. One submission was provided that raised issues that can be addressed, this is a **medium**-risk rating according to the CRA.

### Overall cost recovery risk assessment

At least one medium results in an overall CRA rating for this CRIS as medium.

On the 9 August 2022 the Department of Finance agreed with the medium risk rating.

## 6 Stakeholder engagement

Engagement with NOPSEMA's stakeholders is an essential component of developing and maintaining an effective and transparent CRIS. For this CRIS, NOPSEMA ran a consultation period from 19 July 2022 to 2 August 2022, during which time written submissions could be provided.

This consultation period also included a face-to-face stakeholder presentation on 26 July 2022 in Perth, with online attendees. At the meeting, NOPSEMA presented its CRIS, outlined the proposed changes, and answered questions.

The consultation period resulted in one submission for this 2022-23 CRIS. The submission supported cost recovery arrangements that ensure NOPSEMA retains the capacity and capability to effectively regulate against its legislated functions as prescribed under the OPGGS Act. It also acknowledged the predicted financial pressures that may be placed on NOPSEMA in the current financial year.

The submission did not support the proposed levy increase in the absence of NOPSEMA progressing the recommendations of the 2020 independent operational review of NOPSEMA<sup>7</sup> conducted by Deloitte on behalf of the Australian Government.

In considering the submission, NOPSEMA notes that it is unable to progress Deloitte's recommendations from the review and/or reflect them in this CRIS before any potential response to the review is made by the Australian Government.

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<sup>7</sup><https://www.industry.gov.au/sites/default/files/2021-07/nopsema-review-2020.pdf>



## 7 Financial estimates

**Table 11: Financial estimates 2020–21 to 2024–25**

	A	B	C	D	E
	2020–21 Actual (\$000's)	2021–22 Budget (\$000's)	2022–23 Budget (\$000's)	2023–24 Budget (\$000's)	2024–25 Budget (\$000's)
Expenses = X	37,025	42,495	50,254	49,697	48,213
Revenue = Y	38,718	44,567	46,544	43,566	40,520
Balance = Y – X	1,693	2,072	-3,710	-6,131	-5,264
Cumulative balance	18,506	20,578	16,129	9,999	4,734
Revenue of GHG captured above	-	-	391	1,463	2,428
Explain material variance	The increase in revenue value from 2020–21 to 2021–22 can partially be explained by an increase in levy unit values. The future increases in revenue detailed above relate to projected increases in industry activity at the 2021–22 levy unit values. Industry activity changes are consistent with the five-year cycle for submission of environment plan revisions. For 2022–23 to 2024–25, estimated GHG activities are included. <sup>8</sup>				
Explain balance management strategy	With regards to the \$18.5M retained surplus, NOPSEMA tries to maintain 3 months of working capital. Over the next few years, it is projected that this working capital will be consumed without an increase to levy rates.				

<sup>8</sup> Estimated GHG activities include two seismic surveys and one drilling activity in 2022–23, four seismic surveys and two drilling activities in 2023–24, and four seismic surveys and four drilling activities in 2023–24.

## 8 Financial performance

**Table 12: Historical financial performance per the NOPSEMA Annual Report**

	2015–16 (\$000's)	2016–17 (\$000's)	2017–18 (\$000's)	2018–19 (\$000's)	2019–20 (\$000's)	2020–21 (\$000's)
Expenses = X	\$33,434	\$31,169	\$31,738	\$34,541	\$36,076	37,025
Revenue = Y	\$30,607	\$36,232	\$31,960	\$33,109	\$36,505	38,718
Balance = Y – X	-\$2,827	\$5,063	\$222	-\$1,432	\$429	1,693
Cumulative balance	<b>\$9,715</b>	<b>\$14,778</b>	<b>\$15,000</b>	<b>\$13,568</b>	<b>\$16,074</b>	<b>\$17,767</b>
Explain material variance	<p>A new levy structure was introduced in FY12 which created a surplus, levy unit values were not increased in FY13, with the safety case and environment levies unit values being revised from 1 January 2014. In FY15 there were significant submissions of 5-year environment plans producing the surplus and in FY17 NOPSEMA received additional non-recurring safety case and well integrity levy revenue. In FY19 NOPSEMA filled some long-standing staff vacancies funded by increasing levy unit values by 10% from 1<sup>st</sup> January 2019.</p>					
Explain impact on balance management strategy	<p>NOPSEMA does not have access to debt arrangements, therefore must maintain liquidity whilst following the concepts of cost recovery. A balance of \$15M enables NOPSEMA to cover working capital for 3 months. Levies commenced with safety case in 2005, well integrity levies from 2011 and environment plan levies from 2012. Safety case and well integrity levies can now be forecast with relative accuracy, however environment plan revenue is submission based and subject to significant annual fluctuations.</p>					

## 9 Non-financial performance

NOPSEMA's regulation of the offshore petroleum and greenhouse gas storage sector is subject to a range of governance controls including, parliamentary oversight, ministerial policy direction and independent statutory reviews.

The first independent review of NOPSEMA's performance in 2015 found that NOPSEMA is an effective regulator that has made positive contributions to improving safety, well integrity and managing Australia's offshore environment. Since then, this view has been reinforced in multiple independent reviews by eminent authorities such as Prof Allan Finkel AO, (Chief Scientist of Australia) in 2019 and Steve Walker from the UK Health and Safety Executive in 2020.

In 2020, the independent operational review of NOPSEMA's performance found that NOPSEMA is appropriately focused in bringing about improvement in OHS, well integrity and environmental management across the offshore oil and gas industry. The review also found NOPSEMA to be compliant with its obligations in administering the streamlined Endorsed Program under the *Environment Protection and Biodiversity Conservation Act 1999*.

In accordance *Public Governance, Performance and Accountability Act 2013* (PGPA) requirements, NOPSEMA has developed, communicated, and implemented Accountable Authority Instructions which form part of the finance law which officials are required to comply with and provides a mechanism to apply the key principles and requirements of the financial framework.

In accordance with Australian National Audit Office requirements, NOPSEMA complies with internal and external audit measures and NOPSEMA ensures if fully complies with the PGPA.

The NOPSEMA Corporate Plan 2021–26 was published within legislative requirements on the NOPSEMA website. The plan outlines NOPSEMA's goals, delivery strategies and performance indicators and align with the Regulator Performance Framework.

## **8 Key forward dates and events**

19 July 2022 – Draft CRIS provided for stakeholder consultation

26 July 2022 – Presentation on the draft CRIS, face-to-face and online attendance

2 August 2022 – Written submissions due on the draft CRIS

August 2022 – Amending the draft CRIS to incorporate industry feedback

August 2022 – Submission of draft CRIS and Charging Risk Assessment to the Department of Finance

August 2022 – Submission of final CRIS for Ministerial approval

1 January 2023 – Anticipated start date for the levy increase subject to this CRIS, delay possible

## 9 CRIS approval and change register

Date of CRIS change	CRIS change	Approver	Basis for change
1 January, 2014	Update levy rates	The Accountable Authority of NOPSEMA and the responsible Minister	To reflect a 13% increase to safety case levies and 20% increase to environment plan levies
1 January, 2015	Update template	The Accountable Authority of NOPSEMA and the responsible Minister	New Department of Finance CRIS template
1 January, 2016	Change to well levies	The Accountable Authority of NOPSEMA and the responsible Minister	To reflect changes to well regulations and the subsequent changes to well levies
1 January, 2019	Update levy rates	The Accountable Authority of NOPSEMA and the responsible Minister	To reflect a 10% increase to NOPSEMA's regulatory levies
1 January, 2022	Update levy rates	The Accountable Authority of NOPSEMA and the responsible Minister	To reflect a 10% increase to NOPSEMA's regulatory levies