ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO THE ECONOMIC IMPLICATIONS OF FLOATING LIQUEFIED NATURAL GAS OPERATIONS

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 21 OCTOBER 2013

SESSION ONE

Members

Mr I.C. Blayney(Chair)
Mr F.M. Logan (Deputy Chair)
Mr P.C. Tinley
Mr J. Norberger
Mr R.S. Love

Hearing commenced at 9.14 am

Mr TREVOR CALDWELL
Project General Manager, BP, examined:

Mr PETER METCALFE,
External Affairs Manager, BP, examined:

The CHAIR: On behalf of the Economics and Industry Standing Committee, I would like to thank you for your appearance here today. The purpose of this hearing is to assist the committee in gathering evidence for its inquiry into the economic implications of floating liquid natural gas. You have been provided with a copy of the committee's specific terms of reference. At this stage I would like to introduce myself and the other members of the committee present today. I am Ian Blayney, the member for Geraldton; beside me is Hon Fran Logan, the deputy chair of the committee; and the other committee members are Jan Norberger and Peter Tinley.

The Economics and Industry Standing Committee is a committee of the Legislative Assembly of the Parliament of Western Australia. This hearing is a formal procedure of the Parliament and therefore commands the same respect given to proceedings in the house itself. Even though the committee is not asking witnesses to provide evidence on oath or affirmation, it is important that you understand that any deliberate misleading of the committee may be regarded as a contempt of the Parliament. This is a public hearing and Hansard is making a transcript of the proceedings for the public record. If you refer to any documents during your evidence, it would assist Hansard if you would provide the full title for the record. Before we proceed to the inquiry-specific questions we have for you today, I need to ask you the following: have you completed the "Details of Witnesses" form?

The Witnesses: Yes.

The CHAIR: Do you understand the notes at the bottom of the form about giving evidence to a Parliamentary committee?

The Witnesses: Yes.

The CHAIR: Did you receive and read the "Information for Witnesses" sheet provided with the "Details of Witness" form today?

The Witnesses: Yes.

The CHAIR: Do you have any questions in relation to being a witness at today's hearing?

The Witnesses: No.

The CHAIR: To start, do you have a statement that you would like to give us?

Mr Metcalfe: Thank you, Mr Chairman, and members of the committee. I have a very brief statement. BP made a written submission to the inquiry in August. Since that time, the Browse joint venture in which we participate has selected floating LNG as the development concept for the Brecknock, Calliance and Torosa gasfields, having earlier concluded that the development at James Price Point was not commercially viable. That said, the development of the floating LNG concept for these fields is still at an early stage. We are in, what we call, basis of design, so we are not yet in front-end engineering and design. This is not a technology that BP participates in in other projects around the world, so we put a level of detail in our submission which we probably have not moved much beyond at this stage. Nonetheless, we are very happy to be here to help inform the committee as best we can.

Mr J. NORBERGER: Good morning, gentlemen. In your submission you state that James Price Point has proven not to be commercially viable. In preparation for these hearings we have already heard evidence that the FLNG proposal will likely result in an internal rate of return of somewhere between 12.5 per cent to 13 per cent and that the onshore project would likely have returned somewhere around 11.5 per cent. They are the figures that we have been given. Your submission states that —

> The commercial viability of a project involves assessing costs and revenue to determine if an adequate return can be made for an investor.

I suppose what we would like to know is: what does BP consider to be an adequate return on investment?

Mr Metcalfe: What we put in the submission is that it is a blend of the costs, revenues and also the risks of the project. I think that would be the case for any investment that you might make as an individual; you try and understand what the numbers are and then understand what the risks of those numbers being accurate are. What we said at the high level in the submission is simply that costs in Western Australia have been rising; I think that is fairly commonplace knowledge and in a sense, understandable after so many greenfields floating LNG projects and also onshore other resource projects have been built in quite a short period of time. Prices have been under pressure and the risks are certainly there. The example that we gave in our submission was to quote a press release that I think was from Chevron about Gorgon; how the price of Gorgon had risen since taking that final investment decision. So, if you blend all of those together, at the high level is where you come to a view of what commercial viability is. In terms of specifics on the project, Woodside is the operator and sort of the custodian of the debate and, in that they have already given evidence to you, they would probably be better placed to comment on the specifics on the ground of the project.

Mr J. NORBERGER: As a follow up, let me reword it slightly. My understanding, with my own background in commercial projects, is that you factor that in. If there is a risk, if you believe there is a risk of cost escalation, if you believe there is a risk of a blowout in time to bring something to production, you factor that in to your capital expenditure model. So that when you look at the net present value of a project you look at your indicated rate of return. That should, in theory, encompass all of those risks, or at least the assumptions of those risks. Both projects have inherent risks and have potential for blowout, so I would have thought that the consortium would have factored those in, made those assumptions and you still would have churned out two figures. But again, irrespective of those two figures, from BP's perspective, what is that acceptable rate of return for your investors? Is it five per cent, 10 per cent, 15 per cent?

Mr Caldwell: I do not think we are able to quote that number. As Peter said, and as we said in our submission, we look at projects based on cost, price and risk and we do a holistic assessment of the entire project. In this particular case, whenever we looked at Browse, we did not believe it was commercially viable at James Price Point.

Mr F.M. LOGAN: Trevor, just following up that line of thought about the cost of doing business at James Price Point. BP is very experienced in doing work in hostile and high-risk environments, so for BP to do a comparison of cost and risk between projects is probably better than most other major oil companies around the world, apart from people like Shell. I take you back to BP's operations in Russia and what happened in the Arctic waters and projects that BP were involved in there, which were probably extremely high risk when compared to a fairly staid, simple, flat environment like Western Australia where nobody is going to take the project from you. You can compare one with the other and surely, surely, the risks in investment in onshore Australia are far lower than many of your other projects around the world. I put to you that some of the costs involved in putting that same technology that is used everywhere else in the world into place onshore in Australia is probably equal to that anywhere else in the world as well. Why then the decision to move offshore?

Mr Caldwell: Whenever we looked at the costs that were provided, that were bid to us by the contractors—actual market prices bid to us by the contractors—and we did our assessment, the project was not commercially viable. When we factored in the risks of building at that site and the complexity of the project that was required, when we did the evaluation, the cost was not viable.

Mr F.M. LOGAN: Trevor, can I ask you, what did you see as the risks? What were the risks?

Mr Caldwell: A combination of risks at different places. There was the risk of the site itself—gaining access to the site; the environmental approvals were not yet in place; land had not been secured; the actual onsite information was not readily available in terms of the site investigation work that had not been able to be carried out in the onshore area close to the sand dunes. There was a significant amount of uncertainty still there. Plus it was a very large and complex project offshore as well.

Mr F.M. LOGAN: Trevor, can I put to you that those risks are nothing compared with the risks involved in doing work in an A-class reserve that Chevron is doing at the moment at Barrow Island. They are very little, and you had both state and federal governments, who are supporting the Browse project, going ahead onshore. You have highlighted a number of minor issues. Where would the risk that would actually take up a multi-multi-billion dollar investment decision to shift it offshore? Those risks that you have highlighted are nothing compared to Chevron's investment in A-class reserve—or, for example, investing in the Arctic.

Mr Caldwell: I am not comparing James Price Point to Barrow; I am detailing the evaluation that we did ourselves internally, and whenever we looked at the combination of the cost that we were bid, the prices we believed we would receive, and the risk of executing the work, we concluded that the project was not commercially viable.

Mr J. NORBERGER: In comparison to FLNG? I suppose the feeling I am getting is that commercial viability seems to be somewhat subjective. Like you said yourself, commercial viability in Russia or commercial viability in an A-class reserve is a different project. You are comparing just one project; so you will go with the project that will make more profit.

Mr Caldwell: So the first instance was, we assess the commercial viability of James Price Point, and it was not commercially viable. That decision was made based on the recommendation from the operator in April. We then assessed what the alternatives would be, and after that assessment we concluded that FLNG was the option that demonstrated most commercial viability, yes.

Mr P.C. TINLEY: Gentlemen, thanks. In preparation for today's attendance and in preparation of your written submission, did you or anybody at BP consult with the other joint venture partners, specifically Woodside?

Mr Caldwell: In the preparation of our submission, no, I do believe so.

Mr Metcalfe: No, not for the preparation of a submission, no.

Mr P.C. TINLEY: Sorry?

Mr Metcalfe: Not for a preparation of a submission, no.

Mr P.C. TINLEY: Either written or verbal?

Mr Caldwell: I spoke to a colleague at Woodside just to see how the hearing went, which she did with them on—was it Friday last week or Thursday, because I was not able to attend it myself.

Mr P.C. TINLEY: So the information that you relied on in your written submission and, more specifically, with the deeper issue in relation to BP's contribution to the decision to move away from James Price Point or an onshore processing facility, that was all on the basis of that provided by Woodside; is that right?

Mr Caldwell: Correct. The operator did the evaluation; the operator obtained all the costs, et cetera, and presented the recommendation to the joint venturers.

Mr P.C. TINLEY: So what investigations did BP independently undertake?

Mr Caldwell: BP did its own internal evaluation of that work, but did no independent external work.

Mr P.C. TINLEY: So it was a gross error check of their numbers?

Mr Caldwell: Yes, and from a review of the information that had been provided.

Mr P.C. TINLEY: You never went to the market to test anything?

Mr Caldwell: No.

Mr P.C. TINLEY: You never looked at the risk matrix in a way outside the assumptions that Woodside presented to you?

Mr Caldwell: Well, we looked at the information they provided us and reached our own view on the information they provided us.

Mr P.C. TINLEY: Let us put it this way, if you had come to an alternate view as a 16.7 per cent equity share owner, what capacity would you have had to change it anyway?

Mr Caldwell: The decision to move forward I believe needs to be a unanimous decision in either way.

Mr P.C. TINLEY: So you could have blackballed it?

Mr Caldwell: We could not have insisted on it moving forward if the rest of the joint venture had not wanted to do that.

The CHAIR: How do you do this risk comparison? How can you fully assess making FID in 2015, when there will not be any FLNG operating by then?

Mr Caldwell: In 2015, I think is the target that the operator has stated—that Woodside has stated, I believe. We have just kicked off the basis of design work; that is the first phase of the activity. We are committed to have that completed next year. Then that would lead into feed, and then the ultimate decision just on to how to progress with the project.

[9.30 AM]

The CHAIR: When the final decision is made between whether to go with FLNG or to go back and have another look at being onshore, your comparison is between building onshore and knowing exactly what you are doing, and the economics of the project are quite clear, and FLNG, a technology that is at the moment not being used anywhere. Basically, you will be comparing a process you know all the figures on with one that you don’t know all the figures on.

Mr Caldwell: FLNG is a combination of technologies. It is a mixture of well-proven LNG processing technology with offshore production systems, like floating production, storage offtake vessels et cetera. All of that equipment will be fabricated in a construction yard, by which stage the prelude project would have been largely completed. So there will be significant learning that will help us to assess and understand what the risks are going to be. In our evaluation we will need to build in an assessment of that risk, and that will be one of the factors that we take into account when deciding whether or not we will proceed and make a positive financial investment decision at that time.

The CHAIR: From what I have learnt, it is still quite unknown how the actual equipment will process when the vessel moves and no-one is really sure how that will affect the operational efficiency of FLNG—things like the monitoring of flow rates with the movement of the vessel at sea. It seems to me that it is a big step into the unknown.

Mr Caldwell: We will be looking to the operator to present us with the information that lets us undertake the assessment of what we think the operability of the units will be, and we will make our decision at that time based on the results of that work. That will be an uncertainty.

Mr F.M. LOGAN: Coming back to the decision making on Browse—we will go into other questions as well, we will not stick with Browse. I am sure there are other questions we want to ask about FLNG; pick your brains about. In terms of decision making, we have heard evidence that FLNG will result in a 12.5 per cent to 13 per cent return on investment compared to approximately 11.5 per cent for onshore processing. This is from evidence that was given to us by another major organisation. Obviously, on a project that turns over $250 billion that is a significant amount. A one per cent difference in return is significant, but not when it is looked at from this committee's point of view, it seems to be just simply one per cent. As you have described it, Trevor, the decision to go to FLNG was about risk, cost and rate of return. That is the evidence we heard about the rate of return of that particular project and the decision to go offshore to FLNG. What is your estimate of the cost between FLNG, let us say the Browse project, and onshore?

Mr Caldwell: We have still not got detailed costs available to us, they are still early estimates. We do expect the cost of FLNG to be significantly less than the cost of an onshore project, plus the offshore facilities required for Browse. Browse did not consist of only an onshore LNG plant but also massive offshore facilities—1 000 miles of pipeline; three floating structures; and platforms. These are not required for FLNG.

Mr F.M. LOGAN: What do you estimate to be the percentage difference between the two?

Mr Caldwell: I could not quote that number at the moment, but it is significantly less.

Mr J. NORBERGER: Following on from Fran's question, I think he hit on a very pertinent point. We have heard from a number of large joint-venture partners through written submissions, and Woodside has said this as well, that there is a significant gap between the capital investment required for the land-based option at James Price Point and FLNG. Obviously, that alludes to the operating costs for FLNG must be significantly higher because by the time you come to the end of the project lifecycle you are potentially reduced to a one per cent difference in greater return. One per cent of 250 billion is $2.5 billion, so by the time you are at the end of the project the difference is quite small. If you have a very high operating expenditure—opex—and are in the position where you have the ability to move your barges out at any given time, what guarantee does Australia as a whole, and Western Australia, have that these gas fields will be exploited to the maximum? What will stop the joint-venture partners in 20 years saying that the opex for FLNG, which is obviously higher for FLNG than it is for a land-based solution, is no longer commercially viable to continue extracting gas? The reason this technology was created originally, from my understanding, was to tap into gas fields that were stranded. Potentially, we could have the situation where you will leave a significant amount of gas stranded by choosing to leave early.

Mr Caldwell: I think it is important to remember that in the first instance there was not a commercially-viable onshore option, so the gas was never going to be produced through James Price Point.

Mr J. NORBERGER: Not by your joint-venture partner, but with someone else it might have been commercially viable.

Mr Caldwell: I cannot comment on how other people might have found it to be commercially viable or not. I certainly know that the joint-venture partnership for the current Browse project, and the owners that left, did not find the project to be commercially viable.

Mr P.C. TINLEY: Your commitment to extract the entire resource—we are yet to receive evidence about FLNG's capacity to fully exploit a resource. Is that what we could expect from an onshore option? I know that the subsea stuff is pretty similar.

Mr Caldwell: Currently, on our estimates, we have reduced the ceiling life of the resource in both cases.

Mr P.C. TINLEY: What do you typically leave in a gas field?

Mr Caldwell: I could not quote that number. I just do not know it. I would be glad to get an answer and respond back to you, but I could not answer that question.

Mr F.M. LOGAN: Gentlemen, has BP looked at any other FLNG projects around the world at all? I know, Peter, that you were saying that BP is not currently involved in FLNG, but I am sure BP is examining this quite closely given where its competitors are at.

Mr Caldwell: I cannot be definitive on that question because it is a large organisation, working around the world. Personally, I am not aware of any FLNG options that BP is looking at, other than Browse, at the moment.

Mr F.M. LOGAN: Apart from Malaysia, is BP aware of any other countries that are willing to welcome FLNG technology into its waters?

Mr Caldwell: No.

Mr F.M. LOGAN: Interestingly, I recently attended a conference where I spoke to some African government delegates who were quite happy that FLNG was starting in Australia because they would look at it and make a decision later, and probably a negative decision. It was interesting to hear their comments. Given that it is a global organisation, what is BP's view about that?

Mr Caldwell: Our view on the technology is that it is something that someone else has developed, it is now in the portfolio of available technologies and we will assess it as and when a suitable opportunity arises.

[9.40 am]

Mr J. NORBERGER: In your submission, as well as in submissions from a number of the joint venture partners, it is often referred to how important it is that, given the changing global economic times, we need to start accessing this gas as quickly as possible and any delay in getting this gas produced can jeopardise its viability, because we have the potential of cheaper LNG coming onto the market from the United States and the like. A lot has been said that we need to be quick about it. In your own submission when you were talking about the benefits of FLNG, you stated —

> … these benefits need to be compared to the alternative: no or significantly delayed development …

Are you aware that when Woodside gave its submission, it made mention that the land-based option would have gone to market significantly quicker and in its opinion by the time the FLNG option is up and running is later than when the land-based option would have been up and running? When you factor in risk, including currency risk and having long-term contracts, I would imagine that FLNG would have been seen as a higher risk given that the land-based option by Woodside's reckoning had the opportunity to become productive quicker.

Mr Caldwell: The Browse option that was not commercially viable had a target date that would likely be earlier than FLNG would be able to deliver. However, there was no guarantee that James Price Point could have progressed this year because of the lack of environmental and land approvals.

Mr J. NORBERGER: I take that on board. We will never be able to know now. By the same token, I dare say when you derive a target date, you would put escalation contingencies in but no different to FLNG. As you said, you are going to be in a position where you are making a final investment decision at a time when the first FLNG barge will be progressed within its construction phase but it has never even seen water, let alone operational testing. The risk of a time delay in FLNG is equally great; I would almost suggest it is greater. Like Fran was saying, you are dealing with a technology that is well and truly tried and proven. I might also add that there is talk about labour costs being significantly high. We take on board that obviously in the boom that we have seen over the previous years, labour costs and associated costs have been phenomenally high. But the projected construction period of James Price Point is well and truly beyond the current projected peak of construction demand, which we are even seeing now. We believe we are past the peak now. We are seeing costs plummeting. My own colleagues in the industry are seeing reductions in their own pay and companies are discounting. It will be interesting to see what assumptions were made when you were evaluating James Price Point as to what the costs were going to be because if you were basing them on what the costs would be, even during the development of Barrow Island, you would have found yourself in a completely different set of circumstances to your benefit.

Mr Caldwell: There are a couple of different questions there. To respond to your last point, the evaluation was done on the base costs that were provided to us by the contractors. That was their assessment of what the cost of construction work overseas and here was going to be. I presume they factored in all the factors of what they thought the market would be and availability of construction, labour et cetera in putting forward what was a competitive price.

Mr P.C. TINLEY: What is the basis of the contracting or delivery of this project? Is it EPCM or is it going to be a fixed price, a fixed sum?

Mr Caldwell: That is confidential information that I think you would need to request from Woodside.

Mr P.C. TINLEY: I am just trying to understand the joint venture relationship more than anything. Given your position in the joint venture, what control or input or capacity does BP have—I am pursuing this through you as the general manager of the pointy end of your representation of the project—in the decision-making process for the supply chain, either in construction or through operations?

Mr Caldwell: With regards to the supply chain, those decisions would be made by the operator. The operator will make recommendations to the joint venture and the joint venture will agree or reject those decisions. Those are not unanimous decisions.

Mr P.C. TINLEY: So they do not have to be unanimous?

Mr Caldwell: No.

Mr P.C. TINLEY: Is there an instance so far where you have not agreed with the recommendations, in any part of the business relationship?

Mr Caldwell: I will not get into too much detail of the business but there have been occasions when we have disagreed with the operator.

Mr P.C. TINLEY: When you have disagreed, how is that resolved?

Mr Caldwell: Depending on the voting provisions within the JOA, if they achieve the building threshold, it goes through. If they do not achieve the building threshold, they have to go back.

Mr P.C. TINLEY: When it comes to a bigger decision about the marine supply base or the onshore supporting infrastructure that we suspect will be needed for this operation, what commitment does BP have to making sure it is Western Australian–provided infrastructure?

Mr Caldwell: It is still very early days in understanding even what the onshore infrastructure needs to be, and that is one of the pieces of work that will happen in BOD. The operator will need to look at supply boats, helicopters, fixed-wing aircraft, whatever, in terms of meeting the operational needs of the project. He will make his recommendations to the joint venture and the joint venture will assess it.

Mr P.C. TINLEY: Is there a basis of business philosophy that you are bringing to the table as a joint venture partner about your commitment to Western Australia, given that FLNG is taking a significant amount of opportunity, notwithstanding there is going to be other opportunity, out of the Western Australian economy?

Mr Caldwell: I personally think FLNG and developing Browse brings significant opportunity to the Western Australian economy with the jobs that will be offshore and the services that will be needed to support those two or three vessels depending on what the conclusion is. There is a significant benefit over many years—30 plus years—that would flow through that project.

Mr P.C. TINLEY: Hypothetically, the joint venture operator makes a recommendation that the best marine support base is East Timor. Would BP be committed to Western Australia or just simply go with the recommendations?

Mr Caldwell: It will depend on the basis of the recommendation. We will assess it at the time.

Mr P.C. TINLEY: Commercial concerns will override any and all decisions that BP may or may not make in a joint venture.

Mr Caldwell: We will make a commercial consideration.

The CHAIR: I want to ask you about the domestic gas supply. You refer in your submission to energy security for Western Australia. What is your view of obligations to supply domestic gas? Of course, you are partner in the North West Shelf Gas Project, so how do you balance continuing to sell gas into the domestic market versus selling it as LNG, especially considering that the resource from the North West Shelf is starting to decline?

Mr Metcalfe: There are a couple of questions in there. On the North West Shelf, you are quite correct; all the joint venturers have been selling domestic gas into Western Australia for a long time—they have done so and are contracted to do so—in excess of the original state commitment. It was not a domestic gas reserve in those days, but it was similar. They are continuing to invest in new production facilities to make sure that the remaining fields in the North West Shelf venture area are developed. So that continues. Browse is difficult; Browse was always such a long way from the market in the south west of the state. We were not aware of anyone proposing to build a pipeline to James Price Point for domestic gas in any event, so it is not clear whether floating LNG, as we said in the submission, makes a big difference. Obviously, the joint venturers will review all the policies of the government during the basis of design.

[9.50 am]

The point we would be trying to make, really, was not specific to the project, but more just a general policy one. There were a couple of other inquiries of this committee in the previous Parliament and there is another one run by the Economic Regulation Authority, and it seems to us prudent to reassess domestic gas policies in this state. BP has participated in the consultations of this prior committee and must treat again this initiative. Our view has always been that domestic gas supply and security is best assured by the market, which is a position we have throughout the world, with open markets where prices are allowed to settle at the level that balances supply and demand and attract new investment being the best way to go. We continue to advocate that position, which was the allusion we made in our submission.

The CHAIR: I suppose we are all great fans of open, free and fair markets, but a single-desk buyer of gas for one significant country has become an investor in one of the gas fields. I would say straightaway that is no longer a free and fair market, is it? If you are the single-desk buyer for a country and then you get involved as a direct producer, by most definitions I would have thought a free and fair market has gone out the window. When the others were talking about the short-term, maybe people were not talking about the gas line to James Price Point; however, of course, when Canning Basin comes onstream, as some of us expect it to, it is quite likely, I guess, that the Canning Basin will be exporting gas out of, most likely I suspect, James Price Point. At that point it probably will be viable to put a gas line to it, but that is some way down the track. The other thing was the offset arrangements. If you were processing onshore and that triggered a domestic gas liability, if you like, I guess the hope was that that would be traded off by taking increasing proportion from the North West Shelf and trading it off against what you are producing at James Price Point. Although the chances of a direct connection to James Price Point were some way down the track, that was how it was expected, I think, that the domestic gas obligation would be dealt with.

Mr F.M. LOGAN: You are aware, Trevor and Peter, of the terms of reference of the inquiry. Primarily it is looking at the opportunities for, and the impact of, FLNG on domestic engineering, manufacturing, fabrication and design industries. We would also be looking at what opportunities there are arising from FLNG. As one of the part owners of the Browse project and a proponent of FLNG—if not the owner—could you explain what opportunities BP sees for Western Australian, or Australian companies for that matter, to be involved in the design, manufacture and fabrication of any of the work for FLNG—not the operational phase?

Mr Caldwell: I think it is still early days to understand what those opportunities are going to be. As Woodside develops its contracting strategy, it needs to assess what those opportunities will be, and I am not able to say what those are.

Mr F.M. LOGAN: Does BP have any input at all into those decisions?

Mr Caldwell: I was talking earlier to Peter about how the joint venture works and so that is where we provided our input, which is basically that we receive the recommendations from the operator and we support them or otherwise depending on the nature of the conclusion.

Mr F.M. LOGAN: So BP could not bring its weight to bear as part of the joint venture to encourage the JV to source work from Western Australia?

Mr Caldwell: We will work with the operator to create the contracting strategy that is followed, that is all we will be able to do.

Mr F.M. LOGAN: No more than that?

Mr Caldwell: No; it is proposed by the operator; it is proposed by Woodside.

Mr F.M. LOGAN: But agreed to by BP.

Mr J. NORBERGER: The state agreements that are in place, and I assume it is probably the same across the board, have clauses in them in regard to local content. They tend to be fairly noncommittal, but they tend to be quite warm and fluffy and say, “We will do all these wonderful things to try to promote local content.” One of the concerns I have already discovered is that in our discussions with a number of manufacturers, engineering companies, you name it, that people would like to do a slice of work on this project. They are dealing with the EPCM, which is obviously a global, international company and it has been far from favourable. In our context what would be a major manufacturer or engineering firm admittedly would not be major in a global context. The global EPCM did not even half realise who those companies were or what they could do—they were basically a distant afterthought. It would just seem that if you are going to take local content seriously, my understanding is that a lot of the engineering and manufacturing companies out there understand that they are not big enough to have the capacity to do huge, mega sections, of the project, but surely they could be invited to do joint ventures or there are opportunities to partake in certain bits. It comes down to the joint venture partners—yourselves—instructing you or EPCM to be more progressive, I would suggest, in advocating those sorts of opportunities.

Mr Caldwell: As I say, it is still early days. To understand what we are going to be able to do, those other types of things will be looked at as part of the BOD. Woodside will make its proposals, will do the work and make its recommendations to the joint venture. As we talked about earlier, BP is a small, low percentage partner in this. We do not control what happens, we participate.

Mr J. NORBERGER: I will just make a very quick statement in relation to that, which you can feed back when you have your discussions. I have worked on mining projects in WA where the local content clause was specifically aimed at Indigenous workers, so we are talking local within local. If you are really committed to making local content available, price is not always the only factor. I know that with companies I have worked to give opportunities for Indigenous contractors or Indigenous companies, they had to look beyond whether they were actually the most price competitive. Obviously you want them to be price competitive, but in fact sometimes they realise that they would need to invest additional time and resources to bring them on board and bring them up to speed, but the local content desire was achieved. I would suggest that the same would apply globally. I think that EPCM and the joint venture need to look at this. We talk about making WA a centre of excellence. We hear a lot that WA has the opportunity to be a centre of excellence. No-one has been able to tell us what that means. If you want WA manufacturers, WA engineers and WA fabricators to be part of the journey, just making statements that they had better be the cheapest and meet all the other criteria will probably not be sufficient.

Mr F.M. LOGAN: Can I just come back to that decision on Browse and the point that Jan just made about Indigenous agreements, which just reminded me of this point. With the Browse agreement between the state government and traditional landholders on the Dampier Peninsula, you are aware of that agreement that was constructed between the state government and the TOs. The benefit would flow from that agreement to all people of Kimberley. BP prides itself on being a sustainable company, a company that is socially aware—at least you do according to your adverts on TV. What thought was given to that agreement between the state government and the Indigenous landholders and the benefits that will now not flow as a result of BP's decision as part of the joint venture?

[10.00 am]

Mr Caldwell: I can only go back to what I said originally; whenever we looked overall at the overall project, the full issues with the project at James Price Point was not commercially viable.

Mr F.M. LOGAN: I am aware of that, Trevor, but surely BP would have also been considering other factors. If you were not, just tell us.

Mr Caldwell: The overall assessment of the project would have included all of the issues, but whenever we looked at the commercial viability of the project, it was not commercially viable.

Mr F.M. LOGAN: Was there any weight whatsoever given to the impact it might have on the traditional owners of land in the Kimberley because that was a vital part of the agreement?

Mr Caldwell: It would have been part of the overall consideration but, ultimately, whenever we looked at it, it was not a commercially viable project.

Mr F.M. LOGAN: You are saying it would have been. I am asking you: was it part of it?

Mr Caldwell: It was within the overall consideration, yes.

Mr F.M. LOGAN: So it was considered and then dismissed?

Mr Caldwell: The project was dismissed; correct.

Mr J. NORBERGER: It would seem to me that if you have two projects, both of which return a positive rate of return, they both make money. They are actually within about one percentage point of each other, give or take. Those internal greater returns are predicated on assumptions that take into account risk and all the sorts of things that we have spoken about this morning. The natural disposition of a for-profit organisation, which is understandable, is to go for the more profitable option. The best way to make that decision without seeming to lose your social licence to operate, and without making it out that you are forgoing revenue to the state, and to some degree the country, with the reserves involved in this, is to move the goalposts to such a degree whereby option A, which is one per cent less internal greater return that option B, is, as you said numerous times today, not commercially viable. The definition of "not commercially viable" is totally within your control. There is no textbook that I can go to that will predicate to me what "commercially viable" means. One company will say that it is commercially viable and another will say that it is not. All you need to do is move that goalpost between option A and option B and all of a sudden option A is not commercially viable and it becomes your out so you can say, "We would have liked to have done option A, but what a shame we can't." I would state that I believe what really happened was that you wanted to go for the more profitable option. You are a for-profit company, but by going to the more profitable option, the Indigenous people of the Pilbara now miss out—a massive loss to WA in regard to construction and potentially with royalties and domestic gas. So the better option is to just move the goalposts a bit and make option A look not commercially viable.

Mr Metcalfe: I appreciate you are seeking a definitive formula that defines "commercial viability" and you are right that one does not exist because, as Trevor said and we put in our written submission, it is a combination of an assessment of risks, costs and revenue, which is inherently a judgement. We can only speak for BP and the view we arrived at that it was not commercially viable. I suppose the only other thing to add to that is that I think Woodside has indicated that the joint venture spent many years and in the region of $2 billion progressing the project to the point of making a final investment decision, or not, in this case. You talked about us being a private company motivated by profit, and that does make sense. We are not in the happy habit of forgoing the results of that work lightly. Having made that effort and spent those years on the project, it is not an easy decision to make to walk away from it and it is only one you would make it if you were really convinced that it was the right thing to do. The other point which I think goes to a couple of questions that have been asked as well—Trevor has said on a number of occasions—is that it is early days in the project. That is because the project has gone back in time in a sense from where we were with James Price Point, which had been progressed up to the point of a final investment decision. The decision in this instance was that it was not viable. We have gone back to the basis of the design, which is the pre-fee phase. Trevor will correct me; I think we entered the basis of design for James Price Point in early 2010.

Mr Caldwell: Correct.

Mr Metcalfe: So, we have wound the clock back three and a half years, effectively. So, when there is a comparison between the two, that is why it is difficult to make as clear a comparison as perhaps the committee would like us to be able to make simply because the level of our maturity of our understanding has gone back. What we need to do, and what we have agreed to do because we want to develop the resource, is get Woodside to do the work, which would bring the floating LNG up to that level so that we can make a decision on it.

The CHAIR: I just refer to your submission. Have you got it in front of you?

The Witnesses: Yes.

The CHAIR: Towards the bottom of page 3, you are talking about offshore gas developments in the state —

> Moreover, these benefits need to be compared to the alternative: no or significantly delayed development, and no economic benefit, because the onshore 'alternative' does not in fact exist in viable form. It is too soon to be certain whether FLNG can be made to work at Browse or elsewhere, but we respectfully recommend to the Economics and Industry Standing Committee that they urge WA parliamentarians to do all they can to make it so.

So you are saying there that you are unsure whether FLNG can work at Browse.

Mr Caldwell: As I think we said earlier, we are in the early stages of FLNG. We will do BOD. We will do feed. That will give us the cost, risk, price et cetera of an FLNG development. Then on the basis of that we will make a decision about whether that project is commercially viable at that time. We believe that it will be commercially viable on the information we have available to us at this stage, but, as Trevor was highlighting, there are significant uncertainties about it at this stage and a lot of work is still to be done. On the basis of that, we will make our decision in two and a bit years.

The CHAIR: You are urging us to do all we can to make it so. What would you suggest that we could do?

Mr Metcalfe: Most of these big projects operate within a policy context. However, there is nothing specific that we are advocating here and we have not put any specifics in the submission. There is no doubt that both state and federal governments, on a bipartisan basis, have been immensely supportive of the resources development industry and that is something in a general sense that we hope will continue to apply. In the case of Browse, we are certainly committed to processing the development of the resource in the best way that we can. At the moment, we believe floating LNG is the best way open to us to move forward. It is early days where it is, as Trevor said, so it is more of a general statement that we hope that that bipartisan and multilayered, as it were, support for the resources industry can continue.

Mr I.C. BLAYNEY: A cynic might say that you might be just holding back to see what the impact is of shale gas from the United States in our Asian market.

Mr Caldwell: A cynic certainly could say that, I agree! As a project manager who is committed to finding a solution that works for Browse, that is certainly not my intention.

Mr J. NORBERGER: Just a follow-on, if I may, Mr Chair, based on that submission, you said yourself that it is too early to tell. Over the next couple of years you are going to get to a point where you will find out whether FLNG is viable or not. Assuming for the moment that the outcome is that it is not, I am assuming that you will give up the leases to the Browse fields because you have already determined that onshore processing is unviable. If FLNG comes back to be unviable, I am assuming you will have no interest in the Browse fields then.

Mr Caldwell: I cannot comment on what position we will take in two or three years' time when we have completed this work. It will depend on what we find out from the evaluation as to what our conclusion is and what we decide is our way forward. I cannot comment on that.

Mr F.M. LOGAN: Can I just ask a question in accordance with our terms of reference about gas supplies and the comments, Peter, made in the submission when he said —

> … FLNG as a technology presents an opportunity for fresh reflection on the policy —

That is the domestic gas reserve policy —

> and a fresh look at previously considered options.

What did you mean by that?

[10.10 am]

Mr Metcalfe: In any event the state government strategic energy initiative indicated a review of domestic gas policy possibly in 2014–15, so we are more around that. It just so happens that the regulation authority is doing its inquiry at the same time, so it struck us that is a useful place to have a look at how the domestic gas policy is working in practice. For us, it is probably just no more than a statement of what has been in the public debate, with some of the demand side of the equation saying that they had been hoping that Browse might have been part of the make-up of the supplies, and it continues to be a frustration to me even after this prior committee had looked at the matter, that there seems to be no real consensus around what supply and demand balance in Western Australia is going forward. A gas statement of opportunities has just been released which has indicated a fairly benign picture going forward, but it seems to be contested with no-one able to come up with a definitive answer—either us or the supply side. Therefore, I think it is something that needs to continue to be worked, and we should be trying to find out what is the best way of ensuring that the state has secure supplies of energy. It has abundant resources; we know that. It continues to be argued whether the domestic gas reservation policy is having a positive or negative impact on making sure it gets to market. We will participate in those debates as best we can.

Mr F.M. LOGAN: I would agree that FLNG simply adds a new dimension to domestic gas reservation policy, in that it basically goes completely around it.

Mr Metcalfe: It is a new technology that potentially can be deployed to develop resources in Western Australia or elsewhere. So in that sense it is something which people participating in the debate would want to take into account, I am sure, but we think that the domestic gas supply debate in Western Australia is broader and deeper than that. The challenge is how to get those abundant resources, including onshore. If you were to believe a lot of the analysis that has been done, there are very abundant gas resources onshore. What is the best way to get them into a market in Western Australia when—we have had these debates before—it is a relatively small, lumpy market and it creates all sorts of challenges.

Mr F.M. LOGAN: Do you accept that that market is small and lumpy and it is not quantifiable because of the uncertainty surrounding both price and supply, and that in this case that is an issue for the Western Australian government, not the federal government? How does the state government offer opportunities for large energy consuming industries to be established in Western Australia, whether they are mineral or other processing industries, or manufacture? How can a state government offer those opportunities with those energy problems facing it because of the supply of gas and also the cost factors that we have experienced over the last five years?

Mr Metcalfe: I think we come back to the position, which is a philosophical position, and it is hard. When the facts are contested, as you rightly said, that it is difficult to predict, and you come back to that philosophical position of the more we can rely on markets and bringing together people who wish to buy gas and people who wish to sell gas so they hopefully can agree a price that makes that work—that seems to us is the only way to go. There is evidence in Western Australia of that approach working, and there has been in a response to increased domestic gas prices, a substantial supply response. I saw in the newspaper only the other week another gas project in the north west being brought online and being opened by the Premier. That is the way investment is best attracted.

Mr J. NORBERGER: In a free, open market—but I would suggest it goes back to the Chair's comments earlier, that if there is a major single-desk purchaser of a field, your key client having a stake in who the gas is sold to, why would they sell it domestically if they have the most interest in having the gas themselves?

Mr Metcalfe: I could not comment on other companies or organisations. What WA has done, rightly, and in the past couple of years, is develop things like the gas statement of opportunities and the gas bulletin board to try to bring more transparency to the market. There is a diversity of upstream resource owners and downstream gas consumers and the gas statement of opportunities and the bulletin board are a better way of bringing them together; they are still quite new in the state. You have to, from a policy angle, try to deepen the diversity; that is always the way to best promote transparency and diversity.

The CHAIR: With that, I thank you for your evidence before the committee today. A transcript of this hearing will be forwarded to you for correction of minor errors. Any such corrections must be made and the transcript returned within 10 days from the date of the letter attached to the transcript. If the transcript is not returned during this period, it will be deemed to be correct. New material cannot be added via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence. As we have not managed to get through all our questions during this hearing, our secretariat will write to you with our formal request for further information. Thank you very much for your time.

The Witnesses: Thank you.

Hearing concluded at 10.17 am.