

Government asleep as offshore failure developed

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Resources minister Keith Pitt's predecessors Matt Canavan and Josh Frydenberg missed multiple warning signs ahead of last week's failure of the company behind the troubled Northern Endeavour oil vessel. *Image credit: Mick Tsikas/AAP*

A newborn oil and gas company that four years ago bought an ageing offshore facility for a pittance and allowed Woodside to reverse a A\$140 million impairment has now failed, and Australian taxpayers may be left with a cleanup bill of more than A\$200 million.

Creditors of Northern Oil and Gas Australia voted in Perth on Friday to liquidate it and two associated companies that owned the Northern Endeavor oil vessel, now [without crew](#), and the Laminaria and Corallina oil fields.

New resources minister Keith Pitt [announced](#) in his first media release the establishment of a taskforce to look at long-term solutions "in the safest and most cost-efficient manner, and limit any costs to Australian taxpayers".

"It is regrettable that a commercial solution could not be found to prevent NOGA entering liquidation, but the Government will do everything it needs to do to protect the safety and security of the Northern Endeavour production vessel to protect the environment and keep workers safe," the minister said.

A Woodside spokesperson said the transfer to NOGA was properly undertaken under Australian laws and regulations.

Pitt could ponder the warning signs missed by his predecessors Josh Frydenberg and Matt Canavan in administering those laws and regulations before NOGA entered [voluntary administration](#) in September.

Oil and gas, particularly offshore, is a risky, technically complex and capital expensive business. Large experienced petroleum companies manage this risk with a portfolio of different assets and rarely hold 100% equity in any of them.

NOGA did it differently – small and inexperienced, it owned 100% of a single asset. The company was established by its owner and sole director Sydney-based **Angus Karoll** in August 2015, just one month before a conditional deal was struck with Woodside.

One area of concern should have been to ensure there would be enough funds for the decommissioning of the fields and equipment – a process the government describes as “robust” and is now [reviewing](#).

Woodside had provisions of US\$156 million (\$234 million) for the asset it sold to NOGA, according to its 2015 annual report. Plugging and abandoning subsea wells in 380m of water is an expensive business.

Operators normally decommission after years of eking out the last barrels of production until revenue finally drops below operating expenses. The mammoth bill comes many years after the strong cashflows of peak production. Diversified producers source the funds from other operations. Where did the government think NOGA would find the cash?

Nevertheless, the deal was completed in April 2016 for, in offshore oil and gas terms, the pocket money of US\$900,000. Woodside recorded an impairment reversal of US\$95 million.

The warning signs continued after the sale, including doubts about the condition of the Northern Endeavour and how it was run.

In early 2017 an [investigation](#) by Upstream Production Solutions, the company contracted by NOGA to operate the vessel, into the potentially fatal fall of a piece of corroded equipment stated that Woodside's earlier intent to abandon the facility, instead of selling it, had “led to a strategy of maintenance minimisation”.

The same report, that was submitted to the National Offshore Petroleum Safety and Environmental Authority, stated that the crew perceived a need to not follow procedures to “expedite resumption of normal production”.

In August 2017 the National Offshore Petroleum Titles Administrator approved the registration of a US\$20 million mortgage over the production licences by Castleton Commodities, a US-based commodity trader.

Two months later Timor Sea Oil and Gas Australia, the entity bought from Woodside and owned by NOGA, lodged its 2015 annual report with ASIC more than a year late and revealed a US\$30 million loss.

Auditors Ernst and Young noted “a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern”. Viability required all wells to produce as expected with minimal operational issues and no significant decline in the oil price.

Everything had to go right, but it did not.

In 2016 the Northern Endeavour shipped just one cargo of oil and NOGA Holdings Pty Limited, the holding company of the liquidated companies that was not put into administration, lost US\$19 million. Ernst and Young repeated its doubt about remaining an ongoing concern.

Again, in 2017, there was only one oil shipment and losses grew to US\$48.5 million according to the NOGA Holdings report lodged in April 2019.

In the same month last year, NOPSEMA pulled up NOGA over not having the [financial arrangements](#) in place to deal with an oil spill and [doubts](#) over the continuation of its contract with UPS to operate the vessel.

In July NOPSEMA ordered the Northern Endeavour [cease production](#) in its "current degraded state" and shortly after required a [backlog of maintenance](#) to be done before production could recommence.

Karoll placed the companies in voluntary administration in September after Castleton refused to find further repairs unless NOPSEMA supplied a definitive list of work to be done, according to the [report](#) of administrator's KPMG.

Castleton, a secured lender, is owed US\$82 million and ASX-listed GR Engineering, owner of UPS, has suffered a [\\$17 million impairment](#).

More to come

The Woodside spokesperson said the company, through industry lobby group AP-PEA, is contributing to industry discussions on this matter.

"Discussions are ongoing, and it is premature to speculate on the specific issue," the spokesperson said.

"As Australia's industry matures there will be significantly more decommissioning activities, so it is important that the right precedents are set."

The most significant offshore decommissioning work ahead in Australia are the ageing Bass Strait facilities operated by ExxonMobil. The oil major is understood to have slowed its sale process due to concerns in Canberra stemming from the Northern Endeavour.

The lasting effect of NOGA's brief four years of existence may well be the transfer of a nine-figure liability from Woodside's shareholders to the Australian taxpayer.

It is a result that may surprise some in Canberra but had been considered a likely outcome by many in the industry for a few years.

A revised decommissioning framework would be an improvement if it included the requirement to act on copious amounts of publicly available information.

Taxpayer cost unclear over Northern Endeavour FPSO

THE federal government and industry are scrambling to avoid passing the financial burden of decommissioning of the failed Northern Endeavour floating production storage and offloading vessel on to the taxpayer, after Northern Oil and Gas Australia went into liquidation last month.



Government weighing up its options

**Operations >
Environment**

06 March 2020

Mark Tilly

Journalist



A blaring alarm was sounded during the Senate economics estimates committee meeting on Wednesday evening after it was revealed the former owner Woodside did not require governmental approval by the National Offshore Petroleum Administrator to sell the decrepit asset on to NOGA.

This was because the company holding the tiles stayed the same, it was only its ownership that changed.

The FPSO wadecomms ordered to halt operations by the National Offshore Petroleum Safety and Environmental Management Authority in July over safety issues. NOGA went into liquidation after voluntary administration in September.

The private company bought the vessel and took over the associated Timor Sea Laminaria and Corallina fields from Woodside Petroleum in 2016, saving the large company significant decommissioning costs, which could now be passed on to the Commonwealth.

New minister for natural resources Keith Pitt described the fiasco as a "wake up call to the Australian oil and gas industry" in his first in cabinet in early February.

Senator Rex Patrick raised his concerns of the wider implications during estimates, noting there were offshore rigs around Australia far older than Northern Endeavour that were being sold by companies like Woodside.

"This is only the tip of the iceberg," he said.

It is estimated it could cost around A\$200 million to decommission the FPSO, however head of the governmental NOGA taskforce Lisa Schofield could not provide a clear answer to Senator Patrick on what the exact cost would be.

"Decommissioning costs vary greatly across project to project, time of the year... government is currently considering the options that are in front of it to move forward with a long-term solution," she said.

In the meantime the government is attempting to get approval from parliament to spend A\$10 million in the next few months to keep the platform in 'lighthouse mode'. Patrick on Wednesday appeared unimpressed.

"The taxpayer now owns an FPSO, who'd have thought."



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Decom expansion for NOPSEMA can't prevent another NOGA

THE offshore oil and gas regulator has issued a draft recommendation on decommissioning of oil and gas rigs, which is open for public comment after former resources minister Matt Canavan issued a 'statement of expectations' in November that it step up oversight of decommissioning activities.



Operations > Development

08 April 2020

All this already comes under section 572 of the Offshore Greenhouse Gas Storage Act but the National Offshore Petroleum and Safety Authority has outlined how it plans to oversee and enforce the section in more detail.

It will not prevent another NOGA fiasco, however.

Helen Clark

Editor

Canavan said he expected NOPSEMA would "ensure that titleholders are appropriately planning for, and executing decommissioning activities in a timely and responsible manner".

It was around this period when Northern Oil and Gas Australia went into administration and it was clear the small private company had little ability to decommission the aging floating storage production and offloading vessel, The Northern Endeavour, NOPSEMA had shut down in July over safety concerns.

NOGA has since been liquidated and Canavan replaced by Keith Pitt but the Northern Endeavour remains moored in the Timor Sea in lighthouse mode and no closer to a long term solution. Upstream Production Solutions, which had the original contract to run the vessel on a third-party basis, is taking care of maintenance.

The vessel is under official control of the federal government.

NOGA bought the vessel from Woodside Petroleum in 2016 and took over its operations along with the depleted Coralina-Laminaria oil fields, saving the latter significant decommissioning costs.

New minister for natural resources Keith Pitt called the debacle a "wake up call to the Australian oil and gas industry" but did not outline what steps he might take as minister to prevent a recurrence of a similar event.

Taxpayers could be liable for a \$200 million-plus decom bill, despite Pitt's promises otherwise, but the new draft on section 572 does not take into account title transfer, or if an operator can meet the costs of its decommissioning plan under its wider Environmental Plan.

New titleholders must submit EPs and decommissioning plans at that point but they are generally spartan given the long life of offshore assets.

However each five year EP review must provide increased details.

However unlike the titles administrator - which oversaw the transfer from Woodside to NOGA - NOPSEMA does not take into account an operator's ability to meet financial demands outside of its ability to manage oil spills.

Given the issue is now with Australia's aging offshore infrastructure it is hard to see how the expanded rules could prevent the issue recurring.

NOPSEMA said titleholders must remove all property in their title once it is no longer used "and only accepts alternative arrangements where justification is appropriate".

Property applies to all equipment, including subsea and wells, brought into the area but the policy "does not cover financial liabilities that may be associated with property as addressed in the Australian Government Offshore Petroleum Decommissioning Guideline".

Should property not be removed or an environmental plan submitted on how it might meet removal obligations "NOPSEMA may escalate to enforcement action... whether in relation to failure to maintain property or failure to remove property".

Enforcement includes "directing a titleholder or former titleholder to comply with the OPGSS act" or it may prosecute and "have either civil or criminal penalties applied".

Technically it is the resources minister's office that can veto title transfers and it is likely, should ExxonMobil find a willing buyer for its share of the ageing Gippsland Basin Joint Venture assets, it will run a ruler over any offer.

But once the storm clears around the oil price there is plenty of possible M&A activity, as noted by consultancy Wood Mackenzie last year, which picked ConocoPhillips' sale of its Northern Australia assets to Santos early.

In other jurisdictions laws around perpetual liability apply, but these have been dismissed by industry bodies such as the Australian Petroleum Production and Exploration Association as posing sovereign risk, given retroactive rule changes so often give oilers cases of the vapours.

A levy is also possible but is still being explored, according to source Energy News spoke with.



Cost of Northern Endeavour kept secret

THE federal government will not release the costs associated with the Northern Endeavour floating production storage and offloading vessel, currently in 'lighthouse mode', in its latest budget update.

Operations > Maintenance- shutdowns

24 July 2020

Helen Clark
Editor

Estimates for decommissioning bill for the shuttered floating production storage and offloading vessel, once operated by the liquidated Northern Oil and Gas Australia over the Laminaria Corallina fields in the Timor Sea have been as high as \$230 million, but since the government took over and the ship was put into lighthouse mode in February information has been scarce.

The Department of Industry, Science and Energy Resources said in yesterday's budget the "expenditure for this measure is not for publication due to commercial in-confidence sensitivities".

"The government will provide funding over two years from 2019-20 to ensure the safe and stable operations of the Northern Endeavour floating oil production storage and offtake facility, which is permanently moored between the Laminaria and Corallina oil fields in the Timor Sea," it said.

GR Engineering, the parent company of Upstream Production Solutions, was handed a contract in May to run until October 31 to watch over the vessel in 'lighthouse' mode worth some \$32 million, at taxpayers' expense.

An earlier statement from the company said it would announce a \$17 million impairment thanks to earlier contracts with NOGA.

NOGA took over the Northern Endeavour in 2016 from Woodside Petroleum, saving the company hundreds of millions in decommissioning costs.

When existing fields are handed over the safety case and environmental plan go with them, meaning the tiny NOGA was not vetted for its capability by the offshore safety regulator.

The titles administrator approves the transfer, under the Department of Industry. The relevant minister can cancel the deal, but usually does not.

The National Offshore Petroleum and Environmental Management Authority has since seen its powers beefed up but even now does not assess the financial ability of a company to undertake decommissioning plans it submits.

"The sale and transfer of the Northern Endeavour by Woodside and Repsol to NOGA was properly completed in accordance with Australian laws and regulations. The transaction was also approved by the regulator," a Woodside spokesperson told Energy News.

The vessel was shut down over safety concerns a year ago by NOPSEMA and without production soon ran out of money with its lender then unable to provide ongoing cash. It went into voluntary administration, overseen by KPMG, then liquidation this year.

Since then the issue of who will assume the decom costs has loomed.

Despite former resources minister Matt Canavan adamant it should not be the taxpayer there have been few other suggestions though one source Energy News spoke with today suggested a return to production, with possible foreign entrants interested, was on the table. The vessel would need significant cash to bring it up to standard, it is understood.

Department of Industry, Science, Energy and Resources deputy secretary Mike Lawson said to Senate Estimates in March his department was working with industry "and we'll see if we can get a solution or not".

"Like always, there are still opportunities for there to be commercial outcomes if there is a deal that can be arranged," then-Timor Sea Development general manager Lisa Schofield said at the same hearing when questioned by the company's unlikely champion South Australian Centre Alliance Senator Rex Patrick.

"Decommissioning costs vary greatly from project to project. It depends on the time of year and what needs to happen on site. I have seen a number of estimates in a number of different media articles about the potential liability for decommissioning both the Northern Endeavour and the Lamcor fields," she said.

There has been a push for a future levy to fund decom work, though it is unlikely anything will be applied retroactively given the government's general allergy to allegations of sovereign risk, especially from industry.

NOGA's creditors are also owed \$165 million, according to KPMG.

Resources Minister Keith Pitt's office provided a statement this afternoon which said "the government is working on a longer-term solution, including measures to ensure this situation never happens again".

"The government is working closely with industry to undertake the necessary planning for detailed possible solutions such as decommissioning, including costings, scheduling and safety and environmental management documentation."

It did not address why the costs are to kept in confidence.