



Timor Sea Designated Authority for the Joint Petroleum Development Area

Interim Administrative Guidelines for the Joint Petroleum Development Area

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Introduction

These guidelines are issued for the purpose of assisting companies by elaborating various parts of the Treaty and its Annexes, and the Interim Petroleum Mining Code. Where there is any inconsistency the Treaty and its Annexes, and the Interim Petroleum Mining Code prevail.

These guidelines are not comprehensive as there are a number of other matters in the Treaty, the Interim Petroleum Mining Code and the Production Sharing Contracts which could be elaborated for the benefit of the Designated Authority and companies.

Guideline 1

Applications under the work program bidding system for Production Sharing Contracts in the Joint Petroleum Development Area

Applications to Enter into Contracts

1. Applications lodged under Article 10 of the Interim Petroleum Mining Code will be made in duplicate and should be accompanied by:
 - (a)
 - (i) the applicant's assessment of the petroleum potential of the contract area, including a geological and geophysical review and technical assessment of the contract area, and the concepts underlying the proposed exploration work program and expenditure commitments;
 - (ii) the applicant's proposed exploration work program and expenditure commitments for the first three contract years covering data evaluation, seismic surveys and exploration wells to be drilled, on the basis that none of the items of the work program are conditional on the discovery of hydrocarbons. The first three years of the proposal should only include work and expenditure expected to involve a substantial exploration component - appraisal work should not be included;
 - (iii) the applicant's proposal (in terms of operational activity or estimated minimum expenditure) for data evaluation, seismic surveys and exploration wells to be drilled, for each of the remaining three years of the contract term. This proposal for exploration work and expenditure covering contract years four to six, may be renegotiated. It should only include work and expenditure expected to involve a substantial exploration component - appraisal work should not be included.
 - (iv) a statement of the applicant's acceptance of the terms of the Production Sharing Contract.
 - (v) the production sharing contract (PSC) with details of the applicant company(ies) (PSC preamble)the nominated contract operator (PSC subsection 1.1), the proposed work program and expenditure (PSC subsection 4.2), the proposed amount of insurance cover (PSC paragraph 5.2(j)), the proposed place and language of arbitration (PSC subsection 12.6), the contract operator's address (PSC subsection 15.2), and the proposed law to apply to the contract (PSC subsection 15.6).
 - (b) Particulars of:
 - (i) the technical knowledge and ability of the company to be appointed contract operator and of its employees;
 - (ii) the technical advice available to the contract operator;
 - (iii) the financial capability of the applicant, including evidence of the applicant's ability to fund the proposed work program and expenditure commitments and a copy of the latest annual report for each applicant company;
 - (iv) where relevant, the viability of the consortium lodging the application, including evidence that an agreement can be reached between the corporations for cooperation in petroleum activities in the contract area (a copy of a Principles of Agreement document will generally suffice), and the corporation appointed and authorised to be the Contract Operator responsible on behalf of the group of corporations for petroleum activities and all dealings with the Designated Authority under the contract;

- (v) plans to be implemented to meet the obligations specified under paragraph 5.2(i) of the contract concerning employment of Timor-Leste nationals and permanent residents; and
 - (vi) the percentage participating interest of each limited liability corporation specifically established for the sole purpose of the contract.
- (c) Such other information as the applicant wishes to be taken into account in consideration of the application including:
- (i) past performance in offshore exploration;
 - (ii) intentions as to the sourcing of goods and services in Australia and the Timor-Leste to be used in operations;
 - (iii) proposals to improve technical capabilities through research to be undertaken in Australia and Timor-Leste; and
 - (iv) proposals to transfer technology and skills to Timor-Leste nationals and permanent residents.
- (d) A fee, payable to a bank to be designated by the Designated Authority and to be in United States dollars, will be paid for each contract area for which an application is lodged (the amount is set out in Article 44 of the Interim Petroleum Mining Code).

Assessment of Applications

2. Applications will be assessed principally on the acceptance of the Production Sharing Contract, and the amount and quality of the exploration work and expenditure commitment bid, subject to applicants having sufficient financial capability and technical knowledge and ability to carry out the proposed work program and expenditure commitments. Details of the assessment criteria are provided in Administrative Guideline No. 2.

Guideline 2

Criteria for assessment of applications under the work program bidding system for production sharing contracts the Joint Petroleum Development Area

1. Pursuant to Article 11 of the Interim Petroleum Mining Code, this document sets out the criteria to be followed by the Designated Authority in assessing applications lodged for production sharing contracts.
2. Companies will be expected to have taken into account all relevant information and any special conditions, such as environment protection, applying in contract areas. All relevant information and details of special conditions will be made known to potential applicants by the Designated Authority when blocks forming contract areas are advertised.
3. Applications will be assessed on the basis of the information contained in the written applications, which may be elaborated on during any interview to discuss the application with officials of the Designated Authority.

Assessment Criteria

4. The Designated Authority's key objective will be to identify the exploration work program and expenditure commitment bid which will best and expeditiously evaluate the petroleum potential of the contract area. The successful applicant is likely to be the one who is willing to undertake the greatest exploration effort which results in the most comprehensive assessment of the exploration/geological play concepts relevant to the whole contract area. The primary criteria for assessment of applications are therefore:
 - (a) acceptance of the Production Sharing Contract;
 - (b) the number of wells to be drilled in each of the first three contract years; and
 - (c) the extent to which the first three years' work program and expenditure commitments, including the drilling program, data evaluation and geophysical surveying activities, reflects the available technical information on exploration prospects in the contract area, seeks to follow up existing leads, and seeks to identify and evaluate new exploration prospects in previously unexplored parts of the contract area. The work program and expenditure commitments will be assessed by the Designated Authority on the basis of a detailed review of the objectives of the individual items of work proposed.

The Designated Authority will not negotiate changes to the work program and expenditure bids in assessing those bids.

5. The capacity of the applicant to undertake the proposed work program and expenditure commitments will also be considered, particularly:
 - (a) the adequacy of financial capability and technical knowledge and ability available to each applicant
 - (i) the evaluation of financial capacity will be based on assessment of parent/related company annual reports and any other publicly available information on the finances of the company;
 - (ii) technical knowledge and ability will be assessed on the basis of company's performance in offshore operations or as appropriate on the company's financial capacity to acquire the necessary technological resources to work offshore; and

- (b) the future viability of any group of corporations lodging an application, including evidence that an agreement can be reached between those corporations for cooperation in petroleum activities in the contract area or can be reached and the corporation appointed and authorised to be the Contract Operator responsible on behalf of the group of corporations for petroleum activities and all dealings with the Designated Authority under the contract.
6. In the event that the assessment of applications against the above criteria does not identify one applicant as superior to other applicants for a particular contract area, some of the following additional criteria can be used (but not in any priority order) to choose between the competing applications:
- (a) consistent with the Designated Authority's wish to see a continuing and significant level of Timor-Leste involvement in petroleum exploration, preference may be given to consortia with Timor-Leste participation;
 - (b) consideration may be given to the intent of consortia members to source goods and services in Timor-Leste, and to transfer technology and skills to Timor-Leste nationals and permanent residents; and
 - (c) consideration may be given to the intent of consortia members to undertake research into exploration techniques and technology in Timor-Leste.

Where preference is given in paragraphs (a), (b) and (c) to Timor-Leste, preference should then be given to Australia followed by other countries.

7. In the event that the best applicant cannot be chosen on the basis of these criteria, consideration will be given to the amount and quality of work or the amount of expenditure proposed for contract years four to six.

Guideline 3

Guidelines for handling work program and expenditure commitment variations, and contract terminations.

1. This document summarises some of the conditions applying to a contract entered into under Article 12 of the Interim Petroleum Mining Code, the procedures to be followed in monitoring the status of contracts and guidelines for handling work program and expenditure commitment variations, and contract terminations.

The guideline deals with matters addressed in Articles 28 and 48 of the Interim Petroleum Mining Code, and Sections 4, 13 and 15 of the Production Sharing Contract.

Monitoring of Contract Commitments

2. The prime responsibility for ensuring that all contract commitments are met rests with the contract operator. The Designated Authority, will ensure that petroleum activities executed by the contract operator are consistent with the contract, the Interim Petroleum Mining Code and its Regulations and Directions.
3. At least two months prior to the beginning of each contract year (except the first contract year), the contract operator is expected to prepare and submit to the Designated Authority:
 - (a) a summary of current year exploration and development activity in the contract area;
 - (b) plans to undertake any remaining work program and expenditure commitments due in the current contract year; and
 - (c) an exploration and appraisal strategy for the following contract year which briefly describes the exploration and geologic play concepts, the extent to which leads and prospects are identified, and a brief description of the data reviews, seismic surveys and wells planned for the year.
4. This procedure is aimed at ensuring that, at an early stage, any problems or difficulties being experienced by the contract operator are brought to the attention of the Designated Authority as soon as practicable. Failure to meet contractual requirements may result in termination of the contract.
5. If more than the required amount of exploration work or expenditure is completed in any contract year, the excess will be counted toward meeting the obligations of the succeeding contract year. The Designated Authority cannot require the operator to undertake more exploration work or expenditure than the minimum amount specified for the contract year.
6. At least one month before the beginning of each calendar year, the contract operator will prepare and submit to the Designated Authority an annual work program and budget of operating costs. The annual work program and budget of operating costs will be based on the approved exploration and appraisal strategy, and will cover the work planned for the contract area for the year, including the minimum amount of data review, seismic surveying and wells specified in the contract, and any additional discretionary work.

7. The budgetary aspect of the work program and budget of operating costs will include estimates of the costs of each activity for the calendar year, that is, the estimated aggregate cost of each data evaluation, seismic survey, well, development activity and maintenance work will be stated. The budget will be useful in providing to the Designated Authority an early estimate of aggregate capital, non-capital and exploration costs for the calendar year.
8. At the exploration stage, the Designated Authority's assessment of cost estimates will be limited to the identification and query of aggregate costs outside the "normal" range for the type of work proposed, and fulfilment of exploration work and expenditure commitments. At this stage, the Designated Authority would arrange with the relevant Timor-Leste and Australian authorities, contract operator requirements for establishing onshore facilities.
9. At the development stage, information provided in the work program and budget of operating costs will include the technical aspects of the annual program for development work, maintenance and production (estimated monthly production). An organisation structure and a staffing budget will also be provided.

Work Program Conditions for Contract Years One to Three

10. A contract operator will undertake each component of the first three years' work program commitments in the designated year or earlier and, unless conditions of 'force majeure' apply, failure to do so will result in the Designated Authority recommending to the Joint Commission that the contract be terminated. The first three years' work program commitments will not be reduced once the contract has been entered into.
11. The contract operator may apply at any time, consistent with Section 15 of the Production Sharing Contract, for a variation of work program commitments under Section 4 of the Production Sharing Contract on the grounds of "force majeure".

Work Program Conditions for Contract Years Four to Ten

12. In any of contract years four to six, the contract may be terminated if the amount of exploration work or expenditure required is not completed. However, if the contract is not terminated, the work or expenditure will be completed in the following contract year.
13. Sixty days before the end of the sixth contract year, the contract operator may request the Designated Authority to extend the contract term to ten years. The Designated Authority and the contract operator will agree to an exploration work program and expenditures for years seven to ten.
14. The contract operator and Designated Authority may negotiate changes to the work program or expenditure commitment covering contract years four to ten. The changes will be made at least three months prior to the beginning of the contract year affected by the changes. Any changes to the work program or expenditure commitment should not substantially change the general objective, quantity and quality of the work program.

Other Contract Conditions

15. Any work undertaken to appraise a discovery which is made during the contract term will not be eligible for credit against the work program or expenditure commitments unless, on application by the contract operator, the Designated Authority is satisfied the work contains a major exploration component.

16. The Contractor will comply with the provisions of the Interim Petroleum Mining Code, and with the terms and conditions of the contract, including any special conditions imposed by the contract (e.g. special environmental requirements).

Contract Termination

17. Contracts will not be terminated during the first three contract years unless termination procedures are instituted under Article 48 of the Interim Petroleum Mining Code for breach of contract conditions.
18. Contracts may be terminated at any time after the third contract year by mutual agreement of the contractor and the Designated Authority. When the contractor notifies the Designated Authority that they wish to terminate the contract, the Designated Authority will consider the application in the context of these guidelines.
19. The Designated Authority will only agree to terminate the contract if the agreed work or expenditure commitments for the year have been completed. The Designated Authority's agreement to terminate the contract will be conditional on the termination taking effect in the contract year in which the agreement is made. If not, additional work program or expenditure commitments will be incurred.
20. In considering whether the contractor has complied with the conditions of the contract and the provisions of the Interim Petroleum Mining Code, the Designated Authority will take into account all relevant requirements, particularly:
 - (a) whether all fees and monies due to the Designated Authority have been paid and whether all work program or expenditure commitments have been completed;
 - (b) the reporting requirements as set out in the Regulations and Directions issued by the Designated Authority to the contract operator under the Interim Petroleum Mining Code and whether all reports and data have been lodged (e.g. reports on specified activities, quarterly reports, annual reports);
 - (c) the action taken by the contract operator to ensure that the contract area is clear of all debris resulting from operations and that all wells have been plugged or closed; and
 - (d) whether on completion of production of petroleum, the contract operator has removed all platforms, structures, pipelines, and associated structures and equipment as provided for in Articles 27 and 48(3) of the Interim Petroleum Mining Code and subsection 5(2)(e) of the Production Sharing Contract in accordance with any generally accepted international standard established in this regard by the competent international organisation.
21. Where the Designated Authority notifies a contractor of its intention to recommend to the Joint Commission that the contract be terminated because of failure to meet contract conditions, the contractor can provide the Designated Authority with reasons why the contract should not be terminated. These will be provided within 30 days of receipt of notice of the intention to terminate, and the Designated Authority will give full consideration to these reasons.
22. If the contract is terminated, the contractor remains liable for its obligations for the period prior to the termination. In particular, the contractor will take all necessary action to clean-up the contract area and remove all property brought into that area, as well as paying any outstanding debts to the Designated Authority.

Guideline 4

Prospecting approvals and access approvals in the Joint Petroleum Development Area

1. This document sets out the circumstances in which prospecting approvals and access approvals may be issued by the Designated Authority under Articles 32 and 33 of the Interim Petroleum Mining Code. Issue of these approvals will not require publication in the Australian or Timor-Leste Government Gazettes.

Prospecting Approvals

2. A prospecting approval may be issued by the Designated Authority to corporations wishing to undertake approved petroleum exploration activities (excluding the drilling of petroleum exploration wells) in blocks not in contract areas, prior to the advertisement of those blocks for production sharing contracts. The maximum term of a prospecting approval will normally be six months.
3. The conditions applicable to a prospecting approval will include:
 - (a) the area over which petroleum exploration activities will be conducted;
 - (b) the period for which the prospecting approval will be in force;
 - (c) compliance with the Interim Petroleum Mining Code and any Regulations and Directions issued by the Designated Authority, or as otherwise approved by the Joint Commission;
 - (d) reporting requirements; and
 - (e) public release at any time by the Designated Authority of the data collected from the exploration activities.
4. The Designated Authority may issue a number of prospecting approvals over the same blocks. Where this is the case, the Designated Authority will notify each holder of a prospecting approval of the activities to be undertaken by, and conditions applicable to, the holders of every other prospecting approval.
5. Applications for a prospecting approval will normally include information similar to that outlined in Attachment A.

Access Approvals

6. An access approval may be issued by the Designated Authority to a holder of a prospecting approval, a person under-taking marine scientific research or a contract operator to enter a contract area, not being its contract area, to undertake petroleum exploration activities (not including the drilling of exploration wells). The Designated Authority will consult with the contract operator of the contract area into which access is sought before giving the access approval.
7. Applications for access approvals will include:
 - (a) particulars of activities to be undertaken;
 - (b) the location of the exploration activity;
 - (c) reasons access is required; and
 - (d) the expected time period over which access is required.

8. Conditions applicable to all access approvals issued will include:
 - (a) compliance with the Interim Petroleum Mining Code and any Regulations and Directions issued by the Designated Authority;
 - (b) reporting requirements;
 - (c) the date that data from the exploration activity will become publicly available;
 - (d) supplying data to the affected contract operator, if feasible; and
 - (e) any other conditions.
9. Access approvals may also be issued to a contract operator to lay and fix petroleum production facilities on the seabed in a contract area not being its contract area, provided that such activities do not interfere with petroleum activities.

Attachment A
Details to accompany applications for a prospecting approval to undertake a Marine Geophysical Survey

The application will be submitted in duplicate and accompanied by the following details of the geophysical survey:

1. Name of Survey
2. Name and Address of Sub-Contractor
-
-
3. Name of Survey Vessel
4. Port from which Vessel Will Operate
5. Geophysical Technique Proposed
6. Energy Source Proposed
7. Proposed Commencement Date
8. Estimated Duration
9. Navigational System
10. Estimated Length of Survey (Time, Kms)
11. Estimated Cost of Survey (\$US)
12. Object of Survey (attach statement if insufficient space)
13. All enquiries concerning the application should be directed to of
 (Tel)

ATTACHMENTS REQUIRED:

1. Two copies of a map showing the proposed lines and blocks.
2. Technical details of the vessel (if not previously supplied).
3. A statement of any other matters that the applicant wishes the Designated Authority to consider.

Guideline 5

Guideline for the preparation of Environmental Impact Assessments of petroleum activities

1. The Designated Authority is responsible for approving all petroleum activities in the Joint Petroleum Development Area, including those which could have a significant effect on the environment, but will consult with the relevant environment authorities in each Contracting State on proposals to construct and install petroleum production structures. The types of petroleum activities likely to be undertaken in the JPDA are seismic surveys, drilling operations, construction and installation of petroleum production structures, and production of petroleum.
2. The Designated Authority does not require environmental assessments for seismic operations, but does require assessments for all other operations pursuant to clauses 305 and 501 of the Regulations issued under Article 37(l) of the Interim Petroleum Mining Code.
3. Environmental assessments are required by the Designated Authority when a contract operator applies for approval to drill, and to construct and install petroleum production structures. The contract operator will provide the Designated Authority with information describing the environmental impact of the petroleum activities. For petroleum production projects, the Designated Authority requires contract operators to submit an environmental management plan pursuant to Section 5.2 paragraph (d) of the Production Sharing Contract, including an environmental monitoring program.
4. This guideline sets out the procedures to be followed by contract operators when providing environmental impact information to the Designated Authority pursuant to clauses 305 and 501 of the Regulations and Section 5.2 paragraph (d) of the Production Sharing Contract.

Drilling

5. In accordance with clause 501, Part V, of the Regulations issued under Article 37 of the Interim Petroleum Mining Code, an application to drill a well will include a statement which assesses any impact the drilling of the well will have on the environment.
6. This statement will:
 - (a) describe the environment in the vicinity of the well site;
 - (b) assess the potential impact of the drilling on the environment;
 - (c) describe and assess the effectiveness of any safeguards or standards intended to be adopted for the protection of the environment, including the emergency response manual required under clause 202, Part II, of the Regulations and the identification of blow out prevention equipment and procedures consistent with Part V of the Regulations; and
 - (d) where the proposal relates to production drilling, describe any proposed changes to the environmental management plan, including the monitoring program (see below).

Construction and Installation of Petroleum Production Structures

7. In accordance with clause 305, Part III, of the Regulations issued under Article 37 of the Interim Petroleum Mining Code, a preliminary environmental report will be included with an application for approval to construct and install petroleum production structures. The following information will be supplied in this report:

- (a) a description of the environment in the vicinity of the proposed structure, including baseline data;
 - (b) a statement of the potential impact of the structure on the environment, including information on the primary, secondary, short term, long term, adverse and beneficial effects of the proposed structure;
 - (c) a description of safeguards or standards which will be adopted to protect the environment, including the emergency response manual requirements outlined in clause 202, Part II of the Regulations; and
 - (d) the proposed environmental management plan, including the environmental monitoring program.
8. A more detailed description of the requirements for items 7(a) and 7(b) is at Attachment A.
9. The preliminary environmental report will be assessed by the Designated Authority, or by independent experts engaged by the Designated Authority. The Designated Authority will also refer the report to relevant Timor-Leste and Australian authorities for comment. In determining if further environmental information, and hence an environmental impact statement (EIS) is required, the Designated Authority will take into account to what extent the petroleum development will result in:
 - (a) a substantial impact on the eco-systems of an area including a significant diminution of the scientific value or other environmental qualities of an area;
 - (b) the endangering, or further endangering, of any species of fauna or flora;
 - (c) important long term effects on the environment;
 - (d) the degradation of the quality of the environment;
 - (e) the pollution of the environment; and
 - (f) environmental problems associated with the disposal of waste.
10. If, according to the above criteria, the Designated Authority determines an EIS is not required, it still may direct that changes be made to the development proposal and the environmental management plan including the monitoring program. Reasons for the Designated Authority's decision not to require an EIS will be made available to the relevant Timor-Leste and Australian authorities
11. However, if the Designated Authority decides an EIS is necessary, the contract operator will submit a draft EIS which will be referred by the Designated Authority to relevant Timor-Leste and Australian authorities for comment. Each authority will assess the draft EIS according to its own procedures.
12. An EIS will:
 - (a) state the objectives of the petroleum development;
 - (b) contain a description of the petroleum development;
 - (c) include information and technical data adequate to permit a careful assessment of the impact on the environment of the petroleum development;
 - (d) examine any feasible and prudent alternative to the development plans;
 - (e) describe the environment in the vicinity of the proposed structures, including baseline data;

- (f) assess the potential impact on the environment of the petroleum development, including the primary, secondary, short-term, long-term, adverse and beneficial effects on the environment of the petroleum development;
 - (g) describe, and assess the effectiveness of, any safeguards or standards for the protection of the environment intended to be adopted or applied in respect of the petroleum development. The means of implementing and monitoring arrangements to be adopted in respect to safeguards or standards will be described;
 - (h) cite any sources of information relied upon during the preparation of the EIS; and
 - (i) include any other relevant information.
13. Procedures for comment on the draft EIS are at Attachment B. The Designated Authority may require the Contract Operator to alter the EIS. The Designated Authority will give approval for the petroleum development to go ahead in accordance with the final EIS. Approval may include special conditions relating to the development.

Environmental Management Plan

14. The environmental management plan will set out the procedures and equipment proposed to be used by the contract operator to reduce or prevent the possible harmful effects which could be caused during various stages of the project, including construction, installation, and commissioning of structures, and production.
15. The plan will include information on:
- (a) the types of environmental emergencies for which contingency plans will be in place;
 - (b) pursuant to clause 202 of the Regulations, details of the contingency plans including the general emergency response organization, chain of command and key areas of responsibility;
 - (c) the capabilities and limitations of countermeasure equipment and techniques;
 - (d) the plans for the disposal of recovered pollutants, waste, and debris;
 - (e) the contract operator's program for gathering data about the physical environment during the life of the project (environmental monitoring program); and
 - (f) procedures to be undertaken if physical environment monitoring suggests a significant degradation of the environment.

Environmental Monitoring Program

16. As indicated in paragraph 15(e), the contract operator will provide the Designated Authority with an environmental monitoring program which will include:
- (a) information needed to provide a suitable baseline for subsequent monitoring;
 - (b) the types of project effects that are likely to need monitoring;
 - (c) the ecosystem parameters to be monitored;
 - (d) policies for evaluating and amending the monitoring program; and
 - (e) the predicted effects on the environment after mitigative measures have been followed. This will include a prediction of the expected effects from a clean-up operation after an oil spill.
17. The Designated Authority may direct that changes be made to the environmental management plan, including the monitoring program before approving an application to construct and install petroleum production structures.

Attachment A
Information to be included in the Preliminary Environmental Report

1. Description of the environment required in paragraph 7(a) of the guideline will include baseline data (i.e. data collected on the following factors prior to construction and installation of structures) on:
 - (a) location;
 - (b) geology;
 - (c) climate, including rainfall, cyclone probability, ambient air temperature, relative humidity and winds;
 - (d) oceanography, including sea water temperature, wave data, water depth and information on currents; and
 - (e) marine life of the area affected by the petroleum development.
2. Discussion of the potential environmental impact as required in paragraph 7(b) of the guideline will include:
 - (a) the effects of the structures on the marine life of the area, with information on events which may cause major ecological disruptions, including oil spill trajectory studies;
 - (b) any cumulative effect of the petroleum development;
 - (c) requirements for further monitoring, research or data collection;
 - (d) the effects related to oil discharges from all sources on marine life;
 - (e) the quantities and composition of liquid wastes and their disposal;
 - (f) the quantities and composition of atmospheric emissions; and
 - (g) sea bed disturbances and solid wastes discharges.

Attachment B
Procedures for comment on draft Environmental Impact Statements

1. The contract operator will provide the Designated Authority with three copies of the draft Environmental Impact Statement (EIS), including commercial-in-confidence information.
2. The Designated Authority will request comment on the draft EIS from the relevant Timor-Leste and Australian environmental authorities. These authorities may seek comment from interested parties. The Australian environmental authorities may request the Designated Authority to require the Contract Operator to meet the cost of advertising the draft EIS for public comment in Australia. The Designated Authority will allow at least 60 days for comment.
3. The Designated Authority may direct the contract operator to revise the draft EIS where necessary.
4. The contract operator will then provide three copies of the final EIS to the Designated Authority. The Designated Authority may, at any time, review and assess any of the environmental aspects of the petroleum development.

Guideline 6

Guideline for the graticulation of the JPDA, the identification and application of blocks

1. Pursuant to Article 2 of the Interim Petroleum Mining Code, the Designated Authority shall be responsible for the division of the JPDA into 5 x 5 minutes **Graticular Sections**, and their further subdivision ultimately into smaller Blocks.
2. This guideline distinguishes the term “Block”, being the result of the ultimate subdivision of each Graticular Section provided under paragraph 2 of Article 2 of the Interim Petroleum Mining Code, from the term “**Graticular Section**” of 5 x 5 minutes.
3. This guideline sets out the procedure to be followed for processing the graticulation of the JPDA into Blocks and their identification system, and the follow-up required from each Contract Operator in processing the proper definition and identification of such Blocks in their respective Contract Areas.
4. Having distinguished the term Block from Graticular Section, another purpose of this guideline is to point out the application of such Blocks under certain provisions of the Interim Petroleum Mining Code and the Production Sharing Contract.

Graticular Sections

5. The surface of JPDA is divided by the Designated Authority into **Graticular Sections** defined by meridians of five (5) minutes longitude (reference the meridian of Greenwich) and by parallels five (5) minutes latitude (reference the equator).
6. Contract Areas of the Joint Petroleum Development Area are identified by the prefix letters “JPDA”, and are further identified by:
 - (a) the year of release, e.g. 03, 04 , 05, etc.;
 - (b) the allocated Contract Area number, e.g. 01, 02, 03, etc.

The Contract Areas are each composed of whole Graticular Sections and parts of Graticular Sections, which are squares or truncated squares. These Graticular Sections are assigned a sequential numbering system.

Subdivision Of Graticular Sections

7. Each Graticular Section of 5 x 5 minutes shall ultimately be subdivided by meridians of 1 (one) minute longitude and by parallels of 1 (one) minute latitude, thereby forming a Block.
8. Each Block as defined under paragraph 7 above, shall be allocated a discreet identifying number as per following examples.

Examples:

- (a) Graticular Section 351 (square)

	A	B	C	D	E
1					
2					
3					
4					
5					

The shaded Block in column C on line 3 is identified as “Block 351-C3”.

Heavy 5 x 5 minutes lines

Light 1 x 1 minute lines

- (b) Graticular Section 132 (truncated square)

	A	B	C	D	E
1					
2					
3					
4					
5					

The shaded Block in column D on line 1 is identified as “Block 132-D1”

9. Contract Areas within JPDA shall be described in terms of the component Blocks. Each Contract Operator shall therefore prepare for their respective Contract Areas:
- the subdivision of Graticular Sections in the Contract Area into Blocks;
 - determine the accurate coordinates of the points where the side-lines of such Blocks cross; and
 - assign the proper identifying number to each such Block;
- consistent with the guidelines described above.

This graticulation shall be submitted to the Designated Authority for approval.

Application of Blocks

10. For the operation of the following provisions of:
- the Interim Petroleum Mining Code
 - Article 16 Declaration of Discovery Area;
 - Article 22 Block Relinquishment;
 - Article 23 Surrender of Blocks; and
 - the Production Sharing Contract
 - Section 2 Term of this Contract;
 - Section 3 Relinquishment of Blocks;

the term Block referred in such provisions, are the component Blocks as meant under paragraph 9 of this Guideline.

Guideline 7

Administrative guideline on tendering and reporting on drilling operations in the Joint Petroleum Development Area

A. Tendering for Petroleum Activities:

1. The Contract Operator shall draw invitations to tender for subcontracts to the attention of Timor-Leste subcontractors (Subsections 10.1, 5.2.(h), and 5.2.(i) of the PSC for guidance in inviting Tenders).
2. The Designated Authority requires the Contract Operator to take appropriate measures that in subcontracting operations for JPDA preference is given to employment of Timor-Leste nationals and permanent residents, having due regard to safe and efficient operations and good oilfield practice (Subsection 5.2.(i) of the PSC and Article 11 of the Treaty).
3. The Designated Authority shall be notified by the Contract Operator, as follows:
 - (a) Notification of Intention to Tender for Subcontract, one (1) week prior to tender invitation;
 - (b) A tender period of at least 30 days should apply for subcontracts estimated up to US\$ 2 million and 60 days should be allowed for subcontracts likely to exceed US\$ 2 million;
 - (c) Notification of Subcontract Award, as soon as practicable after evaluation of the tender,
 - (d) The full financial details of the sub-contract, irrespective of the amount of the expenditure involved (Subsection 10.5 of the PSC), to be attached to the Notification of Subcontract Award.
4. Tenders shall be subject to the approval of the Designated Authority, Subsection 10.2 of the PSC, except as provided for in Subsection 10.4 of the PSC.

B. Drilling:

1. Prior to drilling commencing, the Contract Operator will provide the Designated Authority with an environmental assessment in accordance with Administrative Guideline No 5 (Guideline for the preparation of Environmental Impact Assessment of Petroleum activities and Clause 501 of the Regulations)
2. The Contract Operator is required to obtain approval for drilling a well in the JPDA. The attached **Application for Approval to Drill a Well in the JPDA** is to be submitted in duplicate to the Designated Authority at least one month before the commencement of drilling of each well (Clause 501 of the Regulations).
3. The Contract Operator is required to obtain approval for materials and equipment to be used in the drilling operations which do not satisfy Clause 502 of the Regulations.
4. The Contract Operator is required to obtain approval for Drill Vessels, Workboats (Anchor handling and Supply Vessels), and Aircraft both fixed and rotary wing, to enter the JPDA (paragraph g Annex C of the Treaty) and all personnel (including employees of Contract Operator) who are employed in petroleum activities in the JPDA (Clause 208 of the Regulations).

C. During Drilling Operations:

1. Designated Authority approval is required for:
 - (a) Moving of a Mobile Offshore Drilling Unit (MODU) within JPDA (Clause 302 of the Regulations);
 - (b) Production or Drill Stem Testing of a well, not being a producing well (Clause 513 of the Regulations);
 - (c) Abandoning or suspending of a well (Clause 514 of the Regulations); and
 - (d) Completion of a well (Clause 608 of the Regulations).
2. The Designated Authority must be notified by the Contract Operator for the following:
 - (a) Any significant variations to the prescribed setting depth of casing (Clause 504 of the Regulations);
 - (b) Any reason to suspect a faulty cementing operation (Clause 505 of the Regulations);
 - (c) Removing blow out prevention equipment for repairs (Clause 506 of the Regulations);
 - (d) Results of analyses of cuttings and cores as soon as practicable after the completion of the analyses (Clause 456 of the Regulations);
 - (e) Logging and the results of logging analyses of the objective formations as soon as practicable after the completion of the analyses;
 - (f) Production or Drill Stem Testing with not less than 24 hours notice of the date and time of that test (Clause 513 of the Regulations); and
 - (g) When an emergency occurs, a report to be made within 48 hours of the occurrence (Clause 286 of the Regulations).

D. Reports:

1. The following reports are required:
 - (a) Daily reports for the previous 24 hours, with a copy sent to the Designated Authority's Head Office in Darwin (Clause 551 of the Regulations);
 - (b) Weekly reports (two copies) including a summary of daily reports, daily driller's logs and weekly rig inspection report (Clause 552 of the Regulations);
 - (c) Record of personnel entering and leaving JPDA (Clause 208 of the Regulations);
 - (d) Notifications to the appropriate authorities (Custom Service) of proposed movements of vessels or aircraft (Clause 216 of the Regulations);
 - (e) Report on Modification, Abandonment or Suspension of a well (Clause 553 of the Regulations); and
 - (f) Final Reports on Wells (three copies) shall be made available as soon as practicable but within 6 months after such completion (Clause 454 of the Regulations).
2. Unless otherwise advised, all reports and correspondence relating to drilling activities should be addressed to the Managing Director- Technical.

E. Inspection by the Designated Authority:

1. The following will be subject to inspection by the Designated Authority:

- (a) MODU's will be inspected before its first entry into the JPDA unless it has been inspected in either Australia or Timor-Leste within the preceding nine (9) months (Clause 503 of the Regulations); and
- (b) Supporting Vessels and Aircraft both fixed and rotary wing will be inspected by an Inspector designated by the Managing Director before their entry into the JPDA (paragraph g Annex C of the Treaty).

Attachments:

1. Notification of Intention to Tender for Subcontract.
2. Notification of Subcontract Award.
3. Application For Approval to drill a well in the JPDA.

Attachment 1
Notification of Intention to Tender for Subcontract

(To be submitted on Contract Operator Corporate letterhead)

To be submitted prior to tendering for services. The Contract Operator shall notify their intention to tender for petroleum activities by providing the following information and supporting documents.

To : Managing Director - Technical

From :

Contract Area : JPDA

- A. Contract Operator Contact:** **Phone No** :
Facsimile :
- B. Brief Scope of Work to be tendered:**
- C. Estimate of Contract Value:** US\$
- D. Estimated Contract Duration:**
- E. Proposed Date of Invitation to Tender:**
- F. Total Number of Tenderers Invited:** **Timor-Leste** : ()
Others : ()

(A list of Invited Tenderers is required to be attached, giving company name, full address and contact name)

(Refer to Subsections 5.2.(h) and 5.2.(i) of the PSC and Article 11 of the Treaty as guidance for selecting Invited Tenderers)

G. Proposed Date for Contract Award:

H. Specific Details of Tender Process:

The following, which outlines the tender evaluation process, is required by the Designated Authority.

- * Justification to go to tender,
- * Selection criteria for invitations to tender,
- * Selection criteria for tenderers,
- * Tender receipt procedure covering confidentiality and communication with tenderers,
- * Criteria for evaluation and award.
- * Other relevant information.

**Attachment 2
Notification of Subcontract Award**

(To be submitted on Contract Operator Corporate letterhead)

To : Managing Director-Technical

From:

Contract Area : JPDA

A. Contract Value: US\$

B. Contract Duration:

C. Date of Subcontract Award:

D. Total Number of Tenders Received: Timor-Leste: ()

Others: ()

E. Summary of Tenders Received:

Give details of all tenders and methods used to evaluate along with the justification for award to a particular tender. List all tenders in order of evaluation result and preference.

(Refer to Subsections 5.2.(h) and 5.2.(i) of the PSC and Article 11 of the Treaty as guidance for selecting preferred Subcontractor)

F. Subcontractor details:

Provide details of the selected Subcontractor name, organisation (Indicate the employment of Timor-Leste nationals and permanent residents in the organisation), past performance and place of subcontractor/company registration.

G. Notifications and Approvals:

(Refer to Subsections 10.2 and 10.4 of the PSC for details where approval is to be sought and given)

Is Designated Authority Approval Required Prior to Award: YES / NO

Approval requested by: (Applicant)

..... (Title)

Approval is hereby granted by:

..... (Title)

Attachment 3
Application for Approval to Drill a Well in the JPDA

(To be submitted on Contract Operator Corporate letterhead)

This application is required to be submitted to the Managing Director -Technical not later than one month prior to the commencement of drilling of each well.

- 1. Contract Operator:**
Name:
Address:
- 2. Contract Area: JPDA**
- 3. Prime Contact:**
Name:
Phone & Facsimile (B/H):
Phone & Facsimile (A/H):
- 4. Drilling Subcontractor:**
Name:
Address:
- 5. Name and Address of all other Subcontractors involved:**
(to be listed on Attachment A)
- 6. Name and Type of MODU:**
- 7. Well Name, Number and Well Code:**
- 8. Drilling Objectives:**

Primary:

Secondary:
- 9. Well Location:**

SP: **Seismic Line No.:**
Lat: **Long:**

Location in accordance with TSDA's grid system:
- 10. Water Depth (m):**
- 11. Proposed Total Depth (m):**
- 12. Estimated Spud Date:**
- 13. Estimated Drilling Time (days):**
- 14. Estimated Total Cost in US.\$:**

(to be itemized on Attachment B)

15. Name or Registration Number of attendant craft including Aircraft which will provide services:

(list on Attachment C)

16. Other Information to be attached:

- * Map showing well location (A4 -size)
- * Details of MODU and Blow-out Prevention Equipment
(Including diagram, description, and method of operation)
- * Geological Prognosis *(including Predicted Section and Targets)*
- * Drilling Prognosis *(including Time vs. Depth Prediction Graph)*
- * Drilling Procedural Manual
- * Pollution Control Measures and Oil Spill Contingency
- * Statement on any significant impact on Environmental Policies
- * Drilling Safety Manual and Emergency Response Manual
- * Safety and Accident Record of the drilling subcontractor for the past 3 year period
- * Current valid certifications for MODU, vessels, aircraft and any other equipment used in the operation:
 - MODU: Summary Report of Class Surveys, Certificate of Inspection, International Load Line Certificate, Crane Certificate, and the latest Inspection Report & Safety Audit.
 - Vessel: Certificate of Classification/Seaworthiness, Safety Equipment Certificate, Safety Radio Certificate, Safety Construction Certificate, International Load Line Certificate, International Tonnage Certificate, Hull & Machinery Certificate, and International Oil Pollution Prevention Certificate, and the latest Inspection Report & Safety Audit.
 - Aircraft: Airworthiness Certificate, Air Operator's Certificate, and the latest Inspection Report & Safety Audit.
- * Details of all personnel required to enter the JPDA including Name, Position, Nationality and copies of their Passports. For non-Australian and non-Timor-Leste nationals or permanent residents copies of visas are to be included.
- * Details of insurance as required of under PART VII of the Directions.
- * Copy of Subcontractors' acceptance to work in accordance with the PSC.
- * Attach copies of Drilling and Geological and any other Report Forms (daily, weekly, etc) to be used.

Guideline 8

Administrative guideline for the payment of the proceeds to the Designated Authority of its share of First Tranche Petroleum (FTP)

Applicable Treaty documents provisions and underlying Regulations and Directions:

1. Consistent with the Designated Authority's powers and functions under the Treaty, the management functions shall include:collecting and, with approval of the Joint Commission, distributing between the two Contracting States the proceeds of the Designated Authority's share of petroleum production from contracts.
2. The Production Sharing Contract provides at sub-section 7.9 that:

“in the initial five (5) calendar years of production from the contract area, the Parties shall be entitled to take and receive a quantity of petroleum equal to ten (10) per cent of the petroleum production in those years, called “first tranche petroleum” before any recovery of investment credits and operating costs. In each subsequent calendar year, the first tranche petroleum shall be equal to twenty (20) per cent of the petroleum produced in those years. The quantity of first tranche petroleum from crude oil production for each calendar year shall be shared between the Designated Authority and the contractor in accordance with the sharing percentages as provided under subsection 3 of this Section,”
3. Subsection 7.3 of the PSC provides the following sharing of production, applicable to FTP, as provided in sub-section 7.9:
 - “(a) the Designated Authority fifty (50) per cent and the contractor fifty (50) per cent for the tranche of 0 to 50,000 barrels daily average of all crude oil production from the contract area for the calendar year;
 - (b) the Designated Authority sixty (60) per cent and the contractor forty (40) per cent for the tranche of 50,001 to 150,000 barrels daily average of all crude oil production from the contract area for the calendar year; or
 - (c) the Designated Authority seventy (70) per cent and the contractor thirty (30) per cent for the tranche of more than 150,000 barrels daily average of all crude oil production from the contract area for the calendar year.”
4. Article 4.3 of the Interim Petroleum Mining Code provides inter alia;

“Except as provided in paragraph 5 of this Article, the Designated Authority shall authorise the marketing of its share of petroleum production by the contractor who shall market all the petroleum in the contract area..”

Article 4.5 of the Interim Petroleum Mining Code provides inter alia;

“The Designated Authority, with the approval of the Joint Commission, may market any or all petroleum production.” The paragraph continues to set out the basis for the valuation of petroleum, and other marketing arrangements for sales of petroleum production by the Designated Authority. These arrangements are outside the scope of this Administrative Guideline.

5. Sub-section 7.1 of the PSC provides:

“The contractor is authorised by the Designated Authority and obliged to market all petroleum produced and saved from the contract area subject to the following provisions.”

The provisions of Section 7 of the PSC provide the production sharing arrangements, including those set out in 2 and 3 above. The contractor refers collectively to the party, or parties, contracted under the PSC to the Designated Authority. (Note, however, that sub-section 7.11 of the Production Sharing Contract reserves the right for the Designated Authority to market any or all of the petroleum, when the Designated Authority secures a net realized price f.o.b. the contract area, greater than the price which can be realized by the contractor.

6. The individual contracting parties to a PSC, under PSC sub-section 5.3 (d), may exercise their right to market their respective, shares of petroleum production, consistent with Section 8 of the PSC. Section 8 of the PSC provides for a net realized price f.o.b. the contract area, or the determination of a fair and reasonable f.o.b. price/value.
7. The Contract Operator is required to by the 10th day of each month to meet the reporting requirements on shipments of petroleum as set out in Clause 656 of Designated Authority Regulations.

Administrative Guideline Provisions

1. Where the individual contracting parties to a PSC exercise their right to market their respective shares of petroleum production, the cargo contract, pricing and notification procedures as between these individual contracting parties (lifting parties) and the Designated Authority must be agreed between the lifting parties and the Designated Authority. Subject to such agreement, the Designated Authority will be a party to each contract for the sale of petroleum to the extent of its share of FTP production during that period when the investment credits and operating costs, recoverable by the individual contracting parties, exceed the value of the quantity of petroleum produced from the contract area, excluding FTP.
2. The negotiated terms and contractual conditions for the sale of a cargo, or cargoes, of petroleum production will be set out in an initial Cargo Transaction Report. The initial Cargo Transaction Report, together with the contract for the sale of the petroleum, will be provided to the Designated Authority as soon as the contract conditions are settled.
3. The Designated Authority's revenue from its share of FTP will be the applicable proceeds, net of its share of agreed expenses, as set out in a preliminary Cargo Transaction Report. This revenue will be lodged into the Designated Authority's interest bearing account (denominated in US\$) with the Chase Manhattan Bank, New York, on the same day as the gross proceeds are received by the lifting party.
4. The Designated Authority will receive a final Cargo Transaction Report from the lifting party. The Designated Authority will have five (5) working days within which to approve, or otherwise call for explanation of expenditures claimed against petroleum revenues. This report will form the basis of:
 - (a) an additional payment to be lodged into the Designated Authority's account with Chase Manhattan on receipt of the Designated Authority's acceptance of the final Cargo Transaction Report; or
 - (b) if the initial payment, based on the preliminary Cargo Transaction Report, exceeds the amount payable to the Designated Authority on the basis of the final Cargo Transaction

Report, the Designated Authority will repay the overpayment within five (5) working days of the receipt of final Cargo Transaction Report.

If the Designated Authority calls for an explanation and has received a reply, it may accept the explanation, or seek further review. Where the lifting party has paid additional costs to a third party, the Designated Authority will pay its share of outstanding costs to the lifting party, subject to reserving a right of recompense. Similarly the Designated Authority may reserve a right of recompense against a cost included on the preliminary Cargo Transaction Report which is carried forward to the final Cargo Transaction Report. The Designated Authority reserves the right to audit the receipt of sales revenues and the disbursement of costs made against those revenues as provided under subsection 14.2 of the PSC.

5. The Designated Authority will maintain a minimum balance of US\$10,000 in its Chase Manhattan account. This minimum balance will be available to cover repayments as provided in 4 (b) above. The balance in the Designated Authority's Chase Manhattan Bank account in excess of US\$10,000 on the 15th day of each month, or next banking day, will be transferred in equal shares to bank accounts nominated by the Contracting States. Transfer costs will be for the account of the Contracting States.