In October 2016, BP plans to commence exploration drilling in the Great Australian Bight (GAB) – an area of exceptional marine significance on the coastline of South and Western Australia. The GAB is in a remote region of Australia that the company has described as "pretty much the last big unexplored basin in the whole world."1

BP’s plans are increasingly attracting scrutiny and concern about a Macondo like disaster occurring.2 In March 2016, the Australian Senate announced a public inquiry into the project, due to be completed in May. This has led the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) to delay issuing approval of BP’s revised Environmental Plan.3 BP’s initial Environmental Plan was rejected by NOPSEMA. Neither the full Environmental Plan, nor reasons for its rejection, have been publicly disclosed. The lack of corporate and regulatory transparency leaves investors unable to assess BP’s oversight of the project and ability to effectively respond to a high impact event such as an oil spill.

Energy analyst data indicates that the GAB is a high break-even price province, raising questions about the project’s long-term financial viability given the likely high associated infrastructure costs.

Following agreement at COP21 to limit global temperature rises to ‘well below 2°C, with an ambition for 1.5’,4 and escalating government actions towards this goal;5 investors may also wish to examine the viability of this project under various demand scenarios, including those implicated by increasingly stringent regulation on emissions and exponential growth in various low-carbon technologies.

This briefing outlines the operational, economic, and reputational risks facing BP in their plans to drill in the GAB. We suggest questions investors should ask BP to understand if the company has adequately assessed the various risks it faces.

Major risks for investors

- Lack of disclosure of key documents such as BP’s Environment Plan
- Oil spill risk
- Questions about long-term economic viability
- Growing pressure from civil society and local community groups
- Increasing political and media scrutiny
- Climate regulation risk and inconsistency with transition to a low carbon economy
The Great Australian Bight

The GAB is an area of exceptional marine significance on the coastline of South and Western Australia, hosting a wide-range of threatened and endangered species. Scientists believe that 85% of the species in the shallows of the GAB can be found nowhere else in the world. In 2013, 900,000 hectares of the Nullarbor Plain region adjacent to the GAB were established as a ‘highly protected Wilderness Area’, and in 2012 the GAB was included within a series of comprehensive new Commonwealth and State marine reserves, establishing Australia’s first representative marine park network outside the Great Barrier Reef. The region’s unique biodiversity means that the impact of a major oil spill would likely be particularly harmful.

The GAB’s rich ecology supports tourism and fishing, with wild fisheries and aquaculture industries worth around $440 million per annum and tourism worth around $1.2 billion per annum. It is estimated that 70% of the Australian population could be affected by an oil spill in this area, due to the number of people living within 50km of the Great Southern Reef that runs along Australia’s southern coastline. A large spill could affect the entire ecological system that runs along the southern coast of the continent and around Tasmania — a region that supports fishing and tourism activities generating over $10 billion per annum.

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BP’s plans

BP has four permits to drill four exploration wells in the GAB. The project is a joint venture with Statoil, who own a 30% stake, with BP acting as the operator. In May 2015 Bloomberg reported that BP wanted to cut its stake in the GAB project to between 40 and 50%. Dr Bryan Ritchie, Vice President of Asia Pacific Exploration at BP, was reported as saying that this intention to find additional partners was driven by a desire to save money and make their operations more efficient.

The drilling area is located approximately 395km west of Port Lincoln and 340km southwest of Ceduna in South Australia, putting it right on the edge of the range of helicopters. The drilling area has water depths ranging from 1,000 to 2,500m and will be the first deepwater well in the GAB. BP has said the first well will be 3000m into the seabed. Currently there is no established existing oil exploration or extraction industry in the region.

BP has declined to disclose the precise locations of the drilling sites within the four blocks. Conservation groups have expressed concern that a lack of detailed information prevents complete analysis of the potential ecological impact of a spill. For example parts of the Exploration Permit for Petroleum (EPP) area overlay the GAB Marine Reserve (GABMR) with unique and diverse flora and fauna.

In accordance with the original terms of its permits, BP was required to complete the drilling of all four wells by the middle of 2017. In public statements last year, BP indicated that it would be unable to meet this timeline. BP has recently been granted an extension of its permits which are now due to expire in 2020. However, BP’s precise drilling timetable is still uncertain.

The summary Environmental Plan refers to a “pause” between the drilling of the second and third wells. It is unclear whether BP intends to wait until the following summer to drill the remaining two wells or drill them during the winter after a short ‘pause’. The lack of clarity around drilling timelines is concerning: analysts Wood Mackenzie have stated that the GAB is exposed to harsh weather conditions and rough seas which “restricts the drilling window to a short season between November and May each year”. Furthermore, confirmation of the timeline of the
drilling season is required in order to assess effects on migratory species. The impacts of routine exploration activity – particularly noise pollution from drilling and seismic activities, disposal of drill cuttings, and increased risk of vessel strike – can harm and disrupt cetaceans and other marine life, in addition to the much more dramatic ecological damage likely in the case of a spill.24 For example Southern Right Whales that usually migrate to the area between May and November may be negatively impacted by drilling activity.25

Questions for BP

• Will BP disclose the precise locations of the wells to allow for assessment of the impacts of drilling activity on marine life and the effect of a possible oil spill, including whether any of the wells are located within the GAB Marine Reserve (GABMR)?
• What is the timeline for drilling the four wells? Will any drilling take place outside November to May in any year? If so, how will any potential negative impacts on marine life be mitigated?

Financial viability and climate risk

Energy analyst data raises questions as to the financial viability of BP’s GAB endeavour, with Rystad estimating break-even prices for BP’s four blocks of US$85, $107, $112 and $112 respectively. These are defined as the constant (flat) oil prices at which a project will deliver a 10% internal rate of return.

While BP may have proprietary geological data suggesting the GAB is primarily an oil prospect, Rystad’s assessment of the province is that it is primarily a gas and condensate prospect rather than oil. Rystad also predicts peak production of less than 45 kboed (thousand barrels of oil equivalent a day). This together with the likely high associated infrastructure costs further raise questions about the economic viability of the GAB.

Rystad estimates first production occurring in 2029 presumably because of the existing lack of required infrastructure. Even with an oil find, BP would be dependent on oil prices into the 2030s that may be impacted by both unprecedented advances in transportation technology and government policies to address global climate change.

BP appears to have committed around US$1 billion to the project to date, including US$755 million on a floating rig in South Korea, specifically for drilling in the Southern Ocean.26 While BP’s exploration costs are offset by a 150% tax break from the Australian government, BP has indicated that it expects its 2015 to 2020 project exploration plays to return an average margin of more than 35% higher than the current recognised average profit margin in the sector, a high bar for the GAB project to clear.27 BP has stated publicly its objective for projects to break even at $60 a barrel.28 Investors should query the GAB project’s ability to meet both of these stated objectives.

In light of recent political and market-based signals of transition to a low-carbon economy – including the recent agreement reached at COP21 to limit global temperature rises to a maximum of 2 degrees – the long-term economic viability of projects with high break-even prices is questionable. As oil and gas companies transition their portfolios to reflect the low-price environment and shift to a lower-carbon mix, high break-even projects like the GAB stand as outliers within a resilient, long-term business portfolio.

Even with an oil find, BP would be dependent on oil prices into the 2030s that may be impacted by both... advances in transportation technology and government policies...
Questions for BP

• What is the oil/gas split that BP is expecting to find in the GAB? Does the company expect a primarily gas find to be economically viable?
• What is BP’s assumed break-even price for the GAB project? Will it meet BP’s stated figure of $60?
• If there is a successful find, when does BP anticipate the GAB entering production?
• How reliant is BP on the 150% tax break it is receiving from the Australian government in terms of financial viability? Is it possible that this tax break might be removed on a change of government?
• Does BP anticipate that cost-effective production will be dependent on further tax breaks or subsidies beyond the exploration phase?
• Following the Bloomberg report in May 2015, does BP still have plans to sell further stakes in the GAB project and, if so, within what timeframe? Is BP concerned about the economics of the GAB project if it is unable to attract other partners?

Impact of a spill and response

Concerns have been expressed regarding the quality of BP’s oil spill modelling and the limited range of scenarios the company has examined. BP’s oil spill modelling is based on the assumption that any uncontrolled well blow out can be capped successfully within 35 days. This is presented as “a worst case scenario”. BP has not assessed the impact of an uncontrolled blowout of any longer duration. BP’s disclosed oil spill response documents do not specify the anticipated flow rate of a worst case scenario oil spill. No analysis has been disclosed which demonstrates that BP has fully assessed the impact that poor weather and sea conditions could present to its capacity to respond to an uncontrolled well blow out, and how this might affect the impact of any oil spill in the GAB.

BP has noted in its Oil Spill Response Tactics Summary that the prevailing weather conditions in the GAB will greatly affect the opportunity to deploy oil containment and recovery systems safely. Given Woodside Petroleum’s forced abandonment of its 2003 drilling efforts because of weather conditions, questions should be asked about the possibility of similar conditions impeding spill response tactics including capping stacks and even the drilling of a relief well. Oil spill modelling commissioned by The Wilderness Society and conducted by oceanographer and oil spill modelling expert Laurent C.M. Lebreton applied a number of scenarios, and demonstrated that due to strong winds and powerful waves in the Southern Ocean, the trajectories of an oil slick and particles have the potential to cover vast areas of Australia’s southern waters and coastline.

According to Lebreton if a blowout and spill were to occur in summer (November to May), the oil could impact the shores of Western Australia. Within four months, it could impact an area of roughly 213,000 km², with an 80% chance of surface oil thickness above levels likely to trigger the closure of fisheries.

As with the Gulf of Mexico, the area potentially impacted by a spill in the GAB is economically reliant on tourism and ocean related industries.

Operational and spill risks

Much of the opposition to BP’s plans, and associated media coverage, has referenced stakeholder concern about the company’s responsibility for the largest oil spill in US history. Similar to the Gulf of Mexico, the GAB is an area of iconic ecological significance. Further, as with the Gulf of Mexico, the area potentially impacted by a spill in the GAB is economically reliant on tourism and ocean related industries.

The Macondo disaster occurred during the exploration phase of a deepwater drilling project – the activity that BP now proposes in the GAB. The incident resulted in estimated costs to BP of $54.6 billion, impacted the company’s ability to maintain its dividend payment, left reputational damage, resulted in a huge drop in share price, and led to a forced sale of company assets.

It was also widely regarded as a failure in corporate communications. It is in this corporate context that concerns about spill risk and impact in the GAB are being exacerbated by BP’s failure to go beyond regulatory minimum disclosure requirements.
In winter, simulations show oil could impact much of the Victorian and Tasmanian coastline, right through the Bass straits to New Zealand. The model predicts that within four months an area of roughly 265,000 km² would have an 80% chance of having surface oil thickness above levels likely to trigger the closure of fisheries.

It’s been reported that in the event of a well blowout BP would have to bring in infrastructure from either Singapore or Texas. BP has downplayed the significance of this, stating: “Detailed logistical studies have demonstrated that the transportation of the capping stack is not on the critical path for capping the well, as it is anticipated that it will be delivered in situ whilst preparatory work is being completed”. To gain a better understanding, investors may wish to clarify the timing required to deploy a capping stack. BP states that a relief well, if needed could take 149 days to drill.

BP has recently submitted a revised Environment Plan to NOPSEMA, however no revised Summary has been publicly released.

A major spill in such an ecologically sensitive region could have a severe financial and reputational impact on BP. In the absence of the full response plan it is not possible to assess the adequacy of BP’s contingency measures on the occurrence of a spill. In light of the inadequacies identified after the fact in BP’s Macondo spill plan it would be prudent for investors to push for full disclosure in advance of the commencement of drilling.

BP’s decision to downplay the rejection of its Environmental Plan as not being unusual suggests a failure by the company to fully appreciate the level of controversy and media attention developing around this project. It also suggests a failure to recognise that stakeholders are viewing BP’s plan to be the first company to successfully drill in the GAB – an area of ecological significance and of wide-scale economic importance for the region’s fishing and tourism industries – through the lens of the Macondo disaster.

It is reasonable for investors to expect BP to be cognisant of such factors in how they approach the GAB project and the level of information they disclose. In light of developments to date, investors might wish to query the level of oversight by senior management of the GAB project.

BP’s disclosed oil spill response documents do not specify the anticipated flow rate of a worst case scenario oil spill.

Lack of disclosure and spill response plan

Unusually, and unlike other international jurisdictions such as the US, under the Australian system, BP has not had to publicly disclose its full Environmental Plan and spill response plan. Although NOPSEMA rejected BP’s first draft plan in November 2015, neither the authority nor BP have disclosed the specific deficiencies identified. Only a summary of the rejected plan is available. A leading independent deepwater drilling expert has confirmed that “the available documents do not provide sufficient information to determine if BP has properly assessed the risks with particular attention to the Loss of Well Control hazard and provided safeguards that assure that the risks have and will be managed to be ALARP (As Low As Reasonably Practicable)”.

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Operational conditions in the GAB

Although the precise drilling timeline is currently unclear, BP previously stated an intention to drill ‘all year round’. However, as previously noted, Wood Mackenzie data finds that severe weather and rough seas restrict the drilling window to a short period between November and May; and shows that any developments will have to be built to high specifications to withstand these extreme conditions.

BP itself has also acknowledged that its exploration area is currently on the edge of the reach of helicopters and that only recently has rig technology been advanced enough to handle the deep water and extreme weather of the Southern Ocean.

In May 2003, Woodside Petroleum attempted to drill an exploration well in the GAB (in the vicinity of the near shore edge of BP’s EPPs). The well was drilled to a seabed depth of 3336 metres, but attempts to drill to depths of 4200 metres (in about 1400 metres of water depth) failed due to bad weather. The project was abandoned.

Questions for BP

- What is BP’s assessment of a flow rate in the event of a major spill?
- What level of oversight is BP’s board of directors exercising over the company’s GAB project plans?
- Has BP conducted a financial worst case scenario for the company in the event of a major spill? What is BP’s contingency for raising the necessary funds to pay all arising costs? Does the board agree with the view expressed by its Developments Australia managing director Claire Fitzpatrick that a Macondo like event in the GAB would be “game over” for BP?
- In the event of a well blowout, will BP have a capping stack available to be deployed? How quickly will it be deployed?
- Is it the case that essential spill response equipment will need to be transported from either Singapore or Texas? How long will this take? What steps can be taken while such equipment is awaited?

Intense scrutiny and opposition

The announcement of a public inquiry by the Australian Senate into BP’s plans is evidence of the increasing scrutiny that the project is now facing from civil society and politicians. The Senate is expected to report in May. Civil society campaigning and media coverage is likely to intensify further, especially given the heightened environmental awareness following the Paris Agreement. This would be the first attempt to open a new deepwater drilling province since COP21.
Conclusion

Events to date suggest that BP has not adequately assessed or managed the level of scrutiny and concerns that have been raised about its prospective drilling in the GAB. The failure, post Macondo, to recognise the need (regardless of legal minimums) to disclose key documents such as the full Environment Plan is an error on the part of a company needing to instil confidence in investors, civil society, the media, and other stakeholders that it can be ‘trusted’ with an area of such ecological significance. The likely significant impact of a major spill on marine life and the local economy demands close scrutiny and detailed assessment, as it carries with it the potential for significant financial and reputational impacts on a company still suffering the fallout of an exploration well blow-out in the Gulf of Mexico. In this context, the limited nature of the BP’s oil spill modelling and its optimistic view of a ‘worst case scenario’ raises concerns about the adequacy of spill risk assessment and response.

BP’s plans to drill in the GAB represent the first attempt by an oil major post the Paris climate agreement to open up a new oil province. In addition to raising questions about the consistency of a new high break-even price deepwater project with a climate action resilient, long-term asset portfolio, BP’s plans are increasingly gaining critical attention from civil society, the media, and Australian politicians.

Investors must question whether BP is assessing and addressing the full range of risks inherent in this controversial project.

Questions for BP

• Will BP disclose the precise locations of the wells to allow for assessment of the impacts of drilling activity on marine life and the effect of a possible oil spill, including whether any of the wells are located within the GAB Marine Reserve (GABMR)?
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• Following the Bloomberg report in May 2015, does BP still have plans to sell further stakes in the GAB project and, if so, within what timeframe? Is BP concerned about the economics of the GAB project if it is unable to attract other partners?
• Will BP disclose its full Environmental Plan including full oil spill response plans?
• What is BP’s response to alternative oil spill modelling commissioned by The Wilderness Society?
• What is BP’s reaction to criticisms that the company’s worst case scenario which assumes a well blow out can be capped in 35 days is overly optimistic? Has BP modelled spill impact and response for scenarios where capping takes more time or where response measures are severely impacted by adverse weather conditions? If so, will BP publish such modelling?
• What is BP’s assessment of a flow rate in the event of a major spill?
• What level of oversight is BP’s board of directors exercising over the company’s GAB project plans?
• Has BP conducted a financial worst case scenario for the company in the event of a major spill? What is BP’s contingency for raising the necessary funds to pay all arising costs? Does the board agree with the view expressed by its Developments Australia managing director Claire Fitzpatrick that a Macondo like event in the GAB would be “game over” for BP?
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This briefing was designed by Colette G. St-Onge, Digital Campaigns Officer, ShareAction.

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About ShareAction

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes Responsible Investment practices by pension providers and fund managers. ShareAction believes that Responsible Investment helps to safeguard investments as well as securing environmental and social benefits.

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About The Wilderness Society

The Wilderness Society is an Australian, community-based, not-for-profit, non governmental environmental advocacy organisation. Their purpose is to protect, promote and restore wilderness and natural processes across Australia for the survival and ongoing evolution of life on Earth.

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30 | The Times, Pagnamenta, R (2016), *The Great Australian Bight is more deep water for blighted BP*


33 | The Wilderness Society correspondence to BP Developments Australia dated 11 December 2015


36 | Ibid


40 | Ibid

41 | Email from Professor Robert G Bea to The Wilderness Society, 28 March 2016

42 | The Times, Pagnamenta, R (2016), *The Great Australian Bight is more deep water for blighted BP*


49 | In January 2016 the Sea Shepherd group in Adelaide said it would join the Great Australian Bight Alliance with The Wilderness Society, Oil Free Seas Kangaroo Island, elders from the Mirning and Kokatha people, and the Clean Bight Alliance Australia, in fighting the GAB project. For further information, see [http://www.abc.net.au/news/2016-01-18/alliance-launched-to-protest-bp-drilling-in-australian-bight/7095104] [Accessed: 4 April 2016]