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Commerce Select Committee
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**Submission on the Crown Minerals
(Permitting and Crown Land) Bill**

Introduction

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Crown Minerals (Permitting and Crown Land) Bill ("**the Bill**"), introduced to Parliament on 20 September 2012.
2. Vector's submission focuses on two issues of relevance to its businesses in the gas sector: 1) definition of an occupier, and 2) improvements in the transparency and quality of oil and gas reserves information.
3. No part of this submission is confidential and Vector is happy for it to be made publicly available.
4. Vector's contact person for this submission is:

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Definition of an occupier

5. Section 106 of the Crown Minerals Act 1991 ("**the Act**") defines *existing privileges* granted under various legislation that were in force before the commencement of the Act. Section 107 of the Act provides that those existing privileges continue to be in force.

6. Vector notes that section 50(1) of the Bill repeals the definition of *existing privilege* but that section 8(1) inserts the same definition in section 2 of the Act (Interpretation). This would have implications for existing privileges linked to section 106. For example, the definition of *occupier* is linked to section 106, but is not accordingly amended by the Bill. For the avoidance of doubt, it should be made clear in the Bill that the concept of existing privileges is to continue with reference to an occupier.
7. To ensure that the above amendments do not inadvertently extinguish existing privileges, Vector **recommends** that all references to section 106 of the Act are replaced with references to the definition in section 2 of the Bill.

Oil and gas reserves information

8. Vector's submission on the March 2012 review of the Crown Minerals Act 1991 regime, which led to the development of the Bill, observed that the current information on oil and gas reserves disclosed by upstream permit holders is insufficient because:
 - a. it does not indicate the upside or potential downside risks of particular oil or gas fields, including the length of time reserves can be economically produced and delivered;
 - b. it is not independently verified; and
 - c. there is no enforcement mechanism that would provide permit holders the incentive to provide the most robust estimates possible.¹
9. Unreliable information distorts incentives and market signals, impairing the ability of parties that rely on this information to forecast supply and demand² and contribute to ensuring reliability of supply.
10. A significant lift in the quality of gas and oil reserves information would greatly benefit market participants, such as gas-fired electricity plants and gas pipeline operators that rely on this information in making investment decisions and fuel choices.³ This would also assist market participants downstream in making supply and demand forecasts, enabling them to operate optimally. Outcomes that are sub-optimal impose costs on parties, which are ultimately borne by consumers.⁴

¹ <http://www.vector.co.nz/sites/vector.co.nz/files/Vector%20-%20Submission%20-%20MED%20CMA%20Review%20-%202012%2004%2017.pdf>, paragraph 8

² *Ibid.*, paragraph 6

³ *Ibid.*, paragraph 10

⁴ *Ibid.*, paragraph 6

11. Importantly, better quality oil and gas reserves estimates contribute to the efficient operation of the gas market and downstream electricity market.⁵ Markets that efficiently signal supply and demand information benefit industry participants, who will make appropriate investment and resource allocation decisions.⁶ Efficient markets provide the platform for competition and investment, which ultimately benefit consumers in the form of downward pressure on prices and security of supply.⁷
12. While downstream parties, particularly gas transmission and distribution businesses, will be subject to comprehensive information disclosure requirements under Part 4 of the Commerce Act 1986, and gas retailers are subject to performance audits by the Gas Industry Company, there are no similar 'checks' on the reserves information disclosed by upstream permit holders, at present.⁸
13. Vector therefore welcomes the Bill, which would enable the proposals in the review of the Crown Minerals Act 1991 regime to improve transparency in oil and gas reserves estimation. It is noted that section 36 of the Bill, which inserts a new section 90A in the Act, provides that "[e]very holder of a permit must provide to the chief executive all information in connection with mineral reserves and mineral production that is prescribed as information that must be provided under this section" (section 90A(1)). The new section further provides that "[t]he information must be provided in accordance with the regulations" (section 90A(2)).
14. The proposed changes to regulations in the review relating to information disclosure are reproduced below.⁹

⁵ <http://www.vector.co.nz/sites/vector.co.nz/files/13Vector%20Submission%20-%20Petroleum%20Reserves.pdf>, paragraph 7

⁶ Ibid.

⁷ Ibid.

⁸ <http://www.vector.co.nz/sites/vector.co.nz/files/Vector%20-%20Submission%20-%20MED%20CMA%20Review%20-%202012%2004%2017.pdf>, paragraph 15

⁹ <http://www.med.govt.nz/sectors-industries/natural-resources/pdf-docs-library/oil-and-gas/crown-minerals-act-review/Review%20of%20the%20Crown%20Minerals%20Act%201991%20regime%20-%20Discussion%20paper.pdf>, pages 94-95

Petroleum reserves and resources

In August 2010, the Ministry released a discussion document titled *New Zealand Petroleum Reserves* that presented options for the reform of the petroleum reporting and disclosure regime.³⁹ The paper addressed a perceived lack of confidence in the accuracy, precision and consistency of reserve information. It also proposed that the Ministry be able to verify and validate reserves estimates, and give better visibility to the upside potential of existing field reserves. The paper proposed three options to improve the reporting and disclosure regime, based on a review of reporting rules in Australia, the United States, the United Kingdom and Norway.

From this discussion document and the submissions received, the following suite of measures is proposed:

- require permit holders to provide an annual status report on:
 - petroleum reserves, including remaining petroleum and gas in place and an explanation of the methodology used to calculate the reserves
 - P90, P50 and P10, or proven, and proven plus probable, and proven plus probable plus possible estimates (1P, 2P and 3P estimates) for remaining and ultimately recoverable oil, condensate (C5+), liquefied petroleum gas (propane plus butane) and gas (methane and ethane) (including an explanation of the methodology used to calculate the estimates)
 - C90, C50 and C10 estimates (1C, 2C and 3C estimates) for contingent resources
 - a full explanation of why contingent resources are classified as contingent (including a description of development and cost thresholds)
 - a copy of any report or any field study undertaken that results in a revised estimate of recoverable or in-place petroleum
 - minimum, average and maximum daily and hourly system deliverability for gas using the installed infrastructure
- allow the Ministry to publish:
 - petroleum production and field reserves, including estimates of P90, P50 and P10 remaining reserves and ultimately recoverable reserves
 - contingent resources by basin
 - compositional data (gas (methane and ethane), liquefied petroleum gas (propane and butane), condensate (C5+) and crude oil) for reserves by field and contingent resources by basin
 - minimum, average and maximum daily and hourly system deliverability for gas by field using the installed infrastructure

- petroleum production profiles in relation to mining permits and existing privileges
- resource estimates from discoveries or appraisals under any exploration permit, mining permit, or existing privilege
- require that information provided to the permit holders would be provided in a standardised template to be developed by the Ministry
- require that permit holders provide further explanation and supporting material, including geophysical, geological and commercial data, when reasonably requested by the Ministry
- require permit holders to report reserves and resources information according to the Petroleum Resources Management System
- provide for periodic independent third-party audits for fields with significant reserves or significant variability in reported reserves
- allow the Ministry to determine which reserves and contingent resource figures are published should an independent third party audit reveal a material difference between the independent auditor and the field's rights holder
- increase maximum penalties for non-compliance
- require company directors to certify that reserve information supplied is in accordance with the regulations.

These proposals were agreed to in principle by the Acting Minister of Energy and Resources in March 2011. These changes will be intergrated into the draft Bill and subsequent regulations which will be drafted after submissions close for this discussion paper. Stakeholders will be provided with an opportunity to comment on these proposals at the select committee stage.

15. The development of regulations reflecting the above would benefit industry participants across the energy supply chain and maximise the energy sector's contribution to the economy.
16. Reliable reserves information would also benefit the Government. As owner and manager of the Crown's petroleum estate, such information would enable the Government to better understand the current usage and potential of its resources, and therefore develop more effective policies for the energy sector.¹⁰
17. Vector looks forward to providing feedback and input on proposed amendments to the relevant regulations, following the passage of the Bill.

Yours sincerely



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¹⁰ <http://www.vector.co.nz/sites/vector.co.nz/files/Vector%20-%20Submission%20-%20MED%20CMA%20Review%20-%202012%2004%2017.pdf>, paragraph 7