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Submission on the Draft Minerals Programme for Petroleum

1. Vector Limited ("Vector") welcomes the opportunity to make a submission on the Ministry of Business, Innovation and Employment's ("the Ministry") *Draft Minerals Programme for Petroleum* and *Draft Minerals Programme for Minerals (Excluding Petroleum)*, both dated October 2012.
2. Vector's submission focuses on the *Draft Minerals Programme for Petroleum*, particularly in relation to proposed improvements in the transparency and quality of petroleum (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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Improving the reliability of reserves information

5. In three previous submissions on the Government's initiatives in the petroleum sector, Vector 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. the information 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
6. Vector therefore commends and strongly supports the information disclosure measures proposed by the Ministry, following its review of the Crown Minerals Act 1991 Regime.²
 7. Robust information on oil and gas reserves would assist industry participants, who rely on this information in making efficient investment and planning decisions (including fuel choices) and improve their ability to ensure security of supply. This would also enable parties downstream to operate optimally, which would exert downward pressure on the prices that consumers ultimately face.
 8. The Government also benefits from robust oil and gas reserves information through a better understanding of the current usage and potential of its petroleum estate, and could therefore develop more effective policies for the energy sector.³
 9. The Ministry's proposals in relation to the disclosure of oil and gas reserves information are reproduced below.

¹ This view was reflected in Vector's submissions on 1) the Ministry's discussion paper, *New Zealand Petroleum Reserves*, <http://www.vector.co.nz/sites/vector.co.nz/files/13Vector%20Submission%20-%20Petroleum%20Reserves.pdf>, 2) the Ministry's review of the Crown Minerals Act 1991 regime, <http://www.vector.co.nz/sites/vector.co.nz/files/Vector%20-%20Submission%20-%20MED%20CMA%20Review%20-%202012%2004%2017.pdf>, and 3) the Crown Minerals Bill, <http://vector.co.nz/sites/vector.co.nz/files/Vector%20Submission%20Crown%20Minerals%20Bill.pdf>

² <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

³ <http://vector.co.nz/sites/vector.co.nz/files/Vector%20Submission%20Crown%20Minerals%20Bill.pdf>, paragraph 16

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.

Information disclosure in the Draft Minerals Programme for Petroleum

10. Vector understands from the Ministry that the above proposals will be reflected in the amendments to the Crown Minerals (Petroleum) Regulations 2007, and presumably other relevant regulations, following the passage of the Crown Minerals Bill.
11. It is noted that section 11.6(1) of the *Draft Minerals Programme for Petroleum* provides at a high level that:
 - (1) *Regulation 60 requires permit holders to provide annual reports, using standardised approaches, on petroleum reserves and resources, gas deliverability on installed infrastructure, and related information.*
 - (2) *The Regulations allow the Chief Executive to publish this information (in some cases on an aggregated basis) for public interest reasons, and to verify and validate estimates of reserves.*
12. As the document that sets out how the amended Crown Minerals Act will be interpreted and applied, the *Draft Minerals Programme for Petroleum* would provide greater clarity and certainty for industry participants if the Ministry's proposed information disclosure requirements are set out in more detail, i.e. in a manner similar to the Ministry's report on the Crown Minerals Act 1991 Regime

Review (referred to in paragraph 9). It would also make this document a more meaningful guide and reference for parties interested in the petroleum sector.

Recommendation

13. Vector therefore **recommends** that the information disclosure requirements in relation to petroleum reserves and resources, proposed by the Ministry in its Crown Minerals Act 1991 Regime Review, be specifically reflected in section 11.6 of the *Final Minerals Programme for Petroleum*.

Yours sincerely



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