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CMA Review
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Submission on the Review of the Crown Minerals Act 1991 Regime

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Ministry of Economic Development's ("MED") Discussion Paper, *Review of the Crown Minerals Act 1991 Regime* ("the CMA Review"), dated March 2012.
2. Vector generally supports the CMA Review, particularly the proposed measures to improve the transparency and accuracy of oil and gas reserves information. Vector's submission is focused on this aspect of the Review.
3. No part of this submission is confidential and Vector is happy for it to be made publicly available.

Improving the quality of oil and gas reserves information

4. Vector believes improving the quality of information on oil and gas reserves disclosed by upstream producers would help improve the energy sector's contribution to the New Zealand economy and promote the objectives of this Review and those of the New Zealand Energy Strategy.
5. Better quality oil and gas reserves estimates would contribute to the efficient operation of the gas market and downstream electricity market. Efficient markets provide the platform for competition and investment, which ultimately benefit consumers, particularly in ensuring the reliability of supply.
6. Unreliable information distorts market signals and impairs the ability of parties that rely on this information to forecast supply and demand and operate optimally. Sub-optimal outcomes impose greater costs to these parties, and ultimately, consumers.

7. The Government, as owner and manager of the Crown's petroleum estate, would also benefit from more reliable reserves information. 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.
 8. The current information disclosed is insufficient (eg does not provide indications of the upside or potential downside risks of particular fields), is not independently verified, and there is no enforcement mechanism that would provide producers the incentive to provide the most robust estimates possible.
 9. Further, current disclosure does not provide indications of the upside or downside risks of particular gas fields. Market participants also could not know over what length of time reserves can be economically produced and delivered.
 10. In its submission on MED's consultation on *New Zealand Petroleum Reserves* in 2010,¹ Vector emphasised that "a significant lift in the quality of the current disclosure regime will...greatly benefit participants, who will make decisions on investments that are mostly capital-intensive...and have very little alternative use". More reliable reserves information would improve decision making in investment in gas-fired electricity plants and gas pipelines and associated infrastructure, and fuel choices. It would also assist downstream parties, such as Vector, in forecasting supply and demand and operating optimally.
11. Vector's submission **recommends** the following measures:
- a. independent audits of upstream producers' processes of estimating reserves, to ensure such processes are consistent with international best practice and benchmarks and increase the confidence of those who rely on this information;
 - b. extension of reporting requirements to include information similar to those required in the UK model;² and
 - c. increase penalties for non-compliance to a level comparable with other disclosure regimes in New Zealand such as the Commerce Act 1986.
12. Vector continues to espouse the above measures and appreciates that similar proposals were agreed to in principle by the Acting Associate Minister of Energy in March 2011 and will be integrated into the CMA Amendment Bill.

¹ <http://vector.co.nz/sites/vector.co.nz/files/13Vector%20Submission%20-%20Petroleum%20Reserves.pdf>

² <http://www.med.govt.nz/sectors-industries/natural-resources/pdf-docs-library/oil-and-gas/nz-petroleum-reserves/nz-petroleum-reserves-pdf>, page 16, Option 2

Proposed information disclosure improvements

13. Consistent with its views above, Vector strongly supports the suite of measures outlined on pages 94-95 of the Discussion Paper (reproduced below), which substantially reflects Vector's recommendations.

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 integrated 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.

Levy to fund information disclosure improvements

14. Vector notes that the Review Discussion Document has not specified how the proposed information disclosure improvements will be funded. It would provide industry participants greater certainty if this will be specifically provided for in the CMA Amendment Bill.
15. Vector's *Petroleum Reserves* submission recommends that the proposed improvements, particularly the independent audits of reserves estimates, be funded through a levy on upstream producers. It is noted that gas retailers pay for audits commissioned by the Gas Industry Company ("GIC") on their downstream reconciliation performance.

Closing comments

16. It is not only reasonable but necessary to improve the quality of reserves information to ensure the Government and other parties that rely on this information make robust decisions.
17. Improving the quality of upstream information would be timely, and would benefit all industry participants across the gas supply chain. Vector looks forward to all of the above recommendations being integrated into the CMA Amendment Bill, and is happy to further discuss its views with MED officials, as necessary.

18. Should you have any questions, or require further information, please contact Luz Rose, Senior Regulatory Analyst, on 04 803 9051 or Luz.Rose@vector.co.nz.

Kind regards

A handwritten signature in blue ink, appearing to read "R.B. Girdwood".

Bruce Girdwood
Manager Regulatory Affairs