Why invest in New Zealand energy opportunities: Energy Corporation of America's perspective

J Mork

Energy Corporation of America, 4643 South Ulster Street, Suite 1100, Denver; Colorado 80237, United States of America

Abstract

Energy Corporation of America (ECA) is an independent United States oil and gas company that began petroleum exploration in New Zealand in 1995. ECA's petroleum activities in New Zealand are based not only on the oil and gas potential of the country, but on the values and systems of New Zealand and her people, values which are compatible with those of Energy Corporation of America.

New Zealand offers not only geologically promising areas for exploration, but a readily accessible market for future oil and gas production in a favourable and stable political and economic climate.

New Zealand presents a first class climate as compared to other worldwide countries for continued investment and exploration for oil and natural gas.

Introduction

A brief background about Energy Corporation of America ("ECA"). ECA is an integrated energy company that is privately held and headquartered in Denver, Colorado. ECA has three wholly owned subsidiaries: Mountaineer Gas Company, a public utility, Eastern American Energy Corporation, an exploration and production company, and Westech Energy Corporation, its international exploration company.

ECA assets are $437 million, and its revenues were $286 million in 1999. ECA has 715 employees, 4,795 producing wells, 3,900 miles of pipelines, in addition to its gathering lines, and gas sales and production of about 69 bcf per year.

Country evaluation

As the energy business enters the combined ages of electronic communication, increased product commoditization, reduced worldwide transportation costs for oil and natural gas, open energy markets, and ever reduced product prices as a result of technology, the search for energy has moved farther from markets and closer to the best opportunity for success. ECA believes that opportunity for success in the electronic age is defined by more than anticlinal structures, oil seeps, and proximity to markets. Indeed it is now relatively easy to get into the oil business in many prolific oil producing countries around the world, but the key question may be how hard is it to get out of the country, or at least to make profits in the country and get a portion of the profits out of the country.

The likelihood of profitably investing is influenced not by geological opportunity alone, but by the values, systems and opportunities that exist in a particular country. All countries have different cultures and have developed individual value systems. The age when international companies could dictate or manipulate the value systems of a country has largely ended. Today, international companies must "swim" in the value system of the country where they operate. Similarly, the quality of the intra-country systems varies from third world to world class, and the international company must determine the cost of operating in countries with inferior systems. Naturally, the prospect of significant undiscovered oil and gas reserves is a key determinant of the investment decision.

ECA values

A key component for success within a country is an alignment of values of the foreign company and the values of the country. ECA's Core Values are as follows:

- treat others as we would like to be treated;
- become and remain the low cost energy producer and supplier;
- use and view education and technology as the key to the future; and
- maintain a bias for action.

It is ECA's opinion that there is an alignment of values between New Zealand and ECA.

ECA's mission is defined as increasing the worth of ECA's stakeholders. The key to understanding ECA's mission is in the inclusive definition of its stakeholders. ECA defines its stakeholders as:

- customers;
- employees;
- shareholders;
- community and environment in which it works; and
- vendors.

Therefore, ECA's measure of success is increasing a win/win/win/win situation.

Perceived New Zealand values

It is always a difficult proposition for a foreign corporation to understand the values and culture of a country in which it is working. Before beginning to do business in New Zealand, ECA developed a set of perceived values in New Zealand. ECA first reviewed the value of integrity/honesty. Does the New Zealand culture value honesty? ECA's conclusion was a resounding "Yes." There are few problems created by graft and corruption in New Zealand and, as noted in the Wall Street Journal, severe graft in any country is equivalent to a 28% gross proceeds tax. New Zealand is the second highest rated country in the world, just behind Denmark, where honesty and integrity are highly respected values. Although good business requires that agreements be documented, it is still possible to comfortably do business with a handshake in New Zealand. Secondly, measured against the world's leading hydrocarbon-producing countries, the crime rate and the risk of being the target of crime in New Zealand are extremely low.

New Zealand work ethic

Work ethic, although extremely important for successful business operation, is difficult at best to quantify. New Zealand's historically agrarian culture and current low rate of labor disruption are positive indications of an excellent work ethic.

A culture of kindness

ECA received a positive indication of a cultural value of kindness when it initiated the drilling of its initial East Coast well. The Tangatawenua in the area offered a blessing of the well site. In USA culture this would be an extremely unusual event and had not previously occurred in ECA's history.

The va1ues of integrity, work ethic and kindness provide an environment for excellent domestic companies. ECA has benefited from this culture with an outstanding domestic joint venture partner, Orion New Zealand limited. ECA and Orion share similar values and ECA welcomes Orion's excellent leadership. Both companies perpetually strive for continuous improvement and understand the importance of forging excellent relationships within their respective communities, and with their customers.

Primary and secondary systems

All countries have developed or absorbed systems to allow for human life/work to proceed. The relative level of advancement of a country's systems either helps or hinders domestic or foreign commerce. Intra-country systems can be divided into two types, primary and secondary. Primary systems, such as language, legal and economic are essential to the success of all business operations. New Zealand's primary systems compare favourably to all international standards. Another measure of systems is the rate of change of the systems themselves. Rate of change is one area where successful business operations are inversely affected by speed of change. Therefore, a slower rate of change in primary systems allows business to adapt to or even proceed ahead of the change. New Zealand is one of only eight (8) countries in this century whose government has not been changed by non-parliamentary means.

Secondary systems, such as communication, transportation, distribution and industry specific systems are also well developed in New Zealand. New Zealand's systems, in general, facilitate international investment and rarely hamper investment. ECA believes that the system for allocation of petroleum licenses is equitable and applauds the Ministry's efforts to increase the work requirements in the work programs. One minor exception occurs in the oil and gas industry. The infrastructure for exploration and production of hydrocarbons is not currently up to the standards of other countries and the result is often higher exploration and development costs. In conclusion, the primary and secondary systems are well developed in New Zealand and enhance oil and gas exploration opportunities.

Opportunity: Oil and gas exploration

On a comparative basis the oil and gas exploration opportunities in New Zealand are abundant and in an early stage of development. When compared to the USA, New Zealand has approximately one tenth the potentially productive area, but only approximately one five thousandth the number of wells drilled to date. The median field size in New Zealand is 35 million barrels and the median field size in the USA is approximately one tenth of the New Zealand field size. Production per day per well is a useful proxy for both area prospectivity and relative maturity of development. New Zealand's average production per well is 714 barrels per day as compared to the worldwide median production per day per well of 287 and to USA's average per day per well of 11. A review of the average production per well and the density of well spacing in potentially productive areas indicates that on a gross basis the opportunity for successful petroleum exploration in New Zealand exceeds that of the USA. New Zealand ranks in the upper one third of worldwide producing countries for production per well per day (approximately 2.5 times the median production per well), and from this ranking it can be inferred that New Zealand's petroleum exploration potential also is highly ranked on a worldwide basis.

Opportunity: Oil and gas markets

New Zealand's petroleum markets also indicate excellent opportunities for the sale of petroleum discovered within the

country. The market for produced oil is excellent, as New Zealand currently imports 54% of its liquid petroleum consumption.

New Zealand has long been under-appreciated by the worldwide petroleum community because it has been perceived as primarily a natural gas province with poor domestic markets and distant export markets. Current facts dispel this perception. New Zealand's developed natural gas resource is mature and declining. Reticulated gas has only a 20% market penetration as compared to a greater than 50% market penetration in most of the USA.

New Zealand has an excellent but partially developed natural gas pipeline transportation infrastructure. One current concern for the growth of natural gas markets in New Zealand is the relatively high cost to transport natural gas. Natural gas transportation cost in the USA per 100 km is approximately $0.03 per 1000 cubic feet of gas transported. In New Zealand the cost per 100 km is approximately $0.75 per 1000 cubic feet of gas. This apparent discrepancy may impede the growth of natural gas markets in New Zealand.

East Coast Basin structures

ECA, through its subsidiary, Westech Energy Corporation New Zealand, has concentrated its exploration efforts in the East Coast Basin, and more recently initiated activities in Taranaki. ECA's reaction to excellent values, systems and opportunities has been to invest heavily in New Zealand petroleum exploration. In the five years ECA has been exploring for petroleum in New Zealand, it has worked in 11 petroleum licences, reprocessed approximately 2,500 km of seismic, gathered 1,200 km of 2D seismic, gathered over 600 sq km of 3D seismic and drilled 12 wells. Westech has identified over 35 untested large anomalies in the East Coast Basin, and will continue a program of testing these anomalies.

Conclusion

Energy Corporation of America reviews a country's values, systems and quality of exploration opportunities to assess international petroleum exploration opportunities. New Zealand ranks high in all areas. ECA perceives New Zealand to have world class values, and has seen these values tangibly demonstrated. Additionally, ECA believes that New Zealand's primary and secondary systems are at, or exceed, world standards, with the exception of the oil service infrastructure. ECA believes that with notable positive exceptions, the oil field service infrastructure in New Zealand needs to improve. Lastly, Westech Energy Corporation has developed significant, world-class exploration opportunities in the East Coast Basin. Therefore, ECA concludes that New Zealand is an outstanding country in which to explore for and produce petroleum.

Author

JOHN MORK holds a BS degree in Petroleum Engineering from the University of Southern California and is a graduate of the Stanford Business School for Executives. Prior to founding Energy Corporation of America, he worked for Unocal.