

Opening Address

Hon Harry Duynhoven, Associate Minister of Energy

Private Secretary: Jacinda Ardern Tel: 04 471 9734 or 021 583 977

Good morning and welcome to the 2004 New Zealand Petroleum Conference organised by the Ministry of Economic Development's Crown Minerals group.

I would like to thank our guests who have travelled from overseas and those of you from other parts of the country who have made the effort to be here today. Your presence is much appreciated and I hope it is of benefit to each and every one of you.

In particular, I would like to extend a warm welcome to Ambassador William Ramsay, the Deputy Executive Director of the International Energy Agency. The New Zealand government is honoured to have you here in New Zealand on what I understand is your first visit to our country. I trust that you have an enjoyable stay, as I do to all other first time visitors to our country. Very nice to see you again sir and I look forward to the IEA meeting in May.

Today I am going to talk about why the Government believes there has never been a better time for the petroleum industry to explore in New Zealand.

Firstly, let me recall some of the highlights since the last New Zealand Petroleum Conference in 2002.

Over the past 20 years, the Maui gas has dominated the New Zealand gas market. Due to its plentiful gas supply and the nature of the Maui contract, gas prices have been significantly lower than world prices.

As a result of this situation, until recently, incentives for petroleum exploration have been muted. With the Maui contract due to expire in 2009, and the general understanding that the field is nearing the end of its economic life, exploration and production activity has picked up in recent years.

For instance, the Pohokura field was discovered in 2000 and the number of wells drilled per year has doubled since the early 1990's. However, the sharp reduction in Maui's economically recoverable reserves that resulted from the re-determination in 2003 has caught us by surprise, and has resulted in tight gas supply conditions.

Coinciding with the re-determination of Maui, Shell announced that it will not be participating in new exploration activities in New Zealand. The impact of Shell's departure has been over played and needs to be seen in the context of the company's global strategy and the fact that in recent years Shell has accounted for less than 10% of the total expenditure of all other explorers. However, Shell's overall

contribution to exploration over the years has been significant.

As a result of changing market conditions, Genesis has progressed development of the Kupe field. This field was discovered in 1986, but until recently, the characteristics of the field have made it uneconomic given the low market price for gas, which was driven by the size of Maui field.

Despite recent discoveries and increased exploration activity, there still remains a significant shortfall in reserves to replace Maui. It is estimated that this will occur sometime between 2008 to 2013, and exploration activity is not nearly enough to result in discoveries of sufficient size to replace it.

The Kupe and Pohokura fields are entering production and additional smaller volumes of gas may also be available from a number of small onshore Taranaki fields.

The Government remains committed to its policy on sustainable energy, but at the same time needs to ensure energy security of supply. Gas forms an important part of New Zealand's energy mix, even though it is not a sustainable source of energy. It is particularly important as a fuel for electricity.

The importance of the petroleum industry to New Zealand's energy sector and economy means more to me than any other person in Parliament, as this industry dramatically affects my electorate of New Plymouth.

A restricted gas supply affects the balance of the energy mix. At a broad level, various options for addressing this issue include securing further gas supply, increasing the weightings of other energy types or adjusting energy demand. The Government is considering a number of options to:

- Increase gas supply
 - a. Facilitate greater petroleum exploration to improve indigenous gas supply
 - b. Review LNG as an alternative to indigenous gas supply
- Re-balance other energy types
 - a. Facilitate (directly or indirectly) new electricity generation investment
 - b. Consider whether there should be more reserve generation (particularly to cover the role Maui gas played as a fuel for swing generation in dry years)
- Review the role of coal in electricity generation.

The Government has a supportive petroleum and gas exploration regime that will facilitate an increase in activity in the exploration and production industry. With increasing demand for gas, the value and competition for prospective land is increasing. Explorers can expect greater scrutiny and monitoring of work programmes by Crown Minerals, and I will be taking particular interest to make sure the Government's assets are worked hard.

Studies by Wood Mackenzie show that New Zealand's current royalty regime is internationally competitive. It confirms, using real field examples, what has also been found by the IHS Energy PEPS rating and rankings index which has found that New Zealand ranks 17th most attractive investment out of 111 countries in the world and 24th for our fiscal terms, third best in the Far East / Australasian region.

PEANZ and others have suggested that the Government should further incentivise exploration in New Zealand.

The Government has asked officials to evaluate whether there is any merit in having further incentives. Officials are engaging with the industry through PEANZ as they develop advice for government on this matter.

Looking forward there are some pleasing developments on the horizon that will help stimulate investment in the petroleum industry.

At this point I am pleased to announce commencement of the Offshore Northland Blocks Offer which will run for nine months with a closure date of 15 December 2004. Data packages and associated information about this exciting offer can be obtained from Crown Minerals over the next few weeks.

I think it is appropriate here to thank my officials in Crown Minerals who have worked hard to bring this blocks offer out in reduced time. I've asked a lot of these people recently.

Research by the Institute of Geological and Nuclear Sciences on the Northland Basin is showing signs there is significant potential for North Sea-sized oil and gas fields to be present.

Considerable research has gone into preparing this Blocks Offer, which has involved a major reprocessing exercise by Spectrum and the Institute of Geological and Nuclear Sciences. I encourage you to visit their display in the exhibitor's area.

The most exciting features of the Northland Basin include:

- The area contains a lot of sediments up to 7 km in places, typically between 4 and 6 km, Cretaceous source rocks capped by marine sandstones and mudstones
- There is strong evidence of a brand new petroleum system
- Structures indicate this is a northern extension of the Taranaki Basin, which for those unfamiliar, is directly south of this location.

Furthermore, work is underway to prepare at least two other Blocks Offers over the next twelve months. These are planned for Taranaki and the East Coast of the North Island.

Crown Minerals have also recently completed the "New Zealand's Petroleum Basins" publication and you will find a copy of this in your conference satchel. A substantial amount of new material has been added to this publication from previous years and it now provides a comprehensive view of the petroleum plays here in New Zealand. I encourage you to read this publication and discuss it with the team from Crown Minerals.

In the next 24 months I hope to continue to be in a position to address this audience with a scorecard that reads like this:

- Discovery of new petroleum reserves to substantially improve New Zealand's gas security of supply
- Two or three large exploration companies new to New Zealand
- Greater number of exploration wells with quality targets, specifically focusing on deeper formations in the Taranaki Basin both onshore and offshore
- An overall increase in the depth and liquidity of the industry
- Increased activity in basins outside of Taranaki
- Results of research and development into new energy sources (e.g. clean coal and hydrogen fuels)

For those of you who are new to New Zealand, you could not have arrived at a better time. For those already exploring New Zealand, the time to invest in exploration has never been better: rising wholesale gas prices, high prices for oil, a market that is undersupplied. In addition to this the New Zealand government is supportive and welcomes exploration.

Ladies and gentlemen thank you for listening and enjoy your conference. Have a great time in New Zealand and above all enjoy investigating future opportunities.