



6 March 2006

Speech Notes

## Address to the New Zealand Petroleum Conference: 'New Zealand's Exploration Outlook'

Good morning and welcome to the 2006 New Zealand Petroleum Conference. I would like to extend a special welcome to US Ambassador William McCormick, Matt Simmons, Belinda Robinson, Gaurdie Bannister and all our other distinguished international speakers. I hope that you have the time to enjoy the many beautiful sights of Auckland. I also hope that your visit signals a growing international interest in New Zealand's exploration potential.

This gathering is the 10<sup>th</sup> New Zealand petroleum conference to date. The original event was initiated by the former New Zealand Geological Survey and the Geology Department of the Victoria University of Wellington. Although now hosted by the Ministry of Economic Development, Crown Minerals Group, it is appropriate to recognise the contribution of GNS to this event over the years. These two government agencies have been the drivers of this type of event that is so important in bringing together the best minds from the Exploration and Production sector for the benefit of New Zealand.

Over the past 20 years the New Zealand oil and gas industry has undergone significant changes and arguably the past 2 years have been the most dramatic.

In my speech today I plan to share my thoughts on some of the issues which have arisen since the last Conference and leave you - as the industry responsible for making exploration happen - with some pointers on the direction this Government would like to see you head towards.

There have been a number of statements and press releases recently that the New Zealand Exploration and Production sector is not functioning as well as it could, and that activity and success is not as high as it should be. Improvement is something that we can all strive for. However I do not share the more negative views which some in the media and industry seem to have.

### Some statistics

Success is subjective and depends on how it is measured. Exploration in New Zealand is inherently lumpy because of its size. To benchmark NZ's upstream sector a longer term focus is needed. So let's look at some facts:

Recent statistics indicate a good success rate achieved on exploration drilling campaigns between the period of January 2000 through to December 2005:

- A total of 149 wells (including sidetracks) have been drilled during the past six years, with 69 wells drilled in the past 24 months reflecting a strong increase in activity. Of these 149 wells, 74 were 'new field wells'.
- Of the 74 wildcat wells drilled, a total of 12 discoveries have been made indicating success rates of about 16%.
- Of more significance, a total of 18 wells were drilled in the offshore Taranaki Basin in the January 2000 to December 2005 period. Of these 18 wells, 9 were wildcat wells, of which 6 have been commercial discoveries.

This suggests to me that there is nothing wrong with the prospectivity of New Zealand, nor the rate of success. It does, however, stress the importance of more active drilling.

### **The exploration profile**

One also needs to reflect on the changing profile of exploration companies in New Zealand. We are shifting up a gear. There now are more companies with deeper pockets and access to a greater number and wider mix of technical skills. The likes of Origin Energy, AWE, Pogo, OMV, Swift Energy, and Westech Energy have come to New Zealand and are continuing to build strong exploration portfolios in New Zealand. This, I believe, demonstrates that they recognise that New Zealand is a future growth area.

Moreover, downstream companies such as Genesis, Contact and Mighty River Power have taken positions in the upstream sector.

And this is in addition to the next tier, who are also building up positions and diversifying when opportunities present themselves. The liquidity and spread of risk is obviously a positive signal to the Exploration and Production sector of New Zealand.

### **Multiple developments**

I also do not need to remind you that there are multiple offshore field developments underway - and most importantly, that they are both oil and gas projects.

Pohokura, Tui, Maari, and Kupe are all progressing well. They are billion dollar investments that reflect well on your sector. Tui is a particularly good example of how quickly offshore prospects can be drilled and taken to development. The time from initial discovery to first production is only 4 years.

And it is worthy to note that these discoveries were made when oil was at \$30/bbl or less. At over \$60 for oil, and with gas prices rising, there is a real incentive to find more now and keep the bar higher for longer.

## **Government initiatives**

Not surprisingly, I believe that another of the recent positive factors to consider are the government's exploration initiatives. Most of you will recall that the rationale for the 2004 initiatives were that the right kind of incentives would result in more exploration happening sooner – and in particular offshore exploration which is most likely to yield discoveries of a scale that will make a material difference to the security of New Zealand's gas supply needs.

The initiatives covered:

- Firstly, adjustments to tax provisions,
- Secondly, reductions in royalty rates for new discoveries,
- Thirdly, additional funding to promote investment in New Zealand; and
- Finally, government-funded seismic data which has then been made freely available to support blocks offers.

Have these initiatives been successful? I think it is too early to tell. We know that there has been a high level of interest in the data sets, and we know that there is particular interest in the Great South Basin survey.

The Northland block offers saw two blocks receive highly competitive bids. I look forward to seeing the rapid progress in exploring the acreage awarded.

Some say that insufficient blocks were awarded, and that more is usually better. However, success must be measured first in terms of the quality of bids – not the quantity. It is critical that future blocks are awarded to well funded and technically capable explorers who are committed to working acreage. We have succeeded in this with Northland and I should add that I am confident that there will continue to be quality bids for other blocks.

## **Great South Basin**

I should add at this point, that I believe that the competitive allocation process that has been adopted for the majority of New Zealand's basins is a critical feature of the Government's strategy. I believe this is the best and fairest way to allocate permits.

Many of you will be aware that bidding on the Great South Basin will formally open very soon. I am aware that there has been some industry speculation regarding allocation of permits in the Great South Basin.

It is essential to the integrity of our regime that the Government emphasise that it does not "do deals" with companies wishing to seek preferential terms of access to prospective acreage. The Government will ensure that the bidding terms and assessment process are fair so that all companies can have confidence that the permits will be awarded with the utmost fairness and transparency.

## **Litigation**

Another matter which has been of concern to me in recent years has been the level of litigation we are experiencing. I do not intend to make a judgment on the merits of the cases. Nor do I doubt the legitimacy of pursuing all avenues of dispute resolution and valid legal remedies.

However, I think it is appropriate to ask the question – do we collectively want to see New Zealand develop a reputation for only settling matters via the courts? Joint ventures, adjoining permit holders, the industry as a whole, and the Government must develop constructive partnerships and working relationships. New oil and gas resources are found in basins at the end of drill strings as a result of your intellectual and physical endeavours, and not in the court room through legal manoeuvrings. I therefore implore you to seek all other available avenues in settling legitimate business differences.

## **Lobby group effectiveness**

I would now like to turn my attention to the effectiveness of lobby groups. I want to see a strong and effective local industry association. There needs to be improved communication on the real issues that will make a real difference in finding oil and gas resources.

Your industry is a fast moving business. The wider regulatory regime that you operate within needs to keep up with the changes in order for New Zealand to be competitive to attract the highly mobile and constrained investment dollar. I recognise that there needs to be a continually open-mind from government to regulatory issues which will maintain an edge for us. This is not an open invitation to lobby for unrealistic incentives. However, there does need to be robust, open and informed debate on the issues that matter and that are of common interest.

Essentially it is all about ensuring that we are both doing the right thing. It is about our common interest of demonstrating that proposed changes will result in an improved regime, and demonstrating that any changes will lead to increased activity and earlier discoveries.

To that end, it is also important for unity within the industry. I appreciate that the very nature and mix of interests held by the Exploration and Production sector will always make it difficult to be completely unified, however, your association is in a good position in terms of expertise to make responsible representations to improve such matters.

A good example of what I mean by this is the recently completed best practice guidelines for offshore petroleum activities in New Zealand's EEZ - that is, beyond the role of the Resource Management Act 1991.

The Ministry for the Environment and Maritime New Zealand, together with the Petroleum Exploration and Production Association of New Zealand (PEPANZ), MED Crown Minerals and other government agencies, have recently completed these guidelines.

It is a good example of your sector working with Government to improve the system by developing a pragmatic and ground based environmental protocol. I commend you on this.

## **Drilling rigs**

When I consider the progress to date, and the immediate prospects for the future, I am acutely aware of the problem of the current tightness of the drilling market. Rig availability and costs are putting real hurdles in front of explorers.

However, a problem is not an excuse for inaction. It is critical for New Zealand's energy future and for all companies reserves that you make demonstrable efforts to keep to your work programmes and drill by dates. Industry needs to work collaboratively together to reduce risks associated with rig availability. Some explorers are making very visible and energetic strides towards establishing a rig club. Those efforts are to be applauded and are relevant to the question of whether best efforts have been made to comply with permit obligations.

To succeed in overcoming the challenge of rig availability, companies will be required to:

- Undertake a degree of compromise;
- Understand the risks of balancing regulatory constraints with exploration and commercial imperatives in the minds of the boardroom team; and
- Develop new business relationships with service companies.

Whilst not an ideal situation, this is likely to be the environment for the foreseeable future until new rigs come on to the market and others are freed up from the damage caused by the hurricane season in the Gulf of Mexico late last year.

## **Further initiatives**

There will no doubt be debate in the next three days about whether the Government should do more to facilitate exploration and production and, if so, what that should be. Let me start that debate with this comment: Government first needs to see a commitment from industry to making things work, and it needs to see that any change will bring demonstrable benefits to New Zealand's energy requirements.

Crown Minerals and GNS are currently looking at opportunities available for improving the understanding of on-shore and near-shore Taranaki petroleum systems with a view to increasing the prospectivity and production from current and new fields. A concerted study may unlock marginal fields and the deep, tight gas Kapuni plays.

The recent initiative of GNS' hydrocarbon group to develop a four-dimensional digital geological atlas of the Taranaki Basin is an admirable initiative. The four year programme will systematically map the subsurface of the basin using the latest data to provide the big picture view of geology and prospectivity.

I encourage you to contact GNS and Crown Minerals to engage on this work. In the next few years you can expect to see much more of this kind of work and co-operation between GNS and Crown Minerals in reducing exploration risk by improving the knowledge of New Zealand's various basins.

As for other initiatives – the ball is in your court.

## **Conclusions**

I said I would leave you with some pointers as to where Government would like to see industry head. The simple answer is that I would like you all to head to the offshore and drill more wells. Acknowledging that this may take greater time for some, consider the following:

- New Zealand still has prospective acreage available for your consideration;
- The Government remains committed to providing data to aid your exploration decisions;
- Your collective industry wisdom is needed to constructively work towards enhancing the environment for exploration; and
- Your precious exploration capital will be best spent on activities that will grow your companies and delivery energy security to New Zealand.

There has never been a better time for Exploration and Production activities in New Zealand. Prices are high and there is a growing gas market needs to be filled now. I hope that discussions conclude with the conference and that we all then get on with the business of finding oil and gas and growing the petroleum sector in New Zealand.

Thank you for your time, and I trust that you will have a stimulating and worthwhile three days here in Auckland.

## **For further information contact:**

Adam Feeley  
Group Manager  
Crown Minerals  
Ministry of Economic Development  
Tel: 021 333539

Jamie Gray  
Private Secretary  
Associate Minister of Energy  
Tel: 04 471 9818 or 021 227 9818