

Hon David Parker
Minister of Energy



6 March 2006

Speech Notes

Address to the New Zealand Petroleum Conference: 'New Zealand's primary fuel options

Good afternoon. As this is my first opportunity to address the petroleum industry as Energy Minister, I would like to welcome you all. In particular, may I extend a warm welcome to the international speakers and delegates. You typify the global nature of the industry and the critical international links, which New Zealand desires to further develop its well-recognised exploration potential.

Today I would like to cover some important challenges that I see facing the industry, and to give you a central government perspective.

Oil and gas are an integral part of New Zealanders' daily life. They are important for transport, industry, householders, and electricity generation. Their current and future contribution to New Zealand's energy mix is a key consideration for government's energy policy programme.

With this strong reliance on oil in mind and as the minister responsible not only for petroleum, but wider energy policy, it is appropriate that I comment briefly on the government's National Energy Strategy.

We expect this to provide long-term direction and leadership for New Zealand to put us firmly on the path to an energy system that supports economic development, while being environmentally responsible.

The terms of reference are currently being finalised, with the target of developing and consulting on the draft strategy over the next six months. There will be ample opportunity for input by stakeholders to the draft strategy and development of key issues. I especially encourage the oil and gas industry representatives to become involved given your important role.

The strategy's principal challenge is to strike a balance between flexibility around the various options open to us and the direction needed to provide a reasonable level of certainty that strategic objectives will be met.

We also need to achieve integration of the strategy with other existing work programmes, including the National Energy Efficiency and Conservation Strategy, the New Zealand Transport Strategy and climate change policies.

The strategy may well develop a number of possible different transition paths, and then explore the role of both government and market actions in pursuit of outcomes.

The strategy will need to incorporate a system-wide view, covering both demand and supply and related policy areas such as climate change. Security of supply of

both stationary and transport fuels must remain a key priority and the strategy will draw on various scenarios that explore New Zealand's energy options.

The strategy will also explore the impact of energy choices more broadly – for example, the potential impact a change in land use to grow biofuel feed stocks would have on competing agriculture activities.

In electricity, I am determined to maintain, and where possible increase, the proportion generated from renewable sources. Although renewables constitute a high proportion of electricity generation in New Zealand compared with overseas averages, renewable electricity has decreased its market share of total electricity supply over recent years.

The National Energy Strategy will draw on various scenarios to explore New Zealand's energy options. The government accepts, of course, that some thermal power from fossil fuels will be needed in our energy system at least in the short to medium term. However, we must also recognise that, at some point, world oil and gas supplies are likely to become increasingly expensive. The strategy will therefore model the mix of generation types that we currently have available and are likely to have available in the future. It will also assess the scope for reducing greenhouse gas emissions by changing the generation mix while maintaining acceptable thresholds of price and security.

The government has a keen interest in the primary fuels sector given the declining reserves of natural gas, our dependence on imported oil, and the importance of having a reliable and large-scale supply of primary fuel in the energy mix. Having a reliable supply of energy remain will remain important to our economic output.

New Zealand is like many other countries in our desire to secure future energy supplies. But our geographic isolation and small size may make us more vulnerable than some other countries. When it comes to oil and gas supplies, if the future is one of a competition for an increasingly scarce resource, then we may lack the power to push to the front of the queue. This reinforces the desirability of finding more domestic fossil fuel reserves.

A subset of this topic that is of current importance are the approaching constraints on gas supplies. There are a number of differing views as to when this may occur. This is not surprising given the significant uncertainty around a range of factors on both the supply and demand side. However it will happen sooner rather than later if demand trends continue and no significant new indigenous gas discoveries are made.

We do have a challenge to meet following the decline in Maui gas reserves. . The government, for its part, has implemented a suite of important exploration initiatives – namely; pricing changes for Maui gas, resolution of pipeline access, royalty reductions, tax changes, and seismic data acquisition. In regard to the latter, data have already been acquired for the east coast of the North Island and are now being acquired in the Great South Basin.

These steps, combined with a more concerted effort to internationally promote New Zealand's exploration potential, have displayed the government's

commitment to action. We will continue to have an open mind to additional options. We are encouraged by the fact that industry agrees that prospects around New Zealand offer significant potential for oil and gas.

It is satisfying to note that exploration activity has increased. Sixty-six wells have been drilled in the past two years and a record number of seismic surveys have been carried out this summer. The Associate Energy Minister Harry Duynhoven covered the success of the increased activity this morning.

I should make mention of the blocks that the government has on offer. Over the last two years, industry has sought timely and regular turnover of prospective acreage for bidding purposes. In response, datasets made freely available for three basins in the past 12 months and over 20 onshore and offshore blocks were advertised. In the coming year, there will be further blocks and further data on offer.

The blocks which have been allocated to date have been awarded to companies with well-conceived exploration strategies, well-resourced balance sheets and aggressive work programmes. They have put forward bids that placed emphasis on the quality of the work programme bid, and their track records show that they fully deliver on the commitments made in their bids.

I encourage all exploration companies to follow the example set by the companies who are aggressively looking for new exploration acreage and actively seeking to overcome rig availability challenges facing the industry. Recent interest from explorers gives me some confidence that these challenges will be overcome. I will be taking a keen interest on exploration progress and look forward to targets being identified and drilled as early as possible.

In addition to the exploration incentives, the renegotiation of the Maui gas contract, which removed the Maui price overhang, and the implementation of open access to the Maui pipeline, are further measures where the government has played a key facilitation role which has helped encourage the exploration and development of gas.

The gas supply uncertainty has also highlighted the possibility of utilising imported gas. A number of companies are investigating options, in particular liquefied natural gas (LNG) and compressed natural gas (CNG). While I do not discourage diversity in our future energy mix, I would obviously prefer the solution to come from indigenous sources. Moreover, in my opinion it is desirable to maintain flexibility regarding fuel options for as long as possible. I would prefer to see final decisions being delayed as long as is feasible – but no longer - to allow all viable indigenous options to be considered. The government is closely monitoring the situation and keeping abreast of developments with interest.

We should not overlook liquid fuels. It's good to see projects coming to fruition – the Maari, Tui and Kupe and Pohokura projects are good news stories on a number of fronts. They collectively make a valuable contribution to the short to medium term gas supply. Perhaps as importantly, they give proof to our belief that New Zealand has good prospects in both oil and gas. They prove to explorers that there are good commercial gains to be made in New Zealand.

It is appropriate for me to comment briefly on the place of coal in the

government's policy mix. While the government's objectives put an increasing focus on renewable energy, the role of coal in the energy mix going forward should not be discounted.

Coal currently supplies around 12% of New Zealand's primary energy. However, a significant hurdle for the coal sector is the need to overcome the environmental impacts of coal production and use, particularly in relation to the associated emissions of CO₂.

But we cannot lose sight of the fact that Otago and Southland lignite resources hold an estimated 75,000 petajoules of energy (which equates to approximately 20 Maui's), significant proportions of which are likely to be economically recoverable. The real value in developing these vast resources may be to provide a chemical feedstock rather than a primary energy fuel. A technology, which looks increasingly feasible, is to convert lignite to synthetic gas, from which petroleum fuels, methanol, ammonia/urea and electricity can be produced. Another technology, hydrogenation and liquefaction, may be close to economic to produce a synthetic crude that can be refined into petroleum products. In each of these applications, it is said that the associated greenhouse gas emissions per unit of energy produced are likely to be significantly less than from direct combustion using current technology.

This leads me to a position where I would like to change hats and talk to you as Minister Responsible for Climate Change Issues. I would like to emphasise two points. Firstly, the government takes seriously the threat that human-induced climate change poses to our environment, economy, and way of life. Secondly, we are committed to reducing emissions and to meeting our international obligations.

Late last year I announced that the government would not be proceeding with its proposed carbon tax. We will instead pursue other ways to ensure New Zealand meets its commitments to control greenhouse gas emissions. While we have said that during Kyoto's first commitment period from 2008 to 2012 there will not be a carbon tax in its proposed form, or any other broad based measure, a more narrowly focused tax is still a possibility.

The decision not to implement the proposed carbon tax followed an interdepartmental review of climate change policy. Officials have been engaged in further policy work, in consultation with stakeholders. They report back in March on a revised climate change policy work programme. Amongst other things, the report-back in March will include work programmes looking at alternatives to the carbon tax, evaluating opportunities to reduce energy emissions generally both short and long term, and reviewing the role of the Kyoto Protocol mechanisms. There will be further stakeholder consultation on the detail of policy options once the work programmes are scoped. I look forward to the energy sector's contribution to this important process over the coming months.

I do not share the pessimism that some people have about our future domestic energy sources. Like the rest of the world, we undoubtedly face some major energy challenges in the coming decades.

But I believe that New Zealand is in a better position than most. Already, 70 per

cent of electricity comes from renewable sources. Our wind resources are probably second-to-none in the world and as yet are largely undeveloped. In the liquid fuels area, if biofuels are an important part of the future, its easy to conclude that New Zealand is well-placed to grow the fuel stock. And of course, independent of these possible future trends, we have fossil fuel reserves in lignite and some very plausible prospects for both oil and gas.

The government looks forward to continuing to work positively with your industry to meet the challenges the next decade will bring. I look forward to hearing of your future successes and thank you for your contribution to the prosperity of New Zealand.

For further information contact:

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

Bruce Donaldson
Private Secretary
Minister of Energy
Tel: 04 471 9922