



Hon Harry Duynhoven

Associate Minister of Energy

10 March 2008

Speech Notes

Address to the NZ Petroleum Conference 2008

Opening Address

Good morning ladies and gentlemen and welcome to the 2008 New Zealand Petroleum Conference.

I would like to extend a particularly warm welcome to Jacqueline Lang Weaver, Brenda Pierce, William Buechler and Maroot Mrigadat and to all our other distinguished international speakers and delegates. I trust that you will enjoy your time here in Auckland and that you will take home many pleasant memories of the BIG Little City.

Your presence not only represents the global nature of the petroleum industry, but also the critical links which New Zealand must have if it is to further develop its well recognised exploration potential.

This is the 11th New Zealand petroleum conference to date. Over the years it has provided an important opportunity for you, as key petroleum industry players, to come together with like minded people to exchange views and ideas. I am told that delegate numbers have increased over fourfold since the initial conference which is testament as to why this gathering has now rightly become such a significant biennial event.

Petroleum is an important national asset, and your attendance here is an indication of your commitment to the ongoing development of your industry.

This morning I would like to take the opportunity to comment on some of the highlights and changes that have occurred in New Zealand's petroleum sector since the last conference and to touch on some important matters for industry consideration going forward.

Firstly, however can I commend you all on the significant ongoing contribution that your industry makes to New Zealand's economy and to our way of life. It's clear that the petroleum industry is currently entering an exciting phase that reflects well on the performance of your sector.

Undoubtedly the two most notable highlights of the past two years have been the success of the Great South Basin blocks offer and the development of the Tui oil field project. I will talk further about these shortly.

When these are placed alongside the other successes that have occurred in the exploration and production sectors, you can feel justly proud, especially as these successes have been achieved during a time when globally there is considerable pressure to access resources and skilled personnel, along with escalating equipment and services costs driven by international demand.

It is pleasing to see the petroleum production sector looking particularly buoyant with four new major projects at or nearing fruition.

As most of you are aware, New Zealand's liquids production has been in decline since the Maui field peaked in 1997. This is all about to change with the Tui, Maari, Kupe, and Pohokura projects.

These projects will reach peak production by about 2010 and bring 140 million barrels of new reserves into the market. New Zealand's total oil production will then be at a record level not seen since the heady days of Maui.

These major projects, along with the smaller fields that have recently been developed (such as Cheal/Cardiff, Moturoa and Turangi), present a good news story on a number of fronts.

Collectively, they will materially assist with addressing New Zealand's overall requirement for domestic security of oil supply, help with addressing the balance of payments issue created by our dependence on imported oil, and make a valuable contribution to the short to medium term gas supply situation.

Equally importantly they will widen our economic diversity, give a positive message to the world that New Zealand has good prospectivity in both oil and gas, and show that there are good commercial gains to be made from both commodities. In addition they will provide a huge boost to Taranaki's local economy via employment and demand for services.

I think that it is appropriate at this point to acknowledge the outstanding achievement of AWE and their partners in developing the Tui oil field.

It has taken less than three years from Tui's initial discovery to undertake appraisal, carry out detailed technical and commercial analysis, and to finally design and build facilities to extract and process the oil.

Quite remarkable, and surely a feat that highlights that petroleum discovered in New Zealand can be commercialised in a very short period of time. This achievement shows New Zealand in a very positive light to potential investors in our petroleum sector.

The Tui project also marks a number of technological firsts for New Zealand. The technology used to extract the oil – the sub-sea completion engineering solution and the application of advanced drilling technologies to support the development of pumping stations located on the sea floor are a first for New Zealand.

While I am on the subject, I am very enthusiastic about new technology being the key to our energy future. My optimism springs from a confidence that

technological innovation will allow us to find and extract more petroleum around New Zealand while holding costs down.

Technology will help us to improve the efficiency of our energy use, thus extending the useful life of our resources, while offering greater protection to the environment. Ultimately, it will help provide us with a stable transition to an eventual non-hydrocarbon-based economy, whenever that might occur. Accordingly, I encourage you to continue to embrace and implement new technologies wherever possible.

Let me now turn to the exploration front. Last year's Great South Basin Blocks Offer proved particularly successful. The outcome heralds an exciting new chapter in contemporary petroleum exploration in New Zealand with an unprecedented \$1.2 billion proposed to be spent on exploration in the southern oceans off Southland over the next five years.

The level of interest shown in the Great South Basin by major international oil companies reinforced the government's view regarding its high potential.

This basin is clearly one of the world's hot spots for petroleum exploration and the government was pleased to award permits to high profile consortiums that included the likes of ExxonMobil (the world's largest publicly traded oil company), PTT Exploration and Production from Thailand, OMV from Austria, Mitsui Exploration and Production from Japan, and of course local companies Todd Energy and Greymouth Exploration.

It's pleasing for me to be able to say that the hunt for oil and gas in our southern oceans is now on in earnest. Activity is already well underway with both the ExxonMobil and OMV led joint ventures having made considerable progress in the acquisition of their seismic data.

The massive 17,000 Km 2D survey led by OMV is now over 80% complete and the 1200 square Km 3D survey led by ExxonMobil is over 60% complete. Given permits were awarded to these consortiums less than 12 months ago demonstrates the value of having well organised explorers working New Zealand acreage.

So what's planned for upcoming blocks offers.

Late last year we opened the Onshore Taranaki Basin blocks offer – one of the largest onshore blocks offers in recent years.

I am expecting a good outcome as these blocks contain a broad range of exploration opportunities that have already attracted interest from a variety of local and overseas exploration companies. It is anticipated that some of these companies will bring with them the type of experience required to unlock Taranaki's under explored deep gas plays.

Clearly innovative ideas and exploration methods are needed to unlock these deep reservoirs and allow these fields to perform to their full potential.

The next cab off the rank later this year will undoubtedly be the Raukumara blocks offer. Crown Minerals has previously expressed confidence that Raukumara has all the necessary components for hydrocarbon generation, migration and trapping mechanisms. Preliminary analysis of the recent seismic data acquisition in the basin has significantly strengthened that confidence.

In fact, it further vindicates the value of the data acquisition programme which we have embarked upon to open up new areas for exploration. Considering so much of New Zealand is under explored, the question in my mind is how much potential remains undiscovered?

Other block offers that we have on the near horizon are offshore Northland, offshore Taranaki, Canterbury and East Coast. Internationally, rapidly improving petroleum exploration technologies have led to the discovery of deposits in places nobody imagined decades ago.

Consequently Crown Minerals is looking at what further work needs to be done to encourage the expansion of exploration into our own frontier areas and previously overlooked basins. This work will extend to basins such as Challenger, Pegasus, Bellona, and Reinga.

Coal seam gas is often thought of as petroleum's bridesmaid so I am extremely heartened that this section of your industry has been advancing steadily in recent times on a number of fronts.

Coal deposits in the Waikato, Westland, Otago and Southland are being rigorously tested with positive results. Last year I awarded the first coal seam gas mining permit to McDonald Investments for its project near Greymouth.

Coal seam gas has potential to contribute in a number of ways to our energy mix and I look forward to other exploration projects coming to fruition.

It is also encouraging to hear of the attention that is currently being given to diversity in play concepts. I have previously mentioned deep, tight gas but explorers are now also seriously reviewing or targeting the potential of gas shales, gas hydrates, and fuel from petrochemical feedstock derived from coal. All novel play concepts in the New Zealand context that will ultimately be unlocked by committed explorers using new technologies.

One also needs to reflect on the changing profile of exploration companies in New Zealand. There have been a number of significant acquisitions since the last conference in 2006. The likes of Pogo and Bridge have been sold, while others such as Swift, TAG, Westech and Tap have repositioned themselves by wholly or partially selling their New Zealand assets.

This has presented interested companies with an opportunity to build up their portfolios or to diversify. One such company is Greymouth Petroleum which has now become one of our more significant locally owned explorers and developers.

Moreover, the departure of Swift has enabled Origin Energy to take a much stronger position in the upstream sector. Over the last twelve months Origin Energy, AWE, and GSB newcomers ExxonMobil and PTTEP have become major

players on New Zealand's petroleum scene. This, I believe, demonstrates that these companies recognise that New Zealand is a future growth area.

I would now like to make some observations and comment on a number of matters that industry should be aware of going forward.

Firstly, it's interesting to reflect on how asset values can change over time. Gas storage, principally carbon dioxide and methane, has created a convergence of interest in subsurface geology. Depleted or empty reservoirs with the right characteristics may now have value, depending on size and location. Interest in such reservoirs will certainly increase over time, fuelled by both environmental and commercial imperatives.

The government is currently assessing the regulatory framework surrounding gas storage, particularly in respect of carbon dioxide sequestration, and how it ties into government policy priorities and New Zealand's international environmental law obligations.

Issues such as reservoir ownership and long term liability also need to be carefully worked through. I suggest that it would be pertinent for interested explorers and developers to keep abreast of developments in this area.

At the last conference I spoke about a concern that I have about the level of litigation within the industry. While the level of litigation has abated, I would like to stress again that we need to work collectively, constructively and in good faith rather than pursuing divisive court room manoeuvrings.

I am aware that settling legitimate business differences is often not easy but I appeal to you to test all other available avenues as alternatives to the litigation route.

Inevitably there will be occasion where friction or tension occurs between industry and government as the regulator. When these occasions arise healthy and robust debate on several fronts is usually generated.

Whilst tensions will inevitably arise from time to time, officials will continue to work alongside industry and identify opportunities that ensure that the contribution of the petroleum sector to the economy is recognised, and where efficiencies in regulatory policy and practices can be achieved.

Current petroleum policy is now effectively five years old. In this time there has been a significant change in oil prices and a number of shifts in industry issues and practices as a result. We now need to ensure the current petroleum programme maintains pace with the rapidly changing exploration environment in New Zealand.

Officials will further consult with industry this year about proposals for changes to the petroleum programme, with the expectation of a new programme being put in place in 2009. The review will include policies around streamlining our allocation regime; and minimum work commitments tailored to the range of petroleum basins.

Late last year the government launched the NZ Energy Strategy which responds to two major challenges that our energy sector faces. Namely, addressing climate change by reducing our emissions, and ensuring we have secure, clean energy at an affordable price. I do not intend to go into this in any detail as my colleague Hon David Parker will be talking about the energy strategy tomorrow.

What I do want to emphasise is that while we will be focussing on renewables particularly for electricity generation, fossil fuels and especially gas, will continue to have an important role to play in New Zealand's energy mix.

In fact, a strong market for gas will continue in New Zealand for some time to come for electricity generation and industrial and residential supply. This demand will be provided with an additional dimension should Methanex restart its mothballed Motunui methanol complex in Taranaki.

To conclude, I would like to reiterate to you all that:

- New Zealand continues to present new opportunities from both established petroleum regions and in frontier areas;
- New Zealand is a country where accelerated exploration and development projects can be completed;
- future blocks offers will continue to be supported by comprehensive data packages to aid your exploration decisions;
- litigation is expensive and your exploration capital is best spent on activities that increase knowledge and deliver company growth and energy security to New Zealand;
- we will continue to have a strong and resilient domestic gas market in the short to medium term; and
- New Zealand should set its sights on becoming an oil exporter to the world.

With today's high prices and eager markets both domestically and internationally, it's an opportune time for Exploration and Production activities in New Zealand.

I wish you all well in your search for oil and gas in New Zealand and I look forward to hearing of your successes.

Ladies and gentlemen thank you for listening and enjoy the rest of your conference.