

## Consultation for Block Offer 2015

Each year the government runs a Block Offer tender for permits to explore for petroleum, including gas hydrates. This gives the government control over when and where areas are made available for exploration. The process has been run since 2012, replacing a ‘first-come first-served’ approach.

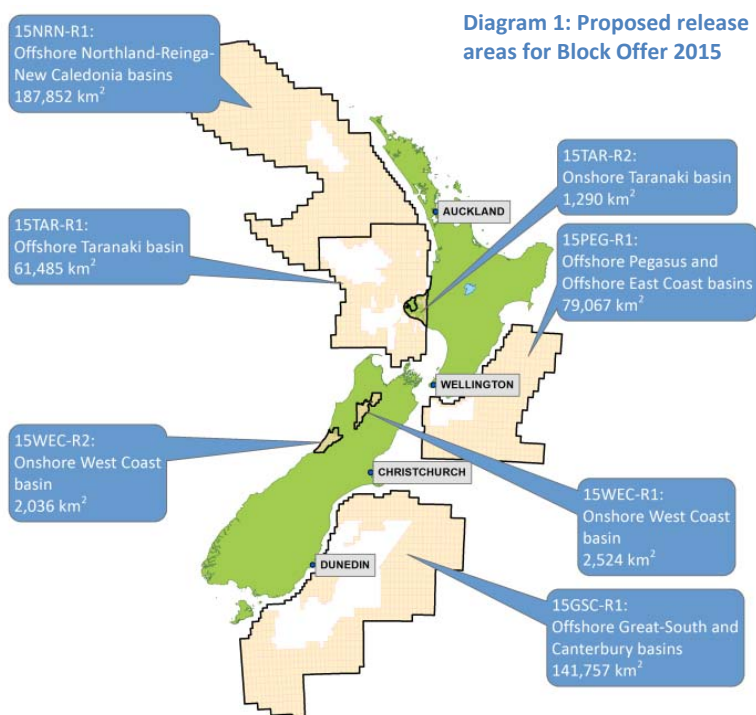
The proposal for Block Offer 2015 includes a mix of onshore and offshore areas, including both well-explored areas and areas where there has been little or no previous exploration.

The proposal is made up of areas (called “release areas”) that may be permitted for exploration (shown in Diagram 1). They have been chosen based on what is known about the likelihood of oil and gas deposits in these locations, and commercial interest from exploration companies.

The mix of onshore and offshore areas, including mature and frontier acreage, is expected to appeal to a wide range of operators. Some of the acreage may change slightly once permits are granted for Block Offer 2014. These permits will be announced from December 2014.

### Protected areas

Many protected sites are not included in the Block Offer. We do not include World Heritage sites in Block Offer proposals. The Crown Minerals Act 1991 also identifies land closed for exploration or mining activity. New Zealand’s most important conservation areas are identified in Schedule 4 of the act. None of these areas are included in the Block Offer proposal.



## CONSULTATION

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The Minister of Energy and Resources will decide which areas are included in the Block Offer tender. NZP&M consult with potentially affected iwi and hapū before the tender is announced to inform the Minister's decision.

The purpose of the consultation process is to identify areas of significance the Minister needs to be aware of. We want to identify sites that might need to be protected for their cultural significance (for example, sites that are not protected by other legislation). The Minister may remove these areas from the Block Offer, or put conditions on any permits over the areas, to protect them.

Consultation with affected iwi and hapū is required by the Crown Minerals Act. We also consult with affected local authorities. (The Act does not provide for us to consult with the public). The consultation lasts for 40 working days. It opens on 14 November and closes on 9 February. The Block Offer will be released in March 2015.

## BIDDING

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NZP&M is also responsible for the tender process. We assess all tenders and grant permits. Bidding for the tender opens with the announcement of the Block Offer and launch of the *Invitation for Bids*. Bids can be made by individual companies or joint ventures.

They may bid for one or more permits within a release area. The release areas are made up of smaller "blocks" - and companies can bid for a permit covering one or more adjoining blocks. Limits to the total size of permits in each release area will be announced when bidding opens. This gives them flexibility to bid for a specific permit area based on their own analysis. Operators must provide a work programme identifying the permit area they want and explain how they propose to explore the area.

### Assessing bids

The Block Offer is not a financial tender. Instead bids are assessed according to criteria defined in the Crown Minerals Act 1991, the Petroleum Programme 2013 and the *Invitation for Bids* document.

We consider the proposed work programme, the applicant's technical and financial capability, their compliance history and their ability to meet expected health and safety and environment requirements. The successful bidders will be granted permits from December 2015. If NZP&M find that no bidders for a release area meet the required criteria, no permits will be granted. Any areas left over after permits are granted may be included in future Block Offers.

### Once permits are granted

Getting a petroleum exploration permit is the first step in the regulatory process to explore for oil or gas. Permits may be granted for up to 15 years (and can be extended).

The exploration permit allows permit holders to search for commercially recoverable reserves of oil or gas in a specific area. Activities allowed include sampling, aeromagnetic surveys, geological studies, compiling reports, seismic surveys and drilling exploration wells. The permit does not give them the right to mine or produce oil or gas commercially. A separate permit is needed for that (and we would consult with all affected iwi and hapū beforehand).

Once an exploration permit is granted it may be some years before any exploration drilling takes place. First, the permit holder will need to arrange access to the permit area and organise any consents required by relevant government agencies.

When they have the necessary consents the operator may begin the exploration activity defined in their work programme. The activities fall into several stages over the period of the permit. Exploratory drilling usually happens around halfway through the permit or towards the end of it.

## **FREQUENTLY ASKED QUESTIONS**

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### **Why does New Zealand need more oil and gas exploration?**

New Zealand is relatively underexplored and further investment in exploration is needed.

Building a more competitive and productive economy is a Government priority. Oil is already our fourth largest export. Natural gas contributes significantly to domestic industries and electricity generation. The Government collected \$370 million in royalties in the last financial year. Future oil and gas discoveries would significantly lift exports, improve Gross Domestic Product, increase government revenue and create opportunities for regional development.

### **Why does the government use a Block Offer approach?**

In 2012 the Government adopted block offers exclusively to allocate petroleum exploration permits. This replaced a first-come, first-served approach where the government had little influence over when or where companies applied for petroleum exploration permits.

The process is transparent and enables us to better engage with iwi, hapū and councils before the final tender is announced. Adoption of an annual cycle for the tender also assists us to promote the Block Offer and New Zealand's potential for great petroleum exploration to investors.

### **Why does NZP&M consult with iwi and hapū on the Block Offer?**

The Minerals Programme for Petroleum 2013 (Minerals Programme) requires NZP&M to consult with any iwi and hapū with an interest in an area that is proposed to be part of a Block Offer. This allows us to make sure any culturally significant sites are protected. The Minerals Programme also allows New Zealand Petroleum & Minerals to consult with local authorities, which ensures the decisions about the composition of the tender are well-informed.

### **Why are the release areas so large?**

The proposed release areas cover a range of mature and frontier acreage, making the tender attractive to a range of operators. It expands on what was offered for Block Offer 2014, and includes new areas that have not been offered before. The total area of the proposed Block Offer 2015 is over 476,000 square kilometres. This is 18 per cent larger than the total area offered for Block Offer 2014.

The area that we consult on is much larger than the area that will eventually get permitted. If no bids meet our criteria there may be no permits granted at all. The proposed release areas are large, sometimes covering more than one exploration basin. We consult on this proposal to identify any sensitive areas that need to be removed from the Block Offer. Companies then bid for the blocks in a release area they consider most attractive. NZP&M then reviews their bids and then grants permits. Throughout each of these steps, the area involved progressively gets smaller until we arrive at the final permit area.

It is also important to recognise that only a small portion of the permit will be affected by any exploration activity. Drilling is expensive and time-consuming, and operators will only drill where their analysis and research suggests they have the best chance of finding oil or gas.

### **When does the government consult with the public about petroleum exploration and development?**

The public are usually consulted when the permit holder applies for environmental consents to drill production wells:

- as part of the local authority's resource consent process (for activity onshore and in territorial waters), or
- the Environmental Protection Authority's marine consent process (for activity outside territorial waters).

### **What does an exploration permit allow the holder to do?**

An exploration permit gives a permit holder the rights to search for commercially recoverable reserves of oil and gas in a specific area. The activities allowed include sampling, aeromagnetic surveys, geological studies, compiling reports, seismic surveys and drilling exploratory wells to establish if oil or gas is in the area. Before they begin any exploratory drilling the operator must get:

- resource consent(s) from the local district council (if on land) and regional councils (if on land and in territorial waters); or
- a marine consent from the Environmental Protection Authority (if beyond 12 nautical miles).

The permit holder must commit to a work programme, during which there are a number of decision points (a 'commit or surrender point').

- Three months before each decision point the permit holder must either commit to the complete work in the next stage of the programme, or surrender some of the area in

their permit. Elements of the work programme are agreed with NZP&M or determined by the Petroleum Programme.

- If there is a commitment to drill an exploration well they must seek approval 45 days before the related commit or surrender point. NZP&M will at least 7 days before the exploration drilling decision is due.

If the permit holder is required to give up part of their permit they must provide a map to NZP&M proposing the area they will relinquish at least 28 days the relinquishment is due. If the permit holder wants to change the key deliverables agreed work programme they must apply to NZP&M. NZP&M must be notified of any changes to secondary deliverables.

Separate work programmes are required for conventional and unconventional petroleum resources.

#### **How long are permits granted for?**

All permits will commence on 1 April 2016 unless another date is specified by the Minister. Expected permit durations for each basin are:

Location	Duration (from commencement)
Onshore release areas	10 years
Offshore Taranaki	12 years
Offshore Reinga-Northland, New Caledonia, Great South & Canterbury and Pegasus & East Coast basins	15 years

#### **Can more than one permit be held in the same area?**

Permits give the permit-holder exclusive right to explore for a specific resource in a permit area.

The Crown Minerals Act 1991 and the Minerals Programme for Petroleum 2013 identify the Block Offer as the normal process for allocation permits to explore for petroleum and to explore for gas hydrates. These are distinct permits, and under the Block Offer both kinds of permit can be granted over the same area. Permits can also be granted for other activities in the area – such as prospecting.

Under the conditions of the permit, the permit holder cannot unreasonably refuse consent or put unreasonable conditions on someone else with a permit in the same permit area.

#### **What conditions must permit holders meet when drilling wells?**

Wells drilled under an exploration permit must target a specific objective agreed with NZP&M. Any wells drilled or re-entered under the permit must be closed (“plugged and abandoned”) following good industry practice.

For examples of the expected conditions for exploration permits see the [Invitation for Bids for Block Offer 2014](#) on our website: [www.nzpam.govt.nz](http://www.nzpam.govt.nz)

### **What happens if a permit holder contracts work to someone else. Who is responsible?**

Permit holders remain accountable to meet permit obligations, even if they contract a third party to undertake work.

The permit holder must also:

- pay fees (including annual fees) for their permit.
- pay and report on royalties to the Crown.
- submit reports to NZP&M.

### **What happens if oil or gas is found?**

If commercial quantities of petroleum are found, operators must apply for a petroleum mining permit from NZP&M. The process for this application includes further consultation with affected iwi and hapū. Resource consents and marine consents are also required before they can begin drilling production wells.

### **How will my community benefit from an oil or gas discovery**

The Government receives about 42% of a petroleum company's profit (including taxes, royalties and levies). This helps the government fund services that benefit everyone in New Zealand.

At a regional level, benefits include:

- new jobs and training opportunities,
- business investment in the community, and
- development of local infrastructure.

The benefits will depend on what is found and where it is found. Taranaki is the only region currently producing oil and gas in New Zealand. According to Venture Taranaki the oil and gas sector directly and indirectly employs over 7,700 people.

### **How does the Government manage health and safety and environmental issues related to the industry?**

Health, safety and environmental matters are managed by a number of government agencies, including local government:

- NZP&M assesses an applicant's technical and financial capability, compliance history and assesses whether they will be likely to meet health safety and environmental legislation before we grant a permit.
- The Minister for the Environment is responsible for legislation and regulations applying to EEZ and territorial waters. This includes the Exclusive Economic Zone and



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Continental Shelf (Environmental Effects) Act 2012 (EEZ Act) and the Resource Management Act 1991 (RMA).

- The Environmental Protection Authority manages the effects of specified restricted activities on the environment in the Exclusive Economic Zone and continental shelf. They manage applications for marine consents, monitor compliance, and enforce relevant legislation.
- WorkSafe New Zealand monitors the health and safety of staff and oil wells throughout their design, construction, operation, maintenance, modification, suspension and abandonment.
- The Department of Conservation is responsible for protected species and manages guidelines for minimising disturbance to marine mammals from seismic surveys and seismic surveying regulations in marine mammal sanctuaries.
- Maritime New Zealand ensures operators have plans to manage waste, and to respond to emergencies arising from an oil spill or leak. They are also responsible for New Zealand's readiness and coordination of a response to a major oil spill.
- Local authorities manage the potential environmental effects of activities onshore and in territorial waters (through resource consents).

More information about the regulation of the petroleum industry and relevant legislation is on our website: [www.nzpam.govt.nz](http://www.nzpam.govt.nz)