

Block Offer 2016 Awards - Questions and Answers

15 December, 2016

Contents

Block Offer 2016 Awards - Questions and Answers.....	1
Block Offer 2016 Awards - Questions and Answers.....	2
What is the Block Offer?	2
When did Block Offer 2016 open?	2
How are bids assessed?.....	2
Why did the other bids not succeed?	2
How many bids failed for Block Offer 2016?.....	3
What does an exploration permit allow the holder to do?	3
Questions on the global petroleum market.....	4
Why are the number of bids and permits lower this year?	4
Why are oil prices still low?.....	4
How is this impacting spending internationally? (in \$USD)	4
How does the Block Offer response compare internationally?	4
What oil and gas exploration is underway?.....	5
Why does New Zealand need more oil and gas exploration?.....	5
Background on Block Offer 2016	6
How were the areas in the tender selected?.....	6
Who did you consult with for Block Offer 2016?	6
What changes were made to the Block Offer proposal following consultation?	6
Did the government consult with the public?.....	7
How does the Government manage health and safety and environmental issues related to the industry?	7

BLOCK OFFER 2016 AWARDS - QUESTIONS AND ANSWERS

What is the Block Offer?

The Block Offer is an annual tender used to allocate petroleum exploration permits.

In 2012 the Government adopted the Block Offer tender process to allocate petroleum exploration permits. This replaced a first-come, first-served approach that gave the Government little influence over when or where companies applied for petroleum exploration permits.

This process is transparent and enables us to engage with affected iwi, hapū and councils before the final tender is announced. The Block Offer process also assists us to target promotion of New Zealand's potential for petroleum exploration. New Zealand Petroleum and Minerals (NZP&M), which is part of the Ministry of Business, Innovation and Employment (MBIE) administers the tender, assesses bids and grants or declines permits.

When did Block Offer 2016 open?

The Government opened the tender for Block Offer 2016 with an *Invitation for Bids* in March 2016. The invitation lists specific areas, made up of blocks, which companies may bid for. This allows companies to define their desired permit area based on their analysis of the available data.

The tender included a total area of 525,515 square kilometres, including one onshore area and four offshore areas. Bidding for the tender closed on 7 September 2016.

Information on the Block Offer 2016 tender is available on the NZP&M website.

How are bids assessed?

Bids are assessed according to criteria set out in the Crown Minerals Act 1991, the Petroleum Programme 2013 and the Invitation for Bids.

This is not a financial tender. Bids must set out how the company proposes to explore its desired permit area, including the methods and technologies they plan to use. Bids can be made by individual companies or joint ventures.

This assessment considers the bidder's work programme and other criteria including their technical and financial capability, their compliance history and their likely ability to meet health, safety and environmental requirements.

Why did the other bids not succeed?

NZP&M received a number of bids for Block Offer 2016. A thorough evaluation and assessment process was undertaken according to criteria set out in the Crown Minerals Act 1991, the Petroleum Programme 2013 and the Invitation for Bids document 2016.

The number of bids received was lower than in previous years, and in the end NZP&M only granted one permit. While this is disappointing, it is important that as a regulator NZP&M continue to apply the legislation consistently and that bids meet the requirements of the Crown Minerals Act 1991, despite the downturn.

How many bids failed for Block Offer 2016?

NZP&M does not publicly disclose who made bids as part of the Block Offer, how many bids were not granted, or why bids were not granted, as this information is commercially sensitive.

What does an exploration permit allow the holder to do?

An exploration permit gives the permit holder the rights to search for commercially recoverable reserves of oil and gas in a specific area. The activities allowed under this permit include sampling, aeromagnetic surveys, geological studies, compiling reports, seismic surveys and drilling exploratory wells to establish if there is oil or gas in the area.

Before they begin any exploratory drilling the operator must get:

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

Permit holders must also arrange land access with the landowner and/or occupier. Access to conservation land must be arranged with the Department of Conservation.

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 and marine consents are also required.

For more information see our [guide to government management of petroleum](#)

QUESTIONS ON THE GLOBAL PETROLEUM MARKET

Why are the number of bids and permits lower this year?

The global downturn in the petroleum industry that began in late 2014 has had a profound effect on exploration expenditure worldwide.

Prices reached a 10 year low of US\$29/barrel (Dated Brent) at the start of this year. Some industry commentators are calling this the worst downturn the industry has experienced in decades.

In the current market, both globally and in New Zealand, there is less appetite to commit to new expensive exploration ventures – particularly in offshore frontier basins.

Many companies are avoiding committing capital to new ventures until they see a sustained recovery in the oil price.

Why are oil prices still low?

The key drivers for the low oil price include slow growth in demand from large consumers such as in China, Europe, and India, and an excess supply of crude oil.

How is this impacting spending internationally? (in US\$)

According to the IEA, in 2015 global upstream expenditure declined 25 per cent to US\$583 billion. They forecast it will decline a further 24 per cent this year to US\$443 billion.

Exploration spending declined 30 per cent to US\$90 billion in 2015. Exploration spending is expected to decline to US\$65 billion this year.

Some exploration companies such as Anadarko and Apache have cut their exploration spending between 60 per cent and 80 per cent.

How does the Block Offer response compare internationally?

New Zealand's Block Offer 2016 results are consistent with global trends and show in that in the current market there is limited appetite for new exploration.

Global bid rounds such as New Zealand's annual Block Offer are continuing despite the downturn.

As exploration and production companies have cut their budgets, competition to attract investment among jurisdictions has increased. Both frontier and mature jurisdictions are witnessing a low to medium level of capital commitment.

- In the US Gulf of Mexico, the total bid value (in US dollar terms) was 42 per cent lower in 2015, compared to 2014.

- In the UK, fewer well drilling commitments were made in the 2015 bid round compared to the 2014 bid round.
- In Norway, 33 oil companies have applied for exploration licences under Norway's 2016 bid round, offering 139,942 km² of acreage in relatively mature areas. 43 companies applied in the 2015 bid round.
- Among the bidders for acreage in Norway's 2016 round are Statoil, Shell, BP, Total, Lundin Petroleum, Wintershall, OMV and Faroe Petroleum. US supermajor ExxonMobil, a regular participant in Norwegian bid rounds, did not participate in the 2016 bid round.

While bids for new exploration permits are being submitted and permits granted, the value of the work programmes is often lower than in previous years. Work programme bids have tended to focus on lower cost activities such as seismic acquisition rather than more expensive drilling projects.

What oil and gas exploration is underway?

In 2016, significant investments in seismic acquisition have been made in the New Caledonia Basin and the onshore Taranaki Kapuni 3D seismic survey. The Kapuni survey was the largest onshore 3D survey undertaken in New Zealand. Drilling onshore in Taranaki is scheduled for 2017.

The 2016/17 offshore seismic season is also busy and includes the largest offshore 3D survey undertaken in New Zealand. There are currently two vessels acquiring 3D surveys on the East and West coasts of New Zealand.

The Schlumberger 3D survey (underway)

- Taking place offshore Wairarapa to Napier and covering 13,400 km² this is the largest 3D seismic survey ever acquired in New Zealand

The PGS 3D survey (completed)

- Offshore Upper South Island covering 1,600 km²

The OMV 3D survey (underway)

- Offshore New Plymouth covering 1,000 km²

Why does New Zealand need more oil and gas exploration?

Building a more competitive and productive economy is a Government priority. Before the global price downturn, oil was one of our largest exports. Natural gas contributes significantly to domestic industries and electricity generation. Exploration and production companies spent approximately \$7.7 billion between 2011 and 2015. In the last nine financial years, exploration

and production companies paid more than NZ\$3 billion to the Government in royalties and levies.

Future oil and gas discoveries would significantly lift exports, improve Gross Domestic Product, increase government revenue and create opportunities for regional development.

For more information see the [Business Growth Agenda report – Building Natural Resources](#)

BACKGROUND ON BLOCK OFFER 2016

How were the areas in the tender selected?

Areas are identified based on formal nominations received from industry and other interested parties, and the data that is available about their geological prospectivity. The tender did not include any land listed in Schedule 4 of the Crown Minerals Act 1991 (including national parks, nature reserves, wildlife sanctuaries and marine reserves), or World Heritage sites. Areas of importance to Māori identified in section 3.1 of the Petroleum Programme were not included either (such as Mount Taranaki and the Pouakai, Pukeiti and Kaitake Ranges).

Who did you consult with for Block Offer 2016?

Between 3 September and 30 October 2015, NZP&M consulted with 177 iwi and hapū groups and 42 local authorities on proposed release areas for the tender.

The aim of consultation is to identify sensitive areas not already protected by legislation, so NZP&M can take steps before launching the Block Offer. Options include removing areas from the Block Offer or putting conditions on activities within an area to recognise its importance.

Officials reviewed consultation submissions and made recommendations for changes to the Minister of Energy and Resources.

See [Consultation for Block Offer 2016](#) for more information.

What changes were made to the Block Offer proposal following consultation?

Following consultation, the Minister added the following requirements to the tender:

Permit requirements for onshore Taranaki

Permits granted for Block Offer 2016 in onshore Taranaki undertaking petroleum exploration activities within 200m of the Tangahoe, Patea and Whenuakura rivers will be required to give Te Rūnanga o Ngāti Ruanui 20 days' written notice before the activity commences.

Did the Government consult with the public?

Public consultation usually takes place later in the regulatory process - once a permit has been granted. Consultation may take place if the permit holder has to seek resource consent from a local authority, or if they need a marine consent from the Environmental Protection Authority.

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, and 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 a permit is granted.
- The Minister for the Environment is responsible for legislation and regulations applying to the Exclusive Economic Zone and territorial waters. This includes the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012 and the Resource Management Act 1991.
- 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 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 activities onshore and in territorial waters through resource consents, under the Resource Management Act 1991.

For more information see our guide [to responsibilities of local and central government in offshore exploration and production](#) and our guide to [government management of petroleum](#).



NEW ZEALAND
PETROLEUM & MINERALS

Permit Map

