



Consultation for Block Offer 2016

Each year the government runs the Block Offer, a 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, and replaced a 'first-come, first-served' approach.

The proposal for Block Offer 2016 includes both 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 "release areas" that may be permitted for exploration (see Diagram 1). These have been chosen based on commercial interest from exploration companies and on the known likelihood of oil and gas deposits in these locations.

The proposal is designed to appeal to a wide range of operators. It may change slightly after we announce the Block Offer 2015 permits, in December.

Protected areas

The Block Offer does not include a range of protected sites. We do not include World Heritage sites in the proposal. Other areas are excluded because they are closed for exploration or mining activity under the Crown Minerals Act 1991. 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.

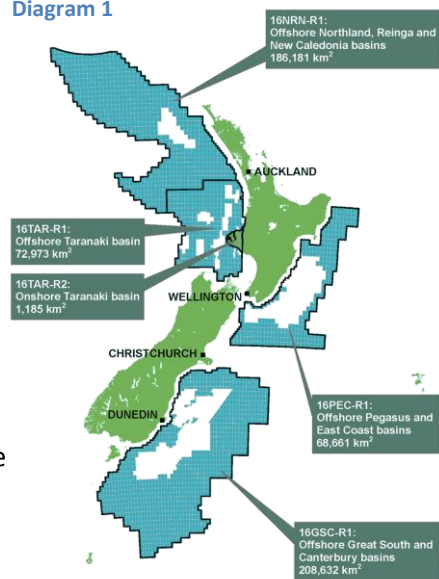
CONSULTATION

The Minister of Energy and Resources decides which areas are included in the Block Offer tender. Beforehand, NZP&M consult with potentially affected iwi and hapū. This consultation helps to inform the Minister's decision.

The purpose of the consultation 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 1991. We also consult with any local authorities that could be affected. The Act does not provide for us to

Diagram 1



consult with the public. The consultation lasts for 40 working days. It opens on 3 September, 2015 and closes on 30 October 2015.

The Block Offer 2016 tender will be opened on 21 March 2016.

BIDDING

NZP&M is also responsible for the Block Offer tender process. We assess all tender bids 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.

These companies 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. There are limits put on the total size of permits in each release area, and these are announced when the bidding opens. This gives bidders the flexibility to bid for a permit in a specific area, based on their own analysis.

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 environmental requirements. We expect to announce the successful bids from December 2016. If NZP&M find that no bidders for a release area meet our 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. Permits may be granted for up to 15 years. Permits can be extended for longer periods.

Getting an exploration permit allows permit holders to search for commercially recoverable reserves of oil or gas in a specific location. Activities the permit allows 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: they need to apply for a separate permit for that (and we would consult with all affected iwi and hapū before it is granted).

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 regulatory 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

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 ahead of the tender. Adoption of an annual cycle also assists us to promote the Block Offer and New Zealand's potential to investors.

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

The Minerals Programme for Petroleum 2013 (Petroleum 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 Petroleum Programme for Petroleum also allows NZP&M 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, to attract a range of operators. It builds on what was offered for Block Offer 2015, and includes areas that have not been offered before. The total area of the proposed Block Offer 2016 is 537,632 square kilometres.

The proposed release areas we consult on are large, sometimes covering more than one exploration basin. But not all of these areas will get permits.

(Moreover, it is possible that no bids will meet our criteria. If so, no permits would be granted).

Diagram 2 shows how the consultation area for Block Offer 2014 was significantly larger than the final area we granted permits for.

The size of the areas involved is gradually narrowed down in stages.



Diagram 2

We consult on the proposal to identify any sensitive areas. These are then removed from the Block Offer if needed. Then companies bid for specific parts in a release area they consider attractive. NZP&M reviews their bids and then grants permits to the best bidder. Through each of these steps the area involved gets progressively smaller until we arrive at the final permit area.

Even then, only a small portion of the permit area will be explored. 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 of oil or gas 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 complete the work outlined in the next stage of the programme, or surrender some or all of their permit area. Minimum requirements for work programmes are defined in the Petroleum Programme.
- If there is a commitment to drill an exploration well, the permit holder must apply for approval to drill 45 days before the related commit or surrender point.

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 in the work programme they must apply. NZP&M must be notified of any changes to secondary deliverables.

How long are permits granted for?

All permits will commence on 1 April 2017 unless another date is specified by the Minister. Expected permit durations for each basin are:

- Onshore release areas: 10 years from commencement date
- Offshore Taranaki release areas: 12 years from commencement date
- Offshore Northland-Reinga, Great South & Canterbury and Pegasus & East Coast basins: 15 years from commencement date

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

Permits give the permit-holder exclusive right to explore for specific resources 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 granted through a Block Offer.

Overlapping permits can also be granted for other activities in the area including prospecting for oil or gas. ([See here for more information on permit types](#)).

The Invitation for Bids for Block Offer 2016 will be published in March 2016.

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 [Information for Bids for Block Offer 2015](#).

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.



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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 the proposed operator 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 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