

BLOCK OFFER 2017 AWARDS - QUESTIONS AND ANSWERS

What is the Block Offer?

The Block Offer is a competitive tender process used to allocate new petroleum exploration permits.

Block Offers have been used annually since 2012 and replaced a first-come, first-served approach.

The Block Offer approach is transparent and enables us to engage with affected iwi, hapū and councils before the final tender is announced. Block Offers also allow us the ability to strategically promote New Zealand's exploration and development potential. One of the roles of New Zealand Petroleum and Minerals (NZP&M), which is part of the Ministry of Business, Innovation and Employment (MBIE) is to administer the tender, assess bids and grant or decline permits.

When did Block Offer 2017 open?

The Government opened Block Offer 2017 with an Invitation for Bids in March 2017. The invitation lists specific areas, made up of blocks, which companies may bid for. This allows companies to define their preferred permit area based on their analysis of the available data.

The tender included a total area of 481,735 square kilometres, including two onshore areas, five offshore and one offshore/onshore areas. Bidding for the tender closed on 6 September 2017.

Information on the Block Offer 2017 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 do some bids not succeed?

NZP&M received a number of bids for Block Offer 2017. 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 2017. It is important that as a regulator, NZP&M continues to apply the legislation consistently and that bids meet the requirements of the Crown Minerals Act 1991.

How many bids failed for Block Offer 2017?

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 right to search for oil and gas in a specific area. Typical activities undertaken under a permit include sampling from rock outcrops or the seabed, or airborne surveys that measure the earth's magnetism and gravity as well as looking for naturally occurring oil and gas seeps. A range of desktop studies are also undertaken such as geological research and analysis of survey information. As the understanding of a permit area improves, companies may decide to increase their investment and conduct seismic surveys. Towards the end of the exploration cycle exploratory wells may be drilled to establish if commercial quantities of oil or gas are present.

There are a range of regulatory requirements that a company must fulfil before activities such as drilling can occur. For example, if a company wants to drill a well:

- A resource consent would be 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. In addition to a Petroleum Mining Permit, before any development or production can occur, environmental approvals through the resource and marine consent process are also required.

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

QUESTIONS ON THE GLOBAL PETROLEUM MARKET

Why do the number of permits granted remain low?

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

Prices reached a 10-year low of US\$29/barrel (Dated Brent) at the start of 2016.

Prices have recovered somewhat, but in the current market, both globally and in New Zealand, there is less appetite to commit to new expensive long-term exploration ventures – particularly in offshore frontier basins. Companies have other options to invest in oil and gas exploration outside of Block Offers. For example, over the last two years many companies have chosen to invest in mergers and acquisitions rather than new exploration permits. Mergers and acquisitions allow companies to buy in to mature exploration permits and or producing oil and gas fields that have existing cashflow.

Many companies remain averse to committing capital to new exploration ventures until they see a sustained recovery in global oil prices.

However, global oil and gas demand is forecast to exceed supply from existing fields by 2020 and as a result, global exploration activity is expected to recover in the medium-term.

Why are oil prices still low?

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

How is this impacting exploration expenditure internationally?

According to the IEA, global upstream expenditure fell by 44 per cent between 2014-2016. However, expenditure on exploration and production is expected to have increased by around 7 per cent in 2017 and is forecast to rise by around 4 per cent in 2018.

How does New Zealand's Block Offer compare internationally?

New Zealand's Block Offer 2017 results are consistent with global trends and show in that in the current market there is still a limited appetite for significant new exploration spending.

Petroleum companies have continued to focus on pre-existing exploration commitments, maximising returns from producing assets, and growing through mergers and acquisitions. For example, Block Offer 2017's successful Bidder, Westside New Zealand Limited, entered New Zealand last year by acquiring the onshore Rimu and Kauri production assets in southern Taranaki from former operator, Origin Energy.

As exploration and production company exploration budgets remain constrained, competition to attract investment among jurisdictions has increased. Both frontier and mature jurisdictions are witnessing a low to medium level of capital commitment.

While some bids for new exploration permits are being submitted and permits are being granted, a high percentage of work programme bids have tended to focus on lower cost activities such as seismic acquisition rather than more expensive drilling projects.

How long is this trend likely to continue for?

Oil prices increased to around US\$64/barrel (Dated Brent) in early December 2017 having steadily recovered in the latter half of the year from the lows of 2016 and early 2017. However, exploration and production company earnings need a sustainable recovery to support a general lift in global exploration activity in the short term.

What oil and gas exploration is underway?

In 2016/17, significant investments in seismic acquisition have been made, including the largest offshore 3D survey undertaken in New Zealand.

There is currently one vessel acquiring a 3D seismic survey off the Taranaki coast, a well proven area for oil and gas exploration. This survey, by Schlumberger, covers approximately 6,500km².

Why does New Zealand need more oil and gas exploration?

Building a high wage and productive economy is a Government priority and petroleum products are one of our more significant exports. Natural gas contributes significantly to domestic industries and electricity generation and energy security. Exploration and production companies spent approximately \$8.7 billion in New Zealand between 2011 and 2016.

BACKGROUND ON BLOCK OFFER 2017

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 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 2017?

NZP&M consulted with 146 iwi and hapū groups and 43 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.

NZP&M received 25 submissions, 12 from iwi and hapū and 13 from local authorities. We reviewed the submissions and made recommendations to the Minister of Energy and Resources.

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

See [Consultation for Block Offer 2017](#) for more information.

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

Following consultation, the Minister decided to exclude blocks:

- within 12 nautical miles in the Canterbury-Great South release area;
- within three nautical miles in Hawke's Bay up to the southern point of Gisborne, in the Pegasus-East Coast 2 release area;
- within six nautical miles in the Gisborne region in the Pegasus-East Coast 1 release area; and
- that cover the Takitimu mountain range in the Southland release area.

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.



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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](#).

Permit Map

