



**NEW ZEALAND
PETROLEUM & MINERALS**

Financial Securities Guidelines Petroleum Decommissioning

OCTOBER 2025



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI

Te Kāwanatanga o Aotearoa
New Zealand Government



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI

Ministry of Business, Innovation and Employment (MBIE) Hīkina Whakatutuki – Lifting to make successful

MBIE develops and delivers policy, services, advice and regulation to support economic growth and the prosperity and wellbeing of New Zealanders.

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Removal of the mid-water arch from the Tui oil field decommissioning project.

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Using these guidelines

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Definitions:

Where reference is made in these guidelines to a clause in the Programme, this will be indicated by the prefix ‘P’. For example, P13.21 refers to clause 13.21 of the Programme. References to a section are to the Act unless otherwise stated.

Capitalised terms used but not defined in these guidelines have the meaning given to them in the Act and the Programme.

Reference to “**Highly Likely**” should be read as meaning – “highly likely to have the financial capability to carry out and meet the costs of decommissioning (see P13.18)”.

In keeping with P13.1(6), in this guideline the use of the terms “Permit”, “Permit Holder” and “Permit Participant” should be taken to also mean “licence”, “licence holder” and “person with a Participating Interest in a licence” unless expressly stated otherwise.

Data confidentiality

All information received by MBIE under the Act will be maintained in accordance with MBIE operational policy. All information submitted to, and held by, MBIE is subject to the Official Information Act 1982 (the “**OIA**”). See Financial Capability Guideline – Petroleum Decommissioning, Appendix 1.

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Introduction

These guidelines support Part 1B Subpart 2 of the Act and Chapter 13 of the Petroleum as they relate to financial securities. They provide guidance on how the Minister is likely to assess different considerations, guidance on how the Minister is likely to interpret specific terms, and other information that may be of assistance relating to how the Minister may determine an Acceptable Financial Security Arrangement (“AFSA”).

The Minister retains legislative discretion in respect of all matters covered by these guidelines.

Requirement for acceptable financial security arrangements

Section 89ZL(1) and P13.21 state that Permit Holders and licence holders must ensure there is in place and maintained an AFSA on behalf of the Crown, of a kind and amount determined by the Minister.

An AFSA means a Financial Security Arrangement (“FSA”) that the Minister is satisfied operates in an acceptable way and provides an acceptable level of security in accordance with sections 89ZL, 89ZM, and 89ZN, the regulations, and the Programme, in relation to the performance of obligations imposed on persons under Subpart 2 of Part 1B of the Act.

An FSA means 1 or more financial securities to secure the obligations imposed on persons under this subpart and may —

- (a) include financial securities of the same kind or different kinds.
- (b) relate to 1 Permit or licence or more than 1 Permit or licence, or both.
- (c) be held by 1 or more Permit or licence Holders or Permit Participants or other persons.
- (d) include any other variations relating to each financial security, comprised in the financial security arrangement, or the operation of each of those financial securities.

Financial securities for petroleum exploration permits

G1. Petroleum exploration permits (P13.21(3))

Ordinarily where a petroleum exploration Permit Holder:

- has no decommissioning obligations, a nominal security will be required.
- has any Petroleum Infrastructure and/or Wells which need to be decommissioned, those obligations will be considered in the same way as any other Permit.

Kinds of financial security

G2. The kinds of financial security that may be acceptable (P13.22(4)(b))

There are four kinds of financial security the Minister is likely to accept:

- (1) Escrow accounts¹ managed by an independent Custodian (see G5).

Funds held in an escrow account may, if the terms and conditions of the AFSA provide, be able to be invested in -

¹ See G5 and Appendix 1

- Cash, including fixed interest deposits (“**Cash**”)².
- Government Debt, including Treasury and local government bills, government and local government bonds, which are traded on an active secondary market (e.g., the NZX Debt Market) (“**Government Debt Securities**”).
- Managed Investment Schemes, being open-ended multi-asset managed funds investing in varying proportions of different asset types (e.g., shares, property, bonds, or cash). These may be actively or passively managed with differing risk and return profiles (“**Investment Fund**”)³.

Those escrow account funds (or Investment Fund units) must be transferred outright (free and clear of any encumbrances) to the Custodian. Any interest, dividends and other returns generated by funds held in the Escrow Account will be capitalised to and held for the benefit of the Escrow Account.

- (2) Bank Securities (from a bank or other suitable financial institution such as an insurance company) for example, letter of credit, performance bond, bank guarantee or surety bond (“**Bank Securities**”)⁴.
- (3) Parent Company Guarantee (“**PCG**”) ordinarily being an unlimited guarantee of the performance of decommissioning obligations. It would usually be provided by Related Parties in favour of the Crown. If part of an AFSA, ordinarily another form of security would also be provided (see Appendix 4).
- (4) Section 97(5)⁵ Security (monies paid in respect of any monetary deposit or bond), paid to and held by MBIE in trust⁶ (“**Section 97 Securities**”). Note – there is no further discussion on this security. In the first instance refer to s89ZN(4) and section 97.

Other securities will be considered on a case-by-case basis noting the Minister’s considerations outlined in the Act and P13.23(3) and (4).

Unrelated financial securities

Permit Holders (or, if applicable, Permit Participants) may have unrelated financial securities in place which would have priority under the Personal Property Securities Act 1999 (“**Priority Security**”) to any AFSA put in place under the Act. Where a proposed FSA has any Priority Security, the FSA should disclose the provider, kind, amount and general terms and conditions of the Priority Security.

Ordinarily the Crown will ask the Permit Holder (or, if applicable, Permit Participant) to seek agreement from the provider of any Priority Security to agree their claims either exclude any AFSA or rank after the Crown’s claim.

Foreign currency

Financial securities may be held or denominated in a currency where there is a natural hedge of the future decommissioning costs (e.g., United States dollars, where future decommissioning costs are expected to be paid in that currency). Also see P13.23(4).

Investment Funds may include a portfolio with international securities denominated in foreign currency. There is no expectation of a natural hedge although that may be a consequence.

² A fixed interest (including term) deposit is considered ‘liquid’ as it can usually be used to secure a loan if it is not able to be liquidated before the end of its term.

³ See Appendix 3

⁴ See Appendix 2 and Appendix 1 Bank Security - Tranches

⁵ And section 47H Petroleum Act 1937

⁶ Part 7 of the Public Finance Act 1989 applies subject to the CMA section 97(2), (4) and (5).

Unlikely to be an acceptable security

In considering whether an FSA will ensure the Crown can obtain payment (section 89ZM(1)(c) and the considerations outlined in P13.23(4)), the Minister is unlikely to consider the following kinds of security as suitable:

- direct bank deposits (i.e., held with a bank in a Permit Holder's or Permit Participant's name) - they would not satisfy the requirement of section 89ZL(5) that any financial security is put in place and maintained for the benefit of the Crown.
- close-ended and single asset managed investment schemes (often associated with forestry and property syndicates) - due to their general underlying risk of exposure to a limited asset class.
- mortgages and security over real and personal property - due to their general underlying risk, especially where the property concerned is related to the decommissioning obligations.
- any type of investment or holding in or with Related Parties.

Costs and administrative burden

The following are examples of the types of conditions which may be imposed on any AFSA:

- the Permit Holder (or whoever is providing the financial security) being responsible for all administrative costs associated with the establishment, operation and maintenance of financial securities (e.g., custodian and bank security fees and expenses) and should, as appropriate, establish between themselves the mechanism to share any costs (as applicable).
- legal fees (and any other costs) sitting where they fall as between the Permit Holder (or whoever is providing the financial security) and MBIE during the establishment and documentation of the AFSA. Custodian legal fees and costs will be for Permit Holder account during establishment. Any costs incurred by MBIE for changes required post-establishment will be for Permit Holder (or other person) account.
- Resident Withholding Tax ("**RWT**") or other taxes and fees. Where RWT (or any other tax or fee) is deducted from any financial security (e.g., an escrow account), the Permit Holder (or whoever is providing the financial security) will be required to deposit the total amount deducted (if any) in any year into the financial security (e.g. escrow account) on an annual basis within 30 days of the calendar year end (or other agreed date).

Administrative burden for MBIE and the complexity of any financial security arrangement will be a consideration in evaluating any proposal.

G3. Financial security arrangements may comprise different kinds of financial security (P13.22(4)(c) and (5))

A Permit Holder may propose an FSA with more than one kind of financial security.

Where two or more Permit Participants propose multiple securities as a package, all the securities that can be readily held jointly should be held jointly to reduce complexity and improve administrative efficiency.

Any proposal should consider the guidance on:

- Amount of financial security (see G6).
- Bank Securities (see Appendix 2)

- Investment Funds (see Appendix 3)
- PCGs (see Appendix 4)

Timing or Deferral of Establishment

Where there is more than one financial security in the AFSA, each financial security must be in place and maintained within the timeframe determined by the Minister.

For example, a Deferral of Establishment might see:

- a Bank Security established for an amount to cover the first 5 years of operation (possibly retained thereafter or replaced, for example, by a lump sum to an Escrow Account) (see for example Appendix 1, 2. Bank Securities-tranches); and
- an Escrow Account established, with nominal cash contributions in the first 5 years and thereafter larger periodic payments made as determined by the Minister (see Appendix 1, 1. Escrow Accounts).

Encouraging Decommissioning

The Minister may consider deferring the time by which any FSA must be in place where a Permit Holder proposes to undertake a programme of decommissioning activity during the period of the deferral (e.g., an agreed number of Wells plugged and abandoned and/or Petroleum Infrastructure decommissioned).

In considering such proposals, the Minister will ordinarily take into account the impact on the future cash generation of the Permit Holder (see G6).

G4. Financial security arrangement may cover multiple permits (P13.22(4))

A Permit Holder may propose an FSA which includes, for example, financial securities from the:

- Permit Holder (i.e., the Permit Participants jointly)
- Permit Participants (individually or with others)
- Permit Participants (individually or with others) encompassing more than one Permit and Permit Holder.

Note - the decision on any AFSA is on a Permit-by-Permit basis.

It is the Permit Holder who must propose the FSA which may differ between Permit Holders where more than one Permit is involved.

The following are provided as examples, provided for illustrative purposes and are not intended to limit any proposal a Permit Holder may wish to make. These examples are further developed in Appendix 6.

Individual Permits

Permit Holders

Permit Holders may propose an FSA (including amount) which jointly secures the decommissioning obligations of all Permit Participants. The process in P13.22-P13.23 will be applied to the Permit Holder.

Permit Participants

Where the Permit is held by multiple Permit Participants, the Permit Holder may propose FSAs specific to each Permit Participant. The process in P13.22-P13.23 (with any necessary modifications) will be applied to the Permit Holder. This may result in different Permit Participants with the same Participating Interest providing different FSAs.

For example⁷, two Permit Participants each have a 30% Participating Interest. One may be required to provide an FSA based on 30% of the total Permit Decommissioning Cost Estimate (“DCE”), while the other may be required to provide an FSA based on 20% of the DCE.

Multiple Participants

The Permit Holder could, where there are two (or more) Permit Participants, propose an FSA (including amount) representing the Permit Participant’s combined Participating Interest in the Permit. The process in P13.22-P13.23 (with any necessary modifications) will be applied.

Multiple Permits

A single entity, or a group consisting of Related Parties (“Group”) may wish to provide one or more financial securities for more than one Permit. While the respective Permit Holders must propose the FSA, such an approach can be structured in various forms. For example -

- **Across Permits** - A single entity which holds a Participating Interest in several Permits, may propose to the Permit Holders an FSA representing the total of their Participating Interests in each of the Permits and which secures their decommissioning obligations across all those Permits.
- **Related Parties** - A Group which holds a Participating Interest in several Permits (e.g., through multiple entities), may propose to the Permit Holders an FSA (including amount) representing the total of their Participating Interests in all the Permits and which secures their decommissioning obligations across all those Permits. The financial security could (depending on its kind) be held in the name of one entity (usually a parent company) with an appropriate form of cross guarantee.

Amount of security

For the avoidance of doubt. Where a Permit Participant (or another party) provides the financial security, the Minister will determine the amount of security in respect of each Permit following the process in P13.22-P13.23 (with any necessary modifications) applied to the respective Permit Holders. The amount of security will then be the sum attributable to all relevant Permits. See G6 Amount of financial security.

Joint and Several Liability

None of these arrangements affects joint and several liability.

⁷ For context, see G6 Amount of financial security (figure 1)

Holding of financial securities

G5. How financial securities may be held (P13.23(1)(c))

Financial services provider

The Minister is likely to expect an AFSA be held along the following lines:

Escrow accounts. The Minister is likely to appoint a **Custodian**⁸ which will provide an administrative service to manage the process for holding and reporting on any Cash, Government Debt Securities, or Investment Fund units ("**Cash-based Investments**") held on trust for the Crown and managed in a separate account (Escrow Account).

Bank Securities and PCGs (which are documentary in nature) and Section 97 Securities are likely to be held by MBIE on behalf of the Crown.

Providers of security and investment products

- Cash will be deposited directly to a registered bank having a credit rating no lower than the minimum rating in the table below ("**Strong Investment Grade**").

Rating Agency	Minimum Rating
S&P	A-
Fitch	A-
Moody's	A3

- Government Debt Securities must have a Strong Investment Grade credit rating.
- The provider of a Bank Security is expected to have a Strong Investment Grade credit rating and be a registered bank or licenced insurer.
- Registered banks and licenced insurers must be under the prudential supervision of the Reserve Bank of New Zealand (or another international institution approved by the Minister) and not subject to foreign exchange restrictions.
- Investment Fund – see Appendix 3.
- PCGs – see Appendix 4.

Amount of financial security

G6. Example of how an amount may be determined (P13.23(5))

Where the Permit Holder is a sole Permit Participant, the amount of the AFSA will ordinarily follow the approach described in P13.23(5) and as illustrated in Figure 1 (subject to both eligibility for the reductions applied and the application of the discretion by the Minister).

Where the Permit Holder consists of more than one Permit Participant, the starting point would ordinarily be the estimated cost of decommissioning ("**DCE**") for each Permit Participant calculated based on its Participating Interest in the Permit (i.e. DCE * Participating Interest) -

- any Highly Likely reduction would be based on the Permit Holder FCA outcome;
- any 'other information' increase or decrease would be based on the Permit Holder assessment (excluding any Highly Likely assessment taken into account above);

⁸ Being a provider of regulated client money or property services (as defined in the Financial Markets Conduct Act 2013) registered on the Financial Service Providers Register.

- any PCG⁹ or Income Tax Rebate (and/or Royalty Rebate) would be based on the specific eligibility of the Permit Participant.

The resulting Amount (of Security) in Figure 1 is the total value of any Escrow Account balances, Bank Securities and Section 97 Securities provided over the time period (or based on production of reserves) determined by the Minister.

Decommissioning Cost Estimate

The DCE represents the Permit Holder's DCE and is the estimated current cost at the time of preparing the most recent Decommissioning Plan submitted to MBIE -

- where total remaining 2P reserves¹⁰ are used (see Appendix 1 Reserves) the DCE should be adjusted to include the estimated cost to decommission any undeveloped Petroleum Infrastructure and/or Wells which support the remaining 2P Reserve production profile.
- where an exemption has been granted (see P13.9) it is expected the Permit Holder will update its DCE to reflect that effect, if any¹¹.

For the avoidance of doubt. It is the intention the Permit Holder (in total) provides security based on 100% of the Permit DCE before the other factors shown in Figure 1 are taken into account

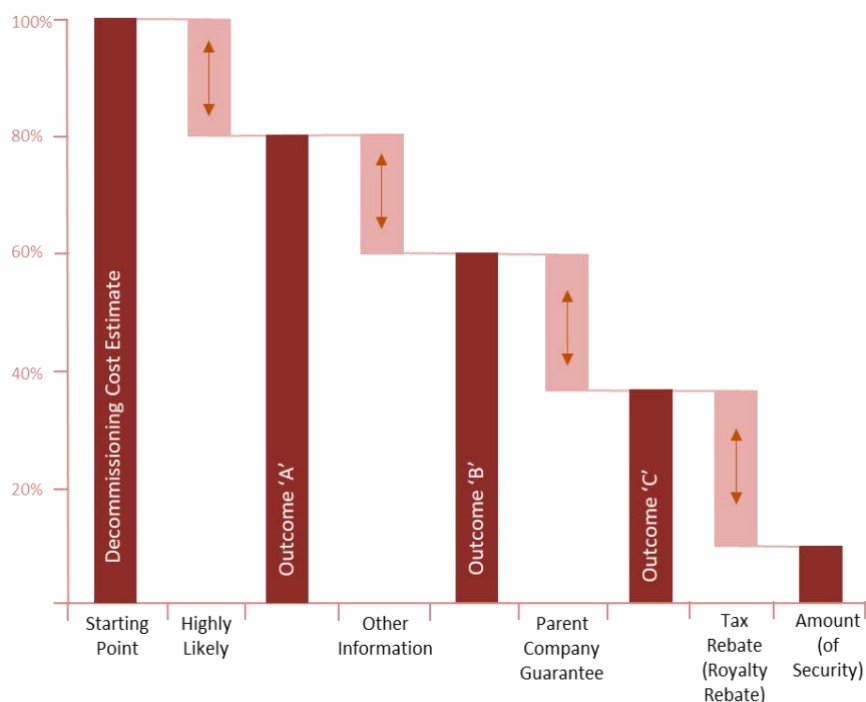


Figure 1 - illustration of how ordinarily the amount of AFSA may be determined.

Ministerial Discretion

The Minister has broad discretion to determine the amount of security based on any matters the Minister considers relevant within the scheme and purpose of the Act. In general terms, the Minister will weigh the matters in the Act and determine the AFSA on a case-by-case basis.

⁹ Any deduction applied in respect of a PCG is taken into account in determining the 'Amount (of security)' does not represent the amount of the PCG itself – which is ordinarily expected to be an unlimited PCG from a party with a strong credit rating (see Appendix 4 – PCGs).

¹⁰ Estimated to be produced before permit expiry (see Appendix 1 Reserves)

¹¹ Where there is an existing FSA in place and the Permit Holder wishes to amend the Amount (of security), an alteration to the FSA (section 89ZO and P13.24) will apply.

Example 1.

- the Minister may consider the recommendation for the weighting of Other Information does not sufficiently recognise benefits associated with the Permit Holder although the Permit Holder did not attain Highly Likely.
- the Minister might adjust the weighting of Other Information (e.g., from a 20% to a 30% reduction to the DCE). Conversely the Minister could adjust the weighting for any risks identified (e.g., from 20% to 10%).

Example 2.

- If the Permit Holder (or other person) does not meet the ordinary eligibility criteria for any (or all) of the specific reductions (i.e., PCG and tax rebates (and/or royalty rebates) the Minister might apply greater (or lesser) weight in the Other Information. This may (partly) compensate for not benefitting from the specific reductions to the DCE.

Use of financial security arrangements

G7. Use of financial security during decommissioning (P13.27)

The following relates to both partial and the final decommissioning of Petroleum Infrastructure and Wells.

Ministerial Discretion

The Minister will consider a request from a Permit Holder (or other person) to use a part of or all cash-based security (i.e., Cash, Government Debt Securities, Investment Fund, Section 97 Securities) to carry out the decommissioning to which the security relates. If such a request is granted, the terms and conditions of the relevant FSA could be expected to set out how the process will operate.

Cash Calls

A Permit Holder (or the Permit Participant) may propose cash-based securities be refunded on a cash call basis and paid directly to the Permit Operator^{12,13}.

If accepted, to ensure an effective process (and to enable the Custodian to monetise any securities in an orderly fashion), the Permit Holder/Participant may provide to MBIE in writing, preferably 45 days in advance of requiring the first payment:

- the cash call process envisaged, including:
 - o phasing of anticipated cash calls.
 - o timing (i.e., normal date) of the cash call notice to pay.
 - o due date for calls to be paid.
 - o where applicable, the respective share for each Permit Participant or other person (e.g., where Permit Participants have separate escrow accounts).
 - o Permit Operator's bank account details where the funds should be paid.
 - o how decommissioning work completed will be verified.

¹² Cash calls are requests for payment for anticipated future capital and operating expenditures (commonly used in joint ventures by the joint venture operator to non-operating participants). In this instance, the cash call process will refund an agreed amount using a series of staged payments, timed so the recipient can meet decommissioning expenses as they are incurred (not as a lump sum payment in advance of decommissioning expenses being incurred).

¹³ As the DCE used to calculate the escrow payments (and the escrow payments themselves) does not include GST, cash calls should not include GST.

- the reporting process envisaged, including the frequency for providing to MBIE updates on the decommissioning costs incurred (as provided to Permit Participants) and the estimated cost to complete the decommissioning.

Changes to Bank Securities will be considered under alteration of financial securities (see P13.24) or release of financial security post the decommissioning (see G8).

Partial decommissioning activities

The Minister may, for example, agree to releasing a proportional amount of security held where further decommissioning obligations will remain.

Before consenting to a partial refund, the following factors may be considered and as necessary an adjustment made to any Escrow Account balance:

- where any partial refund will come from an Investment Fund, the state of that Investment Fund will be considered. Ordinarily any Investment Fund losses resulting from the refund will be made good by the Permit Holder or Permit Participant (see Appendix 3).
- where any partial refund will come from a withdrawal from an interest-bearing security, ordinarily any mark-to-market losses will be made good by the Permit Holder or Permit Participant.
- the partial refund shall ordinarily be in the same proportion to the total cash-based financial security held as the estimated cost of the Petroleum Infrastructure and/or Wells being decommissioned is to the total DCE (see below).
- the refund being paid is based on cash calls.

A typical calculation of a partial refund from an Escrow Account would be:

$PR = (EB + BS + s97) * DA / DC$ where:

PR = the Partial Refund (\$)

EB = Escrow Account balance (after adjustment for any Make Good and/or crystallised losses) (\$)

BS = Bank Security (face value) (\$)

s97= Section 97 Security (\$)

DA = DCE of the separately identified Petroleum Infrastructure and/or Wells being decommissioned in the most recently submitted DCE¹⁴ (\$)

DC = the total DCE of Petroleum Infrastructure and/or Wells in the most recently submitted DCE¹⁵ (\$)

Final decommissioning

It is expected any final decommissioning (i.e., a Permit has permanently ceased production) will be preceded by a notice of cessation¹⁶.

A Permit Holder should first meet the costs of decommissioning from its own resources. Access to the financial securities held as an “Amount (of security)” should only be requested when the estimated decommissioning costs remaining are equal to or less than the sum of the financial securities held plus any tax or royalty refund expected.

¹⁴ Section 89ZC.

¹⁵ Section 89ZC.

¹⁶ Section 42C(3).

G8. Release of financial security following decommissioning (P13.28)

To be satisfied all decommissioning obligations have been met and there is no remaining need for a financial security, the following must be completed:

- Receipt by MBIE of the final asset register.
- Receipt by MBIE of the decommissioning completion report¹⁷.

¹⁷ Section 89ZE.

Appendices

Appendix 1. Escrow accounts

Periodic Payment Calculation (Reserves Based)

1. Escrow Account – cash-based payments

An Escrow Account is managed by a Custodian which receives lump sums and/or periodic payments (in cash) from the Permit Holder (or any other person). The funds received in the Escrow Account may be invested in Cash, Government Debt Securities or Investment Funds as proposed by the Permit Holder, in line with the considerations and conditions outlined in P13.23(4), G2, G3, G4, G5 Appendix 2 and Appendix 3.

Periodic Payments - Reserves Based

Ordinarily, the calculation of a reserves based periodic payment (usually quarterly, paid 30 days in arrears) to an Escrow Account would be:

$$EP = ((A * B) - (A * C) - D - E - F - G - H) * P / R * K$$

Where:

EP = the Escrow Payment (\$).

A = DCE (\$) – see G6

B = Outcome B (%) – see G6

C = extent (%) DCE covered by PCG – see G6

D = the balance (\$) in any Escrow Account.

E = the face value (\$) of any Bank Securities.

F = the balance (\$) of any Section 97 Securities.

G = the estimated tax refund (\$).

H = the estimated (net) royalty refund (\$).

P = production available for sale in barrels of oil equivalent (**BOE**) for the relevant period.

R = remaining Reserves (see G6) available for sale in BOE updated at the beginning of each year or following a revised reserves report.

K = the appropriate **Compound Interest Factor** - recognises the effects of compound interest (or other investment earning and growth) over time. See 'Compound Interest Factor' below.

See 'Periodic Payment Calculation (Reserves Based)' - worked examples below.

Periodic Payment - Flat

Ordinarily a flat periodic payment may be more appropriate where:

- there are not predominantly reserve-based operations (e.g., tolling operations) and future volumes are difficult to estimate with certainty.
- existing infrastructure is no longer (or only partially) operational.
- reserves are fully or nearly fully depleted.
- production has been suspended for some time (e.g., due to well issues) and future production is uncertain.

- there are no reserves (e.g., only resources) but infrastructure and/or wells remain to be decommissioned.
- there are Exploration Permits (see G1).

The periodic payment for tolling operations will ordinarily be calculated as a flat amount:

$$EP = ((A * B) - (A * C) - D - E - F - G - H) * P / R * K$$

Where:

EP = the Escrow Payment (\$).

A = DCE (\$) – see G6

B = Outcome B (%) – see G6

C = extent (%) DCE covered by PCG – see G6

D = the balance (\$) in any Escrow Account.

E = the face value (\$) of any Bank Securities.

F = the balance (\$) of any Section 97 Securities.

G = the estimated tax refund (\$).

H = the estimated (net) royalty refund (\$).

P = 1

R = number of agreed quarterly periods reflecting the agreed metric (e.g., estimated throughput, expected useful life).

K = the appropriate **Compound Interest Factor** - recognises the effects of compound interest (or other investment earning and growth) over time. Considered with reference to contractual terms, reserves or another appropriate basis. See 'Compound Interest Factor' below.

Escrow Flexibility

The Minister is conscious a 'one size fits all' approach will not always be appropriate and may result in unintended consequences.

MBIE encourages Permit Holders in this situation to discuss the matter with officials, noting examples under the heading 'Development' below and the information which can be provided when responding to the s89ZL(2) notice (see P13.22(1)+(6) and G2).

Reporting

The Permit Holder or other person will be responsible for advising MBIE (copied to the Permit Holder) of the periodic payments (usually quarterly) made to the Custodian at the time the payment is made. Supporting details of the payment made should include details of the production, by product, in both standard units (e.g., barrels of oil) and BOE.

2. Bank Securities – tranches

A Permit Holder or other person may wish to progressively increase the face value of Bank Securities over time (i.e., in tranches).

To be considered, such an approach is expected to:

- be for a period of 3 to 5 years, calculated in full year increments.

- have a face value (in \$000) based on the Escrow Account methodology (see Periodic Payments – Reserves Based above), with P equal to the forecast production for the period selected (e.g., 3 years) and the Compound Interest Factor (K) set at 1.
- be consistent with the Permit Holder's history of actual versus forecast production.
- take into account the administrative effort and cost involved for both the Permit Holder or any other person and MBIE.

Reserves

Reserves: Based on the Petroleum Resources Management System Guidelines

For the purposes of this guideline remaining **Reserves** may be either:

- remaining 2P developed reserves (i.e., based on assets currently in place); or
- total remaining 2P reserves based on developed and undeveloped reserves, where the DCE would be adjusted to include the undeveloped infrastructure and/or wells which support the 2P reserves figure used.

where remaining reserves are based on the forecast production profile, constrained by the decommissioning timing (see below).

2P developed reserves are most closely related to the asset register. However, a number of Permit Holders have advised they do not calculate 2P developed reserves and industry practice is more commonly associated with total 2P Reserves.

Reserves should be based on the Permit Holder's reserves report. For a joint venture, it is expected the reserves will have been approved by its Operating Committee or similar. Officials may request a copy of the reserves report.

Annual Updates. For the escrow calculation (see above), reserves are usually updated annually. Where there is a revised reserves report during the year (e.g., as a result of a Permit extension or technical revision) reserves should be updated if significant, from the start of the next quarterly period.

Decommissioning Timing

The Permit Holder must carry out their decommissioning obligations before the **expiry** or surrender of the Permit (unless a deferral has been granted)¹⁸. The CMA and Programme also address timeframes where, for example, production permanently ceases before Permit expiry and the criteria the Minister must consider in agreeing or setting timeframes¹⁹.

Development

Permit Holders should discuss with officials the most appropriate approach where:

- there is development in a new Permit which has not produced (e.g., to determine a financial security to mitigate the risk of decommissioning petroleum infrastructure and/or wells if commercial production is unsuccessful).
- there is new or ongoing development in a producing (or previously producing) Permit which will result in a higher DCE (e.g., >20% of the current decommissioning cost estimate) and/or

¹⁸ See P13.4.

¹⁹ P13.5 sets out the considerations when agreeing or setting dates for decommissioning.

- significant 2P undeveloped reserves are being progressively brought on stream (e.g., integrating incremental reserves, production and DCE into an escrow calculation).
- production volumes (and associated revenue) are relatively small compared to the DCE (see 'Periodic Payment Calculation (Reserves Based)' above).
- an application for Permit extension has been made, noting 'Decommissioning Timing' above.

Periodic Payment Calculation (Reserves Based) - worked examples

Examples assume the Year begins on 1 July 2024 and Permit Holder is "Highly Likely".

Calculation 1. Initial Periodic Payment (PP)

Assuming the first s89ZN Notice (P13.25(1)) had been issued and the first quarterly payment is to be based on production during the quarter 1 July 2024 to 30 September 2024. The example inputs below would result in the first periodic payment of \$0.286m being due once the quarter has been completed.

Variable	Description	Value	Units
A	Decommissioning Cost Estimate (DCE)	22	\$m
B	Extent A is covered by financial security	80	%
C	Extent A is covered by Parental Company Guarantee (PCG)	20	%
D	Balance of cash/Govt securities in the Escrow Account	0	\$m
E, F, G, H	All assumed 0	0	\$m
K	2P remaining reserves expected to last 12 years (within Permit expiry)	65	%
P	Actual production 1 July 2024 to 30 Sept 2024	4	mboe
R	2P remaining reserves at 1 July 2024	120	mboe

Calculation: $PP = ((A \times B) - (A \times C) - D - E - F - G - H) \times P / R \times K$
 $PP = ((22 \times 0.8) - (22 \times 0.2) - 0 - 0 - 0 - 0 - 0) \times 4 / 120 \times 0.65$
 $PP = 13.2 \times 4 / 120 \times 0.65$
PP = \$0.286m

Calculation 2. The Second Periodic Payment

Following the above example, the second periodic payment would be based on production 1 October 2024 to 31 December 2024. The example inputs below would result in the second payment of \$0.270m. Note D is assumed to increase by a minor interest payment, and R has not changed.

Variable	Description	Value	Units
A	DCE	22	\$m
B	Extent A is to be covered by financial security	80	%
C	Extent A is covered by PCG	20	%
D	Balance of the Escrow Account (including interest)	0.40	\$m
E, F, G, H	All assumed 0	0	\$m
K	2P remaining reserves expected to last 12 years (within Permit expiry)	65	%
P	Forecast production 1 Oct 2024 to 31 Dec 2024	3.9	mboe
R	Developed reserves at 1 July 2024	120	mboe

Calculation: $PP = ((A \times B) - (A \times C) - D - E - F - G - H) \times P / R \times K$
 $PP = ((22 \times 0.8) - (22 \times 0.2) - 0.4 - 0 - 0 - 0 - 0) \times 3.9 / 120$
 $PP = 12.8 \times 3.9 / 120 \times 0.65$
PP = \$0.270m

Calculation 3. The Second Periodic Payment, With a “Significant” Upward Revision of Reserves

When completing Calculation 2, R was calculated using the 2P Reserves as at 1 July. Usually reserves would be updated annually (taking into account both production and other revisions). In the event of a significant increase (e.g., 20% or more) in 2P Reserves during the year, it may be appropriate to revise R and K if the production profile extends the Permit life (within the Permit expiry date). The timing of the revision would be the beginning of the next quarter.

For this example: reserves have been revised during September 2024, so on 1 October 2P remaining reserves are estimated at 140 mboe (net of YTD production), the production profile extends to 16 years (K is therefore 0.54) and there is no change to the DCE. Note D is assumed to increase by a minor interest payment. P has not changed (the increased production came onstream in late September).

The example inputs below would result in the second payment of \$0.193m.

Variable	Description	Value	Units
A	DCE	22	\$m
K	2P remaining reserves expected to last 16 years (within permit expiry)	54	%
R	2P remaining reserves at 1 October 2024	140	mboe

Calculation: $PP = ((A \times B) - (A \times C) - D - E - F - G - H) \times P / R \times I$
 $PP = ((22 \times 0.8) - (22 \times 0.2) - 0.4 - 0 - 0 - 0 - 0) \times 3.9 / 140 \times 0.54$
 $PP = 12.8 \times 3.9 / 140 \times 0.54$
PP = \$0.193m

Calculation 4. The Second Periodic Payment, With a “Significant” Downward Revision of Reserves

In the event of a significant decrease (e.g., 20% or more) in 2P Reserves during the year the Permit Participant may choose to either apply Calculation 3 (with the appropriate changes to the variables) in reverse, effective from the next quarter or wait until the beginning of the next year to apply the changes.

Compound Interest Factor (“CIF”) Defined

This factor is intended to recognise the effects of compound interest (or other investment earning and growth). It is acknowledged the actual outcome will be different, but the effect of this variation is factored into the Escrow calculation where the formula adjusts for the quarterly value of the cash-based securities held (see ‘Escrow Account – cash-based payments’ above).

In this example, it has been initially set as follows and will be subject to regular (not necessarily annual) review:

- An estimated real rate of return, based on Treasury estimates for the risk-free rate and consumer price index (“CPI”). These figures are published quarterly, with the figures below being based on the September 2023 tables. [NZ Treasury Tables](#)²⁰
- For the purposes of ‘Escrow Accounts – cash-based payments’ above, and in the interest of simplicity, the Compound Interest Factors (**K**) are based on 5-year periods. The factor to be used is based on the number of years remaining, being the shorter of Permit expiry or 2P reserves (see ‘Reserves’ above) as:
 - o 1 to 5 years (average 3) = 0.91 (91%)
 - o 6 to 10 years (average 8) = 0.78 (78%)
 - o 11 to 15 years (average 13) = 0.65 (65%)
 - o 16 to 20 years (average 18) = 0.54 (54%)
 - o 21 to 25 years (average 23) = 0.45 (45%)
 - o 26 to 30 years (average 28) = 0.37 (37%)
 - o 31 to 35 years (average 33) = 0.32 (32%)
- See ‘Periodic Payment Calculation (Reserves Based) – worked examples’ above, where the examples provided include the Compound Interest Factor.
- The basis for the calculation of the Compound Interest Factors is summarised in the two tables below, where:
 - o Net Interest less CPI = Spot Rate less Spot CPI, so
 - o Year 3 (3.25%) = 5.51% - 2.26% and the Compound Interest Factor (K)
 - o $K (0.91\%) = 1/(1 + 3.25\%)^3$

²⁰ New Zealand Treasury Tables: <https://www.treasury.govt.nz/information-and-services/state-sector-leadership/guidance/reporting-financial/discount-rates/discount-rates-and-cpi-assumptions-accounting-valuation-purposes>

Table of Risk-free Discount Rates and CPI Assumptions at 30 September 2023

Published 5 October 2023 by the Treasury at:

<https://treasury.govt.nz/publications/guidance/reporting/accounting/discount-rates>.

The following table shows the risk-free rates and CPI to be used for certain accounting valuations as at 30 September 2023.

Valuation Year (for Annual Cash Flows to 30 September)	Duration in Years	Spot Rate	Spot CPI	Net Interest less CPI	Mid-rate
2024	1	5.87%	2.49%	3.38%	
2025	2	5.71%	2.39%	3.32%	
2026	3	5.51%	2.26%	3.25%	0.91
2027	4	5.38%	2.21%	3.17%	
2028	5	5.32%	2.18%	3.14%	
2029	6	5.32%	2.16%	3.16%	
2030	7	5.33%	2.15%	3.18%	
2031	8	5.36%	2.14%	3.22%	0.78
2032	9	5.39%	2.13%	3.26%	
2033	10	5.42%	2.13%	3.29%	
2034	11	5.46%	2.12%	3.34%	
2035	12	5.48%	2.12%	3.36%	
2036	13	5.51%	2.12%	3.39%	0.65
2037	14	5.53%	2.11%	3.42%	
2038	15	5.55%	2.11%	3.44%	
2039	16	5.56%	2.11%	3.45%	
2040	17	5.58%	2.11%	3.47%	
2041	18	5.59%	2.11%	3.48%	0.54
2042	19	5.60%	2.10%	3.50%	
2043	20	5.61%	2.10%	3.51%	
2044	21	5.62%	2.10%	3.52%	
2045	22	5.63%	2.10%	3.53%	
2046	23	5.63%	2.10%	3.53%	0.45
2047	24	5.64%	2.09%	3.55%	
2048	25	5.65%	2.09%	3.56%	
2049	26	5.65%	2.09%	3.56%	
2050	27	5.66%	2.09%	3.57%	
2051	28	5.66%	2.09%	3.57%	0.37
2052	29	5.66%	2.08%	3.58%	
2053	30	5.66%	2.08%	3.58%	
2054	31	5.65%	2.08%	3.57%	
2055	32	5.63%	2.08%	3.55%	
2056	33	5.62%	2.08%	3.54%	0.32
2057	34	5.60%	2.08%	3.52%	
2058	35	5.57%	2.07%	3.50%	
2059	36	5.55%	2.07%	3.48%	
2060	37	5.52%	2.07%	3.45%	

Appendix 2. Bank securities

Bank Securities include a letter of credit (**LOC**), performance bond, bank guarantee or surety bond (or a similar type of security) issued by a provider (see G2+G5).

Tranches – see ‘Bank Securities – tranches’ in Appendix 1.

To be acceptable, a bank security (including the security instrument itself) is likely to need to:

- address the considerations described in P13.23(4), have the characteristics described in 13.23(6) and be issued on terms which are typical for Bank Securities issued by New Zealand registered banks.
- be irrevocable during their term, noting in practice many Bank Securities will have an expiry date (see Demand and Renewal Process below).
- regardless of the form (i.e., LOC, performance bond, bank guarantee or surety bond), have as the only conditions to payment:
 - o demand being made by the Crown on the provider; and
 - o confirmation by the Crown to the provider the relevant Permit Holder or other person has defaulted on either its financial security obligations under the CMA and/or its decommissioning obligations under the CMA, with no requirement for the Crown to present evidence of default. Default in this context will include the Permit Holder or other person not maintaining, at any time, the required type and amount of financial security.

Demand and Renewal Process

In keeping with standard practice, the relevant Permit Holder (or other person) may be required to ensure each Bank Security is replaced in full at least 90 days prior to the expiry date of the existing Bank Security.

WHERE A BANK SECURITY IS NOT RENEWED OR REPLACED WITH AN EQUIVALENT VALUE OF SECURITY WITHIN 90 DAYS OF ITS DUE DATE, IT MAY BE CALLED BY THE CROWN.

Where this is foreseen as being the likely outcome, the Permit Holder (or other person) should initiate an alteration to a financial security process (see P13.24) well in advance.

Non-renewal or Default

In the event of non-renewal of, or in the event of a Permit Holder (or other person) being in default, and the Bank Security being called the money drawn down would be deposited in a Section 97 security and accrue interest until it is needed to pay for decommissioning costs.

Where a Bank Security has been called and the funds deposited in a Section 97 account the Permit Holder (or other person) can request the Minister to alter the financial security arrangement required (including amount). See P13.24.

Exercise of Powers

While entitled to do so, the Crown is unlikely to exercise such a power without discussion with the Permit Holder (or other person) on whose behalf the bank security has been provided.

Good Faith

It is expected, in accordance with good commercial practice, the parties will act in good faith and be proactive in their communication well in advance of the Minister needing to take any action.

Appendix 3. Investment funds

Given the timeframes often involved before undertaking decommissioning, the Minister may accept, through the terms and conditions of an Escrow Account agreement, an Escrow Account investing in an Investment Fund (see G2(1)).

It could be expected the Minister will consider the following when setting the terms and conditions in the Escrow Account agreement.

Risk Management

- the risk of any Investment Fund sits with the Permit Holder or person providing the escrow account as security and investing in the Investment Funds. While there is an inherent volatility in Investment Funds the volatility is mitigated by an annual Make Good mechanism (see below), the use a financial advice provider (see below) and the operating mechanism of the escrow account (see Appendix 1).
- as provided in G5, the Investment Fund units are held through a Custodian.
- requiring a **New Zealand licensed financial advice provider** (from an agreed investment advisory firm) be actively involved in managing the investment funds with the Permit Holder or person providing the security on an ongoing basis, with:
 - o regular (e.g., quarterly) formal reviews.
 - o formal recommendations (and subsequent implementation) should recognise the type of investment fund (i.e., its risk profile) will change with the timeframe for when funds will be required.
 - o the selection of Investment Fund(s) should be decided in consultation with the Permit Holder or person providing the security.
 - o the risk profile of the Investment Fund(s) should be considered in its own right - direct holdings in Cash, Government Debt Securities, Bank Securities and Section 97 Security should not been seen as forming part of the portfolio.
 - o the Permit Holder or person providing the security may decide to transfer Investment Funds into direct holdings in Cash, Government Debt Securities or Section 97 Securities.
 - o copies of formal correspondence (including investment recommendations, reviews and assurance reports) should be provided to MBIE by the financial advice provider and Custodian (as applicable).

Make Good

The Minister may require the Permit Holder or person providing the security to agree to offset any Investment Fund losses on an annual basis (**Make Good**). For administrative convenience, it is recognised this may include gains added in previous years. However, those gains will be considered in any review of the amount payable to the escrow account (see Appendix 1) or any alteration to financial securities (see P13.24).

Make Good would be calculated by the Permit Holder or person providing the security and agreed with MBIE at the end of each calendar year (unless another date has been agreed). The amount of Make Good would be paid in additional cash funds to the Custodian for the benefit of the Escrow Account (which may include further additions to the Investment Fund) within 60 days of the end of the calendar year. If, within the 60 days, the Investment Fund has recovered in value (in whole or part), officials may agree some or all the Make Good is not required.

A typical calculation, for example, of the Make Good would be:

$$MG = (A + C - D) - B$$

Where:

MG = Make Good (any positive amount).

A = the value of the Investment Funds at the beginning of the calendar year.

B = the value of the Investment Funds at the end of the calendar year end.

C = the amount of any deposits during the year (e.g., additional funds, prior year Make Good).

D = the amount of any agreed withdrawals during the year (e.g., for decommissioning, transfer to another financial security).

Investment gains will accrue to the Escrow Account and may only be drawn down for decommissioning activity (see P13.27 and G7).

Direct Investments

Make Good will not apply to any mark-to-market valuation associated with direct investments (i.e. not investment funds) held in fixed interest deposits, Government Debt Securities (or Section 97 Security) provided the investment is being held to maturity.

However, make good will apply for any direct investment that matures after decommissioning is forecast to be completed.

Appendix 4. Parent company guarantee

The Minister may accept a PCG with consideration of the following:

Form

Any PCG being an unlimited guarantee, indemnity and covenant to pay and should provide for the party providing it to guarantee performance by the Permit Holder or other person of its decommissioning obligations and to meet its liabilities under the Permit and relevant Acts.

Ordinarily a PCG will not be an acceptable financial security on its own (for the reasons outlined below) but may be considered as part of a financial security arrangement with different securities (see G3).

Financial Security - Amount

The reduction applied in determining the “Amount (of security)” (see G6) will ordinarily be based on the credit rating of the PCG provider, indicatively:

	Provider’s Long Term Credit Rating:	
Percentage	S&P or Fitch	Moody’s
20%	A- or better	A3 or better
10%	BBB- to BBB+	Baa3- to Baa1

The Percentage should be read in the context of the ordinary approach to Amount (see G6).

Ministerial Discretion

The Minister may determine a PCG to contribute a higher (or lower) than the ordinarily accepted percentage (above) of the Amount (of security). Where the provider of a PCG does not have a credit rating (or a rating less than above) the Minister may still accept a PCG and determine the accepted percentage of the Amount (of security) (see G6).

Conditions

Outlined below are conditions (noting Form above) the Minister may require and take into account in determining the extent to which a PCG will be acceptable in constituting a financial security (if at all).

CONDITION: Rating Change. Where the credit rating of the entity providing the PCG changes the Permit Holder must notify MBIE within 14 days and an alteration (see P13.24) may be considered -

- in the case of a reduction, the Minister may require additional financial security (in other kinds) to be provided within 90 days.
- in the case of an improvement the Permit Holder may want to request the Minister to reduce the amount of another security.

CONDITION: Existing PCG. If there is an existing PCG held by MBIE and a PCG is proposed as part of an FSA, the Minister is likely to require a new PCG to reflect current best practice and to meet the requirements of the new decommissioning regime before it being an AFSA.

CONDITION: Non-New Zealand Provider. Where a PCG is issued by a non-New Zealand entity, the PCG needs to be enforceable by the Crown in both New Zealand and the entity’s home jurisdiction.

Legal advice, from the relevant jurisdiction, may be independently sought before agreeing the form and content of such a PCG. The relevant person will need to provide a due capacity and enforceability legal opinion from the relevant jurisdiction on the PCG in a form, issued by a law firm, satisfactory to MBIE.

On its own, the Minister does not ordinarily consider a PCG as an acceptable form of security for the following reasons (some of which may also apply to other FSAs):

- they may not always address the relevant considerations described in P13.23(4) and have the characteristics described in 13.23(6).
- The potential challenges in enforcing the PCG which can be influenced by several factors and its value will be considered with regard to the following items:
 - o the PCG provider's structural subordination to its ultimate parent company and position within the hierarchy of group subsidiaries.
 - o The PGC provider's position relative to the origin of the group's operating cash flow and key value creation activities.
 - o other competing third party secured and unsecured priorities and obligations.
 - o corporate going concern considerations relative to the fixed life New Zealand Permit and oil & gas field.
 - o any underlying United States dollar (or other) denominated currency-based risk assessment.
 - o exposure of the Crown to expensive litigation expense (and risk).
 - o lack of protection to the Crown if there is a restructure of the relevant corporate group resulting in material assets being moved out of the entity which has provided the PCG.

However, the Minister in their consideration of 'any other matters the Minister considers relevant' (P13.23(2)) may consider a PCG acceptable in its own right (or to warrant a greater than ordinarily accepted reduction of Outcome B²¹) given:

- the previous history of both the Permit Participant and the provider of the PCG in meeting past decommissioning obligations and/or undertaking previous decommissioning activities.
- the outlook of the PCG provider by independent (investment) analysts.
- the published financial and other reporting by the provider of the PCG, including for example the point-in-time metrics in G3(a) of the Financial Capability Guidelines.
- the extent and diversity of other revenue sources available to the provider of the PCG.
- the underlying shareholding of the provider of the PCG.
- the consequence (e.g., reputation) to the provider of the PCG should it not meet its decommissioning obligations.

These may also be relevant to other securities.

²¹ See P13.23(5) and G6.

Appendix 5A. Income tax refunds

This guidance is not legal or tax advice, and the taxpayer must form their own view on any tax refund entitlements, and whether they would be eligible as a reduction of the decommissioning cost estimate in establishing the Amount (of security) (see G6).

Decommissioning costs are generally a deductible expense for income tax purposes where decommissioning is undertaken.

Where decommissioning occurs after production ceases (or where there are insufficient revenues to offset the costs incurred), income tax may be refundable (a refundable tax credit) in the relevant tax year to the extent the taxpayer has paid income tax (and if applicable, has sufficient imputation credits).

The income tax refund for the purpose of calculating the Amount (of security) (see G6) should, if eligible, be estimated:

- as if decommissioning had been completed at the estimated current cost (i.e., the cost in the latest DCE).
- based on the most recent filed income tax return (including if applicable the imputation credit balance) and tax rate.

and certified correct by an independent external tax advisor (or independent auditor). This estimate of eligibility should accompany the response to any notice (see 13.23(3)).

Where a company would otherwise be eligible for an income tax refund but expects any decommissioning cost will be used to reduce some or all income tax payable for a group of companies (as defined in the Income Tax Act 2007), the company may calculate the “Income Tax refund” (used to calculate the Amount (of security)) based on the above.

The Minister may require authority to request a letter from the Inland Revenue Department to confirm the individual taxpayer is eligible for the income tax refund calculated for G6 and Appendix 1.

A change in the estimated income tax refund, on its own, is unlikely to be considered as a reason to change the amount calculated for any escrow account payment (see Appendix 1). Rather it will be updated as a consequential change when for example the decommissioning cost estimate or reserves are revised (usually annually - see Appendix 1 Escrow Account) or when there is an alteration to Financial Securities (see P13.24). This would also apply where an imputation credit account has a material change which affects the income tax refund.

Appendix 5B. Royalty Refunds

This guidance is not legal or tax advice, and Permit Holders must form their own views on any royalty refund entitlements, and whether they would be eligible as a reduction of the decommissioning cost estimate in establishing the “Amount (of security)” (see G6 and Appendix 1).

Accounting Profits Royalty (“APR”)

Where a Permit Holder is subject to the APR regime²², there is either a provisional royalty payable of 20%²³ of accounting profits (being revenues less allowable costs including exploration and capital) or an ad valorem royalty of 5% of revenue (whichever is higher).

Decommissioning expenditure is deductible under the APR regime when incurred. For the final royalty return, those costs (net of any sale proceeds) can:

- under the 1995 and 2005 Minerals Programme, be spread back over periods when APR was paid.
- under the 2013 regulations, the balance divided over each reporting period of the life of the Permit and distributed equally over each of those periods.

This may lead to a refund of the provisional APR royalty paid in a period, noting the Ad Valorem Royalty of 5%²⁴ of revenue will then be the default royalty payable for that period.

Supporting information. The Minister is likely to request information on any estimated royalty refund in the request notice (see 13.23(3)). If that is the case, the Minister would expect the Permit Holder (or other person) to provide an estimate based on:

- the current decommissioning cost estimate (i.e., the cost in the latest decommissioning cost estimate).
- the estimated net refund of royalty (e.g., APR refund net of AVR payable and cost recoveries) at the date of the most recent royalty return as if decommissioning was complete.

Ad Valorem Royalty (“AVR”)

Where a licence holder is subject to royalties under the Petroleum Act 1937, the royalty is usually an AVR determined at a defined point of valuation and excluding any costs incurred before that point. Hence there may not be a royalty refund applicable for all or any decommissioning costs.

Supporting information. The Minister is likely to request information on any estimated royalty refund in the request notice (see 13.23(3)). In that case, the Minister would expect the Permit Holder to provide an estimate based on:

- whether there is a deduction available for royalty based on their Royalty Agreement, and if so to what extent.
- any provisional deductions already taken.
- the current decommissioning cost estimate (i.e., the cost in the latest decommissioning cost estimate) for any allowable infrastructure and wells.

²² As provided in the relevant Minerals Programme for Petroleum (1995 or 2005) when the permit was awarded. From 24 May 2013 the Crown Minerals (Royalties for Petroleum) Regulations 2013 apply.

²³ This was 15% for discoveries made between 30 June 2004 and 31 December 2009 based on the first \$750 million (offshore) and \$250 million (onshore) of gross sales (Minerals Programme for Petroleum 2005).

²⁴ This was 1% for gas (5% for oil) discoveries made between 30 June 2004 and 31 December 2009 (Minerals Programme for Petroleum 2005). The AVR also applies in any period when the AVR is greater than the APR.

- the estimated net refund of royalty (e.g., after cost recoveries) at the date of the most recent royalty return as if decommissioning was complete.

Refund Timing

Generally, **any (net) royalty refund will only be payable once decommissioning is complete** (e.g., after the Secretary is satisfied as to the validity of the final royalty return, a one-time refund, if any, to the Permit Holder shall be made²⁵).

MBIE may refer to royalty return records it maintains to confirm the extent of any refund requested is consistent with the information held.

A change in the estimated royalty refund estimate, on its own, is unlikely to be considered as a reason to change the amount calculated for any escrow account payment (see Appendix 1). It will be updated as a consequential change when the DCE is revised or when there is otherwise an Alteration to Financial Securities (see P13.24).

²⁵ Para 7.41 Minerals Programme for Petroleum 1995

Appendix 6. Financial security arrangements - examples

These examples are not exhaustive but illustrate the flexibility which may be acceptable to the Minister in determining the 'structure' of an AFSA.

In all examples -

- the **Permit Holder** may propose to obtain and maintain one or more financial securities for each permit.
- each **Permit Participant** may propose to obtain and maintain one or more financial securities for each Permit.

1. Multiple Participants

Permit Alpha			
A1	A2	B	C

- Permit Participants A1 and A2 are related companies; B and C are independent with participating interests in one Permit (Permit Alpha).
- A1 and A2 could propose to secure their obligations (using one or more securities) jointly (e.g., propose one PCG for each) as could B and C.
- A1, A2 and B could propose to secure their obligations (using one or more securities) jointly, and C could provide security on its own.

2. Multiple Permits – across Permits

Permit Alpha	Permit Beta	Permit Delta
A1	A1	A1
D	E	F

- Permit Participant A1 has participating interests in the 3 Permits (Alpha, Beta and Delta)
- A1 could propose to secure its obligations (using one or more securities) jointly across all 3 Permits

3. Multiple Permits – related parties

Permit Alpha	Permit Beta	Permit Delta
A1	A1	A1
A2	A3	F
G	H	K

- Group A has 3 subsidiaries (A1, A2, A3) with participating interests in the 3 Permits (Alpha, Beta and Delta)
- Group A's parent company could propose to secure the obligations of A1, A2, A3 (using one or more securities) jointly across all 3 Permits (with a cross guarantee); or

- A1 could propose to secure the obligations of A1, A2, A3 (using one or more securities) jointly across all 3 Permits (with a cross guarantee).

4. Multiple Permits – common holdings

Permit Alpha	Permit Beta	Permit Delta
A1	A2	A3
B1	B2	B1

- Group A has 3 subsidiaries (A1, A2, A3) with participating interests in the 3 Permits (Alpha, Beta and Delta)
- Group B has 2 subsidiaries (B1, B2) with participating interests in the 3 Permits (Alpha, Beta and Delta)
- Group A's and Group B's parent companies could propose to jointly secure the obligations of A1, A2, A3, B1 and B2 (using one or more securities) across all 3 Permits (with a cross guarantee); or
- A1 and Group B's parent company could propose to secure the obligations of A1, A2, A3, B1 and B2 (using one or more securities) jointly across all 3 Permits (with a cross guarantee).



Te Kāwanatanga o Aotearoa
New Zealand Government

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