



MAJOR ELECTRICITY USERS' GROUP

10 September 2010

Carolyn van Leuven
Manager of Fuels & Crown Resources Group
Energy & Communications Branch
Ministry of Economic Development
By email to petroleumreserves@med.govt.nz

Dear Ms van Leuven

Submission on New Zealand Petroleum Reserves Review

1. This is a submission by the Major Electricity Users' Group (MEUG) on the consultation paper "New Zealand Petroleum Reserves" published by the Ministry on 10th August 2010¹. The consultation paper correctly describes the importance of having accurate reserves information and that the market has confidence in that information. The paper notes there is uncertainty on the accuracy of information provided. This has important consequences on the efficient use and planned investment to use petroleum resources.
2. The consultation paper has a good explanation of why there has been volatility in reported reserves in the past and a comparison with reporting regimes in other countries. To solve the policy problems three options are considered. These range from essentially very little change (option 1) to the full gamut of extensive information requirements and expanded staffing within the Ministry to validate returns (option 3). The paper recommends the mid way option 2 be adopted.
3. MEUG has insufficient expertise to comment on the specific questions set out in the discussion paper. Instead we offer the following observations:
 - a) Doing very little (option 1) does not seem reasonable given the importance of the policy problem identified. Going to the other extreme with option 3 seems premature. A mid way point based on option 2 or some variant seems reasonable.
 - b) Even if there were no increase in requirements to provide the Crown additional information, there appears to be a serious shortfall in the capability of the Ministry to attest that the data provided is robust. This capability needs to be redressed if for no other reason than the Crown in making decisions on future exploration tender rounds should be able to rely on information from current permit holders.

¹ Refer http://www.med.govt.nz/templates/StandardSummary_44661.aspx

- c) There may be other variations on option 2 that could be considered. For example:
- i) Allowing parties to use independent experts to verify the robustness of information disclosed rather than the Ministry having to scale up resources to check returns.
 - ii) Another alternative is to incentivise parties to make returns compliant by requiring Company Directors to sign declarations that information is compliant, increasing penalties for inadequate returns and using spot audit checks.

In these alternatives the onus to explain large changes in reported reserves compared to prior years would fall on the companies. The Ministry could have reserve powers to seek more information if explanations were inadequate.

- d) We think there is value in information on P10 (also called "3P") reserves being published. Assuming most companies will have estimated this value for their own management purposes, then the incremental cost of parties having to disclose this should be very small. It may be that the P10 estimates exhibit even more volatility than the P50 reserves; nevertheless this information along with the already published P90 information will assist interested parties better understand the potential upside and downside range of reserves.

There would also be value in having national aggregate contingent and prospective resources published. These are by necessity more speculative than 1P, 2P and 3P reserves. Nevertheless the relative scale and changes over time in contingent and prospective resources would be of interest to the market.

- e) With only a few production fields compared to other countries, volatility in reserve estimates is probably always going to be an issue. More regulatory prescription will add costs and this has to be weighed against private and public benefits. The obvious least cost prescriptive step would be to require use of the 2007 Petroleum Resources Management System (PRMS). This would standardise reserve assessment methodologies and confirm the general understanding that the "good oil field practice" requirement in the New Zealand regime means the PRMS².

We understand that even within PRMS there can be a degree of flexibility on how to assess reserves. There may be merit in identifying areas where guidelines would assist remove this ambiguity and therefore improve certainty that parties are comparing like-with-like results. This would require more detailed analysis to compare incremental benefits of setting guidelines with added compliance costs. An industry technical advisory group may be the best way to progress this.

4. This submission is not confidential

Yours sincerely



Ralph Matthes
Executive Director

² The opening two sentences of appendix 3 of the consultation paper state "All companies operating in New Zealand are required to report their petroleum reserves under good oil field practice. In the case of reserve reporting it is generally understood that this means the 2007 Petroleum Resources Management System."