



**GREYMOUTH GAS**

**Oral Submissions by Greymouth Gas Turangi Limited  
to the Environment Committee  
(a Select Committee of the New Zealand Parliament)  
in respect of the Crown Minerals (Petroleum) Amendment Bill  
2018  
(Government Bill 105 – 1)**



to: Hon Dr Deborah Russell, MP  
Chairperson; and Environment Select Committee  
Bowen House  
WELLINGTON

18 October 2018

***Hon Madam Chair and Hon Members of the Environment Select Committee,***

Thank you for the opportunity to make these oral submissions which follow Greymouth's 11 October written submissions in opposition to this Bill.

I am Mark Dunphy, a Wellingtonian. I chair Greymouth Gas, which is one of the New Zealand owned and operated Greymouth Group Companies established in 2000. Today, Greymouth supplies about 10% of New Zealand's daily gas consumption. In petroleum reserves and production, Greymouth will rank third assuming the sale of the Shell interests to OMV concludes.

The business focus of Greymouth Gas is development and supply of low cost natural gas to NZ's industrial and commercial consumers. Today Greymouth supplies producers of fertilizer, petrochemicals, wood products, meat products, health foods, beer, glass and other core New Zealand industries. Greymouth's Block Offer bids and petroleum development efforts are directed to the ongoing provision of low cost gas supply to secure the future of New Zealand manufacturing jobs. Greymouth Gas is a leading participant in New Zealand wholesale, commercial and industrial gas markets, adding to competition in the market and helping deliver lower natural gas prices for New Zealand industry and households.

Greymouth does not have hired guns do its talking – Greymouth does not support industry associations made up of faceless companies hiding behind third parties to promote causes. If the cause be worthy, Greymouth nails its colours to the mast.

Greymouth has some props for Committee consideration. The first of these is a small card holder given as a gift to Greymouth (and other successful bidders) by the Crown at the permit awards ceremony in December 2013 following Greymouth's successful bid for a petroleum block. I will come to that gift in a minute.



First, as was made clear last week in the latest report from the Intergovernmental Panel on Climate Change which called for emissions to be nearly halved by 2030, Greymouth recognises the need for worldwide focus and urgency on emissions. It must also be recognised that in this same time period global energy demand is expected to rise by a third. The dual challenge for the world and New Zealand is to provide much more energy, while dramatically reducing emissions. That said, a race to renewables is not enough to meet the Paris goals on its own. Instead the world must be in a race to lower emissions by all means possible. It is a fact that oil and gas will need to meet global demand, but with renewable solutions and carbon capture and storage being developed in tandem. As the late Professor Stephen Hawking put it in his new book "Brief Answers to the Big Questions", "runaway climate change is the biggest threat to our planet".

As submitted, Greymouth considers that the petroleum industry sector accepts the challenge of achieving significant cuts in emissions over the next 10 years. In New Zealand the opportunities, in particular, for carbon capture and storage need to be developed and regulatory attention needs to be directed to any fields venting CO<sub>2</sub>.

Now, back to the 2013 awards gift which has been passed to the Committee. Because [it is submitted] of its relevance to the Bill, I would like to take the Committee back to the petroleum sector of 2013 (only five short years ago):

In terms of participants: Shell was New Zealand's industry major, other majors, Conoco and Exxon had come and gone after undertaking exploration activity. Government Officials charged with promoting and managing the Crown petroleum estate worked long and hard to encourage new investment by international players, in particular the majors. In the years since, other major or world leading companies have come as explorers, including Chevron, Statoil, Woodside Petroleum, Anadarko, ONGC, joining other in-country more broadly based incumbent enterprises; OMV and Mitsui. Petroleum investment has been regarded as a "partnership" between investors and the Crown – with the Crown greatly valuing all participations, bringing as they did, tens of millions of dollars of new investment. In terms of developed gas reserves in 2013, offshore Maui was well into its decline, but Pohokura had been developed along with Kupe (Kupe as a consequence of the Clark/Cullen Labour-led coalition Government, aware of impending energy shortages, sponsoring (through Genesis) the development of the Kupe gas field). Onshore Greymouth's Turangi and North Taranaki fields were being developed, Mangahewa was being developed and the High CO<sub>2</sub> Kapuni field, also in decline, continued in production. Wholesale gas prices were much lower than today. The spot gas market commenced trading in 2013 (with a price range that year of \$4.50/GJ to \$6.00/GJ. Oil (Brent) prices traded in a range of USD 102/bbl to 116/bbl and the NZD/USD currency between 0.78 to 0.82. GDP grew at 2.4%.

So, full forward to today, this is the situation:

There have been no new petroleum discoveries of any significance since 2013, so no increase in petroleum reserves through new discoveries. No exploration wells have been drilled offshore since 2014. Excepting redrills, only 7 offshore exploration wells were drilled in 2013 and 2014. In the same period (2013 to today), Greymouth has drilled 20 wells (including 6 wells in Chile onshore and offshore).

In terms of participants, the international incumbents with petroleum reserves are Shell, OMV and Beach, and the NZ operator incumbents with petroleum reserves are Greymouth and Todd. This year, Shell announced the sale of its operated Maui and Pohokura interests to OMV (unopposed by the Commerce Commission) resulting in an unhealthy aggregation of interests. If the Shell/OMV sale is approved by the OIO, OMV will hold more than 35% of NZ's 1P gas reserves and will also have the largest Operator holding of offshore exploration acreage (36% and 35,400 sq km). NZ will have most of its eggs in OMV's gas basket.

Critically, today the wholesale Gas Economy is in crisis – every day for the last few days, record high spot gas prices have been recorded. At the time of Greymouth's written submissions a week ago, the highest price for spot gas was \$20.50/GJ, yesterday the market traded at \$27/GJ. Oil prices also appear to be going higher, yesterday Oil (Brent) traded at circa USD 82/bbl, whilst the NZD/USD rate was close to 0.66. This combination of oil price and exchange rates gives about the same NZD price for a barrel of crude as in 2013. Forecast GDP growth is 2.8% this year, down from GDP growth last year of 3.3%. Recent increases in petrol prices are pushing up the cost of living – with some predicting inflation pushing up to 2.5% next year - which represents a big hit to NZ households. Internationally, some are predicting a further oil price shock which, with further US Fed tightening, could bring forward a US recession.

More generally, in 2018 New Zealand, our Energy Economy is facing a 'perfect storm' of gas supply shortages and low lake levels. Declines in economic growth are a reality and negative economic growth or recession is on the horizon. In recent days, in an "own goal" for NZ, Genesis has indicated it is proposing to import coal to fuel Huntly

because of the gas crisis. Imports of coal (and in due course) gas make nonsense of this Bill and this Government's policy.

It is into this heady environment that this Bill has been introduced. So what have been some of the immediate reactions and what are the consequences? The International Association of Geophysical Contractors has advised its members will be disenfranchised of their NZ prospecting permits in respect of which they have incurred expenditure of more than NZ\$100 Million since 2013. The IAGC members want to be compensated. Greymouth submits that would be the appropriate course if this Bill becomes law. The ramifications of the IAGC member disenfranchisement and losses are far reaching. The IAGC represents the leading geophysical services providers worldwide. Those service providers have close relationships with the international players, in particular, the same majors that NZ Government Officials charged with promoting and managing the Crown petroleum estate have worked so long and hard to bring to New Zealand before and since 2013. Those international players are the same entities Greymouth refers to in written submissions at Page 5, Section e. In Greymouth's assessment, not one of those permit holders has yet committed to drill an offshore well in the subject acreage, despite having held this prospective acreage often for many years. Nor, in Greymouth's submission, are those permit holders likely to make commitments and drill wells given the current fate of their service company colleagues.

As Greymouth notes in written submissions, the Bill, its process and passage has heightened business concerns, caused declining business confidence and raised sovereign risk concerns in New Zealand and Internationally. That is not to say that the Government is to blame for today's chronic gas shortage – the gas shortage suggests that all Governments should have been doing more – including ensuring that those wells which might have made a difference - were drilled.

I do not propose to revisit the detail of Greymouth's written submissions. You have those and the Executive Summary of the same at page 2 of the written submissions. In terms of the Bill, Greymouth's primary submission is, that renewable energy technologies are not yet affordable and efficient enough to replace fossil fuels completely, despite ongoing research worldwide. In the coming years, technological advances may be made that could be a substitute for oil and gas, but the world is not there yet. There is no magic wand that will produce such a substitute. New Zealand will be in the best position to adopt new technologies, and play a role in discovering and developing those technologies, with a strong economy. Ending exploration of oil and gas doesn't bring renewable technologies any closer; cutting off a strong revenue source only restricts New Zealand's future options. New Zealand should only consider stopping exploring for oil and gas when the New Zealand Government and private sector stop utilizing hydrocarbons. New Zealand should continue to be a leading example of a green and sustainable country. This is best achieved by planning carefully for future needs, by being open to all technologies, and not prematurely disrupting and/or shutting down New Zealand's strategically important manufacturing industry and other critical industries.

In similar vein, the Genesis CEO in announcing its proposal to import more coal to fuel Huntly said "It's a bit of a warning for the change that New Zealand will have in a world without gas," and noted that Genesis supports the move towards renewable energy but that "we need to do it in a more orderly way. We are worried that removing gas from the mix will make it harder to remove coal from the mix, and gas has half the emissions of coal."

So, in relation to the Bill, how did NZ get to here from where we were in 2013. The answer is: "Politics".

But what do we know of the politics? We have heard from the Prime Minister, that achieving net zero GHG emissions by 2050 represents "[her] generation's nuclear free moment". Fair enough, but follow the law and the democratic process enshrined in the Crown Minerals Act, consult, particularly where Ministers do not understand, and let's not prematurely disrupt and/or shut down New Zealand's strategically important manufacturing industry and other critical industries. Through this Bill, the signals are that the Prime Minister, her caucus and her coalition

colleagues are prepared to throw New Zealand households and the New Zealand manufacturing sector “under the bus”.

Also, what deals have been done to get to this Bill. We don’t know. One can only surmise and conjecture. There have been some thoughts on this captured in the first of the next four props.



As submitted, Greymouth is opposed to the Bill and further submits, that if passed, it will represent an ill-timed, ill-considered, undemocratic shot in the foot for New Zealand.



Greymouth submits that the Bill should be consigned to the waste paper bin. Further, Greymouth calls on New Zealand First (through its representative on this Committee) to nail its colours to the mast. If New Zealand First really is for the businesses and households of New Zealand, its caucus is asked to demonstrate this by joining the

call to send the bill to the bin. If a picture tells a thousand words, the Hon Shane Jones, in the photo taken at announcement of the Bill, looks to be prepared to join the call to bin the Bill.



Thank you for hearing and considering Greymouth's submissions. I will be delighted to answer any questions.



**Mark Dunphy**  
Chairman