



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

Managing third party risk exposure from onshore wells

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Ministry of Business, Innovation and Employment
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Outline

- Reasons why the Government initiated this project
- Status of onshore wells in NZ
- Nature of third party risk exposure
- Existing financial management regulatory mechanisms
- Responses to manage third party risk exposure from:
 1. Historic wells
 2. Current and future wells



Background

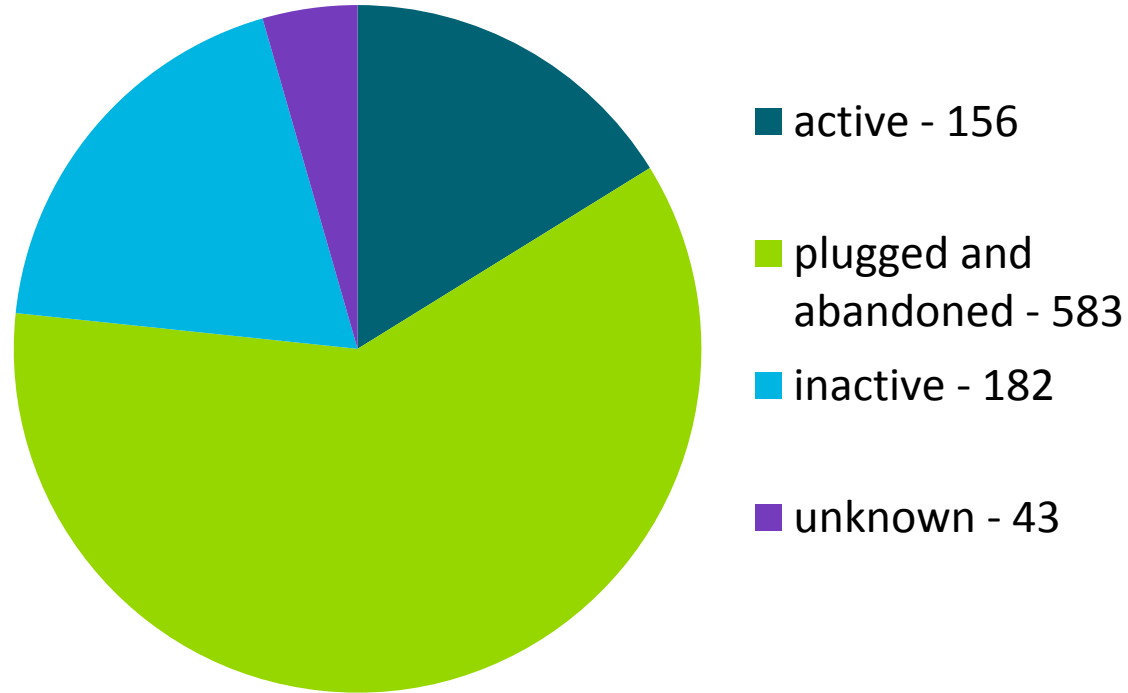
- Parliamentary Commissioner for the Environment (PCE) raised the issue of third party risk exposure in a 2014 report
- The Government is considering options to improve the framework for managing the Crown's financial exposure for offshore petroleum operations

Drilling for oil and gas in New Zealand:
Environmental oversight and regulation

June 2014

Status of New Zealand wells

- 964 wells drilled (1866-2016)
- To help quantify the risk exposure of wells and inform response to PCE
- Further information to be collected on unknown wells

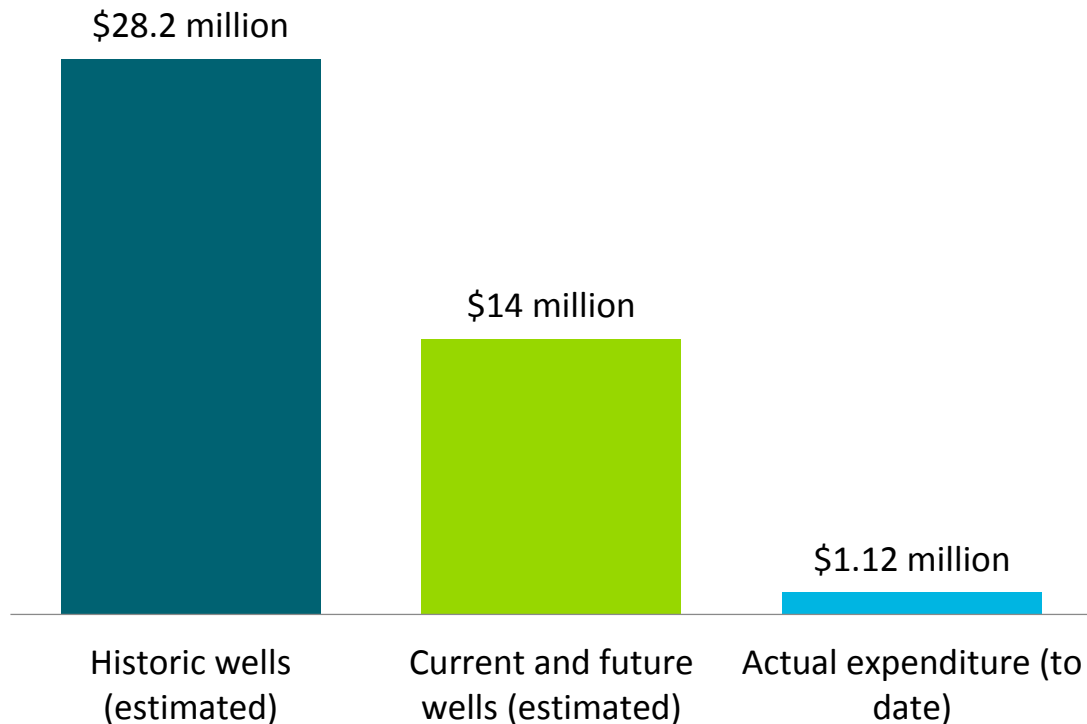


Third party risk exposure from onshore wells

- Regulatory regime based on polluter pays principle
- A well may pose a health and safety or environmental risk where the permit holder is no longer liable
- Land owners are exposed for the cost of P&A and remediation if a well poses a health and safety or environmental risk
- Crown financially exposed as a last resort



Size of third party risk exposure



- Independent assessment estimated third party risk exposure
- Estimates higher than actual third party expenditure to date
- MBIE commissioning further modelling to enhance understanding

Existing financial risk management mechanisms

- Financial assurance mechanisms
 - Financial capability test under the Crown Minerals Act 1991
 - Bonds under the Resource Management Act 1991
 - Financial assurance provisions in land access agreements
- Mechanisms that can fund costs of well failure
 - Contaminated Sites Remediation Fund
 - Ad hoc Government appropriations



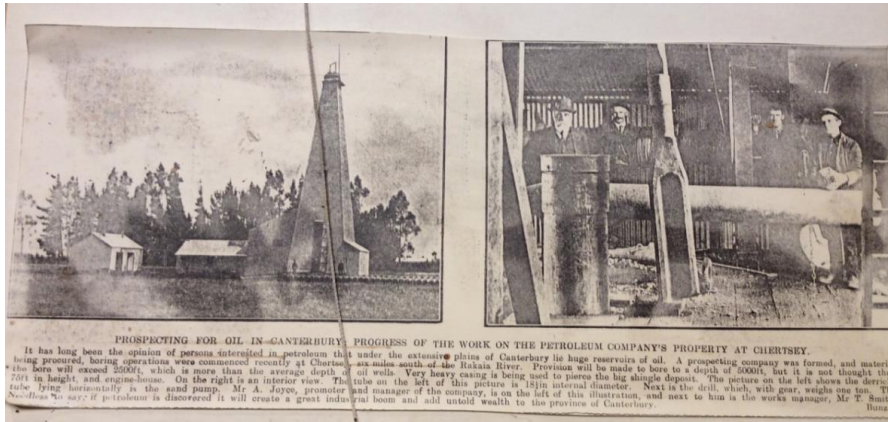
Proposals to manage third party risk exposure

- MBIE proposes different responses for
 - Historic wells
 - Current and future wells
- A different response is necessary because historic wells do not have a liable permit holder. Current and future wells have or will have a liable permit holder.
- Individual permit holders are not liable in perpetuity



Historic wells

- Government will investigate establishing a Crown-funded mechanism to pay for P&A or remediation of historic wells
- Further information required before determining the amount for the appropriation



Chertsey Bore, Ashburton, 1901

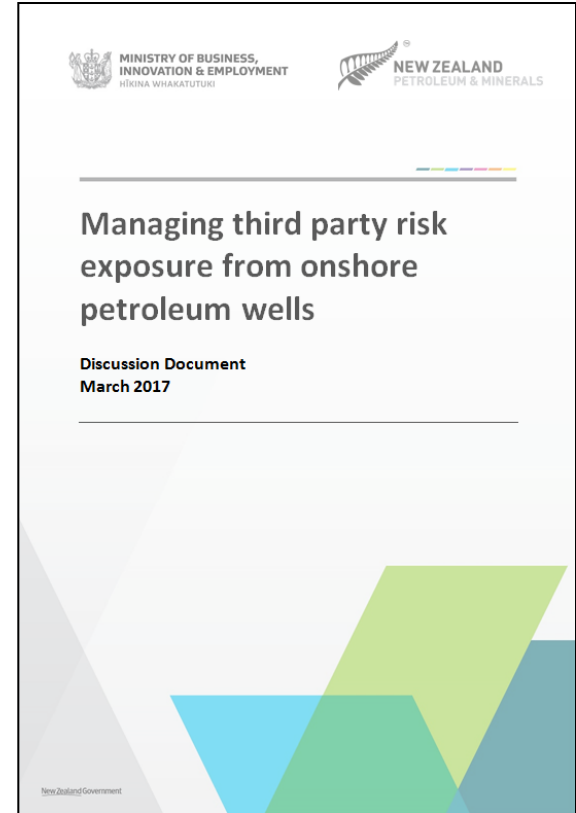


Murchison 1, Murchison, 1926



Current and future wells

- Discussion document proposes four options:
 - Non-statutory guidance
 - Assess and monitor insurance policies
 - Require bonds to cover P&A obligations
 - Establish a levied fund
- Options are not mutually exclusive
- Industry to assume majority of risk exposure



Next steps

- MBIE welcomes feedback
- Consultation closes on 19 April 2017
- MBIE will then analyse submissions before providing advice to the Minister
- MBIE will work with industry and other stakeholders to further develop the options



Examples where there is no visible sign of a well and the site has been fully remediated

Questions

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