The commissioners

Pacific Tiger Energy does not have any current interests in New Zealand's energy sector however as participant in the exploration sector and potential future investor I would offer the following comments and observations on the New Zealand gas industry and submission to the current for the commission's consideration.

I submit that the Pohokura joint venture be allowed to market the production from Pohokura jointly but that in view of the result of strengthening the Shell controlled monopoly on gas supply regulation and monitoring of petroleum markets be implemented. Without additional market protection Preussag should be made to market their gas independently as required by existing anti monopoly provisions.

The general state of the upstream petroleum industry in New Zealand provides a background to the impact of a determination in this case as follows:

1. The geological conditions exist fro a high expectation of discovering and defining significant new gas reserves in the Taranaki Basin. This process has been prevented from happening for the past fifteen years because of low gas prices and the consequent almost total lack of exploration effort for gas prone targets.
2. Low gas prices have persisted because of i) the low gas price in the market and ii) lack of a competitive market on the demand side due to on-selling of 'government share' gas from Maui and iii) the relationship between Fletcher Energy and Shell/Todd competitively pricing free gas into new markets.
3. Gas pricing is an issue in all but the most mature of markets, there are only a few market situations in the world where competitive gas pricing occurs mainly due to the need for simultaneous investments by the major end users and the suppliers. In most places this lack of an effective market leads to a regulated pricing situation.

Gas reserves

In purchasing Fletcher Energy Shell have rationalised the supply side of the market by taking control of all potentially competing resources. This control has allowed the redetermination of reserves in Maui and the control of reserves determination and marketing effort for Pohokura. These actions have already been successful in as much as there is now a perception and a widespread acceptance that wellhead gas prices in New Zealand will double in the near future.

The reserves determinations for both Maui and Pohokura need to be understood as there is a feedback from the gas price to the reserves. There are numerous methodologies and standards for determination of field reserves, the only truly reliable one being to sum the hydrocarbons produced from a depleted field. All other methodologies require an initial set of economic assumptions, the key assumption being the producer's net sale price for the hydrocarbons. If this price is high investment can be made to enhance production and ultimate recovery, if the price is low then only higher return capital investments will be justified. In an established field, especially offshore the rate of return on investment into infill drilling (often cycling platform drilling slots), secondary recovery techniques or simply maintaining facilities while production declines will have a dramatic effect on late stage field productivity. All of these investment or operating decisions are product price driven.

From publicly reported information it seems clear that *in the absence of a significant increase in gas price* then the remaining reserves are less than previously anticipated. In the case of Pohokura, *in the absence of a significant increase in the forecast price for new gas supplies* only the most accessible gas will be developed and reserves are therefore limited.

Without gas price increases other defined reserves in the New Zealand market will not be developed. The Kupe field, undeveloped for the past thirteen years requires a considerable rise from current gas prices to justify development of a relatively small resource. The Mangahewa field with likely large gas in place volumes has a very limited reserve assignment due to high drilling and exploitation costs, at a higher gas price the economics will justify development of larger reserves than currently recognised.

Potential exists for the discovery of several substantial new gas fields, the exploration for which will not happen without a much higher gas price expectation.

Submission

As monopoly conditions exist in the New Zealand gas supply market at present as a result of the purchase of FCE by Shell. This monopoly requires regulation in primary marketing and regulation to guarantee pipeline, processing and distribution system access to independent and future suppliers to the markets.

Requiring Pohokura Joint venturer, Preussag to market gas independently from a field operated by the dominant market supplier and in competition with the field operator would significantly disadvantage Preussag and would not materially change the monopoly position which Shell hold.

If regulations require current and future joint venture partnerships to compete when marketing the same products to a poorly structured market a significant disincentive to investment in new projects will be created. A ruling which put Preussag in a disadvantageous and inefficient marketing position would be a disincentive to future joint venture exploration and exploitation for petroleum in New Zealand and is therefore undesirable.

If regulation and facility access cannot be facilitated then Preussag should be required to market their gas independently as an anti-monopoly provision, despite the inefficiency of such a ruling. This would be detrimental to Preussag but potentially beneficial to the general market in maintaining a precedent for future supply competition.

Regards

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