

Partial Review of Petroleum and Mineral Fees

Regulatory Impact Statement

Agency Disclosure Statement

1. This Regulatory Impact Statement has been prepared by the Ministry of Business, Innovation and Employment.
2. This partial fees review proposes changes for a small number of permit types where significant over-recoveries of costs occur. A full review of all permits is planned for 2015-16 following a complete cycle under the amended Crown Minerals Act 1991 (CMA) and implementation of a new permitting information system. Officials consider that the offshore petroleum and mineral annual permit fees should not remain in place until a full fees review is undertaken for two reasons:
 - a. There is a significant over recovery of fees for existing permit holders.
 - b. The current fees are a disincentive to attracting certain permit applications.
3. This Regulatory Impact Statement provides an analysis of options to ensure that fees charged for offshore petroleum and minerals permits are set at a level that is more reflective of the costs of administering those permits.
4. The Ministry considers that there is insufficient information to support a change to the current area-based fee mechanism for exclusive PPPs. The Ministry considers that there is sufficient information to support all other proposals considered in this RIS.
5. The Ministry considers that the level of analysis and a pragmatic approach is appropriate at this time given the likely effects of the proposal and that a full review will follow once more information is available to run subsequent analyses. It is possible that the fees affected by this proposal may be subject to a slight upward movement as a result of the findings of a full fees review. However, there is no foreseeable circumstance that would see a return to the current rates.

Donna Royal, Manager, Business Performance, New Zealand Petroleum & Minerals

13 October 2014

* Note: The Ministry of Business, Innovation and Employment has redacted certain sections that relate to internal financial management.

Executive summary

1. The Crown Minerals Act 1991 (the CMA) was amended in May 2013. However the fees regulations were last updated in 2006. Since that time organisational and regulatory changes have occurred that have had a significant impact on the administration costs for two annual fee types.
2. In November 2013 New Zealand Petroleum & Minerals (NZP&M), a branch of MBIE, reviewed the level of permit fees in relation to their current administrative costs.
3. The aim of the review was to align fees with costs in line with Treasury best practice guidance. From the analysis officials identified a diverse mix of fee allocations with over and under recoveries occurring across the board. However, the need to embed improvements to the administration of the new CMA regime was also identified. In light of these findings a comprehensive review has been delayed until 2015-16.
4. Despite the need to embed improvements to administration, offshore petroleum and minerals permits were highlighted as having a significant difference between the annual fees charged compared to the administration costs incurred. While the number of affected permits is small, only one per cent of current permits, the difference is to the extent that the current fee settings may be discouraging such activity in New Zealand.
5. For the affected permits NZP&M is proposing to charge annual permit fees that are significantly less than the current rates in order to ensure fees more accurately reflect administration costs. These changes are set out in Table 1:

Table 1: Proposed changes to annual permit fees

Annual Fee Type	Current Fee Rate	Proposed Fee Rate
Non-exclusive Petroleum Prospecting Permits	\$4.09 per square kilometre	\$50,000.00 flat rate
Exclusive Petroleum Prospecting Permits	\$4.09 per square kilometre	\$1.00 per square kilometre
Offshore Minerals Exploration Permit	\$358.00 per square kilometre	\$10.73 per square kilometre
Offshore Minerals Extension of Duration of Exploration Permit	\$869.00 per square kilometre	\$10.73 per square kilometre
Offshore Minerals Mining Permit	\$1022.00 per square kilometre	\$102.22 per square kilometre

6. The Ministry considers that due to how non-exclusive Petroleum Prospecting Permits (PPPs) are managed there is enough evidence to change the fee mechanism from area-based to a flat rate.

7. For exclusive PPPs officials do not propose changing the fee mechanism from the current area-based charge until more information is available to support doing so. However, the administrative cost of exclusive PPPs is still considerably less than what is currently being charged so it is still considered important to reduce the fee rate.
8. Changes to the fees charged for offshore minerals mining permits to align them with the offshore petroleum fees regime are also proposed.
9. The fees will be reviewed again in the 2015-16 financial year when a comprehensive review of all petroleum and minerals fees is planned. It is possible that the fees affected by this proposal may be subject to a slight upward movement as a result of the findings of a full fee review. However there is no foreseeable circumstance that would see a return to the current rates.

Status quo and problem definition

10. NZP&M is responsible for administering the Crown Minerals Estate including the administration of permits. Fees for petroleum and minerals permits are set out in the Crown Minerals (Minerals Fees) Regulations 2006 and the Crown Minerals (Petroleum Fees) Regulations 2006. The authority to establish fees under these regulations is set out in section 105 of the CMA.
11. In November 2013 NZP&M undertook an assessment of permit administration costs and a comparison with current fee charges. Officials identified from the analysis a diverse mix of fee allocations with over and under recovery of costs compared to fee charges occurring across the board.
12. The embedding of improvements and efficiencies to the administration of the revised CMA regime was identified as necessary before *all* fees can be reviewed. In light of the findings from the analysis, a comprehensive review has been delayed until 2015-16.
13. This proposal relates to offshore petroleum prospecting annual fees and offshore minerals annual fees, which have particularly large differences between the fees charged and costs of provision. Both the size of the differences and engagement with the offshore petroleum and minerals industries suggest that the difference is to the extent that permits are not being applied for due to the annual fees charged.
14. Current fees for the affected permit types are not reflective of costs and are, on average, significantly over recovered. The over-recovery is considered to be the result of administration changes following the 2013 amendments to the CMA.
15. The relevant fees regulations are set out in Table 2.

Table 2: Relevant fees regulations affected by this proposal

Type of permit	Annual fees	Reference
<p>Petroleum Prospecting Permit</p> <p><i>A prospecting permit is issued with the purpose of conducting reconnaissance and general investigations of an area – generally prospecting activities are low impact.</i></p>	\$4.09 per square kilometre	Section 6 of the Crown Minerals (Petroleum Fees) Regulations 2006
<p>Minerals - Exploration Permit</p> <p><i>An exploration permit is issued with the purpose of identifying minerals deposits and to evaluate the feasibility of mining any discoveries made.</i></p>	\$358.00 per square kilometre	Section 7(a) of the Crown Minerals (Minerals Fees) Regulations 2006
<p>Minerals - Extension of Duration</p>	\$869.00 per square kilometre	Section 7(b) of the Crown Minerals (Minerals Fees) Regulations 2006
<p>Minerals - Mining Permit</p> <p><i>A mining permit is issued with the purpose of development of a minerals deposit to allow the extraction of the resource.</i></p>	\$1 022.00 per square kilometre	Section 9 of the Crown Minerals (Minerals Fees) Regulations 2006

16. There are also a number of changes proposed to the fees regulations that are of a technical nature. The CMA provisions affected include sections 41, 41B, 41C, 36, and 35A.

17. There are currently three petroleum prospecting permits (PPPs), and eight offshore minerals permits that are affected by this proposal. For the financial year to 30 June 2013, there were a total of 84 petroleum and 980 minerals permits granted to industry.

Petroleum Prospecting Permits (PPPs)

18. A Petroleum Prospecting Permit (PPP) is a permit allocated to allow minimum impact survey activities. PPPs typically cover large areas and aim to collect information on the petroleum prospectivity of an area using activities such as seismic surveying.

19. Under current policy and legislative settings PPPs are usually granted on a non-exclusive basis, meaning that other applicants are able to hold rights to the areas under these permits. Exclusive PPPs can be issued but only when specifically sought by an applicant under the conditions set out in the Minerals Programme for Petroleum (2013). Exclusive PPPs would normally be awarded in offshore areas that are deemed to be pre-competitive for petroleum exploration due to highly uncertain prospectivity. The benefit to the Crown of this type of activity is a higher

level of data acquisition than would otherwise be the case with the potential of bringing a frontier exploration province into a competitive Block Offer round sooner.

20. While the Crown Minerals Act 1991 was reviewed in 2013, the fees have not been reviewed since 2006.
21. From 2013 the Crown enabled an increase in non-exclusive prospecting by industry. To facilitate this, the 2013 amendments to the CMA included the introduction of 'speculative prospector' status for PPPs and extended data confidentiality restrictions out to fifteen years. As a result of these changes there is a large increase in the physical areas being applied for as it is now more economic for prospectors to enter the market.
22. In contrast with exclusive PPPs, prospectors applying for non-exclusive PPPs are generally multi-client data acquisition companies that operate in prospective or competitive regions. Their business model (selling data to oil companies rather than producing resources), operations (typically seismic acquisition within a seasonal window) and non-exclusive nature of the PPP ensure that this permit type typically has a short duration, a high number of applicants, predictable activities and is often awarded in overlapping areas. As a result, the high volume of permit administration data and anticipated efficiency savings lend confidence in the fixed cost proposed. The corollary is the confidence in the view that leaving the fee and fee mechanism unchanged will result in increasingly overcharging permit holders.

Table 3: 2014-15 projected NZP&M costs of administering PPPs

Permit Number	Permit Holder	Current annual fee (including GST)	Current annual fee (excluding GST)	Proposed annual fee (including GST)	Proposed annual fee (excluding GST)	Forecast PPP costs 2014-15 (excluding GST)
55377	Energy Holdings Offshore Ltd	\$601,843.50	\$523,342.17	\$147,150.00 (\$1 per square kilometre)	\$127,956.52	\$130,384.76
54827	Schlumberger Seaco Inc	\$38,351.93	\$33,349.50	\$50,000.00	\$43,478.26	\$43,167.93
56061	Schlumberger Seaco Inc	\$211,931.53	\$184,288.29	\$50,000.00	\$43,478.26	\$43,167.93
ALL		\$852,126.96	\$740,979.97	\$247,150.00	\$214,913.04	\$216,720.62

23. If fees are kept at their current levels for 2014-15, then there will be an over-recovery of PPP costs by \$524,259.35 (excluding GST).

24. The experience and information relating to the administration of non-exclusive PPPs has enabled an increase in administrative efficiency and has made officials confident that costs are largely unrelated to the area of the permit. To date non-exclusive permits and permit applications have each had a single, well defined work programme activity which has required minimal official oversight: this is irrespective of size. When combined with a predicted increase in the number and areal extent of non-exclusive PPP overlap, retaining a fee proportional to area would mean that overall fee amounts would increase at the same rate as costs would decrease due to efficiency gains. There is a risk of price gouging of industry by not changing the non-exclusive PPP fees to a fixed rate. Officials consider that more information on administration of exclusive PPPs needs to be gathered before determining what sort of fee mechanism is the most appropriate. In particular, more information on whether costs are area based as they are currently charged, or unrelated to area (as non-exclusive PPPs are considered to be) is required.
25. Regardless of the fee mechanism, there are a larger number of administrative activities associated with managing exclusive PPPs which means they cost more to administer than non-exclusive PPPs. However, these larger costs are still significantly less than the current annual fees.

A difference of activities between exclusive and non-exclusive PPPs is included in Table 4.
Table 4: Differences in activities of administering exclusive and non-exclusive PPPs

Permit Management Feature	Exclusive PPP	Non-exclusive PPP
Annual Review Meetings	These are unlikely to be held for an exclusive PPP	These will almost never be held for a non-exclusive PPP
Ad hoc meetings with permit holders	These will be more regular for exclusive PPPs to reflect the level/frequency of work programme operations and complexity. This also reflects the value placed on interrogating data and operations conducted within the exclusive PPP permit.	These will be fewer for non-exclusive PPPs
Data submissions, matching and interrogation	Significantly more time is taken with data submissions on exclusive PPPs over non-exclusive PPPs as there are generally more work programme obligations to lodge data against within a permit lifecycle. More time is taken interrogating data submissions under an exclusive PPP than a non-exclusive PPP as a result of how compliance is viewed between the types.	
Work programme compliance	A greater number of obligations are required under exclusive PPP than non-exclusive PPP. Work programme compliance under an exclusive PPP is treated more intensely than under a non-exclusive PPP therefore in the case of non-compliance, more resources will be expended under an exclusive PPP than a non-exclusive PPP.	

Offshore Minerals

Cause of the problem: Offshore minerals

26. Licences to undertake offshore minerals activity was controlled under the Continental Shelf Act (CSA) 1964 however permit management was transferred to the CMA as part of the 2013 revisions.
27. CSA licences had a fee that was specifically for these permits. When the permits were brought under the revised CMA regime in 2013 there was no distinction made between onshore and offshore minerals activity. As a result offshore minerals permits are being charged at a rate that does not reflect the costs of provision.

Table 5: 2014-15 projected NZP&M costs of administering Offshore Mineral Permits (in \$ dollars)

Permit Number	Permit Holder	Type	Area (km ²)	Current annual fee (including GST)	Current annual fee (excluding GST)	Proposed annual fee (including GST)	Proposed annual fee (excluding GST)	Forecast costs 2014-15 (excluding GST)
41492	ACI Operations NZ Ltd	Mining Permit	0.55	562.10	488.78	511.11	444.44	74.93
55549	Chatham Rock Phosphate Ltd	Mining Permit	819.2	837,222.40	728,019.48	83,738.62	72,816.19	111,599.62
55581	Trans-Tasman Resources Ltd	Mining Permit	65.76	67,205.70	58,439.74	6,721.88	5,845.11	8,958.48
51496	Rio Tinto Mining & Exploration Ltd	Exploration Permit	548.2	196,255.60	170,657.04	5,882.19	5,114.94	3,541.37
51498	Rio Tinto Mining & Exploration Ltd	Exploration Permit	736	263,488.00	229,120.00	7,897.28	6,867.20	4,754.56
52722	Hawkeswood Civil Ltd	Exploration Permit	5.55	1,986.90	1,727.74	511.11	444.44	35.85
52887	FMG Pacific Ltd	Exploration Permit	650.1	232,735.80	202,378.96	6,975.57	6,065.72	4,199.65
54068	Trans-Tasman Resources Ltd	Exploration Permit	1,430.70	512,190.60	445,383.13	15,351.41	13,349.05	9,242.32
54271	Trans-Tasman Resources Ltd	Exploration Permit	927.67	332,104.07	288,786.15	9,953.90	8,655.56	5,992.75
All				2,443,751.17	2,125,001.02	137,543.07	119,602.67	148,399.53

28.

29. While minerals permits are now being charged the same for both onshore and offshore areas, the size of offshore minerals permits is typically much larger due to the nature and scale of the activities involved. Offshore minerals permits are for areas more similar to the size of offshore petroleum activity. For example, the largest onshore permit granted is 413.54 square kilometres and the first offshore permit granted is 819.20 square kilometres.
30. While offshore mineral permits are more substantive in aerial extent than onshore permits they do not generate a proportionate level of regulatory effort to manage. There are economies of scale involved in dealing with permits for larger areas which is not reflected in the current regime.

Costs and benefits of status quo

31. The status quo has the effect of working against other government objectives. Current fees, being significantly higher than costs to NZP&M of permit administration, is likely to have a detrimental effect on the petroleum and minerals sectors through disproportionately high annual fees which may reduce the attractiveness of New Zealand as an investment destination.
32. Given the long lead times for petroleum and minerals activity, the longer the status quo persists the longer it will take for activity to take place following any change.
33. Continuing with the status quo goes against Treasury guidance that requires fees to be set at levels that are reflective of costs.

Objectives

34. The objective of this proposal is to set fees for offshore petroleum and minerals permitted activities that are reflective of the costs of the provision of relevant services, consistent with Treasury guidance for best practice fee setting.

Options and impact analysis

Timing of Proposal

35. Consideration has been given as to whether it is more appropriate to delay the proposal until a comprehensive review of all fee settings takes place in 2015-16.
36. Given the long lead times involved in petroleum and mineral activities, NZP&M considers that the magnitude of the discrepancy for offshore petroleum and minerals fees in particular, has the potential to discourage activity and affect the upcoming prospecting season if these fees are not addressed immediately.
37. NZP&M considers the fees covered in this proposal are unlikely to change as a result of the comprehensive review. However it is important to emphasise that the proposed petroleum fees have been generated based on an efficient estimated cost and that the offshore minerals fees have been reduced to align with the current petroleum fees. It is possible that both may be subject to a slight upward movement as a result of the findings in a full fee review which will be undertaken when the CMA has been fully implemented and all business efficiencies have been realised. There is no foreseeable circumstance that would see a return to the current rates.

Petroleum Prospecting Permits

38. For PPPs, the annual fee structure is proposed in Table 6.

Table 6: Proposal for changes to PPPs

Annual Fee Type	Current Fee Rates	Proposed Fee Rates
Non-exclusive PPPs	\$4.09 per square kilometre	\$50,000.00 flat rate
Exclusive PPPs	\$4.09 per square kilometre	\$1.00 per square kilometre

39. This structure introduces different fee types depending on whether a PPP is exclusive or non-exclusive. In considering which fee structure to be most appropriate, fixed or variable, a principle of not altering the fee structure unless there is positive evidence to support doing so has been followed.

40. For non-exclusive PPPs, the costs are fixed and unrelated to the area of the permit (refer to paragraph 28). We estimate non-exclusive PPPs cost \$50,000 per permit. This estimate is based on a cost model developed by the Ministry as detailed in paragraph 50.

41. For exclusive PPPs, we do not have enough data to determine whether costs are related to the area of the permit. But we do know that we are over-recovering. We are proposing a cost of \$1.00 per square kilometre. This estimate is based on a cost model developed by the Ministry as detailed in paragraph 50.

Impact of the PPP proposal

42. The proposed structure reduces annual fees for non-exclusive PPPs where the area under permit is greater than 12,500 square kilometres.

43. By setting annual fees for PPPs at a level that more accurately reflects the actual costs incurred to NZP&M, this proposal is anticipated to reduce the current discouragement of prospecting activity as stated in some submissions on this proposal.

44. 

Table 7: Projected costs of administering PPP and impacts of proposed fees upon current permit holders

Permit Number	Permit Holder	Exclusive (yes / no)	Area (km2)	Current annual fee	Proposed annual fee	Proposed Annual Fee (excl GST)	Forecast PPP costs 2014-15 (excl GST)	% change
55377	Energy Holdings Offshore Ltd	Yes	147,150	\$601,843.50	\$147,150.00	\$127,956.52	\$147,150.00	-76%
54827	Schlumberger Seaco Inc	No	9,377	\$38,351.93	\$50,000.00	\$43,478.26	\$50,000.00	+30%
56061	Schlumberger Seaco Inc	No	51,817	\$211,931.53	\$50,000.00	\$43,478.26	\$50,000.00	-76%
All				\$852,126.96	\$247,150.00	\$241,913.04	\$247,150.00	-71%

45. As is shown in Table 7, one permit would be adversely affected by the changes with a fee increase of 30% from the current annual fee. It is proposed that during this transition year the amount by which the annual fee is increased is absorbed by NZP&M. The proposed new rate would be effective in the next annual fee billing cycle of 2015-16.

46. In calculating the forecast PPP costs for the 2014-15 financial year the following points provide an overview of the considerations given to development of the cost model and subsequent analysis:

- a. The June 2013 financial year data was used with consideration allocation of staff and direct costs, and consideration of eligibility of indirect costs associated with permit management activities.
- b. The permit management cost pool was split between prospecting, exploration and mining permits on the basis of regulatory effort expended.
- c. More detailed analysis was undertaken by the NZP&M Petroleum Exploration for exclusive PPP versus a non-exclusive PPP

Offshore Minerals Permits

47. For offshore minerals permits, an annual fee structure is proposed in Table 8. A comparison with the petroleum fees regime is also provided in the rightmost column.

Table 8: Proposed annual fees for offshore minerals permits

Annual Fees (charged per square kilometre)	Current Fee Rates	Proposed Fee Rates	Current Petroleum Fee Rates
Exploration Permit	\$358.00	\$10.73	\$10.73 per square kilometre
Extension of Duration of Exploration Permit	\$869.00	\$10.73	\$10.73 per square kilometre
Mining Permit	\$1022.00	\$102.22	\$102.22 per square kilometre

(NB: Current Mineral fee rates are subject to minimum rates of \$511.11)

48. Amendments to the regulations to set the fees for offshore minerals mining permits is at a rate commensurate with those currently used for petroleum mining permits on a per square kilometre basis. Petroleum fees rates have been used as a proxy because the level of regulatory effort required to manage offshore mineral permits (such as reporting and data management requirements) is comparable to that for petroleum permits. The current petroleum fee rates are however to be reassessed as part of the comprehensive fees review proposed for 2015.

49.

50. The 2014-15 forecast costs have been calculated using the same methodology as described in paragraph 46, except for the Petroleum Exploration & Mining cost pools which were divided by the acreage managed to determine the cost per square kilometre. This calculation is shown in Appendix 1 under figure 4 which cost Exploration at \$6.46 per square kilometre and Mining permits at \$136.23 per square kilometre.

51. No change to the offshore minerals prospecting permit annual fee is proposed. With no offshore minerals prospecting permits granted and none anticipated in the short term, there is insufficient supporting analysis to accurately identify the costs of such a permit.

Impact of offshore minerals proposal

52. For those affected by the proposal the effects are shown in Table 9

Table 9: Impacts of offshore minerals proposed fees upon current permit holders (in dollars)

Permit Number	Permit Holder	Type	Area (km ²)	Current annual fee	Proposed annual fee	% change
41492	ACI Operations NZ Ltd	Mining Permit	0.55	562.10	511.11	-9%
55549	Chatham Rock Phosphate Ltd	Mining Permit	819.20	837,222.40	83,738.62	-90%
55581	Trans-Tasman Resources Ltd	Mining Permit	65.76	67,205.70	6,721.88	-90%
51496	Rio Tinto Mining & Exploration Ltd	Exploration Permit	548.20	196,255.60	5,882.19	-97%
51498	Rio Tinto Mining & Exploration Ltd	Exploration Permit	736.00	263,488.00	7,897.28	-97%
52722	Hawkeswood Civil Ltd	Exploration Permit	5.55	1,986.90	511.11	-74%
52887	FMG Pacific Ltd	Exploration Permit	650.10	232,735.80	6,975.57	-97%
54068	Trans-Tasman Resources Ltd	Exploration Permit	1,430.70	512,190.60	15,351.41	-97%
54271	Trans-Tasman Resources Ltd	Exploration Permit	927.67	332,104.07	9,953.90	-97%
All				\$2,443,751.17	\$137,543.07	-94%

Fiscal implications for NZP&M

53. The Crown Minerals Estate Memorandum Account was in surplus with a balance of \$0.490 million as at 30 June 2013 (the last audited assessment).

54.



Table 10: Current Fees Regime Forecast 2013-15 (\$ million)

Minerals and Petroleum Fees	Financial Year (ended 30 June)	
	2013 Actual	
Revenue	\$7.077	
Expenditure	\$7.040	
Operating Surplus (deficit)	\$0.037	
Memorandum Account balance	\$0.490	

55. The \$1.445m per annum revenue drop has been calculated by taking the actual fee charged in 2013-14 and comparing this against what will be charged in 2014-15. These calculations are shown below in Table 11.

Table 11: Drop in Fee Revenue from Proposed Fee Changes 2014-15 (in dollars)

Permit Number	Permit Holder	Type	2014 Actual Fee Charged (excluding GST)	Proposed annual fee (excluding GST)	Fee Movement for 2014-2015 (ex GST)
55377	Energy Holdings Offshore Ltd	PPP	110,403.70	127,956.52	17,552.83
54827	Schlumberger Seaco Inc	PPP	32,343.17	43,478.26	11,135.09
56061	Schlumberger Seaco Inc	PPP	55,033.96	43,478.26	-11,555.70
41492	ACI Operations NZ Ltd	Offshore Minerals Mining Permit	488.78	444.44	-44.34
55549	Chatham Rock Phosphate Ltd	Offshore Minerals Mining Permit	412,876.80	72,816.19	-340,060.61
55581	Trans-Tasman Resources Ltd	Offshore Minerals Mining Permit	9,606.53	5,845.11	-3,761.42
51496	Rio Tinto Mining & Exploration Ltd	Offshore Minerals Exploration Permit	170,657.04	5,114.94	-165,542.10
51498	Rio Tinto Mining & Exploration Ltd	Offshore Minerals Exploration Permit	229,120.00	6,867.20	-222,252.80
52722	Hawkeswood Civil Ltd	Offshore Minerals Exploration Permit	1,727.74	444.44	-1,283.30

Permit Number	Permit Holder	Type	2014 Actual Fee Charged (excluding GST)	Proposed annual fee (excluding GST)	Fee Movement for 2014-2015 (ex GST)
52887	FMG Pacific Ltd	Offshore Minerals Exploration Permit	202,378.96	6,065.72	-196,313.24
54068	Trans-Tasman Resources Ltd	Offshore Minerals Exploration Permit	445,383.13	13,349.05	-432,034.08
54271	Trans-Tasman Resources Ltd	Offshore Minerals Exploration Permit	109,976.10	8,655.56	-101,320.53
ALL			\$1,779,995.90	\$333,727.50	-\$1,445,480.19

NB: The 2014 actual fee charged differs from the earlier current annual fees shown as actuals fees can be charged for part-years (e.g. Permit only charged from Grant Date to Financial year-end date).

56. Officials are confident that the deficit can be met from NZP&Ms balance sheet until a comprehensive fees review has been completed. The wider review proposed for the 2015-16 financial year will include a full assessment of cost allocations and revenue streams (based on current and projected permit activity levels). In addition, the funding model will benefit from a full cycle of administration under the new CMA along with the gains made from an active programme of business process improvement, including a new permit management system. Nevertheless, based on the initial assessment undertaken as part of this partial fees review, there is likely to be a significant realignment of fee charges to better reflect where the actual costs of fee administration occur, e.g. application fees versus annual charges. This is likely to produce some recommended fee increases. However, the specific fee adjustments proposed here are not expected to be materially affected by the fuller review.

57. A comprehensive review of the fees regulation planned for the 2015-16 financial year will address the Memorandum Account deficit and ensure that all fees are set at levels that accurately reflect costs.

Consultation

58. NZP&M held a public consultation on the proposal between May and June 2014. Consultation was targeted to existing permit holders, sector stakeholder groups and iwi who hold Crown Minerals Protocols and Energy and Resource Accords.

59. Twenty-four submissions were received. Submissions came from petroleum and minerals interests, iwi, and members of the public. Of these submissions, eighteen were supportive, two were neutral, and four submissions opposed the proposals.

60. Submissions that were supportive described the current fees as being prohibitive and indicated a higher interest in activity in New Zealand if fees were set at the proposed levels.

61. Submissions opposed to the proposal raised concerns of the effect of reduced fees on industry behaviour, and that a reduction in fees would increase activity.

62. Setting fees with the objective of influencing behaviour, as is proposed by opponents, goes against the best practice guidance for public sector fee charges. The Ministry therefore considers the arguments raised opposing this proposal to be outside the scope of this review.
63. The following government agencies were consulted during the development of the consultation document, and invited to comment on this Regulatory Impact Statement and accompanying Cabinet Paper: the Treasury, Inland Revenue Department, Department of Conservation, WorkSafe New Zealand, Maritime New Zealand, Te Puni Kōkiri, Ministry of Justice, Office of the Auditor General and the Ministry for the Environment.

Conclusion and recommendation

64. MBIE proposes to amend the fees regulations for petroleum prospecting permits and offshore minerals permits to ensure fees more accurately reflect costs.

Implementation plan

65. Permit holders will continue to use existing processes to pay annual fees to NZP&M. Annual fees are invoiced on 1 July for the following year.
66. Transitional provisions will apply for the 2014-15 financial year since it is not possible to enact changes prior to 1 July 2014. For transitional provisions, new regulations that allow for a refund of 2014-15 annual fee charges will be introduced.
67. A refund of current fee charges is proposed. These regulations will ensure that the amount paid in annual fees for the 2014-15 financial year is the equivalent to the proposed changes. Where a permit has an increased cost under the proposed changes, this cost will be absorbed by NZP&M during this transition year.
68. MBIE have the power in s105(1)(j) of the CMA to make regulations that authorise a refund. For all the permits covered by this partial fees review, the refund will be calculated by taking the amount the permit holder would have paid calculated under the existing regulations as invoiced on 1 July minus that amount they would have paid under the proposed regulations.

Monitoring, evaluation and review

69. NZP&M intends to undertake a comprehensive review of the fees regime during the 2015-16 financial year, once the new regulatory and operational environment has been fully embedded, and a full year cycle under the new CMA regime has been completed. This review will re-assess the costs of administration for minerals and petroleum permits. The supporting analysis for a comprehensive review will be able to assess whether this proposal has achieved its objective or whether further adjustments are appropriate.