



Summary of Underpinning Analysis: Crown Minerals (Royalties for Petroleum) Amendment Regulations 2026

Agency responsible	Ministry of Business Innovation and Employment
Portfolio	Resources
Date finalised	24/09/2026
Identification Number	REG-2230

Good law-making: 9(i)

The importance of consulting, to the extent that is reasonably practicable, the persons or representatives of the persons that the responsible agency considers will be directly and materially affected by the legislation

Inconsistency identified? NO

Summary of agency analysis

Background: A key concept in the royalty treatment of underground gas storage (UGS) facilities is 'original gas'. This is the economically recoverable gas present in the reservoir before the injection of gas from another permit area. Some or all of the original gas may be retained permanently in the reservoir as cushion gas. Cushion gas maintains the pressure required for the storage facility to operate and may never be extracted or sold.

Targeted consultation was undertaken from March – May 2026 on the barrier posed by the upfront royalty payment currently required on gas storage and whether this was appropriate, given it would no longer be recoverable. Options were canvassed to reduce barriers and incentivise the development of new UGS facilities, given the importance of flexibility in the gas market and future role for UGS. This consultation was focused on potential changes to Regulation 15 of the Crown Minerals (Royalties for Petroleum) Regulations 2013 (the Royalty Regulations), including options to defer and spread royalty payments over time, the length and structure of a royalty payment window, mechanisms to ensure recovery of the full royalty value owed to the Crown on economically recoverable gas, and the relative merits of a prescribed versus flexible approach for determining payment arrangements.

Consultation included meetings with the sector, including potential developers of underground gas storage (UGS), industry body Energy Resources Aotearoa, and all eight iwi in the Taranaki region (due to the location of known UGS proposals in this area).

Some developers considering UGS projects indicated that the requirement to pay the royalty on original gas upfront is negatively impacting project economics and was unreasonable, given it was no longer recoverable. It is an additional cost incurred at the outset of operations, likely before they turn a profit. The need to increase gas supply and system flexibility, and that current royalty settings are a disincentive to new UGS developments, was also raised by the Gas Working Group (made up of representatives across the gas system, including upstream, mid and downstream) in November 2025¹.

Consultation was held on an earlier proposal that sought to reduce the upfront financial barrier to development by introducing *flexibility* to the timing of the upfront royalty payment on original gas by spreading royalty payments over a defined period. A later change in Ministerial direction meant an amended proposal to *completely remove* the upfront royalty payment on cushion gas was not consulted on because there was insufficient time. This change was limited in scope, however, to the treatment of the upfront royalty payments on cushion gas.

However, MBIE is confident industry will be supportive of the removal of the upfront royalty burden based on proactive feedback during consultation that they would support the removal of upfront royalty requirements (despite this option not being presented) and feedback from the Gas Working Group.

During consultation with iwi, there was relatively little discussion on royalty settings. Discussion was more focused on broader concerns held by iwi regarding the wider regulatory framework for UGS activities, which was beyond the scope of the policy proposal.

MBIE's Regulatory Analysis Summary provides further detail:

<https://www.mbie.govt.nz/dmsdocument/32650-removing-royalty-obligations-to-encourage-the-development-of-underground-gas-storage-facilities>

Good law-making: 9(j)

The importance of carefully evaluating—

- the issue concerned; and
- the effectiveness of any relevant existing legislation and common law; and
- whether the public interest requires that the issue be addressed; and
- any options (including non-legislative options) that are reasonably available for addressing the issue; and

¹ Gas Working Group (2025) *Final report and recommended actions*, p. 6.



- **who is likely to benefit, and who is likely to suffer a detriment, from the legislation**

Inconsistency identified?

NO

Summary of agency analysis

The current settings for UGS facilities were developed in 2010 to provide a Crown Minerals Act 1991 (CMA) permit for Ahuroa, New Zealand's only underground gas storage facility. The settings were standardised for future developments under Regulation 15 of the Royalty Regulations.

Regulation 15 provides that holders of a mining permit that includes an underground storage facility must pay an upfront one-off royalty on the 'original gas' in the facility as soon as the permit is granted or amended to include a UGS, before any additional gas from outside the permit area (that already has royalties paid) is injected for storage. However, the cushion gas (a subset of the original gas) which is required to support the operation of the facility is unlikely to ever be extracted and on sold.

The signalled closure of the Māui gas field and indefinite idling of New Zealand's largest natural gas user Methanex is currently expected in early 2027. Gas system flexibility is currently supported by Methanex through its significant demand response in recent years, which has enabled peaks in demand for gas by the electricity system within each year to be met and to provide a 'dry-year' response. Closure of Māui and Methanex pose major implications for the ability of the gas system to maintain a stable and affordable supply of gas for electricity generation and industrial, commercial and residential users, with impacts for overall energy resilience and our economy.

Increased UGS can provide a form of system flexibility by storing gas for use during times of peak demand, in a similar way to Methanex. The current Ahuroa UGS facility alone is insufficient to replace the demand response provided by Methanex, due to its scale. Development of more UGS facilities is required in the near term.

Options to incentivise UGS development did not include full deregulation from royalties requirements option because some controls are still required to ensure consistency of approach to royalties within the CMA framework, when gas is economically recoverable, produced and on-sold to the market.

The Government is already taking other non-regulatory steps including adding investments to support the development of new UGS facilities by including this in the scope of the Gas Security Fund and improving permit processing timeframes to provide UGS developers with confidence that applications will be processed efficiently. Other future potential changes to settings to better enable the development of UGS facilities, whether to the CMA or to other regimes, will be explored. Feedback from consultation, as noted in the section above, was that current royalty settings may be deterring new UGS developments and was unreasonable given the intention is not to produce the cushion gas for on sale.



The change being implemented through the Crown Minerals (Royalties for Petroleum) Amendment Regulations 2026, of removing the obligation to pay an upfront royalty on original gas within UGS facilities (limited to the cushion gas), treats the cushion gas proportionately to economically unrecoverable gas. By removing an upfront financial barrier, it is likely to de-risk and improve project economics. Adding more UGS facilities to the energy system provides an overall benefit to New Zealand by increasing our domestic energy security during periods of peak demand and in dry years, when more gas is needed in our electricity system, at a time when existing flexibility mechanisms are ending.

Good law-making: 9(k)

The importance of the responsible agency identifying and developing effective arrangements for implementing the legislation

Inconsistency identified?

NO

Summary of agency analysis

Implementation of the amended royalty regulations will be undertaken by MBIE (New Zealand Petroleum and Minerals), which is the regulator for the Crown Minerals (Royalties for Petroleum) Regulations 2013. While there has not previously been a need for new operational policy and processes regarding the permitting and management of UGS, as no new UGS has been developed since the introduction of the Royalty Regulations, work on operational policy, processes and communications to reflect the changes to existing royalties regulation, is underway.

Implementation of the amendment does not impose any significant additional ongoing work on the regulator in practice, compared to the status quo. As per the status quo, an independent expert (acceptable to the Minister) will be required and paid for by the operator. It is the assessment of the original gas, by the independent expert, that changes. The outcome of that assessment will then determine whether any royalty payment is required; if royalties are due, then existing MBIE policy and processes for the calculation, collection and audit of royalties due will apply.

Good law-making: 9(l)

Legislation should be expected to produce benefits that exceed the costs of the legislation to the public or persons

Inconsistency identified?

NO

Summary of agency analysis

The benefits of the regulation amendment cannot be quantified with confidence; however, they have the potential to be significant if the proposal results in successful increased investment in UGS facilities which will improve gas system flexibility. Gas system flexibility



will provide greater energy security during a dry year and increasing the energy available during a dry year may help reduce electricity prices. However, a dry year imposes significant economic costs on New Zealand, principally through industrial disruption, lost production and high electricity prices.

New Zealand has one current underground gas storage facility at Ahuroa in Taranaki. However, its capacity is insufficient to replace the large-scale demand response currently provided by Methanex. Ahuroa has a storage capacity of 7 PJ. In the 2024 dry ear event, Ahuroa drew down 3.1 PJ, around 14 per cent of the 22 PJ demand response that was provided by Methanex over the same period. At present, there are at least four separate proposed underground gas storage projects of various sizes. If all currently known potential UGS projects were successful, this would quadruple our current energy storage capacity, providing a material contribution to flexibility in the energy system countering the loss of flexibility provided by Methanex and contributing to the mitigation of the dry-year economic costs outlined above, as well as flexibility within a non-dry year as our gas supplies decline.

The identified implementation and compliance costs to all parties are low. The costs on MBIE and applicants of permitting UGS and of assessing and paying royalties owed are existing obligations and activities under current CMA regulation.

However, in terms of the quantum of royalties received, the amendment represents a potential fiscal impact of foregone royalty revenue of approximately \$5 to \$6 million for the cushion gas. This is a relatively small proportion of total revenue received from royalties, with \$123.7 million received from petroleum royalties and energy resource levies in 2024-25 alone.

On balance, the expected benefits of improved energy security and economic value of UGS to New Zealand are likely to significantly outweigh the potential costs.

Good law-making: 9(m)

Legislation should be the most effective, efficient, and proportionate response to the issue concerned that is available

Inconsistency identified?

NO

Summary of agency analysis

The regulation amendment to remove royalties on cushion gas is a targeted response intended to help incentivise producers to develop UGS facilities to increase energy security. It is a targeted and practical reform that addresses a misalignment between existing royalty settings and the practicalities and function of cushion gas in underground gas storage.

It is consistent with consultation feedback that current royalty settings may be deterring new UGS developments and was unreasonable given the intention is not to produce the cushion gas for on sale.

Of the options considered including spreading upfront royalty payments over a defined period, the option to remove the upfront royalty payment was the most efficient, as it aligns with the current process.

It retains the status quo of a royalty payment being subject to the determination of an independent expert, and in some instances no royalty payment will be required.

It is a proportionate response given it is unlikely that the cushion gas (no longer subject to royalties) is ever produced and aligns with the current regulatory position that royalty payments are not required on economically unrecoverable gas.

The regulation amendment follows the Government's non-regulatory response which added investments to support the development of new UGS facilities into the scope of the Gas Security Fund.

Options did not include a full deregulation response for royalty regulation because some controls are still required to ensure consistency of approach to royalties within the CMA framework (eg royalties are due on gas that is produced and sold to the market).

Rule of Law: 9(a)(i)

The law should be clear and accessible

Inconsistency identified?

NO

Summary of agency analysis

The regulation amendment has been drafted to be clear and accessible to the intended audience. The primary users of the legislation are petroleum mining permit holders and the regulator. The legislation uses industry terms that are well known to those users. The regulations will be published on the [New Zealand Legislation website](#).

The [Petroleum Programme](#), which provides further detail on the Act and Regulations, does not provide any detail on the royalty requirements, and refers to the Crown Minerals (Royalties for Petroleum) Regulations 2013.

Communications will be sent by MBIE to permit holders to ensure awareness and understanding of the changes and provide a link to the amended legislation, both on commencement and as part of ongoing communications by the regulator with regulated parties.

Rule of Law: 9(a)(ii)

The law should not adversely affect rights and liberties, or impose obligations, retrospectively

Inconsistency identified? NO

Summary of agency analysis

The proposed amendments to the Royalty Regulations do not retrospectively alter legal rights, liabilities, penalties, or obligations.

The amendment regulations do not create any immunities or unequal application of the law.

It may be seen as raising fairness issues in relation to the developers of the Ahuroa facility in 2010, who paid the royalty on all original gas upfront, including on cushion gas. However, investment decisions are regularly made by regulated parties based on the regulatory settings in place at the time. This is with the knowledge and expectation that changes to regulatory settings for royalties have been made by Government historically (last changed in 2013) and may continue to be made periodically.

Rule of Law: 9(a)(iii)

Every person is equal before the law

Inconsistency identified? NOT APPLICABLE

Summary of agency analysis

Rule of Law: 9(a)(iv)

There should be an independent impartial judiciary

Inconsistency identified? NOT APPLICABLE

Summary of agency analysis

Rule of Law: 9(a)(v)

Issues of legal right and liability should be resolved by the application of law, rather than the exercise of administrative discretion

Inconsistency identified? NO

Summary of agency analysis

The regulations provide a discretion for an independent expert to determine the amount and value of *qualifying original gas*, and the amount of cushion gas required to maintain operational pressure in a UGS.

This will determine the amount of royalty to be paid on original gas and the amount of royalty free cushion gas under Regulation 15.

This discretion is not considered to be contrary to the principle in this section, on the basis that there is a criterion around what is original gas and what is cushion gas (using global standards for upstream resource classification²) and that it is only this that is being determined by the expert. There is not an unconstrained discretion.

Liberties: 9(b)

Legislation should not unduly diminish a person's liberty, personal security, freedom of choice or action, or rights to own, use, and dispose of property, except as is necessary to provide for, or protect, any such liberty, freedom, or right of another person

Inconsistency identified? NOT APPLICABLE

Summary of agency analysis

Taking of property: 9(c)

Legislation should not take or severely impair, or authorise the taking or severe impairment of, property without the consent of the owner unless-

- **there is a good justification for the taking or severe impairment; and**
- **fair compensation for the taking or severe impairment is provided to the owner; and**
- **the compensation is provided, to the extent practicable, by or on behalf of the persons who obtain the benefit of the taking or severe impairment**

Inconsistency identified? NOT APPLICABLE

Summary of agency analysis

² **Society of Petroleum Engineers (SPE) Petroleum Resources Management System (PRMS)**

<https://www.spe.org/en/industry/petroleum-resources-management-system-prms/>

PRMS is widely regarded as the international standard for hydrocarbon volume estimation and is jointly sponsored by the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG), Society of Petroleum Evaluation Engineers (SPEE), and Society of Exploration Geophysicists (SEG)

Taxes, fees and levies: 9(d)

The importance of maintaining consistency with section 22(a) of the Constitution Act 1996 (Parliamentary control of taxation)

Inconsistency identified? NO

Summary of agency analysis

Sections 9(d) to (f) of the Regulatory Standards Act Guidance set out principles relating to the use of taxes, fees and levies, relevant to assessing consistency with section 22(a) of the Constitution Act 1996.

However commercial charges that are not subject to these principles include: “*where the charge is for access to or use of land or resources owned by the Crown that it has no obligation to provide (such as royalties for minerals, charges to access Conservation land, or fees to use council facilities like community halls)*”³.

Taxes, fees and levies: 9(e)

Legislation should impose, or authorise the imposition of, a fee for goods or services only if the amount of the fee bears a proper relation to the cost of providing the good or service to which it relates

Inconsistency identified? NOT APPLICABLE

Summary of agency analysis

Taxes, fees and levies: 9(f)

Legislation should impose, or authorise the imposition of, a levy to fund an objective or a function only if the amount of the levy is reasonable in relation to both—

- the benefits that the class of payers is likely to derive, or the risks attributable to the class, in connection with the objective or function; and
- the costs of efficiently achieving the objective or providing the function

Inconsistency identified? NOT APPLICABLE

Summary of agency analysis

³ [Guidance-issued-under-section-26-of-the-Regulatory-Standards-Act-2025.pdf](#) page 27.

Role of courts: 9(g)

Legislation should preserve the courts' constitutional role of ascertaining the meaning of legislation

Inconsistency identified? NOT APPLICABLE

Summary of agency analysis

Role of courts: 9(h)

Legislation should make rights and liberties, or obligations, dependent on administrative power only if the power is sufficiently defined and subject to appropriate review

Inconsistency identified? NO

Summary of agency analysis

The regulations provide a discretion for an independent expert to determine the amount and value of *qualifying original gas*, and the amount of cushion gas required to maintain operational pressure in a UGS.

This will determine the amount of royalty to be paid on original gas and the amount of royalty free cushion gas under Regulation 15.

This discretion is not considered to be contrary to the principle in this section, on the basis that there is a criterion around what is original gas and what is cushion gas (as per global standards on upstream resource classification referenced in 9(a)(v) Rule of Law) and that it is only this that is being determined by the expert.

This power is sufficiently defined, and the regulator makes the final decision on the application of the assessment by the independent expert.

Additional information

Relevant international treaties, standards and obligations

Advice was sought from the Ministry of Foreign Affairs and Trade to identify any relevant international treaties, standards or obligations the legislation needs to give effect to or comply with.

This advice is legally privileged and was included in the Cabinet paper 'Removing royalty obligations to encourage the development of underground gas storage facilities'
<https://www.mbie.govt.nz/dmsdocument/32665-removing-royalty-obligations-to-encourage-the-development-of-underground-gas-storage-facilities-proactiverelease-pdf>.